

International Monetary Fund

[Cape Verde](#) and the
IMF

Cape Verde: Letter of Intent

Press Release:
[IMF Executive Board
Completes Second
and Final Review of
Cape Verde's
Performance under
Policy Support
Instrument](#)
January 30, 2012

January 5, 2012

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.

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January 5, 2012

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Dear Madame Lagarde:

1. Discussions for the concluding review of the Policy Support Instruments (PSI) were held in Praia during November 16–29, 2011. The PSI provided firm support for our policies for macroeconomic stability, economic growth, and poverty reduction.
2. We used the 15-month PSI program to support the government's policy goals. The government accelerated its investment program and increased social spending. Nonetheless, Cape Verde is confronting an adverse external environment and this has led to a sharply weaker balance of payments. The government cut spending to contain the budget deficit and support external current account adjustment. The BCV has tightened its monetary policy stance since mid 2011 to protect reserves. Inflation remains subdued.
3. All except two assessment criteria for end-September 2011 were met. The end-September NDA and NIR targets were missed by 2.0 percent of GDP and 4.1 percent of GDP, respectively, because of the expansion of credit to commercial banks and running down of government deposits, and the adverse external environment. We are taking corrective actions and are committed to bringing the monetary program back on track.
4. We met five benchmarks and made substantial progress on the remaining two structural benchmarks. The two outstanding benchmarks are: for submission of revised financial framework and tax laws to the parliament, which we expect to fulfill soon.
5. The economy continues to grow at a moderate rate and core inflation is contained, but the risks to our economic outlook are rising mainly because of the deteriorating external environment. Our short-term macroeconomic policy is committed to stabilize reserves at around 3 months of imports. Medium-term fiscal policy will aim to lower the deficit to safeguard debt sustainability and minimize domestic financing. Monetary policy will continue to be geared towards anchoring market expectations and safeguarding the peg.

Further structural reforms are still needed to enhance debt management capacity, reform loss-making state-owned enterprises, and strengthen financial sector reforms.

6. We request the completion of the second review under the PSI and waivers for the two missed end-September assessment criteria on the BCV's NDA and NIR. We authorize the IMF to publish this letter of intent, and the related staff report.

Sincerely yours,

/s/

Cristina Duarte,
Minister of Finance

cc: Mr. Kossi Assimaidou, Executive Director
Mr. Carlos Burgo, Governor of Banco de Cabo Verde

Table 1. Cape Verde: Quantitative Assessment Criteria and Indicative Targets for 2010–11 Under the PSI¹

	Cumulative flows from end-Dec, 2010											
	2011											
	end-March			end-June				end-September				end-December
Assessment criteria	Adjusted assessment criteria	Actual	Indicative targets	Adjusted indicative targets	Actual	Gap	Assessment criteria	Adjusted assessment criteria	Actual	Gap	Actual	
Quantitative targets	(Billions of Cape Verde escudos)											
Net domestic borrowing of the central government, ceiling ²	0.9	2.0	1.1	1.5	3.8	-0.1	-3.8	2.9	5.4	1.7	-3.7	
Net domestic assets of the central bank, ceiling ²	0.3	2.4	3.2	0.6	1.6	6.0	4.5	0.8	3.6	6.6	3.0	1.8
Nonaccumulation of new domestic arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	(Millions of U.S. dollars)											
Nonaccumulation of new external arrears ³	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contracting or guaranteeing nonconcessional external debt with original maturity of more than one year, ceiling ⁴	35.0	35.0	0.0	35.0	35.0	0.0	-35.0	35.0	35.0	0.0	-35.0	
Outstanding stock of nonconcessional external debt with a maturity of less than one year, ceiling ^{3, 5}	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	(Millions of euros)											
Net international reserves, floor ²	6.6	-12.8	-22.7	13.2	4.0	-66.1	-70.1	19.8	-5.5	-61.4	-55.8	-34.2
Indicative target	(Percent)											
Regulatory capital ratio of individual banks, floor ³	10.0	10.0	15.3	10.0	10.0	13.6		10.0	10.0	14.5		
<i>Memorandum items:</i>												
Program assumptions	(Billions of Cape Verde escudos)											
Nonproject external financial assistance, including credit line (program assumption)	1.2		0.0	2.4		0.2		3.5		1.4		
External debt service	0.9		0.6	1.5		1.3		2.0		2.1		
Land sales	0.2		0.0	0.3		0.0		0.3		0.0		
External financial assistance, project and budget support loans	5.9		3.5	11.7		10.5		17.6		14.8		

¹ Foreign currency amounts will be converted at current exchange rates.

² The ceiling or floor will be adjusted as specified in the TMU.

³ Continuous.

⁴ 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 IMF.

⁵ 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 IMF, and import-related financing.

Table 2. Cape Verde: Structural Benchmarks for 2010–11

Objective/Macro Criticality	Structural Benchmark	Timing	Status
Strengthen securities market	Issue fungible treasury bonds with common face and coupon values and dates of payments.	end-June 2011	Met
Strengthen tax base	Submit the draft individual and corporate income tax bills to the National Assembly.	end-June 2011	Not met
Promote fiscal accountability	Present cross debt between state-owned enterprises in the contingent liabilities report and submit to the council of ministers.	end-June 2011	Met
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-September 2011	Met with delay
Strengthen fiscal-monetary policy coordination	The BCV and Ministry of Finance sign a fiscal-monetary coordination agreement.	end-September 2011	Met with delay
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-September 2011	Met
Strengthen the financial sector	Submit the financial framework law, which unifies the regulatory framework for onshore and offshore banks, to the National Assembly.	end-December 2011	Not met