INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/297

CABO VERDE

November 2020

SECOND REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF TARGETS

In the context of the Second Review of the Policy Coordination Instrument and Request for Modification of Targets, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its October 26, 2020 consideration of the staff report for the Second Review of the Policy Coordination Instrument and Request for Modification of Targets with Cabo Verde.

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 26, 2020, following discussions that ended on July 16, 2020, with the officials of Cabo Verde on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 30, 2020.

- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).

- A **Statement by the Executive Director** for Cabo Verde.

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

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PRESS RELEASE

PR20/321

IMF Executive Board Completes the Second Review Under the Policy Coordination Instrument for Cabo Verde

FOR IMMEDIATE RELEASE

- *The COVID-19 pandemic continues to severely affect the Cabo Verde economy. Real GDP is projected to contract by 6.8 percent in 2020, and to expand by 4.5 percent in 2021.*
- *The authorities have been appropriately proactive in addressing the impact of the pandemic through social protection programs as well as fiscal and monetary policy measures.*
- *Given the highly uncertain economic outlook and risks to debt sustainability, sound implementation and close monitoring of strong policies and reforms will be key in the post-pandemic environment.*

Washington, DC – October 26, 2020. The Executive Board of the International Monetary Fund (IMF) completed the second review under the Policy Coordination Instrument (PCI)[1] for Cabo Verde today.

Cabo Verde has benefited from the PCI since July 15, 2019 (Press Release No. 19/278). The program aims to support the authorities' reform agenda under their Strategic Plan for Sustainable Development. The main objectives under the PCI are: (i) restoring fiscal and debt sustainability; (ii) restructuring State-Owned Enterprises (SOEs); (iii) enhancing the monetary policy framework and continuing to build reserves; (iv) fostering the financial system stability; and (v) advancing growth-enhancing structural reforms.

The COVID-19 pandemic continues to severely affect Cabo Verde's economy, interrupting several years of strong and positive macroeconomic developments. Economic growth is projected at -6.8 percent (5.7 percent in 2019), mainly due to the collapse in tourism and transport activities, and a sharp contraction in other sectors. A recovery is expected in 2021 with real GDP growth at 4.5 percent. However, there are substantial risks to this outlook because of uncertainties about the duration of the pandemic and the expected recovery in the global economy and tourism flows.

Measures taken by the authorities since the onset of COVID-19 have been appropriately designed and well-targeted. They were aimed at enhancing the healthcare system, containing the community spread of the disease, protecting the most vulnerable, providing liquidity to the banking system, easing access to credit, and facilitating the payment of tax obligations.

Policies and reforms implementation during this difficult period have been supportive of macroeconomic stability. Hence, performance under the PCI has remained positive. All quantitative targets at end-March 2020 were met, except for the target on tax revenue which

[1] The PCI is available to all IMF members that do not need Fund financial resources at the time of approval. It is designed for countries seeking to demonstrate commitment to a reform agenda or to unlock and coordinate financing from other official creditors or private investors.

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was narrowly missed because of the economic impact of COVID-19; and all reform targets were observed at end-June, except for the streamlining of tax exemptions that was partially met.

The authorities have reaffirmed commitment to medium-term objectives under the PCI, which expires in January 2021. Consequently, they agreed with staff that policies and reforms post-pandemic should focus on supporting economic recovery, enhancing revenue mobilization, containing non-priority spending as well as fiscal risks, particularly from SOEs, and continuing to rely on concessional borrowing.

Following the Executive Board’s discussion, Mr. Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

“The Cabo Verdean economy is facing considerable challenges stemming from the impact of the COVID-19 pandemic. The sharp contraction in travel and tourism flows, lower external demand, and domestic containment measures have dealt a significant blow to the economy. The near-term outlook is highly uncertain, and there are significant downside risks. Notwithstanding the difficult circumstances, the authorities have maintained fiscal discipline and reform implementation efforts. As a result, performance under the Policy Coordination Instrument has remained strong.

“The authorities have taken swift and appropriate measures to address the economic and social impact of the pandemic. They have increased testing capacity, enhanced health care services, expanded social protection programs, and implemented policy measures to support the corporate sector. The authorities have also taken actions to execute COVID-related spending in a transparent manner.

“The shock related to COVID-19 has significantly eroded progress made by the authorities in recent years to place public debt on a sustained downward trajectory. With Cabo Verde at high risk of debt distress, it would be important to refocus on the achievement of medium-term fiscal and debt sustainability through fiscal consolidation and continued prudent borrowing policies, relying on highly concessional loans, as the health crisis abates.

“Progress in reforms aimed at increasing efficiency in the public enterprises sector, deepening financial intermediation, and improving the business environment remains critical to support economic recovery and enhance medium-term growth prospects. The authorities should continue to focus on completing ongoing reforms in these key areas as the health crisis situation improves.”

INTERNATIONAL MONETARY FUND

CABO VERDE

September 30, 2020

SECOND REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF TARGETS

EXECUTIVE SUMMARY

Context. The Cabo Verdean economy is facing considerable challenges stemming from the impact of the COVID-19 pandemic. Prior to the health crisis, economic growth was robust, the fiscal and external positions were improving, reserves were at comfortable levels, and public debt was on a downward trajectory. The pandemic is threatening to erode these gains and has generated significant financing needs. The authorities have been implementing policy and healthcare measures to address the fallout of the pandemic and protect vulnerable groups while seeking to safeguard macroeconomic stability.

Macroeconomic Outlook and Risks. Economic activity is projected to contract by 6.8 percent in 2020, driven by a sharp decline in activity across sectors, reflecting the impact of the global economic downturn, travel restrictions, and domestic containment measures. Beyond the crisis, the economic outlook is generally positive, contingent upon the global economic recovery, resumption of tourism, capital inflows, and domestic reforms. However, risks to the outlook are tilted to the downside, with the intensity and duration of the pandemic being the most important risk.

Program implementation. Amidst the difficult economic conditions, the authorities have managed to keep the Policy Coordination Instrument (PCI) on track. All end-March 2020 quantitative targets were met, except for the floor on tax revenue, narrowly missed because of lower corporate income taxes. All reform targets (RTs) were observed, except for the RT on streamlining exemptions on customs duties, VAT and excises that was partially met at end-June.

Staff's views. Based on strong program performance and policies outlined in the authorities' revised Program Statement (PS), staff supports the completion of the second review under the PCI, as well as the modification of quantitative targets for end-September 2020, and the timeline for the completion of remaining reform targets.

Approved By
Annalisa Fedelino (AFR) and Johannes Weigand (SPR)

Discussions took place virtually during July 3–16. The staff team comprised Ms. Kabedi-Mbuyi (Head), Mr. Amo-Yartey and Mses. Radzewicz-Bak and Mensah (all AFR). Ms. Cruz and Mr. Fachada (both OED) participated in some of the meetings and Mr. Bevilaqua (Executive Director for Cabo Verde) joined the concluding meeting. The team held discussions with Deputy Prime Minister and Minister of Finance, Olavo Correia; the Minister of Agriculture, Gilberto Silva; the Minister of Tourism and Transport, Carlos D. Santos; the Central Bank Governor João Serra; other senior officials; development partners; and the private sector.

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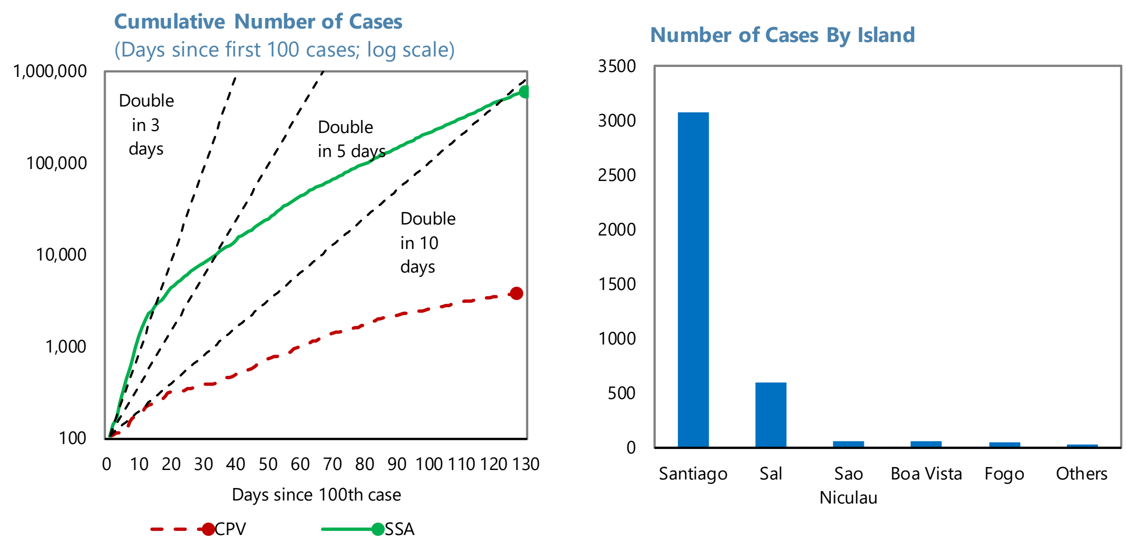
RECENT DEVELOPMENTS

1. **The Cabo Verdean economy continues to face considerable challenges stemming from the impact of the COVID-19 pandemic** (PS ¶2,3; Text Figure 1). Prior to this health crisis, economic growth was robust, averaging 5 percent during 2016-19; inflation was low; the fiscal deficit was declining; public debt, while elevated, was on a downward trajectory; and the international reserve position was strong. Some of these gains, particularly on public debt will likely be eroded by the economic impact of COVID-19. Even though the spread of the disease has been slower than the Sub-Saharan Africa (SSA) average, the number of cases has been increasing, reaching 3,852 with 40 deaths at end-August. Community transmission has been contained somewhat in most islands, and new cases are mostly concentrated in the islands of Santiago and Sal.

Text Figure 1. Cabo Verde: COVID-19 Cases as of August 31, 2020



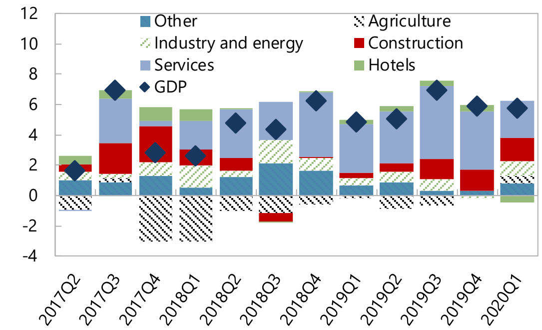
Sources: Johns Hopkins CSSE; Cabo Verdean authorities; and IMF staff calculations.

2. **The authorities have been actively addressing the fallout of the pandemic with development partners' support** (PS ¶4,5). The first COVID-19 cases in Cabo Verde were diagnosed on March 19 in Boa Vista island. Since the onset of the pandemic, the authorities took containment measures, increased testing capacity, enhanced healthcare services, and put in place social protection programs as well as fiscal relief measures to support the corporate sector. The central bank (*Banco de Cabo Verde* - BCV) also implemented several measures to increase liquidity in the banking system and foster credit expansion. To help cover the budget and balance of payment financing needs generated by the economic and social impacts of the pandemic, the IMF Executive Board approved in April 2020 the disbursement of SDR 23.7 million (100 percent of quota) under the Rapid Credit Facility (RCF), as direct budget support to the country. Other development partners provided additional budget financing and in-kind support. In late May, the authorities lifted the state of emergency and eased domestic travel restrictions.

3. Recent economic developments point to an overall weakening environment after a good first quarter (PS ¶6, 7; Text Figures 2, 3).

- The economy is estimated to have expanded by 5.8 percent (y/y) in the first quarter, driven by investment and private consumption. On the supply side, growth was mainly supported by strong activity in construction, industry and energy, and transport and communications sectors.

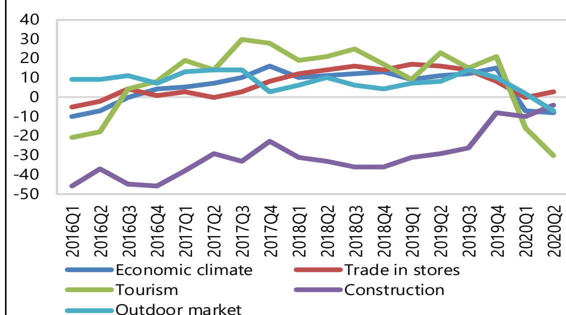
Text Figure 2. Contributions to Growth
(Quarterly, year-on-year percent change)



Source: Cabo Verdean authorities.

- Weakening signs were evident in the second quarter. Consumer and business confidence indicators at end-June registered the lowest value in the last sixteenth quarters, reversing the upward trend observed for most of them in the last quarter of 2019; and tourism turned negative. In addition, exports of goods declined by 45.5 percent (y/y) and imports dropped by 25.8 percent underscoring the weak economic activity. Gross international reserves declined from €684 million at end-February to €650 million at end-June despite increased external loan disbursements. Credit to the economy declined by about 3 percent (y/y) at end-June.

Text Figure 3. Indicators of Business Confidence
(Survey index - higher, better)



Source: Cabo Verdean authorities.

- On the positive side, inflation remained low, standing at -0.2 percent (y/y) at end-June, down from 1.6 percent at end-March, mainly reflecting low international energy prices and subdued domestic demand.

4. Budget execution at end-June was marked by the impact of COVID-19 (PS ¶8, Text Table 1). Revenue declined by 21.5 percent (y/y) and was significantly lower than anticipated. Corporate income and value-added taxes (VAT), and non-tax revenues were the most affected categories, reflecting: (i) fiscal relief measures postponing corporate income taxes payment from May to August; (ii) weak domestic demand; (iii) the nonrealization of privatization receipts and; (iv) lower proceeds from government services. Expenditures were also below projections because some current outlays were curtailed to contain the impact of COVID-19 on the budget, and public investments suffered significant delays due to the pandemic. Although the overall deficit was higher than expected, financing needs were below projections because of a weaker execution of net other liabilities.

Text Table 1. Cabo Verde: Statement of Operations of the Central Government, 2019Q2–2020Q2[1]

	2019			2020			
	Q2	Q3	Q4	Q1			Q2
	Act.	Act.	Act.	Prog.	Act.	Prog.	Prel.
Revenue	25,094	37,803	57,391	13,312	11,911	28,042	19,710
Tax	20,219	30,652	42,015	10,471	9,919	21,961	15,889
Taxes on income and profit	6,381	9,563	12,674	2,974	2,663	6,411	4,552
Taxes on goods and services	9,811	14,913	20,658	5,540	5,211	10,971	7,832
Taxes on international trade	3,663	5,655	8,011	1,738	1,864	4,135	3,236
Grants	928	1,225	6,238	579	283	1,284	1,389
Non-Tax	3,947	5,926	9,137	2,263	1,710	4,797	2,432
Expenditure	25,796	39,163	60,974	16,745	12,290	32,826	25,226
Expense	24,119	36,492	53,343	13,182	11,807	27,429	24,383
Net acquisition of nonfinancial assets	1,676	2,671	7,631	3,563	483	5,397	843
Primary balance	1,880	2,510	1,408	-2,023	874	-1,705	-2,822
Overall balance	-701	-1,360	-3,583	-3,433	-379	-4,784	-5,516
Net other liabilities	-2,674	-1,657	-6,396	-1,022	-106	-2,700	-122
Financing needs	3,375	3,017	9,980	4,455	485	7,484	5,639

Sources: Cabo Verdean authorities and IMF staff projections.

1/ Includes budgetary central government (BCG) and extra budgetary central government (ECG), but excludes social security funds.

PERFORMANCE UNDER THE PCI

5. Performance under the PCI has been strong, underscoring the authorities' continued commitment to sound policies and reforms to address the country's challenges (PS ¶9 and Tables 1, 2).

- All end-March 2020 quantitative targets were met except for the floor on tax revenue. The latter was narrowly missed due to shortfalls in corporate income tax and VAT due to the impact of COVID-19, notably for companies in the tourism sector that suspended activities, which affected their ability to fully discharge their tax obligations. The target on the primary balance was met because of under execution of both current and capital expenditures, and the ceiling on net other liabilities was observed due to slower disbursement of onlent loans, larger than projected repayments, and slower execution of capitalization operations. The target on international reserves (NIR) was exceeded by a wide margin as NIR stood at €669 million at end-March compared with €572 million under the PCI.

- All non-quantitative continuous targets were met.

- All reform targets (RTs) for the second review were implemented, except for the RT on the streamlining of exemptions on customs duties, VAT and excises that was partially met through the introduction of a minimum customs duty of 5 percent on previously exempted goods. As reported at the time of the first PCI review,[1] most of the measures were put in place ahead of schedule. The authorities maintained the close monitoring of SOEs' financial situation, notably through the preparation of quarterly reports; and the BCV continued to publish the minutes of the Monetary Policy Committee (MPC) meetings. In addition, the authorities prepared the Strategy Note to guide the operationalization of the Sovereign Private Investment Guarantee

[1] IMF Country Report No. 20/135.

Fund created by law in July 2019 (Annex I), and introduced changes to the special tax regime, to be tabled in parliament before end-2020. The streamlining of exemptions on VAT is under preparation, in the context of the introduction of electronic invoicing.

OUTLOOK AND RISKS

6. Macroeconomic prospects have changed considerably compared with PCI projections. They are also worse than under the revised macroeconomic framework for the RCF;[2] and downside risks have intensified (Text Figure 4, Text Table 2, Tables 1-4, and Figure 1).

- **Short-term prospects are clouded and uncertain**. The baseline scenario assumes that the impact of the pandemic would remain strong through the third quarter of 2020, with output projected to contract by 6.8 percent for the year (compared with a 5 percent expansion under the PCI, and a contraction of 5.5 percent under the RCF) due to a sharp decline in activity across sectors, reflecting the impact of the global economic downturn, travel restrictions, and domestic containment measures. Inflation is expected to remain subdued. As the external and domestic impacts of the health crisis ease, growth is expected to gradually increase in 2021 and reach 4.5 percent (5 percent under the RCF). The current account deficit is projected to widen to 14.2 percent of GDP (3.9 percent of GDP at the time of the first PCI review; and 14.3 percent under the RCF) as export receipts are expected to plummet due to the impact of COVID-19 on tourism, and remittances are projected to decline. With the expected gradual recovery in 2021, the current account deficit would narrow to 9.2 percent of GDP (8.6 percent under the RCF). Capital flows are forecast to decline in 2020 and to remain low in 2021, contributing to a decline in gross international reserves in both years. In months of prospective imports of goods and services, reserves are higher than previously projected, consistent with the modest increase in imports.

- **Medium-term prospects remains generally positive, though subject to high uncertainties**. This assessment assumes a recovery in the global economy in 2021, the resumption of sustained tourism and capital flows to Cabo Verde, and the implementation of growth-enhancing structural reforms, notably to strengthen linkages between the tourism and agriculture sectors, and to develop inter-island maritime transportation. However, a return to the 2019 output level is not envisaged until 2022 because of the strength and protracted nature of the COVID-19 shock. Real GDP is projected to stabilize around 6 percent in the medium term supported by the return of tourism arrivals to the pre-crisis level, and the completion of infrastructure projects contemplated by the authorities in three islands: the construction of a port in Maio, a ship terminal in São Vicente, and a water and sanitation plant in Santiago. Inflation is expected to move closer to the EU average, remaining below 2 percent. On the external front, the current account is projected to improve as exports performance strengthens gradually with the recovery in tourism flows, and remittances increase. This, combined with the expected resumption of private capital inflows would help Cabo Verde maintain a strong reserve position.

[2] IMF Country Report No. 20/136.

Text Table 2. Cabo Verde: Macroeconomic Indicators, 2018–25

Percent of GDP, unless otherwise indicated

	2018	2019	2020		2021	2022	2023	2024	2025
		Proj.	Prog.	Proj.			Proj.		
Real GDP growth (percent)	4.5	5.7	5.0	-6.8	4.5	4.8	5.7	6.0	6.2
Inflation (annual average, percent)	1.3	1.1	1.3	1.0	1.2	1.4	1.5	1.6	1.7
Primary balance	-0.1	0.7	1.0	-7.0	-3.8	-0.8	1.0	1.8	2.5
Overall balance	-2.7	-1.8	-1.7	-9.7	-6.6	-3.7	-1.8	-0.8	0.0
Total financing [1]	3.7	5.1	3.9	12.1	6.4	3.9	2.0	1.0	0.2
Public debt	125.6	125.0	118.1	137.5	134.8	130.0	122.8	114.9	106.3
PV of PPG external debt (risk threshold: 55%) [2]	60.6	58.8	62.1	69.2	65.8	63.8	59.9	55.5	52.0
External current account (including official transfers)	-5.2	0.3	-3.9	-14.2	-9.2	-6.4	-4.1	-2.1	-1.8
Gross international reserves (€ millions, end of period)	532	663	652	573	561	577	594	625	691
Gross international reserves (months of prospective imports)	5.6	8.9	5.5	7.3	6.7	6.3	6.0	5.8	5.9
Credit to the economy (percent)	3.1	3.7	4.1	2.1	6.2	7.7	5.9	5.7	5.5

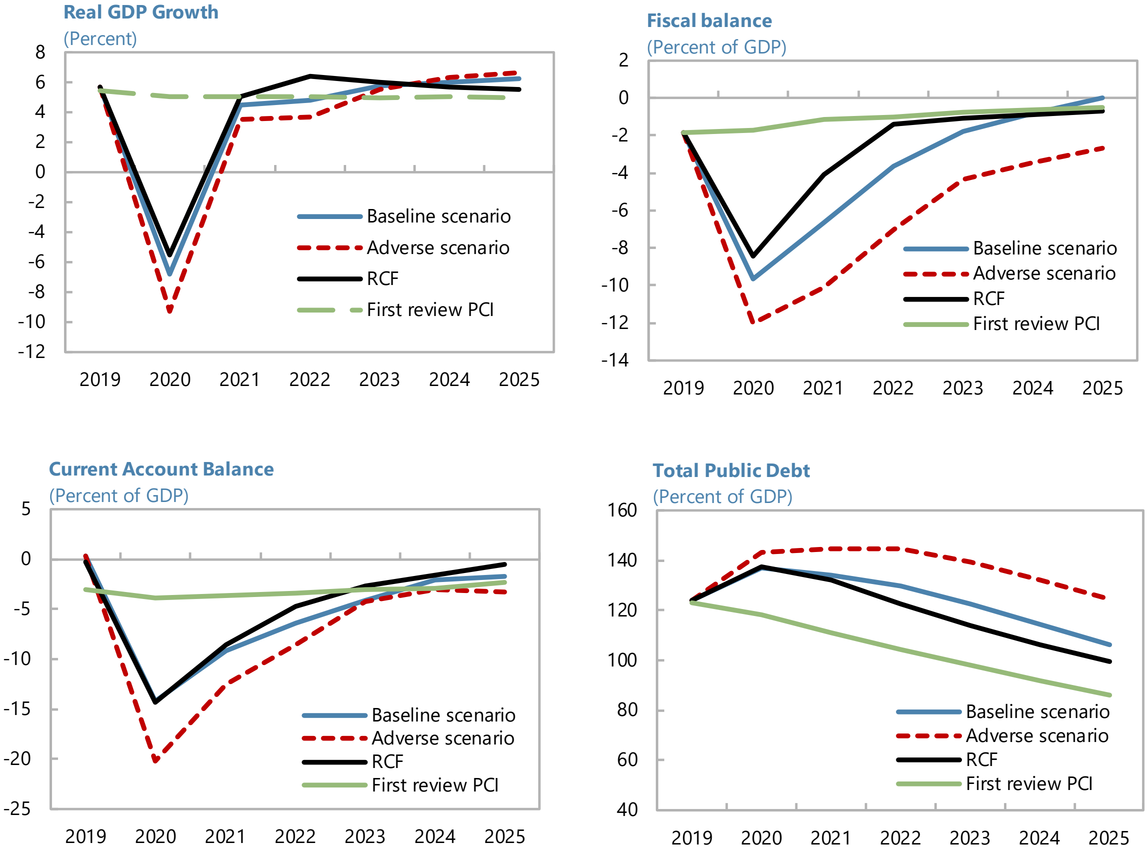
Sources: Cabo Verdean authorities; and IMF staff estimates and projections.

[1] Defined as overall balance plus net other liabilities and net errors and omissions.

[2] The present value of external debt reports the outcome of the revised LIC-DSF.

- **The balance of risks to the medium-term outlook is tilted to the downside** (Table 6, Annex II). The main short-term risks are the evolution of the pandemic and its global impact, and a more extensive domestic COVID-19 outbreak, with deeper social and economic consequences. A protracted global economic slowdown would severely affect tourism, remittances, and FDI flows, leading to a stronger economic contraction and larger fiscal and BOP financing needs than currently projected in the baseline scenario. Under such an adverse scenario, growth would contract by 9.3 percent in 2020, with a substantially weaker fiscal and external positions. This would also require a stronger fiscal adjustment and additional external financing. Other significant downside risks include: high vulnerability to natural disasters, wavering fiscal consolidation and weak structural reform efforts after the pandemic. A better than projected tourism performance reflecting stronger global recovery, continued improvement in agriculture with favorable weather conditions, and increased FDI-driven investments are the main upside risks.

Text Figure 4. Cabo Verde: Medium-Term Macroeconomic Indicators Under the Baseline and Alternative Scenarios, 2019–25



Sources: Cabo Verdean authorities; and IMF staff estimates.

POLICY DISCUSSIONS

Policy discussions focused on program performance, effective implementation of measures to address the health crisis, modification of program targets to account for the economic impact of COVID-19, and the authorities' post-COVID policy and updated reform agenda for recovery.

A. Fiscal Policy and Public Debt Sustainability

7. **The authorities put in place a fiscal policy package to mitigate the economic and social impacts of the pandemic, covering three pillars:** (i) strengthening the health care system through the expansion of laboratory capacity, the purchase of medical equipment and supplies, improvement in emergency preparedness and response, and strengthening of human resources capacity in the health sector; (ii) supporting businesses through the deferment of payment for some taxes to the end of the year, and the provision of loan guarantees, especially for micro, and small and medium-sized enterprises; and (iii) expanding social protection programs. They indicated that policies to address the crisis would be temporary and well-targeted. Their impact is comprehensively

reflected in the revised budget for 2020, discussed below.

8. The authorities adopted a revised budget for 2020 to anchor their COVID-19 response on which 2020 projections are based (PS ¶15, Text Table 3). The overall deficit is expected to reach 9.7 percent of GDP, much higher than at the time of the first PCI review and the RCF request: 1.7 percent of GDP and 8.8 percent of GPD respectively. The enlarged deficit reflects the expected shortfall in revenue as well as COVID-19 related spending, in addition to the impact of a lower nominal GDP. Given the high uncertainties in the duration and full impact of the pandemic, a higher revenue shortfall as envisaged under staff's adverse scenario (Annex II) cannot be ruled out. The authorities agreed with staff that the widening of the fiscal deficit should be temporary, and that the return to the pre-crisis fiscal path should be a key priority starting in 2021, as the health crisis abates, to continue working towards medium-term fiscal and debt sustainability. Below are key features of the revised budget.

- *Revenue shortfall*. A significant revenue shortfall is projected for 2020, consistent with the contraction in economic activity, lower imports, delays in the implementation of tax administration reforms and in the privatization program. Total revenues are projected at 29.2 percent of GDP (32.5 percent of GDP under the first PCI review, and considering a lower GDP level), with tax revenue at the lowest level of the last three years.

- *Increased expenditures*. Despite a reduction in non-priority spending, expenditures are projected to increase to 38.8 percent of GDP (34.2 percent of GDP under the first PCI review), mostly on accounts of COVID-19 triggered spending in the health and education sectors, and the cost of social protection programs. Capital expenditures are projected at 3.8 percent of GDP (4.6 percent under the first PCI review) to support domestic demand. However, achieving these projections would require decisive measures, notably enhanced prioritization, to accelerate project execution for the remainder of the year. Taking into account potential for additional revenue shortfall or higher priority spending, the revised budget for 2020 incorporates about CVE 4 billion (2.2 percent of GDP) of contingent expenditures, that will not be committed if identified revenues do not materialize.

- *Financing needs are fully covered*. With net other liabilities projected at 2.5 percent of GDP, financing needs would increase to 12.1 percent of GDP. They are fully covered with borrowing from the government securities market (2.6 percent of GDP), debt service suspension (DSSI) under the G-20 Initiative totaling CVE 890 million (0.5 percent of GDP), and external financing, including RCF disbursement.

9. Given the current uncertain environment, enhanced revenue and expenditure monitoring will be essential to strengthen the execution of the revised budget. With potential for revenue and expenditure pressures, the authorities have been taking revenue protection measures, including enhanced monitoring of revenue performance to prevent noncompliance and tax evasion. They have improved the use of the Treasury cashflow monitoring plan and the spending payment system to strengthen expenditure management and prevent accumulation of domestic payment arrears. In addition, the authorities continue to conduct risk assessment of the budget to help inform the preparation of additional contingency measures. Staff reiterated the call for measures to improve procurement procedures that hamper the execution of public investments.

Text Table 3. Cabo Verde: Revised 2020 Fiscal Framework[1]

	PCI First Review		RCF		Proj.	
	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP
Revenue	68,395	32.5	49,173	26.2	53,677	29.2
Taxes	48,066	22.9	33,793	18.0	33,952	18.5
Grants	5,959	2.8	5,959	3.2	8,566	4.7
Other revenue	14,370	6.8	9,421	5.0	11,159	6.1
Expenditure	71,965	34.2	65,677	35.0	71,444	38.8
Expense	62,386	29.7	55,415	29.5	64,537	35.1
Covid related expenditures	...	...	2,222	1.2	3,917	2.1
Of which:						
Health	...	...	672	0.4	2,663	1.4
Education	...	...	0	0.0	513	0.3
Social protection	...	...	1,550	0.8	741	0.4
Net acquisition of nonfinancial assets	9,579	4.6	8,029	4.3	6,907	3.8
Primary balance	2,093	1.0	-10,804	-5.8	-12,810	-7.0
Overall balance	-3,569	-1.7	-16,504	-8.8	-17,767	-9.7
Net other liabilities	-4,718	-2.2	-4,718	-2.5	-4,569	-2.5
Onlending to SOEs for investment purpose	-2,101	-1.0	-2,101	-1.1	-3,379	-1.8
Other onlending (net)	-1,294	-0.6	-1,294	-0.7	-894	-0.5
Capitalization	-1,448	-0.7	-1,448	-0.8	-1,445	-0.8
Financing needs	8,288	3.9	21,222	11.3	22,336	12.1
Financing	8,288	3.9	21,222	11.3	22,336	12.1
Domestic (net)	797	0.4	797	0.4	4,847	2.6
External (net)	7,491	3.6	20,426	10.9	17,489	9.5
Of which IMF RCF			3,273	1.7	3,213	1.7
Nominal GDP	210,275		187,576		183,906	

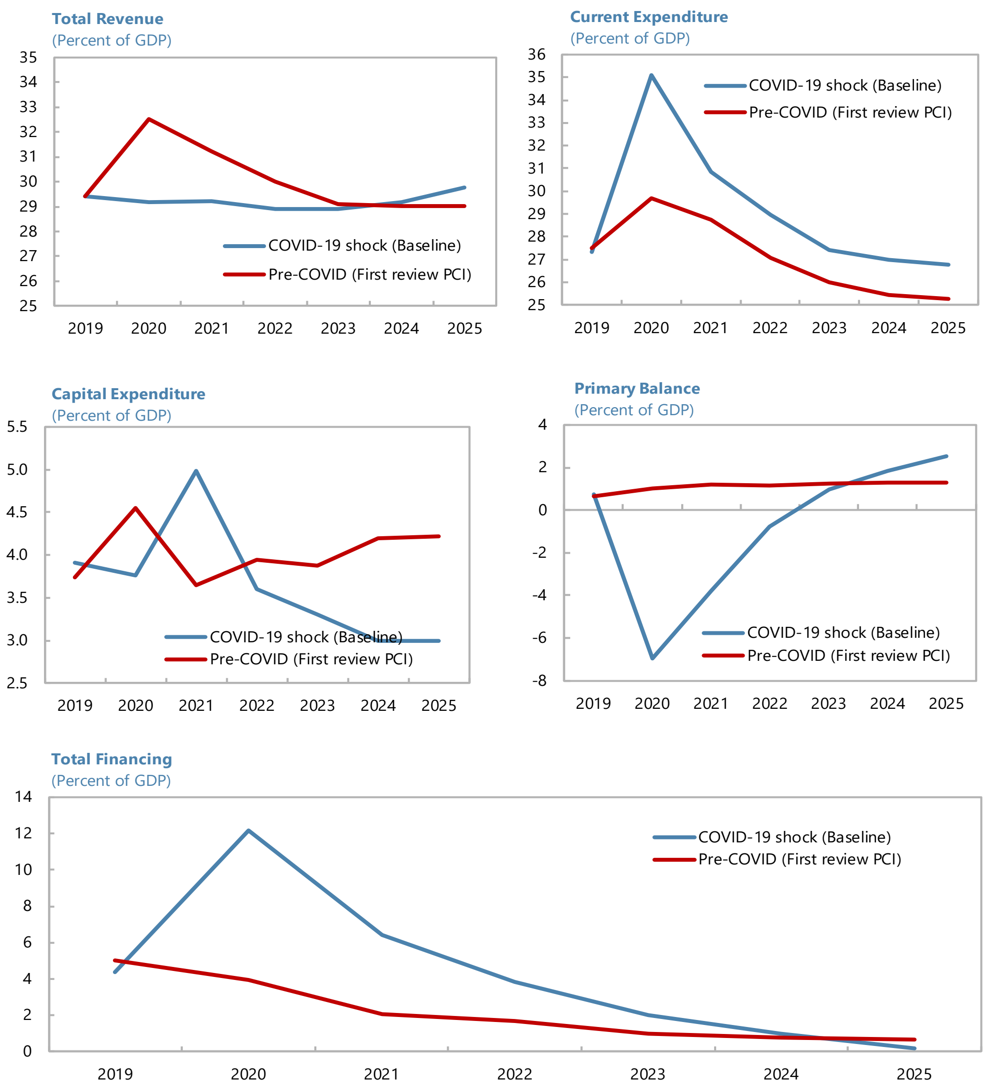
Sources: Cabo Verdean authorities and IMF staff projections.

[1] Includes budgetary central government (BCG) and extra budgetary central government (ECG), but excludes social security funds.

10. Staff and the authorities agreed on the importance of transparency and accountability in the execution of COVID-19 related expenditures (PS ¶16). In this context, the authorities stressed that the execution of COVID-19 expenditures will be done in line with the government's transparency and accountability practices. These expenditures are being published on the website of the Ministry of Finance and they will be audited by the Court of Auditors at the time of the 2020 budget audit.

11. The authorities' medium-term fiscal consolidation program has been derailed by the pandemic (Text Figure 5). The program envisaged a reduction in the ratio of public debt to GDP below 100 percent by 2024 through sustained improvements in the primary balance, and growth enhancing structural reforms. However, addressing the impact of COVID-19 has raised public debt to a projected 137.5 percent of GDP for 2020 (118.1 percent of GDP under the PCI). Although public debt is projected to decline over the medium term as the economic recovery takes hold, and fiscal consolidation efforts are intensified, it is expected to remain elevated and above 110 percent through 2024, consistent with a slow improvement in revenue performance post-COVID, and the authorities' efforts to address the country's infrastructure needs to boost growth and enhance resilience to shocks. In this context, staff stressed that the return to the program medium-term fiscal and debt sustainability objectives will require: (i) decisive revenue-enhancing measures in the immediate aftermath of the pandemic, with priority areas including increasing digitalization in tax administration for collection, inspection and audit functions; streamlining exemptions on VAT and excises (**Reform Target)**; improving tax compliance and risk management; strengthening post-customs clearance controls; enhancing the collection of tax arrears; and reversing the tax relief measures; (ii) continued strengthening of expenditure management and restraint in non-priority current expenditures; and (iii) renewed momentum in SOEs reforms. Within this medium-term framework, the fiscal position is projected to improve in 2021 as most COVID-19 related spending are phased out and the revenue base eroded by the economic impact of the pandemic is gradually rebuilt thanks to the abovementioned measures and other actions outlined in the PS (¶14). Under the baseline scenario, the primary balance is projected to narrow to 3.8 percent of GDP and financing needs are expected to decline to 6.4 percent of GPD, supporting a reversal in the debt dynamics, with the stock of debt projected below 135 percent of GDP.

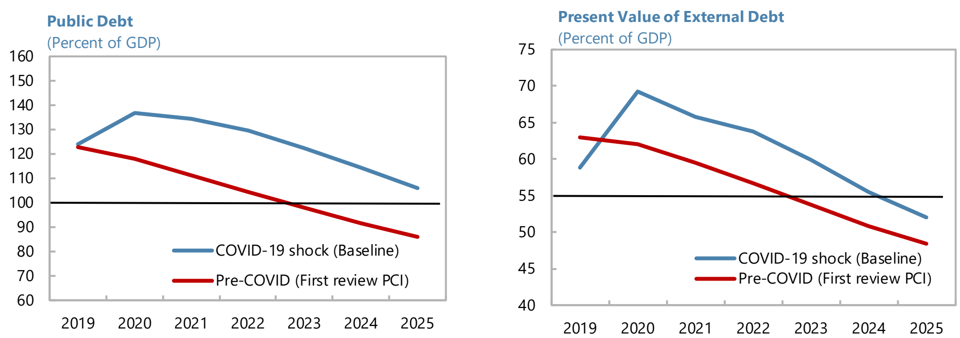
Text Figure 5. Cabo Verde: Medium Term Fiscal Sector Indicators



Sources: Cabo Verdean authorities; and IMF staff estimates

12. The risk is of debt distress is high but public debt remains sustainable (Text Figure 6). The September 2020 joint World Bank/IMF Debt Sustainability Analysis (DSA) shows that Cabo Verde's risk of external and total debt distress is high, unchanged from the last DSA carried out in April at the time of the RCF.[3] However, public debt is assessed as sustainable, supported by manageable debt service indicators. Debt sustainability is subject to considerable downside risks, including from a more severe or prolonged impact of the COVID-19 shock, contingent liabilities associated with SOEs, and exports as well as growth shocks. Reducing the public debt-to-GDP ratio in the medium term will require that after the pandemic, policies and reforms refocus on sustained fiscal consolidation, growth-enhancing structural reforms and continuous prudent borrowing policies, relying on highly concessional loans.

Text Figure 6. Cabo Verde: Medium-Term Debt Indicators, 2019–25



Sources: Cabo Verdean authorities; and IMF staff estimates.

B. Monetary Policy

13. Monetary policy has been accommodative in the face of the pandemic (PS ¶18,19).

- The BCV targets a level of reserves equivalent to 30 percent of broad money to protect the credibility of the peg. Cabo Verde's exchange rate regime is a conventional fixed peg with the currency pegged to the euro (CVE 110.265 per euro). The country maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. At 8.9 months of prospective imports of goods and services at end-2019 (€663.4 million), international reserves are adequate to support the peg and provide some buffers against external shocks. They have helped support the accommodative monetary policy response to COVID-19.

- To minimize the impact of the pandemic on the economy, the BCV implemented measures to improve liquidity in the banking system and support credit extension. These measures included: (i) a reduction in the policy rate by 125 basis points to 0.25 percent; (ii) a reduction in the minimum reserve requirement from 13 to 10 percent; (iii) a reduction in the overnight deposit

[3] IMF Country Report No. 20/136.

rate by 5 basis points to 0.05 percent; and (iv) the establishment of a long-term liquidity support facility for banks. The BCV is closely monitoring the implementation of these measures, as well as developments in the Euro area, standing ready to take any needed corrective measures in case of pressures on reserves or prices. Over the medium term, as economic conditions improve, the BCV will refocus on maintaining gross international reserves equivalent to at least 5 months of prospective imports of goods and services.

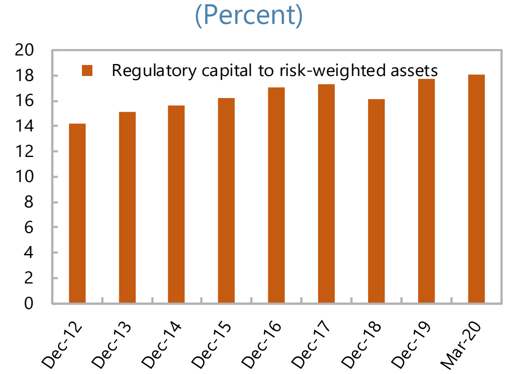
14. Monetary policy reforms should continue to focus on further improving monetary policy transmission mechanism and enhancing the BCV's role in liquidity management. The very low turnover in the interbank market, excess liquidity in the banking system, and the limited development of the government securities market are the key constraints that continue to limit the monetary policy transmission mechanism. Reforms introduced in recent years to address these constraints include the establishment of a symmetric interest rate corridor, the linking of the BCV's main long-term sterilization instrument to the policy rate, and the regular publication of minutes of the MPC's meetings to improve communication on the monetary policy stance. The completion of the ongoing preparation of the composite index of economic activity is expected to help strengthen near-term forecasting capacity and improve monetary policy analysis.

15. The authorities plan to resume the recapitalization of the BCV when conditions permit (PS ¶20). The BCV's equity position deteriorated in recent years, partly reflecting the reevaluation of assets in US dollars. The authorities developed a recapitalization plan in 2019 covering the injection of CVE 2.1 billion over three years, using resources from the budget. The first tranche of CVE 700 million was released in late 2019. The authorities plan to reassess the release of the remaining balance after the health crisis, when the fiscal position strengthens.

C. Financial Sector Issues

16. The financial sector has so far remained stable and adequately capitalized (Text Figure 7; PS ¶21). The banking system entered the current crisis with strong capital buffers and improving profitability, which could help manage risks posed by the pandemic: the regulatory capital to risk weighted assets (CAR) stood at 18.6 percent at end-March, well-above the regulatory minimum of 12 percent, and the return on equity was 5.3 percent. However, non-performing loans (NPLs), despite a decline in recent years, remained elevated at 10.1 percent of total loans at end-March 2020; and the impact of the health crisis on the corporate sector and households' incomes could aggravate the credit risk. Staff called for vigilance and enhanced supervision in the period ahead to contain vulnerabilities in relation with banks' lending standards and risk management practices. Staff also stressed that since the pandemic could negatively impact initiatives to address the high level of legacy NPLs, it would

Text Figure 7. Capital Adequacy Ratio
(Percent)



Source: Cabo Verdean authorities.

be important for the BCV to continue working with banks on their resolution when the crisis abates. The BCV noted in this regard that some banks had written-off some of the legacy loans, and that compliance with foreclosure regulations is being monitored closely.

17. New prudential measures implemented in relation with the health crisis will require careful monitoring (PS ¶22-24). As part of measures adopted to mitigate the impact of the pandemic, the BCV reduced the countercyclical capital buffer by 2 percentage points to support credit expansion. It also recommended the nonpayment of dividends on 2019 incomes and called on banks to grant loan payment moratorium without implications for NPLs and provisioning. Given the high level of NPLs, as explained above, staff highlighted the risk of this measure for banks' governance and recommended that the BCV enhances its NPLs reporting and monitoring mechanisms. Staff advised the BCV to encourage banks to collect information about the scope of moratorium granted, to identify borrowers and exposures subject to these measures, and to improve the quality of disclosures. A comprehensive analysis of the impact of the moratorium would be needed in the immediate aftermath of the pandemic to measure the extent of loan losses and guide policy actions.

18. Strong improvement in the AML/CFT framework has helped maintain correspondent banking relationships (PS ¶10). The authorities indicated that good progress has been made in improving the AML/CFT framework, including through the establishment of the National Commission on AML/CFT. Given the economy's dependence on migrant deposits and remittances, staff encouraged the authorities to continue strengthening the AML/CFT framework, notably by meeting FATF compliance requirements, and improving domestic risk management capacity, as well as the regulatory environment to avoid the loss of CBRs. With regards to improving tax compliance, the country is now fully compliant with all EU commitments and has been removed from the EU's gray list.

19. Financial sector reforms continue to focus on improving access to finance and enhancing risk-based supervision (PS ¶24). Key reforms planned for 2020-21 include: (i) the operationalization of the credit registry and information system (**Reform Target**); (ii) the establishment of a functional central registry for mobile collateral (**Reform Target**); and (iii) the development of a centralized official balance sheets database for the corporate sector, to facilitate risk-based supervision. In this regard, the BCV has been working with the National Statistics Institute (INE) to design financial indicators relevant for banks' risk assessment. Some of key intermediary steps for the completion of these reforms have been delayed by COVID-19.

D. Structural Reforms

20. The authorities concurred with staff that reinvigorating structural reforms starting in 2021 will be critical for the return to the pre-COVID medium-term growth trajectory (PS ¶25). Of particular importance will be SOEs reforms, significantly delayed because of COVID-19. Taking into account difficulties and constraints generated by the pandemic, as well as contacts maintained with interested investors, the authorities have reprogrammed privatization operations originally planned for 2020. They noted, however, that because of the impact of the COVID-19 shock on the financial position of companies slated for privatization, new strategies will have to be designed after the pandemic.

21. Progress in other growth-enhancing reforms will also be needed to support the economic recovery and strengthen resilience to shocks (PS ¶26). In this context, access to finance remains an important priority. The financial ecosystem put in place in 2019, covering loan guarantees, venture capital opportunities and capacity building for small and medium-sized enterprises will be an important instrument in this regard. For large companies investing in capital-intensive projects, the Sovereign Private Investment Guarantee Fund (SPIGF) expected to become operational by end-2020 would help in facilitating access to financing in international capital markets. The SPIGF will be set up in line with the Strategy Note completed by the authorities in April 2020 under the PCI. The Note provides details on the key components of the legal framework that would govern the management and operations of the SPIGF (Annex I). The authorities are preparing a new medium-term development strategy (*Cabo Verde Ambitions 2030*) to replace the expiring Strategy for Sustainable Development (PEDS). The new strategy is expected to be completed before end-2020.

PROGRAM MODALITIES AND OTHER ISSUES

Staff proposes the modification of quantitative targets (QTs) as well as new timelines for the completion of reform targets for the third review to provide some flexibility under the program in view of uncertainties and constraints generated by the health crisis.

22. Modification of quantitative targets. Consistent with the revised macroeconomic framework incorporating the economic and social impacts of COVID-19, staff proposes the modification of the following QTs for the third PCI review (September 2020 test date): tax revenues, primary balance, net other liabilities, and the nominal level of new concessional external debt of the central government (PS Table 1).

23. Modification of reform targets. Staff also proposes to change the timeline for the completion of two reform targets, to take into account administrative capacity constraints and heightened focus on short-term priorities related to the management of the health crisis that have contributed to delays in the implementation of structural reforms.

- *The streamlining of tax exemptions*. With the completion of the streamlining of exemptions on import duties, the new reform target will focus on actions covering the VAT and excises, with a completion date of end-December 2020 (PS ¶9; Table 2).

- *The creation of a functional registry of mobile collateral*. The completion date of this RT is now proposed for mid-January 2021 (PS ¶24; Table 2).

24. Program Financing. The program is fully financed for 2020 through a combination of external and domestic financing. External sources are mostly the World Bank, the African Development Bank, the IMF, key bilateral development partners, and the DSSI. Domestic financing comprises government securities issued in the domestic market in line with the country's regulation that caps total net domestic financing to 3 percent of GDP annually. The fiscal framework for 2021 is also fully financed.

25. Risks to program implementation. The most important risk to the program is a prolonged COVID-19 crisis. More broadly, if downside risks to the medium-term outlook presented above materialize, they would also hamper the successful implementation of the program.

26. Safeguard assessment. In line with the IMF's safeguards assessment requirements under the RCF, the BCV has committed to undergo an updated safeguards assessment. The BCV had originally requested the safeguard assessment on a voluntary basis under the PCI. In this context, the BCV has been working with staff in recent months to prepare the assessment mission and has authorized staff to contact its external auditors.

27. Capacity development. The authorities' capacity development (CD) strategy will continue to focus on revenue administration and tax policy, public financial management, monetary operations, financial regulation and supervision, and statistics. Staff encouraged the authorities to continue taking advantage of remotely delivered TA as much as possible during the COVID-19 crisis.

STAFF APPRAISAL

28. The Cabo Verdean economy has been severely impacted by the COVID-19 pandemic. Economic activity is projected to contract heavily in 2020 ending recent periods of robust economic growth. Beyond the health crisis, the economic outlook is positive but subject to significant downside risks. Contingent upon sustained recovery in the global economy as well as the resumption of tourism, capital flows, and structural reforms, growth is expected to recover to 4.5 percent in 2021 and to stabilize around 6 percent in the medium term. Key downside risks to the outlook stem from the intensity and duration of the pandemic, climate change and natural disasters. Staff encourages the authorities to prepare for an adverse scenario and stand ready to take needed mitigating measures should identified downside risks materialize.

29. The authorities have taken timely and appropriate measures to address the economic and social impacts of COVID-19. Focusing fiscal policy measures on expanding healthcare and social protection services has helped strengthen the health care system and protect vulnerable groups from the fallout of the pandemic. As the recovery gains momentum, it would be essential to unwind the temporary measures and accelerate fiscal reforms. Transparency and accountability for COVID-19 related expenditures are also important. In this regards, staff commends the authorities for the publication of all COVID-19 related expenditures and for their commitment to have these outlays audited along with the annual budget.

30. Staff supports the temporary widening of the fiscal deficit to accommodate the economic impact of the pandemic. Severely weakened government revenues, fiscal relief measures and additional expenditures related to the pandemic are expected to significantly expand the budget deficit, as reflected in the authorities' revised 2020 budget. In the current uncertain environment, staff welcomes revenue protection measures, enhanced treasury cash flow management as well as contingent expenditures identified by the authorities to guard against potential revenue and expenditure pressures.

31. The risk of debt distress is high, though public debt remains sustainable. The joint World Bank/IMF DSA shows that Cabo Verde's risk of external and total debt distress is high, and debt sustainability is subject to important downside risks. Returning to the pre-COVID trajectory for public debt and supporting medium-term debt sustainability will require that post-COVID policies and reforms refocus on fiscal consolidation, SOEs reforms, growth-enhancing structural reforms and continued reliance on highly concessional loans, as the authorities have expressed their commitment to pursue.

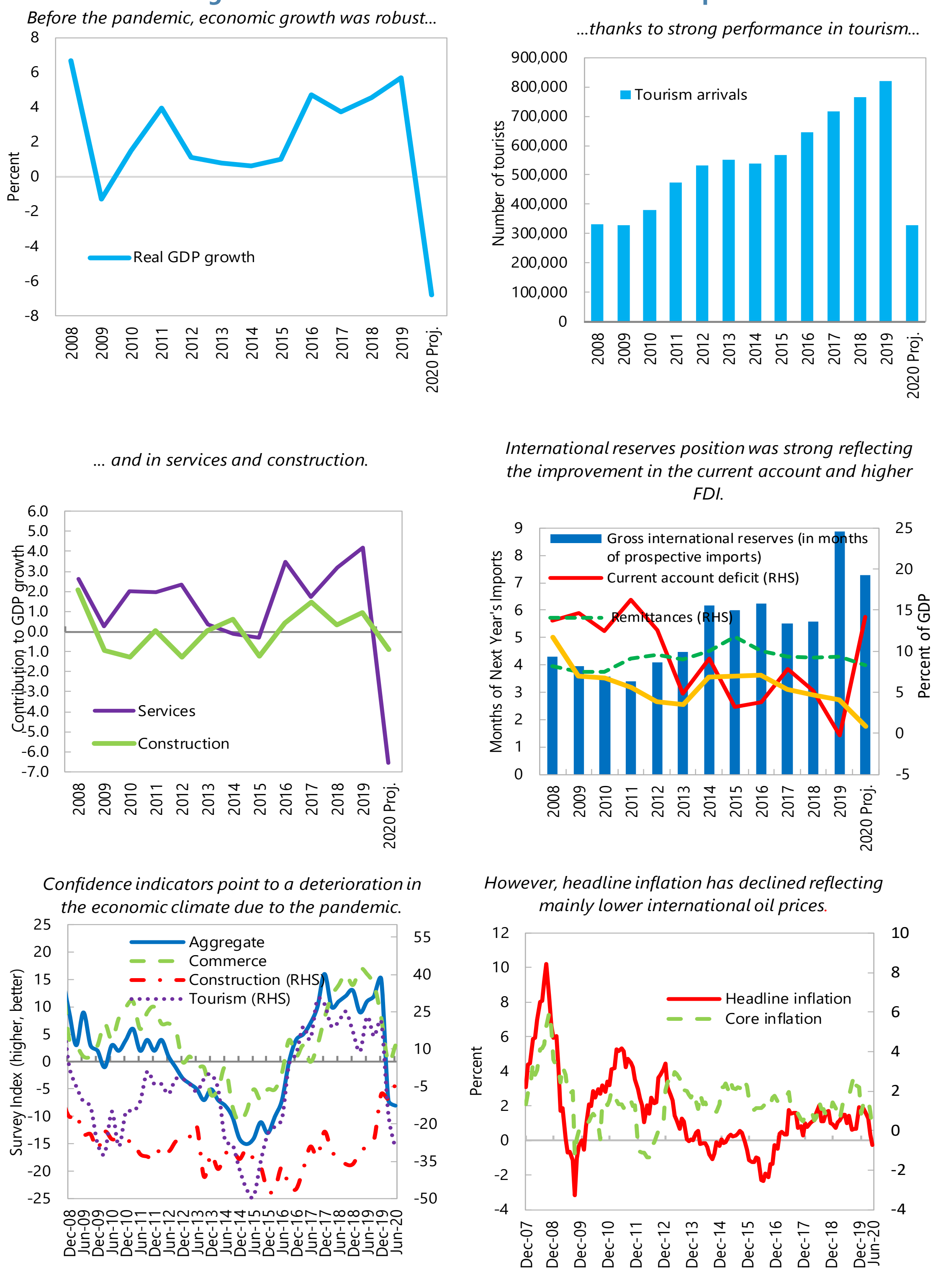
32. The current accommodative monetary policy stance is appropriate. The easing of key monetary policy conditions, including the reduction in the policy rate, the overnight deposit and lending rates as well as the minimum reserve requirement is expected to increase liquidity in the banking system and support credit expansion. Staff encourages the BCV to continue monitoring closely developments in the Euro area and stand ready to adjust the monetary policy stance as needed to protect the peg.

33. The financial system remains stable and adequately capitalized. Prudential measures implemented by the BCV have been instrumental in limiting the impact of the health crisis on the banking system. However, the deteriorating macroeconomic conditions could impact banks' asset quality in the current environment of high NPLs. Therefore, while monitoring the implementation of relief measures, the BCV should, in consultation with banks, identify vulnerabilities and risk factors in the system to take relevant regulatory actions.

34. Staff welcomes the authorities' improvement of the AML/CFT framework that have helped maintain CBRs. The establishment of the National Commission on AML/CFT is welcome. Staff encourages the authorities to make further progress to avoid loss of CBRs in view of Cabo Verde's dependence on remittances and emigrants' deposits.

35. Staff supports the completion of the second review under the PCI and the modification of targets. The authorities have demonstrated commitment to the program through fiscal discipline and steadfast implementation of reforms. As a result, performance under the PCI has remained strong with all end-March 2020 quantitative targets met, except for the floor on tax revenues, narrowly missed due to the impact of COVID-19. All non-quantitative targets were also observed, and all, but one reform targets were met. In view of this performance and the authorities' commitment to policies consistent with the program's medium-term objectives, staff supports their request for the completion of the second review under the PCI, the change in target dates for remaining reform targets, and the modification of quantitative targets for the third review.

Figure 1. Cabo Verde: Recent Economic Developments

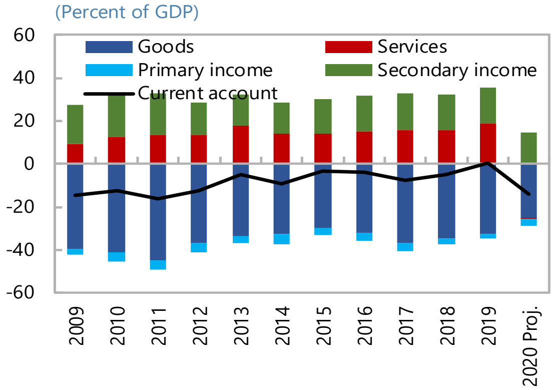


Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 2. Cabo Verde: External Sector Developments

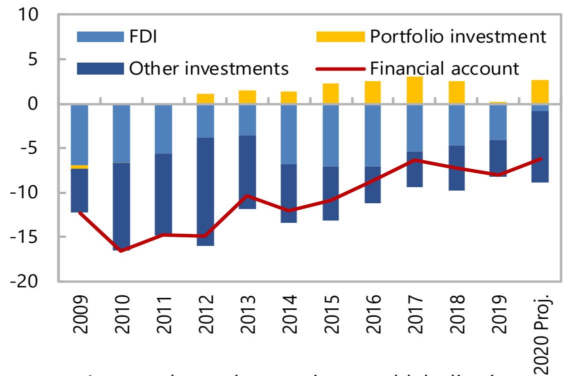
In 2019 the current account deficit narrowed owing to an increase in exports and a deceleration in imports.It is projected to worsen in 2020 due to impact of COVID-19 on tourism.

Current Account Balance
(Percent of GDP)



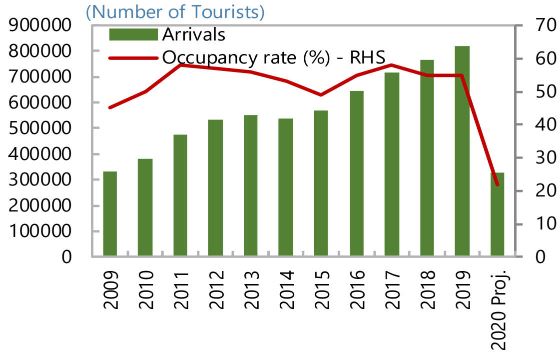
The deficit has been financed mainly by foreign direct investment and other investments.

Financial Account Composition
(Percent of GDP)



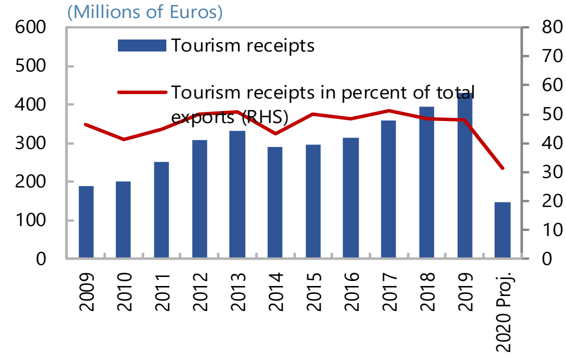
Tourism arrivals improved steadily in recent years but would decline significantly in 2020 due to the impact of the pandemic.

Tourism Arrivals and Occupancy Rate
(Number of Tourists)



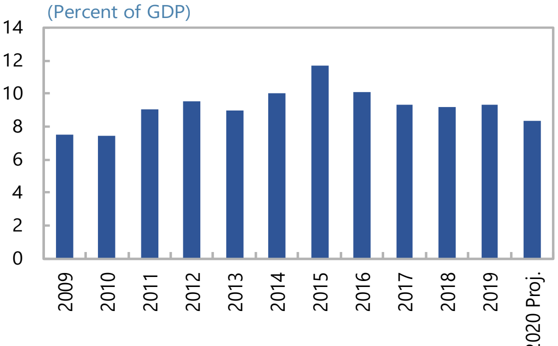
As a result, tourism receipts would decline in 2020 but still remain an important contributor to export performance.

Tourism Receipts
(Millions of Euros)



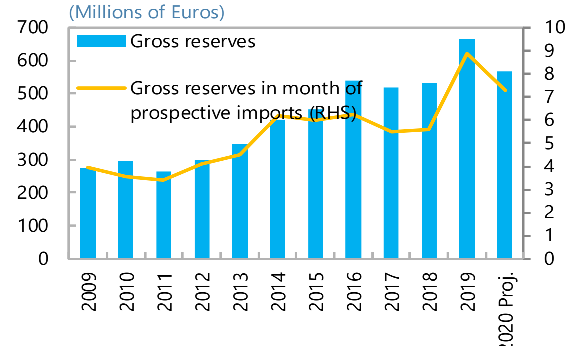
While declining in 2020, remittances remain an important source of foreign currency…

Remittances
(Percent of GDP)



… supporting the country's strong reserve position.

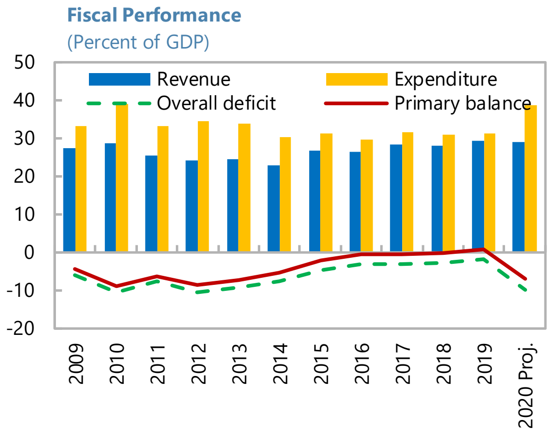
Reserves
(Millions of Euros)



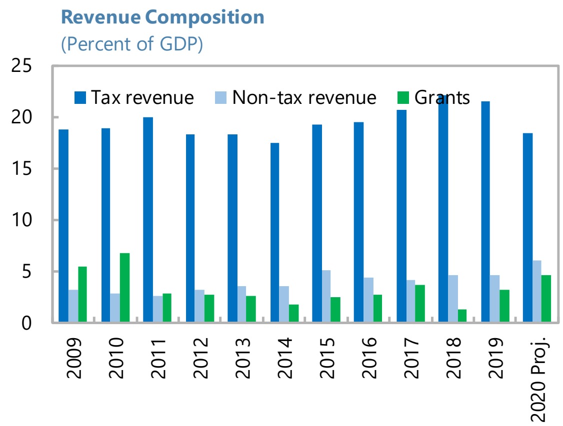
Sources: Cabo Verdean authorities; and IMF estimates.

Figure 3. Cabo Verde: Fiscal Sector Developments

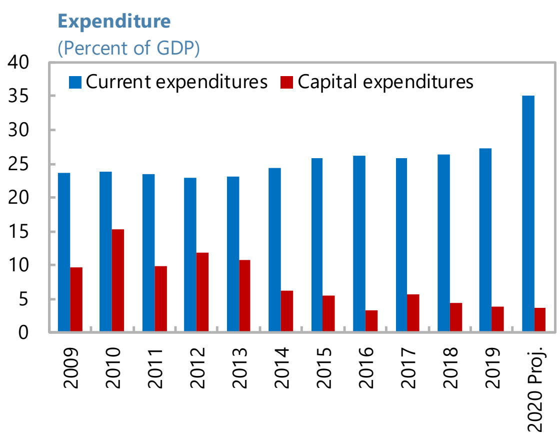
Fiscal performance has continuously improved in recent years but is projected to worsen in 2020 due to COVID-19.



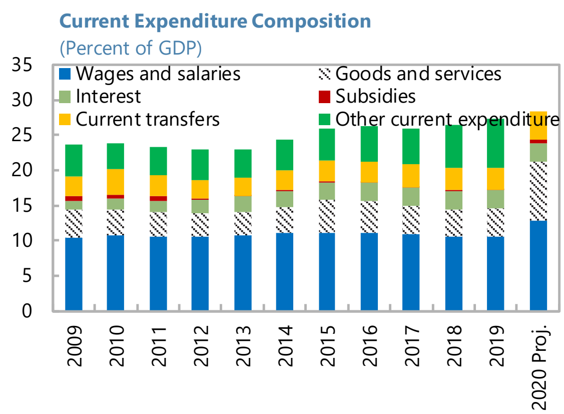
The recent improvements have been due to strong performance in tax and non tax revenues ...



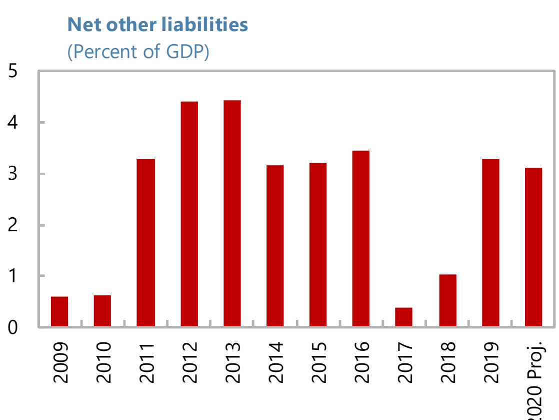
... and a decline in capital expenditures. Current expenditures are projected to increase in 2020...



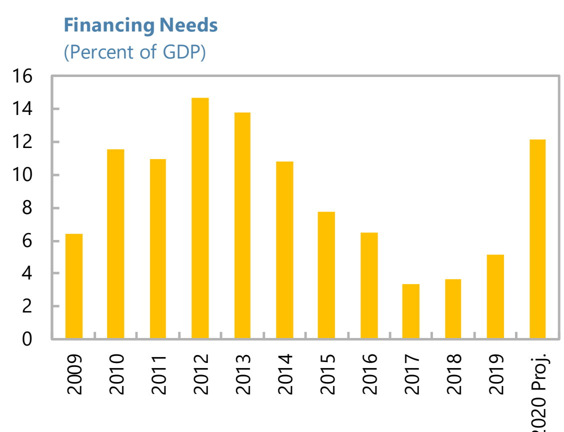
...partly due to higher COVID-19 related expenditures on goods and services.



Net other liabilities increased in 2019 mainly reflecting support to SOEs and is projected to remain elevated in 2020...

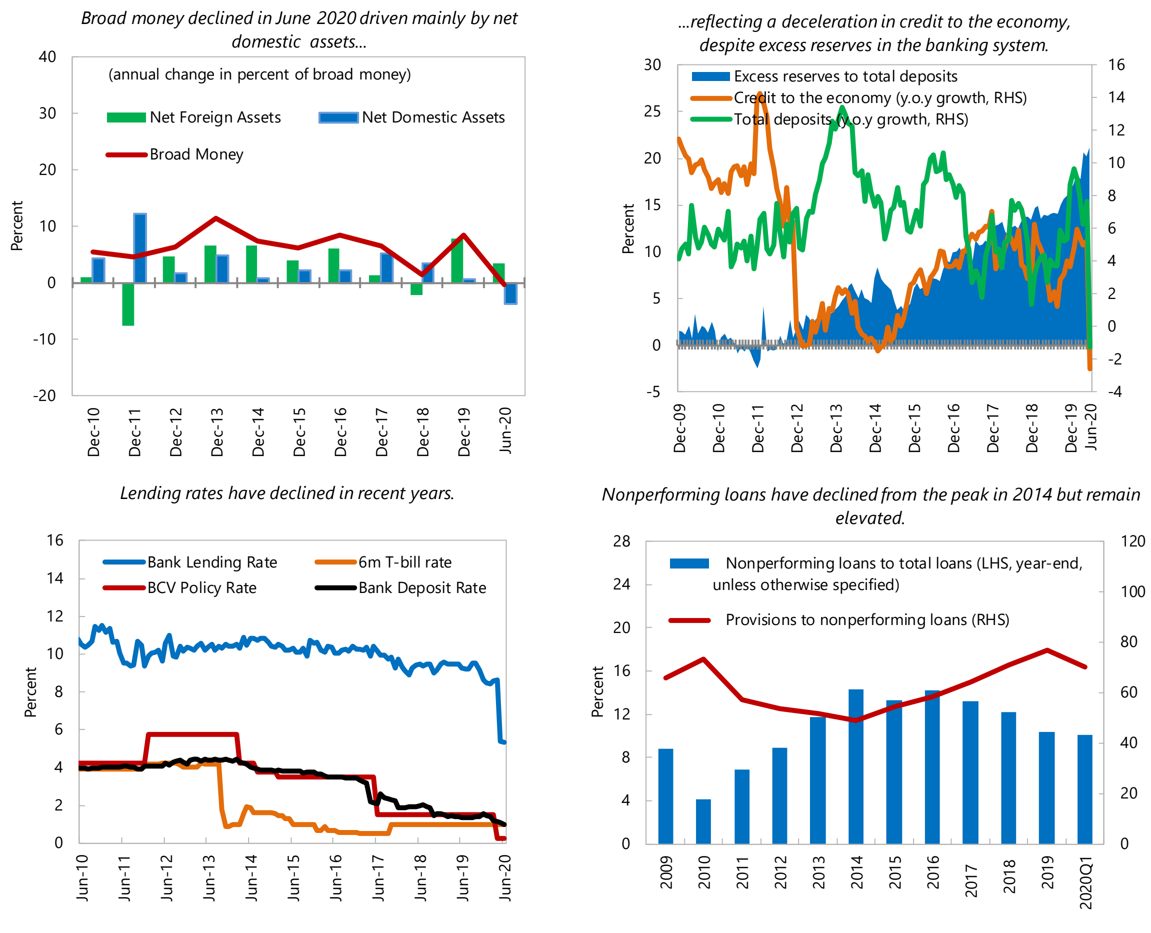


... contributing to an increase in financing needs, which are projected to rise in 2020 as revenues drop due to the economic impact of COVID-19.



Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 4. Cabo Verde: Monetary Developments



Sources: Cabo Verdean authorities; IMF staff estimates.

Table 1. Cabo Verde: Selected Economic Indicators, 2017–25

	2017	2018	2019	2020			2021		2022	2023	2024	2025
			Prel.	PCI 1st Review	RCF	Proj.	RCF	Proj.	Proj.			
	(Annual percent change)											
National accounts and prices 1/												
Real GDP	3.7	4.5	5.7	5.0	-5.5	-6.8	5.0	4.5	4.8	5.7	6.0	6.2
GDP deflator	0.7	1.5	0.6	1.4	1.7	1.1	1.7	1.2	1.4	1.5	1.6	1.7
Consumer price index (annual average)	0.8	1.3	1.1	1.3	1.3	1.0	1.4	1.2	1.4	1.5	1.6	1.7
Consumer price index (end of period)	0.3	1.0	1.9	1.3	1.3	1.0	1.4	1.2	1.4	1.5	1.6	1.7
External sector												
Exports of goods and services	8.7	15.9	10.0	9.2	-37.3	-47.3	24.7	25.9	17.5	15.5	14.9	12.6
Of which: tourism	14.6	10.0	8.6	9.5	-60.9	-65.7	46.8	32.5	27.6	17.3	16.8	11.6
Imports of goods and services	15.1	8.7	1.0	9.1	-14.0	-21.5	4.8	5.1	7.1	8.7	8.6	9.0
	(Change in percent of broad money, 12 months earlier)											
Money and credit												
Net foreign assets	1.3	-2.1	7.8	2.5	-7.0	-5.7	-3.4	-1.5	0.2	0.8	1.5	3.0
Net domestic assets	5.2	3.5	0.6	3.7	1.5	0.5	6.5	6.0	6.2	6.9	6.2	4.6
Net claims on the central government	1.5	4.3	-4.8	0.2	1.4	1.2	1.6	1.2	0.5	0.9	1.0	0.1
Credit to the economy	4.4	1.9	2.3	2.5	-1.1	0.9	3.7	3.7	4.2	4.0	3.7	3.5
Broad money (M2)	6.5	1.4	8.4	6.2	-5.5	-5.2	3.1	4.5	6.4	7.7	7.7	7.6
	(Percent of GDP, unless otherwise indicated)											
Savings and investment												
Domestic savings	30.4	31.3	43.3	31.3	23.9	28.0	29.2	33.0	35.6	38.4	40.7	40.8
Government	0.8	2.0	0.1	1.7	-4.5	-7.7	-1.6	-3.2	-0.4	2.0	2.0	3.1
Private	29.6	29.3	43.2	29.5	28.5	35.7	30.7	36.2	36.0	36.5	38.7	37.7
National investment	38.2	36.5	43.0	35.2	38.3	42.2	37.7	42.2	42.0	42.5	42.8	42.6
Government	5.7	4.4	3.9	4.6	4.3	3.8	3.1	5.0	3.6	3.3	3.0	3.0
Private	32.5	32.1	39.1	30.6	34.0	38.4	34.6	37.2	38.4	39.2	39.8	39.6
Savings-investment balance	-7.8	-5.2	0.3	-3.9	-14.3	-14.2	-8.6	-9.2	-6.4	-4.1	-2.1	-1.8
Government	-4.9	-2.4	-3.8	-2.8	-8.8	-11.5	-4.6	-8.2	-4.0	-1.3	-1.0	0.1
Private	-3.0	-2.8	4.1	-1.1	-5.5	-2.7	-3.9	-1.0	-2.4	-2.7	-1.2	-1.9
External sector												
External current account (including official transfers)	-7.8	-5.2	0.3	-3.9	-14.3	-14.2	-8.6	-9.2	-6.4	-4.1	-2.1	-1.8
External current account (excluding official transfers)	-11.4	-8.0	-2.7	-7.2	-18.8	-18.6	-11.7	-13.6	-9.5	-6.3	-4.6	-3.7
Overall balance of payments	-0.7	0.5	7.4	2.4	-7.3	-5.4	-2.5	-0.7	0.8	0.8	1.4	2.8
Gross international reserves (months of prospective imports of goods and services)	5.5	5.6	8.9	5.5	6.3	7.3	5.3	6.7	6.3	6.0	5.8	5.9
Government finance												
Revenue	28.6	28.2	29.4	32.5	26.6	29.2	27.5	29.2	28.9	28.9	29.2	29.8
Tax and nontax revenue	24.9	26.8	26.2	29.7	23.0	24.5	25.0	25.6	26.9	27.8	28.0	28.7
Grants	3.7	1.4	3.2	2.8	3.5	4.7	2.5	3.6	2.0	1.1	1.1	1.1
Expenditure	31.6	30.9	31.2	34.2	33.8	38.8	31.6	35.8	32.6	30.7	30.0	29.8
Primary balance	-0.4	-0.1	0.7	1.0	-5.4	-7.0	-1.6	-3.8	-0.8	1.0	1.8	2.5
Overall balance (incl. grants)	-3.0	-2.7	-1.8	-1.7	-8.4	-9.7	-4.1	-6.6	-3.7	-1.8	-0.8	0.0
Net other liabilities (incl. onlending)	-0.4	-1.0	-3.3	-2.2	-2.5	-2.5	-1.0	0.2	-0.2	-0.2	-0.2	-0.2
Total financing (incl. onlending and capitalization)	4.0	3.7	5.1	3.9	10.9	12.1	5.1	6.4	3.9	2.0	1.0	0.2
Net domestic credit	0.2	1.4	0.7	0.4	3.0	2.6	2.9	2.2	0.9	1.8	1.8	0.1
Net external financing	4.0	1.5	3.6	3.6	8.0	9.5	2.2	4.2	3.0	0.3	-0.8	0.1
Public debt stock and service												
Total nominal government debt	125.9	124.7	125.0	118.1	137.4	137.5	132.0	134.8	130.0	122.8	114.9	106.3
External government debt	93.7	91.4	91.4	87.2	98.6	97.0	93.5	93.8	90.8	84.8	78.0	72.3
Domestic government debt	32.2	33.3	33.5	30.9	38.8	40.5	38.5	41.0	39.2	38.0	36.9	34.0
External debt service (percent of exports of goods and services) 2/	6.4	5.9	5.4	6.8	12.4	12.5	11.5	13.4	13.7	12.4	11.0	9.6
Present value of PPG external debt												
Percent of GDP (risk threshold: 55%)	…	60.6	58.8	62.1	68.0	69.2	65.3	65.8	63.8	59.9	55.5	52.0
Percent of exports (risk threshold: 240%)	…	123.8	116.1	118.8	205.1	244.3	168.5	194.8	170.9	149.0	129.4	116.4
Present value of total debt												
Percent of GDP (benchmark: 70%)	…	96.0	92.4	92.7	106.6	107.7	103.5	106.5	102.9	97.9	92.4	86.0
Memorandum items:												
Nominal GDP (billions of Cabo Verde escudos)	173.1	183.7	195.2	210.3	187.6	183.9	200.4	194.4	206.6	221.7	238.6	257.8
Gross international reserves (€ millions, end of period)	519.9	531.9	663.4	651.7	542.8	573.2	497.5	561.0	576.6	593.7	625.1	690.6

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

1/ The Cabo Verdean exchange rate has been pegged to the Euro since 1999, at a rate of 110.265 CVE/€.

2/ Reflects assumption that EUR 8.1 million of debt service (principal and interest) to official bilateral creditors will be reprofiled in 2020 under the terms of the G'20 Debt Service Suspension Initiative (DSSI).

Table 2. Cabo Verde: Balance of Payments, 2017–25

(Millions of Euros; unless otherwise indicated)

	2017	2018	2019	2020			2021		2022	2023	2024	2025
				PCI 1st								
			Prel.	Review	RCF	Proj.	RCF	Proj.		Proj.		
Current account	-123	-87	5	-75	-244	-237	-155	-162	-119	-82	-46	-41
Trade balance	-583	-582	-581	-649	-511	-418	-493	-395	-427	-462	-502	-509
Exports, f.o.b.	167	232	237	309	179	184	213	224	237	270	308	357
Imports, f.o.b.	750	814	819	958	690	602	706	618	664	731	810	866
Consumer goods	270	278	278	337	201	208	204	210	227	249	277	295
Intermediate goods	156	158	158	178	120	97	131	105	115	127	141	148
Capital goods	131	99	99	115	75	61	83	67	73	81	90	98
Others (including fuel)	192	279	284	327	294	236	288	236	249	274	302	325
Fuel	69	82	82	82	71	50	75	57	64	70	76	83
Services (net)	245	264	334	323	81	-7	155	47	117	172	238	254
Receipt	536	584	659	687	386	289	491	372	463	538	620	688
Of which: tourism	359	395	429	470	169	147	249	195	249	292	341	380
Payment	292	319	325	364	305	295	336	325	346	366	382	434
Primary Income (net)	-54	-39	-38	-54	-57	-52	-51	-48	-49	-50	-70	-70
Of which: interest on public debt	-16	-17	-17	-18	-20	-13	-18	-18	-21	-21	-22	-21
Secondary Income (net)	269	270	290	305	244	240	234	234	240	258	288	284
General Government	55	46	53	64	76	74	58	77	59	45	54	45
Other Sectors	214	224	237	242	168	166	176	157	181	213	235	240
Of which: remittances	147	153	166	166	162	139	175	146	175	207	228	232
Capital account	14	13	9	17	17	38	22	22	14	14	4	12
Of which: Grants	12	11	5	14	13	34	18	18	10	10	0	8
Financial account 1/	-111	-112	-11	-58	-227	-199	-133	-140	-105	-68	-42	-29
Foreign direct investment	-84	-78	-72	-92	-13	-14	-45	-49	-70	-80	-92	-94
Portfolio investment	47	42	3	32	39	39	5	5	5	5	5	5
Other investment	-63	-84	-73	-42	-130	-134	-48	-84	-56	-10	13	-6
Net acquisition of financial assets	39	-53	-1	-15	5	6	-7	-8	8	4	4	5
Net incurrence of liabilities	102	31	73	28	135	140	42	76	64	14	-9	11
Monetary authority	2	0	0	0	1	1	0	0	0	0	0	0
Central government	63	32	64	61	128	133	34	69	56	5	-17	2
Disbursements	92	64	96	110	178	173	97	130	132	84	63	82
Amortization	-29	-32	-32	-49	-50	-46	-63	-61	-76	-79	-81	-80
Exceptional financing 2/	0	0	0	0	0	8.1	0	0	0	0	0	0
Commercial banks	-4	4	4	4	3	4	5	5	5	5	5	5
Non-bank flows	41	-5	4	-37	3	3	3	3	4	4	4	4
Reserve assets (+ accumulation)	-11	8	132	45	-123	-90	-45	-12	16	17	31	66
Errors and omissions 3/	-2	-38	-25	0	0	0	0	0	0	0	0	0
Overall balance	-11	8	132	45	-123	-90	-45	-12	16	17	31	66
Memorandum items:												
Current account (incl. official transfers, percent of GDP)	-7.8	-5.2	0.3	-3.9	-14.3	-14.2	-8.6	-9.2	-6.4	-4.1	-2.1	-1.8
Current account (excl. official transfers, percent of GDP)	-11.4	-8.0	-2.7	-7.2	-18.8	-18.6	-11.7	-13.6	-9.5	-6.3	-4.6	-3.7
Overall balance (percent of GDP)	-0.7	0.5	7.4	2.4	-7.3	-5.4	-2.5	-0.7	0.8	0.8	1.4	2.8
Gross international reserves	520	532	663	652	543	573	497	561	577	594	625	691
Months of current year's imports of goods and services	6.0	5.6	7.0	5.9	6.5	7.7	5.7	7.1	6.9	6.5	6.3	6.4
Months of next year's imports of goods and services	5.5	5.6	8.9	5.5	6.3	7.3	5.3	6.7	6.3	6.0	5.8	5.9
External public debt	1680	1720	1805	1663	1841	1802	1860	1836	1882	1883	1864	1866
External aid (grants and loans, percent of GDP)	10.1	7.2	8.7	9.9	15.7	16.8	9.5	12.8	10.7	6.9	5.4	5.8
Nominal GDP	1570	1666	1770	1907	1701	1668	1817	1763	1874	2010	2164	2338

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

1/ Including international reserves and exceptional financing.

2/ Reflects assumption that EUR 8.1 million of debt service (principal and interest) to official bilateral creditors will be reprofiled in 2020 under the terms of the G'20 Debt Service Suspension Initiative (DSSI).

3/ Including banks' delays on trade credit reporting.

Table 3a. Cabo Verde: Statement of Operations of the Central Government, 2017–25[1]

(Millions of Cabo Verde Escudos)

	2017	2018	2019	2020			2021		2022	2023	2024	2025
			Prel.	PCI 1st Review	RCF	Proj.	RCF	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	49,505	51,857	57,391	68,395	49,173	53,677	55,151	56,785	59,696	64,065	69,607	76,795
Tax	35,842	40,657	42,015	48,066	33,793	33,952	39,498	38,262	43,898	49,281	54,416	60,382
Taxes on income and profit	11,292	12,253	12,674	14,448	11,493	11,558	13,183	11,554	13,802	15,535	17,133	18,512
Personal income tax	7,062	6,877	7,201	8,258	6,477	6,249	8,015	6,738	7,661	8,549	9,387	10,143
Corporate income tax	4,230	5,376	5,473	6,190	5,016	5,309	5,168	4,816	6,141	6,985	7,745	8,369
Taxes on goods and services	16,777	19,887	20,658	23,759	15,494	15,582	17,948	17,985	20,830	23,468	26,221	29,919
Of which: customs VAT (IVA DGA)	7,260	7,801	8,260	9,274	6,424	6,424	6,862	7,177	8,160	9,194	10,293	11,733
Of which: domestic VAT (IVA DGCI)	6,046	8,422	8,476	9,897	6,523	6,471	6,968	7,228	8,294	9,345	10,462	11,926
Taxes on international trade	7,224	7,733	8,011	8,972	6,240	6,240	7,698	8,106	8,577	9,540	10,268	11,092
Other taxes	549	784	672	887	566	572	669	617	688	738	795	859
Grants	6,389	2,575	6,238	5,959	5,959	8,566	5,041	7,041	4,110	2,488	2,679	2,894
Other revenue	7,273	8,625	9,137	14,370	9,421	11,159	10,612	11,482	11,688	12,295	12,512	13,519
Fees and penalties	498	433	408	375	375	299	388	303	312	317	322	327
Property Income	976	1,828	2,301	4,632	2,280	3,289	1,700	2,638	2,339	2,339	2,339	2,379
Sale of Goods and Services	5,189	5,732	5,991	8,256	5,840	6,389	7,725	7,610	8,086	8,677	8,816	8,966
Other (inc. social contributions)	610	633	438	1,108	926	1,182	799	932	951	963	1,036	1,848
Expenditure	54,650	56,726	60,974	71,965	65,677	71,444	63,395	69,661	67,259	68,049	71,585	76,724
Expense	44,760	48,587	53,343	62,386	55,415	64,537	57,223	59,974	59,822	60,734	64,426	68,989
Compensation of employees	18,891	19,425	20,595	24,000	23,500	23,654	24,928	24,127	24,610	25,102	26,357	28,334
Use of goods and services	6,961	7,185	8,001	13,375	10,200	15,206	10,895	11,409	10,329	10,418	11,215	12,118
Interest	4,523	4,726	4,991	5,662	5,700	4,957	4,989	5,505	5,951	6,108	6,322	6,399
Domestic	2,684	2,811	3,083	3,337	3,375	2,939	2,889	3,371	3,591	3,653	3,842	4,037
External	1,790	1,822	1,867	2,229	2,229	1,922	2,003	2,037	2,263	2,358	2,384	2,265
Other Charges	50	93	41	96	96	96	97	97	97	97	97	97
Subsidies	124	153	160	729	729	891	691	691	700	708	726	738
Current transfers	6,001	6,283	6,015	6,477	5,400	7,556	5,768	6,512	6,404	6,650	7,159	7,735
Social benefits	5,541	6,237	7,270	7,486	7,500	8,046	7,717	7,717	8,200	7,980	8,591	9,282
Other expense (incl. capital transfer)	2,718	4,577	6,310	4,658	2,386	4,227	2,235	4,014	3,629	3,768	4,057	4,383
Net acquisition of nonfinancial assets	9,890	8,140	7,631	9,579	8,029	6,907	6,172	9,688	7,437	7,315	7,159	7,735
Purchase of assets	10,059	8,194	7,971	10,803	8,396	7,358	6,910	10,141	7,902	7,786	7,630	8,206
Sales of assets (-)	-168	-54	-339	-1,224	-367	-451	-738	-453	-465	-471	-471	-471
Primary balance	-622	-143	1,408	2,093	-10,804	-12,810	-3,255	-7,371	-1,613	2,124	4,344	6,470
Overall balance	-5,145	-4,869	-3,583	-3,569	-16,504	-17,767	-8,244	-12,876	-7,564	-3,984	-1,978	71
Net other liabilities	-615	-1,903	-6,396	-4,718	-4,718	-4,569	-2,061	375	-407	-499	-399	-586
Onlending to SOEs for investment purpose	-4,098	-1,541	-1,531	-2,101	-2,101	-3,379	-1,197	-600	-561	-643	-543	-586
Other onlending (net)	4,565	3,606	-563	-1,294	-1,294	-894	144	2,000	143	144	144	0
Disbursement	0	0	-2,299	-1,437	-1,437	-1,285	0	0	0	0	0	0
Repayment	4,565	3,606	1,736	144	144	392	144	2,000	144	144	144	0
Capitalization	-1,157	-3,968	-4,303	-1,448	-1,448	-1,445	-1,056	-1,056	0	0	0	0
Other	75	0	0	125	125	1,148	49	31	11	0	0	0
Financing needs	5,760	6,772	9,980	8,288	21,222	22,336	10,305	12,501	7,970	4,483	2,376	515
Total financing	7,197	5,239	8,491	8,288	8,288	22,336	10,305	12,501	7,970	4,483	2,376	515
Net domestic financing	273	2,517	1,381	797	797	4,847	5,816	4,373	1,797	3,890	4,302	245
Net external financing	6,924	2,723	7,110	7,491	7,491	17,489	4,489	8,129	6,173	593	-1,926	270
Disbursement	10,137	6,202	11,277	12,137	12,137	20,607	10,677	14,317	14,512	9,271	6,951	9,078
Budget Loans	2,205	2,205	6,148	3,136	3,136	9,125	3,320	3,388	6,124	3,124	3,124	3,124
Project and Program Loans	3,834	2,456	3,599	6,899	6,899	7,213	6,160	10,329	7,827	5,504	3,284	5,368
Loans to on lend to SOEs 2/	4,098	1,541	1,531	2,101	2,101	3,379	1,197	600	561	643	543	586
Amortization	3,213	3,479	4,167	4,645	4,645	3,118	6,188	6,188	8,339	8,677	8,877	8,808
Exceptional Finanicng (DSSI)						890						
Net errors and omissions (+ overfinancing)	1,437	-1,533	-1,489	0		0	0	0	0	0	0	0
Memorandum items:												
Social Spending 3/	14,151	14,008	14,996	15,375		18,067		17,100	18,170	19,497	20,988	22,678
Total Public Investment	14,156	9,735	9,501	12,905		10,736		10,741	8,463	8,429	8,173	8,793
of which: public investment done by SOEs	4,098	1,541	1,531	2,101		3,379		600	561	643	543	586

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

1/ Includes budgetary central government (BCG) and extra budgetary central government (ECG), but excludes social security funds.

2/ On lend to SOEs for public investment execution.

3/ Prospective financing has been included in the framework.

Table 3b. Cabo Verde: Statement of Operations of the Central Government, 2017–25[1]

(Percent of GDP)

	2017	2018	2019	2020			2021		2022	2023	2024	2025
		Prel.	Prel.	PCI 1st Review	RCF	Proj.	RCF	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	28.6	28.2	29.4	32.5	26.2	29.2	27.5	29.2	28.9	28.9	29.2	29.8
Taxes	20.7	22.1	21.5	22.9	18.0	18.5	19.7	19.7	21.2	22.2	22.8	23.4
Taxes on income and profit	6.5	6.7	6.5	6.9	6.1	6.3	6.6	5.9	6.7	7.0	7.2	7.2
Taxes on goods and services	9.7	10.8	10.6	11.3	8.3	8.5	9.0	9.3	10.1	10.6	11.0	11.6
Taxes on international trade	4.2	4.2	4.1	4.3	3.3	3.4	3.8	4.2	4.2	4.3	4.3	4.3
Other taxes	0.3	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	3.7	1.4	3.2	2.8	3.2	4.7	2.5	3.6	2.0	1.1	1.1	1.1
Other revenue	4.2	4.7	4.7	6.8	5.0	6.1	5.3	5.9	5.7	5.5	5.2	5.2
Fees and penalties	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Property Income	0.6	1.0	1.2	2.2	1.2	1.8	0.8	1.4	1.1	1.1	1.0	0.9
Sale of Goods and Services	3.0	3.1	3.1	3.9	3.1	3.5	3.9	3.9	3.9	3.9	3.7	3.5
Other (inc. social contributions)	0.4	0.3	0.2	0.5	0.5	0.6	0.4	0.5	0.5	0.4	0.4	0.7
Expenditure	31.6	30.9	31.2	34.2	35.0	38.8	31.6	35.8	32.6	30.7	30.0	29.8
Expense	25.9	26.4	27.3	29.7	29.5	35.1	28.6	30.8	29.0	27.4	27.0	26.8
Compensation of employees	10.9	10.6	10.6	11.4	12.5	12.9	12.4	12.4	11.9	11.3	11.0	11.0
Use of goods and services	4.0	3.9	4.1	6.4	5.4	8.3	5.4	5.9	5.0	4.7	4.7	4.7
Interest	2.6	2.6	2.6	2.7	3.0	2.7	2.5	2.8	2.9	2.8	2.6	2.5
Domestic	1.6	1.5	1.6	1.6	1.8	1.6	1.4	1.7	1.7	1.6	1.6	1.6
External	1.0	1.0	1.0	1.1	1.2	1.0	1.0	1.0	1.1	1.1	1.0	0.9
Other Charges	0.0	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	0.1	0.1	0.1	0.3	0.4	0.5	0.3	0.4	0.3	0.3	0.3	0.3
Current transfers	3.5	3.4	3.1	3.1	2.9	4.1	2.9	3.3	3.1	3.0	3.0	3.0
Social benefits	3.2	3.4	3.7	3.6	4.0	4.4	3.9	4.0	4.0	3.6	3.6	3.6
Other expense (incl. capital transfer)	1.6	2.5	3.2	2.2	1.3	2.3	1.1	2.1	1.8	1.7	1.7	1.7
Net acquisition of nonfinancial assets	5.7	4.4	3.9	4.6	4.3	3.8	3.1	5.0	3.6	3.3	3.0	3.0
Purchase of assets	5.8	4.5	4.1	5.1	4.5	4.0	3.4	5.2	3.8	3.5	3.2	3.2
Sales of assets (-)	-0.1	0.0	-0.2	-0.6	-0.2	-0.2	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2
Primary balance	-0.4	-0.1	0.7	1.0	-5.8	-7.0	-1.6	-3.8	-0.8	1.0	1.8	2.5
Overall balance	-3.0	-2.7	-1.8	-1.7	-8.8	-9.7	-4.1	-6.6	-3.7	-1.8	-0.8	0.0
Net other liabilities	-0.4	-1.0	-3.3	-2.2	-2.5	-2.5	-1.0	0.2	-0.2	-0.2	-0.2	-0.2
Onlending to SOEs for investment purpose	-2.4	-0.8	-0.8	-1.0	-1.1	-1.8	-0.6	-0.3	-0.3	-0.3	-0.2	-0.2
Other onlending (net)	2.6	2.0	-0.3	-0.6	-0.7	-0.5	0.1	1.0	0.1	0.1	0.1	0.0
Disbursement	0.0	0.0	-1.2	-0.7	-0.8	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Repayment	2.6	2.0	0.9	0.1	0.1	0.2	0.1	1.0	0.1	0.1	0.1	0.0
Capitalization	-0.7	-2.2	-2.2	-0.7	-0.8	-0.8	-0.5	-0.5	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.1	0.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Financing Needs	3.3	3.7	5.1	3.9	11.3	12.1	5.1	6.4	3.9	2.0	1.0	0.2
Total financing	4.2	2.9	4.3	3.9	4.4	12.1	5.1	6.4	3.9	2.0	1.0	0.2
Net domestic financing	0.2	1.4	0.7	0.4	0.4	2.6	2.9	2.2	0.9	1.8	1.8	0.1
Net external financing	4.0	1.5	3.6	3.6	4.0	9.5	2.2	4.2	3.0	0.3	-0.8	0.1
Disbursement	5.9	3.4	5.8	5.8	6.5	11.2	5.3	7.4	7.0	4.2	2.9	3.5
Budget Loans	1.3	1.2	3.1	1.5	1.7	5.0	1.7	1.7	3.0	1.4	1.3	1.2
Project and Program Loans	2.2	1.3	1.8	3.3	3.7	3.9	3.1	5.3	3.8	2.5	1.4	2.1
Loans to on lend to SOEs 2/	2.4	0.8	0.8	1.0	1.1	1.8	0.6	0.3	0.3	0.3	0.2	0.2
Amortization	1.9	1.9	2.1	2.2	2.5	1.7	3.1	3.2	4.0	3.9	3.7	3.4
Exceptional Financing (DSSI)						0.5						
Net errors and omissions (+ overfinancing)	0.8	-0.8	-0.8	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Social Spending 3/	8.2	7.6	7.7	7.3		9.8		8.8	8.8	8.8	8.8	8.8
Total Public Investment	8.2	5.3	4.9	6.1		5.8		5.5	4.1	3.8	3.4	3.4
of which: public investment done by SOEs	2.4	0.8	0.8	1.0		1.8		0.3	0.3	0.3	0.2	0.2
GDP at current market prices (billions of CVEsc)	173.1	183.7	195.2	210.3	187.6	183.9	200.4	194.4	206.6	221.7	238.6	257.8

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

1/ Includes budgetary central government (BCG) and extra budgetary central government (ECG), but excludes social security funds.

2/ On lend to SOEs for public investment execution.

3/ Prospective financing has been included in the framework.

Table 4. Cabo Verde: Monetary Survey, 2017–25
(Millions of Cabo Verde escudos, unless otherwise indicated)

	2017	2018	2019	2020			2021		2022	2023	2024	2025
				PCI 1st								
			Prel.	Review	RCF	Proj.	RCF	Proj.		Proj.		
Net foreign assets	60,227	56,396	70,782	65,536	52,631	59,399	46312.5	56,545	56,903	58,681	62,036	69,246
Foreign assets	86,730	83,533	98,658	93,531	79,921	87,603	74118.1	85,282	86,184	88,518	92,439	100,227
Of which: gross international reserves	57,330	58,649	73,453	71,214	59,853	63,206	54852.1	61,861	63,583	65,465	68,924	76,148
Foreign liabilities	-26,519	-27,233	-27,876	-28,091	-27,290	-28,203	-27806	-28,737	-29,281	-29,837	-30,403	-30,981
Net domestic assets	120,878	127,234	128,361	143,291	130,796	129,295	142744	140,642	152,942	167,336	181,413	192,708
Net domestic credit	145,938	156,614	152,510	169,682	155,388	151,995	165123	161,185	170,404	180,764	191,484	200,362
Net claims on general government (net)	33,068	40,284	31,929	41,400	39,829	29,599	42723.6	31,735	32,690	34,734	37,010	37,289
Investment in TCMFs 1/	11,053	11,070	11,112	4,637	11,112	4,679	11112.2	4,679	4,679	4,679	4,679	4,679
Net claims on the central government	24,818	32,659	23,909	34,099	30,072	26,333	32979.7	28,519	29,417	31,362	33,513	33,636
Credit to central government	35,920	46,866	41,943	48,306	44,117	44,367	47025.2	46,553	47,452	49,396	51,548	51,670
Deposits of central government	-11,102	-14,207	-18,034	-14,207	-14,046	-18,034	-14046	-18,034	-18,034	-18,034	-18,034	-18,034
Of which: project deposits	-47	-56	-68	-56	-68	-68	-68	-68	-68	-68	-68	-68
Net claims on local government and other agencies 2/	-1,938	-3,446	-3,093	-3,769	-1,355	-1,413	-1368.3	-1,463	-1,406	-1,307	-1,182	-1,026
Credit to the economy	112,869	116,330	120,581	128,281	115,559	122,396	122400	129,450	137,713	146,030	154,473	163,073
Other items (net)	-25,060	-29,380	-24,148	-26,391	-24,593	-22,700	-22379	-20,543	-17,462	-13,428	-10,071	-7,654
Broad money (M2)	181,105	183,630	199,143	208,827	183,427	188,694	189057	197,187	209,845	226,018	243,448	261,954
Narrow money (M1)	81,953	86,806	97,273	98,717	89,007	92,169	91738.5	96,318	102,501	110,400	118,914	127,954
Currency outside banks	9,342	9,571	9,980	10,884	9,564	9,457	9857.38	9,882	10,517	11,327	12,201	13,128
Demand deposits	72,612	77,235	87,293	87,833	79,443	82,713	81881.1	86,435	91,984	99,073	106,714	114,825
Quasi-money	93,394	91,862	96,444	104,466	89,289	91,382	92029.2	95,495	101,625	109,457	117,899	126,861
Foreign currency deposits	5,758	4,963	5,428	5,644	5,131	5,143	5288.81	5,374	5,719	6,160	6,635	7,139
(Change in percent of broad money, 12 months earlier)												
Net foreign assets	1.3	-2.1	7.8	2.8	-7.0	-5.7	-3.4	-1.5	0.2	0.8	1.5	3.0
Net domestic assets	5.2	3.5	0.6	3.5	1.5	0.5	6.5	6.0	6.2	6.9	6.2	4.6
Net domestic credit	4.8	5.9	-2.2	3.5	1.2	-0.3	5.3	4.9	4.7	4.9	4.7	3.6
Net claims on the central government	1.5	4.3	-4.8	0.2	1.4	1.2	1.6	1.2	0.5	0.9	1.0	0.1
Credit to the economy	4.4	1.9	2.3	3.3	-1.1	0.9	3.7	3.7	4.2	4.0	3.7	3.5
Other items (net)	0.4	-2.4	2.8	-0.1	0.3	0.7	1.2	1.1	1.6	1.9	1.5	1.0
Broad money (M2)	6.5	1.4	8.4	6.3	-5.5	-5.2	3.1	4.5	6.4	7.7	7.7	7.6
Memorandum items:												
Emigrant deposits	63,251	63,869	65,365	72,418	61,598	61,735	63488	64,514	68,655	73,946	79,649	85,704
Emigrant deposits/total deposits (percent)	36.8	36.7	34.6	36.6	35.4	34.4	35.4	34.4	34.4	34.4	34.4	34.4
Excess reserves/total deposits (percent)	11.1	13.4	…	…	…	…	…	…	…	…	…	…
Money multiplier (M2/M0)	3.2	3.2	2.9	3.3	2.8	3.2	2.8	3.2	3.2	3.2	3.2	3.2
Money velocity (Nominal GDP/M2)	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.0	1.0	1.0	1.0	1.0
Credit to the economy (percent change) 3/	7.0	3.1	3.7	4.1	-1.8	1.5	5.9	5.8	6.4	6.0	5.8	5.6
Broad money (M2 in percent of GDP)	104.6	100.0	102.0	98.9	97.8	102.6	94.4	101.4	101.6	102.0	102.0	101.6

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

1/ TCMFs (Títulos Consolidados de Mobilização Financeira) are bonds in CVE, backed by an offshore account managed by Banco de Portugal. They matured in late 2018; and in 2019 the authorities decided to redeem a portion of them and to replace the balance with new bonds.

2/ Includes Cabo Verde's National Pension Institute (INPS).

3/ Percent change, year over year.

Table 5. Cabo Verde: Financial Soundness Indicators of the Banking Sector, 2010–2020Q1

(End-year; percent unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020Q1
Capital adequacy											
Regulatory capital to risk-weighted assets	12.8	15.2	14.2	15.1	15.6	16.2	17.1	17.3	16.2	17.7	18.1
Regulatory Tier 1 capital to risk-weighted assets	13.0	15.9	13.9	13.7	14.4	15.0	15.9	16.4	16.1	18.2	18.6
Asset quality 1/											
Nonperforming loans to total loans	4.1	6.9	8.9	11.7	14.3	13.3	14.2	13.2	12.2	10.4	10.1
Nonperforming loans net of provisions to capital	17.1	40.2	47.9	53.5	62.8	49.4	42.5	35.0	26.0	15.0	20.4
Provisions to nonperforming loans	73.1	57.0	53.7	51.6	48.8	54.4	58.5	64.1	71.0	77.0	70.1
Earnings and profitability											
Return on assets	0.7	0.4	0.2	0.3	0.2	0.4	0.3	0.4	0.3	1.3	0.4
Return on equity	9.1	5.6	2.7	3.5	3.1	4.8	4.2	6.4	4.8	17.8	5.3
Interest margin to gross income	76.1	76.2	75.5	75.3	71.8	73.1	76.7	77.0	79.6	81.1	78.2
Noninterest expenses to gross income	67.0	68.5	76.5	78.1	72.5	75.8	66.4	60.2	69.6	49.4	46.4
Liquidity 2/											
Liquid assets to total assets	8.1	7.1	15.0	22.1	30.3	30.3	23.7	22.1	21.4	24.3	23.8
Liquid assets to short-term liabilities	10.5	9.7	21.1	29.0	37.3	37.0	28.6	26.6	25.5	28.3	27.8
Additional indicators											
Government deposits over total deposits	9.5	7.6	9.7	11.4	13.5	12.6	14.6	15.8	18.3	19.1	19.6
Demand deposits over total deposits	43.8	43.4	42.0	45.5	43.2	42.8	44.0	48.3	50.5	50.9	51.8
Total credit over total deposits	79.1	85.9	79.0	67.4	61.5	59.5	55.6	55.8	55.2	52.9	52.9
Personnel cost over cost of operations	49.0	49.9	50.1	48.4	54.8	56.6	58.8	58.3	66.6	56.6	59.2

Source: Bank of Cabo Verde.

1/ Based on IAS/IFRS definition.

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

Table 6. Cabo Verde: Risk Assessment Matrix[1]
(Scale—high, medium, or low)

Source of Risks	Relative Likelihood[2]	Impact if Realized	Policy Response
External			
Prolonged Covid-19 outbreak	**High** Longer containment and uncertainties about the intensity and the duration of the outbreak reduce supply and domestic and external demand. Deteriorating economic fundamentals and the associated decline in risk appetite result in a second wave of financial tightening and in debt service and refinancing difficulties for corporates and households.	**High** Widespread and prolonged disruptions to economic activity resulting from the coronavirus could depress tourism with negative impact on economic growth and the external position.	Build resilience to shocks and accelerate growth-enhancing reforms.
Widespread social discontent and political instability	**High** Social tensions erupt due to dissatisfaction with the policy response to the epidemic and the economic fallout.	**Medium** Widespread social discontent and political instability could disrupt tourism, remittances and FDI flows with adverse impact on growth.	Build external and fiscal buffers and accelerate growth-enhancing reforms.
More protectionism	**High** Pandemic-prompted protectionist actions (e.g., export controls) stay in place and deteriorating economic conditions re-ignite broader protectionist measures.	**Medium** A global downturn impacting investment, growth and stability would adversely affect FDI flows and Cabo Verde's external position as well as growth.	Build external and fiscal buffers and accelerate growth-enhancing reforms.
Higher frequency and severity of natural disasters.	**Medium/Low** Higher frequency and severity of natural disasters cause severe economic damage to smaller economies susceptible to disruptions.	**Medium/High** Prolonged drought or other climate-related shocks would undermine agricultural production with negative impact on GDP growth and inflation.	Build resilience to weather-related shocks and accelerate growth-enhancing reforms.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path—the scenario most likely to materialize in the view of the Staff. The relative likelihood of risks listed is the Staff's subjective assessment of the risks surrounding this baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects Staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. Short term and medium term are meant to indicate that the risk could materialize within 1 year and 3 years, respectively."

[2] In case the baseline does not materialize.

Table 6. Risk Assessment Matrix (Concluded)			
Domestic			
Faltering fiscal consolidation efforts.	**Medium/High** Less ambitious and slower fiscal consolidation efforts and delayed SOEs reforms after the health crisis.	**High** Delayed resumption of fiscal consolidation efforts and SOEs reforms after COVID-19 would undermine macroeconomic stability and hinder the return to pre-COVID medium-term fiscal and debt sustainability trajectory.	Ensure that relief measures taken to address the impact of COVID-19 are temporary and, as soon as the health crisis abates: advance revenue-enhancing reforms, improve capital expenditure management, reduce fiscal risks, notably linked to SOEs, and contain non-priority spending.
Delays in implementing measures to increase productivity and restructure SOEs.	**Medium** Delays in structural reforms implementation, particularly in the public enterprises sector.	**Medium** Delays in advancing the structural reform agenda after COVID-19 would hinder competitiveness, potential GDP growth and employment.	Accelerate structural reforms as soon as the epidemic subsides, to improve the business environment, reduce the State's role in productive activities and enhance growth potential.

Table 7. Cabo Verde: Schedule of Reviews Under the PCI, 2019–21

Program Review	Test Date	Review Date
Board discussion of the PCI request		July 15, 2019
First Review	September 30, 2019	March 30, 2020
Second Review	March 31, 2020	September 2[1], 2020
Third Review	September 30, 2020	January 15, 2021

[1] The Board meeting will take place in October. The delay compared with the original review date approved by the Board is due to constraints and additional work generated by the COVID-19 crisis for the authorities and staff.

Annex I. Sovereign Private Investment Guarantee Fund—Operationalization Strategy

Background

1. The authorities decided to create a Sovereign Private Investment Guarantee Fund (SPIGF),[1] using part of resources accumulated during 2008–18 in a trust fund (TF) held at the central bank of Portugal. Resources in the TF amounted to €106 million at end-2019 while liabilities (government bonds – *Titulos Consolidados de Mobilizacão Financeira – TCMFs)* attached to these assets totaled €102.7 million. The SPIGF aims to support private sector development and growth by facilitating access to international capital markets for private companies that, under Cabo Verdean law, invest in capital-intensive projects.

The Strategy Note for the Operationalization of the SPIGF

2. At end-April 2020, the authorities prepared, as programmed under the PCI, a Strategy Note (SN) providing a conceptual framework for the operationalization of the SPIGF. The SN was revised in July, in consultation with staff, to provide more clarity on the authorities' proposed approach for the operationalization, particularly in relation with potential implications for public debt. The SN covers the key points below:

- **The treatment of TCMFs, notably the issuance of bonds replacing them and the modalities of their repayment**. As of end-2019, the TCMFs were held by the pension fund (INPS), and the central bank (BCV). The authorities have indicated that an agreement was reached for the repurchase of all TCMFs by INPS.[2] This agreement predates the COVID-19 pandemic. It was reached in an environment where local banks were over-liquid and INPS was seeking new investment opportunities. Ongoing discussions for the repurchase by INPS, of TCMFs held by BCV are expected to be completed in the coming weeks. Under the authorities' new approach, the total stock of TCMFs will be swapped against income securities (*Títulos-Rendimentos de Mobilizacão de Capital - TRMCs*) to be issued by the SPIGF. This transaction will extinguish the TCMFs by replacing a debt instrument with an equity position in the SPIGF. As a result, the Treasury will no longer issue bonds to replace the TCFMs as previously envisaged and reflected in the Staff report for the first PCI review. The law creating the SPIGF specifies that ownership of TRMCs confers the right to dividends, and that they are tradable.
- **Statistical recording of assets and liabilities in public finance statistics**. The SPIGF was set up as an autonomous trust exclusively responsible for liabilities, duties and responsibilities related to its activities. Under the authorities' current approach, both assets and liabilities from the previous TF will be transferred to the SPIGF. On this basis, they will not be reflected in public finance statistics since the current coverage excludes data on public entities' activities.

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[1] IMF Country Report No. 20/135 (Box 1).

[2] TCMFs were originally held by INPS, BCV, a commercial bank (BCA), and an insurance company (Garantia). At end-2019, the later was repaid in cash, and the TCMFs held by the BCA were repurchased by INPS.

- **Governance arrangements for the administration of the Fund**. The governance framework comprises the Board of Directors and the Supervisory Body. In addition, SPIGF's accounts will be subjected to internal and external audits. The Board of Directors is the governing body. It is composed of a President and two members appointed by the Minister of Finance for a maximum of five years, after review by the General Council of the Chamber of Commerce. The Executive Board sets up internal rules and investment guidelines to be approved by the Minister of Finance. The Supervisory Board acts as an advisory and monitoring Board for the SPIGF's management. It monitors the execution of guaranteed projects, and reviews investment guidelines before they are submitted to the Minister of Finance for approval. It is also in charge of : (i) monitoring and reviewing the financial soundness of the SPGIF; (ii) monitoring developments related to risks; (iii) advising the Board of Directors based on its findings; (iv) reviewing the fund's pricing schedule; and (v) providing opinions on strategic questions at the SPIGF's request.
- **Assets management principles, and the selection criteria for projects for which a guarantee would be provided**. These key operational aspects will be determined by the Board of Directors as specified above. The current institutional framework under the law creating the SPIGF only indicates areas in which it cannot intervene. Specifically, the law prohibits; (i) investing in bonds and other securities issued by private or public companies, and in real estate beyond properties strictly necessary for the SPIGF's operations; (ii) providing guarantees for government bonds and financing; (iii) providing guarantees, directly or indirectly for public companies or private companies with direct or indirect State shareholding of at least 25 percent; (iv) operating in the primary market for government securities; and (v) providing loans to third parties.
- **Accumulation and withdrawal rules**. In the law creating the SPIGF, liquidity withdrawals are not contemplated. On accumulation, the SPGIF's capital would be raised through TRMCs.
- **Transparency and accountability mechanisms**. The SN indicates that transparency and accountability will be supported by: (i) continued management of the SPIGF's assets by the central bank of Portugal as was the case with the TF, based on an agreement between the central bank of Portugal and the government; (ii) the Board of Directors will take the appropriate actions to ensure that the SPGIF is rated, aiming for a minimum rating of "A", and that the evaluation report will be made public; and (iii) only parliament can terminate the SPGIF, on a government proposal. In addition, the SPGIF's annual report and financial statements, prepared by the Board of Directors, will be audited and submitted for review to the Supervisory Board before approval by the Minister of Finance in the three months following the end of the fiscal year.
- **Revenues expected from the Fund and the projected cost of its liabilities**. The SPGIF's revenues will be made of two main components: fees charged on guarantees granted for investment projects, taking into account the beneficiary company's risk level and investment income. Regarding the cost of liabilities, in the current configuration, the SPGIF's liabilities are made of TRMCs remunerated with net dividends.
- **Risks to the SPIGF net earnings position**. Risks assessment will be made by the SPIGF's management in line with guidelines and selection criteria for projects to be guaranteed.

- **Mechanisms to ensure that the Fund is not loss-making**. The SPIGF will have a privileged creditor status on the assets of companies benefitting from its guarantees to contain risks to its earning position. If a guarantee is called, the SPIGF will retain privileged creditor's rights until full reimbursement, and if needed, assume a position in the company's Board. In addition, by law, the SPGIF is subject to prudential ratios set by the BCV.

Next Steps

3. **The authorities plan to operationalize the SPGIF before end-2020 as called for under the law**. They have prepared a timeline under which the SPIGF's management institutions will be set up once TCMFs held by BCV have been repurchased by INPS.

Annex II. Adverse Scenario

1. **The macroeconomic outlook is highly uncertain and dependent on the evolution of the pandemic and its global impact**. The April WEO emphasized that the economic impact of the pandemic is contingent upon its magnitude and duration, the effects of containment measures, the extent of global supply chain disruptions, and the effectiveness of health and macroeconomic policies implemented by country authorities. The impact of the pandemic on the Cabo Verdean economy is expected to be stronger than any shock experienced by the country in recent history. In comparison, the impact of the global financial crisis was a contraction of 1.3 percent in growth in 2009, following an expansion of 6.7 percent in 2008.

2. **Staff has developed an adverse scenario reflecting a more gradual global recovery and an intensification of the domestic spread of the disease compared to the baseline scenario**. The latter is grounded on the temporary nature of the pandemic and the beginning of a recovery in the 3rd quarter of 2020. The adverse scenario assumes that the global economic recovery will be more gradual, and the number of domestic cases would increase, thereby prolonging the pandemic and increasing healthcare and social protection needs. Under these circumstances, the impact of the health crisis on tourism flows, remittances, and FDI (the main transmission channels), would be much stronger. Real GDP growth would decline by 9.3 percent in 2020 with a slow recovery of 3.5 percent in 2021 and a gradual increase thereafter, before accelerating to over 6 percent in the medium term (Text Table 1).

3. **The fiscal position would weaken significantly in 2020 under the adverse scenario and very gradually improve over the medium term**. For 2020, tax revenues would decline, reflecting the contraction in economic activity, lower tourism flows, and tax relief measures. Expenditures would increase due to higher spending on health and social protection measures related to the pandemic. The combination of lower revenues and higher expenditures would increase the fiscal deficit to 12 percent of GDP. With external financing expected to remain at the level assumed in the baseline scenario, and domestic borrowing from the government securities market capped by law at 3 percent of GDP annually, the higher fiscal deficit would generate a financing gap of 1.8 percent of GDP and bring public debt to 143.7 percent of GDP. For the medium term, the fiscal position would improve only gradually, consistent with the slow economic recovery. As a result, the ratio of public debt to GDP, though declining, would remain elevated, with a significant impact on medium-term debt sustainability.

4. **The external position would also be much weaker under the adverse scenario**. The decline in tourism receipts, coupled with lower remittances would contribute to a widening of the current account deficit to 20.2 percent of GDP. At the same time, the financial account would come under pressure from lower FDI and portfolio inflows. As a result, gross international reserves would decline to €482.3 million in 2020 (€573.2 million under the baseline scenario) and would not recover to pre-COVID-19 levels in the medium term.

5. Staff recommend a combination of fiscal adjustment and increased external financing should downside risks under the adverse scenario materialize. The aim would be to maintain the fiscal deficit at about 9.7 percent of GDP through a reduction of domestically-financed investment and non-priority spending particularly in goods and services, while safeguarding social spending. This would need to be supported by additional external concessional financing from bilateral and multilateral donors, given Cabo Verde's debt vulnerabilities.

Text Table 1. Cabo Verde: Macroeconomic Indicators Under Alternative Scenarios

Percent of GDP, unless otherwise indicated

	2020	2021	2022	2023	2024	2025
			Baseline Scenario			
Real GDP growth (percent)	-6.8	4.5	4.8	5.7	6.0	6.2
Primary balance	-7.0	-3.8	-0.8	1.0	1.8	2.5
Fiscal balance	-9.7	-6.6	-3.7	-1.8	-0.8	0.0
Current account balance	-14.2	-9.2	-6.4	-4.1	-2.1	-1.8
Gross reserves (millions of euros)	573.2	561.0	576.6	593.7	625.1	690.6
Gross reserves (months of prospective imports)	7.3	6.7	6.3	6.0	5.8	5.9
Public debt	137.5	134.8	130.0	122.8	114.9	106.3
Nominal GDP (billions of Cabo Verde escudos)	183.9	194.4	206.6	221.7	238.6	257.8
			Adverse Scenario			
Real GDP growth (percent)	-9.3	3.5	3.7	5.5	6.3	6.7
Primary balance	-9.2	-7.1	-3.8	-1.2	-0.3	0.4
Fiscal balance	-12.0	-10.1	-7.0	-4.4	-3.5	-2.7
Current account balance	-20.2	-12.5	-8.6	-4.2	-3.1	-3.3
Gross reserves (millions of euros)	482.3	402.6	384.2	403.7	418.0	457.2
Gross reserves (months of prospective imports)	6.4	5.0	4.4	4.3	4.1	4.1
Public debt	143.7	145.4	144.9	139.5	132.7	125.0
Nominal GDP (billions of Cabo Verde escudos)	178.6	187.0	196.5	210.4	227.1	246.4

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

Program Statement

Praia, September 29, 2020

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

Madame Managing Director:

The effective and successful implementation of macroeconomic policies and reforms in Cabo Verde through early 2020 that had an excellent performance is being severely constrained by the various impacts of COVID-19 on the economy and the population. In this context, our government takes the opportunity of this letter to express gratitude for the emergency support granted by the International Monetary Fund (IMF) to Cabo Verde in April to address this health crisis that is having adverse economic and social consequences for the entire country.

Despite the challenges and constraints generated by the pandemic, the government has maintained its firm commitment to sound policies as evidenced by the scope and coverage of fiscal and monetary policy relief measures taken to help households and businesses address the impact of COVID-19, and to provide a basis for economic recovery. More generally, the government has continued to advance the structural reform agenda to the extent possible, continuing, in addition, to take advantage of technical assistance provided remotely by the IMF and other development partners.

As indicated in the Program Statement, all except one reform targets for the second review under the Policy Coordination Instrument (PCI) were met, most of them ahead of the program schedule. The reform target on the streamlining of exemptions for the VAT, customs duties and excises was partially met. All non-quantitative continuous targets were observed. Regarding quantitative targets at end-March 2020, they were all met except for the floor on tax revenue that was not met by a small margin because of the impact of COVID-19 and of the necessary containment measures on the domestic economy and imports.

Despite the COVID-19 related challenges, the government remains committed to key objectives set in the PCI to safeguard macroeconomic stability and work towards medium-term fiscal and debt sustainability, key elements for sustained and broad-based growth. While focusing on addressing the short-term impact of the health crisis, the government is also preparing a new medium-term strategy to lay the foundation for post-COVID economic recovery and enhanced medium and long-term growth. A fundamental element for the materialization of this strategy is the agenda for debt relief for which the government appeals and hopes to count on the concrete engagement of its development partners, and in particular the IMF. The success of this initiative will contribute to increased fiscal space, which, combined with the expected higher budget support, will be used to boost the resumption of crucial investments, and the continued implementation of reforms needed for the country's development.

The government believes that progress and good results achieved by Cabo Verde before the pandemic, as well as continued implementation of policies and measures set forth in the Program Statement will help achieve the program objectives. Nonetheless, the government will take any additional measures that may prove necessary to reach these objectives, taking into account COVID-19 related constraints. Should this become necessary, the government will consult the IMF–at its own initiative or whenever the Managing Director requests such consultation–before adopting any such measures or in advance of revisions to policies contained in the attached Program Statement. Moreover, the government will provide the IMF with such information as the IMF may request in relation with progress made in implementing the economic and financial policies and in achieving the program objectives.

Based on program performance, as well as policies and reforms for 2020–21 outlined in the Program Statement, we are requesting that the IMF Executive Board completes the second review of the Policy Coordination Instrument for Cabo Verde. Taking into account the impact of the ongoing health crisis on the economy, and the constraints it has generated for the implementation of reforms, we are also requesting a modification of quantitative targets for end-September 2020, as well as target dates for the completion of some reform targets.

Given the needed program ownership, we wish to make this letter available to the public, along with the Program Statement and the attached Technical Memorandum of Understanding, as well as the Staff Report for the second review of the Policy Coordination Instrument. Therefore, we authorize the publication of these documents and their posting on the IMF's official webpage. We will also post these documents, including the Portuguese versions, on the government official webpage.

Sincerely,

/s/	/s/
Olavo Correia	João Serra
Vice-Prime-Minister and	Governor of
Minister of Finance	Banco de Cabo Verde

Attachment: Technical Memorandum of Understanding

Attachment I. Program Statement for the Period July 2020–January 2021

1. This Program Statement (PS) outlines the government's economic program for the period July 2020 to January 2021 and presents the country's prospects for 2021 and the medium term. Consistent with objectives set out in the PS dated June 21, 2019, the economic program continues to focus on policies and measures needed to support medium-term fiscal and debt sustainability, financial sector stability and broad-based growth. However, in view of the significant economic and social impacts of the COVID-19 pandemic on Cabo Verde, priority has been given to measures aimed at addressing these impacts, providing protection to the most vulnerable in the population, preserving employment and supporting economic recovery. In this context, the government prepared a revised budget for 2020 reflecting these measures and taking into account additional financial and emergency support as well as debt relief received from Cabo Verde's development partners.

A. Background and Recent Economic and Financial Developments

Background

2. Cabo Verde made important strides in the last four years in macroeconomic stability and implementation of structural reforms. Economic growth averaged 5 percent during 2016–19, reaching 5.7 percent in 2019. At end-March 2020, it stood at 5.8 percent (y/y). Inflation has remained low and stable during the period. Thanks to continued efforts to enhance revenue collection and strengthen expenditures management, the fiscal position improved significantly with the fiscal deficit declining from 3 percent of GDP in 2016 to 1.8 percent of GDP in 2019. The improvement in 2019 reflected an increase in revenues to 29.4 percent of GDP, up from 28.2 percent of GDP in 2018, which overcompensated the increase in expenditures to 31.2 percent of GDP (30.9 percent of GDP in 2018) and helped reduce the overall budget deficit. The strengthening of the fiscal position, combined with increasing real GDP growth contributed to the reduction in the ratio of public debt to GDP from 127.8 percent of GDP in 2016 to 125 percent of GDP in 2019. As Cabo Verde continues to rely on concessional loans, debt service remains moderate, averaging about 2.7 percent of GDP during the period under review. The external position also strengthened as the current account of the balance of payments moved from a deficit of 3.8 percent of GDP in 2016 to a surplus of 0.3 percent of GDP in 2019, and international reserves increased from 541 million euros in 2016 to 663.4 million euros in 2019. On structural reforms, important progress was made in many areas, and several initiatives were put in place to support broad-based growth. In this context, inefficiencies in public enterprises as well as fiscal risks were significantly reduced through restructuring and privatization, with very positive results in 2019, particularly in air and maritime transport. Cabo Verde continued to be an attractive tourism destination with the number of tourists rising from 644.429 in 2016 to 819.308 in 2019, and sustained FDI in the sector.

3. The Corona virus pandemic has interrupted the growth trend, generating unprecedented economic and social challenges and bringing uncertainties on the economic

outlook. Following a robust growth at end-March 2020 (5.8 percent, y/y), economic growth decelerated as the global economic downturn, border closings, travel restrictions and other domestic COVID-19 containment measures severely disrupted economic activities with a significant impact on the population, particularly for the most vulnerable groups. While imported cases of COVID-19 were contained through early border closing, community transmission has continued in the islands of Santiago and Sal, with the number of total confirmed cases reaching 3,852 at end-August, with 40 deaths. While the first COVID-19 cases were reported in Boa Vista island, containment measures were effective in mitigating community transmission in that island.

4. **The government was pro-active in the implementation of measures aimed at avoiding and containing the spread of the pandemic**. Before the first cases were identified, safety measures were put in place in late February to limit the spread from widely affected countries and to enhance preparedness. Prevention measures put in place included installation of body temperature scans in airports, suspension of official travel to and from China and other heavily affected countries, preparation of quarantine areas in hospitals, suspension of flights from affected European countries, the United States, Brazil, Senegal and Nigeria, as well as maritime traffic, and quarantine of the island of Boa Vista where imported cases started the spread of COVID-19 in the country. In late March, the government declared the state of emergency, put in place social distancing measures, restricted travel between islands, and put the country on lockdown for non-essential activities. Relief measures were also put in place to: (i) ensure adequate liquidity in the banking system and ease access to credit; (ii) provide relief to the corporate sector, notably in relation with tax obligations; (iii) support the informal sector and; (iv) help the most vulnerable groups of the society address the impact of the health crisis. These measures are discussed in detail below.

5. **A gradual reopening of the economy was initiated in late May**. In this context, the government lifted the state of emergency for all islands on May 29 and put in place a plan to end the confinement, which covered the resumption of: (i) maritime connections for passengers to Boa Vista island, and activities for restaurants with regular hours on June 1; (ii) inter-island air travel on July 15; (iii) maritime connections for passengers to Santiago island on July 15; and (iii) cultural and sporting events on October 1. The plan also included the implementation of a digital platform for tracking positive cases of COVID-19. The government has also taken measures to prepare the resumption of activities in the tourism sector, including training for staff in hotels, restaurants, and transport sectors; compliance and delivery of safety certification based on international standards, and increased healthcare capacity in tourism-dominated islands.

Recent Economic and Financial Developments

6. **Prevention and containment measures against COVID-19, particularly the two-month long country lockdown had a significant impact on economic activities**. Although all sectors have been affected, the strongest impact has been in services: hotels, restaurants, transport, and other services linked to tourism. A number of companies have been facing liquidity problems, leading to layoffs and suspension of contracts; and operators in the informal sector have lost their sources of income. It is estimated that the unemployment rate would increase from 11.3 percent in 2019 to about 19 percent in 2020, affecting mostly the informal sector and women.

7. Preliminary data at end-June are consistent with weak domestic and external demands. Exports of merchandise decreased by 20 percent, while imports of capital goods dropped by about 23 percent; and consumer and business confidence indicators have been in decline since March. Real GDP growth is estimated to have increased by 5.8 percent (y/y) for the first quarter with investment and private consumption as the main contributors. Inflation declined to -0.2 percent (y/y) at end-June (1.6 percent at end-March), reflecting weaken demand and low international oil prices.

8. Preliminary data at end-March 2020 show that the budget execution outturn was a primary surplus compared with the programmed deficit of CVE 2 billion. Both revenues and expenditures were lower than projected. Revenue performance was mainly affected by lower than anticipated collection of corporate income tax and value-added tax (VAT) mostly reflecting the impact of COVID-19 on the economy, with some large companies in the tourism sector suspending their activities, and tax payment relief measures related to the health crisis. Expenditures were below projections as some current outlays were curtailed, and capital outlays were well-below projections due to: (i) the seasonal slow execution of public investment projects in the first quarter and; (ii) postponed execution of a major project (water and sanitation project for Santiago island) due to COVID-19. The execution of net other liabilities was also very low compared to projections. Preliminary data for June show that revenue underperformance continued, with corporate income tax well-below the collection level of June 2019. The overall budget deficit is estimated at CVE 5.6 billion, much higher than expected.

B. Performance Under the Policy Coordination Instrument and Reform Implementation

9. Performance under the Policy Coordination Instrument continued to be strong.

- *All quantitative targets at end-March 2020 were met, except for tax revenue* (Table 1): (i) the primary balance target was met as expenditures were under executed, particularly for capital outlays; (ii) the floor set for tax revenue was slightly below the programmed level due to lower-than-projected taxes on income and profit, and the VAT mostly due to the impact of COVID-19 as explained above; (iii) payments on net other liabilities were largely below the programmed ceiling set for end-March reflecting a slower execution; (iv) there was no accumulation of domestic or external payment arrears; (v) the nominal level of new concessional external debt of the central government was well-below target, consistent with the budget outturn; (vi) the zero limit on new nonconcessional external debt of the central government was observed; and (vii) the floor on net international reserves was met with a wide margin.

- *All non-quantitative continuous targets under the program were observed*. The government did not impose or intensify restrictions on the making of payments and transfers for current international transactions; it did not introduce multiple currency practices; it did not conclude bilateral payment agreements inconsistent with Article VIII; and it did not impose or intensify import restrictions for balance of payments reasons.

- *All except one reform targets (RTs) for the second PCI review were met, most of them ahead of schedule (Table 2)*. The RT on streamlining exemptions on customs duties, VAT and excises, was partially met as explained below. The monitoring of SOEs' financial situation and the preparation of quarterly reports were done; the central bank (BCV) continued to publish the minutes of the Monetary Policy Committee meetings; the Strategy Note on the management of the Sovereign Private Investment Guarantee Fund (SPIGF) was prepared at end-April; and there was progress in the preparation of measures aimed at streamlining exemptions in customs duties, value-added tax and excises based on the review report completed at end-2019. In this context, a law was adopted in December 2019 eliminating all exemptions on customs duties and introducing a minimum tariff of 5 percent for all previously exempted goods. Regarding exemptions on VAT and excises, a report on the special tax regime is expected to be completed in the coming months, and changes to the VAT code are under preparation.

10. Other reforms measures were implemented during the period under review.

- A national commission on AML/CFT was established in January 2020 as recommended by the National Plan for the Evaluation of AML/CFT Risk; and commission members were appointed. The Commission work will help improve further the AML/CFT framework in line with FATF (Financial Action Task Force) requirements to limit further loss of correspondent banking relationships.

- In early 2020, The EU recognized Cabo Verde's progress in implementing measures aimed at keeping the country off the gray list, and reduce risks associated with it. In this context, the following measures have been taken: joining the Global Forum on Transparency and Exchange of Information for Tax Purposes, putting in place a network of agreements covering all EU member states, amending harmful tax regimes, implementing the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) minimum standard.

C. Economic Policies and Structural Reforms for the Second half of 2020

11. Medium-term objectives under the government's program will continue to drive policies and reforms for the remainder of the year, with a particular emphasis on measures against COVID-19. As indicated in previous Program Statements, the key medium-term program objectives are: to enhance revenue collection, strengthen expenditure management and advance SOEs reforms to support fiscal and debt sustainability; improve monetary policy transmission mechanism; strengthen the financial system; promote access to finance and improve the business environment to boost broad-based growth and increase the economy's resilience to shocks. Within this framework, priority actions for the remainder of the year will focus on alleviating the social and economic impacts of COVID-19 and supporting economic recovery.

12. Cabo Verde's economic prospects have been severely affected by the global and domestic impacts of COVID-19.

- **Prospects for 2020**. Real GDP growth that was expected to expand by 5 percent in 2020 before the pandemic, is now projected to contract by 6.8 percent in view of the anticipated decline in activities in all sectors. As indicated above, Cabo Verde's economy is mostly affected through the global economic downturn and travel restrictions that are impacting tourism and transportation flows, and by measures taken by the government to contain the spread of the virus. The external position is also significantly affected by the global economic downturn. The current account deficit is projected to widen to 14.2 percent of GDP, more than three times the level anticipated before the pandemic mainly because of the expected drop in export receipts and the anticipated decline in remittances, contributing to a decline in gross international reserves estimated at 90 million euros, compared with an accumulation of 45 million euros anticipated before COVID-19. Inflationary pressures are expected to remain low.

- **Medium-term outlook**. Current projections indicate that economic growth would increase by 4.5 percent in 2021 and gradually rise to 6.2 percent by 2025. The next two years are expected to remain difficult and challenging because of the economy's dependence on tourism-related activities and vulnerability to exogenous shocks. Higher growth over the medium term would be highly dependent on a recovery in the global economy in 2021, particularly in Europe, as well as the resumption of tourism and capital flows to Cabo Verde. It would also require continued government actions to support economic recovery, advance structural reforms, improve the business environment, strengthen linkages between tourism and other activities, and support the development of small and medium-sized enterprises. Growth would also be supported by the completion of large infrastructure projects, including the construction of a port in Maio, a ship terminal in São Vicente, and a water and sanitation plant in Santiago, as well as other projects and programs that would be defined in the upcoming development strategy. The current account deficit of the balance of payments is expected to improve over the medium term, gradually narrowing to 1.8 percent of GDP by 2025 and contributing to the strengthening of the reserve position.

- **However, downside risks to this outlook are high**. The most significant risk is the uncertainty on the duration of the pandemic and its impact. A prolonged slowdown in the global economy would increase the estimated impact on tourism and transport flows, remittances, and FDI, generating a stronger economic contraction as well as higher fiscal and balance of payments financing needs. Climate change and natural shocks are also important downside risks. The government will remain vigilant in relation with these risks and maintain efforts to implement policies and reforms described in this Program Statement to mitigate the impact of the health crisis while supporting short-term economic recovery, macroeconomic stability and medium-term growth.

D. Fiscal Policy and Debt Sustainability

13. The medium-term fiscal and debt sustainability trajectory has been adversely affected by constraints generated by the health crisis. The fiscal framework was originally built on continued improvement in the primary balance through enhanced revenue performance and expenditure management, combined with increased fiscal space for public investment to support growth. Through these actions, and projected sustained growth over the medium term, the

Government expected to achieve its goal of bringing public debt below 100 percent of GDP by 2023. This medium-term framework has been significantly altered by the impact of COVID-19. The fiscal position has weakened and additional borrowing to cover the sharp decline in revenue as well as additional spending, together with the contraction in real GDP growth have contributed to an increase in public debt to a projected level of 137.5 percent of GDP at end-2020, compared to 118.1 percent of GDP originally. Under the current projections, total revenue (excluding grants) would recover to 28.7 percent of GDP by 2025, while expenditures would decline to 29.8 percent of GDP over the medium term, with capital outlays at 3 percent of GDP. The primary balance would then gradually improve from a deficit of 3.8 percent of GDP in 2021 to a surplus of 2.5 percent of GDP in 2025; which would help reduce financing needs and contribute to bringing public debt to 106.3 percent of GDP in 2025.

14. To achieve these medium-term objectives, the government will seek to accelerate reforms as soon as the COVID-19 crisis ends. **Consequently, for 2021, policies will focus on rebuilding the revenue base and continuing to restrain non-priority expenditures**. Revenue-enhancing measures planned for 2021 include: (i) inspections and audits; (ii) implementation of the 5 percent customs duties on previously exempted imports; (iii) introduction of electronic invoicing; (iv) intensified use of IT systems to monitor tax payments; (v) enhanced post-customs clearance controls for imported merchandise and; (vi) continued collection of tax arrears. Furthermore, the government plans to strengthen Cabo Verde's commercial ties with other ECOWAS member countries. In this context, the ECOWAS Common External Tariff (CET) is expected to become effective in Cabo Verde in 2021 which, according to estimates, is expected to have a positive impact on revenue because CET rates are higher than current rates in Cabo Verde. Through these measures, and the expected phasing out of fiscal relief measures introduced in 2020 in relation with COVID-19, revenues (excluding grants) are projected at CVE 49.7 billion (25.6 percent of GDP). On the expenditure side, current outlays are projected at about CVE 60 billion (30.8 percent of GDP). They take into account the cost of government's planned actions to address the impact of COVID on the population, including continued implementation of needed social programs and purchase of COVID-19 vaccine, and to support the resumption of tourism flows, notably through enhanced health security in airports, and equipment for the two hospitals to be built in the islands of Sal and Boa Vista. Capital expenditures are projected at CVE 9.7 billion (5.2 percent of GDP). Actions to accelerate public investment execution and complete projects delayed in 2020 because of the health crisis will be taken. To this effect, a review of the public investment portfolio was initiated. Priority will be given to the completion of three donor-funded projects in the areas of transportation (the World Bank), water and sanitation for the island of Santiago (JICA), and information technology (the African Development Bank), which account for more than 80 percent of the projected capital expenditures. Financing needs are projected 6.4 percent of GDP, and public debt at 134.8 percent of GDP.

15. Projections for 2020 are aligned with the revised 2020 budget that reflects the impact of COVID-19 as well as the government's response. The revised budget aimed at redefining priorities in order to address the economic and social impact of the health crisis while supporting the economic recovery.

- The economic impact of COVID-19 will severely impact revenue collection. All revenue categories are expected to be affected, through weaknesses in demand, decline in imports, potential cash flow difficulties that will likely impact companies' ability to discharge their tax obligations, and lower collection of nontax revenue, partly due to delays in privatization operations. Total revenue (excluding grants) are therefore projected at 45.1 billion CVE (24.5 percent of GDP) compared to 62.4 billion CVE (29.7 percent of GDP) in the original budget. Relief measures introduced to help taxpayers include: (i) a moratorium on tax payment through December 2020; (ii) the reduction of the VAT rate to 10 percent for the tourism sector; and (iii) government guarantees for new financing or refinancing from the banking system. Tax relief measures adopted in relation with COVID-19 are temporary and well-targeted. In the context of their implementation, revenue protection measures were adopted to enhance monitoring of tax payments through IT systems to prevent noncompliance and evasion.

- Additional budget grants related to COVID-19 are expected. Therefore, grants are projected at 8.6 billion CVE (4.7 percent of GDP), including 2.6 billion CVE of new grants from Cabo Verde's development partners to support the government's response to the pandemic.

- Expenditures are projected at 71.4 billion CVE (38.8 percent of GDP). Some categories of expenses were revised downward for a total of 2.1 billion CVE, compared with the original budget. They include: (i) the wage bill, reflecting reduced official travel, suspension of recruitment and promotions; (ii) purchase of goods and services; (iii) debt service, reflecting the impact of the G-20 initiative on the suspension of external debt service to bilateral creditors. Other expenditure categories were increased in relation with the health crisis, including: (i) healthcare measures totalling 2.7 billion CVE; (ii) COVID-19 mitigating measures in the education sector amounting to 513 million CVE; (iii) social protection measures in favour of vulnerable families for 741 million CVE; and (iv) employment protection measures totalling 760 million CVE. Taking into account new priorities generated by the health crisis, the government has also taken measures to support liquidity for households and businesses, to accelerate public investment particularly in the water, transport and IT sectors, to enhance the mitigation program in agriculture, and to support municipalities' response to COVID-19. Capital expenditures are projected at 6.9 billion CVE, in decline compared with the original budget and the 2019 estimates, because of delays in projects execution generated by the pandemic. Measures will be taken to accelerate execution, particularly for ongoing projects.

- *Resulting from the above, the fiscal position is expected to weaken significantly in 2020*. The primary balance would deteriorate from a surplus of about 2 billion CVE (1 percent of GDP) in the original budget to a deficit of 12.8 billion CVE (7 percent of GDP). The overall deficit is projected at 17.8 billion CVE (9.7 percent of GDP). Taking into account net other liabilities totaling 4.6 billion CVE, financing needs are projected at 22.3 billion CVE (12.1 percent of GDP). They are covered with: (i) domestic financing from the government securities market amounting to 4.8 billion CVE, equivalent to 2.6 percent of GDP; (ii) net external financing of 17.5 billion CVE; and (iii) debt relief under the G-20 initiative totaling CVE 890 million. Additional grants and budget loans will help create much needed fiscal space for COVID-19 related spending while helping mitigate the drop in domestic revenue triggered by the economic impact of the pandemic.

- *Given existing uncertainties on the duration of the pandemic, the revised budget identified expenditures* tied to the collection of some revenues, estimated at 4 billion CVE (2.2 percent of GDP). In addition, the management and monitoring of the Treasury cash flow plan has been enhanced. These instruments will help ensure that budget execution doesn't translate into an accumulation of arrears, or unplanned debt accumulation.

16. The execution of COVID-19 expenditures will be done in line with the government's transparency and accountability practices. Consequently, these expenditures are tracked and published on the official website of the Ministry of Finance. In addition, they will be audited by the Tribunal of accounts at the time of the 2020 budget audit.

17. The borrowing policy will remain prudent and efforts to enhance debt management will continue. In view of Cabo Verde's high risk of debt distress and the government's objective to reduce public debt over the medium term, the zero limit on nonconcessional external loans will be observed. Regarding debt management, priority remains on creating a comprehensive and integrated debt database covering both domestic and external debt obligations. Such a database will help enhance recording and validation of debt data, facilitate payment of debt service obligations, and support debt monitoring and reporting. It will also facilitate the revision of the Medium-term Debt Strategy for 2020-2024, and the preparation of an annual borrowing plan, scheduled for launch before the end of the year.

E. Monetary Policy

18. Monetary policy remains geared toward supporting price stability and protecting the credibility of the peg to the euro. Hence, the central bank will continue to build precautionary international reserves and to closely monitor economic and financial developments domestically and in the euro area to adjust the policy stance if pressures emerge on prices or reserves. The objective would be to keep international reserves to at least 5 months of prospective imports of goods and services.

19. In response to the economic impact of COVID-19, the BCV took relief measures effective April 1st, aimed at increasing liquidity in the banking system and easing access to financing. Key measures included: (i) a reduction in the policy rate by 125 basis points to 0.25 percent; (ii) a reduction in the minimum reserve requirements from 13 to 10 percent; (iii) a reduction in the overnight deposit rate by 5 basis points to 0.05 percent; (iv) a reduction in the rate of permanent lending facilities by 250 basis points to 0.5 percent; and (v) the establishment of a long-term financing facility for banks in order to guarantee liquidity under the current crisis situation. In implementing these measures, the BCV is continuing efforts to enhance liquidity management and monetary policy transmission mechanism, notably through instruments put in place in recent years; and to publish the minutes of the Monetary Policy Committee meetings. Strengthening monetary policy analysis has become even more important under the current circumstances marked by uncertainties generated by the economic and financial fallout of the COVID-19 pandemic. Therefore, the BCV will enhance its analytical and near-term forecasting tools and complete the preparation of the composite index of economic activity initiated last year.

20. The government remains committed to the recapitalization of the BCV. Under the original plan, the recapitalization was planned for 2019-21 with CVE 2.1 billion; and the first tranche of CVE 700 million was released at end-2019. However, in view of financial constraints generated by COVID-19, additional allocations will be reassessed once the health crisis is over.

F. Financial Sector Reforms

21. The financial system is stable, and banks are adequately capitalized. In recent years, banks' profitability increased, and at end-2019, their regulatory capital to risk weighted assets was well-above the regulatory minimum of 12 percent. In addition, their assets quality has improved in recent years with the continuous decline in non-performing loans (NPLs). While remaining relatively elevated, NPLs declined from their peak level of 14.3 percent of total loans in 2014, to 12.2 percent at end-March 2019 and 10.1 percent at end-March 2020, reflecting a reduction in legacy NPLs through write-offs and legal resolution through repossession of assets.

22. The BCV put in place new prudential measures in the context of relief measures aimed at containing the impact of COVID-19 on the banking system. Key actions included the introduction of moratorium on loan repayments for borrowers meeting specified criteria ; the reduction of the capital adequacy ratio from 12 percent at end-2019 to 11 percent for 2020 and 10 percent for 2021; and the recommendation to banks not to distribute their 2019 dividends in order to strengthen their capital positions.

23. The BCV is closely monitoring the implementation of all the relief measures to pro-actively identify risk factors and take relevant regulatory actions. Of particular focus is the potential impact of the moratorium on banks' asset quality, in light of the current level of NPLs, and the expected adverse impact of the health crisis on incomes and profits. In this context, the BCV will enhance its NPLs reporting and monitoring mechanisms and continue to encourage banks to collect information on operations benefitting from the moratorium, to improve the quality of disclosure, and closely monitor borrowers benefitting from the relief measures.

24. Efforts to advance financial sector reforms will be maintained to ensure adequate support to post COVID-19 economic recovery. Priority will continue to be placed on enhanced supervision, access to finance, and financial deepening through the implementation of measures originally presented in the previous Program Statement. Taking into account constraints generated by COVID-19, the timeframe for their implementation has been revised as indicated below.

- Continue implementation of the recommendations from the 2013 and 2015 asset quality review. For the reminder of the year, the following actions are expected to be put in place: follow-up on the evolution of the exposure of the main debtors, monitoring of the evolution of assets received in kind, and reinforcement of NPLs and provisions, in duly identified cases.

- Revamping of the public credit registry and information system by end-December 2020 (**Reform Target**). Key measures under this reform will cover the completion of the procurement and the development of the relevant software system.

- Creation of a functional central registry of mobile collateral by end-December 2020 (**Reform Target**). The Legal Regime for the general use of movable assets as guarantees for the fulfillment of obligations and the Register of Securities Guarantees was published on April 30. The construction of the online platform is scheduled to start in September 2020, and the registry would become operational in mid-January 2021.

- Strengthening of banks' lending standards and risk management practices through enhanced supervision. As part of macroprudential supervision, the BCV will continue to improve its instruments and tools for monitoring credit risk through off-site and on-site inspections.

- Development of a centralized official balance sheets database for the corporate sector to support risk-based supervision. In this context, the BCV has been working with the National Statistics Institute (INE) to design financial indicators relevant for risk assessment, in relation with the banking system supervision. The database is expected to be completed this year.

- Ensure that the Financial Stability Committee that was created becomes operational, notably through the establishment of operating regulations and the holding of quarterly meetings.

- Following the creation of the National Commission for the development of the financial system, and the appointment of its members, ensure its effective operation through the holding of periodic meetings, the definition of operating regulations, and the preparation of the Action Plan for the development of the financial system to be adopted by the Council of Ministers.

- Continue the implementation of the main recommendations of the report on access to financing for SMEs, dated February 2015. After the passing of the law on public credit registry on July 7, 2020, priority actions for the remainder of the year include: the adoption of regulations for the new law, the functioning of the platform, and the provision of quality information to banks to better assess creditworthiness for SMEs.

- Implement the recommendations made in the assessment by the EU in the Global Action on Cybercrime Extended, about combatting cybercrimes.

G. Public Enterprises Reforms

25. The government remains committed to advancing public enterprises reforms to support growth and reduce fiscal risks, despite constraints generated by COVID-19. In this context, the monitoring of the financial situation for key SOEs will continue, notably through the preparation of quarterly reports (**Reform target**). The most recent report shows that overall losses declined compared to 2018, and that other than the former airline (TACV, privatized in March 2019), other key SOEs recorded a positive result in 2019. To reflect the impact of the COVID-19 on their activities, SOEs have prepared revised budgets for 2020 and submitted to the Ministry of Finance. Regarding privatizations and other reform measures planned for 2020, for some operations, preparatory work as well as contacts with potential investors continued despite COVID-19 related restrictions. As a result, the privatization of CV handling and the establishment of a concession arrangement for airport services (ASA), both originally planned for end-June, are now expected to be concluded before end-2020; and there has been progress in the preparation of the privatization of ELECTRA, planned for December 2020. Progress in the preparation of other operations has been hampered by the impact of COVID-19, leading to a new timeline as presented below:

- The sale of the remaining State's shares (39 percent) in CVA, originally expected for end-March 2020, is now planned for 2021. The strategy remains focused on the sale of these shares in the Stock exchange.

- The privatization and sale of shares in two companies in the health sector, INPHARMA where the State has 40% stakes, and EMPROFAC (SOE), was originally planned for June 2020. However, in view of their role in the health sector, a new strategy will be determined after the current health crisis.

- The licensing of port services (ENAPOR) through concession did not take place in May 2020 as planned because of the impact of COVID-19. Preparatory work was initiated to reassess market interest and update the company's business plan.

- A report on the liabilities of privatized SOEs, outlining implications for the government budget will be prepared by mid-2021.

H. Other Structural Reforms

26. The implementation of reforms and policies aimed at supporting private sector-led growth remains an important priority. The government's approach rests on three pillars: (i) short-term measures to help the private sector address the impact of the pandemic and preserve employment; (ii) enhanced use of instruments put in place in 2019 to support access to finance for private companies; and (iii) preparation of a longer term development strategy.

- The first pillar covers priority and urgent fiscal and monetary policy measures to provide relief on tax and social security obligations, and to secure liquidity, as explained above. As the health crisis progresses, the government stands ready to review and flexibly take needed actions to protect Cabo Verde's economic fabric from the fallout of the pandemic and support the return to growth.

- The second pillar covers measures and policies aimed at supporting economic recovery from the impact of COVID-19 and enhancing medium-term growth prospects. In this context, the government's actions will be directed at easing access to finance: (i) for small and medium-sized enterprises, the focus will be on ensuring the efficient functioning of the financial ecosystem put in place in 2019 with three institutions (Pro-Capital, Pro-Garante and Pro-Empresa) to facilitate guarantees, venture capital, and capacity development; and (ii) for large capital-intensive projects, the government will operationalize the Sovereign Private Investment Guarantee Fund (SPIGF) set up by law in June 2019, based on the Strategy Note prepared in April 2020. To this end, the SPGIF's management institutions will be put in place before the end of the year.

- The third pillar covers programs, policies, reforms and projects under the new strategy "Cabo Verde Ambitions 2030" that will underpin the country's development objectives. The strategy is expected to be completed in the coming months.

I. Program Monitoring

27. Program targets. Progress in the implementation of policies and reforms under the PCI will continue to be monitored through quantitative targets and standard non-quantitative continuous targets presented in Table 1, as well as reform targets presented in Table 2. Program quantitative targets are defined in the Technical Memorandum of Understanding attached to this Program Statement.

28. Program review. The third and final review of the program is scheduled to be completed by the IMF Executive Board no later than January 15, 2021.

Table 1. Cabo Verde: Quantitative Targets Under the PCI[1]

(2019–20)

	2019	2020									
	Cumulative flows since the beginning of the year										
	end-December	end-March			Status	end-June		end-September		end-December	
	Actual	Quantitative Targets (QT)	Adjusted QT	Actual		Prog.	Proj.	Quantitative Targets (QT)	Proposed QT	Prog.	Proj.
Quantitative targets											
Primary balance, floor [2]	1,408	-2,023	-2,319	874	Met	-1,705	-2,822	-1,783	-11,685	2,093	-12,810
Tax revenue, floor	42,015	10,471	10,471	9,919	Not met	21,961	15,889	33,033	23,114	46,298	33,952
Net other liabilities, ceiling [3]	6,396	1,022	1,022	106	Met	2,700	122	3,611	3,862	4,674	4,569
Nonaccumulation of domestic arrears [4]	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Non-accumulation of external payment arrears [4]	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Nominal level of new concessional external debt of central government, ceiling	11,277	3,822	3,822	984	Met	5,928	2,933	8,975	14,721	12,280	19,717
Nominal level of new nonconcessional external debt of central government, ceiling	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Net international reserves, floor [2]	666	572	547	669	Met	589	658	600	600	646	573
Non-quantitative continuous targets											
Non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions					Met						
Non-introduction or modification of multiple currency practices					Met						
Not concluding bilateral payments agreement which are inconsistent with Article VIII					Met						
Non-imposition or intensification of import restrictions for balance of payments reasons					Met						
Memorandum items:											
Social spending	14,996	3,024		2,606		6,076	5,721	10,714	8,426	15,391	18,067
Net onlending	2,093	672		-15		1,832	-139	2,638	2,889	3,444	4,273
Capitalization	4,303	350		121		869	261	973	973	1,229	1,445
Program assumptions											
Project and budget support grants	6,238	579		283		1,284	1,389	2,265	3,265	4,070	8,566
External debt service	6,034	1,667		1,903		3,389	3,908	5,537	5,611	7,428	5,040
Sales of assets	339	0		45		0	46	0	46	952	451
Project and budget support loans	9,747	3,151		983.9		4,601	2,847	7,198	12,694	10,128	16,338

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

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

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

[3] Net other liabilites includes net onlending, capitalization, and other assets.

4 Continuous.

Table 2. Cabo Verde: Reform Targets for 2019–21 Under the PCI			
Actions	**Target Date**	**Objective**	**Status**
Fiscal reforms			
• Complete a review report on exemptions identifying their potential impact and streamlining actions.	End-December 2019.	Improve tax collection.	Met.
• Streamline exemptions for Import duties, VAT, and excises.	End-June 2020. December 2020 (new target date for VAT and excises).	Improve tax collection.	Partially met.
• Submit to Parliament the budget for 2020 that is in line with commitments under the PCI.	End-October 2019.	Support fiscal and debt sustainability.	Met.
• Prepare a Strategy Note on the assets and liabilities and management of the Sovereign Private Investment Guarantee Fund (SPIGF).	End-April 2020	Provide a conceptual framework for the SPIGF.	Met.
SOEs reforms			
• Implement quarterly monitoring of actual performance of 6 key SOEs against their approved budgets, starting at end-December 2019.	Continuous.	Improve fiscal reporting and reduce fiscal risk.	Met.
• Compile financial information on cash flow performance of the 6 largest SOEs for FY2019.	End-July 2019.	Improve fiscal reporting and reduce fiscal risk.	Met.
Monetary reforms			
• Release the minutes of the Monetary Policy Committee meetings at least one month after each meeting, starting at end-July 2019.	Continuous.	Improve the communication of monetary policy.	Met.
• Reduce the excessively wide overnight interest rate corridor to a maximum of 150-200 basis points.	End-December 2019; implemented in June 2019.	Improve monetary policy transmission mechanism.	Met.
Financial sector reforms			
• Create a functional central registry of mobile collateral.	Mid-January 2021 (new target date).	Improve access to finance.	In progress.
• Revamp the public credit registry information system by completing the procurement of the relevant software system.	End-December 2020.	Improve access to finance.	In progress.

Attachment II. Technical Memorandum of Understanding

This memorandum sets out the understandings between the Cabo Verdean authorities and the IMF staff regarding the definitions of variables included in the quantitative targets and continuous targets set out in the Program Statements (PS), the key assumptions, and the reporting requirement of the Government and the Central Bank of Cabo Verde for the 18 months Policy Coordination Instrument (PCI).

QUANTITATIVE AND CONTINUOUS TARGETS

A. Floor on the Primary Balance of the Central Government

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

2. The central government primary balance is defined as total tax and non-tax revenues and grants minus primary expenditure and covers non-interest government activities as specified in the budget. The central government primary balance will be measured as cumulative flow over the calendar year.

- Revenues are recorded when the funds are transferred to a government revenue account. Tax revenues are recorded as net of tax refunds.
- Central government primary expenditure is recorded on a cash basis covers recurrent expenditures and capital expenditure.

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

4. For program monitoring, data will be provided to the Fund by the Directorate National of Planning (DNP) of Ministry of Finance monthly with a lag of no more than six weeks from the end of-period.

B. Cumulative Floor on Central Government Tax Revenue

5. Tax revenues refer to revenues from tax collection. It excludes all revenues from asset sales, grants, and non-tax revenues. To gauge the impact of tax policy reforms and improvements in tax administration, the program will have a floor on central government tax revenues. The revenue target is calculated as the cumulative flow from the beginning of the calendar year.

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

C. Ceiling on Net Other Liabilities

7. Net Other Liabilities is defined as the sum of central government deposits, loans to state-owned enterprises (SOEs) and municipalities (onlending), capitalization, and other assets. The ceiling of central government net other liabilities will be measured as cumulative over the calendar year. Deposits are all claims, represented by evidence of deposit, on the deposit-taking corporations (including the central bank). Onlending is defined as domestic and external loans contracted by the central government from another institution and then onlending the proceeds to SOEs. Net onlending is defined as disbursement of these loans minus repayment of previous loans by SOEs to the central government. Capitalization is defined as capital injection or equity participation made by the central government into corporations when some financial support is provided to capitalize or recapitalize these corporations. Other assets comprise of other accounts receivable/payable such as of trade credit and advances and miscellaneous other items due to be paid or received.

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

D. Non-accumulation of Domestic Payments Arrears

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

10. Reporting requirements. The DNP of Ministry of Finance will submit on a quarterly basis a detailed table of the stock of domestic payments arrears, including the accumulation, payment, rescheduling and write-off of domestic payments arrears during the quarter. The data are to be provided within six weeks after the end of the quarter.

E. Ceiling on Nominal Level of New Concessional External Debt of the Central Government

11. External public debt (long-term, medium-term, and short-term) is defined as debt to nonresidents contracted or guaranteed by the central government. The external public debt comprises the external debt of the central government and the external debt of the official sector entities and SOEs guaranteed by the central government.

12. The definition of debt is set out in Point 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.

(a) The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows;

(i) Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

13. Under the program, ceilings on medium and long-term, as well as on short-term, concessional external debt constitute quantitative targets. The coverage of the ceiling on concessional external debt includes budget loans, projects and program loans, and on-lending loans to SOEs in line with the fiscal program. For program purpose, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[1] For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). Debt rescheduling, and debt reorganization are excluded from the limits on concessional external debt. New concessional external debt excludes normal short-term (less than one year) import-related financing.

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

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

15. Under the program, ceilings on medium- and long-term, as well as on short-term, non-concessional external debt constitute quantitative target. The zero ceiling on non-concessional external debt is on a continuous basis. For program purpose, a debt is non-concessional if it includes a grant element of less than 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[1] For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). Debt rescheduling, and debt reorganization are excluded from the limits on non-concessional external debt. The quantitative target on new non-concessional external debt contracted or guaranteed by the central government, excluding borrowing from the Fund. Non-concessional external debt excludes normal short-term (less than one year) import-related financing. The Portuguese government's precautionary credit line (the "Portuguese credit line") in support of the exchange rate peg is also excluded from the definition of non-concessional external debt.

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

[1] The calculation of concessionality take into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

G. Net International Reserves of the Central Bank

17. The floor on the stock of net international reserves (NIR) of the BCV constitutes a quantitative target under the program. The NIR of the BCV are defined as gross international reserves of the BCV net of its short-term 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. Short term 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 relative to program assumptions.
- The cumulative downward deviations in external financial assistance, and project and budget loans relative to program assumptions. For purposes of calculating the adjusters, these flows will be valued at current exchange rates.

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

H. Non-accumulation of External Payments Arrears

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

20. External payments arrears for program monitoring purposes are defined as the amount of external debt service due and not paid within the contractually agreed period, subject to any applicable grace period, including contractual and late interests. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is sought are excluded from this definition.

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

I. Memorandum Item: Floor on Central Government Social Spending

22. The indicative floor on social spending of the central government will apply only to expenditures incurred by the central government on the following plans and programs that are intended to have a positive impact on education, health, and social protection, excluding the wages and salaries component.

23. For program monitoring, the data will be measured as cumulative over the fiscal year and it will be reported by the DNP on a quarterly basis, with a lag of no more than six weeks from the end-of-period.

OTHER DATA REQUIREMENTS

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

25. The Statement of Other Economic Flows as defined in the IMF Manual GFSM2001 or GFSM2014 relative to holding gains/losses of the previous year with ASA, Electra, EMPROFAC, ENAPOR, and IFH will be transmitted on an annual basis within three months after the end of the following year (15 months after the closing date).

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

CABO VERDE

September 30, 2020

SECOND REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF TARGETS—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the Staff of the International Monetary Fund and the International Development Association

Cabo Verde: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*High*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgement	*No*

Cabo Verde's risk of external and overall debt distress remains high, unchanged from the joint Debt Sustainability Analysis (DSA) of April 2020. The present value (PV) of public and publicly-guaranteed (PPG) external debt-to-GDP ratio breaches its threshold during 2020–24 under the baseline, and protractedly under stress test scenarios. The PV of total public debt-to-GDP ratio is projected to breach its threshold during 2020–27 under the baseline scenario and during 2020–31 under stress test scenarios. The debt sustainability assessment is predicated on several assumptions, including a gradual recovery of economic activity in 2021, reprofiling of debt service of all official bilateral creditors under the debt service suspension initiative (DSSI), growth-friendly fiscal consolidation in the post-pandemic period as well as resumption of structural reforms, notably to restructure State-Owned Enterprises (SOEs) and improve the business environment. Prudent borrowing policies and strengthened debt management, as well as measures to enhance the functioning of the government securities market are critical to stabilizing debt dynamics over time. In view of Cabo Verde's vulnerability to exogenous shocks, sustained progress in export and output diversification are also needed for long-term debt sustainability.

PUBLIC DEBT COVERAGE

1. **The coverage of the public sector is in line with the previous DSA** (Text Table 1). Consistent with fiscal accounts, the social security fund and local governments are excluded from the DSA, while the coverage of extra budgetary funds (EBFs) is focused on government support to State-Owned Enterprises (SOEs) through onlending and capitalization operations. Government guarantees to SOEs' external borrowing are included in the baseline stock of debt, while publicly-guaranteed domestic debt and non-guaranteed debt by SOEs are excluded because of limited information on the repayment schedule. Efforts to broaden the coverage of public sector debt are ongoing, including by supporting debt transparency reforms through a World Bank Development Policy Financing Operation.[1]

Text Table 1. Cabo Verde: Coverage of Public-Sector Debt and Design of Contingent Liability Stress Test

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	X
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

Public debt coverage and the magnitude of the contingent liability tailored stress test

		Default	Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government plus extra budgetary funds, central bank, government-guaranteed debt		
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.3	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	24.3	To reflect vulnerabilities associated with guaranteed domestic debt and non-guaranteed SOE debt.
4	PPP	35 percent of PPP stock	1.1	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		30.7	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

2. **The contingent liability tailored stress test is calibrated to account for the debt coverage gaps highlighted above**. First, the default shock of 0 percent of GDP for other elements of the general government not captured in the baseline stock of debt is raised to 0.3 percent of GDP to account for the size of publicly-guaranteed domestic debt of local governments.[2] Second, while the strong financial position of the social security fund (INPS) before the COVID-19 crisis has not risen concerns of immediate fiscal risks, the need to adjust the contingent liability stress test for its exclusion would need to be re-assessed in the post-pandemic period, based on the updated actuarial study (planned for 2021) to account for implications of larger unemployment benefits paid out in 2020, temporary suspension of contributions, and other measures undertaken by the government in response to the health crisis. Third, the default shock of 2 percent of GDP for SOEs' debt is raised to 24.3 percent of GDP to reflect vulnerabilities associated with: (i) publicly-guaranteed domestic debt by ELECTRA, Newco, TACV, IFH, ENAPOR and CERMI amounting to

[1] A comprehensive assessment of contingent liabilities is expected to be concluded in 2021.

[2] Government-guaranteed domestic borrowing of municipalities from the banking system stood at CVE 623.4 million (0.3 percent of GDP) at end-December 2019 (see Text Table 3 for more details).

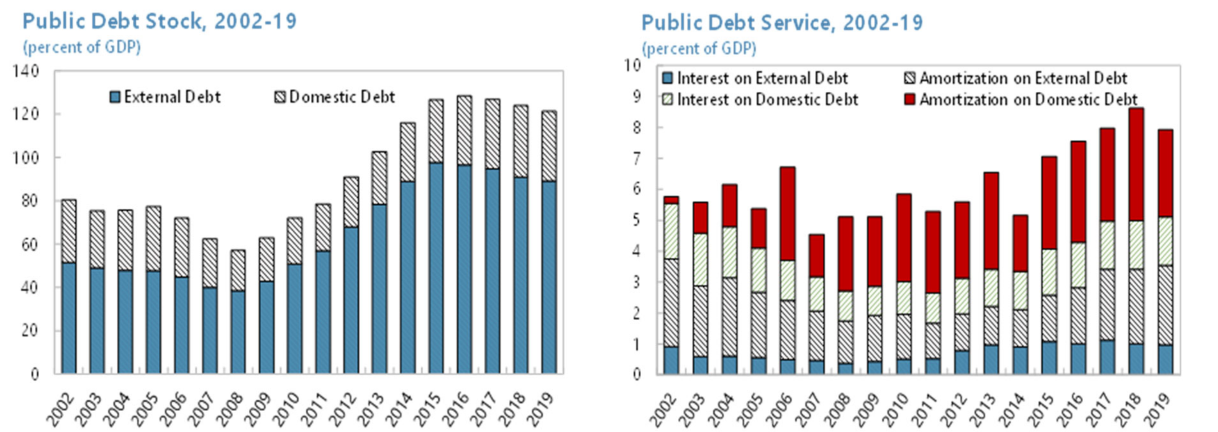
CVE 13.1 billion (6.7 percent of GDP) at end-2019 and; (ii) non-guaranteed domestic debt of loss-making SOEs totaling CVE 34.3 billion (17.6 percent of GDP) at end-2019.[3] Fourth, the default shock of 1.1 percent of GDP has been kept for public private partnerships (PPPs), in line with the previous DSA. Fifth, given that most banks are foreign-owned and well-capitalized, Cabo Verde's financial sector does not exhibit significant vulnerabilities that warrant an upward adjustment of the default minimum value of 5 percent of GDP for the financial market shock.

BACKGROUND

A. Evolution and Composition of Public Debt

3. The stock of public debt stood at 125 percent of GDP at end-2019 (Text Figure 1). It declined from its peak of 128.4 percent of GDP in 2016, reflecting the downward trend in external debt (which accounts for 73.2 percent of the total stock of public debt), consistent with improvement in the fiscal position. Domestic debt accounts for over 60 percent of debt service since most of the external debt is on concessional terms as explained below.

Text Figure 1. Cabo Verde: Profile of Public Debt and Debt Service, 2002–19



Sources: Cabo Verdean authorities and IMF staff estimates.

Note: Publicly-guaranteed external debt stock and debt service of SOEs included from 2015.

4. Cabo Verde's public external debt is highly concessional (Text Table 2). Multilateral institutions, notably the World Bank and the African Development Bank are the main creditors, while Portugal is the main bilateral creditor. The average maturity of external debt is about 30.2 years, and the average interest rate is below 1 percent.[4] More than two third of the external debt portfolio is euro-denominated, and therefore, exchange rate risks are limited since the Cabo Verdean escudo (CVE) is pegged to the euro.

[3] The total stock of non-guaranteed domestic debt stood at CVE 80.0 billion at end-2019, of which CVE 34.3 billion represented borrowing by eight SOEs that recorded negative net income in 2019 (ELECTRA, TACV, ICV, SCS, FIC, EHTCV, APN, and LEC).

[4] Commercial loans mainly consist of debt owed to Caixa Geral de Depósitos (CGD) under favorable terms: an average maturity of 20 years and an average interest rate of 1.55 percent.

Text Table 2. Cabo Verde: External Debt Profile by Type of Creditors, 2019

	Percent of external debt	Average maturity	Average interest rate
Multilateral	42.5	32.8	0.94%
Bilateral	26.1	18.6	1.00%
Commercial	31.4	17.4	1.52%

Source: Cabo Verdean authorities and IMF staff estimates.

5. **Domestic debt consists mostly of medium and long-term Treasury securities**. At end-2019, it accounted for 26.8 percent of total public debt, comprising mainly Treasury bonds (97 percent); with average maturity and interest rate of about 7.5 years, and 4.7 percent respectively. The banking sector is the main holder of government securities (60 percent), while the social security fund and households hold 38 percent and 2 percent, respectively.

6. **Publicly guaranteed debt stood at CVE 15.4 billion (7.9 percent of GDP) at end-2019** (Text Table 3). State guarantees are mainly issued for SOEs' domestic debt (85 percent of the stock), which reached 6.7 percent of GDP at end-2019. The publicly-guaranteed external debt covers TACV debt contracted with a consortium of foreign banks, while guaranteed domestic debt consists primarily of the liabilities of ELECTRA, Newco, TACV, IFH, Enapor and CERMI to the domestic banking system and Stock Exchange; and borrowing by a few municipalities (though amounts are significantly smaller). The issuance and management of State guarantees is regulated by the Decree-Law 42 of June 29, 2018, which clarifies the entities that could benefit from guarantees as well as the conditions. The law includes also an article requiring the Minister of Finance's approval for the issuance of loan guarantees. The annual guarantee ceiling is indicated in budgets submitted to parliament.[5]

Text Table 3. Cabo Verde: Publicly-Guaranteed Debt, 2016–19

	2016			2017			2018			2019		
	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt
External Debt (A)	**882**	**0.5**	**100.0**	**2,117**	**1.2**	**100.0**	**1,674**	**0.9**	**100.0**	**1,628**	**0.8**	**100.0**
contracted by SOEs	599	0.4	67.9	1,834	1.1	86.6	1,674	0.9	100.0	1,628	0.8	100.0
contracted by private entities	283	0.2	32.1	283	0.2	13.4	0	0.0	0.0	0	0.0	0.0
Domestic Debt (B)	**10,516**	**6.3**	**100.0**	**11,778**	**6.8**	**100.0**	**12,078**	**6.6**	**100.0**	**13,773**	**7.1**	**100.0**
contracted by local governments	381	0.2	3.6	677	0.4	5.7	682	0.4	5.6	623	0.3	4.5
contracted by SOEs	10,135	6.1	96.4	11,102	6.4	94.3	11,388	6.2	94.3	13,140	6.7	95.4
contracted by private entities	0	0.0	0.0	0	0.0	0.0	8	0.0	0.1	9	0.0	0.1
Total Publicly-Guaranteed Debt (A+B)	**11,398**	**6.9**		**13,895**	**8.0**		**13,752**	**7.5**		**15,401**	**7.9**	

Source: Cabo Verdean authorities and IMF staff calculations.

[5] In addition, on December 28, 2019 Parliament passed a new Public Debt Law, which set the limits on short-term and medium-term borrowing, and specified instruments to be used.

7. Historical series of private external debt derived from international investment position (IIP) data indicate a relatively low stock of about 10 percent of GDP at end-2019. Private debt includes both bank and non-bank external debt. The central bank (BCV) compiles and publishes non-financial corporations' private debt stock statistics. Significant progress was achieved by the BCV in external sector statistics (ESS) in recent years, including the migration of BOP and IIP statistics to BPM6 and the reporting of quarterly IIP.

B. Outlook and Key Macroeconomic Assumptions

8. The baseline scenario is predicated on a gradual economic recovery starting in 2021 (Text Table 4). Real GDP growth is projected at 4.5 percent for 2021, and 6.2 percent over the medium term. The rebound assumes the gradual resumption of tourism activities and capital flows, as the global economy recovers. However, the trajectory is highly uncertain for the next two years, as the Cabo Verdean economy remains vulnerable to external shocks and dependent on export of services. Structural reforms aimed at enhancing the business environment, improving inter-island connectivity and strengthening linkages between tourism and other sectors, as well as the completion of critical infrastructure projects are expected to support growth going forward.

9. A gradual improvement in fiscal and external balances is forecasted for the medium term. By 2025, the fiscal deficit is expected to be eliminated while the external current account deficit is projected to narrow to 1.8 percent of GDP, which will facilitate the stabilization of public and external debt dynamics. A gradual fiscal consolidation will be supported by enhanced domestic revenue mobilization and strengthened expenditure management and prioritization. The gradual improvement in the primary balance, combined with progress in the restructuring of SOEs is projected to bring total financing needs to 0.2 percent of GDP over medium term. A resumption of, and expansion in tourism activities, remittances, and capital flows are expected to help strengthen the medium-term external position and the build-up of international reserves.

Text Table 4. Cabo Verde: Assumptions for Key Economic Indicators, 2020–40
(Percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026 - 30	2031 - 40
	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP growth											
Current DSA	3.7	4.5	5.7	-6.8	4.5	4.8	5.7	6.0	6.2	5.5	5.5
2020 April DSA (RCF)	3.7	4.5	5.7	-5.5	5.0	6.4	6.0	5.7	5.5	5.1	5.0
GDP Deflator											
Current DSA	0.7	1.5	0.6	1.1	1.2	1.4	1.5	1.6	1.7	1.8	2.0
2020 April DSA (RCF)	0.7	1.5	0.6	1.7	1.7	2.0	1.9	1.9	2.0	2.1	2.2
Fiscal balance (including grants)											
Current DSA	-3.0	-2.7	-1.8	-9.7	-6.6	-3.7	-1.8	-0.8	0.0	0.1	0.3
2020 April DSA (RCF)	-3.0	-2.8	-1.8	-8.4	-4.1	-1.4	-1.1	-0.9	-0.7	-0.5	-1.0
Overall financing needs (including onlending)											
Current DSA	-3.3	-3.7	-5.1	-12.1	-6.4	-3.9	-2.0	-1.0	-0.2	0.1	0.3
2020 April DSA (RCF)	-3.3	-3.9	-5.1	-10.9	-5.1	-2.2	-1.3	-1.1	-0.9	-0.5	-1.0
Current account balance (including grants)											
Current DSA	-7.8	-5.2	0.3	-14.2	-9.2	-6.4	-4.1	-2.1	-1.8	-1.0	-0.9
2020 April DSA (RCF)	-7.9	-5.4	-0.2	-14.3	-8.6	-4.7	-2.6	-1.7	-0.5	0.8	4.7
Cv$/USD exchange rate (e-o-y)											
Current DSA	92.4	96.3	98.5	95.5	93.6	93.1	93.0	93.0	93.1	93.1	93.1
2020 April DSA (RCF)	92.4	96.3	98.5	100.3	99.5	98.9	98.3	97.8	97.8	97.8	97.8

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

10. The current shock to the Cabo Verdean economy is severe, with large uncertainties about its duration, as well as economic and social impact. A more prolonged health crisis could stall the economic recovery and become a drag on export and domestic revenue collection, as well as capital flows and private investments, leading to a deeper economic contraction in 2020, a delayed rebound, and higher balance of payments and fiscal financing needs.

11. The DSA assumes that financing needs would be covered by identified external sources, including debt service suspension under the DSSI and by net domestic borrowing up to the authorities' annual ceiling of 3 percent of GDP. Multilateral and bilateral sources for budget support of US$168 million (2.7 percent of GDP) are expected to be mobilized through 2020-22, of which 73 percent are anticipated from multilateral sources (the World Bank and the African Development Bank).[6] While projecting continued concessional foreign support in the short and medium term, the DSA assumes a slow and gradual shift toward less concessional sources in the long term, including semi-concessional loans (with a grant element of less than 5 percent) and limited non-concessional borrowing, consistent with Cabo Verde's middle-income status. With respect to domestic debt, the DSA assumes that bonds with maturities of at least 4 years would account for 97 percent of the stock in the medium term, in line with the profile of domestic debt portfolio at end-2019. The average interest rate is set to 1 percent for T-bills, and 4 and 5 percent for short-term and medium to longer-term bonds, respectively. Based on agreements secured by the authorities, debt service suspension under the DSSI amounts to US$ 8.96 million (about 0.5 percent of GDP) in 2020.

12. Tools for assessing the realism of the baseline scenario flag some deviation from historical experience, which are explained below.

- **Drivers of debt dynamics** (Figure 3). The current DSA projects similar debt accumulation in 2020-21, while slightly higher after 2022, compared to the previous DSA. The contributions of past and projected debt-creating flows to the PPG external debt and to gross public debt have also changed with the higher current account deficit and lower FDI negatively contributing to PPG external debt accumulation; and the higher primary fiscal deficit contributing to the accumulation of gross public debt relative to its historical trajectory.

- **Realism of planned fiscal adjustment** (Figure 4). The projected three-year fiscal adjustment in the primary balance stands at 1.5 percentage points of GDP between 2019 and 2022 and lies in the second quartile of the distribution of past adjustments of the primary fiscal deficit derived from the sample of LICs.

- **Consistency between fiscal adjustment and growth** (Figure 4). The projected growth path for 2020 and 2021 is revised down compared to the past DSA, and it is not in line with the multiplier-based projections. This reflects a large shock to the economy due to the pandemic and its severe impact on economic activity. Following a robust increase in the first quarter of

[6] The World Bank approved in April 2020 a COVID-19 Emergency Response operation totaling US$5 million. The Disaster Risk Management Development Policy Financing with CAT-DDO amounting US$10 million was disbursed in May 2020. The Second State-Owned Enterprise Reform and Fiscal Management Development Policy Financing, totaling US$25 million is expected to be disbursed in the third quarter of 2020.

2020 by 5.8 percent (y/y), output is forecasted to decelerate by 6.8 percent, consistent with the two-month long lockdown that was introduced in April. A slow recovery is projected for 2021 with a real GDP growth of 4.5 percent. The realism of these projections is predicated on a gradual revival in the most affected sectors (tourism, transport, and other services) which are expected to pick up in the fourth quarter of 2020, and on the authorities' commitment to accelerate structural reforms and fiscal consolidation efforts when the health crisis abates.

- **Consistency between public investment and growth** (Figure 4). The realism tool shows that like historical figures, the contribution of public investment to real GDP growth remains marginal across the previous and current DSA, mainly reflecting low multiplier for public investment, consistent with the high import content of capital spending. While public investment is expected to hover around 4-5 percent of GDP in the medium term, private investment is projected to rise gradually to about 40 percent of GDP during 2020–25.

C. Country Classification and Determination of Stress Test Scenarios

13. Cabo Verde's debt-carrying capacity is assessed as "strong" as in the previous DSA (Text Table 5). The methodology relies on a composite indicator (CI) combining the Country Policy and Institutional Assessment (CPIA) score, external conditions captured by world economic growth and country-specific factors. The latest CI score continues to be based on the October 2019 World Economic Outlook (WEO) vintage, and the 2018 CPIA. The CI score for Cabo Verde stands at 3.28, which is above the threshold of 3.05 applicable for a "strong" rating. It reflects positive contributions from the CPIA (44 percent), international reserves (30 percent), world growth (14 percent), remittances (7 percent) and country real growth rate (3 percent). Debt burden thresholds implied by the strong debt-carrying capacity under the previous and new frameworks are summarized in Text Table 6.

Text Table 5. Cabo Verde: CI Score Summary Table

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.778	1.45	44%
Real growth rate (in percent)	2.719	3.999	0.11	3%
Import coverage of reserves (in percent)	4.052	49.735	2.02	61%
Import coverage of reserves^2 (in percent)	-3.990	24.736	-0.99	-30%
Remittances (in percent)	2.022	10.814	0.22	7%
World economic growth (in percent)	13.520	3.499	0.47	14%
CI Score			3.28	100%
CI rating			Strong	

Source: IMF staff calculations. The CI cutoff for strong debt-carrying capacity is CI > 3.05.

Text Table 6. Cabo Verde: Debt Thresholds under Strong Debt-Carrying Capacity

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

Source: IMF staff calculations.

14. The debt sustainability analysis relies on the six standardized stress tests and the contingent liability stress test. While the former uses the default settings, the latter is customized to address potential vulnerabilities stemming from the current coverage of public sector debt as explained in paragraph 2. None of the tailored stress tests is triggered for Cabo Verde.

DEBT SUSTAINABILITY ANALYSIS

A. External Public Debt

15. Under the baseline scenario, the PV of PPG external debt-to-GDP ratio breaches its applicable threshold during 2020-24, thereby signaling a high risk of external debt distress (Figure 1, Tables 1 and 3). In addition, the PV of PPG external debt-to-export ratio breaches its threshold in 2020. The other debt burden indicators remain below the prescribed thresholds. However, both debt service-to-exports and debt service-to-revenue ratios increase throughout 2021-22 (when Cabo Verde starts repaying the principal due on loans from the Portuguese bank Caixa Geral de Depósitos) and decrease gradually from 2023 onward.

16. The PV of PPG external debt-to-GDP ratio also breaches its threshold protractedly under the stress test scenarios (Figure 1, Tables 1 and 3). Under the most extreme shock, which is a one-time 30 percent nominal depreciation, it rises to 91.7 percent in 2021 before gradually receding below the threshold of 55 percent of GDP in 2029. The threshold is also breached under the remaining five standardized bound tests, and under the tailored combined contingent liabilities test during 2020–27. The PV of PPG external debt-to-exports ratio exceeds its applicable threshold during 2020–26, rising to 395.1 percent of GDP in 2022, and gradually decreasing below the threshold of 240 percent of GDP by 2027. Likewise, both of Cabo Verde's debt service-related indicators breach their respective thresholds under the stress test scenario over the projection period. The external debt service-to-export ratio breaches its threshold during 2022-24, while the external debt service to revenue breaches its threshold during 2021–24. The projected trajectories of PPG external debt burden indicators are vulnerable to an export growth shock and to a one-time depreciation shock, stressing the need for export diversification.

B. Total Public Debt

17. The PV of total public debt-to-GDP ratio exceeds the 70 percent benchmark till 2027 under the baseline scenario (Figure 2, Tables 2 and 4).[1] The prescribed benchmark is also breached throughout the projection period under the six standardized bound tests and the tailored combined contingent liabilities test. Furthermore, the debt outlook, as shown by the public DSA indicators, is particularly vulnerable to contingent liabilities associated with SOEs' debt and one-time depreciation, which emerges as the most extreme shock. Still, despite the high public debt-to-GDP level, Cape Verde's debt is assessed to be sustainable given its high share of highly concessional external debt and moderate debt service ratios. Roll-over risks from domestic public debt are also mitigated by the maturity structure of the debt and the fact that around 40 percent of domestic debt is held by the Social Security Fund.

C. Debt Distress Ratings

18. Cabo Verde's risk of external and overall debt distress is assessed as "high" under the baseline scenario. As discussed earlier, the PV of PPG external debt-to-GDP ratio breaches its threshold till 2024 under the baseline scenario, thereby signaling a high risk of external debt distress, and is particularly sensitive to export and growth shocks. Based on the current projections, it is expected that it will gradually decline, falling below the 55 percent threshold in 2025. The "high" risk of overall debt distress is the outcome of the breach of the PV of total public debt-to-GDP ratio through 2027.

19. The outlook for public debt has deteriorated following the pandemic, and prudent borrowing policies and strengthened debt management are needed to underpin medium-term debt sustainability. The pandemic has led to a rapid deterioration of the country's external and fiscal positions, triggered a sharp contraction in economic activity, and affected medium-term economic prospects. The authorities have sought debt service suspension under the DSSI to support their response to the health crisis. As mentioned above, the DSA assumes that US$ 8.96 million of debt service (principal and interest payments) falling due in 2020 and for which agreements were secured will be reprofiled for 2021–24 in line with the terms of the Initiative.[2] In the aftermath of the health crisis, the authorities will need to refocus on policies and reforms aimed at improving the fiscal position and boosting growth to reset public debt on a declining trend over the medium term. More generally, prudent borrowing policies, adhering to the zero limit on non-concessional external borrowing in the next few years, as well as strengthened debt management strategy remain key to stabilize future debt dynamics. Ensuring medium to long-term debt sustainability will also require sustained implementation of growth-enhancing structural reforms with a focus on actions needed to diversify the production and export base, and to address critical infrastructure gaps. Measures to develop the government securities market and lower the costs of domestic borrowing will be also crucial going forward.

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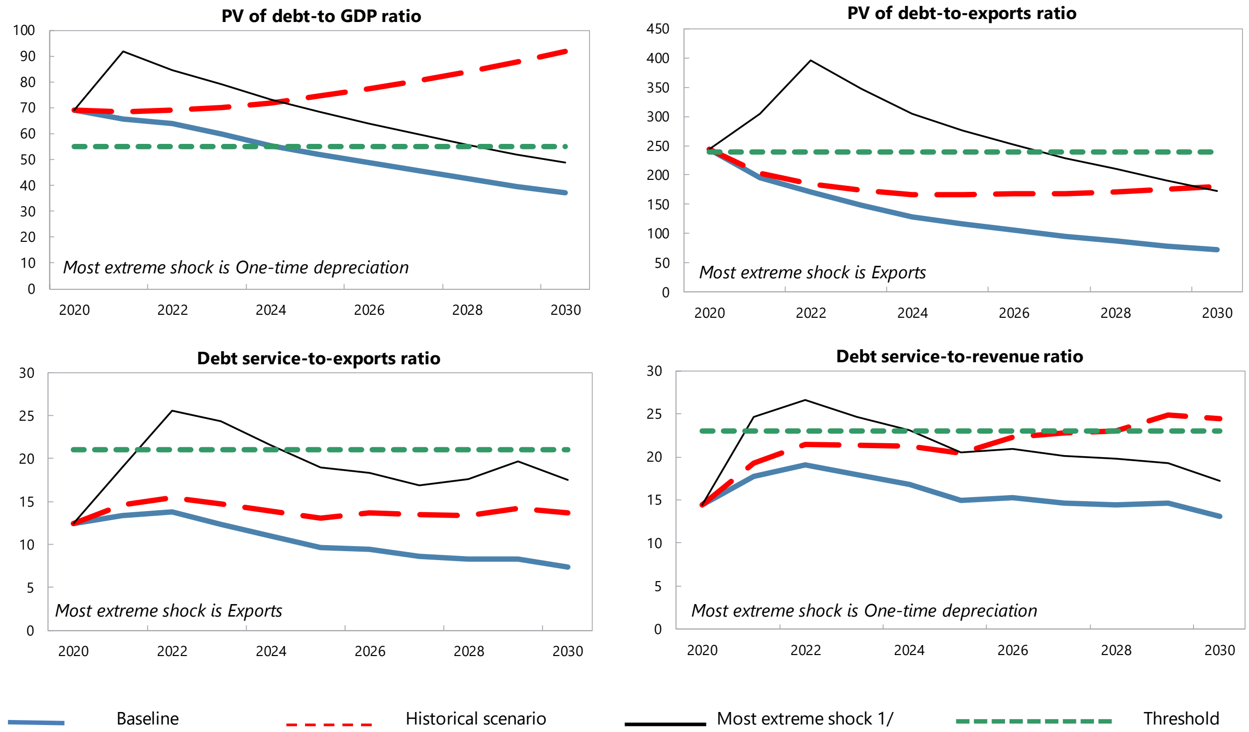
[1] While in 2028, the PV of total debt-to-GDP reaches the threshold.

[2] While debt service for May and June was eligible for suspension under the Initiative, the authorities paid these obligations while waiting for participation confirmation from creditors.

D. Authorities' Views

20. The authorities agreed with the results of the DSA and stressed their concerns about the fragility of the Cabo Verdean economy. The health crisis exposed some of the key structural challenges facing the economy, including the lack of diversification, heavy reliance on tourism, and vulnerability to exogenous shocks. The lack of natural resources combined with relatively limited fiscal space at the beginning of the health crisis, made broad-based responses to the pandemic difficult and costly, involving numerous trade-offs. The authorities reaffirmed their continued commitment to fiscal consolidation and to the goal of a public debt-to-GDP ratio lower than 100 percent over the medium term. They stressed, however, that their efforts have now been jeopardized by the pandemic. They highlighted the high uncertainties of macroeconomic assumptions and called on the IMF and the World Bank to provide them with analytical tools to inform policy discussions on debt management. At the same time, the authorities indicated that they remain committed to prudent borrowing policies, and will work towards strengthening debt management practices, and improving the functioning of the government securities market, to enhance debt sustainability in the long term.

Figure 1. Cabo Verde: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2020–30



Customization of Default Settings		
	Size	Interactions
Standardized Tests		Yes
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	6	6

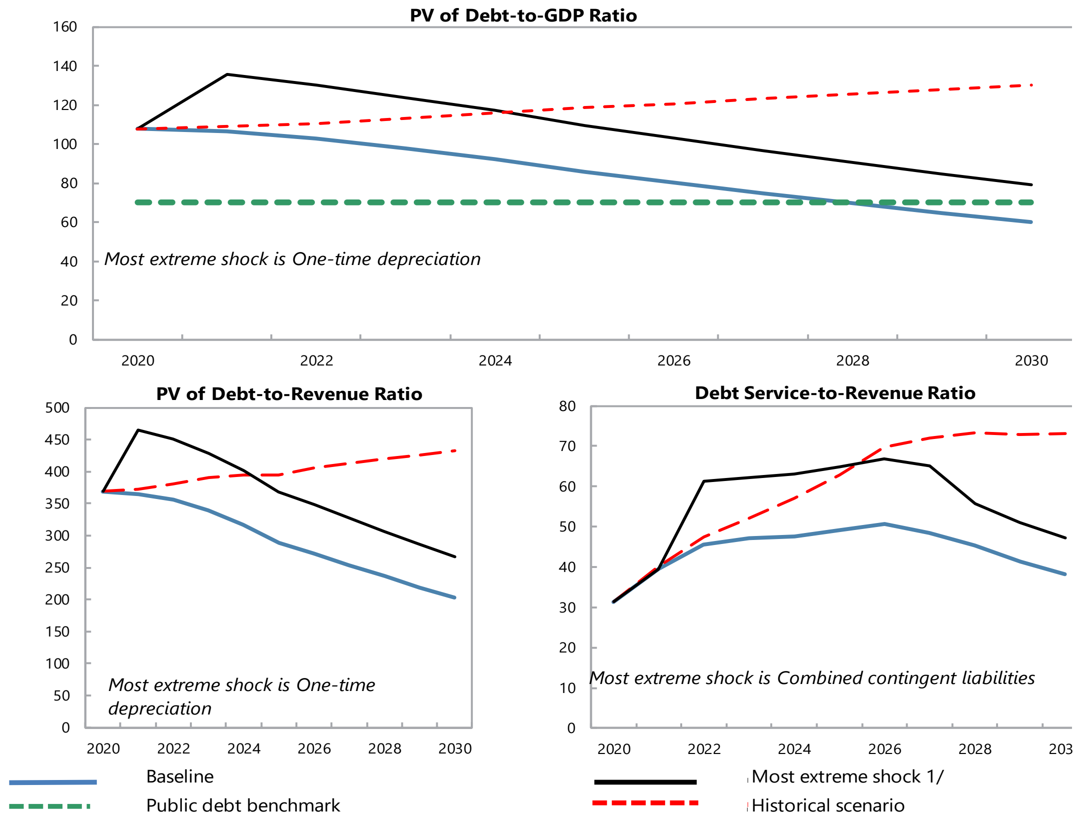
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Cabo Verde: Indicators of Public Debt Under Alternative Scenarios, 2020–30



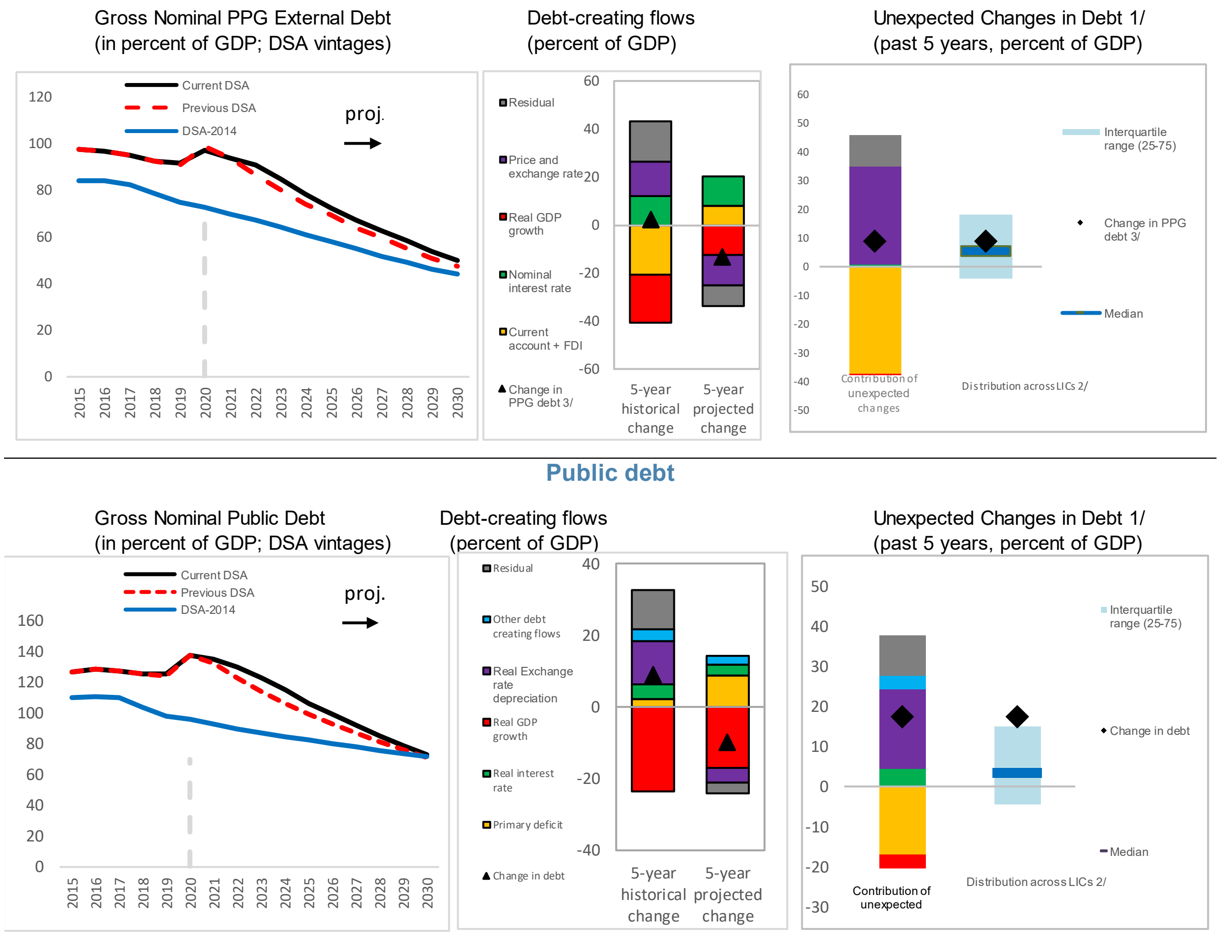
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	35%	35%
Domestic medium and long-term	63%	63%
Domestic short-term	1%	1%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.6%	3.6%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Cabo Verde: Drivers of Debt Dynamics - Baseline Scenario



Sources: Country authorities; and staff estimates and projections.

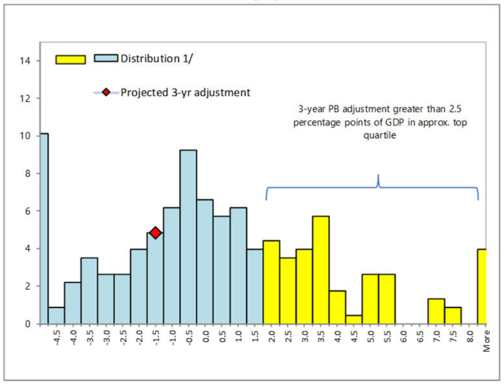
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

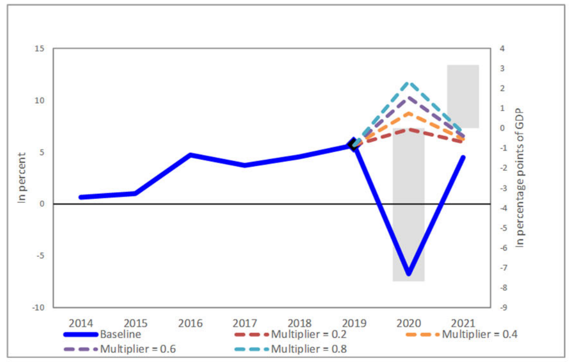
Figure 4. Cabo Verde: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



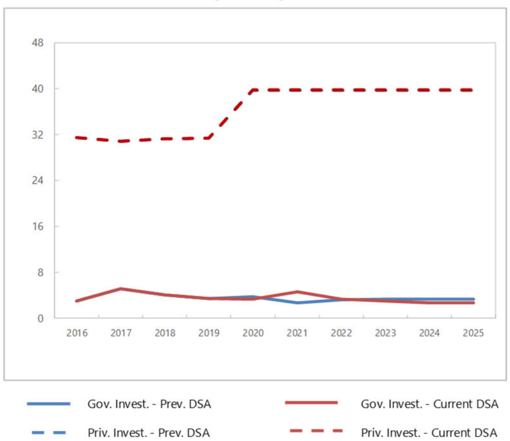
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

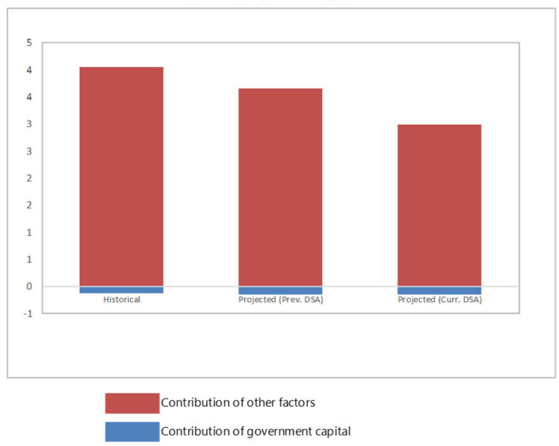


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)



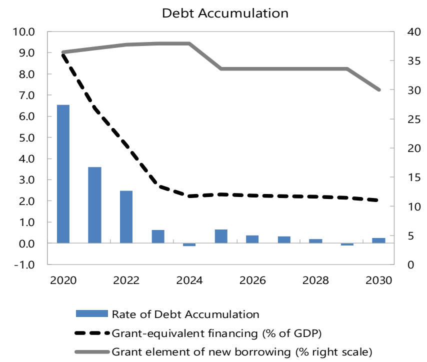
Sources: Country authorities; and staff estimates and projections.

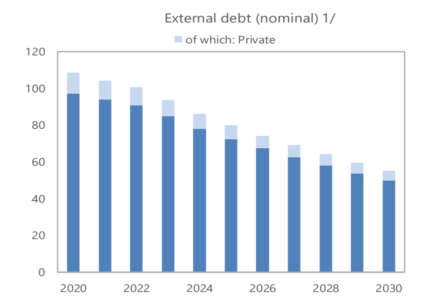
Table 1. Cabo Verde: External Debt Sustainability Framework, Baseline Scenario, 2019–40

(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	**102.0**	**108.4**	**104.2**	**100.5**	**93.7**	**86.1**	**79.8**	**55.2**	**24.8**	**93.6**	**81.3**
of which: public and publicly guaranteed (PPG)	**91.4**	**97.0**	**93.8**	**90.8**	**84.8**	**78.0**	**72.3**	**49.9**	**24.8**	**81.6**	**73.5**
Change in external debt	-0.9	6.4	-4.2	-3.7	-6.8	-7.5	-6.3	-4.2	-5.6		
Identified net debt-creating flows	**-5.1**	**20.7**	**2.0**	**-2.0**	**-5.3**	**-7.3**	**-7.2**	**-6.4**	**-4.5**	**0.8**	**-2.9**
Non-interest current account deficit	**-2.5**	**11.9**	**6.7**	**3.8**	**1.6**	**-0.2**	**-0.4**	**-1.3**	**-0.6**	**4.9**	**1.7**
Deficit in balance of goods and services	14.0	25.5	19.7	16.6	14.4	12.2	10.9	6.6	8.2	**20.4**	**12.5**
Exports	50.7	28.3	33.8	37.3	40.2	42.9	44.7	51.0	60.7		
Imports	64.6	53.8	53.5	53.9	54.6	55.1	55.6	57.6	69.0		
Net current transfers (negative = inflow)	-16.4	-14.4	-13.3	-12.8	-12.8	-13.3	-12.2	-8.4	-9.2	**-16.6**	**-11.3**
of which: official	-3.0	-4.4	-4.4	-3.2	-2.2	-2.5	-1.9	-0.8	-0.4		
Other current account flows (negative = net inflow)	-0.1	0.8	0.2	0.1	0.0	0.9	0.8	0.5	0.4	**1.0**	**0.5**
Net FDI (negative = inflow)	**-4.0**	**-0.8**	**-2.8**	**-3.7**	**-4.0**	**-4.3**	**-4.0**	**-4.0**	**-3.8**	**-5.5**	**-3.6**
Endogenous debt dynamics 2/	**1.4**	**9.7**	**-1.9**	**-2.1**	**-2.9**	**-2.8**	**-2.7**	**-1.2**	**-0.1**		
Contribution from nominal interest rate	2.2	2.3	2.5	2.5	2.5	2.4	2.2	1.9	1.4		
Contribution from real GDP growth	-5.8	7.3	-4.4	-4.7	-5.4	-5.2	-4.9	-3.0	-1.6		
Contribution from price and exchange rate changes	5.0	...	...	...	...	...	...	...	...		
Residual 3/	**4.2**	**-14.3**	**-6.2**	**-1.7**	**-1.5**	**-0.2**	**0.9**	**2.3**	**-1.1**	**3.8**	**-1.3**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	**58.8**	**69.2**	**65.8**	**63.8**	**59.9**	**55.5**	**52.0**	**37.1**	**18.6**		
PV of PPG external debt-to-exports ratio	**116.1**	**244.3**	**194.8**	**170.9**	**149.0**	**129.4**	**116.4**	**72.8**	**30.6**		
PPG debt service-to-exports ratio	**7.0**	**12.5**	**13.4**	**13.7**	**12.4**	**11.0**	**9.6**	**7.3**	**4.0**		
PPG debt service-to-revenue ratio	**13.5**	**14.4**	**17.7**	**19.1**	**17.9**	**16.8**	**15.0**	**13.1**	**8.6**		
Gross external financing need (Million of U.S. dollars)	-35.4	301.9	204.5	148.1	95.3	40.9	31.8	-13.5	-83.4		
Key macroeconomic assumptions											
Real GDP growth (in percent)	5.7	-6.8	4.5	4.8	5.7	6.0	6.2	5.5	5.5	**2.8**	**4.4**
GDP deflator in US dollar terms (change in percent)	-4.6	1.2	6.0	2.1	1.8	1.6	1.7	1.8	2.4	**-0.9**	**2.1**
Effective interest rate (percent) 4/	2.2	2.2	2.6	2.6	2.7	2.7	2.8	3.4	5.1	**3.2**	**2.8**
Growth of exports of G&S (US dollar terms, in percent)	4.3	-47.2	31.9	18.3	15.8	14.9	12.5	9.5	10.2	**6.9**	**8.9**
Growth of imports of G&S (US dollar terms, in percent)	-4.2	-21.4	10.1	7.8	9.0	8.6	9.0	9.0	9.7	**2.8**	**5.8**
Grant element of new public sector borrowing (in percent)	...	36.4	37.1	37.7	37.9	37.9	33.6	30.0	30.0	**...**	**35.0**
Government revenues (excluding grants, in percent of GDP)	26.2	24.5	25.6	26.9	27.8	28.0	28.7	28.5	27.9	**23.5**	**27.6**
Aid flows (in Million of US dollars) 5/	170.8	267.6	228.0	200.0	126.5	103.6	118.9	140.2	252.8		
Grant-equivalent financing (in percent of GDP) 6/	...	8.9	6.4	4.6	2.7	2.2	2.3	2.0	1.9	**...**	**3.5**
Grant-equivalent financing (in percent of external financing) 6/	...	54.7	57.8	51.5	51.0	55.2	49.7	49.0	52.1	**...**	**52.0**
Nominal GDP (Million of US dollars)	1,982	1,870	2,071	2,215	2,384	2,567	2,771	3,969	8,238		
Nominal dollar GDP growth	0.8	-5.6	10.7	7.0	7.6	7.7	8.0	7.4	8.0	**1.9**	**6.6**
Memorandum items:											
PV of external debt 7/	69.3	80.6	76.2	73.5	68.7	63.6	59.4	42.4	18.6		
In percent of exports	136.8	284.4	225.6	196.7	171.0	148.3	133.0	83.2	30.6		
Total external debt service-to-exports ratio	9.5	18.0	17.8	17.6	15.9	14.2	12.6	9.7	5.6		
PV of PPG external debt (in Million of US dollars)	1165.3	1294.7	1362.0	1413.5	1427.4	1424.1	1441.0	1473.3	1533.3		
(PVt-PVt-1)/GDPt-1 (in percent)		6.5	3.6	2.5	0.6	-0.1	0.7	0.3	-0.7		
Non-interest current account deficit that stabilizes debt ratio	-1.6	5.5	10.8	7.6	8.4	7.3	5.9	2.9	5.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

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

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

6/ 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).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

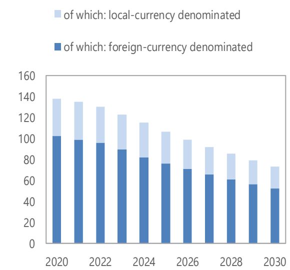
Table 2. Cabo Verde: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–40

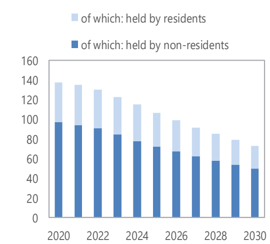
(Percent of GDP, unless otherwise indicated)

	Actual	Projections													Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029		2030	2040	Historical	Projections
Public sector debt 1/	**125.0**	**137.5**	**134.8**	**130.0**	**122.8**	**114.9**	**106.3**	**98.9**	**91.8**	**85.2**	**78.8**		**73.0**	**29.8**	**109.3**	**106.7**
of which: external debt	**91.4**	**97.0**	**93.8**	**90.8**	**84.8**	**78.0**	**72.3**	**67.2**	**62.5**	**58.0**	**53.7**		**49.9**	**24.8**	**81.6**	**73.5**
Change in public sector debt	-0.6	12.5	-2.7	-4.8	-7.2	-7.9	-8.6	-7.5	-7.0	-6.7	-6.3		-5.8	-4.3		
Identified debt-creating flows	**-0.2**	**16.4**	**-3.0**	**-4.9**	**-7.4**	**-8.0**	**-8.7**	**-7.4**	**-6.9**	**-6.6**	**-6.3**		**-5.8**	**-3.1**	**5.3**	**-4.4**
Primary deficit	**-0.7**	**7.0**	**3.8**	**0.8**	**-1.0**	**-1.8**	**-2.5**	**-2.2**	**-2.2**	**-2.2**	**-2.3**		**-2.1**	**-1.2**	**3.8**	**-0.4**
Revenue and grants	29.4	29.2	29.2	28.9	28.9	29.2	29.8	29.5	29.5	29.5	29.6		29.6	29.1	**26.6**	**29.4**
of which: grants	3.2	4.7	3.6	2.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1		1.1	1.1		
Primary (noninterest) expenditure	28.7	36.2	33.0	29.7	27.9	27.3	27.3	27.3	27.3	27.3	27.3		27.5	27.9	**30.4**	**28.9**
Automatic debt dynamics	**-2.8**	**7.0**	**-6.8**	**-5.7**	**-6.4**	**-6.2**	**-6.2**	**-5.2**	**-4.7**	**-4.3**	**-4.0**		**-3.6**	**-1.8**		
Contribution from interest rate/growth differential	-5.9	10.2	-5.2	-5.7	-6.7	-6.6	-6.4	-5.3	-4.8	-4.4	-4.0		-3.7	-1.7		
of which: contribution from average real interest rate	0.8	1.2	0.7	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.4		0.4	0.1		
of which: contribution from real GDP growth	-6.7	9.1	-5.9	-6.1	-7.1	-7.0	-6.7	-5.6	-5.1	-4.8	-4.4		-4.1	-1.8		
Contribution from real exchange rate depreciation	3.1	...	...	...	...	...	...	...	...	...	...		...	...		
Other identified debt-creating flows	**3.3**	**2.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**		**0.0**	**-0.1**	**1.1**	**0.2**
Privatization receipts (negative)	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		
Recognition of contingent liabilities (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		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		0.0	-0.1		
Other debt creating or reducing flow (please specify)	3.3	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Residual	**-0.4**	**-7.2**	**-1.3**	**0.2**	**0.5**	**0.5**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**		**0.0**	**-1.3**	**0.9**	**-0.6**
Sustainability indicators																
PV of public debt-to-GDP ratio 2/	**92.4**	**107.7**	**106.5**	**102.9**	**97.9**	**92.4**	**86.0**	**80.4**	**75.0**	**69.8**	**64.8**		**60.2**	**23.6**		
PV of public debt-to-revenue and grants ratio	**314.2**	**369.1**	**364.7**	**356.1**	**338.6**	**316.8**	**288.8**	**272.6**	**254.2**	**236.6**	**219.1**		**203.2**	**81.1**		
Debt service-to-revenue and grants ratio 3/	**26.9**	**31.4**	**39.6**	**45.6**	**47.1**	**47.6**	**49.2**	**50.7**	**48.5**	**45.4**	**41.3**		**38.2**	**15.7**		
Gross financing need 4/	7.2	18.6	15.3	14.0	12.6	12.1	12.1	12.8	12.1	11.2	9.9		9.2	3.2		
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	5.7	-6.8	4.5	4.8	5.7	6.0	6.2	5.5	5.5	5.5	5.5		5.5	5.5	**2.8**	**4.4**
Average nominal interest rate on external debt (in percent)	1.1	0.8	1.2	1.2	1.3	1.3	1.2	1.3	1.3	1.3	1.4		1.4	1.8	**1.2**	**1.2**
Average real interest rate on domestic debt (in percent)	4.4	3.4	3.3	3.1	3.0	3.0	2.8	2.8	3.0	3.2	3.3		3.3	2.8	**4.3**	**3.1**
Real exchange rate depreciation (in percent, + indicates depreciation)	3.6	...	...	...	...	...	...	...	...	...	...		...	...	**3.5**	**...**
Inflation rate (GDP deflator, in percent)	0.6	1.1	1.2	1.4	1.5	1.6	1.7	1.8	1.8	1.8	1.8	1.8	1.8	2.4	**0.9**	**1.6**
Growth of real primary spending (deflated by GDP deflator, in percent)	7.1	17.5	-4.6	-5.8	-0.4	3.8	5.9	5.6	5.4	5.5	5.5		6.4	5.5	**2.0**	**4.1**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-0.1	-5.6	6.5	5.5	6.3	6.1	6.1	5.3	4.8	4.4	4.1		3.7	3.1	**1.0**	**4.3**
PV of contingent liabilities (not included in public sector debt)	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		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus extra budgetary funds, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Cabo Verde: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–30

(Percent)

	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	**69**	**66**	**64**	**60**	**55**	52	49	46	43	40	37
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	**69**	**68**	**69**	**70**	**72**	**75**	**77**	**80**	**84**	**88**	**92**
B. Bound Tests											
B1. Real GDP growth	**69**	**68**	**69**	**64**	**60**	**56**	52	49	46	43	40
B2. Primary balance	**69**	**67**	**66**	**63**	**59**	**55**	52	49	47	44	41
B3. Exports	**69**	**73**	**82**	**77**	**72**	**68**	**65**	**61**	**57**	53	49
B4. Other flows 2/	**69**	**68**	**68**	**64**	**60**	**56**	53	50	46	43	40
B6. One-time 30 percent nominal depreciation	**69**	**92**	**85**	**79**	**73**	**68**	**64**	**60**	**56**	52	49
B6. Combination of B1-B5	**69**	**75**	**76**	**71**	**66**	**63**	**59**	**55**	52	48	44
C. Tailored Tests											
C1. Combined contingent liabilities	**69**	**73**	**72**	**69**	**65**	**62**	**60**	**57**	54	52	49
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	**244**	195	171	149	129	116	106	95	87	79	73
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	**244**	202	185	174	167	167	168	167	171	175	180
B. Bound Tests											
B1. Real GDP growth	**244**	195	171	149	129	116	106	95	87	79	73
B2. Primary balance	**244**	198	178	156	137	124	113	103	95	87	80
B3. Exports	**244**	**305**	**395**	**347**	**304**	**276**	**252**	229	210	190	173
B4. Other flows 2/	**244**	202	183	160	139	126	114	103	94	86	79
B6. One-time 30 percent nominal depreciation	**244**	195	162	141	122	110	100	89	82	74	69
B6. Combination of B1-B5	**244**	**284**	192	**263**	229	207	189	171	155	141	129
C. Tailored Tests											
C1. Combined contingent liabilities	**244**	217	193	171	152	139	129	119	111	103	97
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	12	13	14	12	11	10	9	9	8	8	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	12	15	15	15	14	13	14	13	13	14	14
B. Bound Tests											
B1. Real GDP growth	12	13	14	12	11	10	9	9	8	8	7
B2. Primary balance	12	13	14	13	11	10	10	9	9	9	8
B3. Exports	12	19	**26**	**24**	**22**	19	18	17	18	20	18
B4. Other flows 2/	12	13	14	13	11	10	10	9	9	9	8
B6. One-time 30 percent nominal depreciation	12	13	14	12	11	9	9	9	8	8	7
B6. Combination of B1-B5	12	18	**22**	20	18	16	15	14	15	15	13
C. Tailored Tests											
C1. Combined contingent liabilities	12	13	14	13	11	10	10	9	9	9	8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	14	18	19	18	17	15	15	15	14	15	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	14	19	21	21	21	20	22	23	**23**	**25**	**24**
B. Bound Tests											
B1. Real GDP growth	14	18	21	19	18	16	16	16	16	16	14
B2. Primary balance	14	18	19	18	17	15	16	15	15	15	14
B3. Exports	14	18	20	19	18	16	17	16	17	19	17
B4. Other flows 2/	14	18	19	18	17	15	16	15	15	16	14
B6. One-time 30 percent nominal depreciation	14	**25**	**27**	**25**	**23**	21	21	20	20	19	17
B6. Combination of B1-B5	14	18	21	20	18	16	17	16	17	18	16
C. Tailored Tests											
C1. Combined contingent liabilities	14	18	20	19	18	16	16	15	15	16	14
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.

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

Table 4. Cabo Verde: Sensitivity Analysis for Key Indicators of Public Debt, 2020–30
(Percent)

	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					PV of Debt-to-GDP Ratio						
Baseline	**108**	**107**	**103**	**98**	**92**	**86**	**80**	**75**	70	65	60
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	**108**	**109**	**111**	**113**	**116**	**118**	**121**	**123**	**125**	**128**	**130**
B. Bound Tests											
B1. Real GDP growth	**108**	**112**	**114**	**110**	**106**	**101**	**97**	**93**	**89**	**85**	**81**
B2. Primary balance	**108**	**110**	**113**	**107**	**102**	**95**	**89**	**83**	**78**	**73**	68
B3. Exports	**108**	**113**	**121**	**115**	**109**	**102**	**96**	**90**	**84**	**78**	**72**
B4. Other flows 2/	**108**	**109**	**107**	**102**	**97**	**90**	**84**	**79**	**73**	68	63
B6. One-time 30 percent nominal depreciation	**108**	**136**	**130**	**124**	**117**	**110**	**103**	**97**	**90**	**85**	**79**
B6. Combination of B1-B5	**108**	**111**	**114**	**109**	**104**	**98**	**92**	**87**	**82**	**77**	**73**
C. Tailored Tests											
C1. Combined contingent liabilities	**108**	**134**	**130**	**124**	**117**	**110**	**103**	**97**	**91**	**85**	**80**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
					PV of Debt-to-Revenue Ratio						
Baseline	369	365	356	339	317	289	273	254	237	219	203
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	369	372	381	391	395	395	406	413	420	426	433
B. Bound Tests											
B1. Real GDP growth	369	380	392	381	364	339	328	313	300	286	273
B2. Primary balance	369	377	390	371	348	318	302	282	264	245	229
B3. Exports	369	388	418	399	375	343	326	306	286	263	243
B4. Other flows 2/	369	373	372	354	332	303	286	267	249	230	213
B6. One-time 30 percent nominal depreciation	369	465	451	428	402	368	349	327	306	286	267
B6. Combination of B1-B5	369	380	393	375	354	327	312	294	277	260	244
C. Tailored Tests											
C1. Combined contingent liabilities	369	459	449	428	402	369	350	328	308	288	270
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
					Debt Service-to-Revenue Ratio						
Baseline	31	40	46	47	48	49	51	48	45	41	38
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	31	40	47	52	57	63	70	72	73	73	73
B. Bound Tests											
B1. Real GDP growth	31	41	49	52	54	56	59	58	56	52	50
B2. Primary balance	31	40	48	52	53	54	56	54	50	45	42
B3. Exports	31	40	46	49	49	51	52	50	48	46	42
B4. Other flows 2/	31	40	46	47	48	50	51	49	46	42	39
B6. One-time 30 percent nominal depreciation	31	43	54	57	58	60	62	61	59	56	53
B6. Combination of B1-B5	31	40	48	52	53	55	58	56	54	49	47
C. Tailored Tests											
C1. Combined contingent liabilities	31	40	61	62	63	65	67	65	56	51	47
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

Statement by Afonso Bevilaqua, Executive Director for Cabo Verde, Pedro Fachada, Alternate Executive Director, and Carla Cruz, Advisor to Executive Director

October 26, 2020

1. On behalf of our Cabo Verdean authorities, we thank the country team led by Ms. Kabedi-Mbuyi for the comprehensive and candid report. Conducting a virtual program review amid a major health crisis is not an easy task—more so for a small country with limited human resources in the public sector. The authorities are pleased with the result and grateful to the team for their dedication, diligence and perseverance.

2. As in many other small island states, the COVID-19 pandemic is having a severe economic and social impact on Cabo Verde due to its high reliance on tourism. The decline in real GDP this year is projected to be the deepest since the country's independence in 1975. Risks to the outlook remain large given the uncertainties about the duration of the pandemic and its possible long-lasting effects.

3. Despite the health crisis, performance under the Policy Coordination Instrument (PCI) has remained strong. The authorities met entirely or partially all reform targets for the second review, as well as all non-quantitative continuous targets and all quantitative targets for end-March 2020, except for the floor on tax revenues. This last target was missed by a small margin due to the early impact of the COVID-19 outbreak. The authorities remain fully committed to the objectives of the PCI and will redouble their efforts to meet all targets agreed for the third and final review, scheduled to be completed at the beginning of 2021.

Recent Economic Developments in the Aftermath of the COVID-19 Outbreak

4. The COVID-19 pandemic hit Cabo Verde in March 2020, interrupting a period of four years of strong economic and social performance. GDP grew on average close to 5 percent between 2016 and 2019, inflation remained low and stable and fiscal consolidation was initiated, putting both the fiscal deficit and the public debt on a declining trend. Further, international reserves strengthened, and poverty declined while social indicators improved in general.

5. With the spread of COVID-19 in Southern Europe and the identification of the first imported cases in one of the most touristic islands in March, the authorities acted quickly to contain community transmission and address the health and economic emergency. They declared the state of emergency, put in place social distancing guidelines, closed international borders, restricted inter-island travel and suspended non-essential activities.

6. Despite the early efforts to contain the pandemic, the number of cases has increased recently, especially after the authorities decided to ease some restrictions. By mid-October, a total of 87 deaths have occurred and 7,800 cases have been recorded, with majority in Santiago,

the largest and most populous island. Adjusted for population, Cabo Verde remains one of the most affected countries in Sub-Saharan Africa.

7. At the same time, the containment measures and the protracted halt in international travel are having a longer and more profound impact on the economy than anticipated. Recent indicators confirm a challenging economic outlook, with the pandemic taking a heavy toll on GDP in the second quarter (31.7 percent decline compared to the same quarter of 2019). Similarly, in June, consumer and business confidence recorded the lowest level in many years. Against this background, real GDP is projected to contract by 6.8 percent in 2020, comparing to a pre-COVID estimate of a 5 percent expansion.

8. The current account deficit is projected to reach 14.2 percent of GDP in 2020, as compared to a small surplus in 2019. This reversal reflects mainly the collapse in tourism receipts and remittances, although it is partially compensated by the drop in imports. Gross international reserves are estimated by staff to decline to €573 million by end-2020, as compared to €663 million in 2019. On the bright side, despite the unprecedented external shock, reserves are projected to remain at a comfortable level, equivalent to more than 7 months of prospective imports of goods and services, providing confidence about the sustainability of the peg regime, the cornerstone of Cabo Verde's monetary policy.

Policy Responses to the COVID-19 crisis

9. The authorities took significant fiscal and monetary measures to mitigate the impact of the health crisis. Priority was given to save the lives of Cabo Verdeans and support the most vulnerable segments of population. Healthcare and social protection services were expanded, while measures were also put in place to support the informal economy, provide relief to companies, ensure liquidity to the banking system, and facilitate credit creation.

10. In June, the authorities adopted a revised 2020 budget, reflecting both the decline in revenues as well as the expansion of COVID-19 related spending. The overall fiscal deficit is now expected to reach 9.7 percent of GDP, compared to 1.7 percent of GDP estimated at the time of the first PCI review in March. In parallel, the authorities have continued to advance fiscal reforms and improve fiscal monitoring to prevent the accumulation of domestic arrears and tax evasion. Regarding COVID-19 spending, the authorities remain committed to high levels of transparency and the responsible use of public resources. These expenditures are being fully disclosed on the Ministry of Finance official website and will be subject to audits in line with Cabo Verde's legal framework, as highlighted by staff in the report.

11. The banking system is facing the current crisis with strengthened capital buffers and improved operational and risk management standards, which will help mitigate the risks posed by the pandemic. Albeit remaining relatively high, legacy non-performing loans (NPLs) have continued to gradually decrease until the outbreak. The authorities remain alert and are

enhancing supervision to contain vulnerabilities stemming from the ongoing deterioration of the economic environment.

The Economic Outlook Going Forward

12. As expected, the pandemic has reversed the downward path of the public debt/GDP ratio. The authorities envisaged before the crisis a reduction in the ratio to below 100 percent by 2024, through fiscal consolidation and growth-enhancing structural reforms. The exceptional financing needs imposed by the crisis have substantially increased public sector borrowing requirements this year. As a result, the public debt is now projected to increase to 137.5 percent of GDP in 2020, compared to 118.1 percent of GDP estimated in the first PCI review. Over the medium-term, public debt is expected to resume the downward trend as the economic recovery takes hold and fiscal consolidation efforts restart. Nevertheless, it is still expected to remain elevated through 2024 given the need to promote public investment to support the recovery and encourage economic diversification.

13. Medium-term objectives will continue to drive the authorities' policies and reform efforts for the remainder of the year and in 2021. The authorities' key medium-term objectives remain to enhance domestic revenue mobilization, strengthen expenditure management, and advance SOEs reforms to support fiscal and public debt sustainability. The authorities continue to strive to improve the business environment and promote private sector development.

14. As agreed under the PCI, a Strategy Note providing a conceptual framework for the operationalization of the SPIGF (Sovereign Private Investment Guarantee Fund) was prepared by the authorities in April 2020. The SPIGF aims to support private sector investment by facilitating access to financing to capital-intensive projects. The Note and posterior revision define the SPIGF operational framework and governance structure, with particular attention to potential contingent liabilities and implications for public debt. The authorities also prepared a timeline to operationalize the SPIGF before the end of the year, in accordance with the legislation.

15. Unfortunately, the SOEs reforms program had to be delayed because of the health crisis. Considering the constraints generated by the pandemic and retrenchment among potential investors, as well as the objective to maximize revenues, the authorities have rescheduled privatizations originally planned for 2020. The authorities remain attentive to market conditions and expect to resume the program as soon as possible.

Conclusion: Cabo Verde Continues to Count on International Support in this Time of Need

16. The COVID-19 pandemic has exposed Cabo Verde's vulnerabilities to plunges in tourism revenue and lack of economic diversification. Significant risks to a sustained recovery are, on the downside, the uncertainty about the duration and trajectory of the pandemic, and, on the upside, the potential for effective and accessible vaccines that could provide confidence to

travelers. Moreover, a prolonged slowdown in the global economy would exacerbate the negative impact on tourism, remittances, and foreign investment, producing an even stronger economic contraction, as well as higher fiscal and balance of payments needs. As highlighted by staff, climate change and natural disasters also remain important long-term downside risks to the economic outlook.

17. While focusing on addressing the short-term impact of the health crisis, the authorities have been working to lay the foundation for the post-COVID recovery and enhance medium and long-term growth prospects. Despite the substantial challenges posed by the pandemic, the authorities remain committed to the key objectives set in the PCI program. Working towards medium-term fiscal and debt sustainability remains a priority. They continue to value the PCI as a fundamental instrument to support their policy framework and structural reforms agenda, as well as to catalyze external financing.

18. A key element in the authorities' strategy is the debt relief agenda. Considering that Cabo Verde's creditors are mainly multilateral institutions, the IMF's advocacy and engagement for potential debt relief negotiations would be extremely important. The authorities continue to count on international support to overcome this crisis like no other and find the path back to debt sustainability and inclusive growth.