



CABO VERDE

REQUEST FOR AN EXTENSION OF THE PROGRAM UNDER THE POLICY COORDINATION INSTRUMENT

January 2021

In the context of the Request for an Extension of the Program Under the Policy Coordination Instrument, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions with the officials of Cabo Verde on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 17, 2020.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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CABO VERDE

REQUEST FOR AN EXTENSION OF THE PROGRAM UNDER THE POLICY COORDINATION INSTRUMENT

December 17, 2020

Approved By
Annalisa Fedelino
(AFR) and **Johannes**
Wiegand (SPR)

Prepared by the African Department, in consultation with other departments.

- 1. Cabo Verde's Policy Coordination Instrument (PCI) is due to expire on January 15, 2021. In the attached letter, the authorities request its extension through March 31, 2021.** Cabo Verde's 18-month PCI was approved by the Executive Board on July 15, 2019. Two reviews have been concluded, with the second delayed by over a month due to additional work generated by the impact of COVID-19 for staff and for the authorities. The requested extension will provide additional time to conclude the third and final review under the PCI.
- 2. Performance under the PCI has been strong.** All reform targets (RTs) were met, except for one that was partially implemented at the time of the second review and reset to end-December 2020; all quantitative targets (QTs) were met, except for the floor on tax revenue for both reviews; and all non-quantitative continuous targets were observed (Tables 1 and 2). Available information shows that the authorities have maintained efforts towards the achievement of outstanding RTs under the program, and there are indications that QTs for end-September 2020 (test date for the third PCI review) were met.
- 3. The economy is being significantly affected by COVID-19, and prospects for 2021 and the medium term are subject to uncertainties and downside risks.** The authorities have been pro-active in responding to the economic and social impact of the pandemic with support from Cabo Verde's development partners, including the IMF under the Rapid Credit Facility. For 2020, real GDP was projected to contract by 6.8 percent at the time of the second PCI review. However, this figure may need to be marked down further due to the collapse in tourism and transport flows, and the sharp decline in activity in other sectors caused by borders closings, supply chains disruptions, and domestic COVID-19 containment measures. A rebound is projected for 2021 and medium-term prospects are generally positive, except for debt dynamics that have deteriorated due to the severe economic impact of the pandemic and related borrowing in 2020 to cover additional financing needs. This outlook is subject to important

downside risks, notably the duration and strength of the pandemic. It is also contingent upon the global economic recovery, and the authorities' ability to advance structural reforms and support the program's medium-term objectives after the pandemic.

4. Staff supports the authorities' request for an extension of the PCI through March 31, 2021. The attached decision is proposed for adoption by the Executive Board on a lapse-of-time basis.

Table 1. Cabo Verde: Quantitative Targets Under the PCI¹
(2019–20)

	2019					Cumulative flows from the beginning of the year					
	end-September		Actual	Status	end-December	end-March		Status	end-June	end-September	
	Quantitative Targets (QT)	Adjusted QT			Actual	Quantitative Targets (QT)	Adjusted QT		Actual	Actual	Quantitative Targets (QT)
Quantitative targets											
Primary balance, floor ²	841	-335	2,510	Met	1,408	-2,023	-2,319	874	Met	-2,607	-11,685
Tax revenue, floor	31,362	31,362	30,652	Not met	42,015	10,471	10,471	9,919	Not met	15,888	23,114
Net other liabilities, ceiling ³	6,345	6,345	1,657	Met	6,396	1,022	1,022	106	Met	122	3,862
Nonaccumulation of domestic arrears ⁴	0	0	0	Met	0	0	0	0	Met	0	0
Non-accumulation of external payment arrears ⁴	0	0	0	Met	0	0	0	0	Met	0	0
Nominal level of new concessional external debt of central government, ceiling	9,563	9,563	7,785	Met	11,277	3,822	3,822	984	Met	2,933	14,721
Nominal level of new nonconcessional external debt of central government, ceiling	0	0	0	Met	0	0	0	0	Met	0	0
Net international reserves, floor ²	528	514	634	Met	666	572	547	669	Met	650	600
Non-quantitative continuous targets											
Non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions				Met					Met		
Non-introduction or modification of multiple currency practices				Met					Met		
Not concluding bilateral payments agreement which are inconsistent with Article VIII				Met					Met		
Non-imposition or intensification of import restrictions for balance of payments reasons				Met					Met		
<i>Memorandum items:</i>											
Social spending	8,685		8,149		14,996	3,024		2,606		5,721	8,426
Net onlending	3,647		-288		2,093	672		-15		-139	2,889
Capitalization	2,698		1,944		4,303	350		121		261	973
Program assumptions											
Project and budget support grants	2,401		1,225		6,238	579		283		1,389	3,265
External debt service	5,648		5,607		6,034	1,667		1,903		3,498	5,611
Sales of assets	2		82		339	0		45		46	46
Project and budget support loans	7,231		6,828		9,747	3,151		984		2,847	12,694

Sources: Cabo Verdean authorities; and IMF staff estimates and projections.

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 Net other liabilities includes net onlending, capitalization, and other assets.

⁴ Continuous.

Table 2. Cabo Verde: Reform Targets for 2019–21 Under the PCI

Actions	Target Date	Objective	Status
Fiscal reforms			
<ul style="list-style-type: none"> Complete a review report on exemptions identifying their potential impact and streamlining actions. 	End-December 2019.	Improve tax collection.	Met.
<ul style="list-style-type: none"> Streamline exemptions for Import duties, VAT, and excises. 	End-June 2020. December 2020 (new target date for VAT and excises, approved at the time of the second review).	Improve tax collection.	Not met (partially implemented at the time of the second review).
<ul style="list-style-type: none"> Submit to Parliament the budget for 2020 that is in line with commitments under the PCI. 	End-October 2019.	Support fiscal and debt sustainability.	Met.
<ul style="list-style-type: none"> Prepare a Strategy Note on the assets and liabilities and management of the Sovereign Private Investment Guarantee Fund (SPIGF). 	End-April 2020	Provide a conceptual framework for the SPIGF.	Met.
SOEs reforms			
<ul style="list-style-type: none"> Implement quarterly monitoring of actual performance of 6 key SOEs against their approved budgets, starting at end-December 2019. 	Continuous.	Improve fiscal reporting and reduce fiscal risk.	Met.
<ul style="list-style-type: none"> Compile financial information on cash flow performance of the 6 largest SOEs for FY2019. 	End-July 2019.	Improve fiscal reporting and reduce fiscal risk.	Met.
Monetary reforms			
<ul style="list-style-type: none"> Release the minutes of the Monetary Policy Committee meetings at least one month after each meeting, starting at end-July 2019. 	Continuous.	Improve the communication of monetary policy.	Met.
<ul style="list-style-type: none"> Reduce the excessively wide overnight interest rate corridor to a maximum of 150-200 basis points. 	End-December 2019; implemented in June 2019.	Improve monetary policy transmission mechanism.	Met.
Financial sector reforms			
<ul style="list-style-type: none"> Create a functional central registry of mobile collateral. 	Mid-January 2021 (new target date (set at the time of the second review).	Improve access to finance.	In progress.
<ul style="list-style-type: none"> Revamp the public credit registry information system by completing the procurement of the relevant software system. 	End-December 2020.	Improve access to finance.	In progress.

Letter of Intent

Praia, December 16, 2020

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A

Madame Managing Director:

The economic impact of the COVID-19 pandemic is severely affecting Cabo Verde. We have been pro-active in addressing the new challenges generated by the pandemic through healthcare, social, fiscal and monetary policy measures to help the most vulnerable, households and businesses address the impact of the health crisis. In this connection, we are grateful for the support we received from Cabo Verde's development partners, including the International Monetary Fund (IMF), under the Rapid Credit Facility, and continuous policy advice in the context of Cabo Verde's Policy Coordination Instrument (PCI), approved by the IMF Executive Board on July 15, 2019.

Strong performance in the implementation of programmed measures resulted in the successful conclusion of two PCI reviews in March and October 2020. However, additional work related to the economic impact of COVID-19 led to delays in the conclusion of the second review. With the PCI expiring on January 15, 2021, we are requesting its extension through March 31, 2021 to facilitate the conclusion of the third and final review of the program by the IMF Executive Board.

We remain fully committed to the implementation of sound policies and reforms to support the post-pandemic economic recovery and safeguard the achievement of medium-term objectives under the PCI, with a focus on fiscal and debt sustainability.

We authorize the publication of this letter as well as the related staff report requesting an extension of Cabo Verde's PCI, and their posting on the IMF official webpage. We will also post these documents, including the Portuguese version, on the government official webpage.

Sincerely,

/s/
Olavo Correia
Vice-Prime-Minister and
Minister of Finance

/s/
João Serra
Governor of
Banco de Cabo Verde