INTERNATIONAL MONETARY FUND

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CABO VERDE

July 2023

2023 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CABO VERDE

In the context of the Staff Report , the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its June 22, 2023 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 22, 2023, following discussions that ended on May 9, 2023, 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 June 7, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Statement by the Executive Director** for Cabo Verde.

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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PRESS RELEASE

PR23/227

IMF Executive Board Concludes 2023 Article IV Consultation and Second Review Under the Extended Credit Facility Arrangement with Cabo Verde

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed the second review under the 36-month Extended Credit Facility with Cabo Verde, providing the country with access to SDR 4.50 million (about US$ 6.00 million).*
- *Cabo Verde's performance under the program is strong. The economy rebounded strongly in 2022 growing 17.7 percent.*
- *Cabo Verde remains vulnerable to external shocks and climate related disruptions and the significant gains achieved so far need to be sustained over the medium-term to safeguard economic stability, build resilience, and promote inclusive growth.*

Washington, DC – June 23, 2023: The Executive Board of the International Monetary Fund (IMF) completed the 2023 Article IV Consultation and Second Review of Cabo Verde's performance under the 36-month Extended Credit Facility (ECF) that was approved on June 15, 2022. The completion of the review allows the authorities to draw the equivalent of SDR 4.50 million (about US$ 6.00 million). This brings the total IMF financial support disbursements under the arrangement to SDR 27.02 million (about US$36.23 million).

Cabo Verde's performance under the program is strong. The economy rebounded strongly in 2022 growing 17.7 percent, the primary deficit narrowed to 1.9 percent of GDP, the debt-to-GDP ratio declined significantly, the current account improved, and international reserves remained adequate to protect the currency peg. Real GDP growth is projected to moderate to 4.4 percent in 2023 as export growth normalizes. Inflation is projected at 5.2 percent in 2023, as fuel and food prices decline. The current account deficit is expected to widen in 2023 as exports of goods and services, tourism and remittances grow more slowly than imports.

The 2023 budget is aligned with the ECF-supported program. The Banco de Cabo Verde (BCV) has started to tighten monetary policy to narrow the interest rate differential with the European Central Bank (ECB) with a view to protecting the peg.

Following the Executive Board's discussion, Ms. Antoinette Sayeh, Deputy Managing Director and acting Chair, issued the following statement:

"Cabo Verde's performance under the ECF-supported program has been strong. The Cabo Verde economy rebounded strongly in 2022 and the near-term outlook is favorable despite some downside risks. Inflation increased due to the ripple effects of Russia's war against Ukraine on food, fuel, and transportation costs. Risks to the outlook remain significant, including from potential lower external demand from major tourism markets, weak public enterprises reform implementation, and climate change shocks.

“Fiscal policy aims at ensuring an appropriate balance between credible growth-friendly fiscal consolidation, preserving debt sustainability, protecting the vulnerable, and investing in future growth. It will be important to keep progress in domestic revenue mobilization, streamlining tax exemptions, increasing the effectiveness of public investment projects, and continue improving debt management. Reform of the public enterprises is also critical to reduce fiscal risks.

“The monetary policy stance has been appropriate and should remain data dependent and focused on safeguarding the peg. The financial sector remains stable, banks’ profitability has increased, and NPLs are on a decreasing trend. Measures to improve the autonomy, governance, and accountability framework of the central bank and to strengthen the AML/CFT framework and its effectiveness remain crucial.

“The authorities are encouraged to continue with their ambitious structural reform agenda to adapt to the challenges posed by climate change, reduce the cost of doing business, strengthen social safety nets, and accelerate public enterprise reforms.”

Cabo Verde: Selected Economic Indicators, 2020-28

	2020	2021	2022		2023		2024	2025	2026	2027	2028
			SR ECF 1st review	Act.	SR ECF 1st review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
					(Annual percent change)						
National accounts and prices 1/											
Real GDP	-19.3	6.8	10.5	17.7	4.4	4.4	4.5	4.6	4.6	4.7	4.7
GDP deflator	0.9	0.5	7.0	6.4	4.5	4.5	2.0	2.0	2.0	2.0	2.0
Consumer price index (annual average)	0.6	1.9	8.0	7.9	4.5	5.2	2.0	2.0	2.0	2.0	2.0
Consumer price index (end of period)	-0.9	5.4	8.0	7.6	4.5	5.2	2.0	2.0	2.0	2.0	2.0
External sector											
Exports of goods and services	-58.7	-7.5	37.5	120.6	11.4	3.7	8.4	9.3	9.3	9.1	9.1
Of which: tourism	-69.1	-16.4	47.1	225.4	15.6	7.7	9.9	8.5	9.3	9.4	9.3
Imports of goods and services	-23.2	0.8	19.5	33.7	7.9	7.8	7.0	7.5	6.4	5.9	7.5
					(Change in percent of broad money, 12 months earlier)						
Money and credit											
Net foreign assets	-6.6	2.9	1.3	1.2	-0.4	3.4	1.7	2.7	2.7	2.3	2.6
Net domestic assets	10.3	0.1	8.2	4.6	7.0	4.9	4.5	3.9	4.0	4.4	3.4
Net claims on the central government	-1.3	2.4	0.9	3.1	0.9	0.8	1.6	0.2	0.3	-0.4	-1.0
Credit to the economy	2.9	4.2	3.3	3.9	2.6	3.9	2.7	3.6	3.5	4.7	4.3
Broad money (M2)	3.8	3.0	9.6	5.8	6.6	8.3	6.2	6.6	6.6	6.6	6.0
					(Percent of GDP, unless otherwise indicated)						
Savings and investment											
Domestic savings	15.8	38.5	35.1	41.7	32.1	18.7	18.5	19.2	20.7	21.6	22.9
Government	-7.4	-5.1	-2.0	-0.4	0.5	0.5	0.9	2.2	2.6	2.9	3.5
Private	23.2	43.6	37.1	42.1	31.6	18.2	17.6	17.0	18.1	18.7	19.4
National investment	30.7	50.2	42.8	45.3	38.9	24.3	23.1	23.6	25.1	25.4	26.6
Government	3.3	2.2	1.9	1.9	4.4	4.2	3.3	3.8	4.2	3.4	3.4
Private	27.5	47.9	40.9	43.4	34.5	20.0	19.8	19.8	20.9	22.0	23.3
Savings-investment balance	-14.9	-11.6	-7.8	-3.6	-6.8	-5.6	-4.6	-4.4	-4.4	-3.7	-3.8
Government	-10.7	-7.3	-4.0	-2.2	-3.9	-3.8	-2.4	-1.6	-1.5	-0.5	0.1
Private	-4.3	-4.4	-3.8	-1.3	-3.0	-1.8	-2.1	-2.8	-2.8	-3.2	-3.9
External sector											
External current account (including official transfers)	-14.9	-11.6	-7.8	-3.6	-6.8	-5.6	-4.6	-4.4	-4.4	-3.7	-3.8
External current account (excluding official transfers)	-17.5	-14.0	-9.6	-4.9	-8.5	-5.9	-5.5	-5.2	-5.0	-4.3	-4.3
Overall balance of payments	-4.6	0.6	1.8	1.1	-0.3	3.0	1.6	2.5	2.4	2.0	2.4
Gross international reserves (months of prospective imports of goods and services)	7.8	6.0	6.0	5.9	5.5	6.1	6.0	6.2	6.3	6.3	6.4
Government finance											
Revenue	24.6	22.8	23.7	21.6	25.6	24.6	24.4	25.2	25.5	25.6	25.7
Tax and nontax revenue	21.3	20.8	22.0	20.7	23.6	22.7	23.1	24.1	24.4	24.6	24.7
Grants	3.2	2.0	1.7	0.9	2.1	1.9	1.2	1.2	1.1	1.0	1.0
Expenditure	33.6	30.2	28.2	25.7	30.4	29.0	27.7	27.6	28.0	26.2	26.2
Primary balance	-6.4	-5.2	-2.0	-1.9	-2.5	-2.2	-1.0	0.0	0.0	1.0	1.0
Overall balance (incl. grants)	-9.0	-7.4	-4.4	-4.1	-4.8	-4.4	-3.3	-2.4	-2.5	-0.6	-0.6
Net other liabilities (incl. onlending)	-1.2	0.9	-0.6	-0.1	0.8	0.7	-0.8	-0.2	-0.2	0.0	0.0
Total financing (incl. onlending and capitalization)	9.6	6.5	5.0	4.2	4.0	3.7	4.1	2.6	2.7	0.6	0.6
Net domestic credit	3.0	1.6	1.7	2.3	1.6	1.4	2.9	0.5	0.9	-0.7	-1.1
Net external financing	6.5	4.9	3.3	1.9	2.4	2.3	1.2	2.1	1.8	1.3	1.7
Public debt stock and service											
Total nominal government debt	138.5	144.6	128.1	121.2	122.4	112.6	109.3	105.6	101.6	96.4	91.3
External government debt	102.1	102.8	90.5	84.0	85.2	79.8	76.4	73.9	71.3	68.7	66.7
Domestic government debt	36.5	41.8	37.6	37.1	37.2	32.8	33.0	31.7	30.2	27.7	24.7
External debt service (percent of exports of goods and services)	14.8	20.2	15.1	11.5	15.0	12.4	12.8	11.0	10.7	10.0	9.3
Present value of PPG external debt											
Percent of GDP (risk threshold: 55%)	70.3	57.2	51.3	53.5	50.2	50.9	49.3	48.1	46.8	45.3	44.4
Percent of exports (risk threshold: 240%)	335.9	197.4	152.4	159.1	146.1	156.6	149.1	142.1	134.9	127.8	122.5
Present value of total debt											
Percent of GDP (benchmark: 70%)	92.4	102.9	90.7	91.3	87.4	84.0	82.4	79.9	77.1	73.3	69.3
Memorandum items:											
Nominal GDP (billions of Cabo Verde escudos)	181.6	195.0	232.7	244.3	253.9	266.6	284.2	303.3	323.6	345.6	369.2
Gross international reserves (€ millions, end of period)	582.4	595.3	629.7	626.1	621.8	699.0	740.4	807.8	877.8	942.0	1020.7

Sources: Cabo Verdean authorities; and IMF staff estimates and projections.
1/ The Cabo Verdean exchange rate has been pegged to the Euro since 1999, at a rate of 110.265 CVE/€.

INTERNATIONAL MONETARY FUND

CABO VERDE

June 7, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION

EXECUTIVE SUMMARY

Context. Cabo Verde's medium-term outlook is positive, supported by the authorities' policy package to respond to the evolving impacts of the war in Ukraine and their commitments to the recovery process and the ECF in a challenging environment. The economy rebounded strongly in 2022 with GDP growth of 17.7 percent, although average inflation increased to 7.9 percent at end-December 2022 driven by higher food, electricity, gas, and transportation costs. The new Strategic Plan for Sustainable Development 2022-2026 (PEDS II) sets the reform agenda to overcome challenges to sustainable development. The economy remains vulnerable to internal and external risks. In this context, the ECF will support the authorities' plans towards economic and social progress, as well as the environmental challenges facing the country in its development process, while seeking to reduce debt levels and mitigate risks.

Program Implementation/Performance. Performance under the ECF program has been strong. All quantitative performance criteria (QPCs) for end-December 2022 were met. The indicative target (IT) for September was met and the IT for December was narrowly missed. The authorities met the structural benchmarks (SBs) for end-December 2022 and March 2023. The authorities request the modification of the PC on the PV of new external debt for end-December 2023, to reflect the clarification of data on new borrowing. The overall debt profile remains unchanged.

Policy Recommendations. Policy discussions for the 2023 Article IV Consultation and the Second Review under the ECF focused on: preserving medium-term fiscal and debt sustainability and reducing fiscal risks from SOEs; modernizing the monetary policy framework and sustaining the peg; safeguarding financial system resilience by deploying targeted and time-bound interventions, as needed; and advancing structural reforms to support private sector-led growth and resilience to shocks. Discussions also covered how to lay the foundations for a more inclusive and resilient growth. This includes integrating climate-related considerations into macroeconomic policy formulation and mobilizing climate financing to help achieve Cabo Verde's Nationally Determined Contribution (NDC) commitments, reforms to attract private financing to help meet the Sustainable Development Goals, and continued efforts to advance the climate change agenda.

Approved By	
Costas Christou (AFR) and Peter Dohlman (SPR)	The discussions in Praia took place during May 2–9, 2023. The in-person team consisted of Justin Tyson (head), Reginald Darius, Jose Sulemane, Nombulelo Gumata, Didier Tabaro and Tomas Picca (all AFR). Carla Cruz (OED) also participated in the mission. Rodrigo Garcia-Verdu, the newly appointed resident representative, attended the concluding meetings. The mission met with Vice Prime Minister and Minister of Finance and Business Development Olavo Correia, Central Bank Governor Oscar Santos, Minister of Family, Inclusion and Social Development Fernando Freire, members of the Economic and Finance Committee of the National Assembly, other government and central bank officials, representatives of the private sector, and development partners. Lester Magno (AFR) assisted in the preparation of this report.

CONTENTS

ANNEXES

APPENDIX

CONTEXT

1. **Cabo Verde was severely impacted by the COVID-19 pandemic just as growth had started to recover from the low rates seen after the global financial crisis**. After growing at just 1.1 percent on average from 2009-2015, the economy grew at an average rate of 5 percent from 2016–19. The country entered the crisis with sound macroeconomic fundamentals, though high debt levels remained a vulnerability despite declining slowly to 109.3 percent of GDP by 2019. International reserves were at comfortable levels, and the fiscal deficit and government debt were on a downward trajectory. When the crisis hit, GDP contracted by 19.3 percent in 2020 as tourism collapsed—the largest decline in the country's post-colonial history and one of the largest in sub-Saharan Africa. Poverty levels (absolute) increased to 31.3 percent in 2020, reversing earlier gains. The debt-to-GDP ratio reached 144.6 percent in 2021.

2. **Post-Covid economic growth recovered rapidly as tourism returned to the islands**. The economy rebounded growing at 6.8 percent in 2021 and 17.7 percent in 2022. The fiscal deficit narrowed, the debt-to-GDP ratio declined to 121.2 percent in 2022, the current account improved, and international reserves increased. The authorities' monetary and fiscal policy responses supported the recovery and helped cushion the impact on the most vulnerable. Poverty rates fell to 28.1 percent in 2022.

3. **Sustained efforts are critical to keep Cabo Verde on a stable growth trajectory**. Cabo Verde remains vulnerable to economic, and climate related disruptions and the gains achieved need to be sustained beyond the medium-term horizon to safeguard economic stability, build resilience, and promote inclusive growth. The authorities intend to further advance their reform agenda to help address the country's vulnerabilities, including climate challenges. Given Cabo Verde's vulnerability to climate change, advancing climate reforms to put the country on a low carbon growth trajectory is critical to build resilience and safeguard the gains made in reducing debt. The country also needs to reduce its vulnerability to external economic and domestic shocks. Important reforms include increasing the productivity of the private sector to benefit from the dynamic tourism industry; improving SOE performance; and reducing internal transport costs to help increase market size and enable local entrepreneurs to meet the demands of the population. These priorities are built into the new five-year Strategic Plan for Sustainable Development 2022-2026 (PEDS II)[1] (Annex VI). The reform agenda is supported by a stable political and social situation, and the next parliamentary elections are in 2026.

4. **Despite the challenging environment, the authorities have implemented past IMF policy recommendations** from the 2019 Article IV consultation (Annex III). Notwithstanding COVID-related setbacks, Cabo Verde has made progress in the implementation of the policy discussion in the last Article IV consultation on fiscal and debt sustainability, monetary policy, financial sector, the business environment, but still faces a weak financial situation in key SOEs.

[1]The PEDS II is the Poverty Reduction Strategy (PRS) for Cabo Verde.

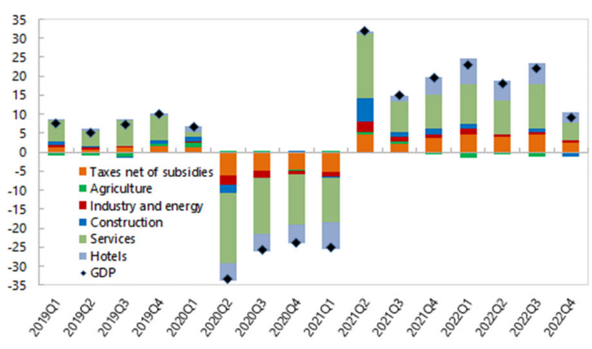
5. The IMF Board concluded the first review of the Extended Credit Facility (ECF) in January 2023. Performance under the program was strong. The ECF Program is aligned with the government's reform agenda.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

6. Cabo Verde's macroeconomic performance was robust in 2022.

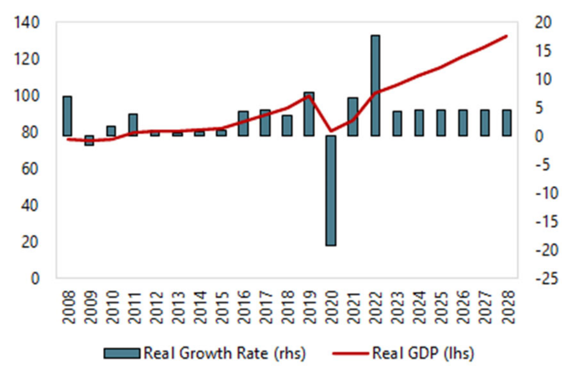
- **Economic activity rebounded strongly reflecting a faster-than-expected turnaround in the tourism sector**. Real GDP grew at 17.7 percent in 2022, compared with the program's 10.5 percent (Text Figure 1). The services sector expanded by 73 percent buoyed by tourism arrivals, due in part to increased hotel capacity built during the COVID19 lock down (Text Figure 2). On the demand side, both investment and public sector consumption contributed negatively to growth reflecting fiscal restraint and under execution of public investment. Economic activity was supported by credit growth to the economy of 6.2 percent in 2022. Average inflation increased to 7.9 percent at end-December 2022 (and moderated to 5.6 percent in March 2023 y/y) driven by higher food, electricity, gas, and transportation costs.

Text Figure 1a. Cabo Verde: Contributions to Growth
(Quarterly, year-on-year percent change)



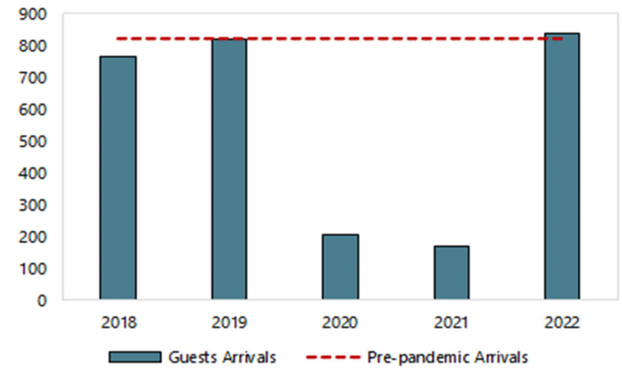
Source: Cabo Verdean authorities; and IMF Staff calculations

Text Figure 1b. Cabo Verde: Real Output and Growth Rates
(2019 Base = 100)



- **The fiscal position improved markedly in 2022**. Strong economic activity, coupled with policy measures, supported a broad-based increase in tax revenues (32 percent). Relative to the 1st review tax revenue increased while grants and other income reduced due to a change in the expected timing of EU grants disbursement and delays in the completion of privatization efforts. Expenditure grew by 6 percent, with a modest increase in current and capital spending. As a result, the primary fiscal deficit narrowed substantially to 1.9 percent of GDP from 5.2 percent in 2021. Despite high inflation, salaries of public servants were not increased as the authorities prioritized the most vulnerable. The strong revenue performance continued into early 2023 with a broad-based increase in tax revenue of 21 percent (y/y) during the first quarter while spending rose by 8.1 percent, with stronger capital expenditures and moderate growth in current expenses. This resulted in continued improvements in fiscal performance during the first quarter. The public debt-to-GDP ratio decreased from 144.6 percent in 2021 to 121.2 percent in 2022.

Text Figure 2. Cabo Verde: Tourism Developments
(In thousands)



- **The current account deficit narrowed in 2022**. The improvement was due to the stronger-than-expected recovery in goods exports, tourism receipts, and remittances. Reserves were also boosted by the ECF disbursement of SDR11.26 million (47.5 percent of quota, about US$15 million). As a result, gross international reserves increased from €595.3 million at end 2021 to €626.1million by end 2022 (about 5.9 months of imports). The External Sector Assessment (ESA) suggests that Cabo Verde's external position in 2022 was substantially stronger than implied by fundamentals and desirable policies, which points to an undervaluation of the exchange rate.

- **The monetary policy stance remains focused on safeguarding the peg and strengthening the transmission mechanism of monetary policy**. The Monetary Policy Committee (MPC) raised the policy rate from 0.25 to 1.0 percent in early May 2023, a process towards narrowing the differential with the ECB policy rate and to protect reserves. The monetary stance also considers the tightening impact of the reversal of the COVID-related credit moratorium and the Long-Term Financing Program. The reserve level cover is adequate to protect the peg.

- **The financial sector appears stable, adequately capitalized and liquid (Table 5)**. Data for end-2022 suggests that the financial system is liquid, profitable, and well capitalized. Regulatory capital to risk weighted assets (CAR) was 22.3 percent, well-above the regulatory minimum of 12 percent, while the return on equity and return on assets stood at 17.4 and 1.7 percent, respectively. The relatively low return on assets is mainly a reflection of the legacy non-preforming loans (NPLs) portfolio related to the 2008 global financial crisis. NPLs decreased from 8.1 percent at end 2021 to 7.8 percent of total loans at end-December 2022, reflecting in part the write-off of NPLs. The two largest commercial banks were instructed to increase provisions following a study carried out by the central bank (BCV) as part of an end-December 2022 SB.

7. Cabo Verde's near-term economic outlook is favorable. Real GDP growth is projected at 4.4 percent in 2023 as exports growth starts to normalize following the return to the pre-pandemic levels of visitor arrivals. Hotel arrivals over the 2022/23 winter season indicate strong activity and the outlook builds this into Q1 before tapering off over 2023. Tourism receipts are forecast to reach pre-pandemic levels by 2024. The economy is projected to converge to potential growth of 4.5 percent per year after 2028. Inflation would moderate to 5.2 percent in 2023 and decline to

2 percent over the medium-term, broadly in line with Euro area inflation, as oil and food prices decline. The current account deficit is expected to widen to about 5.6 percent of GDP in 2023 as exports of goods and services, tourism, and remittances slowdown from levels recorded in 2022. Over the medium-term, the current account is projected to narrow to 3.7 percent and the gross international reserves remain at just over 6 months of prospective imports of goods and services.

8. The outlook is uncertain and subject to downside risks (geopolitical and climate). Downside risks could emanate from weakened external demand in Cabo Verde's major tourism markets. A reversal of the recent downward trend in fuel and food prices could increase the number of households that would require support from safety net programs, increasing expenditure. Fiscal risks could also stem from the failure to advance State-Owned Enterprise (SOE) reforms or reduced fiscal consolidation efforts. Cabo Verde is highly susceptible to the effects of climate change—a key medium-term risk—as evidenced by the recent years of drought. The country's high risk of overall debt distress is a source of vulnerability and thus concessional financing to limit debt servicing cost as under the program is important (see Annex I). On the upside, stronger tourism growth could lead to higher overall economic activity.

Authorities' Views

9. The authorities agreed with staff's assessment of Cabo Verde's medium-term outlook and risks, while stressing that the economy's growth potential is high as illustrated by the recent developments and the envisaged reform agenda. They agreed with staff's cautious projections for the medium term. On the external position, the BCV viewed the projected gross international reserves in months of prospective imports of goods and services as prudent and desirable in view of external downside risks, notably the potential impact of developments in Europe on tourism receipts, and potential weakening of global economic growth.

POLICY DISCUSSIONS

Policy discussions for the near term under the ECF and for the medium term in the context of the Article IV consultation focused on: (i) assessing and identifying credible growth friendly fiscal consolidation while lowering debt vulnerabilities and preserving policy space to meet Cabo Verde's development needs; (ii) reducing fiscal risks from SOEs; (iii) modernizing the monetary policy framework and safeguarding financial stability; and (iv) supporting policies to foster inclusive, sustainable, and resilient growth, while addressing the climate change challenges.

A. Strengthen Public Finances to Preserve Debt Sustainability

10. The fiscal stance will resume the path established in the program after the windfall of 2022. The primary deficit is projected at 2.2 percent of GDP in 2023 a slight improvement relative to the first ECF review. Tax revenues are expected to increase in line with nominal GDP while budgeted expenditures are fixed. Grants will increase by about 1 percent of GDP (mainly from China) and property income is boosted by the intake from the airport concession delayed from 2022

(1.4 percent of GDP). Achievement of the program target is dependent on the authorities adhering to the contingency spending measures if one-off revenue from the airport concession is delayed and/or overall tax revenues underperform due to downside risks for growth. These measures consist of withholding 20 percent of the budgetary allocation for investment spending and the purchase of goods and services (5.3 billion escudos or 1.9 percent of GDP) as allowed by the budget law until revenue performance is assured. Capital expenditure is projected to increase from 1.9 percent of GDP in 2022 to 4.2 percent in 2023 and current spending from 23.8 to 24.8 percent of GDP driven by higher outlay on goods and services, reflecting increased prices, and a moderate salary adjustment.

Text Table 1. Cabo Verde: 2022-23 Fiscal Framework[1]

	2022				2023					
	1st Review-SR		Outturn		1st Review-SR		Draft Budget		Proj.	
	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP
Revenue	55,178	23.7	52,661	21.6	65,026	25.6	64,237	27.8	65,590	24.6
Taxes	43,481	18.7	44,146	18.1	45,849	18.1	44,349	19.2	48,206	18.1
Grants	3,914	1.7	2,131	0.9	5,225	2.1	5,225	2.3	5,163	1.9
Other revenue	7,783	3.3	6,384	2.6	13,951	5.5	14,663	6.3	12,222	4.6
Expenditure	65,526	28.2	62,676	25.7	77,202	30.4	77,220	33.4	77,359	29.0
Expense	60,992	26.2	58,141	23.8	66,004	26.0	66,022	28.6	66,029	24.8
Net acquisition of nonfinancial assets	4,535	1.9	4,535	1.9	11,198	4.4	11,198	4.8	11,330	4.2
Purchase of assets	5,183	2.2	4,631	1.9	11,945	4.7	11,945	5.2	12,077	4.5
Sale of assets	-648	-0.3	-437	-0.2	-747	-0.3	-747	-0.3	-747	-0.3
Primary balance	-4,543	-2.0	-4,639	-1.9	-6,298	-2.5	-7,106	-3.1	-5,891	-2.2
Overall balance	-10,349	-4.4	-10,015	-4.1	-12,176	-4.8	-12,983	-5.6	-11,769	-4.4
Net other liabilities	-1,334	-0.6	-173	-0.1	1,940	0.8	1,936	0.8	1,940	0.7
o/w Onlending to SOEs for investment purpose	-2,426	-1.0	-1,075	-0.4	-1,851	-0.7	-1,851	-0.8	-1,851	-0.7
o/w Other onlending (net)	120	0.1	197	0.1	197	0.1	194	0.1	197	0.1
o/w Capitalization	-2,151	-0.9	-2,716	-1.1	-2,200	-0.9	-2,200	-1.0	-2,200	-0.8
Financing needs	11,682	5.0	10,188	4.2	10,236	4.0	11,047	4.8	9,828	3.7
Financing	11,682.0	5.0	10,188	4.2	10,236	4.0	11,047	4.8	9,828	3.7
Domestic (net)	3,930	1.7	5,592	2.3	4,179	1.6	6,631	2.9	3,772	1.4
External (net)	7,752	3.3	4,596	1.9	6,057	2.4	4,416	1.9	6,057	2.3
Public debt (percent of GDP)				121.2		139.7	…			112.8
Nominal GDP			244,284		253,856		231,002		266,599	

Sources: Cabo Verdean authorities and IMF staff projections.

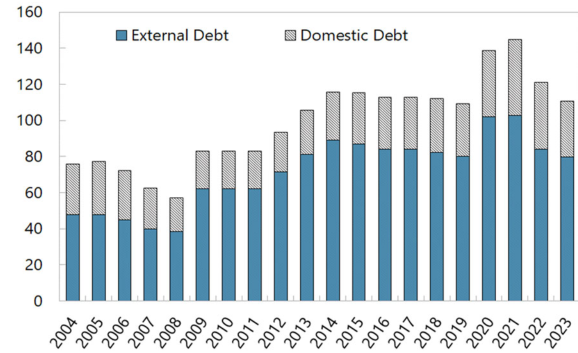
[1] Includes budgetary central government (BCG) and extra budgetary central government

11. The 2023 fiscal deficit will be financed through a combination of external and domestic financing. The overall financing needs are projected to remain at broadly the same level as in 2022, with a shift in composition towards external financing. Net external financing of 2.3 percent of GDP is projected for 2023, which is higher than the outturn for 2022 in part due to the completion of the first review in early 2023 and not 2022, and non-disbursement of project loans due to implementation delays in 2022. Consistent with the program's objective, net domestic financing is projected to continue trending downwards following an increase relative to the program in 2024 reflecting higher capitalization costs.

12. The debt-to-GDP ratio is projected to improve relative to the program forecast. It is forecasted to decrease from 121.2 percent in 2022 to 112.6 percent at the end of 2023, mainly reflecting higher nominal growth.

13. The medium-term fiscal consolidation will continue along the path outlined in the ECF program. This is premised on steadfast implementation of the agreed revenue mobilization and expenditure containment measures. By 2028, revenues are projected to climb to 25.7 percent of GDP and expenditures would gradually decline from 29 percent of GDP in 2023 to 25.9 percent in 2028. Thus, the primary balance would move to a surplus of 1 percent of GDP, contributing to a reduction in public debt to about 91 percent of GDP by 2028.

Text Figure 3. Public Debt Stock, 2004-23
(Percent of GDP)



Sources: Cabo Verdean authorities; and IMF Staff estimates.

14. The realization of the medium-term fiscal objectives is dependent on progress in implementing revenue mobilization measures. Cabo Verde has a broad-based revenue mobilization plan that includes sustaining ongoing tax administration reforms through digitalization of revenue collection to help improve compliance, and already implemented policy measures (tobacco and tourism tax, import duty on previously exempted goods). The authorities have committed to reviewing tax expenditures and implementing the delayed ECOWAS common tariff that would net up to1 percent of GDP in 2025. The gains in revenue will help achieve a surplus on the primary balance over the medium-term. As part of the continuous reforms to support fiscal and debt sustainability, two new SBs are proposed in this area: i) develop and publish an action plan to reduce tax expenditures, including published estimates of annual tax expenditures in the budget to improve transparency, and undertake phased implementation of the ECOWAS tariff, to increase revenue by 1 percent of GDP (end-September 2024); and ii) implement the action plan in the 2025 budget (end-December 2024). The medium-term fiscal path could be impacted by the knock-on effects of climate related events on the macro economy and this risk should be included in the fiscal analysis.

Text Table 2. Cabo Verde: Tax Revenue Projections 2023-25

Tax revenue to GDP ratio 2023	**18.1**
Tax administration measures 2024	**0.5**
VAT arrears collection	0.2
Income tax arrears collection	0.1
Electronic invoicing	0.1
Personal income tax arrears collection	0.1
Tax policy measures 2025	**0.9**
Reduction in tax expenditures and ECOWAS implementation	0.9
Tax revenue to GDP ratio 2025	**19.5**

Sources:Cabo Verdean authorities and IMF staff estimates.

15. Expenditure policy should balance current spending containment with the need for public capital to support the PEDS II investments, especially climate-related. Current spending is projected to decline by about 1 percent of GDP as the authorities continue to exercise restraint to create space for capital spending to support growth and invest in climate change resilience. Wage containment is anchored on strong stakeholder support for containing wage growth in the public sector which establishes a benchmark for the private sector.

16. Cabo Verde's risk of debt distress remains high, though public debt is assessed as sustainable. The current joint World Bank/IMF Debt Sustainability Analysis (DSA) shows that Cabo Verde's risk of external debt distress is moderate but total risk of debt distress remained high. The analysis indicated that public debt is sustainable, due to manageable debt service from the favorable debt structure based largely on fixed interest rates that provide protection from the ongoing global tightening cycles, the fixed exchange rate and adequate reserve levels (Annex V). Containing debt service costs is a key component of the debt strategy and sustaining the gains in debt sustainability requires continued concessional funding from multilateral creditors to limit the use of more costly domestic financing (Text Table 3).

Text Table 3. External Borrowing Program, 2023-24

PPG external debt contracted or guaranteed	2023 Volume of new debt, USD million 1/	2023 Present value of new debt, USD million 1/	2024 Volume of new debt, USD million 1/	2024 Present value of new debt, USD million 1/
Sources of debt financing	159.0	98.7	120.2	77.4
Concessional debt, of which 2/	158.4	98.7	120.2	77.4
Multilateral debt	100.1	64.0	75.7	49.8
Bilateral debt	58.3	34.7	44.5	27.6
Non-concessional debt, of which	0.0	0.0	0.0	0.0
Semi-concessional debt 3/				
Commercial terms 4/				
Uses of debt financing	159.0	98.7	120.2	77.4
Infrastructure	98.5	63.1	98.5	63.1
Budget financing	60.5	35.6	21.7	14.3

Sources: Cabo Verdean Authorities; IMF Staff calculations

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.

2/ Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be such established at a higher level. Some of the loans are packaged with grants, that the overall financing package meets the 35 percent concessionality threshold.

3/ Debt with a positive grant element which does not meet the minimum grant element.

4/ Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

17. Financing. Staff discussed the authorities' borrowing plans and emphasized the need to continue adherence to a financing mix that relies on concessional external financing and maintain prudent debt borrowing policies, relying on the zero limit on non-concessional loans (Text Table 4).

Authorities' Views

18. The authorities agreed with staff's assessment of Cabo Verde's medium-term fiscal strategy and the consolidation path. They stressed the need to advance capital projects that would enhance potential growth. The authorities reiterated their commitments under the ECF to identify savings and focus on priority spending, both current and capital, accompanied by the firm commitments to domestic revenue mobilization which they see as key to a credible fiscal consolidation. The authorities noted their concerns regarding the fiscal risk associated with the economic impact of climate events and are committed to integrating these into the fiscal risk analysis. The authorities view improved fiscal transparency as an important element of the fiscal reform agenda and welcomed IMF support in preparing the fiscal transparency law and in establishing the transparency portal. Capacity development support from the Fund on revenue mobilization, budget frameworks, PIMA, accounting, and debt management would help implement fiscal policy while mitigating risks.

Text Table 4. Cabo Verde: Sources of Financing for 2023–25
(Millions of Escudos)

	2023		2024		2025	
	Millions of Escudos	Percent of GDP	Millions of Escudos	Percent of GDP	Millions of Escudos	Percent of GDP
Total financing needs	9,828	3.7	11,713	4.1	7,832	2.6
Financing sources	9,828	3.7	11,713	4.1	7,832	2.6
Domestic Financing (Net)--Issuance of treasury securities[1]	3,772	1.4	8,277	2.9	1,578	0.5
External financing (Net)	6,057	2.3	3,436	1.2	6,253	2.1
Disbursements	16,663	6.3	12,652	4.5	15,398	5.1
Of which budget support	7,126	2.7	3,826	1.3	6,594	2.2
IMF	2,813	1.1	1,233	0.4	615	0.2
World Bank	1,750	0.7	940	0.3	3,773	1.2
African Development Bank	2,205	0.8	1,653	0.6	2,205	0.7
Program and project loans	7,686	2.9	8,284	2.9	8,225	2.7
JICA	1,076	0.4			2,419	0.8
OFID	1,556	0.6	329	0.1		
World Bank	2,428	0.9	3,807	1.3	3,248	1.1
BADEA	856	0.3	664	0.2	470	0.2
Kuwait	356	0.1	2,318	0.8		
SDR						
Other	1,414	0.5	1,166	0.4	2,088	0.7
Onlending loans	1,851	0.7	543	0.2	579	0.2
African Development Bank						
Amortization	10,606	4.0	9,216	3.2	9,145	3.0

Sources: Cabo Verdean authorities and IMF staff projections.
1/ In 2023 net domestic financing includes SDR's converted to domestic deposits amounting about 0.6 percent of GDP.

B. Reduce Fiscal Risks from Public Enterprises and Improve their Financial Management

19. Steady progress on SOE reforms is critical for reducing fiscal risks and improving services. SOEs are a major drain on budget resources and budget's financing needs. The objective of reducing fiscal risks from public enterprises continues with the ongoing reforms that include publication of quarterly consolidated transaction and financial flows between the government and SOEs on an individual and aggregate basis to help identify all support from the government to SOEs. Furthermore, the annual SOEs' report is being improved to include a comparison of execution relative to the initial budget projection, evaluation of performance against medium-term plans, and data on government relations (end-July 2023 SB). Going forward, the authorities plan to publish in the annual report on public companies the forward-looking targets agreed between the Ministry of Finance and Business Development and the six largest SOEs on improving financial performance and reducing the need for central government support (New SB end-June 2024). In this context, reforms on the six major SOEs need to move forward steadily, as the SOEs "health-check" indicates the need to pay close attention to these companies (Annex II).

20. The authorities plan to restructure around nine SOEs in the period 2023–26. The restructuring process includes privatization, partial sale, concessions, and PPPs, covering water and electricity, naval services, ports, telecom, and air transportation. As part of the end of COVID-19 related measures in the banking system, staff urged the authorities to analyze the non-performing loans shown by the recent BCV study on the loan losses and provisions at the end of the credit moratorium, and the implication for government guarantees and other related fiscal risks. Finally, given the reliance on PPPs in the SOE strategy, the authorities will request technical assistance from FAD to continue improving the framework for PPPs and managing risks in the context of broader PIMA reforms.

Authorities' Views

21. The authorities presented their views and agreed with Staff's assessment of the need to accelerate reforms in this area. They presented the planned restructuring and privatization for the period 2023–26. They are actively using the SOE "health check" tool and recognize the fiscal risks posed by the SOEs. However, they cautioned on the complexity of the sectors with SOE involvement (energy, ports, maritime and air transportation) and the difficulty in finding quick market-based solutions. The authorities plan to use the expertise of the different international development partners to better package their planned set of reforms.

C. Modernize the Monetary Policy Framework and Improve Resilience of the Financial System

22. Monetary policy is focused on safeguarding the peg and improving the policy framework. The conventional fixed peg exchange regime continues to provide a stable anchor for monetary policy and has helped maintain external buffers. Discussions centered on policies the BCV should follow to closely monitor developments in reserves, inflation, and the interest differential with the ECB, and keep monetary policy data dependent. The recent hike in the policy rate was appropriate given the interest rate differential with the Euro area and the need to mitigate the risks associated with a potential outflow of currency and ensure the stability of the peg. The BCV should monitor data closely and stand ready to tighten further if conditions warrant it.

23. The BCV is leveraging Fund CD to improve monetary policy analysis and near-term forecasting capabilities. Following the BCV's commitment to modernize, enhance and strengthen the monetary policy framework and maintain an adequate level of international reserves, there has been an increased need for CD to upgrade BCV's analytical and near-term forecasting (NTF) capabilities and tools. Following the Fund's recommendation on the policy meetings framework, the BCV has reduced the number of MPC meetings per year and the policy framework was adjusted accordingly. At the same time, a calendar of these meetings has been approved and there is a clear pre-announcement of the dates for MPC and interest-rate setting Board meetings. This significantly reduces market uncertainty and improves BCV's monetary policy transparency. Progress has been made with the introduction of the composite index of economic activity (CIEA) and the work is ongoing.

24. Staff urged the authorities to continue working with banks to facilitate resolution of NPLs. Following the unwinding of COVID-19 related credit and liquidity measures, the BCV conducted a study of loan loss provisions covering the majority of the banking sector (SB December 2022) and based on this instructed some banks to increase provisioning. The BCV has also developed a standard toolkit to facilitate the resolution of NPLs (SB December 2022). In this context, staff urged the BCV to continue developing detailed reporting templates for restructured/rescheduled loans and NPL monitoring, the implementation of foreclosure regulations, and working with banks on legacy NPLs resolution mechanisms.

25. The authorities continue to advance reforms on financial inclusion and the digitalization agenda. The pandemic triggered the use of mobile payments and internet banking services with the potential to broaden the use of financial services all over the country. Other activities that can lead to scaling up digital financial services include the upgrade of the payment systems, interoperability of instant payments, and strengthened security regulations.

26. The authorities are working to address weaknesses in the AML/CFT framework and address the FSSR recommendations. In response to the shortcomings identified by the 2019 GIABA mutual evaluation report (MER), the authorities have initiated targeted measures and are drafting changes in the existing regulations to improve compliance with the FATF standards. Recent improvements in the AML/CFT framework include the establishment of a national AML/CFT committee and Cabo Verde's exit from the EU list of non-cooperative jurisdictions for tax purposes which have helped preserve correspondent banking relationships. Further improvements include the approval in 2023 of the 2023-2027 National Strategy for the prevention of ML/TF/PF. In addition, the BCV has embarked on a continuous process (human resources and institutional capacity) of effective risk-based supervision for financial institutions and designated non-financial businesses and professions (DNFBP) and is undertaking the sectorial risk assessment of DNFBPs, in collaboration with the Banco de Portugal.

27. The government is encouraged to enact the BCV Organic Law in line with the 2022 safeguards recommendations to strengthen the BCV's autonomy and governance. Draft amendments, developed with support from Fund staff, were submitted to the Ministry of Finance in December 2022. They aim to strengthen the BCV's decision-making structure, autonomy, and accountability and transparency. The government noted its intent to submit the draft amendments to the National Assembly during 2023 for enactment. The BCV has also implemented other key safeguards recommendations, including the adoption of International Financial Reporting Standards as its accounting framework and approval of a revised internal audit charter that strengthens the functions independence.

Authorities' Views

28. The authorities noted that they follow closely price developments and reiterated their commitments to supporting the monetary policy framework to sustain the peg, while promoting financial deepening and inclusion. They appreciate the IMF TA/CD assistance on different areas under the BCV's responsibilities. They noted that in the context of the FSAP (May

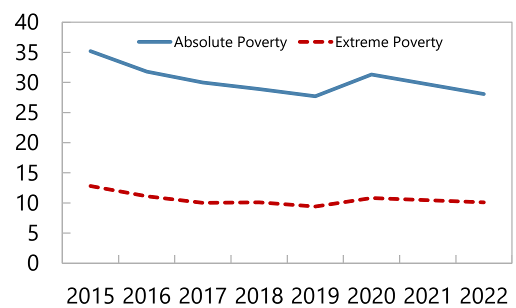
2022) they are furthering the development of the resolution framework for NPLs with the WB. On financial stability, they concur that the priority in supervision should be to mitigate credit risks as the COVID-19 measures are unwound. Finally, they confirmed their commitments to address gaps in the AML/CFT framework and improve the technical compliance requirements.

D. Raise the Growth Potential and Increase Climate Resilience

29. Structural reforms and policies should aim at mitigating pandemic effects while building resilience to large and protracted shocks, including climate change. Key priority areas in the new five-year development strategy include: (i) completing SOE reforms; (ii) facilitating access to finance; and (iii) improving the business environment. The plan has a climate pillar focused on climate change adaptation and mitigation measures, including achieving a 50 percent renewable energy target by 2030. Since 2019, the authorities have embarked on a set of reforms to tackle the business environment. In this context, they have established: i) institutional adjustments whereby high-level government agencies lead the process (Prime Minister and the Minister of Finance offices); ii) mechanisms to improve access to finance and information/communications, in particular for SMEs; iii) special funds to support the facilitation of businesses; iv) online tax filing; and v) one-stop-shops/windows both for domestic and foreign investors.

30. The government needs to continue providing financial support to vulnerable households. Social spending will be protected over the medium term, supported by funding from the social protection fund financed by the tourism tax. During the period of the PEDS II, the authorities plan to eradicate extreme poverty and reduce absolute poverty to about 20.5 percent. In addition, steps are being taken to enhance the targeting regime to improve the effectiveness and reach of the social support framework. The authorities are collaborating with the African Development Bank and the World Bank on the appropriate reforms to the social safety net system to enhance social protection.

Text Figure 4. Cabo Verde: Poverty Trend



Sources: Cabo Verdean authorities.

31. Cabo Verde's vulnerability to climate change is increasing, with macro critical impacts. Cabo Verde is a small state economy which comprises of a group of islands that are prone to floods and droughts. The World Bank estimates that the average economic damage from natural disasters, particularly floods, costs just under 1 percent of GDP per year, causing damage to the capital stock and disrupting economic activity.[2] Cabo Verde recently experienced a multi-year drought that severely weakened the agriculture sector and created challenges in maintaining a reliable supply of water, which impacted the tourism sector, the main pillar of the economy.

[2]World Bank. 2023. Country Economic Memorandum.

Consequently, Cabo Verde is prioritizing reforms and investments to increase the climate resilience of the local economy (Annex IX). The authorities estimate that to address the climate challenge would require funding of at least Euros 2 billion to implement the 10-year action plan.

32. Climate-related reforms aim at adapting to, and mitigating, climate change and the authorities intend to integrate climate risks in economic decisions. The 2021 Nationally Determined Contribution (NDC) focuses on adaptation measures in water, agriculture, oceans, spatial planning, disaster risk reduction, and health. Infrastructure plans include increasing water storage capacity, establishing a waste recycling center on Santiago Island, and improving agricultural water through efficient irrigation. Reforms and investments in the energy sector are geared towards transition to a low-carbon economy with a focus on renewable energy, universal electricity access, and energy efficiency. Cabo Verde is already advancing with investment projects that include renewable measures to promote decarbonization in different sectors.

33. The public investment management framework needs a revamp to adequately support the bold climate reform agenda. Core public investment management (PIM) functions need to be strengthened to set the stage for implementation of C-PIMA reforms. Going forward there is need to carefully outline the actions required to achieve the authorities' objectives. This should include improved investment planning and an overhaul of the public investment management system. The development of concrete and well-structured investment initiatives would help galvanize support from both IFIs and the private sector. Priority reforms include: defining the concept of capital expenditure; developing a comprehensive capital investment plan to inform the implementation of the PEDS II; developing a PIM legal framework regulating the entire capital project cycle and public enterprises participation in climate-smart infrastructure; and developing an asset register to ensure adequate funding for maintenance of assets to safeguard climate-resilient infrastructure.

34. Funding for climate initiatives remains a bottleneck. Funding could increase with a clearer articulation and preparation of climate mitigation and adaptation plans that are ranked and evaluated as per the C-PIMA recommendations. The authorities are aware that the investment needs of the country need to be balanced against their public debt reduction objectives – they are seeking concessional financing from bilateral and multilateral funding agencies and the involvement of private finance (including through the issuance of blue bonds) to move forward. The authorities have expressed an interest in RSF funding, and the RSF could help crystalize climate plans, advance reforms to catalyze financing, including from the private sector, and strengthen climate investment.

Authorities' Views

35. The authorities agreed on the urgency of adaptation and mitigation to climate risks and the need to advance a transformational reform agenda. They emphasized their goal of attracting private financing and concessional public financing for investment to strengthen the growth potential and strengthen climate-related policies to achieve broad, inclusive and resilient growth. They reiterated the importance of reducing poverty and investing in human capital as components of this transformational agenda. They signaled their intent to articulate reform areas and request an RSF program in the coming months.

Text Table 5. Cabo Verde: External Financing Gap 2020-25
(Millions of Euros, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025
Current account balance	-246.1	-205.9	-79.2	-135.6	-117.7	-121.3
Balance of goods and services	-512.9	-547.4	-432.7	-497.6	-521.5	-545.1
Exports of goods	113.3	150.8	268.9	260.4	281.9	321.0
Imports of goods	692.2	752.7	1013.1	1066.4	1122.5	1186.4
Exports of services	258.2	193.1	489.7	526.0	570.7	610.6
Imports of services	192.3	138.5	178.3	217.6	251.6	290.2
Balance on primary income	-35.9	-24.0	-27.1	-15.9	-13.9	-15.7
Balance on secondary income	302.8	365.4	380.7	377.9	417.7	439.5
Financing						
Capital account	21.6	23.0	20.7	54.3	39.0	41.0
Financial account, net[1]	-229.4	-151.7	-86.0	-81.3	-78.6	-80.4
Direct investment, net	-55	-78	-105	-100	-108	-110
Portfolio investment, net	0	1	1	1	1	1
Other investment, net	-100	-85	-5	-55	-13	-39
Errors and ommisions/2	-5	31	-28	0	0	0
Overall balance	-75	10	24	73	41	67
Change in reserves (increase:+)	-75	10	24	73	41	67
Financing gap			14	25	11	6
percent of GDP			0.6	1.0	0.4	0.2
ECF			14	25	11	6
percent of GDP			0.6	1.0	0.4	0.2
Memorandum Items:						
Targeted reserves path as months of prospective imports	7.8	6.0	5.9	6.1	6.0	6.2

Source: Authorities and IMF staff estimates.
1/Includes reserves and exceptional financing.
2/ Including banks' delays on trade credits reporting.

PROGRAM ISSUES AND RISKS

36. Performance under the ECF program has been strong. All quantitative performance criteria (QPCs) for end-December 2022 were met (Text Table 6). The indicative target (IT) for September was met and the IT for December on social spending was narrowly missed. Regarding SBs (Text Table 7), the authorities met the ones for end-December 2022 and March 2023. A new set for end-June 2024 PCs and end-March 2024 ITs is proposed.

37. While maintaining a parsimonious approach, additional conditionality has been set. New SBs aimed at keeping the medium-term fiscal path on track and advancing SOE reforms include: i) develop and publish an action plan to reduce tax expenditures, including published estimates of annual tax expenditures in the budget to improve transparency, and undertake phased implementation of the ECOWAS tariff, to increase revenue by 1 percent of GDP (end-September 2024); and ii) implement the action plan in the 2025 budget (end-December 2024); and iii) building on the July 2023 SB, publish in the annual report on public companies the forward-looking targets agreed between the Ministry of Finance and Business Development and the six largest SOEs on improving financial performance and reducing the need for central government support (New SB end-June 2024). The authorities request the modification of the PC on the PV of new external debt for end-December 2023, to reflect the clarification of data on new borrowing. The overall debt profile remains unchanged. The authorities also request the definition of the QPC on the Net Other Liabilities be treated as a floor instead of a ceiling, for easier interpretation in the monitoring process.

Text Table 6. Cabo Verde: Quantitative indicators for end-December 2022
(Billions of Escudos; cumulative from the beginning of the year, except where otherwise indicated)

	End-December 2022			
	PC/IT	PC/IT with adjuster	Actual	Status
Quantitative performance criteria				
Primary balance, floor [2]	-7750		-4367	met
Tax revenue, floor	38215		44146	met
Net other liabilities, floor [3]	-1455		-173	met
Net domestic financing, ceiling	7501		5592	met
Nonaccumulation of domestic arrears [4]	0		0	met
Non-accumulation of external payment arrears [4]	0		0	met
PV of new external debt, ceiling (in millions of US Dollars)	94		92	met
Nominal level of new nonconcessional external debt of central government, ceiling[4]	0		0	met
Gross international reserves (in millions of euros), floor [2]	491		626	met
Indicative Targets				
Social spending, floor	15800		15306	not met
Non-quantitative continuous PCs				
Non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions				met
Non-introduction or modification of multiple currency practices				met
Non-imposition or intensification of import restrictions for balance of payments reasons				met
Non-conclusion of bilateral payments agreements that are inconsistent with Article VIII				met
Memorandum items:				
Net onlending	2790		197	
Capitalization	2151		2716	
Program assumptions				
Project and budget support grants	3982		2131	
External debt service	11226		9485	
Sales of assets	648		437	
Project and budget support loans	14333		12075	

Sources: Cabo Verdean auhtorities; and IMF Staff

[1] Expressed in local currency and millions unless otherwise indicated. Foreign currency amounts will be converted at current exchange rates.

[2] Stock of reserves in millions of Euros.The ceiling or floor will be adjusted as specified in the TMU.

[3] Net other liabilites includes net onlending, capitalization, and other assets.

[4] Continuous.

Text Table 7. Cabo Verde: Structural Benchmarks Up to March 2023

Fiscal reforms	Invoice electronically at least 50 percent of tax payers for VAT	Improve revenue collection	End-Dec 2022	Met
	Submit to parliament the budget for 2023 that is in line with commitments under the program.	Support fiscal and debt sustainability		
	Compile and publish historical series of government financial statistics for general government.	Improve fiscal transparency	End-Mar 2023	Met
Financial sector reforms	Submit draft amendments to the BCV Law, in line with IMF recommendations, to the Ministry of Finance with a view to (i) establishing an independent oversight process that is separate from executive management, (ii) strengthening the BCV's personal and financial autonomy, and (iii) enhancing transparency and accountability mechanisms	Strengthen BCV institutional framewo	End-Dec 2022	Met
	Carry out a comprenhensive study of loan losses and provisions at the expiration of the credit moratorium.	Strengthen financial stability		Met
	Develop a common framework for the resolution of crisis related NPLs.	Strengthen financial stability		Met

38. Financing assurances have been secured for the next 12 months, with good prospects of full financing for the remainder of the arrangement. In addition to Fund support, financing in the first and second year of the ECF is being provided through budget support from development partners and multinational development institutions, including the World Bank and the African Development Bank.

39. Cabo Verde's capacity to repay the Fund is assessed as adequate (Table 8). Fund credit outstanding would peak at 280 percent of quota by 2025 (above the top quartile of past UCT-quality arrangements for LICs). Credit outstanding would peak at about 3.1 percent of GDP, 9.5 percent of exports, and 11 percent of gross international reserves, all in 2024. At the same time, annual repayments to the Fund would peak at 1.2 percent of exports, 1.6 percent of reserves, and almost 11.4 percent of PPG external debt service, all in 2029.

40. Risks to the program are assessed as moderate, conditional on the successful implementation of the reform agenda and a continued reduction of the debt going forward. The worsened global outlook and ongoing effects of the spillovers from the war in Ukraine on Cabo Verde increase risks to the program. Also, the high risk of overall debt distress remains a concern. Disaster related events that require additional spending to restore services and support the affected population is also a risk. Mitigating factors to the worsened outlook are the authorities' strong track record under the previous PCI and the current ECF, which shows strong program ownership.

41. Capacity Development (CD). CD activities remain closely linked to program priorities (Annex V). Recent CD included TA to support the authorities' efforts to: improve revenue mobilization; increase efficiency of public expenditure; improve government finance statistics; enhance fiscal transparency (legislation and portal); C-PIMA; strengthen FPAS; strengthen implementation of Basel core principles and the International Financial Reporting Standards (IFRS) for MFIs; and reinforce bank supervision and national accounts statistics. Going forward, CD activities are expected to focus, inter alia, on domestic revenue mobilization, tax policy and related institutional reforms, implementation of C-PIMA recommendations, central bank operations and banking supervision, FSSR recommendations and high frequency indicators.

42. The authorities are committed to improving the quality and transparency of national statistics. Cabo Verde participates in e-GDDS since 2004 and established a National Summary Data Page (NSDP), a portal disseminating key macroeconomic and financial indicators, in January 2020. However, Cabo Verde last updated the metadata for the data categories posted on the NSDP mostly in 2003 and 2004. The current focus is to improve the quality, coverage, and frequency of national accounts, monetary, external, and fiscal data, and to expand the coverage of public sector debt statistics. The authorities should consider posting on the NSDP the recently compiled series of General Government data—whose compilation and publication by end-March 2023 was a structural benchmark under the ECF.

STAFF APPRAISAL

43. **The economy of Cabo Verde rebounded strongly in 2022 and the near-term outlook is favorable despite some downside risks**. Tourism arrivals have surpassed pre-pandemic levels with positive impacts in tourism-related sectors. The level of gross international reserves in 2022 reached 5.9 months on imports and is expected to remain stable around those levels. The economy remains vulnerable to external shocks that impact tourism activity.

44. **Inflation persists and requires close monitoring**. Inflation is expected to decline in 2023 but remain above the pre-2022 five-year historical average. Global food and fuel prices transfer rapidly to the economy given the heavy share of imports in consumption, thus calling for vigilance. The authorities are committed to continue supporting vulnerable groups as required.

45. **Staff welcomes the authorities' commitment to the program's fiscal consolidation path**. Achievement of the program target is dependent on the authorities adhering to tax and other revenues measures, and on the identified contingency spending measures if the overall revenues underperform. Fiscal risks from SOEs and PPPs need to be closely monitored and mitigating measures adopted. Delays in SOE reforms could undermine the credibility of the authorities' reform agenda and fiscal sustainability. Staff encourages efforts towards the continued reduction in the debt-to-GDP ratio to about 91 percent by 2028.

46. **The monetary policy stance has been appropriate and should remain data dependent to safeguard the peg**. Staff supports the recent increase in the policy rate, given the current environment with relatively high inflation as compared to historical data and the interest differential with the ECB. The CBV should remain vigilant and stand ready to change the policy stance as required to support the peg. Staff commends the authorities' implementation of CD recommendations to strengthen monetary policy transmission mechanisms and analytical capacity to monitor the economy. Staff encourages the authorities to submit the amendments to the BCV law to parliament.

47. **Staff welcomes the improvement in financial stability indicators**. The financial sector remains stable, banks' profitability increased, and NPLs maintained the downward trend since 2016, due to the credit recovery processes and the write-off of NPLs. Staff urged the authorities to continue working with banks to facilitate resolution of NPLs.

48. **Cabo Verde's external position in 2022 was substantially stronger than implied by fundamentals and desirable policies**. The authorities are committed to safeguarding the peg that has served well as the BCV's nominal anchor. The current level of reserves is assessed as adequate based on results from the application of the IMF LIC/MIC framework. Nonetheless, building strong external buffers is critical given existing vulnerabilities, and the need to protect the peg.

49. **Decisive reforms are needed to sustain high, inclusive, and resilient growth**. Moving to a post-pandemic phase, it is critical to implement reforms that will create the conditions to support

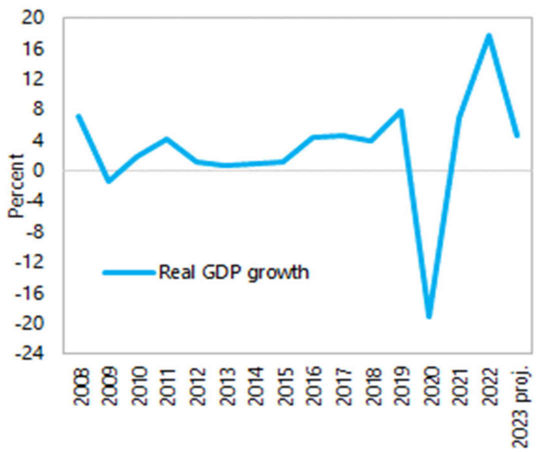
the goals under the PEDS II. In this context, a clear reform agenda of the major SOEs is of the utmost importance, while creating the basis for improved connectivity among the islands, employment and social development, and a strong domestic and dynamic private sector. Accelerated implementation of climate adaptation measures and improved access to water supplies are needed to mitigate risks and help the growth process. In this context, capital spending to accelerate investments in climate action and seeking support from partners (including the Fund) to access financing are critical at this juncture.

50. Program performance under the ECF has been strong. All QPCs for end-December 2022 were met, the IT for September was met, while the IT for December was narrowly missed. Finally, all SBs for end-December 2022 and March 2023 were met. Staff supports the modification of the PC on the PV of new external debt for end-December 2023 and the revised definition of the QPC on Net Other Liabilities.

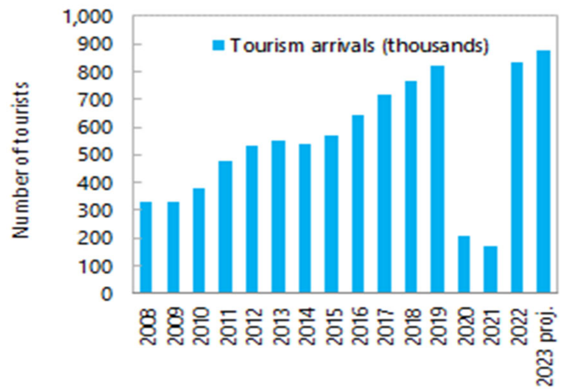
51. Staff supports the completion of the second review under the ECF arrangement. Staff also recommends that the next Article IV consultation be held on the 24-month cycle in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Figure 1. Cabo Verde: Recent Economic Developments

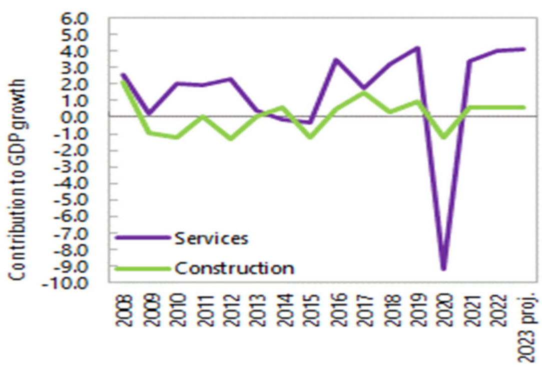
Economic growth is projected to stabilize in 2023…



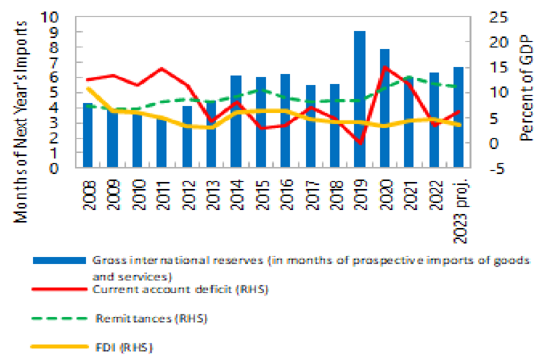
…after significant improvements in the tourism sector in 2022…



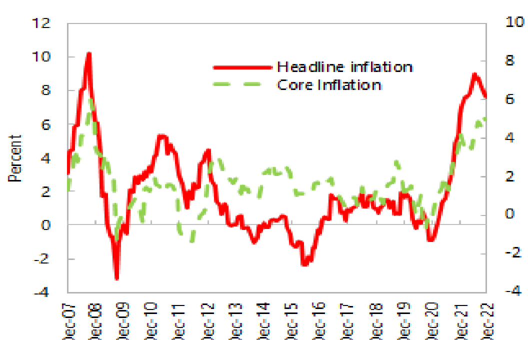
… that is expected to support activity in the services sector.



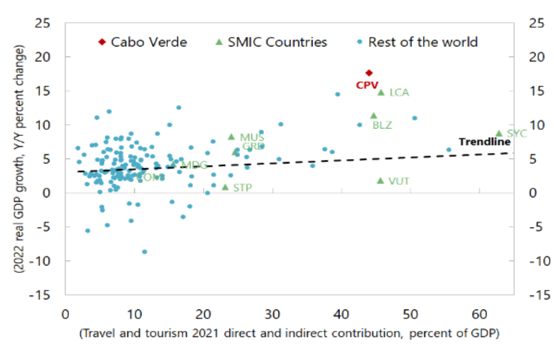
And reserves remain at adequate levels



Headline inflation increased due to higher food, fuel, and transportation costs.



Tourism Dependency and GDP Growth - 2022

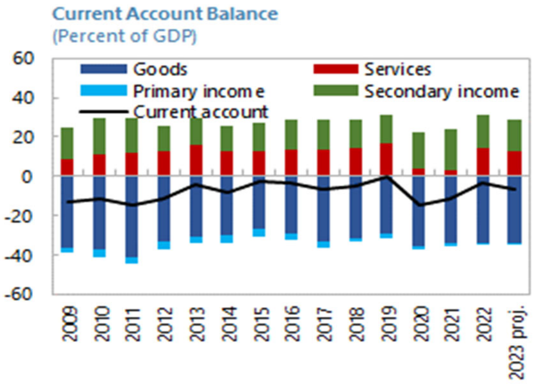


Sources: World Travel and Tourism Council and Fund staff calculations.

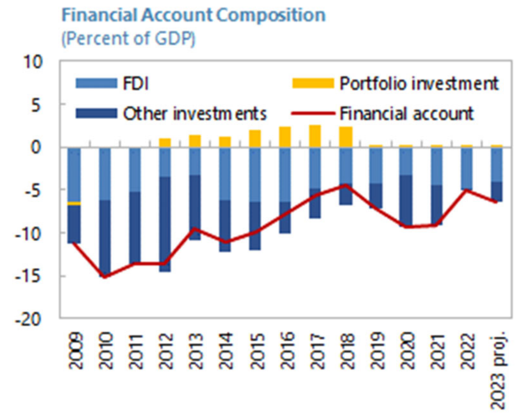
Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 2. Cabo Verde: External Sector Developments

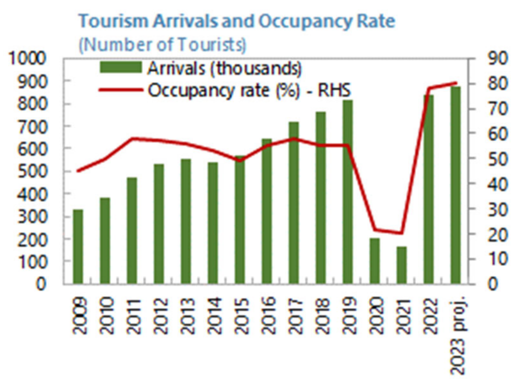
The current account deficit widens slightly in 2023 as exports slow from 2022 highs.



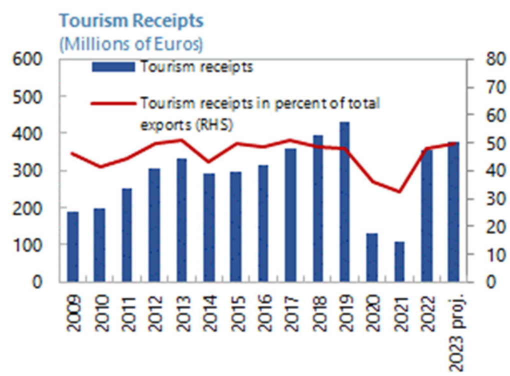
The financial account is projected to grow financed by an increase in other investments.



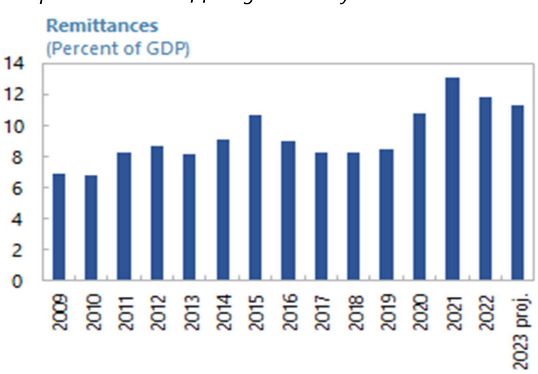
Tourism arrivals are projected to increase and remain slightly above pre pandemic levels.



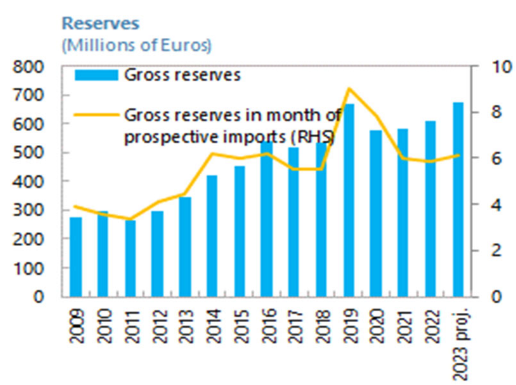
Resulting in a steady increase in tourism receipts.



Remittances are projected to decelerate in 2023 but remain an important source of foreign currency…



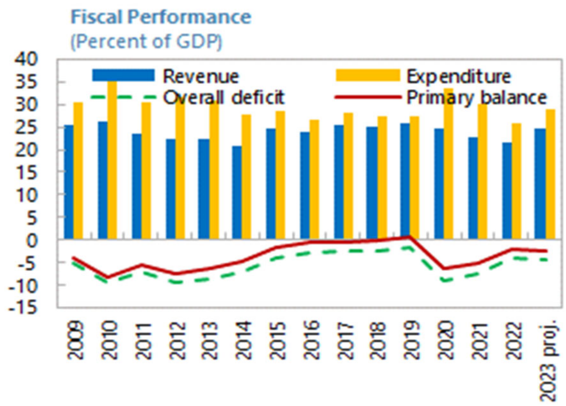
… supporting the country's strong reserve position.



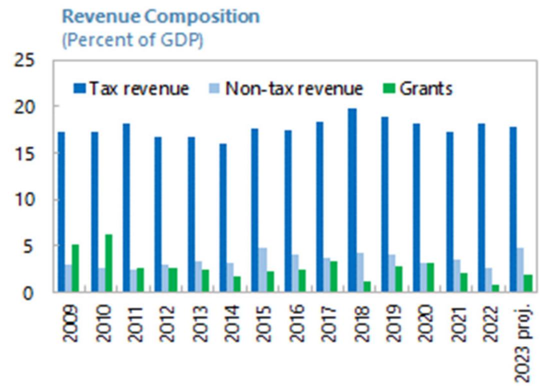
Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 3. Cabo Verde: Fiscal Sector Developments

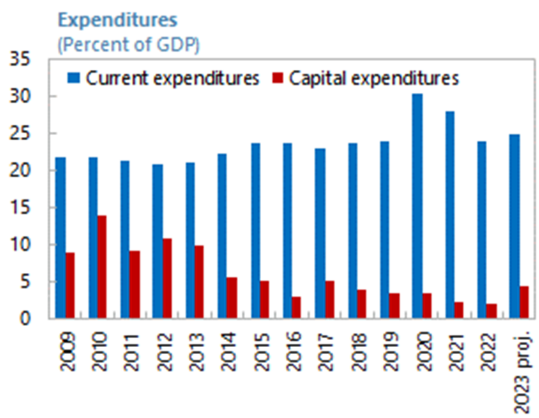
Fiscal performance is projected to remain broadly neutral in 2023 ...



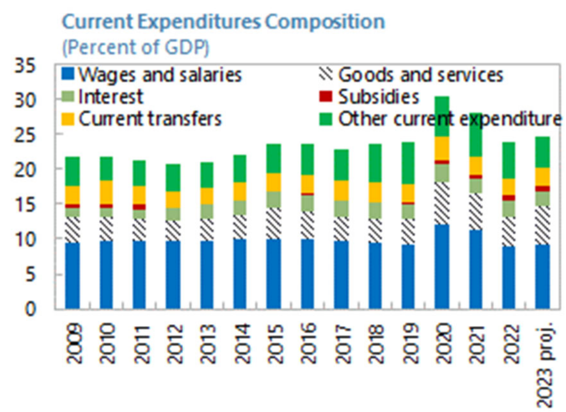
...with tax revenues expected to remain robust supported by positive economic growth.



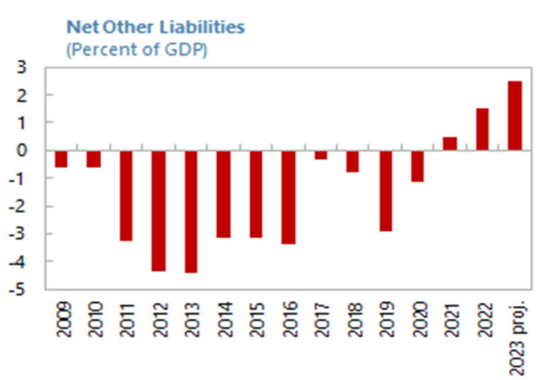
Expenditures are projected to increase on account of higher current and capital spending.



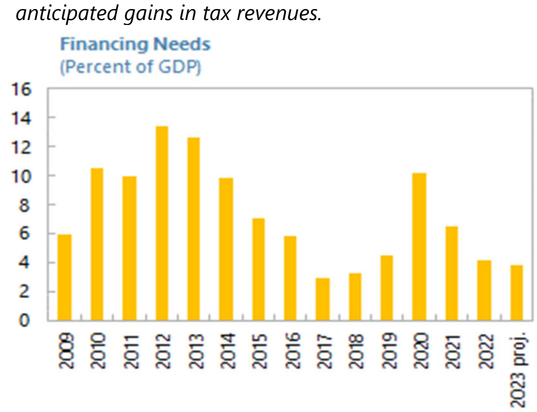
...with increased spending on wages and salaries and goods and services.



Net other liabilities are projected to decline in 2023 reflecting lower government support to SOEs.



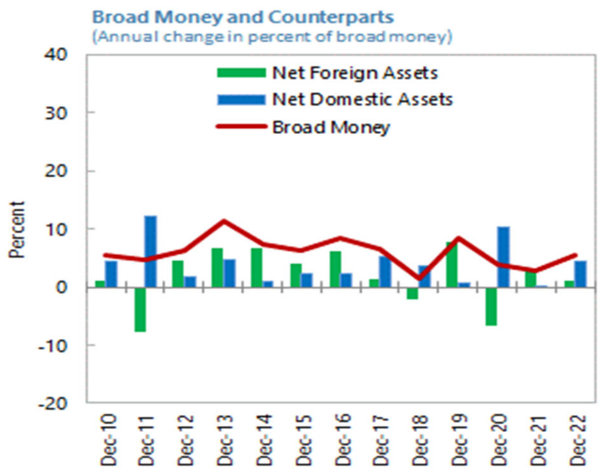
Financing needs are expected to decline due to the anticipated gains in tax revenues.



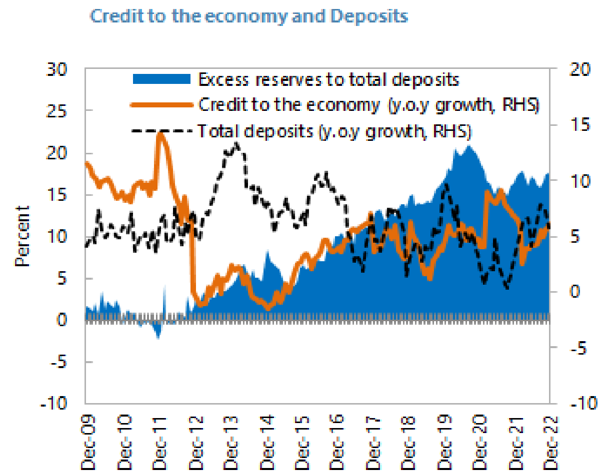
Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 4. Cabo Verde: Monetary and Financial Sector Developments

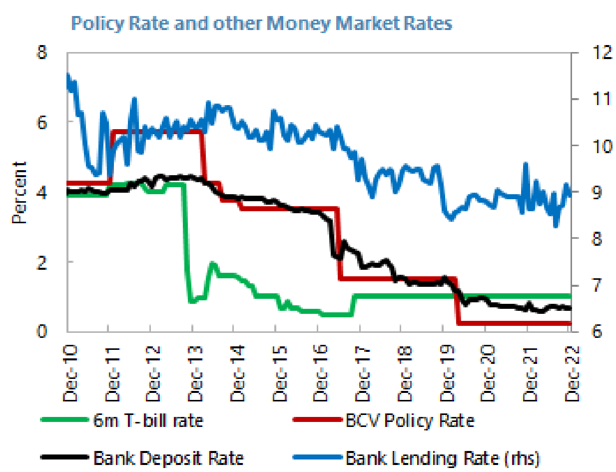
At end December 2022 broad money increased due to the increase of domestic assets…



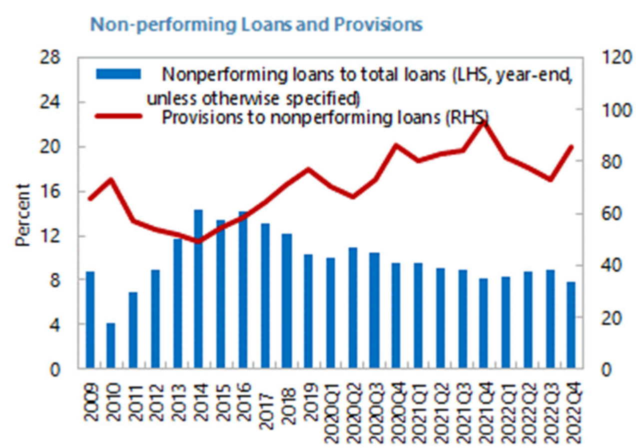
…credit to the economy increased even with the gradual phasing out of the COVID-19 relief measures.



The central bank kept the policy rate unchanged as it observes the impact of the unwinding of other COVID support measures.



Nonperforming loans increased in 2022, in part reflecting the gradual phasing out of the credit moratorium.



Sources: Cabo Verdean authorities; and IMF staff estimates.

Table 1. Cabo Verde: Selected Economic Indicators, 2020–28

	2020	2021	2022	2022	2023	2023	2024	2025	2026	2027	2028
			SR ECF 1st review	Act.	SR ECF 1st review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percent change)										
National accounts and prices 1/											
Real GDP	-19.3	6.8	10.5	17.7	4.4	4.4	4.5	4.6	4.6	4.7	4.7
GDP deflator	0.9	0.5	7.0	6.4	4.5	4.5	2.0	2.0	2.0	2.0	2.0
Consumer price index (annual average)	0.6	1.9	8.0	7.9	4.5	5.2	2.0	2.0	2.0	2.0	2.0
Consumer price index (end of period)	-0.9	5.4	8.0	7.6	4.5	5.2	2.0	2.0	2.0	2.0	2.0
External sector											
Exports of goods and services	-58.7	-7.5	37.5	120.6	11.4	3.7	8.4	9.3	9.3	9.1	9.1
Of which: tourism	-69.1	-16.4	47.1	225.4	15.6	7.7	9.9	8.5	9.3	9.4	9.3
Imports of goods and services	-23.2	0.8	19.5	33.7	7.9	7.8	7.0	7.5	6.4	5.9	7.5
	(Change in percent of broad money, 12 months earlier)										
Money and credit											
Net foreign assets	-6.6	2.9	1.3	1.2	-0.4	3.4	1.7	2.7	2.7	2.3	2.6
Net domestic assets	10.3	0.1	8.2	4.6	7.0	4.9	4.5	3.9	4.0	4.4	3.4
Net claims on the central government	-1.3	2.4	0.9	3.1	0.9	0.8	1.6	0.2	0.3	-0.4	-1.0
Credit to the economy	2.9	4.2	3.3	3.9	2.6	3.9	2.7	3.6	3.5	4.7	4.3
Broad money (M2)	3.8	3.0	9.6	5.8	6.6	8.3	6.2	6.6	6.6	6.6	6.0
	(Percent of GDP, unless otherwise indicated)										
Savings and investment											
Domestic savings	15.8	38.5	35.1	41.7	32.1	18.7	18.5	19.2	20.7	21.6	22.9
Government	-7.4	-5.1	-2.0	-0.4	0.5	0.5	0.9	2.2	2.6	2.9	3.5
Private	23.2	43.6	37.1	42.1	31.6	18.2	17.6	17.0	18.1	18.7	19.4
National investment	30.7	50.2	42.8	45.3	38.9	24.3	23.1	23.6	25.1	25.4	26.6
Government	3.3	2.2	1.9	1.9	4.4	4.2	3.3	3.8	4.2	3.4	3.4
Private	27.5	47.9	40.9	43.4	34.5	20.0	19.8	19.8	20.9	22.0	23.3
Savings-investment balance	-14.9	-11.6	-7.8	-3.6	-6.8	-5.6	-4.6	-4.4	-4.4	-3.7	-3.8
Government	-10.7	-7.3	-4.0	-2.2	-3.9	-3.8	-2.4	-1.6	-1.5	-0.5	0.1
Private	-4.3	-4.4	-3.8	-1.3	-3.0	-1.8	-2.1	-2.8	-2.8	-3.2	-3.9
External sector											
External current account (including official transfers)	-14.9	-11.6	-7.8	-3.6	-6.8	-5.6	-4.6	-4.4	-4.4	-3.7	-3.8
External current account (excluding official transfers)	-17.5	-14.0	-9.6	-4.9	-8.5	-5.9	-5.5	-5.2	-5.0	-4.3	-4.3
Overall balance of payments	-4.6	0.6	1.8	1.1	-0.3	3.0	1.6	2.5	2.4	2.0	2.4
Gross international reserves (months of prospective imports of goods and services)	7.8	6.0	6.0	5.9	5.5	6.1	6.0	6.2	6.3	6.3	6.4
Government finance											
Revenue	24.6	22.8	23.7	21.6	25.6	24.6	24.4	25.2	25.5	25.6	25.7
Tax and nontax revenue	21.3	20.8	22.0	20.7	23.6	22.7	23.1	24.1	24.4	24.6	24.7
Grants	3.2	2.0	1.7	0.9	2.1	1.9	1.2	1.2	1.1	1.0	1.0
Expenditure	33.6	30.2	28.2	25.7	30.4	29.0	27.7	27.6	28.0	26.2	26.2
Primary balance	-6.4	-5.2	-2.0	-1.9	-2.5	-2.2	-1.0	0.0	0.0	1.0	1.0
Overall balance (incl. grants)	-9.0	-7.4	-4.4	-4.1	-4.8	-4.4	-3.3	-2.4	-2.5	-0.6	-0.6
Net other liabilities (incl. onlending)	-1.2	0.9	-0.6	-0.1	0.8	0.7	-0.8	-0.2	-0.2	0.0	0.0
Total financing (incl. onlending and capitalization)	9.6	6.5	5.0	4.2	4.0	3.7	4.1	2.6	2.7	0.6	0.6
Net domestic credit	3.0	1.6	1.7	2.3	1.6	1.4	2.9	0.5	0.9	-0.7	-1.1
Net external financing	6.5	4.9	3.3	1.9	2.4	2.3	1.2	2.1	1.8	1.3	1.7
Public debt stock and service											
Total nominal government debt	138.5	144.6	128.1	121.2	122.4	112.6	109.3	105.6	101.6	96.4	91.3
External government debt	102.1	102.8	90.5	84.0	85.2	79.8	76.4	73.9	71.3	68.7	66.7
Domestic government debt	36.5	41.8	37.6	37.1	37.2	32.8	33.0	31.7	30.2	27.7	24.7
External debt service (percent of exports of goods and	14.8	20.2	15.1	11.5	15.0	12.4	12.8	11.0	10.7	10.0	9.3
Present value of PPG external debt											
Percent of GDP (risk threshold: 55%)	70.3	57.2	51.3	53.5	50.2	50.9	49.3	48.1	46.8	45.3	44.4
Percent of exports (risk threshold: 240%)	335.9	197.4	152.4	159.1	146.1	156.6	149.1	142.1	134.9	127.8	122.5
Present value of total debt											
Percent of GDP (benchmark: 70%)	92.4	102.9	90.7	91.3	87.4	84.0	82.4	79.9	77.1	73.3	69.3
Memorandum items:											
Nominal GDP (billions of Cabo Verde escudos)	181.6	195.0	232.7	244.3	253.9	266.6	284.2	303.3	323.6	345.6	369.2
Gross international reserves (€ millions, end of period)	582.4	595.3	629.7	626.1	621.8	699.0	740.4	807.8	877.8	942.0	1020.7

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

1/ The Cabo Verdean exchange rate has been pegged to the Euro since 1999, at a rate of 110.265 CVE/€.

Table 2. Cabo Verde: Balance of Payments, 2020–28
(Millions of Euros; unless otherwise indicated)

	2020	2021	2022	2022	2023	2023	2024	2025	2026	2027	2028
			SR ECF 1st review	Act.	SR ECF 1st review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-246	-206	-164	-79	-157	-136	-118	-121	-128	-117	-126
Trade balance	-579	-602	-688	-744	-735	-806	-841	-865	-874	-899	-962
Exports, f.o.b.	113	151	238	269	267	260	282	321	360	399	441
Imports, f.o.b.	692	753	926	1013	1002	1066	1123	1186	1234	1298	1403
Consumer goods	256	235	276	302	284	329	352	371	392	434	471
Intermediate goods	159	130	155	169	163	169	181	191	189	172	197
Capital goods	93	71	76	84	102	93	99	101	95	92	80
Others (including fuel)	185	317	420	457	453	476	490	524	557	600	656
Fuel	62	75	112	125	120	124	120	133	150	172	193
Services (net)	66	55	226	311	261	308	319	320	322	348	388
Receipt	258	193	473	490	524	526	571	611	659	712	772
Of which: tourism	133	112	291	363	337	391	430	466	510	558	609
Payment	192	139	246	178	263	218	252	290	337	365	384
Primary Income (net)	-36	-24	-49	-27	-57	-16	-14	-16	-24	-32	-39
Of which: interest on public debt	-15	-30	-20	-52	-27	-20	-26	-20	-21	-22	-23
Secondary Income (net)	303	365	347	381	373	378	418	439	448	466	488
General Government	43	42	40	29	37	7	25	21	18	18	18
Other Sectors	260	324	307	352	336	371	393	418	430	448	470
Of which: remittances	178	232	219	263	239	270	279	290	301	316	336
Capital account	22	23	38	21	55	54	39	41	43	24	25
Of which: Grants	10	7	25	9	42	42	27	29	31	12	13
Financial account 1/	-229	-152	-126	-86	-103	-81	-79	-80	-85	-93	-101
Foreign direct investment	-55	-78	-111	-105	-61	-100	-108	-110	-108	-115	-124
Portfolio investment	0	1	0	1	0	1	1	1	1	1	1
Other investment	-100	-85	-54	-5	-34	-55	-13	-39	-48	-43	-56
Net acquisition of financial assets	-18	54	-8	32	5	4	4	5	5	5	5
Net incurrence of liabilities	82	138	46	38	38	60	18	43	53	47	61
Monetary authority	-1	0	0	0	0	0	0	0	0	0	0
Central government	101	93	66	44	59	73	31	57	48	42	55
Disbursements	135	133	154	79	151	151	115	140	135	131	145
of which RCF	29										
Prospective ECF Financing			14	14	25	25	11	6			
Amortization	-41	-39	-88	-36	-92	-78	-84	-83	-88	-89	-89
Exceptional financing 2/	14	40	0.0	0	0.0	0	0	0	0	0	0
Commercial banks	4	49	5	15	5	7	7	8	8	8	8
Non-bank flows	-21	-4	-26	-21	-26	-21	-21	-21	-3	-3	-3
Reserve assets (+ accumulation)	-75	10	38	24	-8	73	41	67	70	64	79
Errors and omissions 3/	-5	31	0	-28	0	0	0	0	0	0	0
Overall balance	-75	10	38	24	-8	73	41	67	70	64	79
Memorandum items:											
Current account (incl. official transfers, percent of GDP)	-14.9	-11.6	-7.8	-3.6	-6.8	-5.6	-4.6	-4.4	-4.4	-3.7	-3.8
Current account (excl. official transfers, percent of GDP)	-17.5	-14.0	-9.6	-4.9	-8.5	-5.9	-5.5	-5.2	-5.0	-4.3	-4.3
Overall balance (percent of GDP)	-4.6	0.6	1.8	1.1	-0.3	3.0	1.6	2.5	2.4	2.0	2.4
Gross international reserves	582	595	630	626	622	699	740	808	878	942	1,021
Months of current year's imports of goods and services	7.9	8.0	6.4	6.3	5.9	6.5	6.5	6.6	6.7	6.8	6.9
Months of next year's imports of goods and services	7.8	6.0	6.0	5.9	5.5	6.1	6.0	6.2	6.3	6.3	6.4
External public debt	1,992	2,180	2,271	2,246	2,352	2,338	2,402	2,491	2,559	2,625	2,711
External aid (grants and loans, percent of GDP)	11.4	10.2	10.4	5.3	10.0	8.3	6.5	6.9	6.3	5.1	5.2
Nominal GDP	1,647	1,768	2,110	2,215	2,302	2,418	2,578	2,750	2,934	3,135	3,348

Sources: Bank of Cabo Verde; and IMF staff estimates and projections.

1/ Including international reserves and exceptional financing.

2/ Debt service suspension under the G-20 Initiative.

3/ Including banks' delays on trade credit reporting.

Table 3a. Cabo Verde: Statement of Operations of the Central Government, 2020–28[1]

(Millions of Cabo Verde Escudos)

	2020	2021	2022			2023			2024	2025	2026	2027	2028
			Budget	SR 1st review	Act.	Budget	SR 1st review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	44,626	44,530	58,196	55,178	52,661	64,237	65,026	65,590	69,245	76,546	82,429	88,335	94,753
Tax	32,900	33,542	41,184	43,481	44,146	44,349	45,849	48,206	53,006	59,281	64,422	69,400	74,527
Taxes on income and profit	9,990	9,149	11,879	10,212	10,174	11,133	11,433	12,317	12,635	13,886	15,704	17,949	19,173
Taxes on goods and services	15,632	15,824	20,129	22,279	23,136	23,037	23,031	24,084	27,685	30,402	32,715	34,947	37,530
Taxes on international trade	6,593	7,894	8,407	10,107	10,025	9,351	10,460	10,955	11,780	14,026	14,920	15,347	16,588
Other taxes	684	675	769	884	811	828	925	850	906	967	1,083	1,157	1,236
Grants	5,866	3,985	3,982	3,914	2,131	5,225	5,225	5,163	3,504	3,539	3,476	3,413	3,646
Other revenue	5,861	7,002	13,031	7,783	6,384	14,663	13,951	12,222	12,735	13,726	14,530	15,522	16,580
Fees and penalties	220	166	342	359	264	361	361	361	385	411	438	447	456
Property Income	1,135	1,215	5,444	918	336	5,565	4,718	4,136	4,092	4,474	4,563	4,655	4,748
Sale of Goods and Services	3,719	4,245	5,957	5,220	5,281	6,710	6,525	6,194	6,618	7,062	7,610	8,535	8,706
Other (inc. social contributions)	787	1,376	1,288	1,286	503	2,027	2,347	1,530	1,640	1,779	1,919	1,885	2,671
Expenditure	61,052	58,898	72,330	65,526	62,676	77,220	77,202	77,359	78,684	83,798	90,543	90,452	96,902
Expense 2/	55,119	54,544	62,112	60,992	58,141	66,022	66,004	66,029	69,305	72,304	77,115	78,735	84,165
Compensation of employees	21,842	22,144	24,326	23,262	21,984	24,431	24,431	24,431	26,141	27,370	29,201	31,193	33,287
Use of goods and services	11,110	9,982	12,390	11,381	10,420	14,685	14,685	14,692	13,359	13,754	13,974	15,228	16,266
Interest	4,829	4,256	5,541	5,805	5,376	5,877	5,878	5,878	6,635	7,269	8,112	5,668	5,948
Domestic	3,156	3,236	3,413	3,646	3,330	3,486	3,486	3,486	3,731	5,005	5,712	3,205	3,363
External	1,614	942	2,052	2,063	2,006	2,315	2,315	2,315	2,827	2,187	2,323	2,463	2,585
Other Charges	58	78	76	97	40	77	77	77	77	77	77	0	0
Subsidies	630	816	1,008	1,409	1,964	2,022	2,002	2,016	2,057	1,783	1,819	1,855	1,982
Current transfers	6,482	5,536	6,097	6,139	5,646	6,657	6,657	6,659	7,099	7,175	7,505	8,017	8,564
Social benefits	8,268	9,267	8,316	9,057	9,010	9,143	9,143	9,146	9,750	10,404	11,650	12,195	13,226
Other expense (incl. capital transfer)	1,959	2,543	4,433	3,938	3,742	3,207	3,207	3,207	4,263	4,549	4,854	4,580	4,892
Net acquisition of nonfinancial assets	5,933	4,354	10,217	4,535	4,535	11,198	11,198	11,330	9,380	11,494	13,428	11,717	12,738
Purchase of assets	6,033	5,037	10,625	5,183	4,631	11,945	11,945	12,077	10,085	11,965	13,899	11,717	12,738
Sales of assets (-)	-100	-683	-408	-648	-437	-747	-747	-747	-705	-471	-471	0	0
Primary balance	-11,598	-10,112	-8,592	-4,543	-4,639	-7,106	-6,298	-5,891	-2,804	16	-2	3,551	3,799
Overall balance	-16,426	-14,368	-14,133	-10,349	-10,015	-12,983	-12,176	-11,769	-9,439	-7,253	-8,114	-2,117	-2,149
Net other liabilities	-2,104	1,691	-4,363	-1,334	-173	1,936	1,940	1,940	-2,274	-579	-618	0	0
Onlending to SOEs for investment purpose	-1,650	-1,220	-2,513	-2,426	-1,075	-1,851	-1,851	-1,851	-543	-579	-618	0	0
Other onlending (net)	307	2,401	120	120	197	194	197	197	144	0	0	0	0
Disbursement	0	0	0	0	0	3	3	3.3	0	0	0	0	0
Repayment	307	2,401	120	120	198	194	194	194	144	0	0	0	0
Capitalization	-767	-838	-2,651	-2,151	-2,716	-2,200	-2,200	-2,200	-2,200	0	0	0	0
Other	7	1,348	681	2,761	3,059	5,794	5,794	5,794	325	0	0	0	0
Financing needs	18,530	12,677	18,497	11,682	10,188	11,047	10,236	9,828	11,713	7,832	8,732	2,117	2,149
Total financing	17,359	12,677	18,497	11,682	10,188	11,047	10,236	9,828	11,713	7,832	8,732	2,117	2,149
Net domestic financing	5,480	3,142	11,412	3,930	5,592	6,631	4,179	3,772	8,277	1,578	2,872	-2,520	-4,174
Net external financing	11,879	9,536	7,085	7,752	4,596	4,416	6,057	6,057	3,436	6,253	5,860	4,638	6,323
Disbursement	16,024	14,499	16,089	16,887	12,075	15,013	16,663	16,663	12,652	15,398	15,552	14,401	16,166
Budget Loans	9,125	4,223	3,105	8,394	5,582	5,551	7,126	7,126	3,826	6,594	6,142	6,525	6,474
Of which RCF disbursement	3,213												
Prospective ECF Financing				1,575	1,575	2,813	2,813	2,813	1,233	615			
Project and Program Loans	4,025	6,801	6,785	6,154	4,154	7,686	7,686	7,686	8,284	8,225	8,793	7,875	9,692
Loans to on lend to SOEs 3/	1,377	1,220	2,513	2,339	2,339	1,776	1,851	1,851	543	579	618	0	0
Amortization	4,145	4,964	9,005	9,135	7,479	10,606	10,606	10,606	9,216	9,145	9,692	9,763	9,843
Unidentified external financing				0	0								
Exceptional financing (DSSI)	1,498	2,255											
Net errors and omissions (+ overfinancing)	-1,171	0	0	0	0		0	0	0	0	0	0	0
Memorandum items:													
Social Spending	20,050	18,300	15,800	15,800	15,800	17,304	17,304	17,304	18,448	19,685	21,002	22,434	23,964
Total Public Investment	7,410	6,257	13,139	7,522	6,970	13,721	13,796	13,928	10,627	12,544	14,517	11,717	12,738
of which: public investment done by SOEs	1,377	1,220	2,513	2,339	2,339	1,776	1,851	1,851	543	579	618	0	0

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

1/ Includes budgetary central government (BCG) and extra budgetary central government (ECG), but excludes social security funds.

2/ Higher expenditures on compensation of employees and on goods and services for 2020 partly reflect the broadening of the fiscal coverge.

3/ On lend to SOEs for public investment execution.

Table 3b. Cabo Verde: Statement of Operations of the Central Government, 2020–28[1]

(Percent of GDP)

	2020	2021	2022			2023			2024	2025	2026	2027	2028
			Budget	SR 1st review	Act.	Budget	SR 1st review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	24.6	22.8	23.8	23.7	21.6	27.8	25.6	24.6	24.4	25.2	25.5	25.6	25.7
Taxes	18.1	17.2	16.9	18.7	18.1	19.2	18.1	18.1	18.6	19.5	19.9	20.1	20.2
Taxes on income and profit	5.5	4.7	4.9	4.4	4.2	4.8	4.5	4.6	4.4	4.6	4.9	5.2	5.2
Taxes on goods and services	8.6	8.1	8.2	9.6	9.5	10.0	9.1	9.0	9.7	10.0	10.1	10.1	10.2
Taxes on international trade	3.6	4.0	3.4	4.3	4.1	4.0	4.1	4.1	4.1	4.6	4.6	4.4	4.5
Other taxes	0.4	0.3	0.3	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Grants	3.2	2.0	1.6	1.7	0.9	1.2	2.1	1.9	1.2	1.2	1.1	1.0	1.0
Other revenue	3.2	3.6	5.3	3.3	2.6	6.3	5.5	4.6	4.5	4.5	4.5	4.5	4.5
Fees and penalties	0.1	0.1	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Property Income	0.6	0.6	2.2	0.4	0.1	2.4	1.9	1.6	1.4	1.5	1.4	1.3	1.3
Sale of Goods and Services	2.0	2.2	2.4	2.2	2.2	2.9	2.6	2.3	2.3	2.3	2.4	2.5	2.4
Other (inc. social contributions)	0.4	0.7	0.5	0.6	0.2	0.9	0.9	0.6	0.6	0.6	0.6	0.5	0.7
Expenditure	33.6	30.2	29.6	28.2	25.7	33.4	30.4	29.0	27.7	27.6	28.0	26.2	26.2
Expense 2/	30.3	28.0	25.4	26.2	23.8	28.6	26.0	24.8	24.4	23.8	23.8	22.8	22.8
Compensation of employees	12.0	11.4	10.0	10.0	9.0	10.6	9.6	9.2	9.2	9.0	9.0	9.0	9.0
Use of goods and services	6.1	5.1	5.1	4.9	4.3	6.4	5.8	5.5	4.7	4.5	4.3	4.4	4.4
Interest	2.7	2.2	2.3	2.5	2.2	2.5	2.3	2.2	2.3	2.4	2.5	1.6	1.6
Domestic	1.7	1.7	1.4	1.6	1.4	1.5	1.4	1.3	1.3	1.7	1.8	0.9	0.9
External	0.9	0.5	0.8	0.9	0.8	1.0	0.9	0.9	1.0	0.7	0.7	0.7	0.7
Other Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	0.3	0.4	0.4	0.6	0.8	0.9	0.8	0.8	0.7	0.6	0.6	0.5	0.5
Current transfers	3.6	2.8	2.5	2.6	2.3	2.9	2.6	2.5	2.5	2.4	2.3	2.3	2.3
Social benefits	4.6	4.8	3.4	3.9	3.7	4.0	3.6	3.4	3.4	3.4	3.6	3.5	3.6
Other expense (incl. capital transfer)	1.1	1.3	1.8	1.7	1.5	1.4	1.3	1.2	1.5	1.5	1.5	1.3	1.3
Net acquisition of nonfinancial assets	3.3	2.2	4.2	1.9	1.9	4.8	4.4	4.2	3.3	3.8	4.2	3.4	3.5
Purchase of assets	3.3	2.6	4.3	2.2	1.9	5.2	4.7	4.5	3.5	3.9	4.3	3.4	3.5
Sales of assets (-)	-0.1	-0.4	-0.2	-0.3	-0.2	-0.3	-0.3	-0.3	-0.2	-0.2	-0.1	0.0	0.0
Primary balance	-6.4	-5.2	-3.5	-2.0	-1.9	-3.1	-2.5	-2.2	-1.0	0.0	0.0	1.0	1.0
Overall balance	-9.0	-7.4	-5.8	-4.4	-4.1	-5.6	-4.8	-4.4	-3.3	-2.4	-2.5	-0.6	-0.6
Net other liabilities	-1.2	0.9	-1.8	-0.6	-0.1	-0.8	0.8	0.7	-0.8	-0.2	-0.2	0.0	0.0
Onlending to SOEs for investment purpose	-0.9	-0.6	-1.0	-1.0	-0.4	-0.8	-0.7	-0.7	-0.2	-0.2	-0.2	0.0	0.0
Other onlending (net)	0.2	1.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Disbursement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment	0.2	1.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Capitalization	-0.4	-0.4	-1.1	-0.9	-1.1	-1.0	-0.9	-0.8	-0.8	0.0	0.0	0.0	0.0
Other	0.0	0.7	0.3	1.2	1.3	2.5	2.3	2.2	0.1	0.0	0.0	0.0	0.0
Financing Needs	10.2	6.5	7.6	5.0	4.2	4.8	4.0	3.7	4.1	2.6	2.7	0.6	0.6
Total financing	9.6	6.5	7.6	5.0	4.2	4.8	4.0	3.7	4.1	2.6	2.7	0.6	0.6
Net domestic financing	3.0	1.6	4.7	1.7	2.3	2.9	1.6	1.4	2.9	0.5	0.9	-0.7	-1.1
Net external financing	6.5	4.9	2.9	3.3	1.9	2.9	2.4	2.3	1.2	2.1	1.8	1.3	1.7
Disbursement	8.8	7.4	6.6	7.3	4.9	6.5	6.6	6.3	4.5	5.1	4.8	4.2	4.4
Budget Loans	5.0	2.2	1.3	3.6	2.3	2.4	2.8	2.7	1.3	2.2	1.9	1.9	1.8
Of which RCF disbursement	1.8					1.9							
Prospective ECF Financing				0.7	0.6	6.5	1.1	1.1	0.4	0.2			
Project and Program Loans	2.2	3.5	2.8	2.6	1.7	2.4	3.0	2.9	2.9	2.7	2.7	2.3	2.6
Loans to on lend to SOEs 3/	0.8	0.6	1.0	1.0	1.0	1.2	0.7	0.7	0.2	0.2	0.2	0.0	0.0
Amortization	2.3	2.5	3.7	3.9	3.1	4.6	4.2	4.0	3.2	3.0	3.0	2.8	2.7
Unidentified Financing (Financing Gap)													
Exceptional financing (DSSI)	0.8	1.2											
Net errors and omissions (+ overfinancing)	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
Social Spending	11.0	9.4	6.5	6.8	6.5	7.5	6.8	6.5	6.5	6.5	6.5	6.5	6.5
Total Public Investment	4.1	3.2	5.4	3.2	2.9	5.9	5.4	5.2	3.7	4.1	4.5	3.4	3.5
Of which: public investment done by SOEs	0.8	0.6	1.0	1.0	1.0	0.8	0.7	0.7	0.2	0.2	0.2	0.0	0.0
GDP at current market prices (billions of CVEsc)	181.6	195.0	244.3	232.7	244.3	231.0	253.9	266.6	284.2	303.3	323.6	345.6	369.2

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

1/ Includes budgetary central government (BCG) and extra budgetary central government (ECG), but excludes social security funds.

2/ Higher expenditures on compensation of employees and on goods and services for 2020 partly reflect the broadening of the fiscal coverge.

3/ On lend to SOEs for public investment execution.

Table 4. Cabo Verde: Monetary Survey, 2020–28
(Millions of Cabo Verde escudos, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	57,716	63,718	66,329	74,064	78,308	85,418	92,678	98,858	106,232
Foreign assets	91,373	99,880	106,860	115,388	120,446	128,387	136,499	143,550	151,817
Of which: gross international reserves	64,213	65,636	69,036	77,075	81,636	89,075	96,679	103,215	110,960
Foreign liabilities	-33,658	-36,162	-40,531	-41,325	-42,137	-42,969	-43,821	-44,692	-45,585
Net domestic assets	148,917	149,183	158,957	169,967	180,833	190,841	201,838	214,831	225,815
Net domestic credit	146,433	170,936	185,609	196,619	207,485	217,493	228,491	241,484	252,467
Net claims on general government (net)	20,036	35,916	42,273	44,415	48,628	49,310	50,553	49,815	47,494
Investment in TCMFs 1/	6,433	6,433	6,433	6,433	6,433	6,433	6,433	6,433	6,433
Net claims on the central government	21,380	26,322	33,029	34,915	38,924	39,387	40,396	39,405	36,813
Credit to central government	44,681	52,916	63,182	60,646	63,270	64,628	65,023	64,823	62,230
Deposits of central government	-23,300	-26,593	-30,153	-25,732	-24,346	-25,241	-24,626	-25,418	-25,418
Of which: project deposits	-80	-92	-104	-104	-104	-104	-104	-104	-104
Net claims on local government and other agencies 2/	-7,777	3,161	2,811	3,068	3,270	3,490	3,723	3,977	4,248
Credit to the economy	126,396	135,019	143,336	152,204	158,857	168,184	177,938	191,668	204,973
Other items (net)	2,484	-21,752	-26,652	-26,652	-26,652	-26,652	-26,652	-26,652	-26,652
Broad money (M2)	206,632	212,902	225,286	244,031	259,141	276,259	294,517	313,689	332,047
Narrow money (M1)	108,321	105,352	123,144	133,390	141,650	151,006	160,987	171,466	181,501
Currency outside banks	11,115	11,416	12,236	13,254	14,075	15,005	15,997	17,038	18,035
Demand deposits	97,207	93,936	110,908	120,136	127,575	136,002	144,990	154,428	163,466
Quasi-money	97,565	99,673	99,685	107,412	114,063	121,597	129,634	138,072	146,153
Foreign currency deposits	4,599	4,606	4,606	3,229	3,428	3,655	3,897	4,150	4,393
(Change in percent of broad money, 12 months earlier)									
Net foreign assets	-6.6	2.9	1.2	3.4	1.7	2.7	2.6	2.1	2.4
Net domestic assets	10.3	0.1	4.6	4.9	4.5	3.9	4.0	4.4	3.5
Net domestic credit	-3.1	11.9	6.9	4.9	4.5	3.9	4.0	4.4	3.5
Net claims on the central government	-1.3	2.4	3.1	0.8	1.6	0.2	0.4	-0.3	-0.8
Credit to the economy	2.9	4.2	3.9	3.9	2.7	3.6	3.5	4.7	4.2
Other items (net)	13.4	-11.7	-2.3	0.0	0.0	0.0	0.0	0.0	0.0
Broad money (M2)	3.8	3.0	5.8	8.3	6.2	6.6	6.6	6.5	5.9
Memorandum items:									
Emigrant deposits	66,422	67,592	69,917	75,455	80,127	85,420	91,065	96,994	102,670
Emigrant deposits/total deposits (percent)	34.0	33.5	32.8	32.7	32.7	32.7	32.7	32.7	32.7
Excess reserves/total deposits (percent)	19.7	15.6	13.9	20.6	14.1	14.2	14.0	15.0	15.6
Money multiplier (M2/M0)	2.9	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Money velocity (Nominal GDP/M2)	0.9	0.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Credit to the economy (percent change) 3/	4.8	6.8	6.2	6.2	4.4	5.9	5.8	7.7	6.9
Broad money (M2 in percent of GDP)	113.8	109.2	92.2	91.5	91.2	91.1	91.0	90.8	89.9

Sources: Bank of Cabo Verde; and IMF staff estimates and projections.

1/ TCMFs (Títulos Consolidados de Mobilização Financeira) are bonds in CVE, backed by an offshore account managed by Banco de Portugal. They matured in late 2018; and in 2019 the authorities decided to redeem a portion of them and to replace the balance with new bonds.

2/ Includes Cabo Verde's National Pension Institute (INPS).

3/ Percent change, year over year.

Table 5. Cabo Verde: Financial Soundness Indicators of the Banking Sector, 2018–22Q4

(End-year; percent unless otherwise indicated)

	2018	2019	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4
Capital adequacy														
Regulatory capital to risk-weighted assets	16.2	17.7	18.1	18.3	18.6	19.4	19.6	20.0	20.9	21.4	22.0	21.4	21.9	22.3
Regulatory Tier 1 capital to risk-weighted assets	16.1	18.2	18.6	18.8	19.0	19.8	20.1	20.5	20.9	21.1	21.6	21.1	21.5	22.8
Asset quality 1/														
Nonperforming loans to total loans	12.2	10.4	10.1	11.0	10.5	9.5	9.5	9.1	9.0	8.1	8.2	8.8	8.9	7.8
Nonperforming loans net of provisions to capital	26.0	15.0	20.4	23.9	16.6	7.1	10.9	8.5	7.6	1.6	7.4	9.4	11.6	4.8
Provisions to nonperforming loans	71.0	77.0	70.1	66.5	73.3	86.4	80.0	83.0	84.1	95.5	81.3	77.9	73.2	85.7
Earnings and profitability														
Return on assets	0.3	1.3	0.4	0.6	1.0	1.3	0.4	0.8	1.2	1.4	0.4	0.8	1.3	1.7
Return on equity	4.8	17.8	5.3	7.9	12.7	15.4	4.9	9.1	12.7	14.9	4.4	8.7	13.6	17.4
Interest margin to gross income	79.6	81.1	78.2	85.8	86.7	85.7	84.8	83.1	83.5	80.8	83.9	82.0	78.6	78.9
Noninterest expenses to gross income	69.6	49.4	46.4	49.3	48.9	48.9	45.5	45.3	45.4	46.0	46.5	45.6	44.2	45.9
Liquidity 2/														
Liquid assets to total assets	21.4	24.3	23.8	25.4	25.9	25.1	23.0	21.7	22.6	24.3	24.1	22.8	23.2	24.5
Liquid assets to short-term liabilities	25.5	28.3	27.8	30.0	30.8	29.9	27.5	26.1	28.0	30.5	30.1	28.5	29.1	31.5
Additional indicators														
Government deposits over total deposits	18.3	19.1	19.6	19.1	19.7	19.6	19.0	18.0	17.7	16.0	15.7	15.8	17.1	16.9
Demand deposits over total deposits	50.5	50.9	51.8	51.6	51.7	51.1	51.6	51.4	50.9	51.8	52.6	51.8	52.9	53.4
Total credit over total deposits	55.2	52.9	52.9	53.2	53.6	54.7	55.5	56.1	57.8	56.9	55.5	56.3	56.1	57.3
Personnel cost over cost of operations	66.6	56.6	59.2	57.8	57.7	58.0	60.4	59.7	58.4	58.0	58.0	57.4	56.5	55.2

Source: Bank of Cabo Verde.

1/ Based on IAS/IFRS definition.

2/ Liquid assets include cash in vault and marketable securities. Short-term liabilities include demand deposits.

Table 6. Cabo Verde: Quantitative Performance Criteria and Indicative Targets Under the ECF, December 2022-June 2024[1]

(Millions of Escudos, unless otherwise indicated)

	2022			2023				2024	
	end-December			end-March	end-June	end-September	end-December	end-March (proposed)	end-June (proposed)
	Performance Criteria (PC)	Actual	Status	Indicative Targets (IT)	Performance Criteria (PC)	Indicative Targets (IT)	Performance Criteria (PC)	Indicative Targets (IT)	Performance Criteria (PC)
	Cumulative from the beginning of the calendar year								
Quantitative performance criteria									
Primary balance, floor [2]	-7,750	-4,639	met	-2,612.0	-4,141.0	-5,564.2	-6,298.0	-1,849	-2417
Tax revenue, floor	38,215	44,146	met	9,550.1	19,095.0	31,483.0	45,849.0	8,088	21029
Net other liabilities, floor [3]	-1,455	-173	met	-501.5	-625.3	-1,150.2	1,940.3	-1,099	-1259
Net domestic financing, ceiling	7,501	5,592	met	5,651	5,886	4,920.5	4,179	3,093	4021
Nonaccumulation of domestic arrears [4]	0.0	0.0	met	0	0	0	0	0	0
Non-accumulation of external payment arrears [4]	0.0	0.0	met	0	0	0	0	0	0
PV of new external debt, ceiling (in millions of US Dollars)	94	92	met	46	60	75	98.7 [5]	24	37
Nominal level of new nonconcessional external debt of central government, ceiling[4]	0.0	0.0	met	0	0	0	0	0	0
Gross international reserves (in millions of euros), floor [2]	491	626	met	554	572	592	622	671	693
Indicative Targets									
Social spending, floor	15,800	15,306	not met	2,923	6,180	10,009.0	17,304.0	3,690	7379
Non-quantitative continuous PCs									
Non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions									
Non-introduction or modification of multiple currency practices									
Non-imposition or intensification of import restrictions for balance of payments reasons									
Non-conclusion of bilateral payments agreements that are inconsistent with Article VIII									
Memorandum items:									
Net onlending	2,790	197		413.4	827	1,286	1,654	239.1	279
Capitalization	2,151	2,716		300.0	765.3	880.1	2,200.0	1,100	1600
Program assumptions									
Project and budget support grants	3,982	2,131		522.5	623.3	2,090.0	5,225.0	526	1121
External debt service	11,226	9,485		3,664.8	6,445.4	10,664.6	12,921.0	2,409	4818
Sales of assets	648	437		142.2	516.6	612.0	747.0	106	226
Project and budget support loans	14,333	12,075		913.9	5,887.7	10,732.9	16,663.0	1,816	4238

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

[1] Expressed in local currency and millions unless otherwise indicated. Foreign currency amounts will be converted at current exchange rates. Negative numbers indicate net lending.

[2] Stock of reserves in millions of Euros.The ceiling or floor will be adjusted as specified in the TMU.

[3] Net other liabilites includes net onlending, capitalization, and other assets.

[4] Continuous.

[5] Proposed PV ceiling

Table 7. Cabo Verde: Structural Benchmarks Under the ECF for 2022-24

Actions	Target date	Objective	Status
Fiscal reforms			
1) Invoice electronically at least 50 percent of tax payers for VAT	End-December 2022	Improve revenue collection	Met
2) Submit to parliament the budget for 2023 that is in line with commitments under the program.	End December 2022	Support fiscal and debt sustainability	Met
3) Compile and publish historical series of government financial statistics for general government.	End-March 2023	Improve fiscal transparency	Met
4) Publish annual budget execution reports for the general government.	End-September 2023	Improve fiscal transparency	
5) Construct a Compliance Risk Management system to allow for the optimization of tax revenue collection by end-December 2023.	End-December 2023	Support fiscal and debt sustainability	
6) Submit to parliament the budget for 2024 that is in line with the primary balance commitment under the program.	End-December 2023	Support fiscal and debt sustainability	
7) Develop and publish an action plan to reduce tax expenditures, including published estimates of all annual tax expenditures in the budget to improve transparency, and undertake phased implementation of the ECOWAS tariff, to increase revenue by 1 percent of GDP **(Proposed New SB)**	End-September 2024	Support fiscal and debt sustainability	
8) Implement the action plan to reduce expenditures during in the 2025 budget **(Proposed New SB)**	End-December 2024	Support fiscal and debt sustainability	
SOEs reforms			
9) Conduct quarterly analysis of fiscal risk assessment using the IMF SOEs health check tool.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
10) Introduce a quarterly monitoring report on SOEs budget execution.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
11) Improve the annual SOEs report to include comparison of execution to initial budget projection, evaluation of performance against medium term plan, data on government relations (transfers and liabilities).	End-July 2023	Improve fiscal reporting and reduce fiscal risks	
12) Based on the July 2023 structural benchmark, publish in the annual report on public companies the targets agreed between the Ministry of Finance and Business Development and the six largest public companies , on improving financial performance and reducing the need for central government support. **(Proposed New SB)**	End-June 2024	Improve fiscal reporting and reduce fiscal risks	
Monetary policy reforms			
13) Preannounce a schedule for TIM and TRM auctions.	End-June 2022	Support the development of the money market	Met
14) Introduce a composite indicators of economic activity.	End-June 2023	Support monetary policy analysis	
Financial sector reforms			
15) Submit draft amendments to the BCV Law, in line with IMF recommendations, to the Ministry of Finance with a view to (i) establishing an independent oversight process that is separate from executive management, (ii) strengthening the BCV's personal and financial autonomy, and (iii) enhancing transparency and accountability mechanisms	End-December 2022	Strengthen BCV institutional framework	Met
16) Carry out a comprenhensive study of loan losses and provisions at the expiration of the credit moratorium.	End-December 2022	Strengthen financial stability	Met
17) Develop a common framework for the resolution of crisis related NPLs.	End-December 2022	Strengthen financial stability	Met
18) Increase the frequency of stress testing to twice per year (June 2023 and December 2023) to ensure the effectiveness of the supervisory process and revamp the stress testing methodology to include detailed banking data and cyber security risk assessment.	End-December 2023	Strengthen financial stability	

Table 8. Cabo Verde: Indicators of Capacity to Repay the Fund, 2023-35

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Fund obligations based on existing credit (millions of SDRs)													
Principal	0.0	0.0	2.4	4.7	5.9	8.1	9.2	6.9	4.5	3.4	1.1	0.0	0.0
Charges and interest	0.6	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Total	0.6	1.2	3.6	5.9	7.1	9.3	10.4	8.1	5.7	4.6	2.3	1.2	1.2
Fund obligations based on existing and prospective credit (millions of SDRs)													
Principal	0.0	0.0	2.4	4.7	5.9	8.6	11.5	10.9	9.0	7.9	5.2	2.3	0.5
Charges and interest	0.6	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Total	0.6	1.2	3.6	5.9	7.1	9.8	12.7	12.1	10.2	9.1	6.4	3.5	1.7
Total obligations based on existing and prospective credit													
Millions of SDRs	0.6	1.2	3.6	5.9	7.1	9.8	12.7	12.1	10.2	9.1	6.4	3.5	1.7
Millions of U.S. dollars	0.8	1.6	4.8	8.0	9.5	13.2	17.2	16.4	13.8	12.3	8.6	0.0	0.0
Percent of exports of goods and services	0.1	0.2	0.5	0.7	0.8	1.1	1.3	1.1	0.9	0.7	0.5	0.0	0.0
Percent of debt service	0.5	1.1	3.2	5.0	6.5	9.7	12.5	12.1	9.8	7.9	5.2	0.0	0.0
Percent of quota	2.5	5.1	15.1	25.1	29.8	41.2	53.5	51.2	43.1	38.3	26.9	14.6	7.0
Percent of gross international reserves	0.1	0.2	0.6	0.9	1.0	1.3	1.5	1.3	1.0	0.8	0.5	0.0	0.0
Percent of GDP	0.0	0.1	0.2	0.3	0.3	0.4	0.5	0.4	0.3	0.3	0.2	0.0	0.0
Outstanding Fund credit													
Millions of SDRs	55.2	64.2	66.4	61.6	55.8	47.2	35.7	24.8	15.8	7.9	2.7	0.5	0.0
Millions of U.S. dollars	73.6	85.6	88.8	82.8	75.2	63.9	48.3	33.5	21.3	10.7	3.7	0.0	0.0
Percent of exports of goods and services	8.8	9.5	9.1	7.8	6.5	5.1	3.5	2.2	1.3	0.6	0.2	0.0	0.0
Percent of debt service	46.3	57.4	59.2	51.9	51.6	47.1	35.1	24.6	15.1	6.9	2.2	0.0	0.0
Percent of quota	233	271	280	260	235	199	151	105	66	33	11	2	0
Percent of gross international reserves	9.9	11.0	10.5	9.0	7.7	6.1	4.3	2.7	1.5	0.7	0.2	0.0	0.0
Percent of GDP	2.9	3.1	3.1	2.7	2.3	1.9	1.3	0.9	0.5	0.2	0.1	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	20.3	9.0	2.1	-4.7	-5.9	-8.6	-11.5	-10.9	-9.0	-7.9	-5.6	-2.3	-0.5
Disbursements	20.3	9.0	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	2.4	4.7	5.9	8.6	11.5	10.9	9.0	7.9	5.6	2.3	0.5
Memorandum items:													
Exports of goods and services (millions of U.S. dollars)	835.7	899.0	978.9	1066.2	1157.5	1249.4	1365.2	1494.8	1613.7	1740.5	1897.7	2078.5	2290.1
Debt service (millions of U.S. dollars)	158.9	149.1	150.1	159.7	145.7	135.7	137.5	136.2	141.3	154.9	166.0	185.1	203.5
Quota (millions of SDRs)	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7
Gross international reserves	742.9	780.6	848.9	918.8	980.9	1051.6	1123.5	1244.1	1382.5	1532.0	1699.4	1876.7	2065.9
GDP (millions of U.S. dollars)	2569.7	2717.8	2890.2	3071.6	3264.1	3449.8	3675.5	3917.5	4176.0	4451.3	4744.8	5057.7	5391.3

Sources: IMF staff estimates and projections.

Table 9. Cabo Verde: Schedule of Reviews Under the ECF, 2022-25

Date Available	Amount (SDR millions)	% of Quota	Conditions Necessary for Purchase
15-Jun-22	11.26	47.5	Executive Board approval of ECF
15-Oct-22	11.26	47.5	Observance of end-June 2022 performance criteria and completion of the first review under the arrangement
15-Mar-23	4.50	19.0	Observance of end-Dec 2022 performance criteria and completion of the second review under the arrangement
15-Oct-23	4.50	19.0	Observance of end-June 2023 performance criteria and completion of the third review under the arrangement
15-Mar-24	4.50	19.0	Observance of end-December 2023 performance criteria and completion of the fourth review under the arrangement
15-Oct-24	4.50	19.0	Observance of end-June 2024 performance criteria and completion of the fifth review under the arrangement
15-Mar-25	4.51	19.0	Observance of end-December 2024 performance criteria and completion of the sixth review under the arrangement
Total	45.03	190.0	

Source: IMF staff estimates.

Note: Quota is SDR 23.70 million.

Annex I. Risk Assessment Matrix[1]

(Scale—high, medium, or low)

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Conjunctural risks			
Intensification of regional conflict(s).	**High** Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	**High** The economy would be hit by disruptions in the supply chain, terms of trade and the tourism sector deteriorate resulting in the balance of payments problems and lower FDI, increase inflation leading to food insecurity and poverty.	• Slow down planned unwinding of policy support while ensuring that recovery is well entrenched. • Create fiscal space through spending review and tax mobilization for new policies to mitigate supply shocks in the economy.
Abrupt global slowdown or recession.	**Medium** Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation. A new bout of global financial tightening, possibly combined with volatile commodity prices, leads to spiking risk premia, debt distress, widening of external imbalances, fiscal pressures, and sudden stops.	**Medium** Recession in key tourist markets would lower tourist arrivals and slow down economic recovery and revenues. Rising core yields and risk premia will increase the cost of new debt and add pressure foreign reserves and financial account due to a "Fly-to-quality" effect. Rising yields could also reduce the flow of migrant deposits.	• Maintain adequate reserves and fiscal consolidation and reliance on concessional financing from Bilateral and/or Multilateral creditors. • Develop contingency plans to lower the impact of delayed recovery. • Stand ready to tighten monetary policy.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path—the scenario most likely to materialize in the view of the Staff. The relative likelihood of risks listed is the Staff's subjective assessment of the risks surrounding this baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects Staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

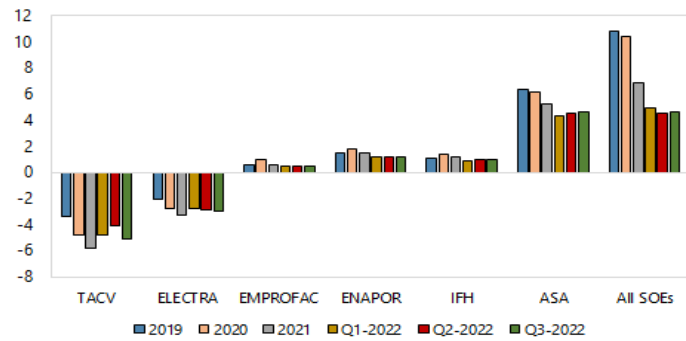
Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Commodity price volatility	**Medium** A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	**Medium** Worsening of the current account, generating balance of payments problems. Commodity prices increase, especially in oil and food, joint with supply disruptions, leads to a higher inflation, and impacts vulnerable consumers.	• Build external buffers and resilience to shocks. Diversification of energy usage (renewable energies transition), to mitigate oil price shocks. Improve effectiveness of government's targeted supports to vulnerable groups.
Structural Risks			
Cyberthreats	**Medium** Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	**Medium** Cyber-attacks could generate weaker confidence, cause instability in the financial system and disrupt domestic activity.	Strengthen information security particularly in the government sector. Improve financial regulation and supervision to enhance the resilience of the financial system.
Extreme climate events.	**Medium** Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	**Medium/High** Prolonged drought or other climate-related shocks would undermine agricultural production with negative impact on GDP growth and inflation.	Build resilience to weather-related shocks and accelerate growth-enhancing reforms. Prioritize public investments projects resilient to climate change, improve risk management and building codes.
Domestic			
Faltering fiscal consolidation efforts.	**Medium/High** Less ambitious and slower fiscal consolidation efforts and delayed SOEs reforms as the economy recovers.	**High** Delayed fiscal consolidation efforts and SOEs reforms would undermine macroeconomic stability and hinder the return to pre-COVID medium-term fiscal and debt sustainability trajectory.	Unwind temporary measures, advance revenue-enhancing reforms, improve capital expenditure management, reduce fiscal risks, notably linked to SOEs, and contain non-priority spending.
Delays in implementing measures to increase productivity and restructure SOEs.	**Medium** Delays in structural reforms implementation, particularly in the public enterprises sector.	**Medium** Delays in advancing the structural reform agenda after COVID-19 would hinder competitiveness, potential GDP growth and employment.	Follow through with SOEs reform plans and accelerate other structural reforms as soon as the epidemic subsides, to improve the business environment, reduce the State's role in productive activities and enhance growth potential.

Annex II. Public Enterprises Reforms: Progress and Next Steps

1. **Cabo Verde has several State-Owned Enterprises (SOEs) that have faced challenges in recent years and constitute potential fiscal risks**. These SOEs operate in several sectors, including transportation, utilities, housing, and pharmaceuticals. Performance challenges over the years have led to substantial government financial support, including on-lending, subsidies, and capitalization. Historically, this assistance to SOEs has been a major contributor to the accumulation of public debt. The net value of SOEs has been falling steadily. The value of the assets of the SOEs was equivalent to 61.8 percent of the GDP in 2021 and 52.4 percent at the end of Q3-2022.[1] Their liabilities accounted for 55 percent of GDP in 2021 and 47.8 percent at end-Q3-2022. Finally, the stock of government guarantees to SOEs, a contingent liability, was close to 10 percent of GDP at end 2021, and estimated at 8.2 percent at end-Q3-2022.

2. **SOEs reforms are still challenging in Cabo Verde given the impact of the COVID-19 pandemic and the war in Ukraine**. The government has reasserted its intention to resume the restructuring and privatization of the major SOEs during the period 2023-2026 (of the 33 companies, with part government ownership, there are nine that the authorities intend to restructure, including privatization, partial sale, concessions, and PPPs, covering the water, electricity, naval services, ports, telecom, and air transportation sectors. Key steps include: (i) the sale of majority shares in the national airline (TACV) to a strategic partner;[2] (ii) the introduction of greater private sector participation in maritime inter-island transportation; (iii) the restructuring and unbundling of ELECTRA to reduce its high technical and commercial losses and prepare the company for privatization; (iv) the restructuring of the housing program managed by the IFH to minimize losses and increase transparency; and (v) the privatization of other SOEs.

Cabo Verde: Net Assets of SOEs 2019-2022
(Percent of GDP)



Sources: Cabo Verdean authorities; and IMF staff estimates.

3. **The government recognizes the risks posed by Cabo Verde Airlines (TACV) and intends to complete its reorganization**. Following the aborted earlier privatization, the Government is in the process of reorganizing the airline and is looking for new potential partners. Under the new plan, which is delayed, TACV started operations with one aircraft in 2022, with plans

[1]The Report "Relatório Trimestral de Desempenho do SEE de Cabo Verde 3º Trimestre 2022" is published 6 months after a quarter.

[2]The privatization process, which commenced in 2019, was aborted due to concerns with the strategic partner that resulted in the government having to take over ownership of the airline.

to increase the number of aircraft in the next two years, and increase the numbers of flights to Europe, USA and Africa to achieve breakeven in the near future. The Government is planning to provide financing during the reorganization process to cover the projected financing gap over a period of three years and this support is included in the ECF program. At the same time, the authorities are seeking the best restructuring options based on an appropriate business plan covering at least five years.

4. Financial reporting and governance of the SOEs has improved. Key reform measures include: (i) the adoption of the IMF's SOE Health Check Tool to strengthen the analysis and assessment of fiscal risks from SOEs by the SOEs unit (UASE) (Q1-2022); (ii) the provision of consolidated information on financial transactions between the government, individual SOEs and the sector in general, to strengthen transparency and facilitate fiscal risk analysis; (iii) enhancing the current annual reports on contingent liabilities, annual SOE performance and the dissemination of quarterly reports on SOEs' performance; (iv) adopting and publishing a comprehensive ownership policy to help further improve the ownership and oversight of the portfolio of SOEs; and (v) the establishment of PARPÚBLICA as the company managing the state's corporate investments and IMOPÚBLICA, as the company managing the state's immovable property.

Cabo Verde: Risk Heat Map for the 6 Largest SOEs (2019–22)

Companies	2022						Global Risk			
	Profitability		Liquidity		Solvency					
	ROA	ROE	General	Reduced	Liabilities/Assets	Liabilities/Equity	2019	2020	2021	2022
ASA	Moderate Risk	Moderate Risk	Very High Risk	Moderate Risk	Moderate Risk	Moderate Risk	Low Risk	High Risk	Moderate Risk	High Risk
ELECTRA	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk
EMPROFAC	Moderate Risk	Moderate Risk	Low Risk	Low Risk	Moderate Risk	Moderate Risk	Moderate Risk	Moderate Risk	High Risk	Moderate Risk
ENAPOR	Moderate Risk	Moderate Risk	Very High Risk	Moderate Risk	Moderate Risk	Moderate Risk	Moderate Risk	High Risk	High Risk	High Risk
IFH	High Risk	High Risk	Very Low Risk	Very High Risk	High Risk	Very High Risk	High Risk	High Risk	High Risk	High Risk
CVA	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk

Sources: Cabo Verdean authorities

5. These steps are important to set clear policy objectives guiding the management of each company and help contain fiscal risks. To this end, it is critical to pursue these reform objectives as soon as possible, as delaying the restructuring process could undermine the implementation of the authorities' development strategy, compromise fiscal sustainability, and damage the business environment and the authorities' credibility to pursue robust policies that can help achieve higher, inclusive and more sustainable growth.

Annex III. Implementation of Past Fund Policy Advice

2019 Article IV Staff Recommendations	Implementation
Fiscal Policy and Debt Sustainability	
Fiscal consolidation to reduce public debt below 100 percent of GDP over the medium-term (by 2023)	• The authorities prepared a fiscal consolidation program aimed at reducing debt to 100 percent of GDP by 2023, however implementation was disrupted by the COVID-19 pandemic, that resulted in negative growth and higher fiscal deficits and debt. The authorities have resumed fiscal consolidation efforts under the ongoing ECF program. The fiscal position improved in 2022 and is projected to strengthen further over the medium-term.
Tax and non-tax revenue at 28 percent of GDP	• The authorities committed to increasing revenue mobilization and several measures have been implemented including improving the efficiency of VAT and the ongoing digitalization process. Progress towards the target was disrupted by the COVID-19 pandemic. In addition, the rebasing of GDP implies higher nominal revenues to achieve the target. At the end of 2022, the revenue ratio stood at 21.6 percent.
Expenditures to decline to 30 percent of GDP in 2022 and forward	• The objective was met in 2021 and 2022 due mainly to GDP rebasing and adherence to the approved budget despite strong nominal GDP growth.
Monetary Policy	
Improving liquidity management and strengthening monetary policy transmission mechanism	• The BCV preannounces the schedule for TRM/TIM auctions. • Minutes of the Monetary Policy Committee are published after each meeting since July-2019. • Reduction of the excessively wide overnight interest rate corridor. • Ongoing work on introduction of a new composite economic indicator.
Financial Sector	
Reduce NPLs	• NPLs at 7.8 percent at end-December 2022 from 10.4 percent in 2019, even with the impact of the end of the moratorium related to COVID-19 related measures.
Credit Information System	• The new Credit Registration Center platform entered “go-live” in December 2022 and banking institutions have been reporting information monthly. The system is being fine-tuned to ensure data consistency

2019 Article IV Staff Recommendations	Implementation
Set up a Central Registry of mobile collateral	• An initial set of documents have been approved on the legal regime for pledges; the legal regime for the use of movable property as a guarantee for fulfillment of obligations and registration of movable guarantees; and the creation of the movable guarantees register (RGM=Registo de Garantias Móveis). The RGM, is expected to be launched in June, 2023.
FATCA/FATF compliance	• Cabo Verde is compliant with financial institutions providing the required information to the US authorities.
Public Enterprises Reforms	
Privatization of TACV and sell the remaining 49 percent of shares by end-2019	• Privatization process reversed due to the COVID-19 pandemic. The authorities have developed a modified plan and are in the process of seeking potential investors.
Privatization of other (5) SOEs in 2020; Enhance fiscal reporting for the 6 largest SOEs (compiling financial information on cash flow performance and quarterly monitoring performance against their approved budgets starting from end-2019)	• Authorities started compiling information on cash flow performance of 6 largest SOEs. • Quarterly monitoring of actual performance of 6 largest SOEs against their approved budgets, since second half of 2019 [to confirm]. • The privatization process stalled due to the pandemic and the authorities have now updated the divestment plans and the process has resumed.
Set up an asset management company by end-2019	• A new company (PAR PUBLICA) was created to manage public assets, but its governance structures have yet to be set up. A Unit in the MF monitors SOEs and oversees the privatization process and will be reformulated once PAR PUBLICA is completely set up.
Other Structural Reforms	
Structural reforms to improve competitiveness and further inclusive growth (SMEs, employment, vocational training)	• Institutional adjustments with high-level government agencies leading the process (Prime Minister and the Minister of Finance offices. • Mechanisms to improve access to finance and information/communications, in particular to SMEs. • Special funds to support the facilitation of businesses; Online tax filing; One-stop-shops/windows both for domestic and foreign investors • Operationalization of the Sovereign Private Investment Guarantee Fund in 2021.

Annex IV. External Sector Assessment

Overall Assessment: Cabo Verde's external position in 2022 is assessed to be substantially stronger than the level implied by fundamentals and desirable policies, which points to an undervaluation of the exchange rate. The three methodologies used: the external sustainability approach, the EBA-lite methodology based on the current account model and the REER model point to an undervaluation of the real effective exchange rate. The high and negative net international investment position is a source of vulnerability, but the risks that it poses are partly contained by the structure of Cabo Verde's external liabilities, largely composed of FDI and long-term maturity debt. Reserve adequacy is assessed as satisfactory based on the IMF LIC/MIC framework that indicates an optimal level of reserves of 3.6 months of prospective imports of goods and services, while the actual level was 6.1 months, and the projected level for the medium term is slightly above to 6 months.

The results of the REER should be interpreted with care as the country has large external liabilities that suggest the external position remains highly vulnerable to shocks. Sustained medium-term fiscal consolidation and structural reforms are needed to support improvements in the external position. Fiscal adjustment is expected to help lower external liabilities and support medium-term external sustainability. Continued implementation of structural reforms is also needed to reduce transaction costs, increase labor market flexibility, boost productivity, and support private sector development. The current level of reserves is assessed as adequate based on results from the application of the IMF LIC/MIC framework. Nonetheless, building strong external buffers is critical given existing vulnerabilities, and the need to protect the peg.

Foreign Assets and Liabilities: Position and Trajectory

Background. Cabo Verde's net international investment position decreased in 2022 and stood at -147 percent of GDP. At end-2022, gross external assets and liabilities stood at 69 percent of GDP and 216 percent of GDP, respectively. This persistent and large negative position is a significant source of external vulnerability.

Assessment. The external sustainability approach (ES) calculates the REER adjustment required to satisfy the inter-temporal budget constraint as a measure of the external adjustment required to restore external sustainability. The ES approach suggests that the projected current account is stronger than the level required to stabilize the NIIP at its end-2020 level with a CA gap of about 7 percent of GDP, implying a REER undervaluation. This is due to the favorable interest rate-growth differential which has a positive impact on Cabo Verde's debt dynamics.

2022 (% of GDP)	**NIIP: -147**	**Gross Assets: 69**	**Debt Assets: 9**	**Gross Liab.: 216**	**Debt Liab.: 3**

Current Account

Background. In 2022, the current account balance narrowed from an annual average deficit of 6.9 percent of GDP during last 10 years, to 3.6 percent of GDP, reflecting stronger-than-expected recovery in goods exports, tourism receipts and remittances. Financial inflows remained important during the period, covering the largest share of the current account deficits. Projections for 2023 point to a current account deficit of 5.6 percent of GDP due to the effects of risks from weaker external demand in tourism markets, further price shocks (mostly fuel and food), tight financial conditions and a slowdown in remittances. Meanwhile a gradual recovery in the tourism sector and a sustained increase in remittances are expected to lead to a CA deficit of 3.8 percent of GDP by 2028.

Assessment. The EBA-lite methodology is based on the current account (CA) model from a panel regression of the current account which generates an estimated "norm" consistent with medium-term fundamentals and desirable policies. The CA model shows that the cyclically adjusted current account balance is estimated at -3.6 percent of GDP in 2022, while the multilaterally consistent cyclically adjusted current account norm is -10.3 percent of GDP (Text Table 1). This suggests a current account gap of 6.7 percent of GDP. Using the estimated current account elasticities, this implies an undervaluation of the real effective exchange rate (REER) of about 21.1 percent. The CA model does not fully capture Cabo Verde's need to save externally to guard against the country's vulnerability to natural disasters and is not robust to shocks of the magnitude experienced by Cabo Verde due to the COVID-19 pandemic.

Text Table 1. Cabo Verde: EBA-lite Model Results, 2022

	CA model	REER model
	(in percent of GDP)	
CA-Actual	**-3.6**	
Cyclical contributions (from model) (-)	0.6	
COVID-19 adjustors (-) 1/	0.0	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.5	
Adjusted CA	**-3.6**	
CA Norm (from model) 2/	**-10.3**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-10.3**	
CA Gap	**6.7**	**4.2**
o/w Relative policy gap	1.4	
Elasticity	-0.3	
REER Gap (in percent)	**-21.1**	**-13.2**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (6.8 percent of GDP).

2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Over the past decade Cabo Verde's REER has been relatively stable and recorded an average annual depreciation of less than 1 percent during 2015-2020. In 2022, the REER remained broadly unchanged compared with 2021.

Assessment. The EBA-lite methodology is based on a REER panel regression model of the real effective exchange rate that generates an estimated "norm" consistent with medium-term fundamentals and desirable policies. The REER model suggests an undervaluation of the REER of about 13.2 percent (Text Table 1).

Capital and Financial Accounts: Flows and Policy Measures
Background. Private capital flows rebound in 2021 and 2022 reflecting slightly higher foreign direct and portfolio investments after a slowdown in 2020 due to the impact of the pandemic. The net financial account balance stood at less 3.9 percent of GDP in 2022, compared to an estimated 8.6 percent of GDP in 2021 on account of slowdown in net official borrowing. **Assessment**. Following a post-pandemic recovery in 2021-22, net capital and financial flows are expected to trend downwards over the medium term and stabilize around 3 percent of GDP. Nonetheless, the overall balance of payments is projected to record surpluses starting in 2023 in line with the projected improvement in the current account.
FX Intervention and Reserves Level
Background. Gross international reserves increased by €30.8 million in 2022, bringing the stock to €626.1 million at end-December, equivalent to 5.9 months of prospective imports of goods and services, boosted among other by the ECF disbursement of SDR11.26 million (47.5 percent of quota, about US$15 million). Over the medium term, reserves are projected to increase steadily, remaining around 6.5 months of prospective imports of goods and services. **Assessment**. Results from the Fund's LIC/MIC framework suggest that the optimal level of reserves for Cabo Verde is about 3.6 months of prospective imports of goods and services. However, as noted in the previous assessment, fragilities arising from the economy's small size, lack of export diversification, and vulnerability to exogenous shocks call for a higher level of reserves. The staff's medium-term projections point to a level of reserves around 6.5 months of prospective imports of goods and services.

Annex V. Capacity Development Strategy

Cabo Verde is a high-intensity capacity development (CD) user and with relatively appropriate institutional capacity and good track record of implementing TA recommendations. CD efforts reflect the authorities' demand and IMF policy engagement with them under the previous Policy Coordination Instrument (PCI) and the current Extended Credit Facility (ECF). TA focuses on key areas on strengthening domestic revenue mobilization, increasing efficiency in public expenditure, reducing fiscal risks, strengthening the monetary policy transmission mechanism, and improving collection and dissemination of macroeconomic and financial statistics.

Capacity Development (CD) priority areas are aligned with the authorities' reform agenda under their medium-term development strategy (PEDS II). Policies under the PEDS II aim to raise broad-based growth, enhance the economy's resilience to shocks and support macroeconomic stability. Consequently, CD activities focus on strengthening revenue mobilization, improving public investment management, reducing fiscal risks, strengthening the monetary policy transmission mechanism, and improving collection and dissemination of macroeconomic and financial statistics. The authorities' commitment to the implementation of CD recommendations is good, though hampered by limited administrative capacity and staffing. The CD strategy aims to ensure adequate integration of CD recommendations with policy advice in the context of surveillance and program design. CD will also be used, where appropriate, to help support climate related reform measures. It also seeks to support effectiveness, and to avoid overlap of CD activities through enhanced coordination with IMF CD departments, AFRITAC West 2, and other CD providers. The main CD priorities and objectives are summarized in the table below.

Priorities	Objectives	Challenges
Revenue administration	Improve customs administration core functions; strengthen management and governance arrangements at customs; enhance compliance with tax obligations; improve the quality of tax audits and inspections in the tax administration, keep the digitalization modernization agenda at DNRE, enhance compliance risk management strategies, and revamping the existing tax exemptions regime.	Staffing; lack of structured coordination between tax and customs areas.
Tax Policy	Rationalization of tax incentives; identification of new potential sources of revenue; ensure the effectiveness, efficiency, and equity of the incentives in practice for the socio-economic development of the country; institutional reform supported by the creation of a Tax Policy Unit within the Ministry of Finance.	Institutional and staffing constraints.

Priorities	Objectives	Challenges
Public Financial Management	Improve the integration of the assets and liabilities management framework; improve coverage, quality of and access to fiscal reporting; improve budget execution and control; strengthen identification, monitoring and management of fiscal risks; increase efficiency in public investment management (PIM) and follow up CD to implement the recommendations of the C-PIMA; enhance public expenditure management (PFM).	Staffing constraints.
Real Sector Statistics	Strengthen the compilation and dissemination of macroeconomic and financial data; complete the GDP rebasing.	Staffing constraints.
Debt Management	Enhance analysis and management of public debt.	Staffing constraints.
Central Bank Operations	Improve economic analysis and forecasting capacity; improve reserves management; enhance the effectiveness of monetary policy implementation, and central bank's governance structures.	Staffing constraints.
Banking supervision and financial stability	Strengthen the bank and non-bank supervision processes and implement risk-based supervision, follow up of the 2022 FSSR road map and recommendations, and implementation of IFRS.	Staffing constraints.

Annex VI. Strategic Plan for Sustainable Development 2022–26 (PEDS II)

1. Cabo Verde has just published the Strategic Plan for Sustainable Development 2022–26 (PEDS II).[1] PEDS II represents the first step towards achieving the Cabo Verde Ambition 2030 Agenda following the Covid-19 pandemic. The strategy sets out how Cabo Verde plans to overcome challenges to sustainable development. First, supporting the economy through the development of internal land, sea, air and digital connectivity to promote mobility and integrate the islands' market with the rest of the world. Second, to take advantage of the demographic transition and demographic dividends, reduce the exclusion of youth to a minimum, and promote social development. Third, to foster territorial cohesion by continuing to promote an effective State. Fourth, to make the diaspora a centrality, increase Cabo Verde's international reputation, promote regional integration and the dynamic insertion of Cabo Verde in the world economy.

2. PEDS II will require financing for development. An expansion of public investment is needed to make sustainable development possible in the context of a Middle-Income Country. Climate change finance, in addition to development finance, is also critical given the strong correlation between climate change adaptation and mitigation and sustainable development.

3. The PEDS II has 4 major pillars:

- **Economy**: maintaining the economic recovery, fiscal consolidation, and sustainable growth.
- **Environment**: fostering territorial cohesion, urban quality and sustainability, environmental sustainability, climate action and resilience, and biodiversity and geodiversity.
- **Social**: promoting social development through human capital, inclusion and mobility, reduction of inequalities, eradication of extreme poverty and gender equality.
- **Sovereignty**: consolidating national sovereignty, deepening the appreciation of democracy, the Diaspora, and the international prestige of Cabo Verde.

4. The authorities plan a coordination mechanism and monitoring and evaluation system for the implementation of the PEDS II. In this context, the process is led by the Prime Minister and the different branches of the Executive, with a special role for the Ministry of Finance. Other stakeholders will also be part of the coordination and implementation process through different Working Groups, the Budget Support group with international partners, and CSOs.

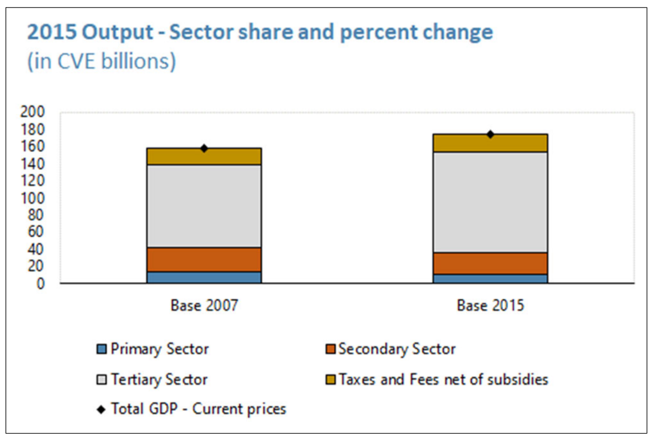
5. The **implementation of PEDS II is subject to risks**. External uncertainties are linked to the war in Ukraine and the economic crisis created by the pandemic. Country specific risks are mainly fiscal risks, or factors that could cause the budget deficit and other fiscal variables to be worse than expected, and the risk of debt distress stemming from contingent liabilities associated with the SOEs, City Councils, Public-Private Partnerships (PPPs), the National Institute of Social Security and natural disasters.

[1]The PEDS II is the PRS for Cabo Verde.

Annex VII. GDP Rebasing

1. In 2022 the National Institute of Statistics of Cabo Verde (INECV) completed the benchmarking and rebasing of Cabo Verde's national accounts statistics (GDP). This involved changing the base year from 2007 to 2015 and the updated accounts were published in March 2023, which included the quarterly series from 2007 up to 2022. The INECV started collecting data from new sources of information in 2015 that allowed for the shifting of the base year, which included:

- The General Census of Agriculture (V RGA), allowing an update on the sampling base of agricultural holdings and the agrarian structure.
- The III Survey on Households Expenses and Income (III IDRF), which allowed for the estimation of household final consumption, and provided data to update the consumer price index (CPI).
- The II Informal Sector Survey.
- Other short-term indicators such as: monthly foreign trade price index, quarterly indicator of service sector activity, and tourism prices index.



2. The benchmarking and rebasing led to an upward revision of the GDP by 9.6 percent. The GDP increased to 173,911 million Cape Verdean escudos (CVE) in 2015 an increase of 15,212 million CVE, compared to the 2007 base. The primary and the secondary sectors shrank by -2,721 million CVE (-19.6 percent) and -3,340 million CVE (-11.6 percent), respectively, whereas the tertiary sector increased by 20,743 million CVE (21.6 percent) (Figure 1). As a result, the tertiary sector, which accounted for 13.1 percent of the upward revision, now represents 67.2 percent of output. The decline in the contributions of the primary (1.7 percent) and secondary sector (2.1 percent), resulted in a decline in their weight in GDP to 6.4 percent and 14.6 percent, respectively. The weight of taxes net of subsidies on products stood at 11.8 percent and contributed 0.3 percent in the rebased GDP.

3. Final consumer expenditure increased from increased by 7.7 percent relative to the 2007 base and contributed 6.5 percent to the rebased level of GDP. It moved from CVE 133,410 million in the 2007 base to CVE 143,704 million under the 2015 base. However, the weight of final consumer expenditure in GDP decreased from 84.1 percent in the 2007 base to 82.6 percent in the 2015 base.

4. Gross fixed capital formation (GFCF) increased by 0.8 percent and contributed 0.2 percent to the rebased GDP. However, the investment rate declined from 30.2 percent in the 2007 base to 29.1 percent in the 2015 base. Imports declined 2.1 percent and exports increased by 0.4 percent, resulting in an improved external balance which contributed 1.4 percent to the increase in GDP.

Annex VIII. Debt Decomposition and Capacity to Repay

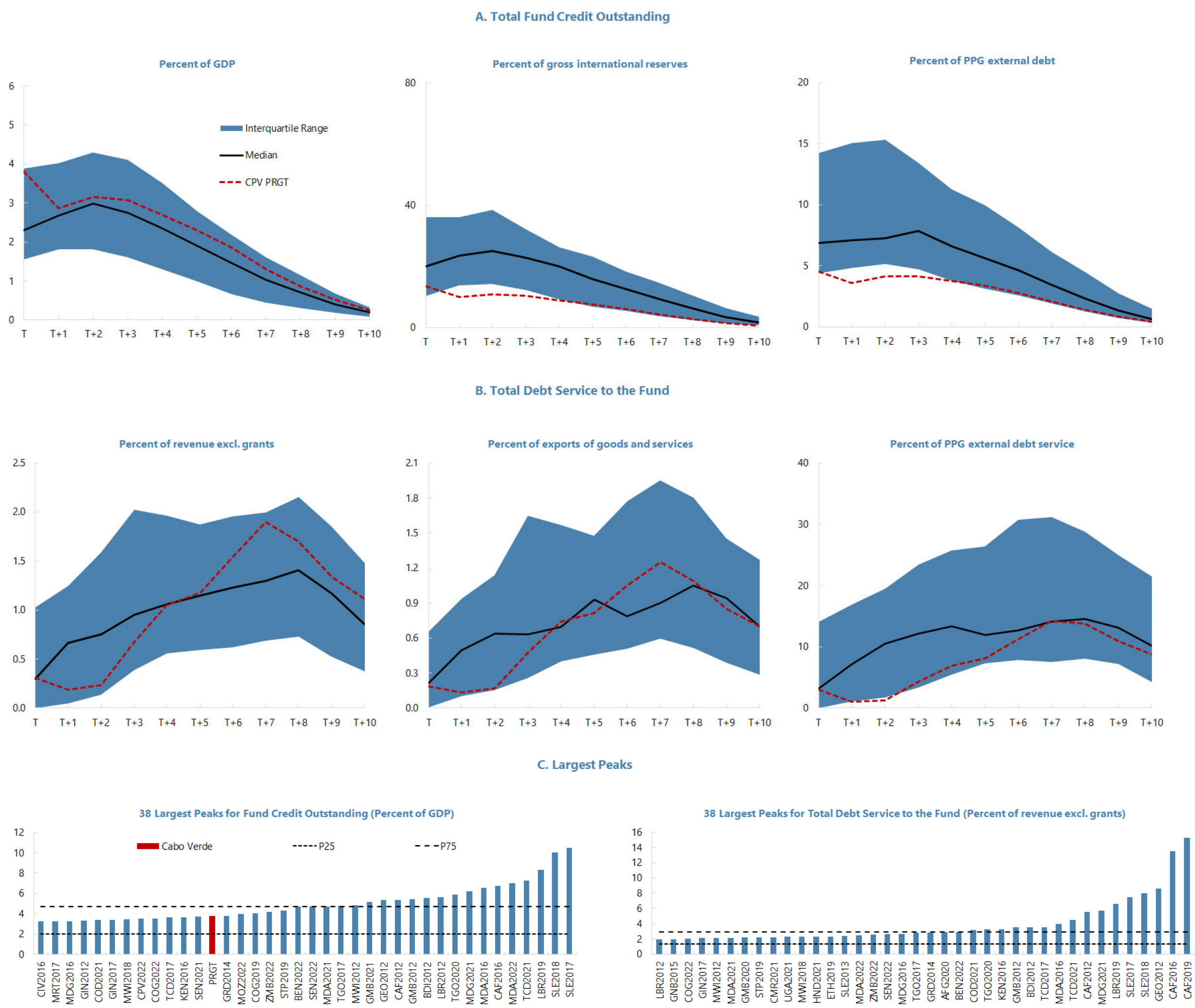
Table 1. Cabo Verde: Decomposition of Public Debt and Debt Service by Creditor, 2022-24[1]

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In US$)	*(Percent total debt)*	*(Percent GDP)*		*(In US$)*			*(Percent GDP)*	
Total	2842.1	100.0	121.2	213.8	220.7	219.6	9.1	8.6	8.1
External	1971.3	69.4	84.0	117.2	115.9	104.7	5.0	4.5	3.9
Multilateral creditors[2]	1109.2	39.0	47.3	30.7	28.9	47.1	1.3	1.1	1.7
IMF	79.1	2.8	3.4	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	523.5	18.4	22.3	14.3	11.6	12.3	0.6	0.5	0.5
African Development Bank Fund	267.2	9.4	11.4	3.2	3.5	21.0	0.1	0.1	0.8
European Investment Bank(incl.EEC)	30.7	1.1	1.3	3.8	3.8	3.7	0.2	0.1	0.1
Other Multilaterals	208.8	7.3	8.9	8.8	10.1	10.0	0.4	0.4	0.4
BADEA	39.7	1.4	1.7	0.4	0.4	0.6	0.0	0.0	0.0
CEDEAO	14.1	0.5	0.6	0.9	0.7	0.8	0.0	0.0	0.0
FAD	101.5	3.6	4.3	4.1	4.9	5.1	0.2	0.2	0.2
Bilateral Creditors	390.6	13.7	16.7	24.0	26.3	28.2	1.0	1.0	1.0
Paris Club	98.9	3.5	4.2	13.8	18.0	17.9	0.6	0.7	0.7
France	0.0	0.0	0.0	5.0	5.3	5.6	0.2	0.2	0.2
Japan	77.6	2.7	3.3	1.8	3.2	3.4	0.1	0.1	0.1
Other (Spa, Belg, Aus, Swed)	21.3	0.7	0.9	7.0	9.4	8.8	0.3	0.4	0.3
Non-Paris Club	291.8	10.3	12.4	10.2	8.3	10.4	0.4	0.3	0.4
Portugal	147.9	5.2	6.3	5.1	3.2	5.3	0.2	0.1	0.2
China	27.6	1.0	1.2	3.3	3.7	3.6	0.1	0.1	0.1
Kuwait	13.2	0.5	0.6	1.7	1.5	1.4	0.1	0.1	0.1
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	471.5	16.6	20.1	62.4	60.7	36.9	2.7	2.4	1.4
BPI	78.7	2.8	3.4	10.6	5.9	5.9	0.5	0.2	0.2
Caixa Geral Déposito (CGD)	390.3	13.7	16.6	51.8	54.8	31.0	2.2	2.1	1.1
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	870.7	30.6	37.1	131.9	104.8	115.0	5.6	4.1	4.2
T-Bills	26.2	0.9	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	838.0	29.5	35.7	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items:	202.0	7.1	8.6						
Collateralized debt[3]	0.0	0.0	0.0						
Contingent liabilities[4]	202.0	7.1	8.6						
o/w: Public guarantees	202.0	7.1	8.6						

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.
2/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Ar
3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue
secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan.
"unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts.
See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.
4/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified
(e.g. potential legal claims, payments resulting from PPP arrangements).

Figure 1. Cabo Verde: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries

(Percent of the indicated variable)



Notes:

1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.
6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.

Annex IX. Supporting Climate Resilience and Carbon-Neutral Development

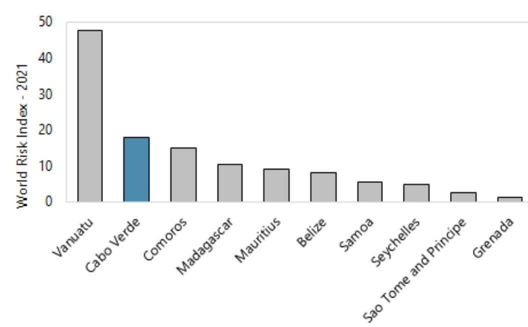
Cabo Verde is a tourism-dependent small state economy which comprises of a group of islands that are prone to floods and droughts. The World Bank estimates that the average economic damage from natural disasters, particularly floods, costs just under 1 percent of GDP in the year the event occurred. Cabo Verde experienced a multi-year drought starting in 2016 which severely weakened the agriculture sector and created challenges in maintaining a reliable water supply with knock-on effects for the tourism sector, the main pillar of the economy. Cabo Verde is implementing a range of reforms and investments to increase the climate resilience of the local economy, and is also taking steps to achieve the target of 50 percent renewable energy by 2030. However, funding for climate initiatives remains a critical bottleneck. Overall funding could increase with a clearer articulation and preparation of plans that are ranked and evaluated. Preparation for an RSF program also provides an opportunity for Cabo Verde to concrete climate plans, advance reforms which would help catalyze financing, including from the private sector.[1]

BACKGROUND

A. Cabo Verde's Exposure to Climate Change Risk

1. Cabo Verde's location and geography makes it vulnerable to a range of climate change risks (Figure 1).[2] Climate projections indicate that temperature in Cabo Verde could increase by 1.2°C to 3.7°C by the end of the century.[3] Cabo Verde is also highly vulnerable to sea level rise (SLR). Climate change is expected to affect Cabo Verde's population and assets which are mainly located in coastal cities. Sea surface temperatures are also expected to

Figure 1. Disaster Risk
(Comparison to small island states)



Source: World Risk Index; IMF Staff Calculations

[1]The data and information presented in this note are drawn from the World Bank's Country Economic Memorandum (CEM) (2023), the Climate Public Investment Management Assessment (C-PIMA) and country documents including the Nationally Determined Contribution (NDC) and the recently approved Country Development Strategy (PEDS II).

[2]Cabo Verde ranks second in terms of risk to natural disasters compared to 10 other Small Island Developing States. This measure however ignores the magnitude that single climate events could have on small states with weak capacity and other factors, as discussed in this section, should be considered. Based on the World Risk Index of 2022, Cabo Verde is ranked 171 out of 192 implying very low level of vulnerability. The ranking of most small states has changed due to the modification of the risk calculation to include both absolute and proportion of the population at risk (Barbados, for example, ranks 151).

[3]Cape Verde - Mean Projections Expert | Climate Change Knowledge Portal (worldbank.org).

increase by 0.7°C to 2.5°C by the 2060s generating storms of greater intensity that could result in landslides and floods.

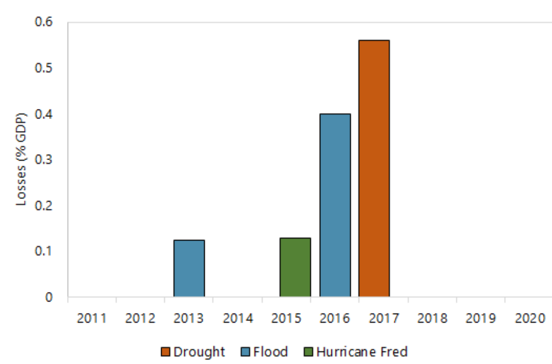
2. Within Cabo Verde, the population and economic activity are concentrated in vulnerable coastal areas. Coastal areas host about 65 percent of the national population and generate about 62 percent of GDP as most hotels that underpin the tourism industry are located near the seafront. These areas are also home to valuable ecosystems (including sandy beaches and coral reefs) and fisheries, key pillars of tourism and the blue economy. About 3.5 percent of the total land area is less than 5 meters above sea level, as a result SLR could lead to saltwater contamination of freshwater aquifers, reducing access to drinking water and crop irrigation. Ocean warming could further aggravate coral bleaching, undermining the blue economy prospects through declining marine biodiversity and reduced fish capture potential. Under current climate conditions an estimated 29.1 percent of the population residing in coastal areas (19 percent of the total population) is exposed to a 10-year coastal surge event (CEM, 2023). SLR due to climate change would increase exposure to coastal flooding and impact about 32 percent of the coastal population by 2050.[4]

3. Infrastructure, such as the road network and airports across islands, is highly vulnerable to floods. It is estimated that in several islands between 53-93 percent of the road network, representing a large share of the travel demand could be unusable in the event of a severe flood (i.e., 100-year event) resulting in upwards of a 20 percent increase in average travel time. Flooding of roads can also severely disrupt transportation and access to essential services. Airports also face flood disruptions with an estimated 11 percent of passengers in areas exposed to at least a 50-year return period flood (CEM, 2023).

B. Impact of Climate Events

4. Cabo Verde is frequently impacted by droughts, hurricanes/tropical storms, and flash floods and losses from adverse natural events have increased over the last decade (Figure 2). Reported losses from 2010–20 averaged 0.25 percent of GDP per year compared to zero percent during the previous decade. The impact of natural disasters has been exacerbated by a limited capacity to manage disaster risk management and mainstream climate change resilience in urban development. As a result, urban sprawl into risk-prone areas has increased the exposure of towns and cities to adverse natural events.

Figure 2. Disaster Damage by Type

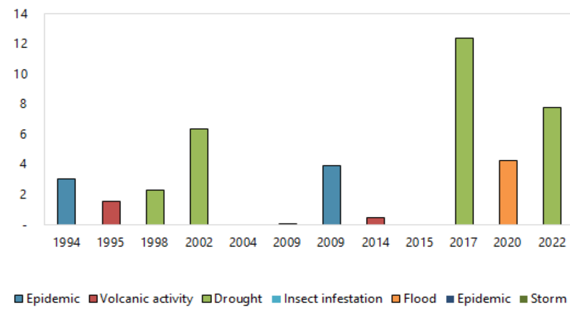


Source: World Bank data; IMF Staff estimates

[4]In Sal, 33 percent of the coastal built-up area is currently exposed to coastal flooding and this share could rise to more than 38 percent in 2050; in contrast, in Santiago 1 percent of the coastal built-up area is currently exposed to coastal flooding and by 2050 SLR would increase this share to around 1.2 percent of the built-up area.

5. Natural disasters associated with floods and droughts have been estimated to reduce per capita GDP by about one percentage point in the year that the event occurred.[5] Over 1995-2014, Cabo Verde's annual temperature experienced an annual average increase of +0.02°C, which was associated with greater frequency and intensity of adverse weather events.[6] More volatile rainfall patterns have coincided with extensive periods of low precipitation, as occurred during the multi-year drought which started in 2016. In 2015 Cabo Verde was impacted by Hurricane Fred, the first to hit the island chain since 1892, causing damage estimated at US$2.5 million (Figure 3). These factors have resulted in losses estimated at just under 1 percent of GDP (US$18.2 million) in the year that the event occurred, with flood-related damage accounting for about 70 percent (CEM, 2023).

Figure 3. Disaster Damage by Type: Percentage of People Affected Over Total Population



Source: EM-DAT; IMF Staff Estimates

6. The increased frequency and intensity of droughts has negatively impacted the agricultural sector. The impact on agricultural output varies by crop type and existing irrigation practices that are constrained by the limited availability of fresh water supplies. The low levels of precipitation since 2017 resulted in an 80 percent drop in the production of maize in 2022, compared to the previous five-year period, which is estimated to have placed 140,000 people at the risk of acute nutritional vulnerability. *Sequeiro* production (involves growing corn, beans, and Mancarra) and represents a major source of income for poor rural households, has also experienced a dramatic decrease since the 2017 drought (CEM, 2023).

7. The impact of extreme weather events also impacts local economic activity. Irregular high intensity rainfall has a significant and non-linear impact on both the level and the growth rate of nightlights and disrupts business activity.[7] Extreme floods in Santiago and São Vicente islands are estimated to have an annual probability of 1 percent that losses will exceed US$37 million (about 1.4 percent of GDP). Annual Average Losses (AALs) from this risk profile are approximately five times more important than historic AALs (CEM, 2023).

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[5]World Bank estimates based on yearly average between 1980 and 2020 (WB-CEM).

[6]Several islands have experienced more severe floods including São Nicolau (2009), Boavista (2012), São Miguel (2013, with damage estimated at US$2.6 million), and Santo Antão (2016, with damage estimated at US$7 million).

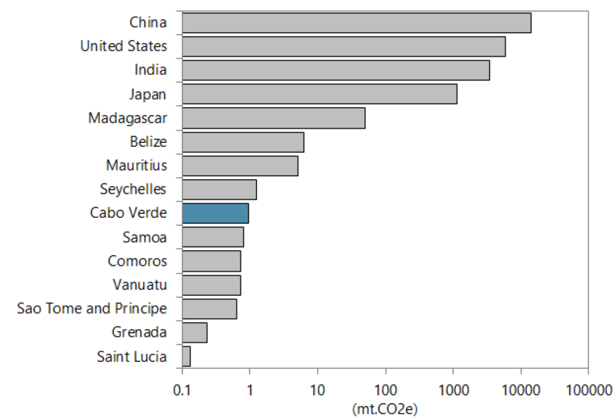
[7]Losses are concentrated in the islands of Santiago, São Vicente and to a lesser extent Boa Vista, that generate the highest level of economic activity and are also where most of the assets and population are located.

CLIMATE ACTION AND INTERVENTION PLANS

A. Mitigation and Adaptation Plans and Strategies

8. Cabo Verde, like other Small Island Developing States (SIDS), contributes insignificantly to global warming (Figure 4). Nonetheless, due to Cabo Verde's vulnerability to climate change it continues to advocate for a stronger global response and is also implementing mitigation and adaptation measures. Mitigation measures aim to achieve greenhouse gas (GHG) emission reductions. Regarding adaptation, the authorities' plan of action is focused on enhancing resilience through initiatives aimed at ensuring food, water, and energy sustainability.

Figure 4. Per Capita GHG Emission



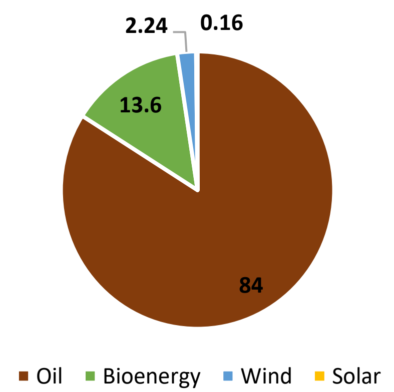
Source: IMF-CPAT; IMF Staff estimates

9. The 2021 Nationally Determined Contributions (NDC) strengthens the focus on resilient infrastructure. The NDC identifies specific contributions for adaptation until 2030 in the following six sectors: i) water; ii) agriculture; iii) oceans and coastal zones; iv) spatial planning; v) disaster risk reduction; and vi) health. An NDC implementation roadmap is planned to define delivery targets for the specific contributions and a strategy and work plan will specify project and investment pipeline needed to implement the NDC and attract climate financing. The third pillar elaborates on a portfolio of climate change adaptation priority actions for the key sectors in five pilot municipalities.

10. The mitigation strategies in the NDC accelerate efforts to combat climate change and include the following key objectives.

- Reduced energy intensity and improved energy efficiency through a 7 percent (below BAU) reduction in the demand for energy.
- Shift towards a low-carbon economy by increasing renewable energy (RE) share of electricity supply from below 20 percent to 30 percent in 2025 and up to 50 percent in 2030 and 100 percent by 2040 (Figure 5).
- Increase forest areas by 2030 with resilient and preferably endemic and native species to protect wetlands and reduce/replace fuelwood through reforestation and afforestation.

Figure 5. Energy Supply (2019)



Source: Cabo Verdean Authorities; and IMF Staff Estimates.

11. **The new National Climate Change Adaptation Plan (NAP) for the period 2022-2030, is aligned with the new NDC (Table 1)**. Cabo Verde has integrated climate resilience into the country's Ambition 2020-2030. The 14 contributions from the NDC (five mitigation and nine adaptation measures) are included under the new NAP to climate change and are in line with Cabo Verde's National Strategic Agenda for Climate Resilience 2020-2030. The NAP also aligns with the framework of the national Development Strategy Ambition 2030 (Ambição 2030) and the National Strategy for Disaster Risk Reduction (ENRRD). The NAP identifies strategic actions for the period 2021-2026 around three pillars, namely institutional framework, knowledge technology and financing and resilience of the most vulnerable.

Table 1. Cabo Verde: Key Documents Climate Plan and Strategies

Document	Description	Main Content
National Adoption Plan (NAP)	Out linesthe National Climate Change Adaptation Plan for the period 2022-2030.	Establishes conditions needed to create an enabling environment to facilitate the integration of adaptation into planning and budgeting processes; proposes solutions to improve the capacity to manage and share data and information; outline sstrategies to access to technology and finance for adaptation; and outlines adaptation actions to built greater resilience for the most vulnerable.
National Startegy for Disaster Risk Rreduction (ENRRD)	Brings into effect a series of national instruments and policies relevant to the implementation of the various elements and dimensions of disaster risk reduction.	Provides a framework for managing risks, preventing disasters, minimizing associated damage and losses and avoiding the creation of new risks, through the establishment of institutional mechanisms and the strengthening of capacities to plan and implement disaster risk reduction in favor of building the resilience of the Cape Verdean.
Nationally Determined Contributions (NDC)	Outlines reasons for updating the NDC in the context of Climate Ambition 2030, and presents concrete contributions to Mitigation and Adaptation.	The updated NDC aim to achievee alignment with the goals and objectives of the Paris Agreement. The update includes 14 contributions and more than a hundred measures to achieve substantial mitigation benefits and lasting adaptation impacts.
Sustainable Development Strategic Plan 2022-2026 (PEDS II).	The 2022-2026 Sustainable Development Strategic Plan (PEDS II) implements the government's program,and serves as the instrument for driving change and accelerating progress to complete the first cycle of Ambition 2030.	2022-2026 Sustainable Development Strategic Plan (PEDS II) aims to eradicate extreme poverty, reduce inequality, and transform Cabo Verde into a hub for various sectors such as tourism, the blue economy, digital economy, energy, industry, and agriculture.
Decreto lei 35/2021 Programa Nacional para a Sustentabilidade Energética (PNSE).	Established in the Plan Sustainable Development Strategy 2017/2021 (PEDS), it aims at interventions of promotion of Energy Efficiency (EE).	Establishes the Consumer Regime Energy Intensives (RCIE), instituted with the objective to promote energy efficiency and local production of energy.
2019 Programa de mitigação e de resiliência à seca em cabo verde.	Describes and analyzes the emergency situation due to the muti-year drought and poor agricultural outcome.	The overall objective of the program is to contribute to increasing resilience and adapting to climate change, by strengthening the ability to prevent and manage crisis situations arising from droughts and other extreme natural events, consolidating the country's sustainable development efforts in the economic, social and environmental spheres.
Resoluçao 39/2019 Plano director do sector eléctrico 2018-2040.	The Electricity Sector Master Plan 2018-2040 is as a structural document for the development of the Electricity System.	Includes electrical demand forecast, network analysis of the electrical system, economic and financial analysis, needed investments and indicative costs of generation and transportation, impacts on electric energy tariffs, and environmental and social impact assessment.
2018 Carta Polìtica para Mobilidade Elétrica e primeiros carros elétricos em Cabo Verde (CPME).	The electric mobility policy charter guides the Government's actions and seeks a coherent approach regarding energy and enviironmental policy.	Aims to establish the country's strategic vision on in this matter and communicate the main measures to guide the creation of necessary conditions for the initial start-up phase, leading to the long-term mass use electric vehicles (EV).

Source: Cabo Verdean Authorities

12. **Cabo Verde's climate adaptation and resilience priorities support national, sectoral, and local development policies**. The adaptation contributions include the following:

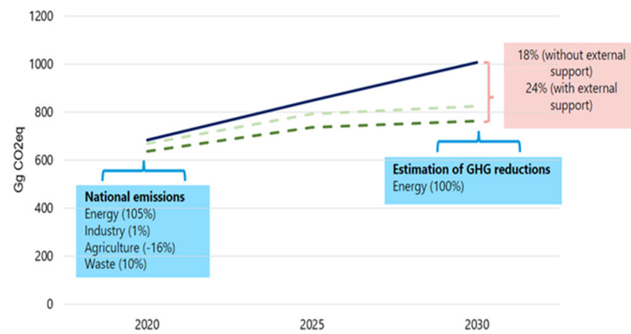
- Creating a resilient agriculture and sustainable livestock economy by 2025 through the regeneration of agriculture resources (solid, water, vegetable, and animal genetic material).
- Integration of climate change issues into national and municipal planning. In addition to developing a new land use map from the climate change policy that prioritizes climate-resilient land use.

- Implement by 2030 the ENRRD and adopt and implement resilience and disaster management plans for cities and municipalities.

B. Mitigation Actions

13. Cabo Verde's is heavily dependent on fossil fuels imports for energy. In 2020, Cabo Verde contributed only 0.0018 percent of total GHG emissions, but has set a target of 24 percent reduction in its domestic GHG emissions by 2030 (Figure 6) and aims to achieve a net-zero economy by 2050. Over 80 percent of Cabo Verde's electricity production is generated from imported fossil fuel, representing 31.8 percent of total import value in 2022.

Figure 6. Emission Trends (2020–30)



Source: 2021 NDC.

14. Improving energy efficiency and transitioning to renewable energy are key components of the authority's climate action plan. In that regard the authorities have an ambitious agenda of actions to reduce dependence on fossil fuels by increasing investments in renewable energy and are in the process of implementing measures to enhance energy efficiency (Box1). Increasing the share of renewable electricity generation and improving energy efficiency would support meeting the objective of reducing emissions. Achieving the mitigation targets could provide significant economic benefits through a reduction in fuel imports and narrowing of the current account deficit. In transitioning to renewable energy the authorities need to be mindful of the risk of stranded assets and the transition should be carefully planned.

15. Energy transition and efficiency are being built into the operations of public corporations. Public corporations such as ELECTRA and ENAPOR are already implementing investment projects to support the above objective. This includes renewable energy projects based on the electricity master plan (2018-2040) and consists of investments in the hydraulic energy storage system, thermal generation[8] in the island of Sal of 15 MW and the pure pumping project on Santiago Island (Box 1). ENAPOR is planning to supply electricity to docked ships (OPS) in Porto Grande's cruiser terminal construction as one of the methods recommended by the World Port Climate Initiative to reduce the environmental impact of maritime vessels. ENAPOR is also part of the green port initiative that supports the installation of low consumption bulbs and photovoltaic energy in ports. The current airports' concession with Vinci Airport includes a proposal to increase renewable assets' capacities by 8 percent by the end of this decade through investments in wind turbines and solar panels.

[8]Thermal power generation consists of using steam power created by burning oil, liquid natural gas (LNG), coal, and other substances to rotate generators and create electricity.

Box 1. Cabo Verde: Renewable Energy Plan

Cabo Verde has developed a range of initiatives to transition to a low-carbon economy with a focus on renewable energy, universal electricity access, and energy efficiency.

- Wind and Solar Independent Power Producers (IPPs): Installation of over 150 MWp of solar PV projects and 60 MW of wind farms, with ongoing projects from independent power producers to contribute about 40 MW.
- Santiago Pump Storage Plant (PSP): To provide cost effective energy storage with an installed capacity of 20 MW and energy storage capacity of 150.8 MWh.
- Energy Storage Systems (ESS): Installation of utility-scale energy storage systems across all the islands to reduce renewable energy curtailment and enhance grid stability. The first megawatt of lithium batteries will become operational by May 2023.
- Distributed Generation: To encourage microgeneration of renewable energy for self-consumption by providing public funding for eligible families, small businesses, and public buildings. The target is to reach 15 MWp of installed capacity by 2030.
- Energy Efficiency: Approval of energy efficiency building code and establish minimum energy performance standards. Supported by active promotion of energy efficiency in buildings, appliances, industry, and tourism sector, as well as improving access to clean cooking technologies.
- Brava Sustainable Island: Investments in wind and solar power plants, energy storage facilities, and smart grid systems in Brava.
- Electric Mobility: Transition of the public administration fleet to electric vehicles by 2030. Funding has been secured for promoting electric mobility, including rebates for electric vehicles, charging infrastructure, and electric bus demonstration projects.
- Grid Reinforcement and Smart Grid Road Map: The modernization of the grid, integration of SCADA/EMS/DMS system, and deployment of smart meters to manage high renewable energy penetration and ensure a stable energy supply.

Investment Cost

Projects	Million (Euros)
Wind and Solar IPPs	242
Santiago PSP	60
Battery Storage	60
Distributed Generation	7
Energy Efficiency Project	23
Brava Sustainable Island (Phase 1)	9
E-mobility	20
Grid Reinforcement & SG Road Map	46
Financing of Risk Mitigation Instruments (De-Risking)	15
Institutional Strengthening and Reform of Energy Market	7
Entrepreneurship and R&D in the Energy Sector + Inclusion and Gender Equity	10
Green Hydrogen Pilot	20
Total	**518**

Source: Cabo Verde Authorities

16. **Advances are being made regarding energy efficiency**. The policy for electric mobility was approved in 2018 with the objective of gradually replacing vehicles equipped with combustion engines (gasoline or diesel) by clean electric vehicles. The plan includes installing 175 charging points by the end of 2024, and with a target of 5 percent of electric vehicles. The complete replacement of all vehicles equipped with thermal engines (VT) for EVs is targeted for 2050 with an expectation that the national recharge infrastructure will be fully implemented by 2030. The public administration is targeting a fleet of 100 percent EV by 2030. The migration to more economical fuels was completed in 2016, the traditional public lighting system was replaced with LED lamps, smart meters were introduced along with the installation of modern laboratories for checking meters and controlling measurements.

C. Adaptation Actions

17. **Strategies for the agriculture, water and fisheries sectors are also being developed and implemented**. In the agriculture sector, the mitigation and drought resilience program includes concrete climate investment projects such as the equipment and installation of solar panels for existing wells and desalination plants. The 2022 fisheries strategy also includes a climate component. In addition, the water and sanitation strategies are being updated to align with the NDC's mitigation and adaptation targets. Specific water infrastructure projects include increasing water storage capacity, creating an organic waste recycling center on Santiago Island and improving available water for agriculture through efficient irrigation systems.

18. **The public road company (Estradas de Cabo Verde (ECV)) recently procured a study (still in production) on road resilience, identifying the vulnerabilities of the network**. Cabo Verde Infrastructure (Instrastructuras de Cabo Verde (ICV)) is also undertaking a survey of the public assets including information on their climate vulnerability. The expectation is that the public assets surveyed will then be georeferenced with the support of the National Institute of Territorial Management (Instituto Nacional de Gestão do Território (INGT)).

19. **Cabo Verde has made progress in addressing natural disaster risk and strengthening climate resilience**. The 2018 ENRRD puts into effect a series of national instruments and policies to reduce the risk of disasters and provides a framework for managing risks, preventing disasters, and minimizing associated damage and losses. The ENRRD provides for the establishment of institutional mechanisms and policies to strengthen capacity to plan and implement disaster risk reduction.

20. **Recently introduced central government and sub-national regulations on spatial and urban planning seek to address climate-related risks**. The 2020 National Policy on Land Use Planning and Urbanism (PNOTU) introduces resilience and climate change as one of the guiding principles for land use planning and urbanization. The Decree-Law no. 61/2018 on National Regulations for Territory Management and Urban Planning requires specifically the mapping of disaster risks and the consideration of disaster risk in all territorial planning instruments. Tourism Management Plans (POT) for the coastal areas and adjacent sea are also being developed.

D. Coordination and Fiscal Risk

21. Several climate change coordination mechanism have been established. The Inter-ministerial Committee for Climate Change was created in 2009 for coordination of government action on climate. The Inter-ministerial Coordination Committee for Climate Funds was set up in 2019 to coordinate climate funds and to define climate programs. The Environment and Climate Action Council was recently created in March 2023 to pre-screen climate project ideas.

22. An institutional framework for fiscal risks assessment and analysis is in place. In July 2018, a Risk Management Service was created within the Treasury Department of the MOF to manage operational fiscal risks, including those associated with disaster and climate-related shocks. In 2022, the government created a high-level fiscal risk coordination committee, explicitly tasked with managing fiscal risks associated with climate and disaster risk. Supported by the World Bank, the Ministry of Finance is in the process of conducting a long-term quantitative modeling of fiscal risk from natural disasters. The outcomes of this exercise are expected to be included in the 2024 fiscal risk statement.

FINANCING CLIMATE ACTIONS

23. Financing the adaptation and mitigation actions is estimated to cost around 2 billion euros over the next decade. This amounts to almost 6.3 percent of GDP per year compared to a planned total annual public investment budget of 3.8 percent of GDP. To implement Cabo Verde's climate strategy, while maintaining debt-sustainability, a significant inflow of concessional resources would be required for public investment. Existing funds in the country rely on limited government budgets, fees, taxes, and small donations. For example, the authorities have a dedicated environmental fund which generates about USD 7 million per year, mainly from taxes on plastics, which is likely to be depleted with the plan to end imports of plastics soon. With an aim to channel additional financial resources towards sustainable and resilient investments that can scale climate and nature action, the authorities are currently looking into establishing a new Climate and Nature Fund with the support of the World Bank. The creation of a new fund that is aligned with international good governance and operational practices could enable Cabo Verde to mobilize financial resources more effectively from the international community.

24. Cabo Verde has a range of public financing mechanisms to draw on to meet the costs of climate-related damages to public infrastructure. In 2019 the government put in place the Sovereign Emergency Fund (Fundo Soberano de Emergência (FSE)) to finance—among others— post-disaster rehabilitation and reconstruction of public infrastructure. The FSE is an offshore fund created with an initial capital of €10 million and managed by the Bank of Portugal. Since its creation, the Fund has not been operationalized to finance capital post-disaster expenditures. Under the 2019 World Bank (WB) Disaster Risk Management Development Policy Financing, the government accessed the Catastrophic Deferred Drawdown Option (Cat-DDO) of US$10 million. The annual budget has a provisional allocation for "unforeseen and unavoidable" expenditures (dotação provisional), set at a maximum of 2 percent of ordinary fiscal revenues. However, this instrument in 2021-2022 was used to cover recurrent expenses not related to disasters and climate risks. The government also created the National Emergency Fund (Fundo Nacional de Emergência (FNE)). The FNE aims to cover recurrent emergency and recovery expenditures. It is funded through a defined annual budget allocation (set at 0.5 percent of non-earmarked revenues). Accordingly, from 2019 onwards, the FNE has received an annual budgetary allocation of around CVE 180 million (US$1.8 million). The country does have risk transfer financing mechanisms. The key challenge in insuring government assets is the lack of an inventory of public infrastructure assets and values.

25. Cabo Verde launched its first blue bond on the Blu-X sustainable finance platform in January 2023. This is the first IPO listed on Blu-X and the bond could generate $3.5 million in private finance. The bond aims to raise investment in Cabo Verde's ocean economy while divesting from polluting industries. The proceeds will support microentrepreneurs, startups, and small and medium-sized enterprises in coastal communities. Cabo Verde had previously issued four sustainable bonds totaling $32.5 million through a strategic partnership between the Cabo Verde Stock Exchange (Bolsa de Valores de Cabo Verde – BVC) and UNDP under Cabo Verde's integrated national financing framework (INFF), which aligns with the country's pioneering role in defining blue finance norms and principles.

26. The government is also exploring various modalities to attract private sector financing. In terms of energy this includes support for the development of private producers of renewable energy to bolster supply. The authorities are also exploring large scale PPP projects particularly in the energy sector to help overcome the financing challenge. The World Bank is in the process of putting together a DPF with a heavy focus on building resilience to climate, which should provide additional funding and help galvanize increased financing for climate actions. However, the financing gap remains large and serves as a key obstacle to the implementation of the ambitious climate investment plans.

CONCLUSION

27. Cabo Verde has set out an ambitious climate change agenda but would benefit from a more focused approach and the public investment management framework needs a revamp. Some advances have been made, particularly in renewable energy and energy efficiency supported by reforms. A careful assessment of the mitigation and adaptation actions and a roadmap detailing how the objectives will be achieved would help move the agenda forward. As part of this process there is need to carefully outline public and private sector actions and evaluate and design reforms to reduce bottlenecks to facilitate greater private sector participation, including funding. Going forward a holistic financing strategy would also be required. In addition, improved investment planning will be needed along with improvements to the public investment management system. The development of concrete and well-structured investment initiatives would help galvanize support from both IFIs and the private sector. The RST could eventually provide support the authorities to implement a comprehensive set of reforms and would provide some financing and help unlock additional resources to advance Cabo Verde's bold climate agenda.

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Appendix I. Letter of Intent

Praia

June 6, 2023

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

Madame Managing Director:

We would like to thank you and the IMF for the continuous support provided to the Republic of Cabo Verde under the former Policy Coordination Instrument (PCI) and the current Extended Credit Facility (ECF) program. Our efforts to meet balance of payments needs, sustain foreign exchange reserves, and restore conditions for more vigorous growth have played a vital role in the strong post-COVID economic recovery. The Government of Cabo Verde with the IMF's support under the three-year ECF continues to implement its economic and financial program that is aligned to the new Sustainable Development Strategy 2022-2026 (PEDS II), sustaining the economic recovery, building buffers, and dealing with climate challenge.

Our country continues to be affected by the global geopolitical issues and faces challenges associated with climate change and global economic fragmentation. Our policy space remains constrained due to the high debt level which in part reflects the impact of external shocks. Nevertheless, the economy rebounded in 2022, as the tourist arrivals surpassed the pre-pandemic levels, and our government continues to provide support for the most vulnerable and at the same time take measures to improve the fiscal position. The near-term growth outlook is favorable, although downside risks and significant uncertainty regarding developments in Cabo Verde's major tourism markets remain, particularly the UK.

Our country's macroeconomic performance under the three-year ECF arrangement has been strong. We have met all the quantitative criteria for end-December 2022, as well as the indicative target on social spending. Structural benchmarks for end-December 2022 and end-March 2023 have also been met. Bearing in mind the program achievements to date, we are requesting a disbursement equivalent to SDR 4.5 million (or 19 percent of our quota).

The attached Memorandum of Economic and Financial Policies (MEFP), which supplements the memorandum signed on December 19, 2022, describes the recent economic and financial developments, presents the economic and financial policies that the government intends to implement during 2023–25 and defines the quantitative criteria, indicative targets, and structural benchmarks through end-June 2024. Disbursements under the arrangement will be subject to observance of the performance criteria and structural benchmarks shown in Tables 1 and 2 of the attached MEFP.

The economic and financial policies described in the MEFP continue to provide a robust macroeconomic framework that promotes the mobilization of financing from development partners, strengthens public institutions and good governance, and increases the resources allocated to protection of the most vulnerable segments of the population, including to better tackle the food and energy crisis.

The ECF-supported program will provide a framework for the implementation of reforms set forth in the PEDS II, which seeks to develop inclusive tourism, benefitting all the islands; transform Cabo Verde into an air transportation hub and international business center; create an international finance platform; develop a digital platform for technological innovation; create a special economic zone for the maritime economy (blue economy); development of wave energy and desalination technologies and support investment opportunities developed locally or by the diaspora.

Our economic and reform program also aims at preserving public debt sustainability and strengthening public finances; modernizing, enhancing and strengthening the monetary policy framework and maintaining an adequate level of international reserves; improving further the resilience of our financial system; accelerating state-owned enterprise reforms; enhancing existing mechanisms to protect the most vulnerable; and broadening the foundations for improved resilience to climate change, natural disasters, and other exogenous shocks.

We believe that the policies set forth in the MEFP are adequate to achieve the objectives of the ECF-supported program. Nonetheless, we stand ready to take any additional measures that may prove necessary to reach the expected results. We will provide the IMF with all information requested to assess progress in the implementation of the program. We will consult the Fund on revisions to the policies contained in this LOI and memorandum, or before adopting new measures that would deviate from program goals, in accordance with IMF policies on such consultations.

The government commits to providing the IMF with information on implementation of the agreed measures and execution of the program, as provided in the attached Technical Memorandum of Understanding (TMU). In addition, the government authorizes the IMF to publish this letter and its attachments, as well as the staff report, once the review has been approved by the IMF Executive Board. We will also post these documents, including their Portuguese versions, on the Government’s official webpage.

Sincerely,

___________________/s/___________________	_________________/s/___________________
Olavo Correia	Óscar Santos
Vice-Prime-Minister and Minister of Finance and Business Development	Governor of the Banco de Cabo Verde

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

Attachment I. Memorandum of Economic and Financial Policies for 2023–25

This memorandum describes recent economic developments, the outlook for the medium term, and the program objectives, policies and measures to achieve them. The main objectives of the program include: (i) strengthening public finances to increase fiscal space for promoting investment in catalytic sectors, as well as promoting social inclusion and reducing fiscal risks from public enterprises by strengthening their financial management and transparency; (ii) modernization of the monetary policy framework and strengthening the financial system; and (iii) raising growth potential and building resilience to shocks including from climate related change.

BACKGROUND, RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

1. **The economy rebounded in 2022 reflecting a faster than expected turnaround in the tourism sector**. The economy grew at 17.7 percent in 2022 as the number of tourist arrivals surpassed the pre-pandemic levels. Average inflation reached 7.9 percent at end-December 2022 driven by higher food, electricity, gas, and transportation costs, reflecting the impact of the war in Ukraine. Inflation moderated to 5.6 percent in March 2023 y/y. The current account deficit improved in 2022 relative to the program on account of the strength of the tourism sector and strong FDI and inflows of remittances.

2. **The fiscal position improved in 2022 aided by the increased revenue associated with the rebound in economic activity**. The gains in revenue reflect higher economic activity aided by efforts to reduce tax arrears on VAT, personal, and corporate income taxes. The increase in revenues was also supported by the implementation of the 5 percent import duty on previously exempted imports and ongoing implementation of the electronic invoicing system. We saved the revenue over-performance and as a result the primary balance target for 2022 was exceeded.

3. **The debt-to-GDP ratio improved in 2022**. The public debt-to-GDP ratio decreased from 144.6 percent in 2021 to 121.2 percent in 2022, mainly due to higher nominal growth and aided by the improved primary deficit.

4. **Monetary policy remains focused on safeguarding the peg and strengthening the transmission mechanism of monetary policy**. Reserves are slightly above the Banco de Cabo Verde (BCV) target range of 5–5½ months of prospective imports. The BCV is gradually unwinding COVID-19 related support, with the resumption of robust economic activity, and considering the elevated levels of liquidity in the banking system. At the Monetary Policy Committee meeting on May 2, the policy rate was raised from 0.25 to 1, to narrow the differential with the ECB policy rate and protect reserves. The central bank continues to closely monitor reserves and inflation developments and stands ready to adjust policy settings further as required. The financial sector is stable, adequately capitalized and liquid. The banking sector is well placed to withstand the effects of the projected

increase in non-performing loans at the end of the credit moratorium. Economic activity was supported by credit growth of 6.2 percent at end-December 2022.

5. **In 2023, growth is projected to moderate to 4.4 reflecting a downward revision in global growth and a return to pre-pandemic levels of exports**. Inflation is projected at 5.2 percent. The current account deficit is expected to widen to about 5.6 percent of GDP in 2023 as exports of goods and services, tourism, remittances and FDI stabilize from levels recorded in 2022.

6. **The structural reforms envisaged in our Sustainable Development Strategy 2022-2026 (PEDS II) will be critical for fiscal consolidation and to continue along the path set out in the ECF-supported program**. PEDS II will provide a framework for the implementation of reforms set forth by the Government as it seeks to develop inclusive tourism, benefitting all the islands; transform Cabo Verde into an air transportation hub and international business center; build a modern public administration; create an international finance platform; develop a digital platform for technological innovation; establish a special economic zone for the maritime economy (blue economy); support the development of wave energy and desalination technologies and support investment opportunities developed locally or by the diaspora. Real annual GDP growth is expected to average 4.6 percent during 2023–27, driven by continued growth in the tourism sector and increased public sector investment spending. This is premised on steadfast implementation of the policy measures agreed to under the ECF, which includes sustaining ongoing tax administration reforms, improved compliance, and measures to reduce tax expenditures starting in 2025. By 2028, revenues are projected to climb to 25.7 percent of GDP and expenditures would gradually decline to 25.9 percent of GDP and the primary balance would move into a surplus position of about 1 percent of GDP. Public debt would decline to about 85 percent of GDP.

7. **Risks to the outlook are tilted to the downside**. Downside risks could emanate from weakened external demand in Cabo Verde's major tourism markets. A reversal of the recent downward trend in fuel and food prices could increase the number of households that would require support from safety net programs, increasing expenditure. Fiscal risks could also stem from the delays advancing State-Owned Enterprise (SOE) reforms or reduced fiscal consolidation efforts. Cabo Verde is highly susceptible to the effects of climate change—a key medium-term risk—as evidenced by the recent multi-year drought. Thus, we are cognizant of the need to accelerate implementation of climate adaptation measures and improved access to water supplies to mitigate this risk. We are working on balancing the need for fiscal consolidation to reduce debt levels with capital spending to accelerate investments in climate action and are seeking support from partners (including the Fund) to access green financing. The high risk of overall debt distress is a source of vulnerability and concessional financing to limit debt servicing cost as under the program is important. On the upside, stronger tourism growth could lead to higher overall economic activity. However, if the macroeconomic outlook deteriorates, we commit to take additional measures in consultation with the IMF staff.

ECONOMIC POLICIES AND STRUCTURAL REFORMS UNDER THE PROGRAM

A. Strengthening Public Finances to Preserve Public Debt Sustainability

8. **Our fiscal program is predicated on a sustained consolidation effort over the medium term**. This will be instrumental to place public debt on a sustained downward path, preserve debt sustainability and reduce the risk of debt distress. Other components of the strategy include strengthening the fiscal framework, and accelerating reforms in the SOE sector. Overall, these policies would result in an improvement in the primary fiscal balance from a deficit of 1.9 percent of GDP in 2022 to a zero balance by the end of the program and a surplus of 1 percent of GDP in 2028; the overall fiscal deficit would decline from 4.1 percent of GDP in 2022 to a broadly balanced position over the same period. Medium-term revenue is supported by the implementation of the tobacco tax, increasing the rate of the tourism tax and charging import duty on previously exempt goods. The implementation of the fiscal consolidation plan would be associated with a reduction in public debt levels, with the debt-to-GDP ratio declining from 121.1 percent in 2022 to 91.1 percent in 2028.

9. **The 2023 budget is being executed in line with the fiscal plan and the program targets under the ECF**. Data for the first quarter of 2023 suggests a strong improvement in revenue performance as total tax receipts increased by 24 percent and were above the indicative target set under the program. We expect revenue growth to remain buoyant for the remainder of the year driven by continued improvements in the tourism sector and supported by the revenue measures implemented under the program. Expenditures remained contained in line with our program objectives. Capital expenditure, budgeted at 4.2 percent of GDP, has started off slowly but is expected to accelerate during the second quarter. We anticipate receipt of property income associated with the airport concession and Caixa Económica during the year. However, as agreed under the program, a portion of budgeted spending on goods and services and capital spending is being withheld subject to the receipt of the proceeds from the concession and overall revenue performance. These developments lead to a projected primary deficit outcome below the indicative target under the program.

10. **The IMF TA on rationalizing tax expenditures, proposes both practical and institutional measures to boost domestic revenue mobilization**. In this context, we plan to develop and publish an action plan to reduce tax expenditures, including published estimates of annual tax expenditures in the budget to improve transparency, and undertake phased implementation of the ECOWAS tariff, to increase revenue by 1 percent of GDP (**New SB end-September 2024**). Furthermore, revenue administration improvements are expected to yield additional revenues, mainly through collection of tax arrears and heightened supervision. In the near- and medium-term, we will continue our efforts to enhance the efficiency of the tax system through revenue administration improvements. We will focus our efforts on the collection of VAT,

as well as personal and corporate income tax arrears. These efforts will be based on the complete digitalization of all the revenue administration and collection processes and could potentially result in very significant gains in efficiency.

11. We will continue to rationalize current expenditure and improve the delivery of investment spending with clear priorities. In the near-term, wages are projected to remain broadly stable while spending on social programs and subsidies to shield the vulnerable from the impact of higher cost of basic food items will increase. Over the medium-term, we will continue to seek efficiency gains while reducing spending on wages and interest payments, resulting in a gradual decline in current expenditures as a share of GDP. To support the recovery and the development needs of Cabo Verde, the public investment program is projected to increase as a share of GDP. However, capital expenditure will be strictly prioritized. In this context, we will review and streamline social welfare programs to ensure adequate coverage particularly in the context of rising prices which disproportionately affect the most vulnerable. The sharp increase in international energy and food prices which has spilled over to domestic inflation will have a disproportionate impact on the vulnerable. Finally, to achieve our medium-term fiscal objectives additional policy measures will be required. Therefore, the Government will continue to implement measures to improve revenue mobilization and public expenditure management, as well as continued SOE reforms to maintain medium-term debt sustainability.

12. Financing needs in 2023 are now projected to be lower than at the time of the first review due in part to a higher revenue forecast. Financing needs are projected at 3.7 percent of GDP compared to 4 percent at the first review. Domestic financing (1.4 percent of GDP) is also lower than projected at the first review and is expected to remain below the legal rule of 3 percent of GDP. External financing will be filled mostly with concessional and partially concessional loans, mainly from multilateral institutions, including the World Bank (2 percent of GDP), African Development Bank (0.8percent of GDP), the resources provided under the ECF program, and official creditors.

13. The Government is committed to improving the efficiency of the public investment framework. Public investment is a key component of our development plan and will play a critical role in supporting the recovery. In line with recent IMF technical assistance (TA) recommendations (C-PIMA), we will develop a plan to bring about better projects in the near- to medium-term which would be both feasible and practical. This would involve the following four steps: (i) redefining the existing thresholds to reduce the number of projects qualifying for more detailed appraisal in line with available capacity; (ii) developing and implementing an enhanced pre-screening system (pre-screening+), a single-entry point for all project ideas regardless of size or source of financing; (iii) developing and implementing multi-criteria analysis (MCA) techniques and matrices for prioritization and selection; and (iv) developing and implementing a pre-implementation checklist.

14. We will build on the recent improvements in cash flow management that helped the Ministry of Finance to manage the challenges posed by COVID-19. In recent years, we have developed a Treasury Single Account (TSA) in line with sound international practices, that benefited from our early and successful adoption of a modern financial management information system (SIGOF). Despite the gains that have been achieved, other steps will be taken to enhance cash flow management, including continuing the process of bringing in all central government accounts into the TSA; and institute a cash coordination committee to systematically review forecasts.

15. We will continue to broaden fiscal coverage to allow for the preparation of accounts at the level of the general government. This includes the compilation and publication of the historical series of government financial statistics for the general government that was completed in March 2023 (**SB end-March 2023**); and the publication of annual budget execution reports for the general government (**SB end-September 2023**).

16. We will continue other efforts to ease Cabo Verde's public debt burden. We have already reached an agreement with Portugal in principle to explore debt for climate swap initiatives.

17. We will update key aspects of the debt law, institute the guarantee fund, and enhance debt reporting and analysis. The debt legislation was updated in line with the 2018 review, which provided guidance on the type of analysis and reporting which should be produced; and steps have been taken to clearly identify the required reports. It is intended to implement the debt management strategy for carrying out internal debt sustainability analysis (DSA). For this purpose it is necessary to receive training from FAD experts, addressed to Ministry of Finance officials, during the second half of 2023, which will be important as a basis for preparing the 2024 budget. Furthermore, the Government undertook a review of the laws regulating guarantees. The guarantees law provides for the establishment of a fund to be financed by the beneficiaries of guarantees, which would provide a cushion in the event of noncompliance with the terms of the guarantee.

B. Reduce Fiscal Risks from SOEs and Improve Their Financial Management

18. We have progressed on reforms to reduce SOE related fiscal risks and efforts will continue. In this regard, special focus will be placed on reinvigorating SOE reforms, including improving the framework for monitoring the financial performance of SOEs to reduce fiscal risks and thus support medium-term debt sustainability. Quarterly analysis of fiscal risk assessments using the IMF SOE's health check tools are being prepared—the latest covered Q3 2022—as well as quarterly monitoring report of SOEs' budget execution **(SBs end-September 2022)**. Ongoing reforms will include publication of quarterly consolidated transaction and financial flows between the government and SOEs on an individual and aggregate basis to help identify indirect support from the government to SOEs. Furthermore, the annual SOEs' report will be improved to include comparison of execution relative to the initial budget projection, evaluation of performance against medium-term plans, and data on government relations **(end-July 2023 SB)**. Going forward, we will publish in the annual report on public companies the forward looking targets agreed between the Ministry of Finance and Business Development and the six largest SOEs, on improving financial performance and reducing the need for central government support (**New SB end-June 2024**). We are analyzing the non-performing loans shown by the recent BCV study on the loan losses and provisions at the end of the credit moratorium, and the implications for government guarantees and other related fiscal risks.

19. Cabo Verde Airlines (TACV) is a key priority, and the Government intends to complete the reorganization of TACV and resume its privatization efforts. The Government is in the process of reorganizing the airline and is in negotiations with potential partners. Under the new plan, which has been delayed, TACV has started operations with one aircraft in 2022 with flights to Lisbon. TACV is working on an interim and medium-term plan to increase the number of aircrafts in the next two years, and increase the number of flights to Europe, USA and Africa to achieve breakeven. The Government will provide financing during the reorganization process to cover the projected financing gap in the amount of €30 million (about 1.6 percent of GDP) over a period of three years. We will seek the best restructuring options based on a design of an appropriate business plan covering at least five years.

C. Modernize the Monetary Policy Framework and Improve Resilience of the Financial System

20. The conventional fixed peg exchange regime continues to provide a stable anchor for monetary policy. Monetary policy will continue to focus on safeguarding the peg and strengthening the monetary policy transmission mechanism. Despite the external shock due to the war in Ukraine, international reserves are projected to increase by 69.9 million euros in 2023, 11.6 percent increase from the outcome of 2022. Equivalent to 6.1 months of imports of goods and services due to the growth in tourism and the impact of grants, ECF disbursements, and remittances. In the near-term, we will closely monitor economic developments in the euro area and stand ready to take corrective measures, if pressures on reserves become apparent. We started the process of unwinding the COVID-19 related monetary policy stimulus in 2022, as the economy showed signs of robust recovery and given continued excess liquidity in the banking system and the recent positive evolution of the pandemic. However, the geopolitical shock warrants a more cautious approach. Over the medium-term, to support the peg, we will continue to target international reserves in the range of 5½–6 months of prospective imports.

21. We will continue to take steps to further strengthen the monetary policy transmission mechanism and to enhance our analytical capacity to track developments in the economy. The central bank has taken actions to support the development of the money market, including pre-announcing a schedule for auctions of Monetary Intervention Securities (TIMs) and Monetary

Regularization Securities (TRMs), at the same time given the current situation, the authorities will analyze the impact of managing liquidity and the cost of monetary policy. Policy analysis will be reinforced, through the introduction of composite indicators of economic activity and strengthening near-term forecasting **(end-June 2023 SB)**. We will also develop a framework to guide the provision of emergency liquidity assistance. The BCV and the Ministry of Finance have sought World Bank TA to undertake a digital economy assessment and formulate a national fintech strategy, that would set the necessary pillars for the use of financial technologies which embrace innovation and competition, and lower transaction costs.

22. The BCV will closely monitor emerging risks to the banking sector. Available indicators indicate that the banking sector is well placed to withstand the effects of the projected increase in NPLs associated with the end of the credit moratorium. We have concluded a study of loan losses and provisions at the expiration of the credit moratorium covering the majority of the banking sector (**end-December 2022 SB**), will encourage and facilitate prudent restructuring of loans, and proactively provide guidance on the prudential treatment of moratoria and NPLs management strategies and develop a common framework for bank resolution. In addition, we will encourage the development of detailed reporting templates for restructured and rescheduled loans and for monitoring the impact of the COVID-19 related measures on the asset quality of banks. In support of these efforts, we have done and internal analysis of a common framework for the resolution of crisis related NPLs (**end-December 2022 SB**), and in conjunction with other structural measures reflected in the FSAP done by the World Bank, we will elaborate more on this subject for a more comprehensive framework.

23. We plan to further improve AML/CFT effectiveness and technical compliance, in line with the recommendations found in the 2019 GIABA mutual evaluation report. Recent improvements in the AML/CFT framework include the establishment of a national AML/CFT committee and Cabo Verde's exit from the EU Grey List of non-cooperative jurisdictions for tax purposes in 2020 which have helped preserve correspondent banking relationships. Further improvements included the approval in 2023 of the National Strategy for 2023-2027 with seven major priority objectives, including the legal framework and proposals for changes, statistics and strengthening of the institutions geared towards a more comprehensive approach. In addition, BCV has embarked on a continuous process (human resources and institutional capacity) on effective risk-based supervision for financial institutions.

24. As part of the Financial Sector Development Plan, our efforts will be focused on the ongoing modernization of the financial system. We will enhance the regulatory and supervisory frameworks with the aim of deepening the financial sector, including to support inclusive and sustainable growth, while preserving financial stability. We remain committed to ensuring a stable and well-capitalized banking system that can continue to support the recovery by effectively monitoring and supervising the health of the financial system. To ensure effectiveness of the supervisory process, we will increase the frequency of stress testing to at least two times a year from 2023 (**SB end-December 2023**). In addition, the stress testing methodology will be revamped to include detailed banking data and cyber security risk assessment. We will soon submit to Parliament the legislation amending the BCV Organic Law to, inter alia, strengthen the BCV's decision-making structure, autonomy, accountability and transparency of the central bank in line with the IMF safeguards assessment, and supported by technical assistance from the IMF.

25. We will accelerate work towards the adoption of Basel II Pillar 1. During the last part of 2023, an evaluation will be undertaken on the implementation of the Basel principles through the BCP Self-Assessment.

26. We continue to improve the accuracy of our monetary and financial sector statistics. Over the past year, we have eliminated discrepancies between the monetary and financial sector survey disseminated by the BCV in its publications and data sent to the IMF, by adopting the methodology of the central bank survey compiled for the IMF, which is based on international statistical standards (IMF's 2016 Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)). This new compilation system allows for correcting discrepancies between the other deposit corporations (ODC) survey disseminated by the BCV in its publications and the data sent to the IMF. Further improvements will continue this year with the enhancement of data on credit by economic activity using INE's economic activity classification.

D. Broad Structural Reforms: Supporting Private Sector-Led Growth and Resilience to Shocks

27. Structural reforms are aimed at improving the business environment, addressing labor market inefficiencies, and increasing access to finance. Cabo Verde's PEDS II is based on the recently completed long-term development plan (Cabo Verde Ambition 2030). Key priority areas include: (i) progressing on SOE reforms, including through privatization and improving the efficiency of SOEs; (ii) reducing informality, (iii) facilitating access to finance, particularly for small and medium-sized enterprises, and (iv) improving the business environment. In support of our business environment reforms, we will examine possible changes to the labor code with a view to increasing incentives to make the labor market more dynamic.

28. Diversification of activity continues to be critical for our economy. Diversification efforts are being pursued through two channels. Firstly, within the main tourism sector we are actively moving towards more integrated resort projects heralded by the presence and emergence of top hotel brands. Secondly, we are actively promoting alternative sectors, such as the blue economy, digital economy, industry integrated into the regional and global value chains, and modernization of the agriculture sector using desalinated water.

29. Legal procedures for businesses will be made easier, through a reduction in waiting time by improving the link between businesses and judicial processes. One area of focus will be on land titling, where issues often arise because of unclear ownership due to incomplete information that can cause delays in investment decisions. In this regard, the government will digitalize the relevant information to facilitate ease of access to all parties, which will facilitate more timely settlement of disputes.

30. Support to vulnerable groups is being enhanced. Although Cabo Verde performs very well on social indicators, poverty and unemployment remain high particularly in the rural areas and these trends have worsened due to the pandemic and are likely to be negatively impacted by the rising price level. Social safety nets will be strengthened through improved targeting of social spending. In partnership with our external partners (World Bank and African Development Bank), we will continue to work towards better targeting of social programs and will sign a pact for poverty reduction, with the goal of eliminating extreme poverty by 2026. The government will also take the opportunity during the program period to reform the national social security system to ensure that it evolves in alignment with best practices and the changing needs of the country.

31. In that regard, policies under the program will help safeguard spending on social safety nets and help increase our capacity to expand on these interventions. We have made important investments in the delivery systems for social protection, particularly the social registry and the RSI cash transfer program. These gains will be protected during the ECF-supported program as support for the most vulnerable and helping lift households out of poverty are key objectives of our strategy. Through a program of productive inclusion, the government guarantees empowerment for the most vulnerable families, as well as the transfer of money to some of the most vulnerable families in Cabo Verde. Our method of supporting the most vulnerable through cash transfers is an important and efficient way of investing in the people; contribute towards strengthening their resilience and enhances their human capital in several ways, including through ensuring food security and enabling expenses related to education and health for children in these households, as well as training for inclusion in the job market.

32. Our small state economy which comprises of a group of islands are prone to both floods and droughts. The World Bank estimates that the average economic damage from natural disasters, particularly floods costs just under 1 percent of GDP per year. Cabo Verde recently experienced a multi-year drought which severely weakened the agriculture sector and created challenges in maintaining a reliable supply of water, which impacted the tourism sector, the main pillar of the economy. We have carefully prepared the strategic interventions and have been implementing a range of reforms and investments to mitigate the impact of climate events on the local economy, including moving towards the target of 50 percent renewable energy by 2030. However, funding for climate initiatives remains a critical bottleneck and the RSF could eventually provide an opportunity for Cabo Verde to advance reforms and catalyze financing, including from the private sector.

33. In demonstrating our commitment to build a climate resilient economy we have updated our NDC and made progress in implementing public investments. The 2021 NDC focuses on adaptation measures in water, agriculture, oceans, spatial planning, disaster risk reduction, and health. Infrastructure plans include increasing water storage capacity, establishing a waste recycling center on Santiago Island, and improving agricultural water through efficient irrigation. Reforms and investments in the energy sector are geared towards transition to a low-carbon economy with a focus on renewable energy, universal electricity access, and energy efficiency. Notable investment projects include the renewable Brava project and the Phase III Expansion of the Port of Palmeira to promote decarbonization in the port sector.

34. We are aware of the magnitude of the climate challenge and will seek to accelerate implementation of required reforms including the C-PIMA recommendations. Priority reforms would include developing a climate-informed medium-term fiscal and budget framework to help guide budget preparation and ensure that climate considerations are integrated into decision-making processes; revising the framework for private and public enterprises participation in climate-smart infrastructure; and developing an asset register to ensure adequate funding for maintenance of assets to safeguard climate-resilient infrastructure.

E. Financing and Program Monitoring

35. The program will be closely monitored through the proposed quantitative performance criteria, indicative targets, and structural benchmarks (Table 1 and 2). The Technical Memorandum of Understanding describes the definitions as well as data provision requirements. The third, fourth and fifth program reviews are scheduled to be completed by October 2023, March 2024, and October 2024 (based on end-June 2023, end December 2023, and end-June 2024 test dates, respectively). Thereafter, the program will continue with monitoring on a semi-annual basis by the IMF Executive Board.

Table 1. Cabo Verde: Quantitative Performance Criteria Under the ECF, December 2022-June 2024[1]

(Millions of Escudos, unless otherwise indicated)

	2022			2023				2024	
	end-December			end-March	end-June	end-September	end-December	end-March (proposed)	end-June (proposed)
	Performance Criteria (PC)	Actual	Status	Indicative Targets (IT)	Performance Criteria (PC)	Indicative Targets (IT)	Performance Criteria (PC)	Indicative Targets (IT)	Performance Criteria (PC)
	Cumulative from the beginning of the calendar year								
Quantitative performance criteria									
Primary balance, floor [2]	-7,750	-4,639	met	-2,612.0	-4,141.0	-5,564.2	-6,298.0	-1,849	-2417
Tax revenue, floor	38,215	44,146	met	9,550.1	19,095.0	31,483.0	45,849.0	8,088	21029
Net other liabilities, floor [3]	-1,455	-173	met	-501.5	-625.3	-1,150.2	1,940.3	-1,099	-1259
Net domestic financing, ceiling	7,501	5,592	met	5,651	5,886	4,920.5	4,179	3,093	4021
Nonaccumulation of domestic arrears [4]	0.0	0.0	met	0	0	0	0	0	0
Non-accumulation of external payment arrears [4]	0.0	0.0	met	0	0	0	0	0	0
PV of new external debt, ceiling (in millions of US Dollars)	94	92	met	46	60	75	98.7 [5]	24	37
Nominal level of new nonconcessional external debt of central government, ceiling[4]	0.0	0.0	met	0	0	0	0	0	0
Gross international reserves (in millions of euros), floor [2]	491	626	met	554	572	592	622	671	693
Indicative Targets									
Social spending, floor	15,800	15,306	not met	2,923	6,180	10,009.0	17,304.0	3,690	7379
Non-quantitative continuous PCs									
Non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions									
Non-introduction or modification of multiple currency practices									
Non-imposition or intensification of import restrictions for balance of payments reasons									
Non-conclusion of bilateral payments agreements that are inconsistent with Article VIII									
Memorandum items:									
Net onlending	2,790	197		413.4	827	1,286	1,654	239.1	279
Capitalization	2,151	2,716		300.0	765.3	880.1	2,200.0	1,100	1600
Program assumptions									
Project and budget support grants	3,982	2,131		522.5	623.3	2,090.0	5,225.0	526	1121
External debt service	11,226	9,485		3,664.8	6,445.4	10,664.6	12,921.0	2,409	4818
Sales of assets	648	437		142.2	516.6	612.0	747.0	106	226
Project and budget support loans	14,333	12,075		913.9	5,887.7	10,732.9	16,663.0	1,816	4238

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

[1] Expressed in local currency and millions unless otherwise indicated. Foreign currency amounts will be converted at current exchange rates. Negative numbers indicate net lending.

[2] Stock of reserves in millions of Euros.The ceiling or floor will be adjusted as specified in the TMU.

[3] Net other liabilites includes net onlending, capitalization, and other assets.

[4] Continuous.

[5] Proposed PV ceiling

Table 2. Cabo Verde: Structural Benchmarks for 2022-24 Under the ECF

Actions	Target date	Objective	Status
Fiscal reforms			
1) Invoice electronically at least 50 percent of tax payers for VAT	End-December 2022	Improve revenue collection	Met
2) Submit to parliament the budget for 2023 that is in line with commitments under the program.	End December 2022	Support fiscal and debt sustainability	Met
3) Compile and publish historical series of government financial statistics for general government.	End-March 2023	Improve fiscal transparency	Met
4) Publish annual budget execution reports for the general government.	End-September 2023	Improve fiscal transparency	
5) Construct a Compliance Risk Management system to allow for the optimization of tax revenue collection by end-December 2023.	End-December 2023	Support fiscal and debt sustainability	
6) Submit to parliament the budget for 2024 that is in line with the primary balance commitment under the program.	End-December 2023	Support fiscal and debt sustainability	
7) Develop and publish an action plan to reduce tax expenditures, including published estimates of all annual tax expenditures in the budget to improve transparency, and undertake phased implementation of the ECOWAS tariff, to increase revenue by 1 percent of GDP **(Proposed New SB)**	End-September 2024	Support fiscal and debt sustainability	
8) Implement the action plan to reduce expenditures during in the 2025 budget **(Proposed New SB)**	End-December 2024	Support fiscal and debt sustainability	
SOEs reforms			
9) Conduct quarterly analysis of fiscal risk assessment using the IMF SOEs health check tool.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
10) Introduce a quarterly monitoring report on SOEs budget execution.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
11) Improve the annual SOEs report to include comparison of execution to initial budget projection, evaluation of performance against medium term plan, data on government relations (transfers and liabilities).	End-July 2023	Improve fiscal reporting and reduce fiscal risks	
12) Based on the July 2023 structural benchmark, publish in the annual report on public companies the targets agreed between the Ministry of Finance and Business Development and the six largest public companies , on improving financial performance and reducing the need for central government support. **(Proposed New SB)**	End-June 2024	Improve fiscal reporting and reduce fiscal risks	
Monetary policy reforms			
13) Preannounce a schedule for TIM and TRM auctions.	End-June 2022	Support the development of the money market	Met
14) Introduce a composite indicators of economic activity.	End-June 2023	Support monetary policy analysis	
Financial sector reforms			
15) Submit draft amendments to the BCV Law, in line with IMF recommendations, to the Ministry of Finance with a view to (i) establishing an independent oversight process that is separate from executive management, (ii) strengthening the BCV's personal and financial autonomy, and (iii) enhancing transparency and accountability mechanisms	End-December 2022	Strengthen BCV institutional framework	Met
16) Carry out a comprenhensive study of loan losses and provisions at the expiration of the credit moratorium.	End-December 2022	Strengthen financial stability	Met
17) Develop a common framework for the resolution of crisis related NPLs.	End-December 2022	Strengthen financial stability	Met
18) Increase the frequency of stress testing to twice per year (June 2023 and December 2023) to ensure the effectiveness of the supervisory process and revamp the stress testing methodology to include detailed banking data and cyber security risk assessment.	End-December 2023	Strengthen financial stability	

Table 3. Cabo Verde: Other Reforms Under the ECF, 2022-25

Fiscal reforms
1. Compile and publish financial balance sheet for the general government.
2. Digitalization of all the revenue administration and collection processes.
3. Redefine the existing thresholds to reduce the number of projects qualifying for more detailed appraisal in line with available capacity.
4. Develop and implement an enhanced pre-screening system (pre-screening+), a single-entry point for all project ideas regardless of size or source of financing.
5. Develop and implement multi-criteria analysis (MCA) techniques and matrices for prioritization and selection of capital projects.
SOEs reforms
6. Automatic Digital Platform for Monitoring the SOEs and automating the model for analyzing the financial health of SOEs.
7. Resumption of privatization of SOEs. Completion of the privatization process, namely of Cvhandling, Emprofac,Inpharma, TACV, Electra, AEB, Enapor; Cabvane, CAIXA and, CVTelecom.
Monetary policy reforms
8. Conduct a study on the implication of central bank digital currency (CBDC) for monetary policy and develop a legal framework for CBDC.
9. Develop a framework guiding the provision of emergency liquidity assistance.
Financial sector reforms
10. Increase the frequency of stress testing to at least two times a year.
11. Implement a revamped stress testing methodology incorporating detailed banking data and cyber security risk assessment.
12. Undertake an evaluation of the implementation of the Basel principles through the BCP Self-Assessment during the second half of 2023.
Public sector investment and digital reforms
13. Public Key Infrastructure (PKI) - Issue digital certificates to people and entities and leverage the digital economy
14. Digital Mobile Key of Cape Verde (CMDCV) - Modernize the system for issuing, and managing the life cycle of identification documents, reinforcing security levels.
15. Consular Portal, to facilitate relations with the Cape Verdean diaspora and relations with those seeking Cape Verde.
16. Digital Certificate – Nha Card & Blockchain Platform Design Unique Business Creation Platform that will allow the creation of a business both in person and through online channels,using a digital signature and digital authentication mechanism.
17. External Investment Platform – One-Stop-Shop for Investors, for registration and authorization of their investments.
18. SIMPLE- Integrated Municipal Platform, a robust Information System with all the necessary functionalities and covering all Municipal Management and Action Areas.
19. Digitalization of Nacional Health Care System (e-Health), with electronic medical records, electronic prescribing,Telehealth and Telemedicine.
20. Digital transformation in the Justice System (e-Justice). Restructuring, Adaptation and streamlining the operationalization of the current Justice Information System (SIJ).
21. Implementation of the National Investment System.
22. Implementation of a new Monitoring and Evaluation framework.
23. Approval of the action plan for digital governance.
Legal framework reforms
24. Submission to Parliament of the Public Employment Law.
25. Review and implementation of the SOEs and ERI's legal framework and governance policies.

Attachment II. Technical Memorandum of Understanding

This memorandum sets out the understandings between the Cabo Verdean authorities and the IMF staff regarding the definitions of variables included in the quantitative targets and continuous targets set out in the Memorandum of Economic and Financial Policies (MEFP), the key assumptions, and the reporting requirement of the Government and the Central Bank of Cabo Verde for the three-year Extended Credit Facility (ECF).

PROGRAM EXCHANGE RATES

1. **Program exchange rates are used for formulating and monitoring quantitative performance criteria**. All assets and liabilities denominated in U.S. dollars (USD) will be converted into escudos at a program exchange rate of CVE 98.8 per one USD. Assets and liabilities denominated in SDRs and in foreign currencies not in USD will be converted into USD at the exchange rates reported in the Table 1:

Table 1. Cabo Verde: Program Exchange Rates

Currency	Program Exchnage Rates
Escudos/US Dollars	98.8
Escudos/Euros	110.3
US Dollar / U.K. pound	1.34
US Dollar/Euro	1.11
US Dollar/ Japanese yen	0.01
SDR/US Dollar	0.72

Source: WEO April period average exchange rates

QUANTITATIVE AND CONTINUOUS TARGETS

A. Floor on the Primary Balance of the Central Government

2. **The central government includes all units of budgetary central government and extrabudgetary entities**. It does not include local government (municipalities), social security funds and public corporations.

3. **The central government primary balance is defined as total tax and non-tax revenues and grants minus primary expenditure** and covers non-interest government activities as specified in the budget. The central government primary balance will be measured as cumulative flow over the calendar year.

- Revenues are recorded when the funds are transferred to a government revenue account. Tax revenues are recorded as net of tax refunds.

- Central government primary expenditure is recorded on a cash basis and covers recurrent expenditures and capital expenditure.

4. The floor of the primary balance will be adjusted upward (downward) by the surplus (shortfall) in disbursements of the grants to the baseline projection.

Table 2 Cabo Verde: Grants Projected Under the Program (GIR)

Date	Grants projected under the program, cumulative from the beginning of the year (in million CV Escudos)
31-Dec-22	3,982
30-Jun-23	623
31-Dec-23	5,225
30-Jun-24	1,121

Source: Cabo Verdean Authorities: IMF Staff estimates

5. For program monitoring, data will be provided to the Fund by the Directorate National of Planning (DNP) of the Ministry of Finance monthly with a lag of no more than six weeks from the end of-period.

B. Cumulative Floor on Central Government Tax Revenue

6. Tax revenues refer to revenues from tax collection. It excludes all revenues from asset sales, grants, and non-tax revenues. To gauge the impact of tax policy reforms and improvements in tax administration, the program will have a floor on central government tax revenues. The revenue target is calculated as the cumulative flow from the beginning of the calendar year.

7. For program monitoring, data will be provided to the Fund by the DNP of the Ministry of Finance monthly with a lag of no more than six weeks from the end of-period.

C. Floor on Net Other Liabilities

8. Net Other Liabilities is defined as the sum of central government deposits, loans to state-owned enterprises (SOEs) and municipalities (onlending), capitalization, and other assets. The floor of central government net other liabilities will be measured as cumulative over the calendar year. Deposits are all claims, represented by evidence of deposit, on the deposit-taking corporations (including the central bank). Onlending is defined as domestic and external loans contracted by the central government from another institution and then onlending the proceeds to SOEs. Net onlending is defined as disbursement of these loans minus repayment of previous loans by SOEs to the central government. Capitalization is defined as capital injection or equity participation made by the central government into corporations when some financial support is provided to capitalize or recapitalize these corporations. Other assets comprise of other accounts receivable/payable such as of trade credit and advances and miscellaneous other items due to be paid or received.

9. For program monitoring, data will be provided to the Fund by the DNP of the Ministry of Finance monthly with a lag of no more than six weeks from the end of-period.

D. Ceiling on Net Domestic Financing of the Central Government

10. Net domestic financing (NDF) of the central government is defined as the sum of (i) the net position (difference between the government's claims and debt) vis-à-vis the central bank and commercial banks and (ii) financing of the government through the issuance (net of redemptions) of securities to individuals or legal entities outside the banking system. NDF at end-June 2023, end-December 2023, and end-June 2024 (PCs) must be equal to or less than the amounts indicated in Table 1 (of QPCs) attached to the MEFP.

11. External budgetary assistance is defined as budget loans, grants and non-earmarked debt relief operations (excluding project-related loans and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives). It would include budget support loans from the IMF, World Bank, AfDB, European Union and others.

12. The NDF ceiling of the government will be adjusted downward (upward) if net external budgetary assistance exceeds (or falls short) of the program projections in Table 3 of external budget assistance:

Table 3. Cabo Verde: Budget Support Loans and Grants
(Million CV Escudos)

Date	Budget support loans and Grants (in million CV Escudos)
31-Dec-22	12,269
30-Jun-23	3,575
31-Dec-23	12,351
30-Jun-24	3,613

Source: Cabo Verdean Authorities: IMF Staff estimates

- If, at the end of a quarter, external budgetary assistance exceeds the program projections (cumulative since January 1 of the same year), the ceiling of NDF will be adjusted downward.

- If at the end of a quarter, external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be upward while respecting the limits established by the Budget law (including any waivers).

13. Reporting requirements. For program monitoring, data will be provided to the Fund by the DNP of the Ministry of Finance and BCV (for the net position of the government to the banking system) monthly with a lag of no more than six weeks from the end of-period.

E. Non-accumulation of 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 DNP of the Ministry of Finance 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 six weeks after the end of the quarter.

F. Ceiling on the PV of New External Concessional Debt of the Central Government

16. Under the program a ceiling applies to the PV of new external debt, contracted or guaranteed by the public sector with original maturities of one year or more. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies to this ceiling, in case deviations from the performance criterion on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

17. External public debt (long-term, medium-term, and short-term) is defined as debt to nonresidents contracted or guaranteed by the central government. The external public debt comprises the external debt of the central government and the external debt of the official sector entities and SOEs guaranteed by the central government.

18. The definition of debt is set out in Point 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 16919-(20/103), adopted October 28, 2020.

(a) The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

19. Under the program, ceilings on medium and long-term, as well as on short-term, concessional external debt constitute quantitative targets. The coverage of the ceiling on concessional external debt includes budget loans, projects and program loans, and on-lending loans to SOEs in line with the fiscal program. For program purpose, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[1] For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). Debt rescheduling, and debt reorganization are excluded from the limits on concessional external debt. New concessional external debt excludes normal short-term (less than one year) import-related financing.

20. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 2.699 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -168 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -80 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is 100 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added. Given the anticipated global transition away from LIBOR, this TMU can be updated to reflect the relevant benchmark replacements (U.S. Secured Overnight Financing Rate (SOFR); U.K. Sterling Overnight Index Average (SONIA); EURIBOR; and Tokyo Overnight Average Rate (TONAR)) prior to the complete phase out, once operationally feasible.

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

G. Non-concessional External Debt Contracted or Guaranteed by the Central Government

22. Under the program, ceilings on medium- and long-term, as well as on short-term, non-concessional external debt constitute quantitative target. The zero ceiling on non-concessional external debt is on a continuous basis. For program purpose, a debt is non-concessional if it includes a grant element of less than 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[1] For debts with a grant element equal or below zero, the PV will be set equal to the nominal

[1]The calculation of concessionality take into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). Debt rescheduling, and debt reorganization are excluded from the limits on non-concessional external debt. The quantitative target on new non-concessional external debt contracted or guaranteed by the central government, excluding borrowing from the Fund. Non-concessional 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 non-concessional external debt.

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

H. Gross International Reserves of the Central Bank

24. The floor on the stock of gross international reserves (GIR) of the BCV constitutes a quantitative target under the program. The GIR of the BCV are defined as gross international reserves of the BCV which include assets 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. The program floors for the GIR will be adjusted downward by:

- The cumulative upward deviations in external debt service relative to program assumptions.
- The cumulative downward deviations in external financial assistance, and project and budget loans relative to program assumptions. For purposes of calculating the adjusters, these flows will be valued at current exchange rates.
- **Reporting requirements**. A table on the GIR prepared by the BCV will be transmitted on a monthly basis, with a maximum delay of four weeks.

25. Reporting requirements. A table on the GIR prepared by the BCV will be transmitted on a monthly basis, with a maximum delay of four weeks.

Table 4. Cabo Verde: External Debt Service Projected Under the Program (GIR)

Date	External debt service projected under the program, cumulative from the beginning of the year (in million CV Escudos)
31-Dec-22	11,226
30-Jun-23	6,445
31-Dec-23	12,921
30-Jun-24	4,818

Source: Cabo Verdean Authorities: IMF Staff estimates

Table 5. Cabo Verde: External Financial Assistance and Project and Budget Loans Projected Under the Program

Date	External financial assistance and project and budget loans projected under the program, cumulative from the beginning of the year (in million CV Escudos)
31-Dec-22	18,315
30-Jun-23	6,511
31-Dec-23	21,888
30-Jun-24	5,360

Source: Cabo Verdean Authorities: IMF Staff estimates

I. Non-accumulation of External Payments Arrears

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

27. External payments arrears for program monitoring purposes are defined as the amount of external debt service due and not paid within the contractually agreed period, subject to any applicable grace period, including contractual and late interests. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is sought are excluded from this definition.

28. Reporting requirements. Data on (i) debt-service payments; and (ii) external arrears accumulation and payments will be transmitted on a quarterly basis by the DNP of the Ministry of

Finance, within six weeks of the end of each quarter. In addition, the government will inform the Fund staff immediately of any accumulation of external arrears.

J. Memorandum Item: Floor on Central Government Social Spending

29. The indicative floor on social spending of the central government will apply only to expenditures incurred by the central government on the following plans and programs that are intended to have a positive impact on education, health, and social protection, excluding the wages and salaries component.

30. For program monitoring, the data will be measured as cumulative over the fiscal year and it will be reported by the DNP on a quarterly basis, with a lag of no more than six weeks from the end-of-period.

OTHER DATA REQUIREMENTS AND THE ASSESSMENT OF THE ACHIEVEMENT OF REFORM TARGETS

31. 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 six weeks after the end of each quarter.

32. The Statement of Other Economic Flows as defined in the IMF Manual GFSM2001 or GFSM2014 relative to holding gains/losses of the previous year with ASA, Electra, EMPROFAC, ENAPOR, 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).

33. The consolidated balance sheet of ASA, Electra, EMPROFAC, ENAPOR, 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).

34. Pre-announce a schedule for TIM and TRM auctions reform target. This reform target will be assessed as achieved when the pre-announcements are posted on the central bank website.

35. Introduce a composite indicator of economic activity reform target. This reform target will be assessed as achieved when the central bank has released the composite indicator.

36. Carry out a comprehensive study of loan losses and provisions at the expiration of the credit moratorium. This reform target will be assessed as achieved when the study is completed and released.

37. Develop a common framework for the resolution of the crisis related NPLs. This reform target will be assessed as achieved when the common framework is complete and released. The common framework is being developed jointly by the BCV and the World Bank.

38. Construct a Compliance Risk Management (CRM) system to allow for the optimization of tax revenue collection. This reform target will be assessed as achieved when the MOF provides staff with a copy of methodology.

39. Increase the frequency of stress testing to twice per year: This reform target will be assessed as achieved when the central bank provides the findings of the second annual stress test.

40. Develop and publish an action plan to reduce tax expenditures. This reform target will be assessed as achieved when the MOF provides staff a copy of the approved action plan.

41. Implement the action plan on tax expenditures in the 2025 budget. This reform target will be assessed as achieved when the MOF provides staff a copy of the approved 2025 budget with the specification of the actions and impacts.

42. Publish in the SOE report measurable metrics between the MOF and the 6 largest SOEs on financial performance. This reform target will be assessed as achieved when the report is published in the MOF webpage.

INTERNATIONAL MONETARY FUND

CABO VERDE

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION—DEBT SUSTAINABILITY ANALYSIS

June 7, 2023

Approved By
Costas Christou (AFR), Peter Dohlman (SPR), and Manuela Francisco and Abebe Adugna (IDA)

Prepared by the Staff of the International Monetary Fund and the International Development Association

Cabo Verde. Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Moderate
Overall risk of debt distress	High
Granularity in the risk rating	Limited space to absorb shocks
Application of judgement	No

Cabo Verde's risk of overall debt distress remains high, unchanged from the last joint WB/IMF Debt Sustainability Analysis (DSA) of June 2022[1] and the risk of external debt distress remains moderate. The granularity in the risk rating of external debt distress indicates that it has limited space to absorb shocks. The present value (PV) of public and publicly guaranteed (PPG) external debt-to-GDP ratio is below the threshold over the forecast period and breaches the threshold protractedly under the export stress test. The lower PV of debt path compared to the last DSA reflects mainly the faster than anticipated rebound in growth in 2022. Liquidity indicators (debt service to revenue and to export ratios) remain firmly below their respective thresholds under the baseline, reflecting the highly concessional nature of Cabo Verde's external debt. The PV of total public debt-to-GDP ratio is projected to breach the threshold during 2023–2027 under the baseline scenario, an improvement on the previous DSA when the breach was of a longer duration, but protractedly breaches the threshold under two of the stress tests. The external and overall debt outlook is assessed to be sustainable and is predicated on several assumptions, including growth converging to, and remaining near potential, sustained fiscal consolidation in line with the ECF program, as well as acceleration of structural reforms, particularly to restructure State-Owned Enterprises (SOEs) to reduce fiscal risks (including from contingent liabilities) and improve the business environment. Prudent borrowing policies through sourcing mainly concessional external loans and

[1]Cabo Verde's debt-carrying capacity is assessed as "strong" as in the previous DSA with a composite index score of 3.22, which is based on the October 2022 WEO and the 2021 CPIA.

strengthened debt management, as well as measures to enhance the functioning of the government securities market are critical to sustainable debt dynamics over time. In view of Cabo Verde's vulnerability to exogenous shocks, continuous progress in export and output diversification is also needed for long-term debt sustainability.

PUBLIC DEBT COVERAGE

1. **The debt coverage in this DSA comprises debt owed by the central government and certain government guarantees**. Coverage of the public sector is in line with the previous DSA (Table 1). Consistent with the fiscal accounts, social security funds and local governments are excluded from the DSA, while the coverage of extra budgetary funds (EBFs) is focused on government support to State-Owned Enterprises (SOEs) through on-lending and capitalization. Government guarantees to SOEs' external borrowing are included in the baseline stock of debt, but publicly guaranteed domestic debt and non-guaranteed debt by SOEs are not included. Efforts to broaden the coverage of public sector debt are ongoing, including under a World Bank project focused on SOEs.[2] External debt is defined on a residency basis.

2. **The contingent liability tailored stress test is amended to reflect gaps in the debt coverage discussed above (Table 1)**. First, the default shock of 0 percent of GDP for the components of general government not captured in the baseline stock of debt is kept at the default level consistent with the size of publicly guaranteed domestic debt of local governments. The social security fund (INPS) financial position is strong, and fiscal risk is minimal, as a result the contingent liability stress test is not adjusted for its exclusion. Second, the default shock of 2 percent of GDP for SOEs' debt is raised to 23.4 percent of GDP to reflect vulnerabilities associated with publicly guaranteed domestic borrowing by ELECTRA, TACV, IFH, ENAPOR, NEWCO, CERMI amounting to CVE 15.6 billion at end-2022 (6.4 percent of GDP); and non-guaranteed domestic debt of SOEs of about CVE 41 billion (about 16.7 percent of GDP).[3] Third, the default shock of 1.1 percent of GDP is kept for public private partnerships (PPPs). Fourth, with mainly foreign-owned banks that are well-capitalized, Cabo Verde's financial sector appears sound and the default minimum value of 5 percent of GDP for the financial market shock seems appropriate.

[2]Efforts to expand debt coverage are supported by the World Bank through the Policy and Performance Action under the Sustainable Development Financing Framework. Specifically, the coverage of the quarterly public debt bulletin will be broadened to include debt of SOEs, the social pension fund, and guaranteed debt from municipalities.

[3]Government-guaranteed domestic borrowing of municipalities from the banking system stood at CVE 465 million at end-December 2022 (see Text Table 2 for more details).

Table 1. Cabo Verde: Coverage of Public-Sector Debt and Design of Contingent Liability Stress

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	X
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

Public debt coverage and the magnitude of the contingent liability tailored stress test

1	The country's coverage of public debt	The central government plus extra budgetary funds, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	23.4	To reflect vulnerabilities associated with guaranteed and non-guaranteed domestic debt.
4	PPP	35 percent of PPP stock	1.1	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		29.5	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND

A. Evolution and Composition of Public Debt

3. **Cabo Verde experienced robust tourism driven growth in the pre pandemic period, which was supported by structural reforms, particularly in the SOE sector**. Between 2016 and 2019, growth averaged 5 percent per year, supported by favorable global conditions coupled with important structural reforms, mainly impacting on the SOE sector. Public debt had decreased from its peak of 115.6 percent of GDP in 2014 to 109.3 percent in 2019.

4. **The COVID-19 pandemic contributed to a substantial increase in external and overall public sector debt levels**. Total public sector debt reached 144.6 percent of GDP at end-2021 up from 109.3 percent in 2019 (Text Figure 1). The increase in the debt ratio was due to the large output contraction of 19.3 percent and a higher public sector overall deficit of 9.0 percent of GDP in 2020, which was financed mainly with increased external concessional borrowing, largely from multilateral institutions to mitigate the impact of the economic shock particularly on the most vulnerable groups.

5. **A strong rebound in economic growth in 2022 resulted in a decrease in the debt to GDP ratio**. The tourism driven economic recovery from the pandemic induced recession was strong as the economy grew by 17.7 percent in 2022. Robust output recovery and GDP rebasing resulted in a significant reduction in the debt to GDP ratio to 121.2 percent of GDP at end 2022.

6. **Public external debt is highly concessional and multilateral institutions are the main creditors (Text Table 1)**. The International Monetary Fund, World Bank, and the African Development Bank account for about 30.6 percent of external public debt. Bilateral creditors account about 19.8 percent of external public debt, of which Portugal is the largest creditor. Debt service cost is moderate with an average interest rate of about 0.93 percent and average maturity of about 17.2 years. The exchange rate risk is low due to the exchange rate peg. The external assessment suggests an undervaluation of the exchange rate and international reserves are at a comfortable level.

Text Table 1. Cabo Verde: External Debt Profile by Type of Creditors, 2022

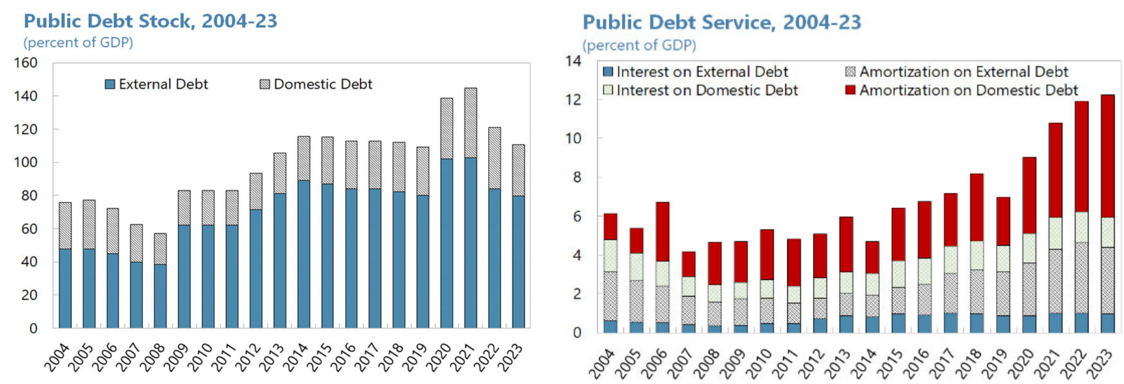
	Percent of GDP	Percent of external debt	Average maturity (in years)	Average interest rate
Multilateral	47.3	56.3	18.8	0.92%
Bilateral	16.7	19.8	11.2	0.85%
Commercial	20.1	23.9	11.4	1.59%
Total external debt	84.0	100.0		

Source: Cabo Verdean authorities and IMF staff estimates.

7. **Commercial debt consists mainly of debt owed to Portuguese based Caixa Geral de Depósitos (CGD)**, CGD accounts for 82.8 percent of total commercial loans, provided under favorable terms with an average maturity of 11.4 years and average interest rate of 1.6 percent.

8. At end-2022, domestic debt accounted for 30.6 percent of total public debt (Text Figure 1), a slight increase from 29 percent at end-2021. Domestic debt is mostly held by the banking sector in the form of medium and long-term Treasury securities. At end-2022, domestic debt accounted for 30.6 percent of total public debt (Text Figure 1). Treasury bonds accounted for 96.2 percent, with an average maturity and interest rate of about 7 years, and 3.8 percent, respectively. Commercial banks hold 64.2 percent of domestic government securities and non-banks hold 35.8 percent, of which the national social security fund accounts for 34.8 percent. Access to domestic debt is supported by excess liquidity in the banking system and interest rates on domestic debt remains moderate.

Text Figure 1. Cabo Verde: Profile of Public Debt and Debt Service, 2004–23



Source: Cabo Verdien authorities; and IMF staff estimates.
Note: External debt includes publicly-guaranteed SOE debt from 2015.

9. Debt service on external public debt is moderate. The ratio of public external debt service to exports declined from 20.2 percent in 2021 to 12.4 percent in 2022, reflecting the strong rebound in exports as the tourism sector recovered. The ratio is estimated to decline steadily from 2024 onwards as the economy converges to potential and exports remain healthy due to the expansion of capacity in the tourism sector. The ratio of public external debt service to revenue decreased to about 8 percent in 2021 from 13.4 percent in 2020 and is projected to increase to about 18 percent of GDP by 2024 and average about 16 percent over the medium term, declining thereafter. Total public debt service absorbed about 30 percent of revenue and grants in 2022 and is projected to reach 38 percent in 2024 and steadily decline thereafter.

10. Publicly guaranteed debt stood at CVE 21.0 billion (8.6 percent of GDP) at end-2022 (Text Table 2). The State guarantee is mainly issued for SOEs' domestic debt.[4] For 2022, the stock of publicly guaranteed domestic debt consists primarily of liabilities of ELECTRA, Aguas de Santiago, TACV, Prog. Start-up/Ecosistema, NEWCO and ICV and AEB to the domestic banking system; and borrowing by a few municipalities. TACV, ELECTRA, NEWCO, and Prog. Start-

[4] While information about the stock of domestic guarantees granted to SOEs is available, the lack of data on the debt service on guaranteed domestic debt of SOEs prevents its inclusion in the DSA baseline. The WB and the IMF will work with Authorities to improve data with a view to inclusion of domestic SOE guarantees in the next DSA.

up/Ecosistema were the largest recipients of guarantees in 2022.[5]

Text Table 2. Cabo Verde: Publicly-Guaranteed Debt, 2019–2022

	2019			2020			2021			2022		
	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt
External Debt (A)	**395**	**0.2**	**100.0**	**1,913**	**1.1**	**100.0**	**2,502**	**1.3**	**100.0**	**2,378**	**1.0**	**100.0**
contracted by SOEs	395	0.2	100.0	1,913	1.1	100.0	2,502	1.3	100.0	2,378	1.0	100.0
contracted by private entities	0	0.0	0.0	0	0.0	0.0	0	0	0.0	0	0.0	0.0
Domestic Debt (B)	**13,843**	**6.2**	**100.0**	**15,369**	**8.5**	**100.0**	**20,832**	**10.7**	**100.0**	**18,659**	**7.6**	**100.0**
contracted by local governments	363	0.2	2.6	356	0.2	2.3	359	0.2	1.7	465	0.2	2.5
contracted by SOEs	13,473	6.0	97.3	15,004	8.3	97.6	20,474	10.5	98.3	18,195	7.4	97.5
contracted by private entities	8	0.0	0.1	9	0.0	0.1	0	0.0	0.0	0	0.0	0
Total Publicly-Guaranteed Debt (A+B)	**14,238**	**6.4**		**17,283**	**9.5**		**23,335**	**12.0**		**21,037**	**8.6**	

Source: Cabo Verdean authorities and IMF staff calculations.

11. Historical private external debt derived from international investment position (IIP) data indicate a stock of about 14.5 percent of GDP at end-2022. Private debt includes both bank and non-bank external debt.

B. Outlook and Key Macroeconomic Assumptions

12. Compared to the last DSA (June 2022) the macroeconomic assumptions underlying the projections have been adjusted to reflect the return to the pre-pandemic level of output and higher near-term inflation (IMF Country Report No. 23/44). Inflationary pressures are expected to remain elevated in 2023 although declining from the highs of 2022, as the pass through from international oil and food prices continue to affect Cabo Verde with imports accounting for about 80 percent of consumption products.

13. The level of GDP was revised in line with the completion of the rebasing of the national account statistics from 2007 to 2022.[6] The published data indicates nominal GDP in 2022 was 14.1 percent higher compared to the last DSA reflecting a more accurate measure of the services sector.

14. GDP growth is projected to be slightly lower over the medium term compared to the last published DSA (IMF Country Report No. 23/44) (Text table 3). Real GDP contracted by 19.3 percent in 2020 due to the impact of the COVID19 pandemic. Economic growth rebounded strongly over the next two years to reach 6.8 percent in 2021 and 17.7 percent in 2022, with output surpassing the pre pandemic level. Growth is projected to increase by 4.4 percent in 2023 increasing marginally to 4.7 percent over the medium and thereafter converging to potential growth of 4.5 percent. (Text Table 3).

[5]Annual financing needs of TACV, after its nationalization in July 2021, are estimated at 1 percent of GDP and has been financed through direct capitalization and central government guaranteed domestic loans.

[6]The rebasing involved changing the base year from 2007 to 2015 and the updated accounts were published in March 2023.

Text Table 3. Cabo Verde: Assumptions for Key Economic Indicators, 2022–43

	2022	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 - 32 Proj.	2033 - 43 Proj.
Real GDP growth								
Current DSA	17.7	4.4	4.5	4.6	4.6	4.7	4.5	4.5
2022 ECF Request	4.0	4.8	5.7	5.5	5.0	4.5	4.5	4.5
GDP Deflator								
Current DSA	6.4	4.5	2.0	2.0	2.0	2.0	2.0	2.0
2022 ECF Request	4.5	2.6	2.0	2.0	2.0	2.0	2.0	2.0
Fiscal balance (including grants)								
Current DSA	-4.1	-4.4	-3.2	-2.2	-2.2	-0.6	-0.7	-2.1
2022 ECF Request	-6.3	-5.6	-4.0	-2.1	-0.9	-0.8	-1.4	-2.9
Overall financing needs (including onlending)								
Current DSA	-4.2	-3.7	-4.0	-2.4	-2.4	-0.6	-0.7	-2.1
2022 ECF Request	-7.0	-6.2	-4.2	-2.3	-1.1	-0.8	-1.4	-2.9
Current account balance (including grants)								
Current DSA	-3.6	-5.6	-4.6	-4.4	-4.4	-3.7	-3.2	-1.9
2022 ECF Request	-14.1	-6.2	-5.9	-4.7	-4.6	-4.2	-3.6	-3.2
Total Debt/GDP Ratio								
Current DSA	121.2	112.6	109.3	105.6	101.6	96.4	82.0	60.4
2022 ECF Request	145.9	139.7	132.5	124.0	116.2	109.5	94.2	73.9
Cv$/USD exchange rate (e-o-y)								
Current DSA	104.1	104.3	104.7	105.1	105.5	106.4	107.5	107.5
2022 ECF Request	98.5	96.9	95.8	95.0	94.5	94.2	94.2	94.2

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

15. **Medium- and long-term growth will be supported by the successful implementation of structural reforms aimed at improving public sector efficiency, the business environment, and increasing access to finance**. The authorities recently completed a new five-year development strategy based on the long-term development plan (Cabo Verde Ambition 2030). Priority areas include (i) completing SOE reforms, including through privatization, and improving the efficiency of public enterprises; (ii) promoting economic diversification by leveraging the potential of the blue economy; (iii) reducing the level of informality; and (iv) facilitating access to finance, particularly for small and medium-sized enterprises. The implementation of key reforms will be supported through Capacity Development and investment from the World Bank and the ongoing ECF arrangement.

- *Real GDP growth*. Cabo Verde's real GDP expanded by 17.7 percent in 2022. Growth is projected to decline to 4.4 percent in 2023 and gradually converge to long run growth of 4.5 percent.[7]

- *Tourism services*. The framework assumes continued growth in the tourism sector reflecting in part an increase in hotel capacity linked to the opening of new hotels, diversification of markets and steady FDI inflows. The framework assumes continued moderate impact of Russia war in Ukraine as pent-up demand for travel and Cabo Verde being viewed as safe destination will continue to lure visitors.

- *Inflation.* Inflation increased to 7.9 percent and the GDP deflator to 6.4 percent in 2022 in line with the increase in fuel and commodity prices, due to the impact of the Russia war in Ukraine.

[7]The long term historical average growth rate (1980-2022) was 4.9 percent.

Inflation and the GDP deflator are projected to ease to 5.2 percent and 4.5 percent, respectively in 2023 and 2 percent by 2024 in line with euro area forecast.

- *Public sector deficit*. The current framework is predicated on an ambitious and steadfast fiscal consolidation path. The overall fiscal deficit improved from 7.1 percent of GDP in 2021 to 4.1 percent of GDP in 2022 and is projected to improve further over the medium-term to reach 0.6 percent of GDP in 2027. The fiscal effort in the near and medium term is assumed to be underpinned by improved domestic revenue mobilization and current expenditure restraint. Several revenue measures, such as invoicing electronically at least 50 percent of taxpayers for VAT, the increase in tobacco tax, and the concession of the airport management company have already been implemented. In addition, the authorities have committed to reviewing tax expenditures that would net up to1 percent of GDP in 2025 and help fill the gap due to the delay of the ECOWAS common external tariff. Fiscal adjustment will be implemented with safeguards to protect and broaden support for the vulnerable. The projected improvement fiscal balance from a deficit of -4.1 percent of GDP in 2022 to -0.6 percent of GDP by 2027, and reforms to SOEs resulting in a reduction in government financial support would bring total financing need to about 0.6 percent of GDP by 2027.

- *Current account deficit*. The medium-term current account deficit is forecasted to be broadly about the same as in the previous DSA and is projected to remain above 4 percent of GDP from 2024–26. The baseline scenario assumes a current account deficit of 5.6 percent in 2023 and 4.6 percent in 2024. This reflects the impact of moderate growth in tourism driven by increased capacity, higher fuel, and commodity prices, as well as continued investments in the tourism sector on imports. The current account deficit is projected to decline to about 3.7 percent of GDP in 2027 supported by tourism receipts and steady growth in remittances. Strong export performance and increased remittances, together with higher FDI inflows and IMF financing under ECF would help sustain international reserves at about 6 months of prospective imports.

16. The DSA assumes a financing mix consistent with a prudent borrowing strategy, emphasizing external financing on concessional terms, in the near term with the share of domestic debt remaining broadly stable at about 30 percent. Financing for the 2023 budget will be filled mostly with concessional and semi-concessional loans, mainly from multilateral institutions including the World Bank, African Development Bank, other bilateral partners. Multilateral and bilateral funding for budget support of US$77.4 million, about 2.7 percent of GDP is expected to be provided during 2023. The DSA is premised on continued concessional foreign support in the short and medium term but assumes a very gradual move toward lower concessional resources in the long term, including semi-concessional loans (with a grant element of less than 35 percent) and limited non-concessional borrowing, consistent with Cabo Verde's middle-income status. The domestic debt profile assumes bonds issuance with maturities of at least 4 years in line with the profile of domestic debt portfolio at end-2022. The average interest rate is set to 1 percent for T-bills, and 4 and 5 percent for short-term and medium to longer-term bonds, respectively. These projections are subject to risks associated with a tightening of monetary policy to contain inflationary pressures that could affect the entire yield curve. Finally, the authorities have drawn down the US$32 million (1.5 percent of GDP) of the recent SDR allocations to finance the 2022 and 2023 budget.

17. Tools for assessing the realism of the baseline scenario flag some deviation from historical experience, which are explained below.

- The realism tools indicate that the fiscal adjustment path is ambitious, but staff are of the view that it is achievable through a combination of measures including strengthening of domestic revenue mobilization, and expenditure restraint supported by average growth near potential. The proposed primary balance adjustment path of about 2.5 percent of GDP over 2023–25 is in the top quartile of the historical distribution for LICs. However, the authorities have identified and implemented some of the policy measures which they estimate could increase revenue collections by close to 1 percent of GDP. In that regard the authorities increased the rate of the tourist tax, implemented the 5 percent duty on previously exempted imports and continue to advance revenue mobilization efforts including from electronic tax invoicing. The adjustment will be supported by relatively persistent and steady growth at about the historical average. The DSA's realism tools do not signal any other signs of over-optimism in terms of large changes to investment or contributions to growth compared to previous DSAs (Figure 4). Tools for assessing the realism of the baseline scenario do not flag significant and systematic deviations from historical experience.

- Drivers of debt dynamics (Figure 3). The contributions of past and projected debt-creating flows to PPG external and overall debt dynamics differ. Interest rates are expected to contribute positively to PPG external debt accumulation, consistent with the historical experience but the impact is smaller, while price and exchange rate changes are projected to exert downward pressure on debt accumulation to a larger extent than the historical experience. For total public debt, the projected contribution of real GDP growth to public debt reduction is higher compared to the historical five-year change, reflecting a gradual return to potential growth. Continued fiscal consolidation efforts and restructuring of SOEs will limit the contribution of the primary deficit to public debt accumulation relative to what the past five years would suggest. Unexpected changes in the primary deficit, current account/prices, and exchange rates were the main drivers of past forecast errors of debt dynamics.

- Consistency between fiscal adjustment and growth (Figure 4). The projected growth path for 2023 and 2024 is not consistent with multiplier-based projections due to the large one off rebound in growth in 2022. The realism of the expected adjustment is predicated on the authorities' commitment to further fiscal consolidation and restructuring of SOEs. It is also underpinned by a steady increase in economic activity following the return to pre pandemic growth levels, on account of strong activity in the tourism and transportation sectors. In addition, additional growth impetus is expected from structural reforms under the strategic plan for sustainable development (PEDS).

- Consistency between public investment and growth (Figure 4). The realism tool shows that like historical figures, the contribution of public investment to real GDP growth remains marginal across the previous and current DSA, mainly reflecting low multiplier for public investment in line with the substantial import content of capital spending. Public investment is expected to average about 4.5 percent of GDP in the medium term, lower than the previous DSA, while private investment is expected to average about 30 percent of GDP over 2023-27.

C. Country Classification and Determination of Stress Test Scenarios

18. Cabo Verde's debt-carrying capacity is assessed as "strong" as in the June 2022 DSA for second review of the Policy Coordination Instrument (PCI) (Text Table 4). The debt-carrying capacity is determined by the composite indicator (CI) combining the World Bank Country Policy and Institutional Assessment (CPIA), external conditions captured by world economic growth and country-specific factors. The methodology is based on the data from the October 2022 World Economic Outlook (WEO) vintage and the 2021 CPIA, the CI score for Cabo Verde stands at 3.22, which is slightly above the threshold of 3.05 applicable for a "strong" rating. The CI score reflects positive contributions from the CPIA (46 percent), international reserves (31 percent), world growth (12 percent), remittances (6 percent) and country real growth rate (4 percent) that are all broadly in line with the last DSA. Debt burden thresholds associated with the strong debt carrying capacity under the framework are summarized in Text Table 5.

Text Table 4. Cabo Verde: CI Score Summary Table

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.807	1.47	46%
Real growth rate (in percent)	2.719	4.957	0.13	4%
Import coverage of reserves (in percent)	4.052	49.675	2.01	63%
Import coverage of reserves^2 (in percent)	-3.990	24.676	-0.98	-31%
Remittances (in percent)	2.022	9.786	0.20	6%
World economic growth (in percent)	13.520	2.898	0.39	12%
CI Score			3.22	100%
CI rating			Strong	

Text Table 5. Cabo Verde: Debt Thresholds Under Strong Debt-Carrying Capacity

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

DEBT SUSTAINABILITY ANALYSIS

19. The debt sustainability analysis relies, in addition to the baseline projections, on the six standardized stress tests and the contingent liability stress test. While the former uses the default settings, the latter is customized to address potential vulnerabilities stemming from the incomplete coverage of public sector debt as explained in paragraph 2. None of the tailored stress tests is triggered for Cabo Verde.

A. External Public Debt

20. Under the baseline scenario, the PV of PPG external debt-to-GDP ratio remains below its threshold throughout the projection period (Figure 1, Tables 2 and 4). This represents an improvement driven by robust growth, compared to the last DSA when the threshold was breached for one year. The risk of external debt is assessed as moderate, as was the case in the last DSA. The other external debt burden indicators remain comfortably below their prescribed thresholds under the baseline scenario throughout the DSA horizon. The PV of PPG external debt ratios to GDP and exports are expected to steadily decrease over time. Both debt service-to-exports and debt service-to-revenue ratios display similar patterns, decreasing continuously through the projection period.

21. The PV of PPG external debt-to-GDP ratio however breaches its threshold for an extended period under the stress test scenarios (Figure 1, Tables 2 and 4). Under the most extreme shock, to exports, it rises to about 70.4 percent in 2025 before gradually decreasing to the threshold of 55 percent of GDP up to 2033. The threshold is also breached under four of the remaining five standardized bound tests, albeit to different extents with the breach being more protracted under the exports bound test, and under the tailored combined contingent liabilities test from 2023-33.

22. The PV of PPG external debt-to-exports ratio and debt service to export ratio exceeds the respective thresholds from 2023–33 under the export stress test. The projected trajectories of PPG external debt burden indicators appear vulnerable to growth shocks and to a one-time depreciation shock, highlighting the potential adverse impact of Cabo Verde's exposure to adverse shocks due to the high concentration of economic and export activity in the tourism sector.

23. Cabo Verde is at moderate risk of external debt distress and has limited space to absorb shocks (Figure 5). Cabo Verde's baseline debt burden indicators are below their respective thresholds, but the PV of the debt to GDP ratio is close enough to its respective threshold in the short- and medium-term. The stress test scenarios particularly to exports pushes three of the indicators protractedly above their respective thresholds (Table 4). As a result, Cabo Verde has limited space to absorb shocks.

B. Total Public Debt

24. The PV of total public debt-to-GDP ratio exceeds the 70 percent benchmark through 2027 under the baseline scenario (Figure 2, Tables 3 and 5) giving rise to a mechanical high-

risk signal. The prescribed benchmark is also breached under each of the six standardized bound tests and the tailored combined contingent liabilities test, with growth shock being the most severe with the threshold being breached throughout the projection period. Furthermore, the debt outlook, as shown by the other public DSA indicators, is particularly vulnerable to export shocks and to contingent liabilities associated with SOEs' debt.

C. Risk Ratings and Vulnerabilities

25. Cabo Verde's DSA is classified as "moderate" risk of external debt distress. The PV of PPG external debt-to-GDP ratio remains below threshold for the projection period under the baseline scenario, thereby signaling a moderate risk of external debt distress and is particularly sensitive to export and growth shocks.

26. Cabo Verde's overall public debt is sustainable but remains at high risk of debt distress. The present value of public debt to GDP remains above its threshold under the baseline scenario through to 2027, suggesting a high risk of debt distress. Debt service is projected to average about 38 percent of revenues over the next five years, which represents a moderately large share of future fiscal revenues. Stress tests indicate that Cabo Verde is most vulnerable to a growth and one time depreciation shock. Under these shocks, public debt would remain above the threshold for a prolonged period. The risk of debt distress is partly mitigated by support from Portugal, the main bilateral creditor.

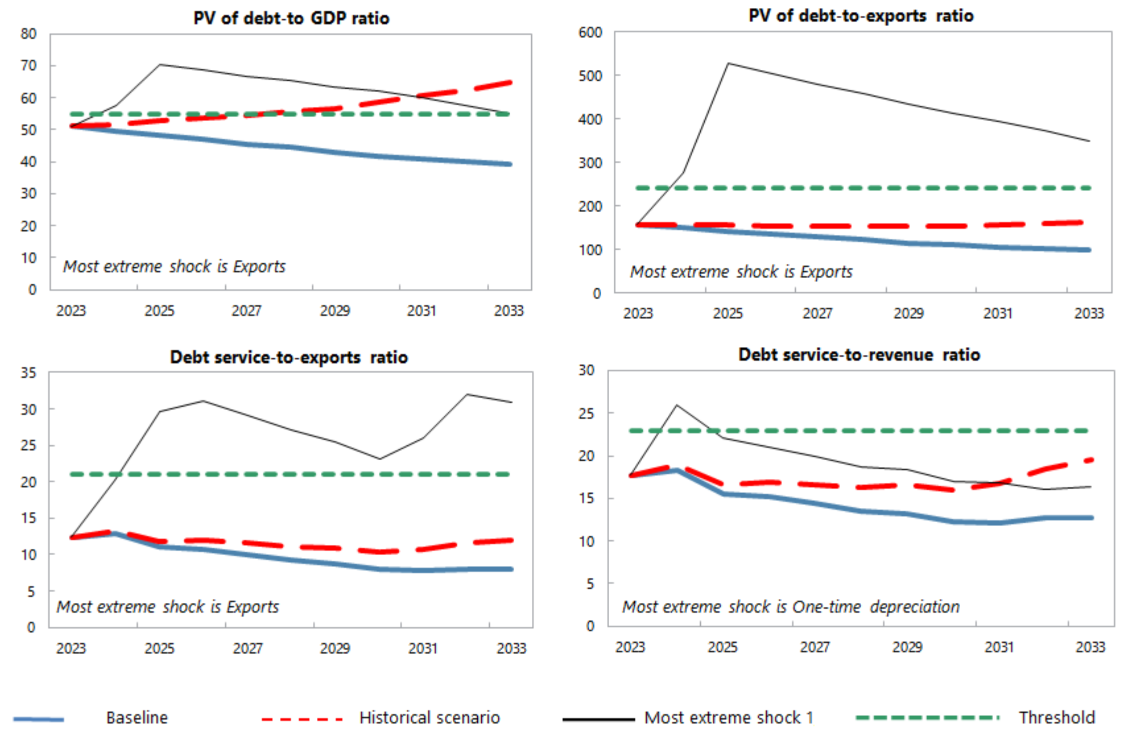
27. Uncertainty over the global economic outlook suggests the need for a prudent approach that emphasizes macroeconomic stability, particularly fiscal discipline. High debt levels reduce the space for public expenditures in support of a robust and inclusive economic recovery. The authorities should prioritize efforts to mobilize additional revenues and continue the strategy of only incurring concessional borrowing.

28. There are significant risks to the assessment. The outlook depends primarily on a broadly stable global environment that continues to support a vibrant tourism sector. However, higher fuel and commodity prices and weaker than expected economic outlook in key markets could reduce the rate of economic growth. Medium to long-term debt sustainability would be supported by focused implementation of growth-enhancing structural reforms, particularly actions to reduce fiscal risk from SOEs and address critical infrastructure gaps. Measures to develop the government securities market and lower the costs of domestic borrowing will be also crucial going forward.

D. Authorities' Views

29. The authorities agreed with the results of the DSA and welcomed the growth driven improvement in the debt outlook. The economy has rebounded well from the severe recession induced by the COVID-19 pandemic that severely disrupted the planned fiscal consolidation. The pandemic however did expose the structural challenges facing the economy, including heavy dependence on tourism, and vulnerability to exogenous shocks, which was magnified by impact of high prices due to the war in Ukraine. They indicated that increased revenue buoyancy due to the robust recovery was an opportunity to build fiscal space while maintaining support for the most vulnerable. They highlighted the continued impact of increases in food and fuel prices triggered by the war in Ukraine on the vulnerable and the steps taken to mitigate its impact, while observing the fiscal targets under the ECF program. The authorities reaffirmed their continued commitment to fiscal consolidation to preserve debt sustainability and reduce the risk of overall debt distress. In that regard they noted that the strong performance under the new Extended Credit Facility and continued support from other developments partners, notably the World Bank, placed them on the path to achieve their economic objectives. They noted the uncertainty regarding the macroeconomic assumptions due to increasing risk of global financial fragmentation and spillovers from monetary tightening cycle in advanced economies and the lingering inflationary impact of the war in Ukraine. However, the authorities reaffirmed commitment to prudent borrowing policies, and improving the functioning of the government securities market, to enhance debt sustainability over the long term.

Figure 1. Cabo Verde: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2023–33



Customization of Default Settings	Size	Interactions
Standardized Tests		Yes
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

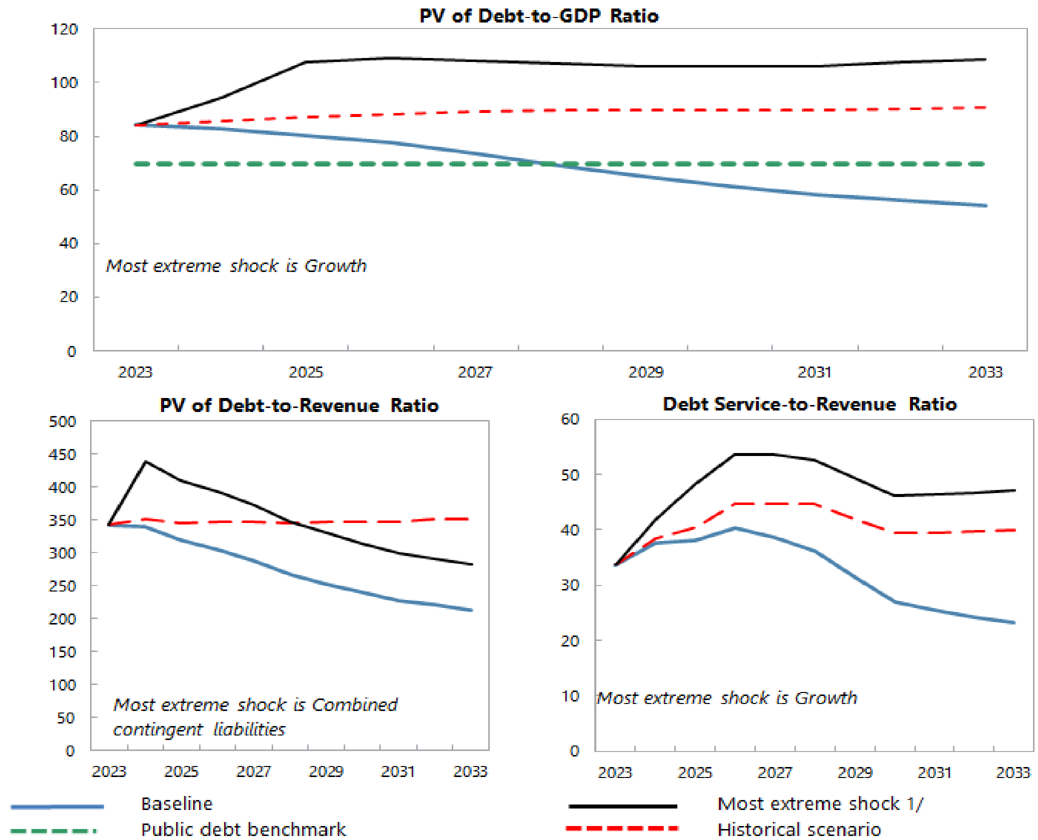
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	6	6

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Cabo Verde: Indicators of Public Debt Under Alternative Scenarios, 2023–33



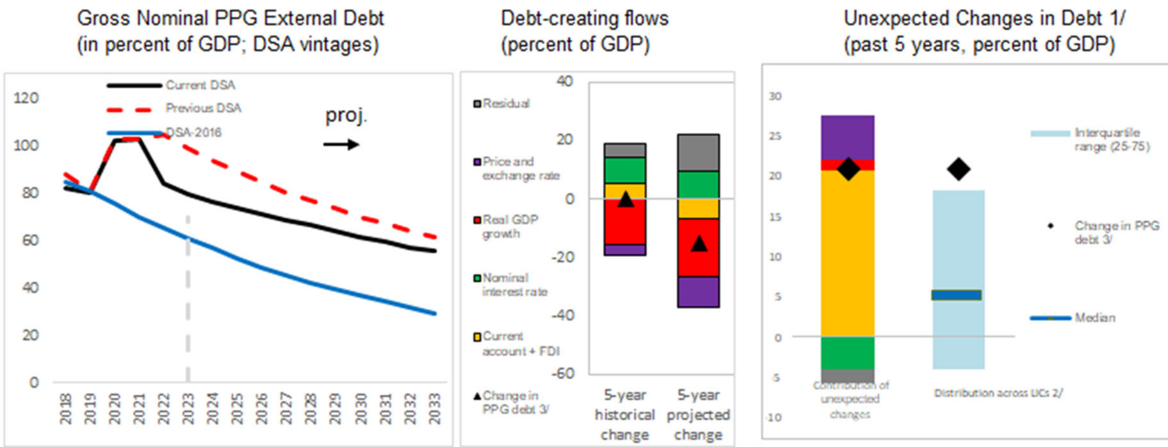
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	58%	58%
Domestic medium and long-term	42%	42%
Domestic short-term	1%	1%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.9%	2.9%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-1%	-1.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

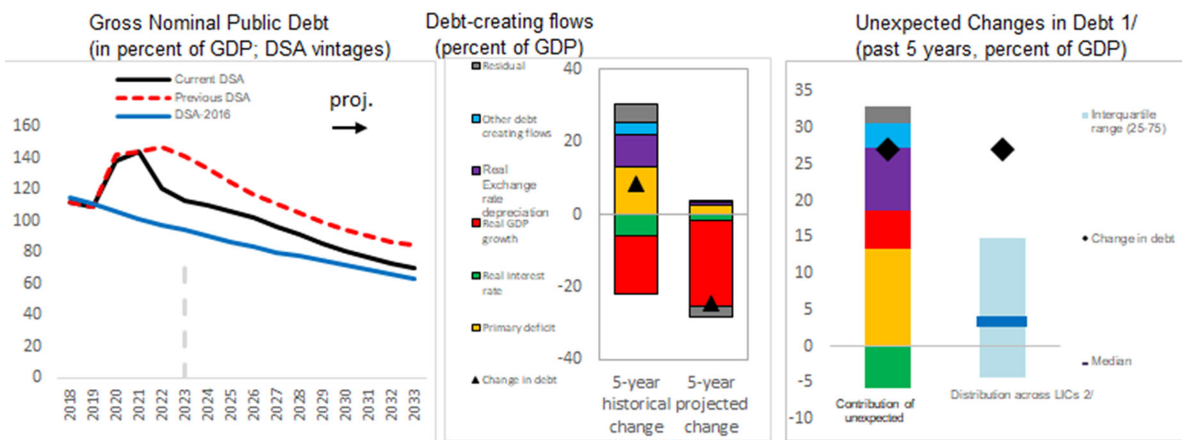
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Cabo Verde: Drivers of Debt Dynamics - Baseline Scenario



Public Debt



Sources: Country authorities; and staff estimates and projections.

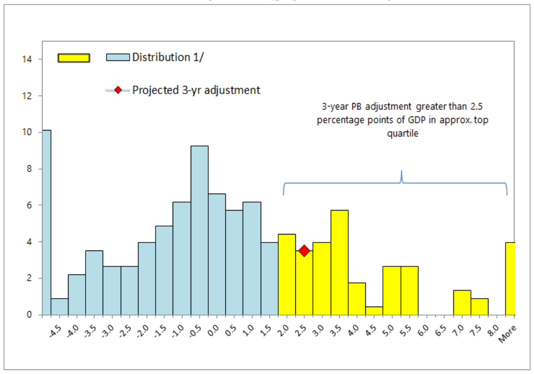
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

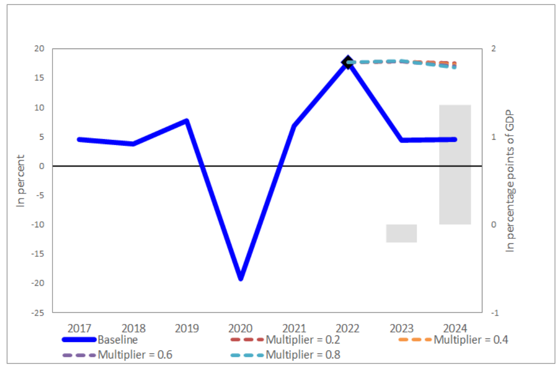
Figure 4. Cabo Verde: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)

Contribution to Real GDP growth
(percent, 5-year average)

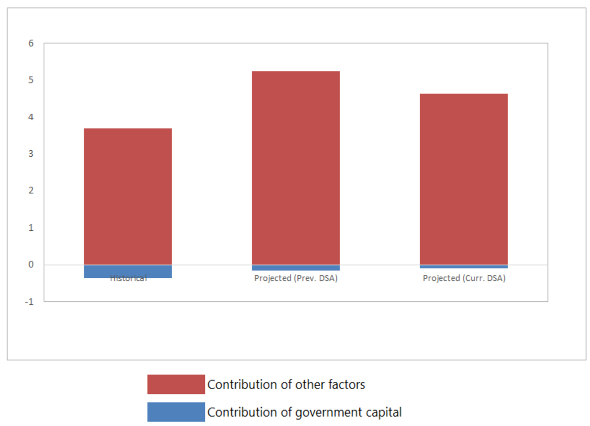
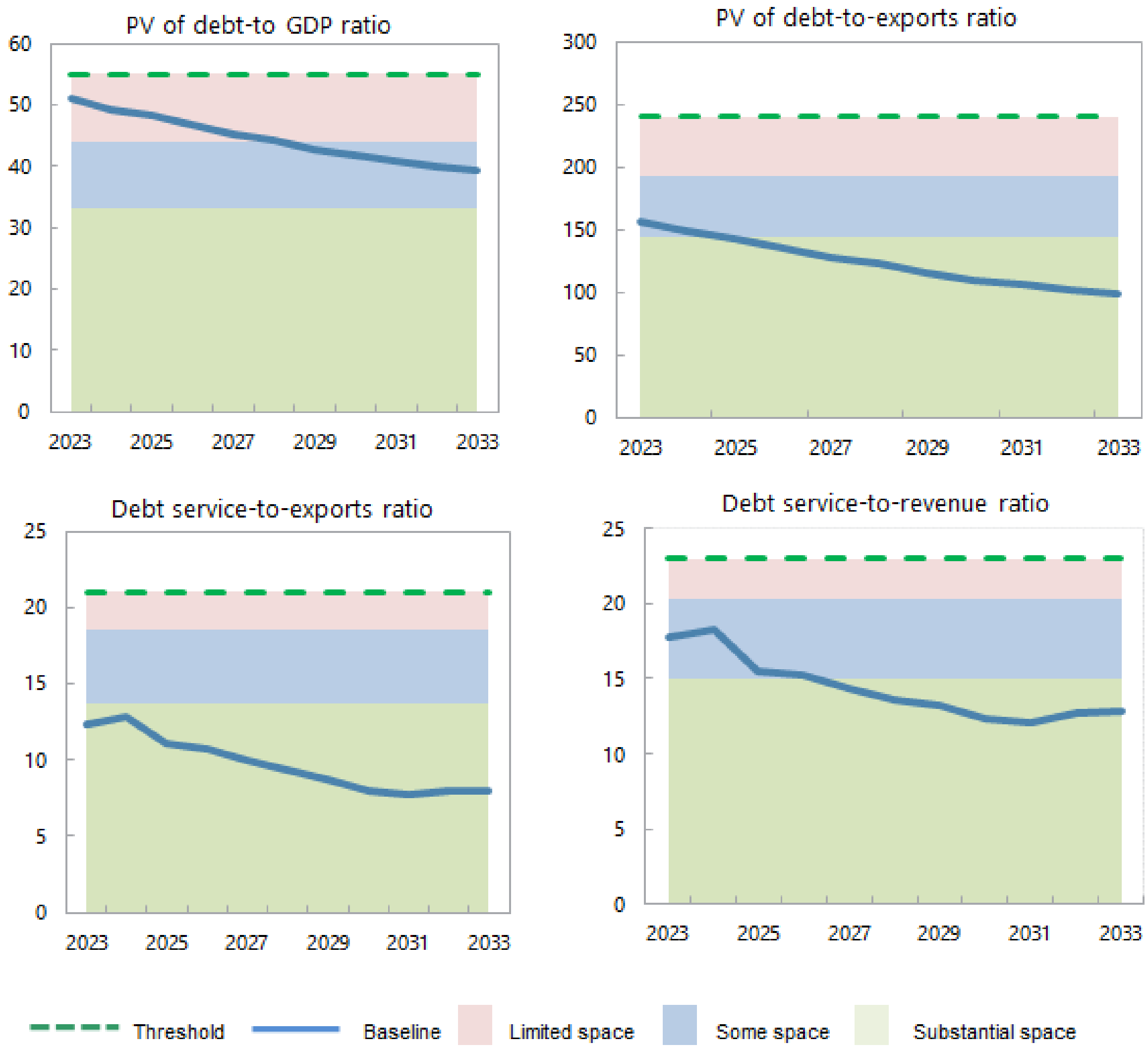


Figure 5. Cabo Verde: Qualification of the Moderate Category, 2023–33[1/]



Sources: Country authorities; and staff estimates and projections.

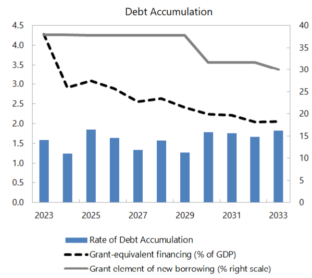
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

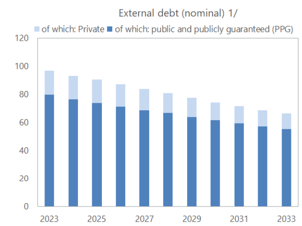
Table 2. Cabo Verde: External Debt Sustainability Framework, Baseline Scenario, 2022–43

(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	**101.5**	**96.6**	**93.2**	**90.5**	**87.2**	**83.7**	**80.9**	**66.3**	**38.8**	**100.0**	**80.9**
of which: public and publicly guaranteed (PPG)	**84.0**	**79.8**	**76.4**	**73.9**	**71.3**	**68.7**	**66.7**	**55.4**	**38.6**	**86.4**	**66.7**
Change in external debt	-20.9	-4.8	-3.5	-2.6	-3.4	-3.5	-2.7	-2.4	-2.7		
Identified net debt-creating flows	**-13.8**	**-2.6**	**-3.7**	**-3.6**	**-3.2**	**-3.8**	**-3.7**	**-3.8**	**-3.2**	**-0.7**	**-3.6**
Non-interest current account deficit	**2.5**	**3.6**	**2.4**	**2.6**	**2.5**	**1.9**	**2.0**	**0.7**	**-0.4**	**4.1**	**1.9**
Deficit in balance of goods and services	19.5	20.6	20.2	19.8	18.8	17.6	17.2	13.5	9.9	**19.1**	**17.2**
Exports	34.2	32.5	33.1	33.9	34.7	35.5	36.2	40.0	55.5		
Imports	53.8	53.1	53.3	53.7	53.5	53.1	53.4	53.5	65.4		
Net current transfers (negative = inflow)	-17.2	-15.6	-16.2	-16.0	-15.3	-14.9	-14.6	-12.8	-10.5	**-15.6**	**-14.5**
of which: official	-1.3	-0.3	-1.0	-0.8	-0.6	-0.6	-0.5	-0.4	0.0		
Other current account flows (negative = net inflow)	0.2	-1.3	-1.6	-1.3	-1.0	-0.8	-0.6	0.0	0.3	**0.6**	**-0.7**
Net FDI (negative = inflow)	**-4.7**	**-4.1**	**-4.2**	**-4.0**	**-3.7**	**-3.7**	**-3.7**	**-3.3**	**-2.6**	**-4.8**	**-3.7**
Endogenous debt dynamics 2/	**-11.6**	**-2.0**	**-1.9**	**-2.2**	**-2.1**	**-2.0**	**-1.9**	**-1.2**	**-0.3**		
Contribution from nominal interest rate	1.1	2.0	2.2	1.9	1.8	1.8	1.8	1.7	1.5		
Contribution from real GDP growth	-19.4	-4.1	-4.1	-4.0	-3.9	-3.9	-3.7	-2.9	-1.8		
Contribution from price and exchange rate changes	6.8	...	...	...	...	...	...	...	...		
Residual 3/	**-7.1**	**-2.3**	**0.3**	**1.0**	**-0.1**	**0.3**	**0.9**	**1.4**	**0.5**	**3.3**	**0.4**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	**54.5**	**50.9**	**49.3**	**48.1**	**46.8**	**45.3**	**44.4**	**39.2**	**28.0**		
PV of PPG external debt-to-exports ratio	**159.1**	**156.6**	**149.1**	**142.1**	**134.9**	**127.8**	**122.5**	**97.9**	**50.5**		
PPG debt service-to-exports ratio	**6.3**	**12.4**	**12.8**	**11.0**	**10.7**	**10.0**	**9.3**	**7.9**	**5.3**		
PPG debt service-to-revenue ratio	**10.4**	**17.7**	**18.3**	**15.5**	**15.2**	**14.4**	**13.6**	**12.9**	**11.4**		
Gross external financing need (Million of U.S. dollars)	12.1	120.8	99.8	101.4	116.3	98.5	98.5	83.1	94.6		
Key macroeconomic assumptions											
Real GDP growth (in percent)	17.7	4.4	4.5	4.6	4.6	4.7	4.7	4.5	4.5	**2.8**	**4.5**
GDP deflator in US dollar terms (change in percent)	-5.2	5.4	1.2	1.7	1.6	1.5	0.9	2.0	2.0	**-0.2**	**2.0**
Effective interest rate (percent) 4/	1.0	2.2	2.4	2.1	2.2	2.2	2.3	2.7	3.8	**2.1**	**2.3**
Growth of exports of G&S (US dollar terms, in percent)	96.5	4.5	7.6	8.9	8.9	8.6	7.9	9.0	10.9	**6.6**	**8.2**
Growth of imports of G&S (US dollar terms, in percent)	19.0	8.7	6.2	7.1	6.0	5.3	6.3	7.0	8.6	**1.7**	**6.6**
Grant element of new public sector borrowing (in percent)	...	37.9	37.9	37.7	37.7	37.7	37.7	30.1	30.1	**...**	**35.4**
Government revenues (excluding grants, in percent of GDP)	20.7	22.7	23.1	24.1	24.4	24.6	24.7	24.6	25.9	**21.5**	**24.2**
Aid flows (in Million of US dollars) 5/	104.0	208.8	153.7	180.2	180.4	167.6	184.4	197.3	369.3		
Grant-equivalent financing (in percent of GDP) 6/	...	4.3	2.9	3.1	2.9	2.6	2.6	2.0	2.0	**...**	**2.7**
Grant-equivalent financing (in percent of external financing) 6/	...	52.7	51.4	49.4	49.1	49.7	49.2	40.9	41.1	**...**	**47.9**
Nominal GDP (Million of US dollars)	2,335	2,570	2,718	2,890	3,072	3,264	3,450	4,745	8,983		
Nominal dollar GDP growth	11.6	10.1	5.8	6.3	6.3	6.3	5.7	6.6	6.6	**2.5**	**6.7**
Memorandum items:											
PV of external debt 7/	71.9	67.8	66.1	64.8	62.6	60.3	58.6	50.1	28.2		
In percent of exports	209.9	208.3	199.9	191.2	180.5	170.0	161.8	125.2	50.9		
Total external debt service-to-exports ratio	8.0	16.0	16.5	14.6	14.2	13.4	12.7	11.0	7.2		
PV of PPG external debt (in Million of US dollars)	1271.7	1308.7	1340.7	1390.9	1438.2	1478.9	1530.3	1858.3	2515.2		
(PVt-PVt-1)/GDPt-1 (in percent)		1.6	1.2	1.8	1.6	1.3	1.6	1.8	-0.4		
Non-interest current account deficit that stabilizes debt ratio	23.4	8.4	5.9	5.2	5.9	5.4	4.7	3.1	2.3		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

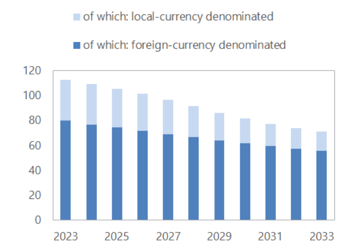
Table 3. Cabo Verde: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022–43

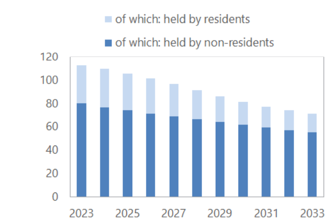
(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	121.2	112.6	109.3	105.6	101.6	96.4	91.3	71.2	50.9	116.8	91.5
of which: external debt	84.0	79.8	76.4	73.9	71.3	68.7	66.7	55.4	38.6	86.4	66.7
Change in public sector debt	-23.4	-8.5	-3.3	-3.8	-4.0	-5.2	-5.1	-2.9	-3.2		
Identified debt-creating flows	-19.8	-6.5	-2.6	-4.1	-3.7	-5.3	-4.9	-2.7	-1.3	2.6	-4.2
Primary deficit	1.9	2.2	1.0	0.0	0.0	-1.0	-1.0	0.7	1.0	2.7	0.1
Revenue and grants	21.6	24.6	24.4	25.2	25.5	25.6	25.7	25.4	26.7	23.7	25.3
of which: grants	0.9	1.9	1.2	1.2	1.1	1.0	1.0	0.8	0.8		
Primary (noninterest) expenditure	23.5	26.8	25.3	25.2	25.5	24.5	24.6	26.1	27.7	26.4	25.4
Automatic debt dynamics	-21.9	-8.0	-4.3	-4.2	-3.9	-4.2	-3.9	-3.4	-2.3		
Contribution from interest rate/growth differential	-27.9	-7.5	-4.8	-4.4	-4.1	-4.7	-4.5	-3.3	-2.2		
of which: contribution from average real interest rate	-6.1	-2.4	0.0	0.4	0.6	-0.1	-0.1	-0.1	0.1		
of which: contribution from real GDP growth	-21.8	-5.1	-4.9	-4.8	-4.6	-4.6	-4.3	-3.2	-2.3		
Contribution from real exchange rate depreciation	6.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.2	-0.7	0.8	0.2	0.2	0.0	0.0	0.0	0.0	0.3	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.2	-0.7	0.8	0.2	0.2	0.0	0.0	0.0	0.0		
Residual	-3.7	-2.4	-0.3	0.5	-0.1	0.5	0.4	-0.2	-1.9	1.2	-0.2
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	91.3	84.0	82.4	79.9	77.1	73.3	69.3	55.2	40.4		
PV of public debt-to-revenue and grants ratio	423.6	341.5	338.1	316.5	302.8	286.7	269.8	217.5	151.3		
Debt service-to-revenue and grants ratio 3/	31.1	33.8	37.6	37.9	40.0	37.9	36.0	24.2	19.8		
Gross financing need 4/	8.6	9.7	10.7	9.7	10.3	8.6	8.2	6.8	6.1		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	17.7	4.4	4.5	4.6	4.6	4.7	4.7	4.5	4.5	2.8	4.5
Average nominal interest rate on external debt (in percent)	0.5	1.1	1.3	1.0	1.0	1.1	1.1	1.4	1.7	1.1	1.1
Average real interest rate on domestic debt (in percent)	-2.3	-0.9	2.2	3.3	3.9	1.4	1.5	0.8	1.4	3.4	1.5
Real exchange rate depreciation (in percent, + indicates depreciation)	7.3	...	...	...	...	...	...	...	...	3.4	...
Inflation rate (GDP deflator, in percent)	6.4	4.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.6	2.2
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.5	19.3	-1.2	4.1	5.6	0.8	5.2	4.8	4.5	0.1	5.7
Primary deficit that stabilizes the debt-to-GDP ratio 5/	25.3	10.7	4.3	3.8	4.0	4.1	4.0	3.6	4.1	0.5	4.6
PV of contingent liabilities (not included in public sector debt)	0.0 #	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government plus extra budgetary funds, central bank, government-guaranteed debt. Definition of external debt is Residency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 4. Cabo Verde: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt 2023–33

(Percent)

	Projections										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	51	49	48	47	45	44	43	42	41	40	39
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	51	52	53	53	54	**56**	**57**	**58**	**60**	**62**	**65**
B. Bound Tests											
B1. Real GDP growth	51	**55**	**60**	**59**	**57**	**55**	54	52	51	50	49
B2. Primary balance	51	51	52	51	50	49	48	47	46	45	44
B3. Exports	51	**58**	**70**	**69**	**67**	**65**	**64**	**62**	**60**	**57**	55
B4. Other flows 2/	51	52	54	52	51	50	48	47	46	44	43
B6. One-time 30 percent nominal depreciation	51	**70**	**63**	**61**	**59**	**58**	**56**	54	53	52	51
B6. Combination of B1-B5	51	**60**	**64**	**62**	**60**	**59**	**57**	**56**	54	52	51
C. Tailored Tests											
C1. Combined contingent liabilities	51	**61**	**60**	**60**	**59**	**59**	**58**	**57**	**57**	**56**	55
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	157	149	142	135	128	122	115	110	106	102	98
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	157	156	156	154	153	153	152	153	156	160	162
B. Bound Tests											
B1. Real GDP growth	157	149	142	135	128	122	115	110	106	102	98
B2. Primary balance	157	155	154	147	141	136	129	124	120	116	111
B3. Exports	157	**276**	**529**	**503**	**478**	**460**	**435**	**414**	**396**	**373**	**349**
B4. Other flows 2/	157	158	159	151	143	137	129	123	118	113	108
B6. One-time 30 percent nominal depreciation	157	149	130	124	117	112	105	100	97	94	91
B6. Combination of B1-B5	157	209	165	**242**	229	220	208	198	189	181	171
C. Tailored Tests											
C1. Combined contingent liabilities	157	184	178	172	166	162	156	151	146	142	137
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	12	13	11	11	10	9	9	8	8	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	12	13	12	12	12	11	11	10	11	12	12
B. Bound Tests											
B1. Real GDP growth	12	13	11	11	10	9	9	8	8	8	8
B2. Primary balance	12	13	11	11	10	10	9	8	8	9	9
B3. Exports	12	20	**30**	**31**	**29**	**27**	**25**	**23**	**26**	**32**	**31**
B4. Other flows 2/	12	13	11	11	10	10	9	8	8	9	9
B6. One-time 30 percent nominal depreciation	12	13	11	10	10	9	9	8	8	7	7
B6. Combination of B1-B5	12	16	18	17	16	15	14	13	14	15	14
C. Tailored Tests											
C1. Combined contingent liabilities	12	13	12	12	11	10	10	9	9	9	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	18	18	16	15	14	14	13	12	12	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	18	19	17	17	17	16	17	16	17	19	20
B. Bound Tests											
B1. Real GDP growth	18	20	19	19	18	17	17	15	15	16	16
B2. Primary balance	18	18	16	16	15	14	14	13	13	14	14
B3. Exports	18	18	16	17	16	16	15	14	16	20	20
B4. Other flows 2/	18	18	16	16	15	14	14	13	13	15	15
B6. One-time 30 percent nominal depreciation	18	**26**	22	21	20	19	18	17	17	16	17
B6. Combination of B1-B5	18	20	18	18	17	16	16	15	16	17	17
C. Tailored Tests											
C1. Combined contingent liabilities	18	18	17	16	16	15	15	14	14	14	14
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Includes official and private transfers and FDI.

Table 5. Cabo Verde: Sensitivity Analysis for Key Indicators of Public Debt, 2023-33

(Percent)

	Projections										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	84	82	80	77	73	69	65	62	59	57	55
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	84	85	87	88	89	89	89	89	89	90	90
B. Bound Tests											
B1. Real GDP growth	84	94	107	108	108	108	107	107	107	108	110
B2. Primary balance	84	86	88	85	81	76	72	69	65	63	61
B3. Exports	84	91	102	99	95	90	86	82	78	75	71
B4. Other flows 2/	84	85	85	83	79	75	70	67	64	61	59
B6. One-time 30 percent nominal depreciation	84	103	99	95	90	85	80	77	73	70	68
B6. Combination of B1-B5	84	91	94	92	89	85	82	79	76	74	72
C. Tailored Tests											
C1. Combined contingent liabilities	84	107	103	100	95	90	85	81	78	75	73
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	342	338	316	303	287	270	256	243	231	225	218
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	342	350	343	344	346	345	348	347	347	351	352
B. Bound Tests											
B1. Real GDP growth	342	384	420	421	420	416	416	416	416	425	430
B2. Primary balance	342	353	348	333	316	298	283	269	256	249	241
B3. Exports	342	372	405	389	371	353	338	323	307	294	280
B4. Other flows 2/	342	350	339	324	308	290	277	263	250	242	233
B6. One-time 30 percent nominal depreciation	342	423	393	374	353	333	316	300	285	276	266
B6. Combination of B1-B5	342	371	372	360	346	331	319	307	295	290	283
C. Tailored Tests											
C1. Combined contingent liabilities	342	437	409	391	372	351	335	319	305	297	288
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	34	38	38	40	38	36	32	28	26	25	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2043 1/	34	38	40	44	44	45	42	40	40	40	41
B. Bound Tests											
B1. Real GDP growth	34	42	48	53	53	53	50	47	48	48	49
B2. Primary balance	34	38	40	44	42	40	36	31	30	28	27
B3. Exports	34	38	39	42	40	38	34	29	30	32	31
B4. Other flows 2/	34	38	38	40	38	36	32	28	27	27	26
B6. One-time 30 percent nominal depreciation	34	41	45	47	46	44	40	36	35	35	35
B6. Combination of B1-B5	34	40	43	47	45	44	41	37	37	36	35
C. Tailored Tests											
C1. Combined contingent liabilities	34	38	50	51	49	47	43	39	32	31	29
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
2/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

CABO VERDE

June 7, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION—INFORMATIONAL ANNEX

Prepared By	The African Department (in consultation with other departments)

CONTENTS

FUND RELATIONS

As of April 30, 2023

Membership Status: Joined: November 20, 1978; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	23.70	100.00
IMF's Holdings of Currency (Holdings Rate)	20.16	85.05
Reserve Tranche Position	3.57	15.05

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	31.88	100.00
Holdings	0.46	1.44

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	23.70	100.00
ECF Arrangements	22.52	95.02

Latest Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jun 15, 2022	Jun 14, 2025	45.03	22.52
ECF [1/]	Apr 10, 2002	Jul 31, 2005	8.64	8.64
Stand-By	Feb 20, 1998	Mar 15, 2000	2.50	0.00

[1/] Formerly PRGF.

Outright Loans:

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Apr 22, 2020	Apr 24, 2020	23.70	23.70

[1/] Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e., Board approval date.

Overdue Obligations and Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2023	2024	2025	2026	2027
Principal			2.37	4.74	5.87
Charges/Interest	0.86	1.18	1.18	1.18	1.18
Total	0.86	1.18	3.55	5.92	7.04

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Exchange Rate Arrangements

The de jure and de facto exchange rate arrangements of Cabo Verde are a conventional peg. The escudo has been pegged to the euro at a rate of CVE 110.265 per euro since January 4, 1999. Cabo Verde accepted the obligations of Article VIII, Sections 2, 3 and 4 of the Articles of Agreement effective July 1, 2004. It maintains an exchange system that is free of multiple currency practices as well as restrictions on the making of payments and transfers for current international transactions.

Safeguards Assessment

An update safeguards assessment of the Banco de Cabo Verde (BCV), completed in July 2022, found relatively strong external audit arrangements and enhanced financial reporting since the last assessment in 2008. However, the continued lack of an independent oversight body constituted a governance weakness that permeates several functions of the bank. In particular, it has impacted the effectiveness of the internal audit function. Operationalizing the risk management function also requires stronger support from management. Legal amendments are needed to establish a decision-making-structure separate from executive management by introducing a majority non-executive (independent) board, strengthening the BCV’s personal and financial autonomy, and enhancing accountability and transparency mechanisms. To address these gaps, the BCV submitted draft amendments to the central bank law to the Ministry of Finance in December 2022 and strengthened the internal audit function, including through a revised internal audit charter and targeted capacity building plan.

Previous Article IV Consultation

The Executive Board concluded the 2019 Article IV consultation on July 15, 2019 (Country Report No. 19/255).

WORLD BANK AND IMF COLLABORATION

https://data.worldbank.org/country/cabo-verde

The IMF and the World Bank Cabo Verde teams maintain an ongoing exchange of views on relevant macroeconomic and structural issues. The intense cooperation and the coordination include the following:

- **Article IV Consultations**. The World Bank representatives met with the country team before and after the 2023 IMF Article IV mission. This facilitated the discussions and provided valuable input, particularly in the areas of mutual interest such as debt management, public financial management, performance of state-owned enterprises, and investment planning.

- **Joint Managerial Action Plan**. The IMF and World Bank teams meet regularly to discuss and exchange views on relevant issues. The Fund provides macroeconomic framework updates crucial for the Bank's sectoral work. The Bank's work programs comprise work in the following areas: poverty reduction, competitiveness and private sector development, education, social protection, transport, and climate change. The Bank's Country Economic Memorandum was completed in March 2023, covering the key challenges and structural reforms that could potentially accelerate long-term growth and foster resilience to climate change, with focus on increase productivity-driven growth and broad-based poverty reduction. The Bank will complete a Poverty Assessment in 2023. The two teams have also engaged very closely on discussions on public financial management and debt sustainability.

The teams agreed to continue the close cooperation going forward. The table below describes specific activities planned by the two country teams over the fiscal years 2023/2024. The Fund will continue to lead on macroeconomic analysis, and the Bank will continue to lead on investment planning and sectoral strategies. The two teams will continue to closely cooperate in preparing a joint DSA.

Table 1. Cabo Verde: Joint World Bank and IMF Work Program (as of April 30, 2023)			
Title	Products	Timing of Mission	Expected Delivery Date
A. Mutual information on relevant work programs			
Bank work program in the next 12 months	1. Country Climate and Development Report (CCDR). 2. Public Expenditure Review 3. Development Policy Financing Operation.	September 2023 July 2022 June 2023	September 2024 June 2023 December 2023
IMF work program in the next 12 months	1. Second review and Article IV mission. 2. Third review mission. 3. Fourth review mission.	May 2023 September-October 2023 April-May 2024	
B. Requests for work program inputs			
Fund request to Bank	1. Updates on SOE reforms and financial situation. 2. Updates on real sector developments.		FY 2023/24
Bank request to Fund	Macroeconomic framework updates.		FY 2023/24

STATISTICAL ISSUES

(As of April 30, 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. At the same time, improvements are needed in national accounts, government finance, and external sector statistics. The authorities are taking steps to strengthen statistics, but the statistical system still suffers from a shortage of financial and human resources.
National Accounts: Significant improvements have been made to the national accounts (NA)—with technical assistance from IMF AFRITAC West 2—including the timely release of quarterly and yearly GDP data. The most recent annual GDP data released are for 2022. The most recent quarterly NA is for Q4-2022 (released in March 2023). In the past few years, the National Institute of Statistics of Cabo Verde (INECV) has worked on a complete overhaul of the national accounts. More specifically, INECV has implemented the estimation of GDP at chained prices—as recommended by the 2008 System of National Accounts (2008 SNA)—as well as changing the base year from 2007 to 2015. The rebased annual GDP estimates (base year 2015), series 2015-2016, were published in February 2022. Meanwhile the backcasted GDP estimates (base year 2015), series 2007-2014, were published in March 2022. The new series of the rebased GDP are compiled based on the *2008 SNA* methodology. The INECV also compiled the annual GDP 2017-2019 through the supply and use tables (SUT). In addition, the quarterly GDP (QGDP) by the production and expenditure approaches in volume terms (base year 2015), were aligned with the new annual GDP (AGDP) series. The new QGDP estimates, series Q1/2007-Q4/2022, were published in March 2023, and are based on the *IMF Quarterly National Accounts Manual 2017*. Full implementation of the 2008 SNA and quarterly national accounts require substantial improvement in source data collection, for which capacity is currently limited and overstretched. INECV has an ambitious target to continue building its statistics series—ranging from business, household, and labor force surveys to governance and security surveys and satellite accounts. In addition, INECV assesses in detail and corrects individual source data entries on a regular basis—something not generally undertaken in most countries by national account compilers. Given capacity constraints, greater prioritization amongst data collection is encouraged with an emphasis on improved use of administrative data. Further technical assistance on how to preliminarily estimate or extrapolate economic activity from random sampling surveys in various sectors could lead to crucial improvement in national accounts estimates and the timeliness of the release as well as using more administrative data, particularly tax data.
Price Statistics: A revamped Consumer Price Index (CPI) with new methodology was launched in February 2008. The previous official CPI was based on weights dating back to 1989, four years before imports were liberalized. Import liberalization considerably changed consumption patterns. INE currently received, from the National Statistics Institute of Portugal and AFRITAC West 2 missions to support the rebasing, reweighting and dissemination of a revised CPI. A revised CPI index with new weights and an updated commodity basket was published in February 2019. CPI statistics are published on a monthly basis and in a timely manner. INE CV is also developing a Producer Price Index which should be released in the near future.
Government Finance Statistics: Benefiting from technical assistance (TA), Government Finance Statistics (GFS) compilation has improved. TA has helped the authorities compile GFS data in line with GFSM 2014 and extended GFS compilation beyond Budgetary Central Government (BCG) to include Social Security Funds and Local Governments (LGs). The authorities report GFS for publication in the IFS and the GFS Yearbook. However, obtaining source data for compilation of GFS for LGs and Extra Budgetary Units (EBU*s)* remains a challenge which affects compilation of GFS for the General Government sector. Authorities need to improve GFS data dissemination and institutional coverage particularly to include EBUs, SOEs and LGs.
Monetary and Financial Statistics: The monetary and financial statistics are adequate, and the quality of the monetary survey has improved. An STA mission undertaken in April-May 2023 helped the Banco de Cabo Verde (BCV) in improving the quality and analytical usefulness of Cabo Verde's MFS, including the detailed review of compilation methods, expansion of coverage, compilation of flow data, and enhancement of the analytical presentation of MFS, following the recommendations of the *2016 Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)*.
BCV produces the standardized report forms (SRFs) for reporting monetary statistics to STA. SRF-based monetary data for the central bank, other depository corporations, and other financial corporations are published in *International Financial Statistics* on a regular monthly basis. These data are broadly aligned with the recommendations of the *Monetary and Financial Statistics Manual and Compilation Guide*. The integrated monetary database that meets STA and AFR statistical needs is in place. The BCV reports some data and indicators of the Financial Access Survey (FAS), including mobile and internet banking, gender-disaggregated data, and the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Sector Surveillance: Cabo Verde does not report financial soundness indicators for dissemination on the IMF's website.
External statistics: The BCV reports quarterly balance of payments and international investment position data to STA following the sixth edition of the *Balance of Payments and International Investment Position Manual*. The BCV also reports inward Coordinated Direct Investment Survey data starting with 2012 data. Recent enhancements include better use of source data from the financial sector and the use of available stock data from the Ministry of Finance to compile government external debt stocks (replacing previous estimates by accumulation of transactions). However, further improvements are needed in data sources particularly in the new context of total liberalization of capital transactions. Data coverage needs to be strengthened for foreign trade in goods and the nonbank private sector, including for direct investment. Offshore banks data are not covered. Authorities should set a roadmap for including offshore banks in external sector statistics in coordination with other statistical domains and in consultation with the IMF.
II. Data Standards and Quality
Cabo Verde participates in e-GDDS since 2004 and established a National Summary Data Page, which disseminates key macroeconomic statistics, in January 2020. . However, its metadata were last updated mostly in 2003-2004.

Table 2. Cabo Verde: Common Indicators Required for Surveillance
(As of March 31, 2023)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange rates	03/31/23	03/31/23	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[2]	02/30/23	4/14/23	D	W	M
Reserve/base money	02/30/23	4/14/23	D	W	M
Broad money	02/30/23	4/14/23	M	W	M
Central bank balance sheet	02/30/23	4/14/23	D	W	M
Consolidated balance sheet of the banking system	02/30/23	4/14/23	M	M	M
Interest rates[3]	02/30/23	4/14/23	M	M	M
Consumer price index	03/31/23	4/19/23	M	M	M
Revenue, expenditure, balance, and composition of financing[4]—central government	02/28/23	3/15/23	M	Q	A
Stocks of central government and central government-guaranteed debt[5]	12/31/22	3/25/23	A	A	A
External current account balance	12/31/22	3/04/23	Q	Q	Q
Exports and imports of goods	12/31/22	3/04/23	Q	Q	Q
GDP/GNP	12/31/22	3/31/23	Q	Q	Q
Gross external debt	12/31/22	3/21/23	Q	A	A
International Investment Position[6]	12/31/22	3/04/23	Q	Q	Q

1 Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), and not available (NA).

2 Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

3 Both market-based and officially determined, including discount, money market, treasury bill, note, and bond rates.

4 The general government consists of the central government (budgetary funds, extra budgetary funds, social security funds) and state and local governments.

5 Including currency and maturity composition.

6 Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Statement by Mr. Afonso Bevilaqua, Executive Director for Cabo Verde and Mr. Ricardo Velloso and Ms. Carla Cruz, Advisors to the Executive Director

Executive Board Meeting June 22, 2023

On behalf of our Cabo Verdean authorities, we thank the staff team lead by Mr. Justin Tyson for the comprehensive and informative report. The authorities appreciated staff's close engagement during the past few months, including through virtual and in-person meetings during the Spring Meetings in April and the Article IV and second ECF review mission in May. These discussions have contributed to further enriching our constructive policy dialogue with the Fund.

Our authorities would also like to express their satisfaction with management's decision to appoint the first ever IMF Resident Representative in Cabo Verde. Local IMF presence in the country will mark a new and brighter chapter in the Fund's work on Cabo Verde, facilitating the policy dialogue and the coordination and uptake of capacity development.

Recent economic developments and outlook

Growth has rebounded strongly, and inflation has risen. Updated data from the National Institute of Statistics (INE) shows that the pandemic-induced real GDP contraction in 2020 was larger than initially estimated. A series of exogenous shocks followed, including the spillover effects from the war in Ukraine. Also, five straight years of drought have negatively impacted not only agricultural production but also local economies, creating food insecurity in parts of the country. However, the end of mobility restrictions and the resumption of tourism—coupled with policy measures adopted in the first half of 2022 to offset the effects of the cost-of-living crisis on the most vulnerable—resulted in remarkable, double-digit real GDP growth of 17.7 percent in 2022 (compared with a program projection of 10.5 percent). Tourist arrivals now exceed pre-pandemic levels, and the strong performance of this key sector is positively impacting the economy more broadly. In 2022, average inflation reached 7.9 percent—the highest level of the last 20 years—driven by higher food, energy, and transportation costs, but it has moderated somewhat, reaching 5.6 percent in March (year-on-year).

The outlook is positive, but growth is expected to moderate. In 2023, real GDP growth is projected at 4.4 percent (under the assumption that tourist arrivals and receipts will begin to normalize), and inflation is expected to moderate to 5.2 percent, declining thereafter to 2.0 percent (consistently with the peg to the euro and the projected evolution of inflation in the euro area). Downside risks are mainly related to weakened incomes in Cabo Verde's major tourism markets, particularly Europe, and climate change. As rightly pointed out in the staff report, Cabo Verde is highly vulnerable to climate change, as shown by recurring and prolonged droughts.

Program performance

Program performance has been strong. A stronger-than-expected rebound in tourism led to spectacular, double-digit growth last year which, together with continued fiscal prudence, cautious debt management, and strict implementation of the program's reform agenda, bode well for the future. The authorities met all end-December 2022 QPCs, as well as all end-September and end-December 2022 ITs, except the floor on social spending which was missed by a very small margin. Equally impressive, all end-December 2022 and end-March 2023 structural benchmarks were met. A modification to the end-December 2023 QPC on the PV of new external debt is being requested to reflect data clarifications on new borrowing. The disbursement associated with the completion of this review will support the continuity of the implementation of the government's policies and reform agenda under the 2022-2026 Sustainable Development Strategic Plan II (PEDS II).

Fiscal and debt policies

Fiscal performance has improved significantly. The primary fiscal deficit was reduced to 1.9 percent of GDP in 2022, from 5.2 percent of GDP in 2021. This was mainly due to careful spending prioritization and higher revenues, the latter reflecting faster growth and the implementation of tax policy and revenue administration measures, such as the 5 percent import duty on previously exempted imports and the ongoing implementation of the electronic invoicing system. The 2023 budget is being executed in line with the fiscal strategy set out by the authorities. Preliminary data point to strong revenue performance in the first quarter of the year. On the expenditure side, the authorities continue to seek efficiency gains, resulting in a gradual decline in current expenditures as a share of GDP. As agreed under the program, the execution of part of budgeted spending on goods and services and investments will be pending on the receipt of proceeds from airport concession fees and overall revenue performance.

Maintaining debt sustainability and further improving the debt profile are top priorities. The debt-to-GDP ratio declined from 144.6 percent in 2021 to 121.2 percent in 2022 and is expected to reach 112.6 percent in 2023. This sharp downward trend reflects higher growth and lower primary fiscal deficits, but it is also benefitting from the ongoing implementation of the authorities' prudent debt management strategy. Ongoing discussions with bilateral creditors focus on innovative approaches, such as the conversion of the debt into investment. In addition, the authorities are trying to maximize IFI concessional funding for well-identified public investment projects, thus limiting the recourse to more costly domestic financing. IMF technical assistance is expected to continue helping the authorities on the debt legislation updates and debt reporting and analysis enhancements.

Monetary and financial policies

The Central Bank of Cabo Verde (BCV) remains focused on protecting the peg and ensuring financial sector stability. Last month, the BCV's Monetary Policy Committee raised the policy rate by 75 bps. International reserves at the BCV stood comfortably at 5.9 months of imports at end-2022. Aware of the uncertainties surrounding the global economy, aggravated by recent stresses in the international banking sector, the BCV will continue to monitor the evolution of international markets as well as actions of the monetary authorities in major economies, in particular the ECB, and risks arising from the local economy.

Cabo Verde's financial sector remains stable, adequately capitalized, and liquid. The banking sector is well positioned to withstand the potential impact of the end of the COVID-related credit moratorium. In this regard, the BCV has put in place a toolkit mechanism to help banks with the rescheduling of loans to viable firms, if needed, and NPL resolution. Continued implementation of strengthened regulation and supervision should also support NPL monitoring procedures. Furthermore, the ongoing risk-based supervision process for financial institutions will contribute to improving the financial system resilience. In addition, the authorities intend to develop a national fintech strategy, with the support from the World Bank, to establish the pillars for financial technologies that embrace innovation and competition, and lower financial transaction costs. IMF technical assistance has been provided on amending the BCV Organic Law, aiming at enhancing central bank independence, accountability, and transparency in line with IMF safeguards assessment recommendations. Draft legislation is expected to be sent to the National Assembly this year for discussion and approval. Furthermore, the BCV is preparing a three-year comprehensive capacity development plan with MCM support to strengthen, inter alia, the following areas: macroprudential and financial crisis management; financial supervision and regulation; emergency liquidity assistance; payments infrastructure; and financial inclusion, digital finance, and cybersecurity.

Structural reforms

PEDS II sets an ambitious agenda for the development of Cabo Verde. It is also an instrument for dialogue between the Government and the private sector for enhancing the business environment and regulatory framework and developing together with partners new investment opportunities and financing modalities. PEDS II also promotes privatization and the improvement of SOE efficiency while aiming at reducing informality in the economy and facilitating access to finance, particularly for SMEs. An important aspect of the economic diversification strategy is the promotion of alternative sectors, such as the blue economy, digital economy, industry integration into regional and global value chains, and the modernization of agriculture. Exploring the nexus between new sources of energy and water is also an important component of the reform agenda. In line with Cabo Verde's tradition of good governance and democratic rule, one of the PEDS II pillars includes measures to further strengthen the country's AML/CFT framework, with a view to eventually adding Cabo Verde to the list of countries with the lowest perceived levels of corruption and most advanced in terms of the quality and transparency in public spending.

Building a climate resilient economy is key to the sustainable development of Cabo Verde. The authorities are firmly committed to addressing the country's vulnerabilities, including climate challenges. Ensuring adequate funding for climate mitigation and adaption strategies and the maintenance of assets to safeguard climate-resilient infrastructure is critical. The authorities are fully committed to the implementation in recently completed C-PIMA assessment. They are also extremely interested in discussions with staff on an RSF arrangement, which hopefully could be completed in the second half of the year. The RSF will be critical in helping implement the Government's climate resilience and carbon-neutral development plans—described succinctly in Annex IX of the staff report—and catalyze green financing from other IFIs and the private sector.

Final remarks

Our Cabo Verdean authorities are firmly committed to the implementation of the ECF-supported program, as shown by the strong program performance to date. Fund support through financing, policy advice, and capacity development have been paramount in helping Cabo Verde during the ongoing recovery process from multiple shocks. The program is also providing support to the authorities' fiscal consolidation and debt management plans, and the implementation of an ambitious structural reform agenda under PEDS II. We therefore ask Executive Directors to favorably consider the completion of the second review under the ECF arrangement and the conclusion of the 2023 Article IV consultation.