



TECHNICAL ASSISTANCE REPORT

CABO VERDE

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

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Abbreviations and Acronyms

AFR	IMF African Department
BCV	Cabo Verde Central Bank
CD	Capacity Development
DDT	Public Debt Dynamics Tool
DNP	National Directorate for Planning
DNOCP	Directorate of the Budget
DGT	Directorate of the Treasury
FAD	IMF Fiscal Affairs Department
MCM	IMF Monetary and Capital Markets Department
MOF	Ministry of Finance
GDP	Gross Domestic Product
ICD	IMF Institute for Capacity Development
IMF	International Monetary Fund
LIC DSF	Debt Sustainability Framework for Low-Income Countries
MTFF	Medium Term Fiscal Framework
TA	Technical Assistance

Preface

This document reports on a Technical Assistance (TA) aimed at developing capacity for public debt projections and analysis at the Ministry of Finance of Cabo Verde (MOF) using the Institute for Capacity Development (ICD) Debt Dynamics Tool (DDT) during October 2024. The TA goals were fully accomplished, as officials from the National Directorate of Planning (DNP), the Directorate of the Treasury (DGT) and the Directorate of the Budget (DNOCP) demonstrated their capacity to produce and analyze public debt projections, including through the preparation of public debt reports.

The TA team was comprised of Simone Maciel Cuiabano (mission chief), Daniel Carvalho Cunha (AFR), and María Sofía Anastacio (ICD). Leonardo Martinez (ICD) oversaw content materials. Ms. Ana Carrasco (ICD) provided outstanding administrative support and Mr. Antonio Garcia Pinto (ICD) facilitated the delivery of the online course DDTx. The mission team wishes to thank Mr. Gilson Gomes Pina, who coordinated this project on the MOF side. The team would also like to thank the IMF Cabo Verde country team including Mr. Justin Tyson (Mission Chief), Mr. Rodrigo Garcia-Verdu (IMF Resident Representative), Carlos Alberto Carvalho Furtado (Economist) and Evelyne Cristina Soule Gomes (Senior Administrative Assistant), for their invaluable help and support throughout the project.

Executive Summary

During September and October 2024, the IMF Institute for Capacity Development (ICD) delivered Technical Assistance (TA) to help develop capacity for public debt projections and analysis at the Ministry of Finance of Cabo Verde (MOF). This TA followed a request from the National Directorate of Planning (DNP).

Pre-scoping and pre-mission meetings revealed that there was no single unit responsible for producing public debt projections. Although the DNP consolidated and informed the debt stock and trajectory based on consultations with the Treasury and other International Financial Institutions (IFIs), no debt projections or analyses were conducted systematically. A low level of technical capacity was identified as a key limitation for effective policy discussions, including those with the IMF Country Team, which motivated the request for this TA. Given their time constraints, the DNP emphasized the need for a focused capacity development plan to support the 2025 budget discussions. The ICD team agreed with the authorities that capacity across the MOF would be developed using the Debt Dynamics Tool (DDT), which would involve extensive virtual engagements, asynchronous pre-mission work and a single in-person mission from October 7 to 11.

It was also agreed to develop capacity for public debt projections and analysis across the MOF using the DDT. The simplicity of the DDT allows for rapid capacity development while respecting the time constraints of MOF officials. Furthermore, due to its straightforward design and extensive documentation, including the online course DDTx, the implementation of the DDT would facilitate the training of new staff, thereby building sustainable capacity.

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.

The main risk to the DDT's institutionalization and long-term sustainability of the TA project is core team members' current busy schedules. Strategies to mitigate it include increasing staff commitment for DDT coordination and recorded presentations for broader reach.

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.

Recommendations

Strengthening Public Debt Projections and Analysis		
Number	Recommendation	Reference Paragraph(s)
1	Integrate the DDT with the MTFF	15
2	Enhance macro-forecasting capabilities	16

I. Introduction

Recent Developments In Cabo Verde

1. According to the 2024 IMF Country Report 24/9, Cabo Verde external debt is assessed at moderate risk of debt distress while overall debt is still high. External debt sustainability is attributed to manageable debt service resulting from a favorable debt structure predominantly composed of fixed interest rates, which shields the country from the ongoing global tightening cycle. Continued concessional funding from multilateral creditors is essential to maintain this stability.
2. Cabo Verde has effectively navigated recent shocks, maintaining macro-financial stability with support from international partners. Despite a challenging global environment, the economy rebounded robustly in 2021 and 2022, continuing its strong performance in 2023 and 2024. The near-term growth outlook remains favorable, although the public debt-to-GDP ratio, while declining, is still above pre-pandemic levels. Additionally, climate change poses a significant threat, as Cabo Verde is among the most water-scarce countries globally.
3. In this context, enhancing the capacity to produce public debt projections and analyze risk scenarios is critical. Recent economic developments underscore the need for improved communication and collaboration among government units. Strengthening capacity in public debt analysis will enable authorities to design effective fiscal consolidation strategies that balance short-term recovery needs with long-term fiscal sustainability.

II. Implementation

4. The National Directorate for Planning (DNP) of the Ministry of Finance (MOF) requested Technical Assistance (TA) to enhance capacity for public debt projections and analysis, aiming to improve communication and policymaking. Pre-scoping meetings indicated that no single unit is responsible for producing public debt projections, although the DNP consolidates and informs the debt stock and trajectory through consultations with the Treasury and other International Financial Institutions (IFIs). 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. Given 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 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.

Pre-Mission Work

5. After a virtual meeting with DNP staff, a broad group of Ministry of Finance (MOF) officials was selected to participate in this Technical Assistance (TA). Twenty-seven officials from three divisions were invited: the National Directorate for Planning (DNP), the Directorate of the Budget (DNOCP), and the Directorate of the Treasury (DGT).

6. In several virtual scoping discussions, authorities highlighted how capacity building within this TA could enhance public debt projection and analysis. Prior to this project, no single unit was responsible for producing public debt projections, although the DNP consolidated and informed the debt stock and trajectory through consultations with the Treasury and other International Financial Institutions (IFIs). The DGT monitored debt payments, while the DNOCP prepared budgets in coordination with the DNP and managed sovereign guarantees. Officials stressed the need for sustainable capacity development in light of high staff turnover.

7. It was agreed with the authorities to develop capacity for public debt projections and analysis across the MOF using the Debt Dynamics Tool (DDT). The DDT's simplicity allows for rapid capacity development while accommodating the time constraints of MOF officials. Additionally, its extensive documentation, including the online course DDTx, facilitates training for new staff, thereby building sustainable capacity.

8. The first step to enhance capacity, communication, and policymaking was to populate the DDT with national data using macroeconomic indicators sourced from the World Economic Outlook (WEO). This initial DDT spreadsheet made virtual engagements more lively, especially given the low initial participation in the DDTx training. Authorities approved the populated data and baseline scenario, which included a target of a 60% debt-to-GDP ratio to be achieved over ten years. The template was later updated to include data on sovereign guarantees, allowing for the creation of alternative risk scenarios based on these guarantees.

9. Participants were invited to complete the DDTx training while exploring various scenarios discussed using the newly-populated DDT. Despite an initially observed low participation, asynchronous capacity development enabled DNP staff to grasp key concepts of debt dynamics and understand the DDT. The

team emphasized the importance of online materials after the in-person mission to help staff reassess the content.

In-Person Mission

10. Twenty-one officials from the MOF participated in an in-person mission, utilizing the DDT populated with Cabo Verde data. The Directors of the DNP and DNOCP supported the workshop, engaging extensively in the exercises and group presentations. Participants were divided into two groups, each presenting their analysis of public debt projections for Cabo Verde at the mission's conclusion. The mission schedule is included in Annex I, the list of participants in Annex II, and the logical framework in Annex III.

11. Participants worked with the Gross Financing Needs modules of the DDT, simulating scenarios using their own data on sovereign guarantees. These modules were not covered in the DDTx and were introduced during the mission. Participants prepared a debt report for Cabo Verde, considering: i) the macroeconomic data used in the 2025 budget; ii) the impact of domestic guarantees on the debt trajectory; and iii) an alternative scenario involving a natural disaster shock, such as the 2017 volcano eruption. They used the tool's results to discuss how these events could affect the fiscal outlook and inform the design of fiscal consolidation paths.

12. Group presentations reflected increased capacity across the MOF. The discussions yielded significant insights for policymaking. For instance, the analysis of historical debt drivers showed that the debt trajectory is highly sensitive to changes in GDP, especially in Cabo Verde's tourism-dependent economy. The favorable interest rate environment presents an opportunity for financing important development projects that could diversify the economy. Participants concurred that a long-term consolidation strategy is essential to support the country's ambitious growth agenda.

13. MOF staff recognized that the DDT could enhance debt projections and analysis within the ministry. Authorities valued the DDT for its insightful reports and clear policy recommendations. Although the reports prepared by the team could not be incorporated into the 2025 Budget document, the authorities expressed their commitment to continue using the tool at both the DNP and DGT. They plan to publish results in their upcoming Macroeconomic Report, scheduled for release in the first half of 2025, and to integrate DDT reports into the 2026 Budget.

III. Risks and Recommendations

14. 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. Additionally, the recording of the group presentations will allow more MOF staff to follow the discussions on Cabo Verde and subsequently complete the DDTx course.

15. Further integration of the DDT outputs into the MTFF could leverage the return of this project. Given the authorities' interest, ICD will coordinate with the Fiscal Affairs Department (FAD) for future TA. Previous FAD's TA in Cabo Verde supported the preparation of this TA by ICD. Continued collaboration is anticipated to facilitate the integration of the MTFF and the DDT, as well as to address projections related to domestic guarantees and fiscal risks

16. Furthermore, 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.

IV. Conclusions

17. MOF officials expressed their satisfaction with the TA results. They found the analysis and discussions on Cabo Verde's public debt during the mission highly beneficial. Officials confirmed that using the DDT has enhanced their understanding of the public debt situation. The Director of the DNP appreciated the support from ICD and stated that the DDT will be used to regularly communicate public debt projections throughout the Ministry, including in their upcoming Macroeconomic Report, scheduled for release in the first half of 2025, and to incorporate DDT outputs into the 2026 Budget.

18. The TA team will continue to support the authorities in their integration of the MTFF with the DDT, as well as in enhancing their macro-forecasting capabilities. ICD will coordinate with the FAD to facilitate this integration, along with projections for domestic guarantees and fiscal risks. The team will also collaborate with the AFW2-based RA from MCM to explore including MOF staff in the training component of the TA to strengthen institutional collaboration.

Annex 1. Mission Schedule

INTERNATIONAL MONETARY FUND Institute for Capacity Development (ICD) TA Mission on Public Debt Projections and Analysis October 7-11, 2024 Final Agenda¹		
Monday, October 07 – Arrival at Praia		
Tuesday, October 08		
9:30 a.m. – 10:00 a.m.		Preparatory Meeting Sr. Gilson Pina, Director of Planning Sra. Simone Maciel Cuiabano, Senior Economist, ICD Sr. Daniel Cunha, Economist, AFR Sra. Maria Sofia Anastacio, ICD
10:00 a.m. – 12:30 p.m.		P1- Introduction to the DDT and Macroeconomic Linkages
2:00 p.m. – 5:00 p.m.		P2 – Projection of debt/GDP ratios Group Work: Building a baseline scenario for Cabo Verde Report preparation
Wednesday, October 09		
9:00 a.m. – 10:00 a.m.		2025 Budget Presentation – Palace of Government Sr. José Ulisses de Pina Correia e Silva, Prime Minister Sr. Olavo Correia, Vice-Prime Minister, Ministry of Finance and Business Development and Minister of Digital Economy Sr. Gilson Pina, Director of Planning

¹ 15 minutes breaks.

10:30 a.m. – 12:30 p.m.		P3- Budgetary adjustment routes to achieve the debt target
2:00 p.m. –5:00 p.m.		P4 – Budgetary adjustment routes to achieve the debt target P5 – projection of other flows and public guarantees.
Thursday, October 10		
9:00 a.m. – 12:00 p.m.		P6 - Realism and stress tests Group Work: continuation of the analysis of the DDT tool
2:00 p.m. – 5:00 p.m.		Atelier: alternative scenarios with the DDT tool Group work: report preparation and finalization (cont.)
Friday, October 11		
9:00 a.m. – 11:30 a.m.		Group Presentations End of the mission <i>Discuss DDT implementation, next steps and lessons learned</i>
11:30 a.m. – 12:30 p.m.		Meetings with the Planning Department <i>Discuss the DDT implementation, data maintenance, coordination with other IMF CD missions and conclude scoping.</i>
14:00 p.m. – 16:00 p.m.		Team debriefing

Annex 2. List of Participants

NO	NAMES OF PARTICIPANTS	DIRECTORATE/DEPARTMENT	EMAIL ADDRESS
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Annex 3. Results Framework

Objective: Develop capacity in macroeconomic forecasting and policy analysis to support policy decision making and communications - MFR			
Outcome: Improved analytical skills, and better macroeconomic forecasting and policy analysis capacity			
Annual Assessment Rating: 4 Fully Achieved			
Annual Assessment Narrative: The core team, comprising staff from the Directory of Planning, Treasury and Budget completed the DDT training in person. Those who could not attend the in-person training completed the online DDTx. The team produced a baseline debt projection and alternative scenarios considering a disaster and different macroeconomic projections, prepared two reports and presentations, followed by policy discussions.			
Outcome Rating Date: 10/17/2024			
Outcome Indicator	Baseline Value	Target Value	Current Assessment Value
Relevant staff have successfully completed agreed training delivered via various modalities (online, classroom courses, workshops)	0	100	100 as of 10/17/2024
Milestone Name	Target Completion Date	Milestone Actual Completion Date	Milestone Rating
Core team completed the course on DDT	10/4/2024	10/11/2024	4 Fully Achieved as of 10/17/2024
Core team is capable of producing a baseline public debt projection, analyze it and produce a public debt report with a baseline and alternative scenarios	12/31/2025	10/11/2024	4 Fully Achieved as of 10/17/2024