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

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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 financial support 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.

November 9, 2010

Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Dear Mr. Strauss-Kahn

In July 2010, the government of Cape Verde completed its program supported by the IMF under the Policy Support Instrument (PSI). The PSI provided firm support for our policies for macroeconomic stability, economic growth, and poverty reduction. Looking ahead, the government is seeking to continue its close policy dialogue with the IMF and believes that Cape Verde is well-suited to the PSI: macroeconomic stability has been achieved; financial resources from the Fund are not needed; but the PSI would support the government's ongoing efforts to strengthen policy performance and signal its commitment to sound policies to the international community.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out the government's objectives and policies for 2010–11, for which it requests support under a new 15-month PSI supported program, which will allow the new government to assess the form of its future engagement with the Fund after elections in 2011. Key elements of this program include a prudent management of domestic government debt, a further increase in international reserves, and structural reforms to improve debt management, rationalize tax incentives, enhance monetary operations, and strengthen the financial sector.

The government believes that the policies outlined in the MEFP are adequate to achieve the objectives of the successor PSI-supported program. 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 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

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Recent economic developments

1. **Cape Verde's highly open economy has been quite resilient to the impact of the global recession.**
 - Real GDP growth slowed in 2009, but remained strong compared to global economic growth. This relative moderation in growth stems from a global slowdown in tourism, FDI flows, and private construction, offsetting fiscal stimulus policies. Leading indicators, such as the confidence barometer, show signs of recovery in 2010; and the growth rate in 2010 should pick up on account of public investment–fueled construction sector, and transportation. The growth rate should then gradually rise in the medium term.
 - The fiscal stimulus implemented in 2009, including subsidies, tax cuts, and accelerated investment spending, helped Cape Verde weather the crisis and protect the poor. We used the policy space created by prudent fiscal policies in recent years and additional inexpensive external financing to accelerate the public investment program that was already in place.
 - Inflation declined from 6.8 percent (annual average) in 2008 to 1 percent in 2009 and should remain around 3 percent in the medium term.
2. **The 2006–10 policy support instrument (PSI) has been very supportive of the Cape Verdean reform agenda and growth policy.** The PSI helped consolidate macroeconomic stability, build international reserves buffers, improve public finance management, reduce fiscal risk from state-owned enterprises (SOEs), strengthen the control and supervision of the financial sector, and strengthen the national institutional framework through structural and legislative reforms. The PSI also had a catalytic role in donor support and strengthened the credibility of government policies. During the PSI, Cape Verde joined the World Trade Organization (WTO), graduated from Low Developed Country (LDC) status, and was accepted as a special partner of the European Union (EU). As a facilitator of reforms, the PSI helps to advance the objectives of our Poverty Reduction and Growth Strategy. Cape Verde is on track to achieve most of the Millennium Development Goals (MDGs) by 2015, including halving the 1990 poverty level.
3. **Challenges remain for Cape Verde to benefit from the current window of highly concessional financing while ensuring debt sustainability.** The rapid implementation of our mostly externally financed investment program is ongoing. During recent years, we have worked to mobilize concessional external financing for our investment program. This work has improved our project implementation ratio from below 60 percent earlier in the decade to around 90 percent currently. The pace of our investment program is expected to continue in 2011–12, but should return to more moderate levels after the completion of current large

infrastructure projects. The investment program is intended to support long-term private growth based on services exports in line with the Cape Verde Poverty Reduction and Growth Strategy. It addresses critical infrastructure bottlenecks in roads, airports, sea ports, and electricity and water supply. Project appraisals carefully prepared with the help of our development partners confirm that the economic and social return from these projects should be high. The external financing of the investment program, even though on highly concessional terms and on long maturities, has added to the total debt burden, especially the present value (PV) of debt to GDP. Cape Verde's repayment capacity remains strong, the debt service to revenues or export ratios staying well below the thresholds. Cape Verde's strong policies and institutions should help ensure that the growth dividends from the accelerated public investments do materialize and help consolidate debt sustainability in the medium term.

Macroeconomic objectives and policies

4. **The new 15-month PSI will continue to build foreign reserves and keep the domestic debt stock low to support the exchange rate peg.** Net domestic borrowing will be contained to protect international reserves. In addition, fiscal policy will be orientated toward gradual exit from the current counter-cyclical fiscal measures. As the pace of public investment slows, fiscal deficit is expected to decrease from 13.5 percent of GDP in 2010 to 8 percent in 2012, and decline thereafter. External borrowing will continue, mostly on concessional terms, and will be scaled back to past levels after the completion of the current large infrastructure projects.

Fiscal policy

5. **In 2010–11, fiscal policy will remain anchored on implementing the medium-term public investment program and minimizing and prudently managing debt accumulation.**

- In order to protect international reserves and keep net domestic debt level below 20 percent of GDP, net domestic borrowing in 2011 will continue to be kept low.
- Debt management will be strengthened. A Medium-Term Debt Strategy (MTDS) describing the debt level, composition, and desirable trend will be presented to the Council of Ministers in June 2011. Because the concessional debt window will likely decrease as our income rises, we will increasingly borrow on nonconcessional terms, and the MTDS will help us to prudently manage our debt portfolio. In the medium term, the main objective will be to bring down the PV of debt to GDP.
- To achieve the debt stock alleviation goal, externally financed public investments will have to be scaled back to more modest levels after the current acceleration. Public capital expenditures financed with foreign loans are expected to decline from

12.3 percent of GDP in 2010 to 4.7 percent in 2013. Moreover, growth dividends from the public investments program should materialize and help achieve the goal of a reduced PV of debt to GDP.

6. Authorities will continue to improve public financial management and strengthen the tax base.

- As usual, we will conduct a mid-year fiscal review for 2011, and we will confirm that the external borrowing is consistent with debt sustainability and with the medium-term debt stock alleviation objective.
- The government has prepared new individual and corporate income tax bills and is revising related legislation to further reduce and streamline the tax incentives and exemptions. The government intends to submit these tax bills to the National Assembly by end-June 2011.
- We will continue to enforce tax collection, especially the 2009–2010 unpaid corporate income taxes and VAT.

7. The government will continue to address contingent liabilities arising from state-owned enterprises (SOEs). To avoid the emergence of fiscal risks, the government has enacted Law of State Enterprises, Public Managers, and Corporate Good Governance. These measures aim to improve the control and monitor of the sector, by establishing a set of rules and procedures which will serve as a framework for the regulation of sector, permitting a re-structuring of the public enterprises in order to become an instrument for economic policies. Moreover, they will allow a change of paradigm in the management of the parastatals, to become result/objective oriented. The electricity company, Electra, and the airline company, TACV, have been put on a restructuring plan to end their structural losses or implicit subsidies. The strategy for Electra—to stabilize costs and reduce reliance on oil imports—is to substitute photovoltaic and wind power (using a public-private partnership) instead of fossil-based generation. After downsizing its staff, TACV improved the quality of its services and renewed its IATA certifications. The TACV presented an improved income statement in 2009 and has recently cleared its arrears to private providers accumulated through 2009. The TACV has signed an agreement with the National Company for Airports and Security (ASA) to repay its arrears and the payment plan is in place. The government is committed to increasing transparency regarding implicit subsidies between SOEs, by making any unpaid claims between SOEs explicit in the contingent liabilities report by June 2011.

8. In accordance with its poverty reduction strategy, the government is committed to safeguarding priority spending. Active public policies targeting vulnerable individuals continue to be implemented at a strong pace. Those policies aim at supporting sustainable solutions to unemployment and at fostering the integration of the most needy into the economic and social life of the country. Examples include the reform of the social security system, the intensification of programs to combat poverty, the implementation of the

National Equality and Gender Equity Plan, and adoption of measures to ensure social reinsertion for children and adolescents in situations of risk. Additionally, the Government is investing heavily in the provision of training that caters to current labor market needs, particularly among the youth. Skills development are also being supported by investments on housing, health, water and sanitation, all of which conducive to a better and more productive life for Cape Verdeans.

Monetary management and financial sector policies

9. **The Bank of Cape Verde (BCV) will safeguard the exchange rate peg by continuing to accumulate foreign reserves and enhancing monetary operations.** With a largely open capital account, monetary policy will be geared toward stabilizing short-term external capital flows and domestic liquidity. Thus, the BCV lowered its policy rate by 100 basis points to 4.25 percent in January 2010, as foreign reserves built up and the global risk premium narrowed. The BCV will continue to closely monitor capital flows and assess implications for domestic interest rates and credit growth.

10. **We are committed to developing a liquid and dynamic government security market.** We will address gradually market distortions in the primary government security market. We intend to: (i) issue fungible government bonds, Obrigacoes do Tesouro, to reduce market fragmentations and foster liquidity in the secondary market; (ii) use uniform-price auctions in the primary market; (iii) enhance the auction mechanisms by publishing issuance calendars one year in advance to foster a competitive, credible, and transparent public securities market; And (iv) use e-banks, internet, and ATMs to permit individuals to buy the securities in the secondary market.

11. **The government is committed to strengthening the coordination of fiscal and monetary policy to support the exchange rate peg.** Under the new PSI, the Ministry of Finance (MoF) and the BCV will sign a fiscal-monetary coordination agreement. Under the agreement, the BCV will use treasury securities systematically as the main instrument for monetary operations. We will enhance the joint MoF-BCV liquidity committee to assess the implications of fiscal financing needs on the monetary aggregates and international reserves.

12. **We will continue to strengthen the financial sector,** taking into account some weaknesses identified in the 2008 Financial Sector Assessment Program (FSAP) recommendations.

- The BCV is committed to enhancing the regulatory framework and supervisory capacity. The BCV will ensure sufficient resources to its supervisory body to effectively enhance onsite and offsite inspections. It will continue to strengthen compliance for capital adequacy and update the IMF if any bank falls below regulatory capital requirements. Additionally, though the BCV supervises the insurance sector, in the medium term, it will aim to extend its supervisory perimeter

to other nonbank financial institutions, including **the INPS**, according to FSAP recommendations.

- Commercial banks have completed migration and compliance with International Financial Reporting Standards (IFRS) on bank accounting.
- The BCV is working on issuing a financial stability report on a regular basis, starting in the first half of 2011.
- The draft legislation of the new banking law, which will harmonize prudential norms between onshore and offshore banking activities, will be submitted to the National Assembly for approval by end June 2011.

13. **We will expand the existing standing financial stability committee at the BCV to include MoF by signing a memorandum of understanding (MoU).** The MoU will be signed by minister of finance and the governor of the BCV. It will formalize cooperation arrangements for crisis preparedness and contingency planning and ensure that all members have their own contingency plan and are well-trained. The MoU will: (a) develop a coordinated communication strategy; (b) define common principles for crisis management; (c) describe how agreed procedures are activated in times of crisis; and (d) define channels for information exchange.

Program monitoring

14. **Implementation of the program will be monitored through semiannual reviews conducted by the IMF Executive Board on the basis of quantitative indicators and structural benchmarks.** These indicators are defined in the attached TMU. The quantitative indicators for end-March 2011 and end-September 2011 will be assessment criteria, and the quantitative indicators for end-December and end-June will be indicative targets. The program will cover November 2010–November 2011. The first review of the program will be based on the end-March 2011 assessment criteria and is scheduled for completion by end-July 2011. The second review of the program will be based on the end-September 2011 performance criteria and is scheduled for completion by end- January 2012.

15. **To ensure that the program is effectively implemented, the government has set up a PSI monitoring committee.** The PSI monitoring committee created for the 2006–10 PSI, under the aegis of Ministry of Finance and BCV—will monitor the implementation of the program for 2010–11. This MEFP will be disseminated within the government, government agencies, public entities, and Cape Verdean society.

Table 1. Cape Verde: Proposed Structural Benchmarks for 2010–11

Objective/Macro Criticality	Structural Benchmark	Timing
Strengthen debt management	Create a medium-term strategy report on the debt level, composition, and desirable trend and present the report to the council of ministers	end-June 2011
Strengthen tax base	Submit the draft individual and corporate income tax bills to the National Assembly	end-June 2011
Promote fiscal accountability	Present cross debt between SOEs in the contingent liabilities report and submit at the council of ministers.	end-June 2011
Strengthen the financial sector	The BCV and Ministry of Finance sign a memorandum of understanding to expand and formalize the standing financial stability committee at the BCV	end-March 2011
Strengthen the financial sector	Submit the new banking law, which unifies the regulatory framework for onshore and offshore banks, to the National Assembly	end-June 2011
Strengthen fiscal-monetary policy coordination	The BCV and Ministry of Finance sign a fiscal-monetary coordination agreement	end-December 2010
Strengthen securities market	Issue fungible treasury bonds with common face and coupon values and dates of payments	end-December 2010

Table 2. Cape Verde: Proposed Quantitative Assessment Criteria and Indicative Targets for 2010-11 under the PSI ¹

	Cumulative Flows from End-Dec, 2009		Cumulative Flows from End-Dec, 2010		
	2010		2011		
	end-Dec. Indicative Targets		end-March Assessment Criteria	end-June Indicative Targets	
Quantitative targets		(Billions of Cape Verde escudos)			
Ceiling on net domestic borrowing of the central government ²	1.5		0.9	1.5	2.5
Ceiling on net domestic assets of the central bank ³	0.1		0.3	0.6	0.8
Ceiling on the accumulation of new domestic payment arrears by the central government	0.0		0.0	0.0	0.0
		(Millions of U.S. dollars)			
Ceiling on the accumulation of new external payment arrears by the central government ⁴	0.0		0.0	0.0	0.0
Ceiling on the contracting or guaranteeing of non-concessional external debt with original maturity of more than one year by the central government ⁵	35.0		35.0	35.0	35.0
Ceiling on the outstanding stock of nonconcessional external debt with a maturity of less than one year by the central government ^{4,6}	0.0		0.0	0.0	0.0
		(Millions of euros)			
Floor on net international reserves of the Bank of Cape Verde (BCV) ⁷	15.0		6.6	13.2	19.8
		(Percentage)			
Floor on the regulatory capital ratio of individual banks ⁸	10.0		10.0	10.0	10.0
<i>Memorandum item:</i>					
Program assumptions		(Billions of Cape Verde escudos)			
Nonproject external financial assistance, including credit line (program assumption)	3.0		0.6	0.8	1.4
External debt service	2.9		0.9	1.5	2.0
Land sales	0.7		0.2	0.3	0.3

¹ For purposes of calculating program adjusters, foreign currency amounts will be converted at current exchange rates.

² Excluding borrowing for clearance of arrears and net late payments. The ceiling will be adjusted upward by the cumulative upward deviation in external debt service, and by the cumulative downward deviation in nonproject external financial assistance and land sales relative to program assumptions. The ceiling will be adjusted downward by the cumulative downward deviation in external debt service and by the cumulative upward deviation in land sales relative to program assumptions. The ceiling will be adjusted upward by the costs of restructuring state-owned enterprises up to a limit of CVE 1.5 billion.

³ The ceiling will be adjusted upward by the cumulative upward deviation in external debt service and by the cumulative downward deviation in external financial assistance, project loans and budget loans relative to program assumptions. The ceiling will be adjusted downward by the cumulative downward deviation in external debt service relative to program assumptions. The ceiling will be adjusted upward by the costs of restructuring state-owned enterprises up to a limit of CVE 1.5 billion.

⁴ This assessment criterion is on a continuous basis.

⁵ 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, as amended on August 31, 2009), but also commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are debt rescheduling and debt reorganization, the Portuguese credit line, and borrowings from the Fund.

⁶ 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), August 24, 2000, as amended on August 31, 2009). Excluded from this performance criterion are rescheduling arrangements, the Portuguese credit line, borrowings from the Fund, and import-related financing.

⁷ The floor on net international reserves of the Bank of Cape Verde will be adjusted downward by the cumulative upward deviation in external debt service, by the cumulative downward deviation in external financial assistance, project loans and budget loans relative to program assumptions, and by the costs of restructuring state-owned enterprises up to a limit of 13.6 million euros. The floor will be adjusted upward by the cumulative downward deviation in external debt service relative to program assumptions. Additionally, in the case Cape Verde participates in any SDR allocation(s) between June 30, 2009 and the test date, the floor on net international reserves will be adjusted upwards by the equivalent of the amount of the cumulative additional SDR allocation(s) up to the test date measured at program exchange

⁸ The floor on banks' regulatory capital ratios is an indicative floor for all test dates. This indicative target is continuous.

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 seventh and eighth 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. **The central government** includes all units of budgetary central government. It does not include local government (municipalities) and public corporations

3. **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 upward by
 - the cumulative upward deviations in external debt service, by
 - the cumulative downward deviations in nonproject external financial assistance and land sales relative to program assumptions, and by the costs of restructuring state-owned enterprises up to a limit of CVE 1.5 billion.
- The ceiling will be adjusted downward by
 - the cumulative downward deviation in external debt service and by
 - the cumulative upward deviation in land sales relative to program assumptions.

4. **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 BCV, commercial banks, and nonbank institutions, less all deposits held by the central government with the BCV 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).

5. **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 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.

6. 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

7. The ceiling on the cumulative change, from the beginning of calendar-year 2009, 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 upward by
 - the cumulative upward deviations in external debt service, by
 - the cumulative downward deviations in external financial assistance, and project and budget loans relative to program assumptions, and by the costs of restructuring state-owned enterprises up to a limit of CVE 1.5 billion.
- The ceiling will be adjusted downward by the cumulative downward deviation in external debt service 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.

8. **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

9. External public debt (long-term, medium-term, and short-term) is defined as debt to nonresidents contracted or guaranteed by the central government.¹ The external public debt comprises the external debt of the central government, the Bank of Cape Verde, and the external debt of the official sector entities and state owned enterprises (SOEs) guaranteed by the central government. External public debt also includes the private external debt to nonresidents for which official guarantees have been extended.

10. Under the program, ceilings on medium- and long-term, as well as on short-term, nonconcessional external debt constitute assessment criteria. The ceilings on nonconcessional external debt are 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 assessment criteria 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. Nonconcessional external debt excludes normal short-term (less than one year) import-related financing. The Portuguese government's precautionary credit line (the "Portuguese credit line") in support of the exchange rate peg is also excluded from the definition of nonconcessional external debt. The assessment criteria on 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, as amended August 31, 2009) but also to commitments contracted or guaranteed for which value has not been received.

11. **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

12. The floor on the cumulative change, from the beginning of calendar-year 2009, 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

¹ At the time of the first PSI review, the definition of external public debt will be broadened to include the five public enterprises currently covered by the government's contingent liabilities report, and the ceiling on non-concessional external debt will likewise be increased to account for the broader coverage.

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 residents and nonresidents, any arrears on principal and interest to external creditors and suppliers, and purchases from the IMF.

- The program floors for the NIR will be adjusted downward by
 - the cumulative upward deviations in external debt service, by
 - the cumulative downward deviations in external financial assistance, and project and budget loans relative to program assumptions, and by the costs of restructuring state owned enterprises up to a limit of € 13.6 million. For purposes of calculating the adjusters, these flows will be valued at current exchange rates.
- The floor will be adjusted upward by the cumulative downward deviation in external debt service relative to program assumptions. Additionally, in the case Cape Verde participates in any SDR allocation(s) between June 30, 2009 and the test date, this floor will be adjusted upwards by the equivalent of the amount of the cumulative additional SDR allocation(s) up to the test date measured at program exchange rates.

13. **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

14. 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.

15. **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

16. 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.

17. 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.

18. **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.

G. Regulatory Capital Ratio

19. The floor is defined as the minimum ratio of regulatory capital to risk-weighted assets following the IMF Financial Soundness Indicators Compilation Guide. This will be monitored through the monthly regulatory capital to risk-weighted assets for each individual bank in the financial soundness indicators of the banking sector. The regulatory capital ratio of individual banks will be provided to the IMF on a monthly basis within six weeks after the end of each month.

II. OTHER DATA REQUIREMENTS

20. 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.

21. 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).

22. 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).

23. The table of Financial Soundness Indicators will be transmitted to the IMF on a monthly basis within six weeks after the end of each month. The nomination of individual banks is optional.