TECHNICAL ASSISTANCE REPORT

CABO VERDE

Operationalizing Macroprudential Policy

April 2026

Prepared By

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Glossary

AFW2	IMF African Regional Technical Assistance Centre in West Africa 2
BCV	Bank of Cape Verde
CAR	Capital Adequacy Ratio
CCB	Capital Conservation Buffer
CCyB	Counter-cyclical Capital Buffer
CD	Capacity Development
CRC	Central Credit Register
CTAM	Commission for Macroeconomic Monitoring
D-SIBs	Domestic Systemically Important Banks
DSTI	Debt Service to Income
ELA	Emergency Liquidity Assistance
ESSD	Economic Studies and Statistics Department of the BCV
FSC	Financial Stability Committee
FSR	Financial Stability Report
FSSR	Financial Sector Stability Review
FX	Foreign Exchange
GDP	Gross Domestic Product
HQLA	High-Quality Liquid Assets
IMF	International Monetary Fund
INE	Instituto Nacional de Estatística (National Statistical Office)
INPS	National Institute of Social Security (Instituto Nacional de Previdência Social)
LCR	Liquidity Coverage Ratio
LTI	Loan-to-Income
LTV	Loan-to-Value
MOF	Ministry of Finance
MoU	Memorandum of Understanding
MPC	Monetary Policy Committee
MSRO	Macroprudential Supervision and Resolution Office
NFSC	National Financial Stability Committee
NSFR	Net Stable Funding Ratio
NPL	Non-Performing Loans
PNCCyB	Positive Neutral Counter-cyclical Capital Buffer
PSE	Public Sector Enterprises
SRB	Systemic Risk Buffer
URR	Unremunerated Reserve Requirements

Preface

In response to a request from the Central Bank of Cabo Verde (BCV), a team from the International Monetary Fund (IMF) Monetary and Capital Markets (MCM) Department conducted a hybrid[1] mission from March 19 to 28, 2025, to provide assistance in operationalizing macroprudential policy and enhancing capacity for monitoring vulnerabilities.

The mission met with Mr. Óscar Santos (Governor, BCV), Ms. Maria Tereza Henriques (Executive Director, BCV), Ms. Vania Cardoso Marta (Coordinator of the Macroprudential Supervision and Resolution Office), Mr. Gilson Pina (Director of National Planning, Ministry of Finance (MOF)), Ms. Soeli Santos (Director of Treasury, MOF), staff from Macroprudential Supervision and Resolution Office, Microprudential Supervision Department, Economics and Statistics Department, Markets and Reserve Management Department, Insurance and Pension Fund Supervision Office, Legal Department, Board of National Institute of Social Security (INPS), and executives of domestic and foreign banks.

The mission extends its gratitude to the Governor, senior officials, and staff of the BCV and the MOF for their excellent cooperation and exceptional hospitality.

[1] Vina Nguyen (IMF) joined the mission remotely, while Martin O'Brien (STX) attended in person.

Executive Summary

Cabo Verde's macroprudential policy legal framework is robust and nearly complete even if the toolkit is still at an early stage. Currently, the Banco de Cabo Verde (BCV) is the designated macroprudential authority. The BCV has developed a macroprudential strategy, and initiated passage of a new Organic Law to solidify the responsibilities and powers of the BCV for financial stability purposes. However, the law has yet to be passed by parliament. Despite facing challenges related to staffing constraints, the authorities have made commendable progress following the 2022 Financial Sector Stability Review (FSSR) mission. Notably, the BCV has issued a Domestic Systemically Important Banks (D-SIBs) framework, which mandates an additional capital buffer for systemically important banks. Other standard macroprudential tools, ranging from broad-based to sectoral, have yet to be introduced.

This mission, the first follow-up after the FSSR, assisted the authorities in multiple areas to operationalize macroprudential policy. The mission reviewed the roles of BCV departments, proposed a division of labor, and made recommendations for policy processes within BCV and with other agencies. The mission also assessed BCV's communication regarding macroprudential decisions, suggested improvements, evaluated the systemic risk assessment framework, identified data gaps, and provided guidance on key indicators. Additionally, it reviewed the macroprudential toolbox, its interaction with microprudential measures, and suggested additional instruments to enhance resilience against vulnerabilities in Cabo Verde's financial system.

It's important to finalize the macroprudential institutional framework in Cabo Verde. Passage of the new Organic Law would solidify the legal basis for the BCV to serve as the macroprudential authority. Further steps are also needed to operationalize the framework. The authorities already initiated a restructuring process to strengthen the BCV's capacity for systemic risk monitoring and macroprudential policy. Maintaining the macroprudential focus involves updating the BCV Financial Stability Committee (FSC)'s mandate to focus on macroprudential matters, establishing a clear multi-department work plan led by the Financial Stability Office, and increasing the frequency of FSC meetings to accommodate a bi-annual macroprudential policy cycle. Elevating the Financial Stability Office to a Department would be in line with its importance. A formal mechanism for information sharing and policy discussions is important. This can be achieved by creating a regular meeting schedule for the existing technical committee, enhancing resource allocation, implementing a proactive internal mobility regime, and establishing a multi-department annual work plan for the FSC. Meanwhile, the National Financial Stability Council (NFSC) can be revived to serve as a forum for policy coordination between the BCV, the Ministry of Finance (MOF) and other relevant parties.

Macroprudential policy strategy and communication should be enhanced. Currently, the published macroprudential policy strategy is generic, listing many possible tools based on other countries' experiences. A greater focus based on Cabo Verde's unique characteristics and suitable tools would be more helpful. Developing a clear and effective communication strategy for the BCV can help ensure consistency in the policy framework, objectives, and tools. To improve communication effectiveness and reach, the authorities should utilize multiple channels, tailoring various styles of communication to different audiences.

The mission recommended further improvements in the systemic risk monitoring framework. A more refined systemic risk assessment will facilitate policy decision-making and communication, enhancing effectiveness despite current resource constraints. The current monitoring toolkit is relatively basic, relying on an annual stress test and aggregate indicators such as the credit gap and a few quarterly indexes such as a Banking Soundness, Financial Vulnerability, External Economic Climate, and Financial Stability index. However, the results and interpretations of these indicators are not integrated into the policy narrative and decision-making processes. Several existing indexes could be enhanced by incorporating asset prices along with developing a more comprehensive financial conditions index.

Data underpinning the risk assessment should reflect both the stock and the flows of key assets and liabilities of the banking system. This should include details on terms and conditions, pricing, maturities, and more accurate counterparty characteristics (e.g., economic and institutional sector, collateral values, borrower incomes, etc.). Additionally, data relevant to broader macro-financial conditions, such as labor market and real estate market conditions, should be improved. While BCV staff have explored innovative solutions, further collaborations with the National Institute of Statistics (INE) could be considered, utilizing administrative data sources or, in case of real estate prices, scraping relevant details from property sales websites.

Significant improvements in data management are important to support systemic risk assessment. Completing the upgrade to the Central Credit Register (CRC) should be prioritized, along with enforcing data quality standards by reporting entities. The management of the BCV's existing datasets needs substantial improvement, as staff's ability to analyze developments in systemic risk and inform policy development is hampered by an insufficient internal data management platform. Moving existing and newly available data into a centralized data warehouse would allow staff to analyze time series of key variables. This will also promote cross-checking to enhance data quality and consistency across various sources. In the absence of a harmonized BCV-wide solution, prioritizing data management skills in near-term recruitment for the Financial Stability Office should be considered.

To address the current lack of macroprudential policy instruments, the BCV should explore introducing capital, liquidity and borrow based tools. While the current minimum capital requirement is higher than Basel standards at 12 percent, the framework lacks buffers that could be released during downturns. Introducing the Capital Conservation Buffer (CCB) and Counter-cyclical Capital Buffer (CCyB) framework will benefit Cabo Verde. Due to challenges in estimating the credit gap, data inadequacies, and structural macro-financial characteristics that could amplify cyclical shocks, the BCV could consider setting a non-zero neutral rate for the CCyB, erring on the side of more precautionary buffer. Over time, the BCV may also consider an additional Systemic Risk Buffer (SRB), as needed to cover any specific systemic risks that are being identified and not covered by the D-SIB buffer and the CCyB. Implementing the Liquidity Coverage Ratio (LCR) framework will improve liquidity stability amid high deposit concentration and a nascent interbank market. Capital and liquidity tools can be complemented with borrower-based measures, starting with the introduction of a Loan-to-Value (LTV) limit.

Future follow-up TA missions to support the authorities in calibrating and implementing the macroprudential tools would be particularly beneficial. Meanwhile, the authorities will continue to benefit from planned TA missions on the adoption of Basel III standards.

Recommendations

Table 1. Key Recommendations

Recommended Actions	Institutions	Priority	Timeframe[1]
Macroprudential Framework			
1. **Finalize the legal framework** for the BCV as the macroprudential authority. Expedite the discussion and voting on the new Organic Law in Parliament to strengthen the macroprudential framework (¶13, 14, 24).	BCV, MOF, and Legal Departments at both institutions	H	I
2. **Improve the institutional arrangement for macroprudential policy** in the BCV: (1) Update the mandate and operation of the BCV Financial Stability Committee to ensure the coverage of macroprudential matters. (2) Increase the frequency of FSC meetings to accommodate a bi-annual macroprudential policy cycle. (3) Elevate the soon-to-be Financial Stability Office to a Department. (¶19, 25)	BCV, FSC, Macroprudential Supervision and Resolution Office	H	S-to-MT
3. **Enhance coordination** between the BCV and MOF for information sharing and policy discussion. Create a regular meeting schedule for the existing technical committee Technical Commission for Macroeconomic Monitoring (CTAM) and revive the National Financial Stability Council (NFSC) as a forum to discuss policies impacting financial stability. (¶21, 22, 23, 26, 27)	BCV, MOF	H	MT
4. **Enhance resource allocation** to achieve the macroprudential mandate: (1) Implement a proactive internal mobility regime to ensure experienced colleagues could contribute to the Financial Stability Office; (2) Establish a multi-Department annual work plan for the FSC, led by the Financial Stability Office in consultation with others; (3) Prioritizing filling two existing vacancies in the Financial Stability Office with complementary skills in data management and analytics as well as policy experience. (¶16, 25)	BCV, Macroprudential Supervision and Resolution Office	M	MT
Macroprudential Strategy and Communication			
5. **Further tailor macroprudential policy strategy** to Cabo Verde's specifics, clearly linking objectives, risks, and tools as the current document is generic. Present the document as a webpage with hyperlinks to existing data and systemic risk monitoring approaches, with an optional PDF download. (¶38, 43)	Macroprudential Supervision and Resolution Office	M	ST

Table 1. Key Recommendations (continued)

Recommended Actions	Institutions	Priority	Timeframe[1]
6. **Develop an overall communication strategy for the whole BCV** by consulting with media experts, ensuring consistency in the policy framework, objectives, tools, and their communication. Develop a communication plan for each publication (¶44)	BCV, Macroprudential Supervision and Resolution Office, Communication Office	M	MT
7. **Improve the narratives in publications beyond data description.** Release data on a fixed schedule via the website and portal while dedicating the publications to assessment and analysis. Ensure publications are timely, forward-looking, and consistent in messaging and design. (¶40, 45)	Macroprudential Supervision and Resolution Office, Communication Office	M	MT
8. **Develop a communication strategy for macroprudential policy decision.** Display documents as text directly on the website with an option to download PDFs. Layer publications to include simple summaries, opinion blogs, detailed analyses, and visual cues. Enhance media appearances and outreach efforts alongside flagship publications to improve accessibility. (¶44)	Macroprudential Supervision and Resolution Office, Communication Office	M	MT
Systemic Risk Monitoring and Data Collection			
9. **Set up a bi-annual macroprudential policy cycle for the FSC** that includes updating systemic risk assessment, and policy considerations to keep resilience levels in line with the identified risks, based on the intermediate objectives set out in the Macroprudential Strategy. (¶19)	BCV, Financial Stability Committee, Macroprudential Supervision and Resolution Office	H	MT
10. **Enhance the systemic risk assessment** by focusing on both stocks and flows of key assets and liabilities. To achieve this, prioritize updating the CRC, enforce minimum data quality standards, and ensure staff in key departments can access and analyze CRC and other financial data through a central data platform. Continue improving data quality and consistency. (¶57, 58)	Macroprudential Supervision and Resolution Office, Microsupervision Prudential Department, Economics and Statistics Department	H	MT

Table 1. Key Recommendations (concluded)

Recommended Actions	Institutions	Priority	Timeframe[1]
11. **Collect data on the real estate and labor market more systematically**, including through influencing/supporting development of such data by the INE based on administrative data. In the absence of structured administrative data, alternative options should be implemented in BCV (e.g., scraping property price and characteristics data from property sales websites). (¶59, 60)	Institute of National Statistics, Macroprudential Supervision and Resolution Office, Microsupervision Prudential Department, Economics and Statistics Department	H	MT
12. **Strengthen composite measures of systemic risk and stress testing capacity in conjunction with relevant departments.** Consider heatmap representations of indicators to inform the evaluation of the systemic risk environment and levels of systemic resilience. (¶19)	Macroprudential Supervision and Resolution Office, Economics and Statistics Department	M	MT
Macroprudential Tools			
13. **Introduce the CCB and a CCyB framework.** Potentially consider a non-zero cycle-neutral CCyB to address macro-financial structural vulnerabilities. (¶63 - 66)	Macroprudential Supervision and Resolution Office	M	MT
14. **Introduce LTV limits for mortgages.** Refine limit calibration as more data become available. (¶70)	Macroprudential Supervision and Resolution Office	M	S-to-MT
15. **Introduce LCR framework with highly differentiated runoff rates across sight, term, and lumpy deposits.** Issue guidance for banks to implement a penalty for early withdrawal of term deposits, proportional to the amount. Ensure coordination with microprudential supervision authority. Adopt the definition of high-quality liquid assets (HQLA) according to Basel III to allow for the calculation of LCR. (¶73–75)	Macroprudential Supervision and Resolution Office, Microsupervision Prudential Department	H	MT

[1] Note: Immediate—refers to within three months; short-term—three months to one year; and medium-term—one to three years. H, M, L—refer to High, Medium, and Low priorities

I. Background

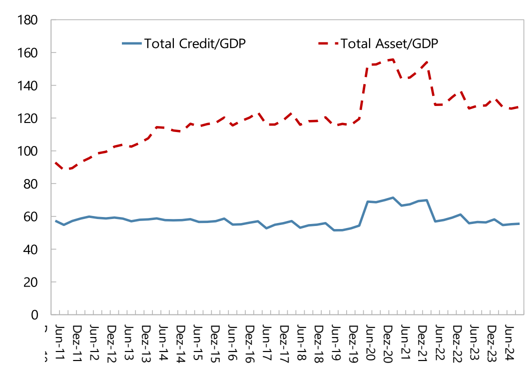
1. **Cabo Verde is a fast-growing but shock-prone economy**. It has rebounded strongly after the Covid 19 pandemic, driven by a resurgence in tourism, robust export performance, as well as private consumption growth.[2] However, Gross Domestic Product (GDP) growth remains volatile due to its reliance on tourism and susceptibility to geopolitical and climate-related shocks. For example, droughts, sea level rise, and natural disasters may impact the long-term outlook through potential damage to coastal infrastructure and tourism.[3]

2. **Monetary policy in Cabo Verde is focused on safeguarding the conventional peg to the euro.** The BCV aims to ensure convertibility of the Cabo Verde Escudo and create conditions for price stability. This includes safeguarding the peg's credibility by targeting a level of net international reserves sufficient to cover short-term external liabilities. During the COVID-19 pandemic, monetary policy was accommodative. However, since 2023, it has been tightened to narrow the interest rate differential and maintain the peg.

3. **The financial sector is highly concentrated, with eight banks holding assets equivalent to 127 percent of GDP by end-2024**. The financial system is predominantly bank-based, with virtually no presence of non-bank financial institutions. Two systemically important banks dominate the industry in terms of assets and deposits[4]. Of these, one is state-owned, including a significant shareholding by the Cape Verdean social security fund (INPS), and the other has a majority shareholding from a Portuguese state-owned bank. The remainder of the system has five foreign-owned subsidiaries of Portuguese, pan-African and Gulf banking groups or private investors, and a domestically owned bank.

4. **Since the Global Financial Crisis, bank credit to GDP has been relatively stable (Figure 1).** While the banking system is generally resilient to liquidity risk, the high dependence on deposits from INPS posed challenges at the end of 2023 when INPS auctioned some of its deposits among the banks, causing liquidity concerns for certain banks[5]. Financial stability risks may also arise from large sovereign exposures, high nonperforming loans (NPLs) for some banks, and high credit and deposits concentration for most banks.

Figure 1. Bank Assets and Credit to GDP (Percent, 2010–24)



Source: Banco de Cabo Verde.

[2] [IMF Executive Board Completes Fifth Review Under the Extended Credit Facility Arrangement and Second Review Under the Resilience and Sustainability Facility Arrangement for Cabo Verde](#).

[3] [Cabo Verde Economic Outlook | African Development Bank Group](#)

[4] The sale of Portugal's Caixa Geral de Deposito's majority share in Banco Comercial Atlântico is nearing completion, pending approval from the Central Bank of Cabo Verde.

[5] INPS represents just 20 percent of total system deposits, but for some banks the share of INPS deposits in their total deposits is much higher.

5. **Cabo Verde's macroprudential legal framework is robust and nearly complete even if the toolkit is still in its early stages.** The BCV has developed a macroprudential strategy and a new Organic Law, which further clarifies the responsibilities and powers of the BCV for financial stability purposes, combining elements of previous laws to solidify the central bank as the macroprudential authority. Nonetheless, under the previous Organic Law and other relevant legal frameworks, the BCV was already designated as the sole macroprudential authority. The new law is close to being passed by parliament. Following the FSSR recommendations, the BCV has issued a D-SIBs framework, mandating additional capital buffers for systemically important banks. Most of the standard macroprudential tools, ranging from broad-based to sectoral tools, have yet to be introduced. The banking system currently adheres to a mix of Basel I and II standards while the project to adapt Basel III is just commencing. Although the toolkit is still limited, Cabo Verde aligns with other small island nations such as Mauritius and Seychelles (Annex II).

6. **The core task of this mission was to support the authorities in developing the macroprudential framework, monitoring vulnerabilities, and implementing macroprudential policies.** The mission reviewed the roles and responsibilities of different BCV departments in formulating macroprudential policies, proposed a division of labor, and developed recommendations on the policy process within the BCV structure and with other agencies to operationalize the macroprudential framework. It also reviewed BCV's communication of macroprudential decisions and suggested improvements where necessary. Additionally, the mission assessed the authorities' systemic risk assessment framework, identified data gaps for monitoring vulnerabilities, and provided guidance on important indicators for monitoring and supporting policy decisions, including those linked to the authorities' intermediate objectives. Finally, the mission reviewed the authorities' macroprudential toolbox, its interaction with existing microprudential tools, and suggested additional tools to build resilience against vulnerabilities relevant to Cabo Verde's financial system.

7. **Progress has been made on several recommendations from the 2022 FSSR** (Annex I). However, due to limited resources and experience, many recommendations related to data collection, analysis, and systemic risk monitoring are still ongoing. The authorities appreciated this mission’s deliverables, and both senior management and staff actively engaged in the process.

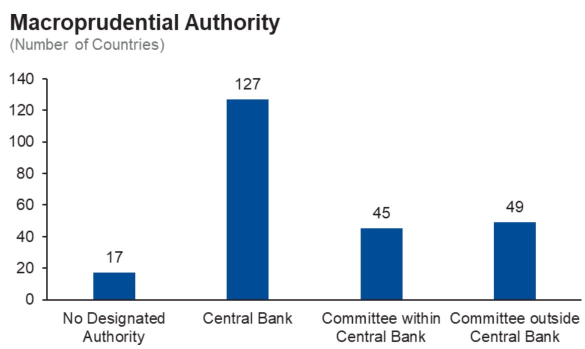
II. The Macroprudential Framework in Cabo Verde

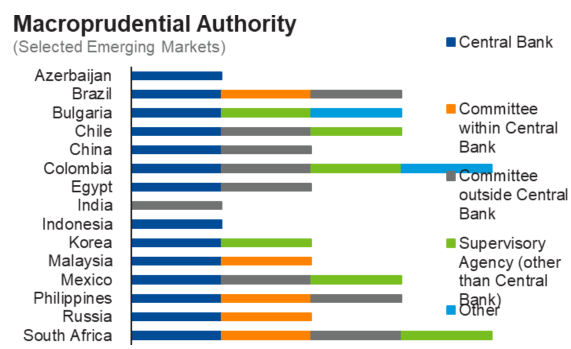
A. Institutional Framework

8. **Formal institutional arrangements are essential to ensure effective macroprudential policies**. A strong institutional framework should generate the willingness to act and thereby overcome the potential policy inaction bias that results from the upfront cost of policy actions in comparison to their long-term benefits. Institutional arrangement also needs to foster the ability to act when systemic risk is building up. Finally, the framework needs to promote effective cooperation and coordination between institutions involved in financial stability. This section evaluates the current institutional arrangement against these three key principles, which are set out in the IMF's Staff Guidance Note on Macroprudential Policy.

9. **There is not a one-size-fits-all template for macroprudential framework across countries but a clearly defined authority is considered best practice**. In most jurisdictions, responsibility and power lie exclusively in the central banks (Figure 2). Elsewhere, responsibilities are divided between the central bank, prudential regulators and government ministries[6]. Among other large emerging markets, almost all designate the central bank as the macroprudential authorities alongside a committee that is either within or outside the central bank. In a small economy with limited capacity like Cabo Verde, having more centralized authority could also be more beneficial. Whatever macroprudential frameworks are in place, it is important that they allow policy responses to adapt as new vulnerabilities emerge. Moreover, it is important for the institutional framework to foster three main desirables: the policymaker's willingness to act, their ability to act, and the effectiveness of coordination and cooperation.

Figure 2. Cross-Country Experiences with Macroprudential Authorities





Source: Macroprudential Survey, IMF 2023.

[6] For example, in Australia the Australian Prudential Regulation Authority exercises macroprudential powers, and the Reserve Bank of Australia has an implicit financial stability mandate. In Switzerland, the Financial Market Supervisory Authority and the Swiss National Bank play monitoring and surveillance functions, while the Federal Department of Finance reserves for itself most macroprudential power.

Intermediate Objectives

10. Macroprudential policy complements other policies, including monetary policy and microprudential policy. Macroprudential policies target the stability of the whole financial system where monetary policy tools may not be best suited given the price stability mandate. Without an independent monetary policy, macroprudential policy is even more crucial for Cabo Verde. Meanwhile, microprudential policy can best respond to idiosyncratic risk even in countries that have a strong supervisory approach and prompt policy reaction to risks. Tensions may arise among these policy tools, for instance, between price stability and financial stability, or when macroprudential policy tools need to be relaxed in downturns but this needs at the same time uphold microprudential minima. Since macroprudential policy is the use of primarily prudential tools to contain systemic risk (IMF 2013, 2014, IMF/FSB/BIS 2016[7]), many macroprudential tools are prudential in nature—and thus well-known—but are now being considered with financial stability objectives in mind.

11. The macroprudential strategy devised by the BCV has adopted the three intermediate objectives for macroprudential policy, in line with IMF guidance and incorporating elements from European guidance[8] to countries. First, to enhance the resilience of the financial system to aggregate shocks, it is essential to build capital and liquidity buffers that ensure the system's ability to provide credit, transfer risk, and smooth consumption under adverse conditions. Second, to contain the build-up of systemic macro-financial vulnerabilities over time involves reducing procyclical feedback between asset prices and credit, containing excessive increases in credit and leverage, and mitigating the emergence of excessive maturity or Foreign Exchange (FX) mismatches and market illiquidity. Third, controlling structural vulnerabilities within the financial system requires managing risks from market characteristics, including interlinkages that can render institutions "too important to fail," due to misaligned incentives and exposure concentration.

12. Cross-country experiences show that macroprudential policy typically encounters two main challenges. The first challenge is the bias towards inaction or insufficiently forceful and timely action, known as *inaction bias*, which is compounded when macroprudential policy is subject to lobbying by the financial industry and political pressures. The underlying reason for this inaction bias is that the benefits of policy decisions only accrue in the future and are difficult to measure, while the costs of actions are more visible and felt immediately by financial firms and borrowers. The second challenge is the dynamic nature of the financial system, where the level, source, and distribution of systemic risk are constantly changing. The financial system evolves to seek profitable opportunities, responding to financial innovations, regulatory constraints (leakage problem), and distortions caused by other policies (e.g., fiscal distortions that favor debt). This dynamic evolution can open up "policy gaps" and requires coordination across policy fields (Nier, 2011[9]).

Ability to Act

13. The "hard power" granted to the BCV has afforded its ability to act. Since the capacity to act is closely tied to the regulatory powers vested in each financial regulator, it is crucial that the BCV has the

[7] IMF, 2013, "Key Aspects of Macroprudential Policy", IMF 2014, Staff Guidance Note: Main note, 2016 IMF-FSB-BIS paper on International Experiences: IMF-FSB-BIS 2016

[8] European Systemic Risk Board Recommendation 2013/1 on the intermediate objectives of macroprudential policy.

[9] Nier, Erlend, 2011, "Macroprudential Policy - taxonomy and challenges"

necessary legal frameworks to identify, monitor, and assess systemic risks, and to adopt measures to prevent, mitigate, or reduce these risks, thereby strengthening the financial sector's resilience. Additionally, as regulators, the BCV should have the authority to issue binding regulations. In a bank-based financial system like in Cabo Verde, as historical experiences have demonstrated, the BCV is best placed to take on these responsibilities.

14. **In fact, the current Organic Law[10] of the BCV, in place for more than two decades, already designates the BCV as the sole macroprudential authority**. The law is being updated to further clarify the BCV's objectives, emphasizing price stability as the primary objective and financial stability as the secondary objective, and to ensure the financial independence of the BCV including by reinforcing its capital. The new Organic Law will also ensure consistency across several laws governing the financial system[11]. These amendments to the previous Organic Law of the BCV—broadly aligned with IMF recommendations—aim to enhance the central bank's autonomy, accountability, and transparency. These reforms include increasing BCV's capital, regulating government recapitalization, formalizing leadership appointments, clarifying its price stability mandate, strengthening its resolution and oversight framework, improving systemic risk management, and adopting guidelines that are more consistent with the IMF's Central Bank Transparency Code. Notably, the amendments introduce a majority non-executive (independent) board to establish a decision-making structure independent of executive management. Under the new Organic Law, the BCV will continue to be responsible for defining and implementing macroprudential policy. With a stronger capital position and automatic recapitalization by the government, the BCV could carry out its tasks more independently. The BCV can continue issuing determinations, alerts, and recommendations to public or private authorities and entities to achieve these objectives, in accordance with applicable existing legislation. To carry out these tasks, the BCV will also establish cooperation mechanisms with other public authorities and entities, as per the relevant laws. These changes in the new Organic Law received general approval in May 2025 and are now pending final parliamentary approval.

15. **The governance structure of the BCV ensures a high degree of independence in macroprudential policy (Figure 3)**. The Executive Board, chaired by the Governor, comprises five members, each oversees various departments and offices.[12] The Microprudential Supervision Department and the Macroprudential Supervision and Resolution Office fall under the purview of different Executive Directors. The Advisory Board, without voting power, consists of the Governor, former Governors, three external members, and financial system representatives.[13] Under the new Organic Law initiated by the authorities, the governance structure will be restructured to include a Supervisory Board and a Board of Directors, with the Governor and one Vice Governor serving on both. The Board of Directors will have three EDs, while the Supervisory Board will have three other non-executive members, who cannot be from the MOF. The Supervisory Board is mandated to oversee the budget, capital, strategic planning, the audit, and annual report of the BCV, while operational matters will be managed by the Board of Directors. Instead of having the Advisory Board and the Fiscal Council as two ad-hoc bodies,

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[10] The current Organic Law was approved by Law No. 10/VI/2002, of 15 July, and amended by Law No. 84/IX/2020, of 4 April.

[11] Law No.61/VIII/2014–the Financial System Framework Law and Law No. 62/VIII/2014 on Financial Activities and Institutions–Articles 89-101 also assigned the BCV the role of macroprudential supervisor.

[12] Offices are headed by coordinators and generally smaller than departments.

[13] The Fiscal Council, another advisory body, includes the EDs and three members selected by the Council of Ministers.

the new structure formalizes the role of non-executive members in the Supervisory Board. There is also a clear delineation of responsibilities between the Board of Directors and the Supervisory Board. Overall, the new structure places greater emphasis on operational independence, particularly through the appointment process and terms of senior officials. Striking the right balance between accountability, independence, and responsiveness to key stakeholders—such as the government and industry—remains essential. While the original governance framework, with its multiple fora, posed challenges to maintaining this balance, the new structure appears better equipped to support it.

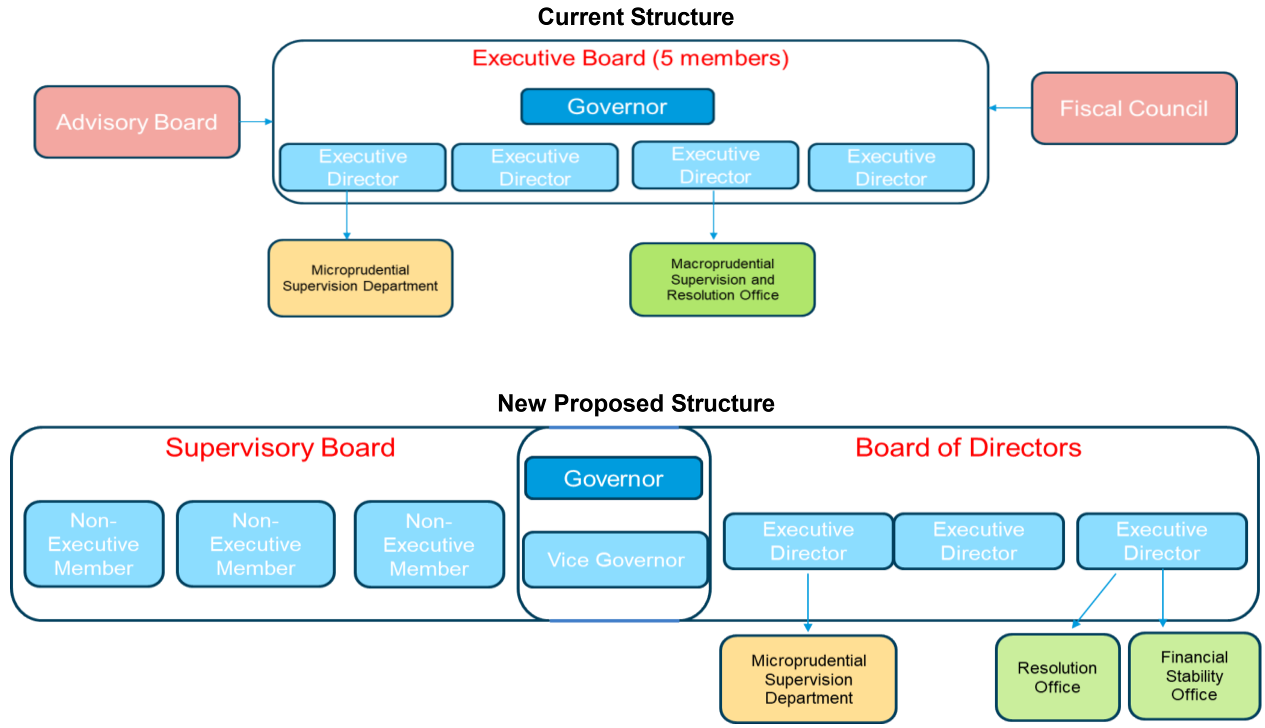
16. A key challenge for the BCV to fulfill its mandate is the lack of adequate human resources. The Macroprudential Supervision and Resolution Office (MSRO) carries out both functions with only five staff members. This year's BCV budget includes plans to hire two additional staff. Given the breadth of knowledge required for macroprudential policy and systemic risk monitoring, both candidates with substantial experience as well as entry-level staff with data management and analytics skills are essential to enhance the team's capacity. However, finding suitable skilled and experienced candidates in the external market is challenging. Internally, the understaffing across most departments and offices limits mobility within the BCV. Under the new proposed structure, the previous two functions (macroprudential and resolution) of the office will be separated into the Financial Stability Office and the Resolution Office. The separation will facilitate more staff recruitment, potentially increasing the resource envelope for the macroprudential policy function. With its new title as Financial Stability Office, it is important that the macroprudential responsibilities are not diluted by other matters related to financial stability.

Willingness to Act

17. The BCV has shown a strong commitment to action. The MSRO was only established in 2019 and fully staffed with five members by 2021. Nonetheless, notable initiatives include the issuance of the 2023 regulation requiring banks identified as D-SIBs to apply a D-SIB buffer calibrated to each institution’s relative degree of systemic importance.[14] Additionally, the new Organic Law currently under consideration in Parliament represents another effort to further strengthen the BCV's role in macroprudential policy.

[14] Aviso No.2/2023, as published in the Republic of Cape Verde Official Bulletin, December 28, 2023.

Figure 3. Governance Structure of the BCV Under the Current and New Organic Law



Source: Banco de Cabo Verde.

Effective Coordination and Cooperation

18. An important coordination mechanism within the BCV is the FSC. Chaired by the Governor, this committee includes all members of the Board of Directors and heads of relevant departments and offices (Figure 4). The FSC is responsible for analyzing the evolution of the national and international financial system, identifying and evaluating emerging risks, assessing market behavior, and providing recommendations to support the decision-making of the Board of Directors. It holds regular quarterly meetings and may be convened exceptionally if required by the Governor, with minutes produced and distributed to the members of the Administrative Council. While in some central banks, there could be a separate committee on Supervision while the Financial Stability Committee focuses solely on macroprudential matters, the BCV setup is not uncommon for small central banks.

Figure 4. Financial Stability Committee

Governor (Chair)

- Members of the Administrative Council;
- Coordinator of the Office of Macroprudential Supervision and Resolution;
- Director of the Microprudential Supervision Department;
- General Auditor of the Securities Market;
- Coordinator of the Office of Supervision of Insurance and Pension Funds and of Management of the Automobile Guarantee Fund; Coordinator of the Behavioral Supervision Office;
- Coordinator of the Microfinance Office;
- The Directors of the Departments of Economic and Statistical Studies, Markets and Management of Reserves, Issuance, Treasury and Payments System, and other members that may be indicated by the governor.

Source: Banco de Cabo Verde.

19. **However, the mandate of the FSC goes beyond macroprudential policy.** These include broader issues such as Emergency Liquidity Assistance (ELA), microprudential oversight, resolution, the deposit guarantee fund, and crisis management. A separation in terms of macroprudential and supervision responsibilities within the FSC should be enforced such that each topic should be initiated and led by the respective department[15]. In 2024, the Committee met four times in April, August, October, and December where they discussed the Bulletin, the Financial Stability Report (FSR), risk heatmaps, resolution framework, and asessment of feasibility of implementing proposed macroprudential tools. Currently, each department creates its own work plan and proposes an annual agenda to the Committee without early inter-departmental coordination to leverage synergies across topics.Therefore, it is crucial to adopt a more unified process for designing the FSC's annual work agenda. This would allow for regular systemic risk assessments, evaluations of systemic resilience, macroprudential policy reviews and decisions, and other committee tasks. Given the typically slow-moving nature of systemic risk, a six-month macroprudential cycle is reasonable.

20. **Another avenue for gathering information across units is through the BCV's flagship publications.** The work on the annual FSR typically begins three months before its publication date in August, focusing on the previous year. During this period, the MSRO reaches out to relevant units within the BCV to collect information. Although the Report follows a standard template, it can include more topical issues in dedicated boxes. For instance, the 2023 Report, published in August 2024, features a box on the methodology for determining systemically important national banks (Table 2). While the Report offers valuable analysis, its timeliness could be enhanced by incorporating more current conjuncture assessments alongside more in-depth analysis (see more discussion in Section III on Systemic Risk Monitoring). In addition to the annual FSR, the BCV also publishes a biannual Bulletin describing recent market developments, which is under the Macroprudential section of the website and not on the regular list for all Publications.[16]

Table 2. Classification of Systemically Important Banks

Indicator	Weight (percent)
Size	35
Interconnectivity	20
Substitutability	35
Domestic Sentiment	10
Score Range	**Classification**
> 200	High Systemic Importance
150–200	Moderate Systemic Importance
95–150	Light Systemic Importance
< 95	Without Systemic Importance

Source: Banco de Cabo Verde.

21. **Previous efforts to organize the financial stability function included the creation of the interagency body NFSC via an MOU signed in 2011 between the BCV and the MOF.** The Council

[15] See the Core Principle 1 of the Basel Core principles for effective banking supervision

[16] https://www.bcv.cv/SiteCollectionDocuments/2025/BOLETIM%20DE%20ESTABILIDADE%20FINANCEIRA%20_out24%20VFF.pdf

was meant to provide a platform for coordination on both financial stability and crisis management. However, the council has not convened since its inception. Existing and pending legislation does not establish any high-level stability committee. The legislation does state that the BCV shall establish cooperation mechanisms with other public authorities and entities to fulfill its duties, in accordance with applicable laws. Given that the dormant NFSC includes members from various authorities, it could serve as a forum for sharing information across agencies on upcoming policy decisions with financial stability implications. Most importantly, for crisis management, such a formal body can play a crucial role for timely policy decisions.

22. **In practice, a "technical committee for economic and financial monitoring" serves as the main forum for information sharing**. A different Memorandum of Macroeconomic Coordination at the Budgetary and Monetary level, signed in November 2011 by the Minister of Finance and Planning and the Governor of the Bank of Cabo Verde, establishes the creation of a technical committee for economic and financial monitoring (CTAM) that is made up of technical staff from the two institutions. It includes representatives from the MOF and the BCV. Officials from the Treasury, National Planning, the Minister's office (MOF) and BCV's Economics and Statistics, and Markets and Reserve Management departments typically meet on a quarterly basis with the location rotating between the Ministry and BCV.
These meetings provide opportunities for each agency to share information and their own assessment of the macroeconomic and financial developments. However, the committee does not make any policy decisions.

23. **Coordination between the BCV and the MOF with regards to INPS is crucial**. This could be an example of a topic discussed at the NFSC. As the largest state-run pension fund in the country, INPS plays an important role in the financial system. Its assets make up 50 percent of GDP, with nearly half deposited in Cabo Verde banks. INPS is also a significant shareholder in two banks (CAIXA and BCA) and an insurance company. INPS is operating semi-independently with decisions made by its own Board of Directors with representatives from the MOF, Ministry of Family, Inclusion, and Social Development, labor unions, and private sector representatives. It is currently not directly supervised by either the MOF or the BCV. Meanwhile, its investment decisions can significantly impact banking system liquidity and central bank reserves. For example, shifting INPS deposits from one bank to another could disrupt system-wide liquidity, particularly when the interbank market is less efficient. Enhanced coordination and supervision by the appropriate authorities in this area will prove highly beneficial.

Recommendations

24. **Finalizing the legal framework is of utmost importance to strengthen the macroprudential framework**. The new Organic Law, currently under parliamentary consideration, should be discussed and brought to a vote as soon as possible.

25. **Macroprudential responsibilities should not be diluted under the new governance structure**. The split of the MSRO into the Financial Stability Office and the Resolution Office is welcome as it allows for more focused responsibilities. Nonetheless, with the new title of "Financial Stability", it's important to avoid diluting the responsibilities of the macroprudential team with other broader financial

stability matters. Recruiting additional staff with complementary skills for macroprudential policy, including by enhancing the mobility within BCV, is crucial for adequate oversight and analysis[17].

26. Coordination across BCV departments and offices can be improved. An interdepartmental process should be established to devise each unit's workplan, leveraging synergies across teams. The Financial Stability Committee's agenda should be set and updated with input from all relevant units. Information sharing should be continuous, and relevant staff should have access to a centralized data repository.

27. Consider strengthening existing for a for discussing financial stability topics between BCV and other agencies. The current technical committee should commit to a regular meeting schedule. The NFSC can serve as a forum to discuss policies impacting financial stability. Ad-hoc attendance at this Council can include members from the INPS Board of Directors to discuss their management and investment strategies.

B. Macroprudential Communication and Policy Strategy

28. While there is no single, uniform approach to policy communication, there is scope for the BCV to further develop its strategy and enhance its effectiveness as a key policy tool. Clear communication of policy intentions can improve transmission of macroprudential action, both when measures are taken and when they are relaxed. Communication can also promote public understanding of the need for macroprudential measures, counter biases in favor of inaction and enhance legitimacy and accountability of macroprudential policy. This can be achieved by setting out and maintaining a policy strategy, periodically publishing risk assessments, and publishing the records of policy meetings (IMF, 2014[18]).

29. As of now, the venues for communication are limited. Besides the published macroprudential strategy (see more discussion in paragraph 35 and 36), the main publications for BCV related to financial stability and macroprudential policy include the annual FSR and the Bulletin on Financial Stability. Legislative decisions are published as Decrees and Notices in the official gazette. Occasional speeches by the Governor and the Directors are also available on the BCV website.

30. Recently, the approach to financial stability policy communication has undergone significant changes. It is increasingly seen as a tool to achieve policy goals, serving as an additional lever for central banks to enhance monetary and financial stability. Consequently, resources dedicated to the communication aspects of these policies have increased. Communication, however, is not a replacement for a solid policy framework. Without a well-defined framework and policies consistent with the stated objectives, communication is an empty shell.

31. Relatedly, effective communication and transparency are important for accountability. When the trend towards more central bank independence began during the 1990s—and the assignment of financial stability as a policy goal was added in the past decade—demands for enhanced transparency

[17] These matters could reasonably include Recovery and Resolution, the operation of the ELA framework, microprudential policy matters with a systemic relevance (e.g. Basel III implementation), operational resilience and payments systems.
[18] Staff Guidance Note on Macroprudential Policy, 2014.

from central banks and financial stability authority has increased. The timeframe for achieving the policy goal and the available tools for the policymaking authority to respond to economic developments—known as the reaction function—should be clearly defined. This was necessary to safeguard the democratic legitimacy of any independent central bank, and to facilitate the accountability of officials setting monetary and financial stability policies. With macroprudential policy often facing political economy headwinds, strategic and consistent communication is essential to foster a willingness to act, build commitment, shape public understanding and create a compelling narrative around policy actions, thereby strengthening both public and political support.

32. Furthermore, for macroprudential authorities, it is essential to establish a clear hierarchy of objectives, with financial stability at the forefront. While secondary objectives such as supporting economic growth or protecting depositors are important, they must be weighed carefully against the overarching imperative of safeguarding systemic stability. Meanwhile, monetary policy in Cabo Verde should fully align itself with defending the fixed exchange rate regime. [19]. In normal times, these objectives are often complementary. However, circumstances may arise where they are at odds, requiring clear communication to stabilize the markets. Well-established central bank credibility would serve as an asset in such cases.

33. Effective communication in financial stability policy involves several key considerations:

- **Transparency and periodic reporting** are essential, requiring the publication of frequent reports on financial stability and assessments of systemic risks, along with clear communication of the latest views on the financial system's performance.
- **Consistency and authority in messaging** are crucial to avoid contradictions and to present a well-connected, authoritative perspective on risks, resilience, and policy actions.
- **Engaging multiple stakeholders**, including financial markets, the public, and the authorities, is important, with an emphasis on making the materials accessible to all these groups.
- **Proactive risk communication** is vital, involving warnings about potential risks and incentivizing stakeholders to take preventive actions.

34. Good practices among central banks typically include utilizing multiple communication channels and layering messages. For example, central bank communication can follow the three E's:[20] explanation, engagement, and education. Central banks should clearly explain their actions and decisions, making complex economic concepts accessible to the public. They should actively engage with various stakeholders, including the public, policymakers, and financial institutions, to gather feedback and improve their communication efforts. Additionally, investing in educational initiatives is crucial to enhancing public understanding of economic and financial matters. In the case of Cabo Verde, reporting is largely limited to statistical descriptions and basic data analysis intended for a single, general audience.

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[19] A thorough discussion on navigating this trade-off can be found in IMF Staff Discussion Note "Navigating Trade-Offs between Price and Financial Stability in Times of High Inflation," 2025. https://doi.org/10.5089/9798229005135.006

[20] Bank of England Staff Working Paper No. 847

35. The BCV could consider publishing records of FSC meetings, which is a good practice regarding macroprudential policy communication. Publishing meeting records of policy decisions enhances transparency by clarifying the topics discussed and how members voted, which helps build public understanding and market expectations around macroprudential policy (IMF, 2013a). This transparency can serve as a signal to markets that policy tools will be used if behavior doesn't adjust, potentially influencing market conduct in advance (CGFS, 2012; Giese et al., 2013). To strengthen accountability, the records should highlight key decisions and, where possible, identify individual votes—making it more likely that dissenting members will need to justify their positions if a crisis occurs.

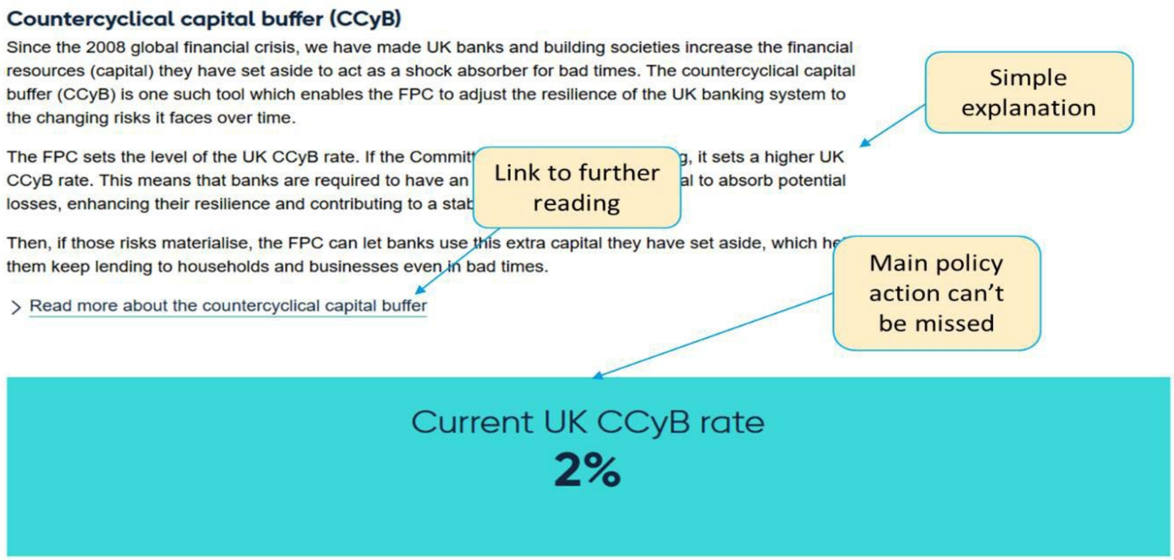
Macroprudential Policy Strategy

36. Across jurisdictions, publishing the macroprudential policy strategy can improve the transparency, accountability, and predictability of policy decisions. Such a macroprudential strategy should clearly designate a macroprudential authority and lay out the overarching and intermediate objectives and the stages of the policy cycle. This strategy will ensure that identified risks lead to policy action, effective implementation, monitoring of effects, and policy review, with the appropriate authorities responsible for each step. The strategy will describe all the existing tools along with the rationale for their use. With different tools currently being deployed, an overall approach needs to be developed that can be consistently applied, that is commonly understood between the various agencies, and that takes account of the complementarities (or otherwise) between different macroprudential policy measures.

37. The BCV indeed published a macroprudential policy strategy in 2023, laying out the objectives and overall framework. The document has laid out the legal framework underlying the macroprudential authority of the BCV. The discussion on the concept of financial stability and systemic risk is helpful, albeit not Cabo Verde-specific. Regarding the tools and methodologies, the document lists the potential tools, data, and approaches. However, it is important to focus on the rationale for the existing tools and their effectiveness. The discussion on the interaction between macroprudential and other policies needs more specificity. For example, monetary policy decisions have a profound impact on the financial system. The section on the interaction with monetary policy in the strategy document could be more specific on how interest rates and reserve requirement are calibrated to pursue the monetary policy goals such as defending the exchange rate versus for other purposes including macroprudential policy.

38. The strategy document, however, should be dynamic, featuring regular updates and embedded links. To effectively communicate policy frameworks and decisions to the public, it should be user focused. The modern approach to communication is to layer messages. Therefore, incorporating modern communication styles, such as links to relevant legal documents, data hubs, and other supporting materials, can enhance its utility. While the current format of the BCV strategy document is helpful, it could be complemented by a dynamic webpage. For example, the Bank of England showcases on the website a simple explanation of a macroprudential tool, coupled with a link to a more in-depth analysis, and a visual aid to highlight the latest policy action (Figure 5). Frequent reviews are necessary to ensure that all information remains current.

Figure 5. Example of Layering Messages



Source: Bank of England Financial Stability Website: https://www.bankofengland.co.uk/financial-stability.

Financial Stability Report and Bulletin on Financial Stability

39. **The Financial Stability Report (FSR), published annually by the BCV, is the primary platform for communicating systemic risk assessments.** It offers a comprehensive analysis of global and domestic financial stability conditions. It identifies headline risks and vulnerabilities, each with a judgment-based severity assessment, and includes sections on sector-specific vulnerabilities, resilience, and topical issues such as banking system interconnectedness. The bi-annual Bulletin complements the FSR with more concise data and commentary on headline risks and sectoral developments. However, the FSR's timeliness is limited—it is published in August but largely reflects the previous year, due in part to delays in supervisory data. Bulletins currently serve more as statistical summaries than timely analytical updates.

40. **To enhance effectiveness, the FSR could adopt a more forward-looking, streamlined systemic risk assessment aligned with intermediate objectives and indicators.** This would sharpen its policy relevance and improve internal efficiency. Timeliness could be improved by setting a data cutoff no more than three months prior to publication and releasing key messages simultaneously in Portuguese and English, using AI tools to expedite translation. The FSR's highlights and summaries should be more message-driven, shifting from data description to analysis. Bulletins could evolve into thematic updates throughout the year, supported by collaboration with the Economics and Statistics Department. Monthly data releases via the website or portal, along with a unified design and bilingual visual summaries, would further improve accessibility and impact.

41. **Each flagship publication should be leveraged to reach the maximum audience via multiple channels**. It is crucial to develop specific communication plans for major policy actions and flagship products, and to collaborate interdepartmentally for message formation, determination, and dissemination. Overtime, with enhanced resources, the BCV could leverage various channels, such as regular media training on financial topics, increasing off-record meetings with BCV management, and enhancing media appearances by the Governor and Executive Directors. Organizing discussions in a

two-way dialog manner with market participants and targeting local media, universities, schools, and businesses will broaden outreach[21]. Additionally, advanced techniques such as tiering of messages, audience segmentation, sentiment analysis, and insights from social and behavioral sciences could be utilized, with an internal working group convened to develop and implement these advanced communication tools. Gathering feedback from various audiences via surveys or after outreach events is also crucial. An example of this is the "European Central Bank Listens" initiatives,[22] where the central bank management engaged with many societal groups.

42. Current communication initiatives are limited to in-house expertise and flagship publications. The Communication Office in BCV primarily interacts with the Board, lacking collaboration with other departments to provide expertise on the latest media or communication practice. Publications are released without presentations, press conferences, or outreach events, resulting in minimal public awareness of the systemic risk assessment.

Recommendations

43. The macroprudential policy strategy should include specifics relevant to Cabo Verde, clearly linking objectives, risks, and tools. The document should feature hyperlinks to existing data and systemic risk monitoring approaches. Presenting the document as a webpage with an optional PDF download is recommended.

44. A communication strategy document can optimize the overall BCV's communication efforts. There should be an overarching strategy for the whole central bank. Current communication is single layered, missing the opportunity to utilize multiple channels. By consulting with communication experts, BCV can develop a clear and effective communication strategy that is modern and in line with best practices. Such a communication strategy can complement policy strategy documents, ensuring consistency in the policy framework, objectives, tools, and their communication. In addition, while BCV teams have made great progress in disseminating data and assessments, publications often lack an accompanying communication plan. As the team prepare for the publication, they should simultaneously prepare a communication plan to launch the product with accompanying summaries, blogs, press conferences, and outreach.

45. Shifting from data release and description to narrative is crucial. Data should be released on a fixed schedule via the website or a data portal, while publications should focus on assessment and analysis. Periodic risk assessments should focus on recent indicator readings to reinforce the authority's readiness to act. Publishing ex post evaluations of macroprudential measures helps demonstrate their effectiveness, enhancing policy credibility and fostering public support for further action if needed. These publications must be timely and forward-looking. Consistency in messaging and design across all publications is essential.

46. The BCV should embrace modern interactive communication practices overtime with enhanced resources. Display documents as text directly on the website with an option to download

[21] Similarly, when the IMF publishes a flagship such as the Global Financial Stability Report, it is accompanied by a press conference, outreach presentations to regional hubs, visual summaries, and blogs.

[22] https://www.ecb.europa.eu/home/search/review/html/form.en.html , https://www.ecb.europa.eu/home/search/review/html/all_events.en.html

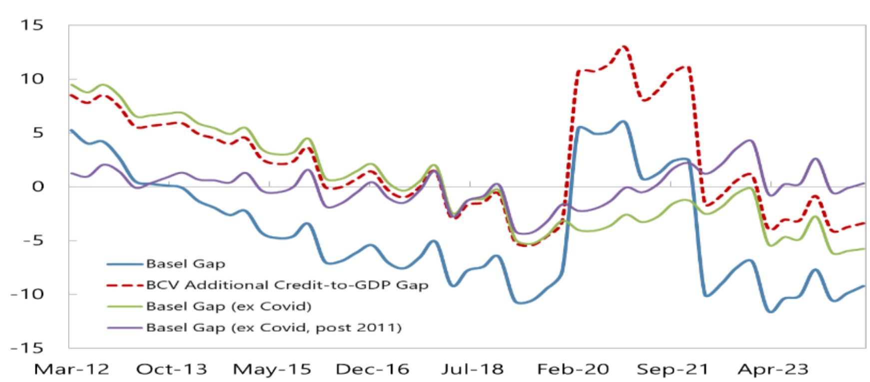
PDFs for better search functionality and regular updates. Publications should be layered to include simple summaries, opinion blogs, detailed analyses, and visual cues. Enhancing media appearances and outreach efforts alongside flagship publications will improve accessibility.

III. Main Vulnerabilities in the Financial System

47. Cape Verde's financial system is predominantly bank-centric, with banking sector assets at 127 percent of GDP and private non-bank financial intermediary assets at 5 percent of GDP. There are currently eight commercial banks operating in the market, with the two largest institutions accounting for approximately 30 percent of banking system assets each and the remainder accounting for between 5 and 12 percent each. Three banks, accounting for approximately 25 percent of the market, are wholly owned subsidiaries of foreign banks, with no branch/passporting operations in place as the BCV have restricted offshore activities, requiring all banks operating in the Cape Verde to be licensed by the BCV.

48. Broad-based cyclical vulnerabilities appear contained at present, but data challenges warrant caution. Credit growth during 2024 was averaging 7 percent annually up to Q3, in-line with overall GDP. The credit-to-GDP ratio had averaged 52 percent in the five years prior to the COVID-19 pandemic and has averaged 53 percent since 2023 when pandemic-related distortions in the data passed. A standard credit gap measure, and an alternative approach currently considered by BCV point to a large negative gap, indicating relatively subdued credit dynamics (Figure 6). Making additional adjustments to the filtering approach through excluding the COVID-19 distortions or limiting the time series to post-Global Financial Crisis period, yields a qualitatively similar result. However, there are discrepancies in various data sources when considering credit growth to specific sectors, which may also influence aggregate developments.

Figure 6. Credit Gap Estimates
(Percent, 2010–24)

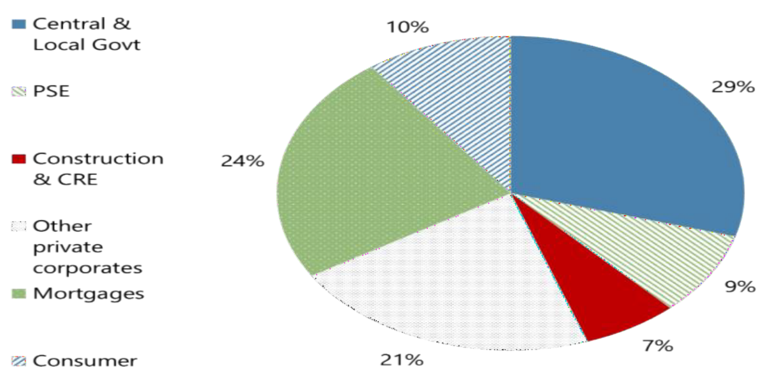


Source: Mission team calculations, Banco de Cabo Verde.

49. Other cyclical macro-financial vulnerabilities, and their interplay with the financial system need careful monitoring. While overall economic activity appears to be performing well, the absence of more detailed and frequent labor market and real estate market data in particular warrants a cautious approach. When the economy is in broad terms performing well it is also important to understand the implications for shifts in risk appetite that may emerge. At present, the two largest banks indicate that their lending policies allow for LTVs ranging from 70–80 percent depending on the borrower type, with DSTIs between 35 and 50 percent.

50. Structural vulnerabilities of exposure concentration, interconnectedness, and volatile economic shocks are significant, consistent with the size of the economy and stage of development. As a small open economy, Cape Verde is sensitive to external shocks. The relative importance of tourism in overall economic output and the general dependence on imports lends itself to that high degree of exposure to external shocks. Exposure concentration is significant on both the assets and liabilities side of the banking system balance sheet. In terms of assets, it is estimated that overall exposure to the sovereign exceeds 22 percent of total exposures, reflecting holdings of central and local government debt and that of public sector enterprises (PSEs) (Figure 7). A comprehensive assessment of overall exposure should also account for lending to the private sector that carries a government guarantee—a practice that is, anecdotally, considered significant. Given the size of the economy, several significant corporations in key sectors such as transport, telecommunications and utilities also present as important common exposures for the banking system, in addition to a general exposure to real estate. The real estate exposure also overlaps with that to the tourism sector and to households, which account for 18 and 45 percent of total credit to the economy. Interconnectedness also arises through the shareholding of INPS in several banks (majority in one of the largest banks), as well as the majority shareholding of another bank by one of the domestic insurance companies.

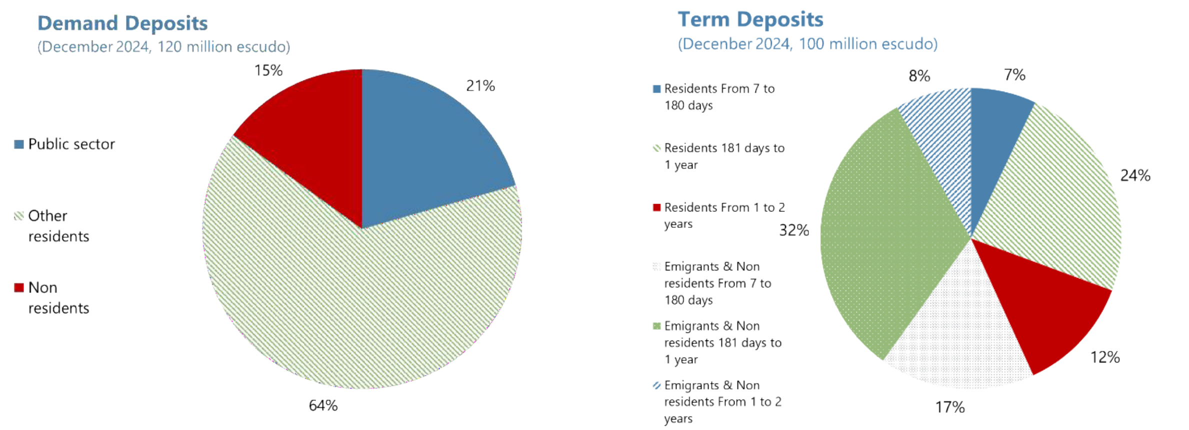
Figure 7. Credit Allocation in 2023



Source: Banco de Cabo Verde.

51. Exposure concentration on the liabilities side points to some potential vulnerabilities for funding, despite historic regularities of a stable deposit base (Figure 8)**.** Exposure concentration on the funding/liabilities side is also present, with approximately 17 percent of total demand deposits and 21 percent of term deposits being sourced from INPS based on 2022 data. This exposure is not uniform across the banking system, with INPS accounting for a more significant share of deposits in smaller banks. The banking system is almost exclusively funded by customer deposits, which account for almost 90 percent of total liabilities. Demand deposits account for approximately 55 percent of the deposit base. Term deposits of between 6 to 12 months are common, including those for Cape Verdean emigrants who account for an important share of the volume of term deposits (50 percent). There is a high tendency at present to roll-over term deposits, while at the same time the penalties for early withdrawal are not punitive. With significant excess liquidity in the system, the banks' cost of funds has remained relatively low, which contributes to currently favorable levels of net interest margin and overall profitability.

Figure 8. Demand and Term Deposit Breakdown



Source: Banco de Cabo Verde, Mission team calculations.

52. **Vulnerabilities related to presence of significant institutions are monitored and steps taken through the D-SIBs framework to mitigate.** The two largest banks have been identified as being the most systemically important (Class 3) given their size, degree of interconnectedness, relative substitutability and importance in the share of the domestic deposit market. Another two mid-size banks have been allocated a lower degree of systemic importance (Class 1). Additional buffers for these banks will become effective in May 2025, with buffer rates of 2 percent for Class 3 banks and 1 percent for Class 1 banks respectively.[23]

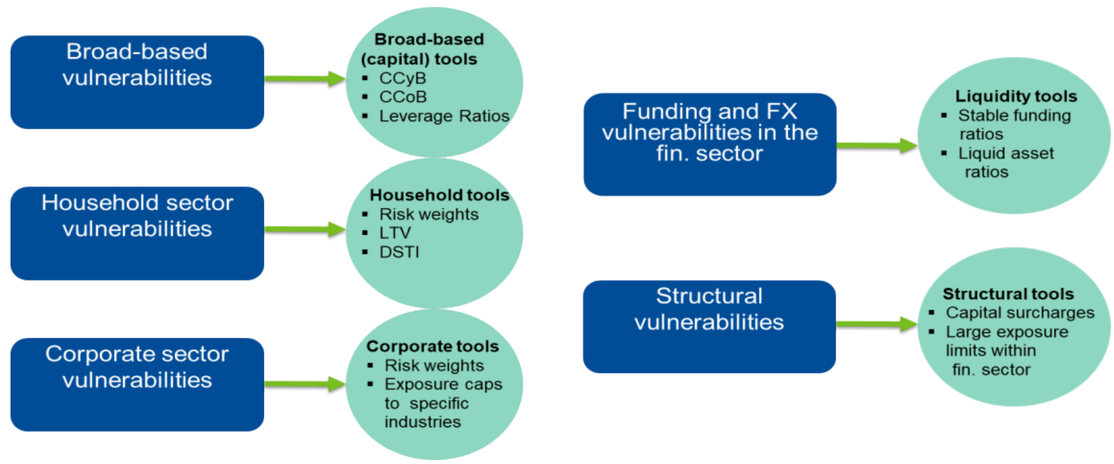
53. **High profitability in the banking system has contributed to large levels of excess capital above current requirements, while economic growth has led to a gradual improvement in NPLs**. Current capital adequacy ratios are high at 22 percent, far in excess of the required minimum of 12 percent and have benefitted from the higher interest rate environment in recent years. The interest margin to gross income exceeds 82 percent and contributes to the Return on Equity (ROE) after interest and tax exceeding 11 percent. The NPL ratio has steadily declined in recent years to 7 percent, but the experience is heterogeneous across banks. In addition, some significant PSE-related exposures have undergone restructuring on a number of occasions, which may understate the true extent of the challenges in the existing loan book. Provision coverage has also been declining at a faster pace than non-performing loans, which may be consistent with initiatives such as the transition to International Financial Reporting Standard (IFRS) 9 but may also be indicative of changes in the broader risk appetite in the banking system.

54. **It is reasonable to consider a pro-active approach to macroprudential policy to ensure appropriate resilience to the existing macro-financial vulnerabilities.** In this regard broad-based vulnerabilities, including from exposure to external shocks that are common to many small, open economies and financial systems appear important to contain. Exploring policy tools aligned with those vulnerabilities would appear appropriate, in addition to tools that can mitigate vulnerabilities in terms of liquidity (Figure 9). In this context, the presence of the peg limits the ability of the central bank to counter

[23] The framework also defines a medium-level category of systemic importance (Class 2), but at present no banks have a classification score that maps to this category.

domestic shocks using interest rate and liquidity tools and increases the need to deploy macroprudential tools that can generate an additional degree of resilience to such shocks.

Figure 9. Mapping Vulnerabilities to Macroprudential Tools



Source: IMF Guidance.

IV. Systemic Risk Monitoring and Data Gaps

55. Systemic risk is multi-faceted and the use of the intermediate objectives of macroprudential policy as an organizing framework can help in the analysis. Unlike other policy domains that may have one or a very limited number of operational targets (e.g., inflation-targeting monetary policy), macroprudential policy has to deal with a diverse range of vulnerabilities which could result in systemic risk materializing. Without an organizing framework the systemic risk assessment can become unwieldy and ineffective, running the risk of not adequately identifying key drivers of vulnerabilities nor pointing to the appropriate policy action. The intermediate objectives of macroprudential policy (summarized below) can provide such an organizing framework:[24]

a. Increasing the resilience of the financial system to aggregate shocks;

b. Contain the build-up of macro-financial vulnerabilities over time;

c. Control structural vulnerabilities within the financial system.

56. At present, the data used to inform financial stability analysis by the BCV are mostly sourced from the standard regulatory balance sheet and income statement returns from the commercial banks and insurers, alongside monetary statistics and loan officer surveys. These provide a good suite of indicators on a relatively frequent basis with respect to regulatory capital ratios, some headline liquidity metrics, the stock of NPLs, and the sectoral distribution of exposures. Such data are by nature “stock” variables, giving a reasonable reflection of the levels of resilience, but are for the most part backward looking. For example, a high level of NPLs is likely reflective of risks that have already materialized.

57. More focus should be placed on collecting and analyzing “flow” variables, alongside sectoral detail and other terms and conditions on key assets and liabilities. To enhance the forward-looking element of the systemic risk assessment, looking at the dynamics of new business flows, or the transitions to/from various stages of performance in the case of loans, can help identify in a timelier fashion the build-up of vulnerabilities. With respect to the immediately available data for systemic risk analysis, there is also a significant gap in systematically tracking terms and conditions on an appropriately granular and frequent basis, such as maturities (both on an original and residual basis), LTV, loan-to-income (LTI) and debt-service-to-income.

58. Enhancing databases such as the CRC and improving the BCV’s internal data platform can address data gaps and quality issues for systemic risk assessment. The CRC has the potential to be an effective source of data for macroprudential and supervisory purposes of the BCV. Work has been ongoing for some time on updating the CRC, with both an “old” and a “new” system running in parallel while validation takes place. Making the “new” system fully operational and enabling appropriate access to granular borrower-level detail by financial service provider to staff involved in macroprudential, microprudential and research parts of the BCV is a key step for more effective systemic risk assessment.

[24] See Annex III for the range of possible indicators linked to the intermediate objectives and the related policy instruments that could be considered when the systemic risk linked to the intermediate objective is deemed elevated.

This should be achieved subject to appropriate data protection and confidentiality safeguards being in place (e.g., anonymization or pseudo-anonymization for personal records). The CRC data could be used to gather information systematically through time on credit conditions (e.g., LTV, Debt Service to Income (DSTI)), interest rates, household and business financial conditions and characteristics or developments in collateral values (e.g., real estate prices). Efforts will likely also be required to ensure data quality and validation with other aggregate data (e.g., prudential returns), with BCV working alongside financial service providers and enforcing minimum standards on data quality. In particular, sectoral classification by institutional and economic sector of the borrower needs careful attention, with a consistent treatment of State-Owned Enterprises, and exposures benefitting from a state guarantee. Alongside the enhanced CRC data, data collected for monetary and prudential purposes should be stored in an appropriate data platform (e.g., SQL data lake or data warehouse) to enable the analysis, which currently is severely limited by the data management practices in the BCV.

59. The systemic risk assessment is challenging due to the lack of frequent and reliable data on labor and real estate markets. On labor market developments, initiatives by BCV staff to explore alternative data sources such as sentiment surveys or INPS data on contributors to, and beneficiaries from the social security fund, are commendable. Leveraging insights on a quarterly basis from the Continuous Multi-Purpose Survey from the National Institute of Statistics (INE) may be possible. In any case, encouraging innovative use of administrative data by the INE, if necessary, with the support of BCV, should be considered. Real estate constitutes a large portion of household assets, and asset prices play a crucial role in financial cycles. Therefore, generating a reasonable estimate of representative house price levels and changes, such as through a hedonic index based on administrative data, would yield substantial benefits for systemic risk assessment and a general understanding of macro-financial conditions in Cabo Verde. In the absence of such an index based on administrative data, BCV should consider sourcing data from property sales websites, which are a common feature of the market. Scraping the details on asking prices and property characteristics from such websites and monitoring changes in asking prices for comparable property over time may be a useful short-term solution, with a view to supporting a more suitable approach based on administrative data over time. Although the 2022 FSSR specifically recommended collecting real estate market data, progress in this area has yet to be realized.

60. As more data become available, more advanced statistical techniques can be considered from a forward-looking perspective. These techniques include aggregate measures of financial conditions or stress, “gap”-type measures similar to the credit-to-GDP gap, or the use of Growth-at-Risk model. Macroeconomic analysis at the BCV is carried out by the Economic Studies and Statistics Department (ESSD) of the BCV. The ESSD is the main contributor to decision-making for the Monetary Policy Committee (MPC)[25]. Some early initiatives by colleagues in ESSD, building on previous IMF technical assistance, have yielded some benefits which could be further explored. A reasonable financial stress index is now ready to be estimated, while further consideration needs to be given to a financial condition index. Staff in the MSRO also estimate a standard credit-to-GDP gap, but the underlying data and the challenges of the Hodrick-Prescott filter suggest other avenues might be worth exploring.
The Financial Stability Index maintained by the MSRO is an intuitive single indicator and has been actively used and referenced. Its further development should be considered in tandem with that of a financial

[25] The ESSD consists of three divisions: Economic Studies; Monetary, Financial and Exchange Rate Statistics; and External Sector Statistics. Staff in the Economic Studies division act as forecasting team and produce materials for the MPC.

conditions index, embedding any advances made on real estate price data, and be considered in a more forward-looking assessment framework. On the latter, for example, including the index as an explanatory variable in a Growth-at-Risk approach would allow for a tractable and repeatable assessment of the severity of the systemic risks environment, and a related narrative as to the drivers of that risk environment to inform policy[26].

61. . Linking systemic risk assessments with financial sector resilience (e.g., capital levels) enhances the clarity and impact of macroprudential policy. This could potentially include an annual stress test informed by the risk narrative. The current stress test includes baseline, an adverse, and a severe scenario with varying sectoral default rates; however, these rates[27] are not anchored in macroeconomic assumptions or a coherent risk narrative. This explicit link between the severity of the risk environment and the levels of financial system resilience allows for a cohesive discussion of necessary policy actions to ensure the system's resilience matches the level of systemic risk. An annual publication of this type could be complemented by a Bulletin or other formats that provide thematic treatment of specific issues.

62. Another exercise that could prove beneficial for an interconnected system like Cabo Verde is contagion analysis. The financial system in Cabo Verde is structurally small with a limited base of corporate borrowers. This will inevitably result in a high degree of interconnectedness. Contagion analysis uses network technology to estimate the systemic importance of financial and non-financial institutions, highlighting that the failure of a systemically important entity can lead to significant solvency and liquidity losses for the banking system. These losses depend on the initial capital and liquidity positions of banks and the magnitude and nature of their interconnections. The joint solvency-liquidity contagion impact assumes the failure of an entity with the maximum capacity to cause contagion losses. The solvency contagion impact examines the shocks to lenders if each entity fails, focusing on the top borrowers. The systemic liquidity stress test assesses vulnerabilities to systemic liquidity stress due to economy-wide liquidity shocks and their transmission to various economic sectors through direct financial linkages. The IMF started its work on systemwide liquidity stress tests primarily in emerging markets around 2020 in Technical Assistance and Financial Sector Assessment Programs, including Chile, India, Indonesia, Mexico, the Philippines, Turkey, UAE, Uganda, but also in Luxembourg and the US.

[26] A systematic approach to using the Growth-at-Risk framework enables informed judgment on the level, changes, and drivers of systemic risk over time. By design, it provides a forward-looking perspective over policy-relevant horizons. Given the limited time series available for Cabo Verde, caution is warranted; however, complementing the estimation approach with multi-country panel data and fixed effects panel quantile regressions would be appropriate. Including estimates of cyclical conditions and financial market stress conditions in the basic quantile regression will facilitate a meaningful discussion of the key drivers of systemic risk and its severity. This approach is useful for assessing the resilience of the system and designing appropriate policy actions. The methodology paper and code can be found here: Prasad et al. IMF Working Paper 2019 (https://www.imf.org/en/Publications/WP/Issues/2019/02/21/Growth-at-Risk-Concept-and-Application-in-IMF-Country-Surveillance-46567) and Code

[27] In the adverse scenario, sectoral default rates are set at one standard deviation above the historical average, while in the severe scenario, they are set at one standard deviation above the historical maximum default rates.

V. Macroprudential Tools

A. Broad-Based Measures

63. Given the BCV's extensive experience in micro-supervision and the availability of data, it primarily relies on capital tools for macroprudential purposes. The minimum capital requirement is set at 12 percent, which is 4 percentage points higher than Basel standards. At present, all banks surpass this threshold. However, the definition of capital adheres to Basel II standards, while the risk-weighted asset calculation follows Basel I standards. As banks transition to Basel III standards in the future, the level of excess capital may change. Since the entire 12 percent is under the Capital Adequacy Ratio (CAR), banks do not have a releasable buffer. There is no CCB or CCyB in place. Given Cabo Verde's volatile business cycle, it is crucial for banks to maintain buffers. Consideration could be given to converting 2.5 percent of the current CAR to a standard CCB and introducing a CCyB framework.

64. Implementing a CCyB framework, potentially with a non-zero neutral rate, offers several benefits. International experiences during the Covid-19 shock, where few countries had positive buffers available for release, are prompting the international community to consider preemptively building releasable buffers as insurance against future stresses, even without prior excessive credit growth. As the only releasable capital buffer in the Basel framework[28], the CCyB can help prevent sharp credit contractions during financial stress. In 2010, the Basel Committee published guidance that detailed the key requirements for operating the CCyB, and in 2017 it published a paper discussing the range of practices in implementing the CCyB, which examined how jurisdictions have used the flexibility in the CCyB framework when designing their CCyB policies.

65. Cabo Verde could consider building the CCyB to a non-zero neutral level (positive neutral CCyB, or PnCCyB). While finding the right neutral level is not straightforward, structural vulnerabilities related to Cabo Verde being a small, open economy, with a high degree of exposure concentrations and interconnectedness in the financial system, point to benefits of a positive rate in normal times since these characteristics have the potential to amplify cyclical shocks. In addition, the presence of the peg limits the use of conventional monetary policy tools to counter domestic shocks, potentially arguing for a higher neutral rate. In addition, the challenges with timely hard data on broader macro-financial vulnerabilities and bank risk appetite would encourage a cautious approach and a comparatively higher positive neutral rate.

66. The currently favorable macrofinancial conditions with bank profits signal a good time to start building up buffers for future downturns. While the BCV has recently issued ad-hoc guidance to restrict dividend distributions, establishing the PNCCyB explicitly will offer banks a more predictable framework for planning dividend payouts and capital strategies. In addition, if the authorities plan to introduce the PnCCyB, the financial sector—particularly banks—should be given advance notice to allow sufficient time to build up the necessary buffers. This process could take about a year, when a modest

[28] Basel Committee has published a range of practices report on implementing PNCCyB: https://www.bis.org/press/p241128.htm#:~:text=Basel%20Committee%20has%20published%20a,neutral%20rate%20for%20the%20CCyB.

target is considered for the neutral CCyB, or longer as needed to allow banks to build capital gradually to more ambitious levels.

67. The calibration for PNCCyB can draw from different methodologies. The goal of building the PNCCyB now is to ensure that the system has enough buffer to maintain credit growth during such shocks, serving the “countercyclical” purpose. Various methodologies including analyses of historical losses, stress test models, assessments of the impact of buffer releases during the pandemic, and expert judgement, have been used to calibrate this level. The importance of different factors varies by country, resulting in different final rates. For example, Ireland and Lithuania authorities use stress tests and expert judgment to set their PNCCyB at 1.5 percent and 1 percent, respectively. In contrast, the Netherlands’ authorities set theirs at 2 percent based on historical losses. The BCV could consider conducting various exercises, such as stress tests with scenarios that reflect typical business cycles, to determine the necessary buffers during economic downturns.

68. Capital adequacy level and risk weights are closely connected and should be considered jointly. Increasing capital requirements can lead banks to shift their portfolios towards assets with zero risk weights. Therefore, any capital tool must be accompanied by a proper designation of risk weights. In this regard, adopting Basel III standards on risk weights will be beneficial[29]. In the meantime, given the high sovereign exposure across banks, a carefully calibrated leverage ratio could serve as a backstop and complement risk-weighted capital measures. Care needs to be taken to avoid it becoming the binding constraint, however, which would then impede the usability of risk-weighted buffers.

B. Sectoral Measures

69. While sectoral risks are not of immediate concern, the need for improved data is clear. Understanding the characteristics of borrowers, whether from household or corporate sectors, will enable more accurate analysis and stress tests. This includes the ability to link macroeconomic scenarios to employment risk, firm performance, as well as conducting contagion analysis. For example, although individual exposures may fall within banks' risk parameters, the small market size of Cabo Verde presents a high risk of common exposure, as many banks may share the same top corporate borrowers. The BCV should consider an exercise where a major corporation declares bankruptcy and defaults on all its loans across several banks. In this case, more system-wide measures may prove more effective.

70. Introducing an LTV limit can be a starting point to ensure household resilience. Across borrower-based measures, the BCV has noted that information on the banks’ policies as well as the current LTV practices would be the easiest to obtain. The initial LTV can be relatively loose to avoid disrupting the current credit flow. Cross-country experiences show LTV limits in the range of 70 to 90 percent. As more data become available, the BCV can recalibrate the LTV limit with more differentiation across mortgage types. Additionally, in the future, the LTV can be complemented with tools such as the stressed DSTI with more data on borrowers’ income.

[29] For example, under the current regime, all sovereign exposure, including state-owned enterprises and guaranteed loans receive a zero-risk weight. However, under the Basel III guidance, exposures to domestic public sector enterprises can be risk-weighted either based on the sovereign rating or the external rating of the enterprise. Guaranteed loans often zero risk weights only for the portion that is guaranteed by the state.

71. A sectoral Systemic Risk Buffer (SRB) could be a useful tool in the future. It could be used to address structural vulnerabilities in specific segments of Cabo Verde's financial system, once the broader capital framework is in place and sectoral risks are better identified. A sectoral SRB could be designed to be releasable, as is possible also under European legislation, but could be targeted to specific sectoral vulnerabilities. However, the context of Cabo Verde may make an appropriately calibrated broad-based buffer more suitable than a sectoral SRB at this stage, with the latter more suited to address residual risks once the D-SIB and CCyB framework are established. The overall balance of the capital stack relative to the steady-state risk environment can be considered in the future depending on experience, the implications of the full adoption of Basel III on the desired level of capital in the system, and any emergence of residual vulnerabilities that may motivate a given SRB.

C. Liquidity Measures

72. Liquidity tools are crucial for Cabo Verde's small banking system. Current tools include a minimum ratio of 20 percent liquid assets to total liabilities, with liquid assets also monitored as a share of total assets and short-term liabilities. Liquid assets encompass cash holdings, gold, reserves at BCV, deposits in other financial institutions, Cabo Verde treasury bonds, other fixed-income securities, interbank operations, account receivables, and other BCV assets. As banks adopt Basel III standards, BCV should establish a definition of HQLA with appropriate discounts for certain assets, such as corporate bonds.

73. The BCV should adopt an LCR, requiring banks to hold enough HQLA to cover potential cash outflows over a 30-day stress period. The LCR can help mitigate short-term market liquidity risk. The calculation of the LCR is especially important: the numerator should align with the standard definition of HQLA, while the denominator should realistically reflect expected net cash outflows over a 30-day stress period, calculated by subtracting expected cash inflows from expected cash outflows. Given the high concentration of funding in a small market and the impact of new technology on fast cash withdrawals, banks must significantly differentiate between demand and term deposits, assuming rapid outflows of demand deposits.

74. Given concentration risks from large deposits, including those placed by INPS, consideration should be given to a holistic strategy to reduce these risks. To manage flighty deposits, the supervisors can issue guidance to banks to impose penalties on early withdrawal of term deposits that are proportional to the size of the amount withdrawn. Moreover, consideration can be given to impose higher run-off rates on lumpy deposits above a given share in total deposits in the LCR calculation. Such a design of the LCR would appropriately take account of locally identified risks. It would at the same time provide strong incentives for all banks to negotiate for longer maturity deposits with large depositors. This system-wide approach will increase the collective bargaining power of banks. It could also be discussed with all key stakeholders, e.g., at a dedicated meeting of the NFSC.

75. While the LCR is designed to mitigate short-term liquidity stress, it is crucial for the BCV to further develop its liquidity management framework to support financial stability. In 2022, the BCV introduced a short-term lending instrument (Overdraft Credit Line) that banks can access on their own initiative. Although this facility shares some characteristics with a Lender of Last Resort function, it does not fully meet the requirements of ELA. Going forward, the BCV should enhance its liquidity toolkit to support banks' flexible liquidity management. This includes strengthening monetary policy operations—such as standing lending facilities—and establishing a clear ELA framework to provide temporary liquidity support in exceptional circumstances, where necessary to preserve financial stability. Such support should be provided against adequate collateral to safeguard the central bank's balance sheet.

76. Monetary and macroprudential policy tools, especially liquidity-based instruments, can interact and complement each other. For example, easing monetary conditions can contribute to the build-up of macro-financial vulnerabilities. Unremunerated reserve requirements (URRs) can serve both monetary implementation and macroprudential purposes, but domestic currency URRs are generally best considered as monetary policy implementation tools. In Cabo Verde, the monetary policy objective of maintaining the peg to the euro can be achieved through a combination of policy rate changes and if desired, adjustments to the reserve requirement. If required reserves are not included in HQLA, relaxing URRs would also relax the LCR. Changes in monetary policy, including interest rates and URRs, can influence domestic credit expansion, which in turn must be considered in the context of financial stability. Finally, although an individual bank facing deposit withdrawal can in theory obtain liquidity in the interbank market, there are risks such as capital outflows given Cabo Verde's open capital account. Therefore, the BCV should ensure more conservative practices in liquidity management across banks.

77. Inclusion of RR in HQLAs warrants careful consideration. Practices regarding the inclusion of RR in HQLAs under the LCR vary across jurisdictions: some, like Canada, fully include them; others, like Iceland, do so partially, while regions such as the Euro Area and India exclude them. While RR are traditionally monetary policy tools, LCR and the Net Stable Funding Ratio (NSFR) serve prudential supervisory purposes, necessitating coordination between central banks and supervisory authorities on RR treatment. The eligibility of RR as HQLA depends on their accessibility during stress periods, influenced by the maintenance period length and penalties for non-compliance. Misalignment in classification can distort market dynamics, inflate demand for alternative HQLA, and affect credit intermediation. Conversely, including ineligible RR could undermine the LCR's purpose by increasing banks' reliance on central bank discretion during liquidity stress to release RR[30].

D. Next Steps

78. The authorities are encouraged to sustain positive momentum in completing their macroprudential framework. Improvements in data collection and management, both in terms of quality and quantity, are key. Timely implementation of the recommendations from this mission including the introduction of standard tools would lay the groundwork for future refinement. In line with the 2022 FSSR recommendations, the authorities may consider future TA missions focused on (i) refining and calibrating certain macroprudential tools such as the PNCCyB and the LTV using multiple techniques, (ii) expanding the systemic risk dashboard for better risk monitoring, (iii) financial crisis management plan and procedures at the BCV, (iv) risk management approach regarding reserve management, and (v) improved solvency and liquidity stress testing. Meanwhile, the adoption of Basel III standards should proceed according to the multi-year plan.

[30] See IMF MCM Policy Position Note, "When Do Reserve Requirements Qualify as High-Quality Liquid Assets in the Prudential Liquidity Coverage Ratio?", forthcoming.

Annex I. Previous Recommendations from 2022 FSSR and the Latest Update on Implementation

Table 1. Key Recommendations

TA Recommendations	Priority	Timeframe[1]	Progress[2]
1. Provide the BCV with an explicit financial stability mandate and macroprudential powers	H	MT	Completed
2. Develop systemic risk monitoring tools	H	MT	In progress
3. Develop a macroprudential policy framework with intermediate targets and fully mapped policy instruments	H	MT	In progress
4. Develop DSIBs framework and appropriate capital surcharge.	H	ST	Completed
5. Design new information collection mechanism for the real estate market	MH	MT	Not started
Other Recommendations			
6. Improve stress testing capacities	MH	MT	In progress
7. Develop a coordinated system wide macroprudential framework	MH	LT	In progress
8. Take into consideration the system wide macroprudential perspective when reviewing the legislative and regulatory framework that impacts the financial system	MH	LT	In progress
9. Monitor solvency position of the insurance sector	MH	LT	In progress

[1]**Timeframe**: **IM:** < 6 months; **ST:** < 6 to 12 months; **MT:** 12 to 24 months; **LT:** > 24 months or longer.

[2] Progress as of March 2025.

Annex II. Peer Comparison

Table 1. Macroprudential Tool in Small Island Economies

	Cabo Verde	Mauritius	Seychelles
Broad-Based Tools			
Counter-cyclical capital buffer framework	no	no	no
Capital conservation buffer	no	yes	no
Limit on leverage ratio	no	no	no
Forward-looking loan loss provisioning requirement	yes	yes	yes
Limit on distributions	Ad-hoc basis	yes	no
Sectoral Measures			
Cap on loan-to-value ratio	no	yes	no
Cap on loan-to-income ratio	no	no	no
Cap on debt-service-to-income ratio	no	yes	no
Limit on amortization periods	yes	no	no
Restrictions on unsecured loans	no	no	no
Corporate sector capital requirements	yes	yes	no
Loan restrictions or Borrower eligibility criteria	no	no	no
Cap on loan-to-value ratio for commercial real estate credit	no	no	no
Cap on debt-service coverage ratio for commercial real estate credit	no	no	no
Liquidity Measures			
Liquidity Coverage Ratio	no	yes	no
Liquidity Coverage Ratio differentiated by currency	no	yes	no
Liquid asset ratio	yes	no	yes
Liquid asset ratio differentiated by currency	no	no	no
Liquidity Measures			
Stable funding requirements	no	no	no
Net Stable Funding Ratio	no	no	no
Core funding ratio	no	no	no
Loan-to-deposit ratio	no	no	no
Limits on maturity mismatches	no	no	no
Limits on maturity mismatches differentiated by currency	no	no	no

Table 1. Macroprudential Tool in Small Island Economies (concluded)

	Cabo Verde	Mauritius	Seychelles
Other Measures to Reduce Systemic Risks			
Reserve requirements for macroprudential purposes	no	no	no
Limits on foreign exchange positions	no	yes	yes
Net foreign exchange positions	no	yes	yes
Capital surcharges for systemically important institutions	yes	yes	no
Liquidity surcharges for systemically important institutions	no	no	no
Measures to mitigate risks from interconnectedness	yes	no	no
Limits on the size of exposures between financial institutions	yes	no	no
Additional risk weights on exposures between financial institutions	yes	no	no
Other measures to mitigate structural systemic risks	yes	no	no
Measures to mitigate risks from financial institutions' exposures to sovereigns	no	yes	no
Measures to address risks from financial institutions' cross border exposures (including reciprocity)	no	yes	no

Source: Macroprudential Policy Survey Database, IMF, 2023.

Annex III. Linking Indicators, Objectives and Policy

Table 1. Macroprudential Policy Objectives, Indicators, and Instruments

Intermediate Objective	Indicator Category	Selected Indicators	Policy Instruments
Resilience	Solvency	Leverage ratio, Ratio of total assets to total equity, T1 and TCR percent RWA	CCB, CCyB, SRB, LCR, NSFR, Exposure limits, Leverage ratio, min reserve requirements, capital surcharge, Loan-to-deposit ratio, etc.
	Liquidity	Loan-to-deposit ratio, non-deposit funding, LCR, share of overnight/call deposits, Spreads	
	Asset performance	NPLs, default rate.	
	Profitability	ROE, ROA	
	Risk appetite / Credit conditions	New business LTV, D/LTI	
	Exposure concentration	Total large exposures/own funds, HHI of loan book	
Limit Systemic Macro-financial vulnerabilities	Households	Debt (debt service) to disposable income, Unemployment rate,	Borrower-based measures, CCB, CCyB, SRB, Risk weights, Exposure limits, Leverage ratio, min reserve requirements, capital surcharge, Loan-to-deposit ratio, cap on NOP, etc.
	Non-financial Corporations	Debt-to-assets, profitability, share of real estate	
	Sovereign	Debt/GDP, residual maturities, int rate, financing need	
	External	Current account, NIIP, import cover ratio, Share of FX funding and assets	
	Credit	PSC, credit gap, fixed vs variable split, credit conditions, sectoral	
	Asset prices	House price to rent, house price to income, CRE price, transactions, cash purchase share, equity price.	

Table 1. Macroprudential Policy Objectives, Indicators, and Instruments (concluded)

Intermediate Objective	Indicator Category	Selected Indicators	Policy Instruments
Structural	Size	Total assets to GDP	D-SIB, Risk weights, Exposure limits, SRB, capital surcharges
	Complexity	Derivatives (notional) to total assets, share non-loan assets, share non-interest income	
	interconnectedness	Large exposures, net debt liabilities / GDP, Inter-bank loans / total financial assets, percent funding from inter-bank	
	Market concentration	Market share of top four by total assets and by loan counterparty sector	

Source: IMF Mission Team.