HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

CABO VERDE

Public Debt Projections and Analysis with the Public Debt Dynamics Tool (DDT)

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High-Level Summary Technical Assistance Report
Institute for Capacity Development (ICD)

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: The Direction of Planning (DNP) of the Ministry of Finance has sought Technical Assistance from ICD to help develop capacity for public debt projections and analysis. Pre-scoping and pre-mission meetings revealed that there was no single unit responsible for producing public debt projections. It was agreed that capacity across the MOF would be developed using the Debt Dynamics Tool (DDT), involving extensive virtual engagements, asynchronous pre-mission work and a single in-person mission from October 7 to 11. This note summarizes the main findings and recommendations.

DISCLAIMER

High-Level Strategic Summary: Cabo Verde

Background

- **The Technical Assistance (TA) provided by the International Monetary Fund (IMF) to the Ministry of Finance (MOF) in Cabo Verde aims to enhance the country's capacity for public debt projections and analysis.** Conducted between September and October 2024, this initiative addresses the need for systematic debt analysis, particularly considering the moderate risk of debt distress that Cabo Verde currently faces. By utilizing the Public Debt Dynamics Tool (DDT), the project seeks to improve financial stability and inform future budget discussions.

Key Findings

- *No single unit is responsible for producing public debt projections, although the National Directorate for Planning (DNP) consolidates, projects and publishes the debt. The DNP works through consultations with the Treasury and other International Financial Institutions.* A low level of technical capacity was identified as a significant limitation for effective policy discussions, including those with the IMF Country Team, prompting the request for this TA by the DNP.

- *Given their time constraints, the DNP emphasized the need for a focused capacity development plan to support the 2025 budget discussions.* It was agreed that capacity across the MOF - DNP, Directorate of the Budget (DNOCP) and Directorate of the Treasury (DGT) - would be developed using the Debt Dynamics Tool (DDT), involving extensive virtual engagements, one in-person mission from October 7 to 11, and asynchronous pre-mission work.

- *The project took a piecewise, gradual approach to TA, to accommodate absorption capacity and increase the authorities' buy-in of the tool.* The first step was to populate the DDT with the country's key macroeconomic indicators using the World Economic Outlook (WEO) database. This initial DDT spreadsheet made virtual engagements more engaging, especially given the low initial participation in the online DDTx training. Participants were invited to complete the DDTx training while exploring all scenarios and alternatives discussed using the newly-populated DDT. Despite the initially low attendance, the asynchronous capacity development allowed DNP staff who could not participate in the in-person mission to grasp the main concepts of debt dynamics and understand the DDT. The ICD team also emphasized the importance of online materials after the in-person mission to help staff reassess the content.

- *The TA was successful in achieving its objectives.* Discussions of DDT scenarios by officials demonstrated increased capacity and contributed to a better understanding of debt projections across the MOF. The authorities expressed their willingness to continue using the tool in coordination with the DNP and Directorate of the Treasury (DGT), to publish the results in their next Macroeconomic Report, which is scheduled for release in the first half of 2025, and to incorporate the DDT reports into the 2026 Budget.

Risks and Recommendations

- **The successful implementation of the TA highlights the importance of strengthening the institutional framework for policy making in Cabo Verde**. The busy schedules of the core team may impede the institutionalization of the Debt Dynamics Tool (DDT) for debt projection, analysis, and reporting. This issue was discussed with the authorities, who committed to assigning at least two staff members from each Directorate (DNP, DGT, and DNOP) to coordinate the use of the DDT.

- *To increase the yield of the TA project, the ICD team recommends the authorities to work towards integrating the DDT outputs into the Medium-Term Fiscal Framework and enhancing their macro-forecasting capacity.* Given the authorities' interest in integrating the DDT with their MTFF, ICD will coordinate with the Fiscal Affairs Department (FAD) for future TA. Macro-forecasting capabilities can be enhanced through collaboration with other institutions currently receiving TA. The IMF Monetary and Capital Markets Department (MCM), via its AFRITAC West 2 (AFW2)-based Resident Advisor (RA) is providing Forecast Policy and Analysis System (FPAS) TA to the Banco de Cabo Verde (BCV). The TA project aims to enable the BCV to release forecasts biannually, allowing the MOF to assess the debt trajectory based on BCV forecasts. The team also coordinated with the MCM RA to include MOF staff in the training component of the FPAS TA, to strengthen institutional collaboration.