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

November 26, 2008

The following item is a Letter of Intent of the government of Cape Verde, which describes the policies that Cape Verde intends to implement in the context of its request for a policy support instrument from the IMF. The document, which is the property of Cape Verde, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
700 19th Street N.W.  
Washington DC 20431 USA

Dear Mr. Strauss-Kahn:

Discussions for the fifth review of the Policy Support Instrument (PSI) were held in Praia during September 22–October 3, 2008. The attached Memorandum of Economic and Financial Policies (MEFP) reviews implementation to date of the Cape Verde government’s macroeconomic and structural program under the country’s three-year PSI, which was approved by the IMF Executive Board in July 2006. It describes economic and policy developments since the fourth review of the PSI and prospects for the remainder of 2008 and for 2009. The sixth (and final) review is scheduled for May 2009.

The government of Cape Verde reaffirms its commitment to the policy priorities of the PSI and firmly believes that it will provide solid support for macroeconomic stability and the exchange rate peg, and promote growth. It will support our efforts to create adequate fiscal space to finance the much needed upgrading of the country’s infrastructure, provide buffers against external shocks, and reduce poverty. The government of Cape Verde considers that the PSI has served the country well and intends to request an extension of the PSI program for one year after the expiration in July 2009 as a bridge to request another 3-year PSI in 2010.

The government of Cape Verde requests the modification of the program’s targets for end-December 2008 for net international reserves, net domestic assets of the central bank, and ceiling on the contracting of nonconcessional long-term external debt. The modifications of the monetary targets result mainly from the global slowdown and the high food and fuel prices during most of 2008 (Table 1). Three new fiscal structural benchmarks were included to improve public financial management and strengthen debt management (Table 2).

Under the PSI, the government will regularly update the IMF on economic and policy developments and will provide the data needed for adequate monitoring of the program. During the period of the PSI, Cape Verde will consult with the IMF on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director of the IMF requests such a consultation. We authorize the IMF to publish this letter of intent, the attached MEFP, and the related staff report.

Sincerely yours,

/s/
Cristina Duarte,  
Minister of Finance

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

1. Cape Verde’s economic and policy performance remains strong. Economic growth continues to be driven by the strength of tourism exports and related FDI flows, and average inflation remains in single digits. Public debt has declined as a share of GDP and international reserves remain adequate despite the high food and fuel prices. Important progress was made towards the structural objectives of the program namely improving public sector management, strengthening the financial sector and reforming energy pricing regulation. These prudent policies have catalyzed investment and export growth, particularly in tourism and other services.

2. The government will continue to focus on enhancing macroeconomic stability and implementing structural reforms to unleash growth and reduce poverty. Fiscal policy and monetary management are consistent with the program goals and supportive of the exchange peg. Domestic public debt will continue to decline as a share of GDP and international reserves are expected to increase further. This will create additional fiscal space to increase infrastructure spending and absorb external shocks. The 2009 program aims at promoting reforms especially in public financial management and strengthening the financial sector.

Recent developments and program performance

3. Economic activity was solid in the first half of 2008 albeit with some moderation reflecting the global slowdown, and food and fuel prices pushed up inflation. Although overall economic activity remains on the strong side, leading indicators like the confidence barometer and imports of capital goods suggest it is moderating. While food and fuel prices have pushed 12-month inflation to 8 percent in August, second round effects on prices have so far been limited. This reflects the credible peg and weak wage indexation which continue to anchor firmly inflation expectations, and moreover economic activity is moderating. Recent rainfall should have a favorable effect on supply of some domestic food items. After the recent increase, we also expect core inflation (which excludes food and energy) to come down gradually in 2009 in line with core inflation in the euro area.

4. The June 2008 program quantitative targets were observed (Table 1).

• Domestic borrowing was significantly below its ceiling, and domestic debt was further reduced. The mid-year review of the budget conducted in August (a PSI assessment criterion) identified that fiscal performance was broadly in line with budget projections, reflecting strong tax revenues, and strict control of recurrent spending.

• International reserve target was met albeit with a narrow margin. Notwithstanding the strong fiscal performance, reserves accumulation moderated owing to disappointing external current transfers as well as private debt repayments in the first half of the year. The deceleration of remittances reflects the U.S. dollar
depreciation and the economic slowdown in Europe and the U.S. where most of our diaspora resides. The ongoing international credit crisis triggered by the subprime mortgage crisis is yet to have a direct impact on Cape Verde given banks limited exposure to subprime assets. However, some anecdotal evidence suggests we may be beginning to experience the indirect impact through the tightening of liquidity conditions in Europe, which has slowed down the execution of tourists related real-estate projects. Moreover, the financial turmoil appears to have had some impact in the United Kingdom, Ireland and Spain which are important sources of FDI, and tourism flows for Cape Verde.

5. **Progress on structural reforms has been steady.** The new tax codes were submitted to National Assembly in August. The Economic Regulatory Agency (ARE) will finalize the new fuel pricing formula in November and the AML/CFT laws have been submitted to National Assembly in November (Table 2). The simplified medium-term fiscal framework (PSI benchmark) has been submitted to National Assembly with the 2009 budget and posted in the Ministry of Finance’s website in November. Following the approval of the new income tax bills by the Council of Ministers planned for 2009, we intend to submit them to the National Assembly together with the forthcoming legislation rationalizing tax exemptions.

Macroeconomic Objectives and Policies

**Macroeconomic Objectives**

6. **Growth is expected to average 6 to 7 percent in 2008 and 2009,** underpinned by further growth in tourism and by public infrastructure investments. Average inflation is expected to peak at about 6.5 percent in 2008 reflecting food and fuel price shocks before declining to 4 percent in 2009 consistent with the recent decline in international oil prices, the exchange peg and Euro area inflation. The program quantitative targets for end-December 2008 were modified downward in light of the global slowdown and high food and fuel prices. Gross reserves are targeted to increase by 0.4 months of imports in 2009 reestablishing the original program reserves level for end-2008 by September 2009. The specific program objectives for the remainder of 2008 and for the first half of 2009 are set out in Table 1.

**Fiscal policy**

7. **Continued fiscal consolidation remains key to our macroeconomic program and the 2009 budget aims at a further reduction of the domestic debt-to-GDP ratio to build up international reserves.** The fiscal space created in previous years will permit to address external shocks and ease infrastructure bottlenecks while further reducing the debt ratios. Fiscal consolidation in 2009 will rely on both revenue and expenditure measures. A tax exemptions code will be introduced to eliminate unjustified exemptions and broaden the revenue base, thereby offsetting the expansion of spending on infrastructure, direct transfers to the poor to help cushion the food and fuel price increases, and the reduction of corporate and personal income taxes. The government is committed to contain expenditures through continued wage restraint. While the wage bill is budgeted to increase slightly in 2009 this is not a result of nominal wage increases, rather it is due to new hiring of professionals in vital
sectors such as health and education sectors as well as hiring and placing financial controllers to improve public financial management in government departments (a new PSI benchmark). The budget also implements decentralization of payroll management. The government has taken the decision that it will adjust electricity and water tariffs only after a careful assessment of the impact of the current high energy prices on the poor and vulnerable.

8. **Strengthening our debt management is also a high priority.** A strengthened debt management strategy will underpin the government’s borrowing program and the country’s medium-term fiscal framework submitted to the National Assembly in October (a PSI benchmark for November). In this context, the government is reforming debt management and would welcome IMF technical assistance in the areas of asset liability management. We have already made notable progress in this area as we upgraded our debt software and we now conduct debt sustainability analyses (DSA) regularly. Our next DSA to be conducted in early 2009 will inform the preparation of the 2010 budget to ensure that the expansion of borrowing for infrastructure will not endanger debt sustainability.

9. **Reinforcing vigilance over state-owned enterprises will be an important aspect of our debt and asset management.**

- To this end, the government is making the commitment to a new PSI benchmark of compiling the official statistics of Other Economic Flows for the general public sector arising from the holding gains with our five largest state-owned enterprises to allow for prompt detection of balance-sheet vulnerabilities and adoption of corrective actions.

- Official statistics will also report the consolidated assets and liabilities of these five large state-owned corporations detailing their debt by maturity, currency, residency and state guarantees. This will allow monitoring of their debt in the context of a comprehensive debt management strategy for the public sector.

- The institutional framework for debt management and the debt management strategy will be strengthened to limit fiscal risks. The strategy will be consistent with the medium-term fiscal framework and debt sustainability, and will be embedded in the mandate of the debt management office.

- Capacity of the debt management office will be reinforced. New staff will be hired and will receive training in the context of the PicatFin cooperation agreement with Portugal.

- The coordination between the Ministry of Finance and the BCV will be enhanced, including for improving management of the securities market.

- Finally, to keep a close monitoring of contingent liabilities and fiscal risks, we have included a new PSI structural benchmark in the program (Table 1) on submitting a report to the Council of Ministers on an assessment of the contingent liabilities for the state budget by March 2009.
10. The government’s reform program has been successful in preparing the country for the decline in concessional financing following the graduation from Least Developed Country status in 2008. While the government will continue to give priority to mobilizing concessional financing, raising the PSI ceiling for nonconcessional external financing is justified to allow for a nonconcessional loan approved by the European Investment Bank (EIB). This € 47 million loan is fully earmarked to expand the port of Palmeira, will be disbursed until 2011, and will be repaid in 20 years with a 4-year grace period. Extensive technical analyses by international consultants since 2005 concluded that the project has the potential to promote growth, which warrants the application of the principles of the 2008 Nouakchott Declaration of African Governors of making nonconcessional ceilings flexible in this case. Furthermore, the 2008 Joint Bank-Fund DSA concludes that this nonconcessional loan will not jeopardize debt sustainability even under the pessimistic scenario where the expected positive spillovers do not materialize.

**Monetary Management**

11. Monetary management should continue to smooth short-term capital flows to stabilize flows and to support the exchange rate peg to the Euro. In the short-run, the BCV will continue to monitor the domestic liquidity situation and external flows closely and assess its implications for domestic interest rates, credit growth, and external flows, and timely adjust domestic rates in line with the Euribor and market risk premium. Thus, the BCV raised its 14-day bill rate by 50 basis points in September and by another 50 basis points in October to 5¼ percent to synchronize its policy rate with rates in the euro area. To this end, the BCV will prepare quarterly reports on developments on balance of payments flows, including an assessment of interest sensitivity of non-resident flows into the banking system (a PSI benchmark).

12. Liquidity management in the short run will continue to be implemented through the issuance of central bank bills and the interest rate offered on the 14-day bill constitutes the BCV’s official policy rate. Over the medium-term, fiscal policy will support monetary management by accumulating government deposits at the central bank to contain domestic demand thereby allowing a build up of foreign exchange reserves in line with the program goal to support the exchange rate peg. The BCV will lift the rate ceiling on the central bank bills, and raise the official policy rate. The BCV will continue to stand ready to timely adjust rates further as needed in line with developments in international markets and risk premia. To this end, the Monetary Policy Committee will meet monthly to closely monitor and promptly react to new market developments.

**Structural Reforms**

Public sector financial management

13. The government remains fully committed to its program of strengthening public financial management. Our efforts evolve around expanding SIGOF, our home-made budget management technology platform, which is internationally recognized as a model for public financial management. In particular, the Ministry of Finance is:
• Preparing a simplified medium-term fiscal framework for the 2009 budget (a PSI benchmark) within SIGOF. This tool will allow us to anchor fiscal policy in a medium-term perspective.

• Decentralizing payroll management. In 2009, personnel management will be done by each line unit. This will allow better budget discipline and efficient labor allocation.

• Introducing a new chart of public accounts (PNCP) that will align our fiscal statistics with international best practice.

14. The government will continue to update and strengthen the tax framework. Drafts of the revised General Tax Code, Code on Judicial Processes, and Forced Tax Collection code were submitted to the National Assembly in August 2008. In addition, to further reduce and streamline the tax incentives and exemptions, the government will prepare a new tax exemption code with technical assistance from both the IMF and other external consultants. The government intends to submit this legislation to the National Assembly in early 2009. Pending the passage of this legislation, a moratorium has been put in place on the granting of new tax exemptions.

Financial Sector Issues

15. Following the introduction of new banking regulation in 2007 and AML/CFT in November 2008, the BCV is now focusing on strengthening supervision of the financial sector. In particular:

• The BCV will continue to enforce the new banking regulations through onsite and offsite inspections. For an adequate management of credit risk, it is crucial that banks follow the new risk classification of their assets and make adequate provisions.

• Given the recent experience with international sub-prime mortgage crisis, the BCV will also continue to closely monitor bank credit in various sectors and alert banks when excessive exposure in a particular sector may not be prudent which could lead to boom-bust cycles in the economy.

• The BCV will also begin to extend its supervision coverage to other non-bank financial intermediaries, particularly those exposed to the real estate sector.

• The government will promote the development of the insurance and capital markets to support economic development in Cape Verde. A new insurance sector regulation is being modernized to cover both life and non-life aspects of the insurance industry. Although the basic infrastructure on capital markets is in place, the operational and legal aspects are not yet fully developed and modernized including the Securities Code and the Company’s Act.

16. The above measures to strengthen the financial sector will support the BCV’s strategy of further gradual opening of the capital account. Gradual liberalization will support the ongoing economic and financial development of Cape Verde, including access to
international financial markets. The government is working to take further measures to minimize risks to the financial system before moving further with liberalization of other financial flows.

Energy Sector Reform

17. The government is carrying out a comprehensive strategy to ensure that the energy sector is able to support the growth and development of Cape Verde. Working within the framework of public and private partnerships in the sector, the government’s strategy emphasizes:

- Investment to increase capacity and efficiency, including improvements in electricity generation and transmission, higher water production capacities, and development of alternative energy sources;
- Increased private sector participation in the sector’s management and investment activities; and
- Formation of a joint logistics company to handle importation, storage and inter-island distribution of oil products.

18. The government’s efforts to reform the energy sector are being supported by external donors. We have negotiated with the World Bank a US$ 44 million IBRD loan specifically directed to the energy sector. This should accelerate progress in the implementation of the government’s energy sector reform agenda.
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<tr>
<td>Actual</td>
<td>Indicative Target</td>
<td>Assessment Criteria with adjusters</td>
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<td>(Billions of Cape Verde escudos)</td>
<td>(Millions of U.S. dollars)</td>
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<td>Quantitative targets</td>
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<tr>
<td>Ceiling on net domestic borrowing of the central government</td>
<td>...</td>
<td>-0.4</td>
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<td>Ceiling on net domestic assets of the central bank</td>
<td>...</td>
<td>-0.1</td>
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<td>Ceiling on the accumulation of new domestic payment arrears by the central government</td>
<td>...</td>
<td>0.0</td>
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<tr>
<td>Ceiling on the accumulation of new external payment arrears by the central government</td>
<td>...</td>
<td>0.0</td>
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<tr>
<td>Ceiling on the contracting or guaranteeing of non-concessional external debt with original maturity of more than one year by the central government</td>
<td>...</td>
<td>5.0</td>
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<tr>
<td>Ceiling on the outstanding stock of non-concessional external debt with a maturity of less than one year by the central government</td>
<td>...</td>
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<tr>
<td>Floor on net international reserves of the Bank of Cape Verde (BCV)</td>
<td>250.0</td>
<td>2.9</td>
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<td>Memorandum item: (Billions of Cape Verde escudos)</td>
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<td>Program assumptions</td>
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<td>Nonproject external financial assistance, including credit line (program assumption)</td>
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<td>0.6</td>
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<td>External debt service</td>
<td>...</td>
<td>0.7</td>
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<td>Land sales</td>
<td>...</td>
<td>0.7</td>
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<tr>
<td>Clearance of end-2006 stock of domestic arrears</td>
<td>...</td>
<td>0.4</td>
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1 Quantitative assessment criteria and benchmarks are described in the technical memorandum of understanding.
2 For purposes of calculating program adjusters, foreign currency amounts will be converted at current exchange rates.
3 Excluding borrowing for clearance of arrears and net late payments. The ceiling will be adjusted downward (upward) by the cumulative downward (upward) deviations in external debt service, and upward (downward) by the cumulative downward (upward) deviation in nonproject external financial assistance and land sales relative to program assumptions.
4 The ceiling will be adjusted downward (upward) by the cumulative downward (upward) deviations in external debt service and upward (downward) by the cumulative downward (upward) deviation in nonproject external financial assistance relative to program assumptions.
5 This assessment criterion is on a continuous basis.
6 This assessment criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000), but also commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements, the Portuguese credit line, and borrowings from the Fund.
7 The term “debt” has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt. Excluded from this performance criterion are rescheduling arrangements, the Portuguese credit line, borrowings from the Fund, and normal import-related credits.
8 The floor on net international reserves of the Bank of Cape Verde will be adjusted upward (downward) by the cumulative downward (upward) deviations in external debt service, and downward (upward) by the cumulative downward (upward) deviations in nonproject external financial assistance relative to program assumptions.
Table 2. Cape Verde: Structural Assessment Criteria and Benchmarks for 2008–09

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Conditionality</th>
<th>Timing</th>
<th>Status</th>
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<tbody>
<tr>
<td><strong>Structural Assessment Criterion</strong></td>
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<tr>
<td>Improve fiscal policy execution</td>
<td>Complete a formal mid-year review of revenue and expenditure developments that allows for taking corrective actions if necessary.</td>
<td>End-Aug. 2008</td>
<td>Met</td>
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<tr>
<td><strong>Structural Benchmarks</strong></td>
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<tr>
<td>Reduce fiscal risks</td>
<td>Finalize and publish a revised mechanism for adjusting petroleum prices (MEFP ¶5).</td>
<td>End-Mar. 2008</td>
<td>To be implemented in Nov. 2008</td>
</tr>
<tr>
<td>Strengthen financial regulation</td>
<td>Submit to the National Assembly legislation to criminalize financing of terrorism and facilitate the combating of financing of terrorism (MEFP ¶5).</td>
<td>End-Mar. 2008</td>
<td>Implemented in Nov. 2008</td>
</tr>
<tr>
<td>Strengthen financial regulation</td>
<td>Submit to the National Assembly legislation to strengthen the framework for combating money laundering (MEFP ¶5).</td>
<td>End-Mar. 2008</td>
<td>Implemented in Nov. 2008</td>
</tr>
<tr>
<td>Strengthen tax base</td>
<td>Submit the draft individual and corporate income tax bills to the National Assembly (MEFP ¶5).</td>
<td>Oct. 2008</td>
<td>Postponed for 2009</td>
</tr>
<tr>
<td>Promote domestic and external stability</td>
<td>Submit a simplified medium-term fiscal framework (MTFF) to the Council of Ministers in the 2009 budget preparation cycle and publish it on the Ministry of Finance website (MEFP ¶8).</td>
<td>Nov. 2008</td>
<td>Met</td>
</tr>
<tr>
<td>Promote financial stability</td>
<td>Prepare a quarterly report on developments on balance of payments flows, including an assessment of interest sensitivity of non-resident flows into the banking system.</td>
<td>Dec. 2008</td>
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<td><strong>New structural benchmarks</strong></td>
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<tr>
<td>Strengthen debt management</td>
<td>Compile:</td>
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<td></td>
<td>• Other Economic Flows arising from the holding gains or losses for five state-owned enterprises (ASA, TACV, Enapor, Electra and IFH) relative to their 2007 results (holding gains and losses are defined in the IMF’s Government Finance Statistics Manual 2001) (MEFP ¶9).</td>
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<td>• Consolidated balance-sheet of five state owned enterprises (ASA, TACV, Enapor, Electra and IFH) and detail their debt by maturity, currency, residency, and state guarantees (MEFP ¶9).</td>
<td>End-Mar. 2009</td>
<td></td>
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</tbody>
</table>
Objectives | Conditionality | Timing | Status
--- | --- | --- | ---
Strengthen debt management | Submit to the Council of Ministers a report on contingent liabilities of the state assessing potential risks based on the 2007 or more recent data, including those risks arising from state-owned enterprises. (MEFP ¶9). | End-Mar. 2009

1 Measures outstanding at the time of the 5th PSI review. Letter of Intent (LOI) available in Country Report 08/248.

2 The simplified MTFF specifies annual revenues, expenditures, domestic financing, and external financing for the next three years.
ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

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

I. QUANTITATIVE ASSESSMENT CRITERIA AND INDICATIVE TARGETS

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

2. Net domestic borrowing excluding for clearance of arrears and net late payments is defined as the cumulative change since the start of the calendar year of the net credit to the central government from the banking and nonbanking sectors less (1) the cumulative clearance during the calendar year of the stock of arrears as of the end of the previous year and (2) the cumulative payments during the first three months of the calendar year of expenses authorized by the previous year’s budget, plus the expenses accrued during the current year that will be paid during the first three months of the next calendar year as provisioned for in the budget law (late payments or atrasados). The ceiling will be adjusted downward (upward) by the cumulative downward (upward) deviations in external debt service and upward (downward) by the cumulative downward (upward) deviations in nonproject external financial assistance and land sales relative to program assumptions.

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

4. Reporting requirements. Data on the implementation of the budget compiled by the Ministry of Finance and Public Administration will be provided on a quarterly basis, to be submitted no later than five weeks after the end of each quarter, including (i) government domestic revenue by category; (ii) external budget support grants; (iii) government expenditure, including primary current expenditure, domestic and external interest payments, and capital expenditure, including domestically and budget support financed capital expenditure and estimates of externally project financed capital expenditure; (iv) the gross payment and gross accumulation of domestic accounts payable (atrasados); (v) the gross payment and gross accumulation of domestic payments arrears; (vi) external loan receipts

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1 Updated from the Country Report No. 08/248. Section II was deleted. Section III was renumbered as section II. Paragraphs 18 and 19 were added.
and principal payments; (vii) external arrears payments and accumulation; (viii) bank and nonbank financing; (ix) privatization and land sale receipts; and (x) any other revenue, expenditure, or financing not included above.

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

B. Net Domestic Assets of the Central Bank

6. The ceiling on the cumulative change, from the beginning of calendar-year 2006, in net domestic assets of the BCV constitutes an assessment criterion. Net domestic assets (NDA) of the BCV are defined as reserve money minus net foreign assets of the BCV, evaluated at the current end-of-period exchange rates. The program ceilings for NDA will be adjusted downward (upward) by the cumulative downward (upward) deviations in external debt service and upward (downward) by the cumulative downward (upward) deviations in nonproject external financial assistance relative to program assumptions. For purposes of calculating the adjusters, these flows will be valued at current exchange rates. Reserve money comprises bank reserves and deposits of the monetary institutions and private sector with the central bank, as well as cash in circulation.

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

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

8. Under the program, ceilings on medium- and long-term, as well as on short-term, nonconcessional external debt constitute assessment criteria. The ceiling on medium- and long-term nonconcessional external debt is on a quarterly basis while the one on short-term nonconcessional external debt is on a continuous basis. Nonconcessional external debt is defined as debt contracted or guaranteed by the central government with a grant element of less than 35 percent, calculated using currency-specific commercial interest reference rates (CIRRs) published by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Debt rescheduling and debt reorganization are excluded from the limits on nonconcessional external debt. The limits on new nonconcessional external debt contracted or guaranteed by the central government (excluding borrowing from the Fund) are specified in Table 1 of the Letter of Intent. The definition of short-term nonconcessional external debt excludes normal short-term (less than one year) import-related financing. The Portuguese government’s precautionary credit line in support of the exchange rate peg is also excluded from the definition of nonconcessional external debt. The assessment criterion on medium- and long-term nonconcessional external indebtedness applies not only to debt as defined in point No. 9 of the Guidelines on
Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), 8/24/00) but also to commitments contracted or guaranteed for which value has not been received. With respect to the assessment criterion on short-term nonconcessional external indebtedness, the term “debt” has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), 8/24/00).

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

D. Net International Reserves of the Central Bank

10. The floor on the cumulative change, from the beginning of calendar-year 2006, in net international reserves (NIR) of the BCV constitutes an assessment criterion under the program. The NIR of the BCV are defined as gross international reserves of the BCV net of its external reserve liabilities, calculated at the current exchange rates. Gross reserves of the BCV are those that are readily available (i.e., liquid and marketable and free of any pledges or encumbrances), controlled by the BCV and held for the purposes of meeting balance of payments needs and intervening in foreign exchange markets. They include gold, holdings of SDRs, the reserve position at the IMF, holdings of foreign exchange and traveler’s checks, demand and short-term deposits at foreign banks abroad, fixed-term deposits abroad that can be liquidated without penalty, and any holdings of investment-grade securities. External liabilities of the BCV comprise liabilities to nonresidents contracted by the BCV with an original maturity of less than a year, any net off-balance-sheet position of the BCV (futures, forwards, swaps, or options) with either resident and nonresidents, any arrears on principal and interest to external creditors and suppliers, and purchases from the IMF. The program floors for the NIR will be adjusted upward (downward) by the cumulative downward (upward) deviations in external debt service and downward (upward) by the cumulative downward (upward) deviations in nonproject external financial assistance relative to program assumptions. For purposes of calculating the adjusters, these flows will be valued at current exchange rates.

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

E. Nonaccumulation of New Domestic Payments Arrears

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

13. **Reporting requirements.** The Ministry of Finance and Public Administration, through the D.G.T., will submit on a quarterly basis a detailed table of the stock of domestic payments arrears, including the accumulation, payment, rescheduling and write-off of domestic payments arrears during the quarter. The data are to be provided within four weeks after the end of the quarter.

**F. Nonaccumulation of External Payments Arrears**

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

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

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

**II. OTHER DATA REQUIREMENTS**

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

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

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