



# CABO VERDE

January 2023

## FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—PRESS RELEASE; AND STAFF REPORT

In the context of the First Review Under the Extended Credit Facility Arrangement, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on Lapse of Time basis, following discussions that ended on November 11, 2022, with the officials of Cabo Verde on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 21, 2022.

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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## IMF Executive Board Completes First Review Under the Extended Credit Facility for Cabo Verde

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the first review under the 36-month Extended Credit Facility with Cabo Verde, providing the country with access to SDR 11.26 million (about US\$15.19 million).
- The strong and broad-based recovery of the Cabo Verde economy continued in 2022. The economy has now recorded five consecutive quarters of positive growth, supported by a rebound in the tourism sector. This helped improve the fiscal position and place the debt-to-GDP ratio on a downward path. International reserves are adequate, and the financial sector remains resilient.
- It is important to continue efforts to preserve fiscal and debt sustainability and accelerate economic reforms while aiding the vulnerable and supporting the economic recovery.

**Washington, DC – January 17, 2023:** The Executive Board of the International Monetary Fund (IMF) completed the first 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 11.26 million (47.50 percent of quota or about US\$ 15.19 million), bringing total disbursement to SDR 22.52 million (95 percent of quota or about US\$ 30.18 million). The Executive Board's decision was taken on a lapse-of-time basis.<sup>1</sup>

The economic rebound is well entrenched, driven by the faster than expected recovery in the tourism sector. Real GDP growth is currently estimated at 10.5 percent in 2022 and is projected to moderate to 4.4 percent in 2023. Inflation remains relatively high (8.5 percent year-on-year at end October 2022), with rising global food and energy prices exerting upward pressure on the cost of food and fuel in Cabo Verde. In response, the authorities stepped up support to the vulnerable through well targeted subsidies on basic food items and electricity, which are expected to continue through the first half of 2023. Inflation is forecast to decline in 2023 but remain above its recent five-year historical average.

Economic growth also contributed to a reduction in the debt-to-GDP ratio and the authorities' decision to save the projected revenue overperformance in 2022 contributes to further advancing the program's fiscal consolidation and debt reduction objectives. The debt burden is estimated to have declined to 128.1 percent of GDP by end-2022. The 2023 fiscal plan would result in a slightly improved primary fiscal balance compared to the program and includes prudent contingencies to safeguard against revenue shortfalls. Over the medium-

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<sup>1</sup> The Executive Board takes decisions under its lapse-of-time procedure when a proposal can be considered without convening formal discussions.

term, fiscal consolidation will be aided by continued revenue mobilization and spending measures; the primary fiscal balance is expected to shift into surplus by 2026.

Program performance was strong. All end-June 2022 Performance Criteria (PCs) and Indicative Targets (ITs) were met. The Structural Benchmarks (SBs) for end-June 2022 and end-September 2022 were also met. All end-September 2022 ITs were met.

The economic outlook is positive but subject to risks, including from softening of economic prospects in key tourist markets, persistently elevated rates of inflation and its impact on the most vulnerable, resurgence of COVID-19 and lockdowns, and fiscal risks from SOEs. Climate-related shocks continue to present medium- and long-term risks.

The authorities are focused on preserving fiscal and debt sustainability, providing support to the vulnerable, and supporting the economic recovery. Over the medium-term, fiscal consolidation would be supported by advances in revenue mobilization particularly through the digitalization of services, and reforms to reduce fiscal risks from SOEs. Monetary and financial policy remains focused on protecting the peg and safeguarding financial sector stability. In addition, the authorities intend to accelerate implementation of climate-change mitigation and adaptation measures.



# CABO VERDE

## FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

### EXECUTIVE SUMMARY

**Context.** The IMF Board approved a 36-month ECF arrangement for Cabo Verde in June 2022. The program aims to: strengthen public finances and put debt on a downward path; reduce fiscal risks from public enterprises and improve their financial management; modernize the monetary policy framework and improve resilience of the financial system; and raise the growth potential. Cabo Verde was hit hard by the COVID-19 pandemic. The recovery is now underway, and the economy has recorded five consecutive quarters of growth, supported by a rebound in tourism. The fiscal position has improved, the debt-to-GDP ratio is on a downward path, reserves are within the target range, and the financial sector remains resilient. However, spillovers from Russia's invasion of Ukraine have led to double-digit increases in energy and food prices.

**Outlook and Risks.** The rebound in growth from the COVID-19 induced recession is estimated to have continued through the second half of 2022 with annual growth estimated at 10.5 percent, however the rate of output expansion is forecast to moderate to 4.4 percent in 2023 due to the projected weakening of economic conditions in Cabo Verde's main tourism markets. The outlook is subject to risks including from further softening of economic prospects in key tourist markets, persistently elevated rates of inflation and its impact on the most vulnerable, resurgence of COVID-19 and lockdowns, and fiscal risk from SOEs. Climate-related shocks continue to present medium and long-term risks.

**Program Performance.** Program performance was strong. All the Performance Criteria (PCs) and an Indicative Target (IT) have been met at end-June. The Structural Benchmarks (SBs) for end-June 2022 and end-September 2022 have also been met. All the ITs for end-September 2022 were also met.

**Policy Recommendations.** The authorities are focused on preserving fiscal and debt sustainability, providing support to the vulnerable and supporting the economic recovery. Over the medium-term, fiscal consolidation would be supported by advances in revenue mobilization particularly through the digitalization of services and reforms to reduce risk from SOEs. Monetary and financial policy remains focused on protecting the peg and safeguarding financial sector stability.

**Staff Views.** Considering the authorities' strong program ownership and commitment to implementing the policies under the program as evidenced by strong program performance, staff recommends completion of the first ECF review. Completion of the review will release a disbursement equivalent to SDR 11.26 million.

December 21, 2022

**Approved By**  
**Costas Christou (AFR)**  
**and Johannes Wiegand**  
**(SPR)**

The discussions in Praia took place during November 2–11, 2022. The in-person team consisted of Justin Tyson (head), Reginald Darius, Jose Sulemane, Nombulelo Gumata, Didier Tabaro and Picca Tomas (all AFR). Carla Cruz (OED) also participated in the mission. The mission met with Prime Minister Ulisses Correia e Silva, 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. Mr. Lester Magno (AFR) assisted in the preparation of this report.

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## CONTEXT

**1. The IMF Board approved a 36-month ECF arrangement with access at 190 percent of quota (SDR45.03 million, about US\$63.37 million) for Cabo Verde in June 2022.** The program aims to: strengthen public finances and ensure debt sustainability; reduce fiscal risks from public enterprises and improve their financial management; modernize the monetary policy framework and improve resilience of the financial system; and raise the growth potential. The program will also help support the authorities' economic recovery program and provide budget support.

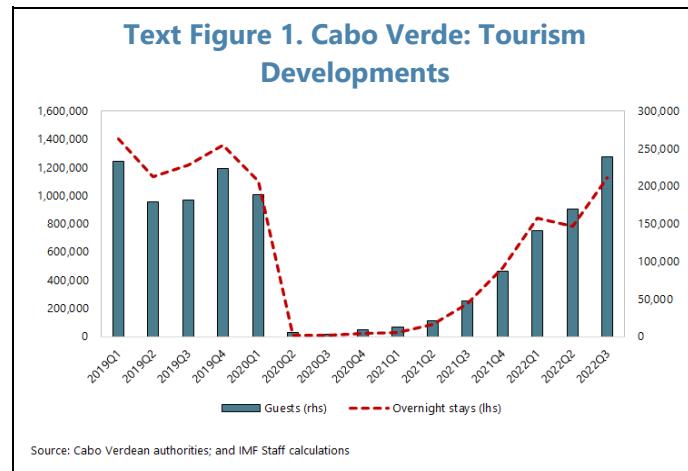
**2. The Cabo Verde economy was hit hard by the COVID-19 pandemic, the recovery is now underway, but risks weigh on the outlook.** After contracting by almost 15 percent in 2020, the economy has now recorded five consecutive quarters of high growth, supported by a rebound in tourist arrivals. Although Cabo Verde has limited direct exposure, the war in Ukraine has led to double-digit increases in energy and food prices, with the rising cost of living having a particularly negative impact on vulnerable groups. In response the authorities expanded support to the most affected households. The outlook is subject to risks from further weakness in key tourist markets, energy and food prices, COVID-19 resurgence, and fiscal risks from SOEs. Climate-related shocks are medium and long-term risks.

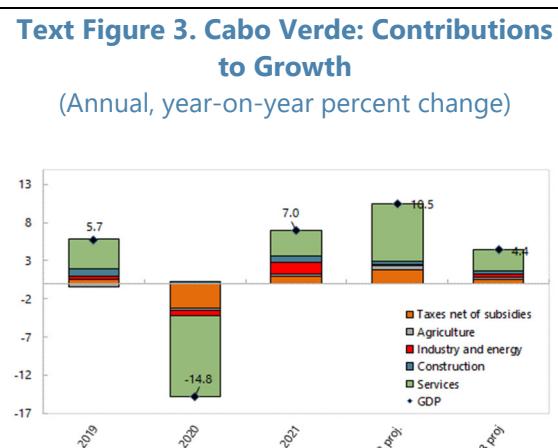
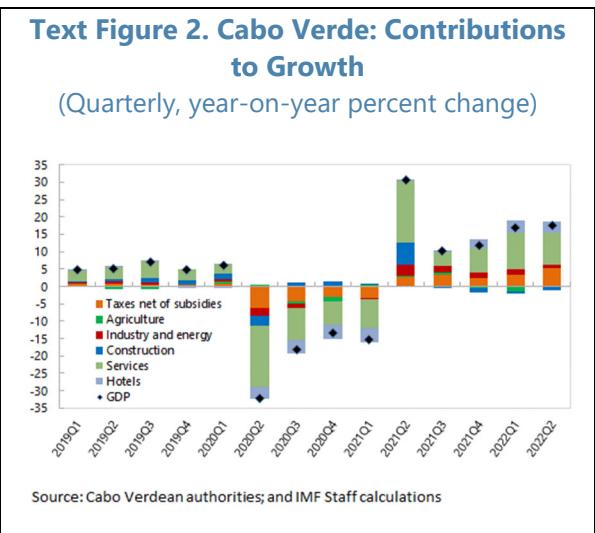
**3. On the public health front, Cabo Verde achieved one of the most successful COVID-19 vaccination programs rollouts in sub-Saharan Africa.** More than 98 percent of the adult population have received at least one vaccine dose with about 86.1 percent fully vaccinated.

## RECENT DEVELOPMENTS

**4. The economy grew strongly during the first half of 2022.** The better than projected growth was due to a faster turnaround in the tourism sector than envisaged at the time of program approval (Text Figure 1). Real GDP grew 16.8 percent y/y in Q1 and 17.7 percent y/y in Q2 (Text Figure 2 and 3). The services sector continued to recover and grew by 17.8 percent y/y in the first half of the year buoyed by tourism arrivals (Text Figures 1 and 2). The higher tourism arrivals reflect in part the increase in hotel capacity as new rooms were added during the COVID lock down. Economic activity was supported by credit growth of 4.3 percent up to September 2022. Inflation increased to 8.5 percent y/y in October 2022 due to higher food, electricity, gas, and transportation costs.

Despite high inflation, wage increases were not awarded to public servants as the authorities prioritized support for the most vulnerable.





**5. The current account deficit narrowed during the first half of 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 €591.3 million at the end of 2021 to €601.1 million by the end of September 2022 (about 5.7 months of prospective imports).

**6. The fiscal position improved up to Q3 of 2022 (Text table 1).** The strengthening of the fiscal position was driven by an increase in revenue intake (31.4 percent y/y at end-September 2022). The gains in tax revenues were broad based, driven by the rebound in economic activity. Taxes on goods and services and taxes on international trade were particularly buoyant. Expenditure increased by 6.2 percent over the same period (-2.5 percent in real terms), with current expenditure expanding by 7.2 percent. However capital investment declined 6.1 percent as the implementation rate remained low. Current expenditure increases were driven by higher spending on goods and services (reflecting in part the increase in domestic prices) as social benefits declined due to the continued unwinding of some of the COVID-19 support measures. These developments resulted in the third quarter 2022 primary deficit shrinking to close to ¼ of its value one year earlier.

**7. The financial sector remains stable, adequately capitalized and liquid (Table 5).** Data for end-September 2022 suggests that the financial system is highly liquid, profitable, and well capitalized. The banking sector entered the pandemic with strong capital buffers and improving profitability that helped contain risks. Regulatory capital to risk weighted assets (CAR) was 21.9 percent at end-September 2022, well-above the regulatory minimum of 12 percent, while the return on equity and return on assets were at 13.6 and 1.3 percent, respectively. The relatively low return on assets is mainly a reflection of the legacy non-performing loans (NPLs) portfolio related to the 2008 global financial crisis. NPLs increased from 8.1 percent at end 2021 to 8.9 percent of total loans at end-September 2022, reflecting the end of the credit moratorium and the write down of non-performing loans.

**Text Table 1. Cabo Verde: Quarterly Cumulative Fiscal Performance<sup>1</sup>**

(Millions of Cabo Verde Escudos)

	2021				2022				Q3'21 vs Q3'22 (Percent Change)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	ECF	
<b>Revenue</b>	8,328	17,885	28,681	44,530	11,164	23,968	37,682	54,270	31.4
Tax revenues	7,017	15,173	23,680	33,542	9,541	20,478	31,026	38,215	31.0
Taxes on income and profit	1,769	4,404	6,678	9,149	2,198	4,861	7,026	9,716	5.2
Taxes on goods and services	3,415	7,083	11,007	15,824	5,017	10,561	16,795	18,799	52.6
Taxes on international trade	1,675	3,374	5,509	7,894	2,150	4,700	7,205	8,973	30.8
Grants	158	690	1,146	3,985	138	529	1,083	3,982	-5.4
Other revenues	1,153	2,022	3,855	7,002	1,472	2,961	5,572	12,073	44.5
<b>Expenditure</b>	11,964	25,536	41,799	58,898	13,304	28,733	44,380	67,825	6.2
Expense	11,545	25,034	38,660	54,544	13,233	27,715	41,434	60,639	7.2
Net acquisition of nonfinancial assets	419	502	3,139	4,354	71	1,018	2,946	7,186	-6.1
<b>Primary balance</b>	-2,661	-5,595	-10,030	-10,112	-987	-2,040	-2,780	-7,750	-72.3
<b>Overall balance</b>	-3,636	-7,651	-13,118	-14,368	-2,140	-4,765	-6,699	-13,555	-48.9
<b>Net other liabilities</b>	-514	-858	1,919	1,691	1,039	1,525	105	-1,455	-94.5
<b>Financing needs</b>	4,150	8,509	11,199	12,677	1,101	3,239	6,593	15,010	-41.1

Sources: Cabo Verdean authorities and IMF staff projections.

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

## OUTLOOK AND RISKS

**8. Growth and inflation projections for 2022 have been adjusted upwards relative to the last staff report (CR 2022/235) but uncertainty dims the 2023 outlook.<sup>1</sup>** Real GDP growth has been revised from 4 to 10.5 percent in 2022 reflecting a stronger-than-anticipated rebound in the tourism sector. Inflation has been revised from 6.5 percent to 8 percent. The current account deficit is projected to improve relative to the program on account of the strength of the tourism sector and robust remittance inflows. In 2023, growth is projected to slow to 4.4 percent as the return to pre-pandemic levels of exports is delayed by the downward revision in global growth. Hotel pre-bookings for the 2022/23 winter season suggest strong arrivals and there are no indications of cancellations; the outlook builds this into Q1 before tapering off over 2023. Tourism receipts are forecast to reach pre-pandemic levels only in 2025. Inflation will moderate to 4.5 percent in 2023, broadly in line with the Euro area, as oil and food prices decline. The current account deficit would narrow to about 6.8 percent of GDP in 2023.

**9. The fiscal position is projected to improve in 2022 compared to the program, largely reflecting the impact of high nominal growth on revenues, while expenditures are expected to be slightly below the program forecast.** Currently, the authorities appear on track to exceed the targeted 1.5 percent of GDP improvement in the primary balance for 2022. The likely overperformance on the primary balance target reflects the authority's decision to save a large share of the extra revenue gains by keeping expenditures at a stable and sustainable level to achieve the primary balance objectives under the program. Higher revenues reflect stronger economic activity

<sup>1</sup> As discussed in Annex II of IMF Country Report 2022/235, Cabo Verde's GDP was estimated using the rebased numbers from 2007 to 2015, which showed about a 10 percent increase in nominal GDP. The rebasing exercise up to 2021 is expected to be completed by the end of 2022 and the fully rebased series published in early 2023. The GDP series will be updated to reflect the most up to date statistics when they become available.

aided by policy efforts e.g., measures to reduce tax arrears on VAT, personal, and corporate income taxes; the implementation of the 5 percent duty on previously exempted imports; and the ongoing rollout of the electronic invoicing system. The higher tax revenue offset the impact of the delayed airport concession on non-tax revenue. Despite some measures to offset higher prices including subsidies on key food items and fuel for the most vulnerable (0.3 percent of GDP),<sup>2</sup> expenditure restraint on wages and transfers, as well as lower-than-planned implementation of public investment projects are expected to result in end-December targets being met. Wage restraint is expected to be sustained over the medium term, based on broad consensus among social partners on the need to contain spending to create space for needed investment and support to the most vulnerable.

**10. The debt-to-GDP ratio is projected to improve relative to the program forecast.** It is now forecasted to decrease from 143 percent in 2021 to 128.1<sup>3</sup> percent at the end of 2022, mainly due to higher nominal growth and aided by the improved primary deficit.

**11. However, risks to the outlook are significant and on the downside.** The main downside risks relate to weakened external demand in Cabo Verde's major tourism markets that could dampen growth. Increases in fuel and food prices could impact domestic demand, increase the number of households that would require support from safety net programs and put pressure on the budget. New covid-related lockdowns would present a major challenge given the reliance on tourism. Fiscal risks could also stem from the failure to advance State-Owned Enterprise (SOE) reforms or reduced fiscal consolidation efforts.

**12. The impact of climate change is a key medium-term risk.** As a small state economy that is highly susceptible to the effects of climate change, Cabo Verde has been a strong advocate for global action to combat the impacts of climate change. The recent four-year drought brought to the fore the urgent need to accelerate climate adaptation measures and secure sustainable access to water supplies and develop advanced irrigation systems. The authorities are balancing the need for fiscal consolidation to reduce debt levels with continued capital spending to accelerate investments in climate action and are seeking support from partners (including the Fund) to access financing.

## PROGRAM PERFORMANCE

**13. Overall program performance has been strong despite the challenges caused by the rising commodity prices and the lingering effects of the COVID-19 pandemic.** All the PCs have been met at end-June (Text Table 2). Data on the primary deficit target for end-June 2022 indicates that it was comfortably met. The target on gross international reserves, PV of debt, and the ceiling on net domestic financing were also met. There were no payment arrears or

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<sup>2</sup> The electricity tariff adjustment mechanism was modified in June 2022 to cushion the impact of the rapid rise in fuel prices. Social tariffs for the most vulnerable (10 percent of the consumers) were left unchanged (no price increases), while other consumers received a subsidy of 60 percent on price increases.

<sup>3</sup> The projected debt-to-GDP ratio for 2022 was overestimated in the last staff report due to an overstatement of exchange rate effects.

accumulation of non-concessional external debt. The indicative target on social spending was met. All the ITs for September 2022 were also met (Table 6).

<b>Text Table 2. Cabo Verde: Quantitative Indicators for End-June 2022<sup>1</sup></b> (Millions of Escudos; cumulative from the beginning of the year, except where otherwise indicated)				
			<b>End-June 2022</b>	
	PC/IT	PC/IT with adjuster	Actual	Status
<b>Quantitative performance criteria</b>				
Primary balance, floor <sup>2</sup>	-4635	-4489	-2040	met
Tax revenue, floor	16916		20478	met
Net other liabilities, ceiling <sup>3</sup>	-742		-1525	met
Net domestic financing, ceiling	6388		3576	met
Nonaccumulation of domestic arrears <sup>4</sup>	0		0	met
Non-accumulation of external payment arrears <sup>4</sup>	0		0	met
PV of new external debt, ceiling (in millions of US Dollars)	61		18	met
Nominal level of new nonconcessional external debt of central government, ceiling <sup>4</sup>	0		0	met
Gross international reserves (in millions of euros), floor <sup>2</sup>	560	553	620	met
<b>Indicative Targets</b>				
Social spending, floor		5750	6710	met
<b>Non-quantitative continuous PCs</b>				
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
<i>Memorandum items:</i>				
Net onlending	515		180	
Capitalization	1363		951	
<b>Program assumptions</b>				
Project and budget support grants	675		529	
External debt service	5665		5174	
Sales of assets	351		369	
Project and budget support loans	4125		2986	

Sources: Cabo Verdean authorities; and IMF Staff

<sup>1</sup> Expressed in local currency and millions unless otherwise indicated. Foreign currency amounts will be converted at current exchange rates.

<sup>2</sup> Stock of reserves in millions of Euros. The ceiling or floor will be adjusted as specified in the TMU.

<sup>3</sup> Net other liabilities includes net onlending, capitalization, and other assets.

<sup>4</sup> Continuous.

**14. The Structural Benchmarks for end-June 2022 and end-September 2022 have been met.** The preannounced schedule of ((TIM) Títulos de Intervenção Monetária—Monetary Intervention Securities (MIS)) and TRM (Títulos de Regularização Monetária—Monetary Regularization Securities (MTS)) auctions was published in mid-June 2022. A quarterly assessment of fiscal risk using the IMF's health check tool and the first quarterly monitoring report on SOE's budget execution were completed in September 2022 (Text Table 3).

**Text Table 3. Cabo Verde: Structural Benchmarks Up to end-September 2022**

	Measure	Objective	Due Dates	Status
<b>Structural Benchmarks</b>				
SOEs Reforms	Conduct quarterly analysis of fiscal risk assessment using the IMF SOEs health check tool. Introduce a quarterly monitoring report on SOEs budget execution.	Improve fiscal reporting and reduce fiscal risks	End - September 2022	met met
Monetary policy reforms	Preannounce a schedule for TIM and TRM auctions.	Support the development of the money market	End-June 2022	met

## PROGRAM POLICIES

*Discussions focused on the 2023 budget, growth prospects and policies to support the program objectives.*

### A. Strengthen Public Finances to Preserve Debt Sustainability

**15. The 2023 budget submitted to parliament is consistent with the program framework (end-December 2022 SB); staff and authorities agreed on contingency measures to cope with any revenue shortfall.**

- **Revenues:** The budget assumes revenues of about 7.2 billion escudos (12.7 percent) higher than the ECF forecast (Text Table 4). The budgeted revenue reflects increased grants of about 1 percent of GDP (particularly from China) and property income as the delayed airport concession (1.5 percent of GDP) shifts to 2023. Gains from an increase in the rate of the tourist tax and settling of accounts yield about 0.3 percent of GDP. Tax collections are expected to continue benefiting from revenue mobilization efforts including from the electronic tax invoicing and collection of arrears (about 0.1 percent of GDP). Due to timing issues the revenue baseline submitted to Parliament did not reflect the impact of the strong revenue growth in 2022. However, the authorities agreed with staff's higher revenue forecast.
- **Expenditures:** The budget assumes a return to the pre-war in Ukraine public investment path in support of the new development plan (PEDs) and *Cabo Verde Ambition 2030*. Capital expenditure is budgeted at 4 billion escudos (51 percent) above the ECF forecast. Current spending is 3.2 billion escudos (5.2 percent) higher. Current spending increases are driven by higher outlay on goods and services, reflecting increased prices and growth in the wage bill from a moderate salary adjustment of between 1 percent and 3.2 percent for public servants at the lower end of the salary scale. Subsidies are expected to increase as the authorities continue to provide support to the most vulnerable. The spending increases are financed by higher revenues and lower projected interest spending (1.3 billion escudos).

**Text Table 4. Cabo Verde: Revised 2022-23 Fiscal Framework<sup>1</sup>**

	2022				2023				Proj.	
	CR 22/23S		Proj.		CR 22/23S		Draft Budget		Millions of CVE	Percent of GDP
	Millions of CVE	Percent of GDP								
<b>Revenue</b>	54,270	25.4	55,178	23.7	56,964	24.8	64,237	27.8	65,026	25.6
Taxes	38,215	17.9	43,481	18.7	43,273	18.8	44,349	19.2	45,849	18.1
Grants	3,982	1.9	3,914	1.7	2,788	1.2	5,225	2.3	5,225	2.1
Other revenue	12,073	5.6	7,783	3.3	10,904	4.7	14,663	6.3	13,951	5.5
<b>Expenditure</b>	67,825	31.7	65,526	28.2	69,942	30.4	77,220	33.4	77,202	30.4
Expense	60,639	28.4	60,992	26.2	62,748	27.3	66,022	28.6	66,004	26.0
Net acquisition of nonfinancial assets	7,186	3.4	4,535	1.9	7,194	3.1	11,198	4.8	11,198	4.4
Purchase of assets	7,834	3.7	5,183	2.2	7,905	3.4	11,945	5.2	11,945	4.7
Sale of assets	-648	-0.3	-648	-0.3	-711	-0.3	-747	-0.3	-747	-0.3
<b>Primary balance</b>	-7,750	-3.6	-4,543	-2.0	-5,979	-2.6	-7,106	-3.1	-6,298	-2.5
<b>Overall balance</b>	-13,555	-6.3	-10,349	-4.4	-12,977	-5.6	-12,983	-5.6	-12,176	-4.8
<b>Net other liabilities</b>	-1,455	-0.7	-1,334	-0.6	-1,256	-0.5	1,936	0.8	1,940	0.8
Onlending to SOEs for investment purpose	-2,910	-1.4	-2,426	-1.0	-1,752	-0.8	-1,851	-0.8	-1,851	-0.7
Other onlending (net)	120	0.1	120	0.1	144	0.1	194	0.1	197	0.1
Capitalization	-2,151	-1.0	-2,151	-0.9	-1,000	-0.4	-2,200	-1.0	-2,200	-0.9
<b>Financing needs</b>	15,010	7.0	11,682	5.0	14,233	6.2	11,047	4.8	10,236	4.0
<b>Financing</b>	15,010	7.0	11,682	5.0	14,233	6.2	11,047	4.8	10,236	4.0
Domestic (net)	7,501	3.5	3,930	1.7	6,911	3.0	6,631	2.9	4,179	1.6
External (net)	7,509	3.5	7,752	3.3	7,322	3.2	4,416	1.9	6,057	2.4
<b>Public debt (percent of GDP)</b>		145.9		128.1		139.7		...		122.4
<b>Nominal GDP</b>	213,800		232,686		229,800		231,002		253,856	

Sources: Cabo Verdean authorities and IMF staff projections.

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

- **Contingencies:** The authorities have identified spending contingency measures to safeguard the primary balance target if the 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 2.1 percent of GDP) as allowed by the budget law until revenue performance is assured (Text Table 5).
- **Financing.** Net domestic financing is lower than originally assumed under the ECF program and below the legally stipulated 3 percent of GDP. The lower domestic financing reflects the higher revenue base from 2022. Net external financing for 2023 accounts for about 60 percent of financing gap (2.4 percent of GDP or 6 billion escudos) compared with 51 percent under the ECF program (3.2 percent of GDP or 7.3 billion escudos). The lower level of external financing under the updated program assumptions reflects mainly lower projected disbursements on project loans in line with the sequencing and upscaling of capital spending.

**Text Table 5. Cabo Verde: Spending Contingency**

	Millions of CVE	Percent of GDP
<b>Total revenues</b>	65,026	25.6
Concession income	3,800	1.5
Revenues excluding concession	61,226	24.1
<b>Total spending</b>	77,202	30.4
Spending contingency	5,326	2.1
Capital	2,389	0.9
Goods and Services	2,937	1.2
Spending excluding contingency	71,876	28.3
<b>Primary balance</b>	-6,298	-2.5
<b>Adjusted primary balance</b>	-4,772	-1.9
<b>Additional buffer</b>	-1,526	-0.6

<b>Text Table 6. Cabo Verde: External Borrowing Program, 2023</b>		
PPG external debt contracted or guaranteed	Volume of new debt, USD million 1/	Present value of new debt, USD million 1/
Sources of debt financing	131.1	83.6
Concessional debt, of which 2/	131.1	83.6
Multilateral debt	86.1	56.1
Bilateral debt	45.0	27.5
Non-concessional debt, of which	0.0	0.0
Semi-concessional debt 3/		
Commercial terms 4/		
Uses of debt financing	131.1	83.6
Infrastructure	98.5	63.1
Budget financing	32.6	20.5

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.

**16. The program's updated fiscal forecast is marginally stronger than envisaged at program approval.** Higher revenues in line with the base effect from 2022 are included in staff's forecast and the program baseline as is income from the airport concession since the government has signed an agreement with the concessionaire.<sup>4</sup> Expenditure is however aligned with the budget. As a result, the primary balance is expected to be marginally stronger than what was previously envisaged under the program (Text Table 4).

**17. It is important to persevere with medium-term fiscal consolidation along the path set out in the ECF program (MEFP T11-13).** This is premised on steadfast implementation of the agreed policy measures, which includes sustaining ongoing tax administration reforms, improved compliance, and further policy measures, including the likely implementation of the ECOWAS common external tariff, which will support achievement of the medium-term objective of achieving a primary balance surplus. By 2027, revenues are projected to climb to 26.6 percent of GDP and expenditures would gradually decline to 27.4 percent of GDP. The primary balance would move into a surplus position of 1 percent of GDP. Public debt would decline to 105.2 percent of GDP.

<sup>4</sup> The authorities have indicated that based on the contractual terms the agreement must be made effective by end-June 2023 otherwise financial penalties would be incurred.

**18. Cabo Verde's risk of debt distress remains high, though public debt is assessed as sustainable.<sup>5</sup>** The last joint World Bank/IMF Debt Sustainability Analysis (DSA) of June 2022 showed that Cabo Verde's risk of external debt distress was 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.

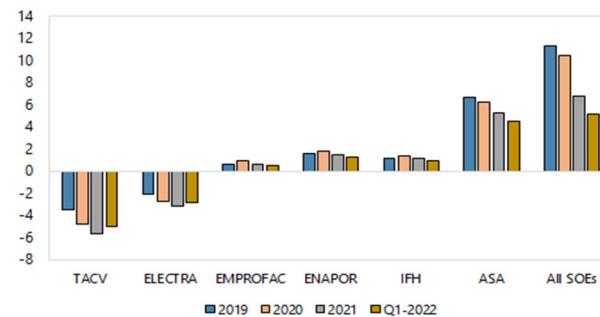
## B. Reduce Fiscal Risks from Public Enterprises and Improve Their Financial Management

**19. The fiscal structural reforms agreed under the program are being implemented on schedule.** The authorities have a well targeted fiscal structural reform agenda—with revenue mobilization, SOE and public financial management reforms. The objective of reducing fiscal risks stemming from public enterprises was advanced with the preparation of quarterly fiscal risk assessment reports, as well as the first quarterly monitoring report on SOEs' budget execution. Progress is being made in improving the annual SOEs report to include comparison of execution of initial budget projection, and evaluation of performance against the medium-term plan (SB, end-July 2023).

**20. The SOE privatization and restructuring plan that was placed on hold at the onset of the COVID-19 pandemic is progressing slowly and should be accelerated (MEFP 118-19).**

Finalization of the airport concession agreement was delayed until 2023, other privatization initiatives are now being pushed back and the updated timeline for completion of the privatization process for eleven key SOEs is now 2026. Cabo Verde airline (TAVC) is of particular concern with elevated debt and minimal income (Text Figure 4). The original strategic plan did not generate the financing required to increase the number of airplanes and routes that would allow the company to break even in two years. Staff urged the authorities to provide an updated business plan, which the authorities expect to unveil shortly, and accelerate discussions with potential strategic partners. The government provided support to the airline to the tune of 10m euros in 2022 in line with the ECF which includes a provision for 30m euros during the program period. Faster progress is needed on revitalization and privatization efforts to reduce the fiscal drain.

**Text Figure 4. Cabo Verde: Net Assets of SOEs 2019-2022 (Percent of GDP)**



Sources: Cabo Verdean authorities; IMF staff calculations.

<sup>5</sup> IMF Country Report 2022/235.

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

**21. Monetary policy continues to focus on safeguarding the peg and strengthening the policy framework (MEFP 123).** Reserves are within the Banco de Cabo Verde (BCV) target range. In the near term, the monetary policy stance seems appropriate, carefully balancing the need to support the ongoing economic recovery whilst protecting the peg. At the recent Monetary Policy Committee (MPC) meeting the BCV left the reference rates unchanged, citing an adequate level of reserves cover to protect the peg and considering the tightening impact of ending the credit moratorium and the adjustment to the Long-Term Financing Program on the financial sector and economic activity.<sup>6</sup> Staff encouraged the central bank to closely monitor reserves and inflation developments and stand ready to adjust policy settings as required.

**22. The BCV should continue to unwind COVID-19 related support.** The monetary and financial accommodation in 2020 helped to support credit and provided liquidity to households and firms. However, with robust growth during the last five quarters, a positive growth outlook and considering the high levels of liquidity in the banking system, the gradual unwinding of the Long-Term Financing Program and the expiration of the credit moratorium at end-June 2022 are appropriate.

**23. A preliminary assessment by the central bank suggests that the banking sector is well placed to withstand the effects of the projected increase in non-performing loans (MEFP 125).** However, the central bank should remain vigilant to guard against risks particularly those posed by NPLs. The BCV carried out the first phase of a comprehensive study of loan losses and provisions at the expiration of the credit moratorium (June 2022). This phase covered the two largest banks representing 54 percent of the banking sector assets. The results are expected to be published in December 2022 (SB). The second phase of the study covering the two medium size banks that represent 19.1 percent of the banking sector assets will be conducted in March 2023. The BCV has encouraged and facilitated prudent restructuring of loans, and proactively provided guidance on the prudential treatment of moratoria and NPL management strategies. In addition, work on a common framework for the resolution of crisis related NPLs (December 2022 SB) is at an advanced stage, with the publication of a standardized toolkit to restructure the stock of NPLs in the banking sector to be disseminated by December 2022. The central bank is also engaged in guiding the development of detailed reporting templates for the restructured and rescheduled loans and for monitoring the impact of COVID measures on the asset quality of banks.

**24. Cabo Verde continues efforts to improve the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework, helping maintain**

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<sup>6</sup> The adjustment to the Long-Term Financing Program includes (i) an extension of the program deadline until June 2023; (ii) reduction of the monthly placement amount, from 1,300 to 1,000 million escudos; and (iii) the maintenance of the list of assets eligible as collateral.

**correspondent banking relationships (CBRs) (MEFP ¶26).** Steps to enhance the effectiveness of the AML/CFT regime are being implemented based on the Inter-Governmental Action Group against Money Laundering (GIABA)'s recommendations in the 2019 Mutual Evaluation Report (including the establishment in 2020 of a national AML/CFT commission). The authorities have created the Inter-Ministerial Commission and appointed members of the Executive Committee. Changes have been enacted to the law which reviews the Penal Code. In line with the MER recommendations, draft changes in existing regulations and the requisite legislative amendments were presented to the main stakeholders in September 2022, as part of the consultative process.

**25. Structural reforms are focused on strengthening the monetary policy transmission mechanism and enhancing analytical capacity to monitor the economy.** To support the development of the money market, the BCV started releasing a preannounced schedule for TIM and TRM auctions (SB, 1st review). The auction schedule and related information is pre-announced on the BCV website. Other reforms in progress include strengthening the payment systems, introduction of composite indicators of economic activity (End-June 2023 SB) and strengthening near-term forecasting, implementation of central bank digital currency, and developing a framework for the provision of emergency liquidity assistance.

**26. The BCV is making progress in implementing safeguards recommendations.** In line with the 2022 safeguards assessment, the central bank is finalizing draft legal amendments to strengthen the BCV's decision-making structure, autonomy, and accountability and transparency (SB, end-December 2022). The BCV has also requested Fund technical assistance to further enhance transparency in financial reporting. Other priority recommendations remain a work-in-progress, including capacity building in internal audit and risk management.

## D. Raise the Growth Potential and Increase Resilience to Shocks

### Growth-Related Reforms

**27. Structural reforms are aimed at improving the business environment, addressing labor market inefficiencies, and increasing access to finance.** The authorities expect to unveil a new five-year development strategy based on the recently completed long-term development plan before year-end (*Cabo Verde Ambition 2030*). Key priority areas 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 progress towards achieving the 50 percent renewable energy target by 2030. In addition, the development of technology parks will support efforts to enhance digitalization.

## Climate Challenges and Initiatives

**28. Cabo Verde is at the forefront of the call to strengthen climate action and has placed climate change at the center of its sustainable development strategy (MEFP ¶21-22).** Critical programs in this context include water and sanitation, environment, biodiversity and geodiversity, and resilience. Cabo Verde also updated its Nationally Determined Contribution in April 2021 and will be doing a further update over the near term. However, there is a need to undertake studies and establish frameworks to govern new and innovative areas of climate-change actions. A key priority is to establish a unifying body to prioritize and oversee the management and implementation of the various climate change initiatives, including transparency and accountability mechanisms.

**29. The authorities have expressed interest in the Resilience and Sustainability Trust (RST).** The mission discussed the possible timeline with the authorities, particularly relating to the need for consistency between the timing of an RST and ECF, and potential reform measures that could eventually underpin a future RST program. The authorities will also benefit from a climate Public Investment Management Assessment (C-PIMA) technical assistance mission in March 2023.

## Support for the Vulnerable

**30. Support for vulnerable groups is being advanced (MEFP ¶33-34).** In this regard, additional resources have been expended on the social safety net to help mitigate the impact of higher prices on the most vulnerable groups, particularly on targeted food and fuel subsidies. The authorities have introduced a social protection fund to be financed by the tourism tax that provides a reliable stream of resources to support vulnerable groups. Staff will work closely with the World Bank and the African Development Bank (AfDB) to advise the authorities on further reforms to enhance social protection.

## PROGRAM ISSUES AND RISKS

**31. PCs and ITs for end-June 2023 and end-December 2023 are proposed consistent with the revised framework for 2023 (Table 6).** The end-June 2023 PCs are as set in the ECF approval. Indicative targets for end-September 2023 have also been added.

**32. Three new structural benchmarks are proposed for end-2023.** The limited number of new SBs seeks to balance the need for parsimony and the authorities' desire to push through reforms under the program. The new benchmarks below relate to fiscal reforms aimed at keeping the medium-term fiscal path on track; and to preserve and strengthen financial sector stability.

- Construct a Compliance Risk Management system to allow for the optimization of tax revenue collection by end-December 2023.
- Submit to parliament the budget for 2024 that is in line with the primary balance commitment under the program.

- 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.

**33. The program is fully financed for the next 12 months, with strong prospects of full financing for the remainder of the arrangement (Text Table 7 and 8).** In addition to Fund support, financing in the first and second year of the ECF comes through budget support from development partners and multilateral development institutions, including the World Bank and the African Development Bank. Fund financing remains important due to heightened external risks, lack of export diversification, and vulnerability to exogenous shocks.

<b>Text Table 7. Cabo Verde: Sources of Financing for 2022-25<sup>1</sup></b>							
				(Millions of Escudos)			
	2022	2023	2024		2025		
	Millions of Escudos	Percent of GDP	Millions of Escudos	Percent of GDP	Millions of Escudos	Percent of GDP	Millions of Escudos
Total financing needs	11,682	5.0	10,236	4.0	9,976	3.7	6,121
Financing sources	11,682	5.0	10,236	4.0	9,976	3.7	6,121
Domestic Financing (Net)--Issuance of treasury securities	3,930	1.7	4,179	1.6	6,128	2.2	(810)
External financing (Net)	7,752	3.3	6,057	2.4	3,848	1.4	6,931
Disbursements	16,887	7.3	16,663	6.6	12,652	4.6	15,853
Of which budget support	8,394	3.6	7,126	2.8	3,826	1.4	6,847
IMF	1,575	0.7	2,813	1.1	1,233	0.5	615
World Bank	4,614	2.0	1,750	0.7	940	0.3	4,027
African Development Bank	2,205	0.9	2,205	0.9	1,653	0.6	2,205
Program and project loans	6,154	2.6	7,686	3.0	8,284	3.0	8,423
JICA	24	0.0	1,076	0.4	0	0.0	2,419
OFID	821	0.4	1,556	0.6	329	0.1	
World Bank	2,671	1.1	2,428	1.0	3,807	1.4	3,248
BADEA	1,358	0.6	856	0.3	664	0.2	470
Kuwait	919	0.4	356	0.1	2,318	0.8	
SDR	1,948	0.8					
Other	361	0.2	1,414	0.6	1,166	0.4	2,285
Onlending loans	2,339	1.0	1,851	0.7	543	0.2	583
African Development Bank	2,310	1.0					
Amortization	9,135	3.9	10,606	4.2	8,805	3.2	8,922
							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.

**34. Cabo Verde's capacity to repay the Fund is assessed as adequate (Table 8).**

Cabo Verde's Fund credit outstanding will 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 3.4 percent of GDP, 9.4 percent of exports, and 12.6 percent of gross international reserves. At the same time, annual repayments to the Fund would peak at 0.9 percent of exports, 1.4 percent of reserves, and 10.4 percent of PPG external debt service. Risks are mitigated by the authorities' strong track record of servicing their debt obligations to the Fund, and policy measures envisaged in the program, including fiscal consolidation.

**35. Risks to the program are assessed as moderate, conditional on the successful implementation of the reform agenda and a significant reduction of the debt stock 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. Mitigating factors to the worsened outlook are the authorities' strong track record under the recently completed PCI and strong program ownership.

<b>Text Table 8. Cabo Verde: External Financing Gap 2020-25</b> (Millions of Euros, unless otherwise specified)						
	2020	2021	2022	2023	2024	2025
<b>Current account balance</b>	-246.1	-201.3	-164.0	-157.2	-134.6	-119.4
Balance of goods and services	-512.9	-464.1	-461.6	-473.8	-469.2	-466.5
Exports of goods	113.3	166.0	238.0	267.1	296.5	340.9
Imports of goods	692.2	775.2	926.1	1001.8	1051.8	1107.2
Exports of services	258.2	351.0	472.6	524.3	587.6	642.4
Imports of services	192.3	205.9	246.2	263.4	301.5	342.5
Balance on primary income	-35.9	-59.3	-49.2	-56.6	-65.4	-68.5
Balance on secondary income	302.8	322.1	346.8	373.2	400.0	415.6
<b>Financing</b>						
Capital account	21.6	27.6	37.9	54.6	41.2	41.8
Financial account, net <sup>1</sup>	-229.4	-173.6	-126.1	-102.6	-93.4	-77.6
Direct investment, net	-55	-62	-111	-61	-122	-85
Portfolio investment, net	0	0	0	0	0	0
Other investment, net	-100	-95	-54	-34	-10	-37
<b>Overall balance</b>	-75	-17	38	-8	38	44
Change in reserves (increase:+)	-75	-17	38	-8	38	44
Financing gap			14	25	11	6
percent of GDP			0.7	1.1	0.5	0.2
ECF			14	25	11	6
percent of GDP			0.7	1.1	0.5	0.2
Memorandum Items:						
Targeted reserves path as months of prospective imports	7.1	6.1	6.0	5.5	5.5	5.5

Source: Authorities and IMF staff estimates.

1/Includes reserves and exceptional financing.

## STAFF APPRAISAL

**36. The economic rebound is now well entrenched, and the economy is projected to reach the pre-pandemic level of output by the end of 2022.** Real GDP growth is estimated at 10.5 percent in 2022 as tourism arrivals recover towards the pre COVID-19 level. The economy is expected to continue growing in 2023 but at a much slower pace reflecting in part the worsening economic outlook for Cabo Verde's main tourist market.

**37. Inflation remains high and requires close monitoring and targeted measures to support the vulnerable.** Rising global food and energy prices have put pressure on basic food items and fuel in Cabo Verde, which has impacted the most vulnerable groups. In response, the authorities have stepped up support through well targeted subsidies on basic food items and electricity for poorer households. Inflation is expected to decline in 2023 but will remain above the pre 2022 five-year historical average. The authorities are committed to continue supporting vulnerable groups as required.

**38. Risks to the outlook remain elevated.** The main risks relate to lower external demand due to a softening of economic activity in Cabo Verde's key tourism markets, and further

increases in food and fuel prices. The re-emergence of COVID-19 and lockdowns would present significant challenges. SOEs remain a source of fiscal risk that could partly derail some of the progress made in reducing the debt burden.

**39. Performance under the program was strong and supported by robust growth.** The fiscal deficit and debt-to-GDP ratio are projected to decline by more than anticipated at onset of the program assisted by growth and the decision to save revenue overperformance; the current account deficit has narrowed, and reserves are consistent with the target range; and the reforms program has been implemented on schedule. All PCs and an ITs have been met at end-June. The SBs for end-June 2022 and end-September 2022 have also been met. All the ITs for end-September 2022 were met.

**40. The authorities' strong commitment to reducing the level of debt is welcome.** Economic growth has contributed to a reduction in the debt-to-GDP ratio and the authorities' decision to save the projected revenue overperformance in 2022 contributes to further advancing the program's debt-reduction objectives. The 2023 fiscal plan would result in a slightly improved primary balance position compared to the program and includes prudent contingencies to safeguard against revenue shortfalls. Over the medium-term, fiscal consolidation will be aided by continued revenue mobilization measures, supported by extensive CD from the IMF. The sustainability of expenditure restraint will need to be carefully monitored in light of the higher fuel and energy prices.

**41. Staff agrees with leaving monetary policy reference rate unchanged and the unwinding of COVID related support measures.** Monetary policy is focused on safeguarding the peg and with reserves at adequate levels and foreign exchange inflows broadly stable the decision to maintain the existing monetary policy stance given uncertainty regarding the economic outlook appears appropriate as inflation is largely imported. The CBV should remain vigilant and stand ready to change the policy stance as required to support the peg. Staff supports the withdrawal of COVID support measures including the moratorium on loans and the liquidity facility.

**42. The banking system appears resilient and proactive steps are being taken to contain risk.** The BCV carried out a study of loan losses and provisions at the expiration of the credit moratorium and has encouraged and facilitated prudent restructuring of loans, and proactively provided guidance on the prudential treatment of moratoria and NPL management strategies. Staff welcomes ongoing work on the proposed common framework for the resolution of crisis related NPLs and urges the authorities to remain vigilant and ensure that financial risks are contained. In this regard, the completion and publication<sup>7</sup> of the results of the first phase of the comprehensive study of loan losses and provisions following the expiration of the credit moratorium end-June 2022, will indicate what further steps are necessary for the authorities to contain any emerging financial risks.

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<sup>7</sup> The BCV authorities will share the results of the first phase of the comprehensive study on loan losses and provisions once they have been approved by the governing board.

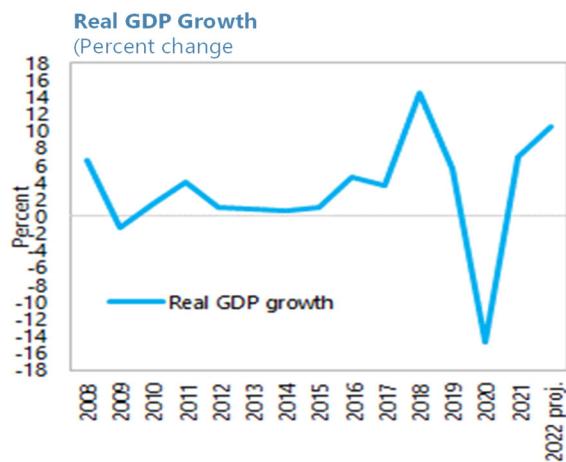
**43. Strong progress must be maintained in advancing the structural reform agenda.** The authorities met the SBs on the budget, SOE reforms, and monetary policy well within the program test date. Early indications are that work on advancing the reforms for the coming test dates is progressing. Staff welcomes the proposed new reforms on SOEs and fiscal management to be included in the program. It is critical to continue with SOE reform objectives without delay, as delaying the restructuring process could undermine the authorities' development strategy and fiscal sustainability and damage the business environment and the authorities' credibility.

**44. Staff supports the authorities' request for completion of the first review under the Extended Credit Facility.** The attached letter of Intent and Memorandum of Economic and Financial Policies set out appropriate policies to support the program objectives. The capacity to repay the Fund is strong and risks to program implementation are manageable.

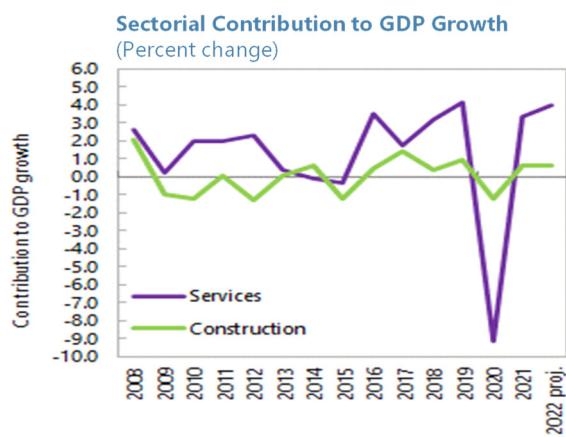
### Figure 1. Cabo Verde: Recent Economic Developments

Economic growth is projected to accelerate in 2022...

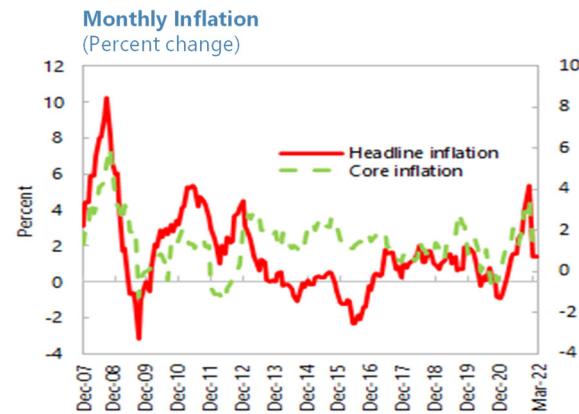
...due to significant improvements in the tourism sector...



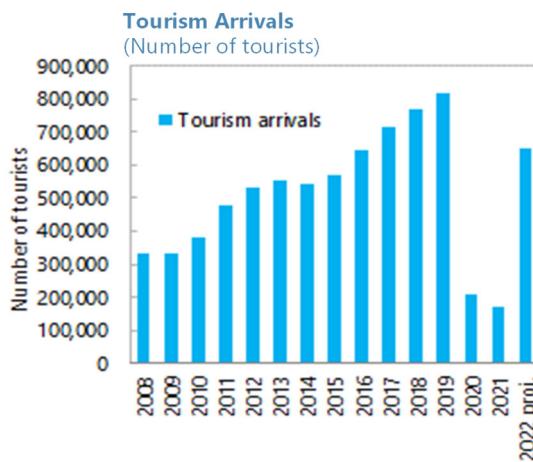
... that is expected to support activity in the services sector.



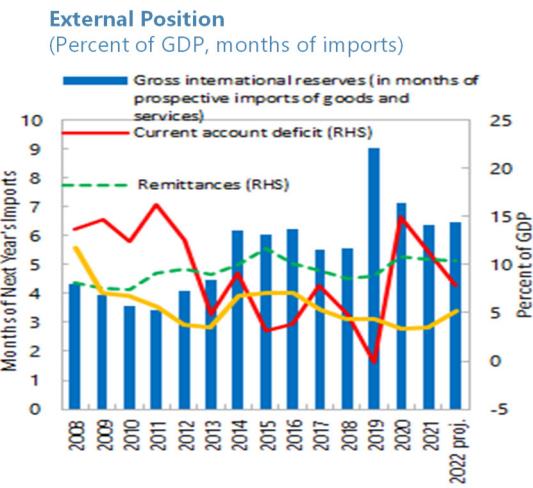
Headline inflation increased due to higher food, electricity and Gas, and transportation costs.



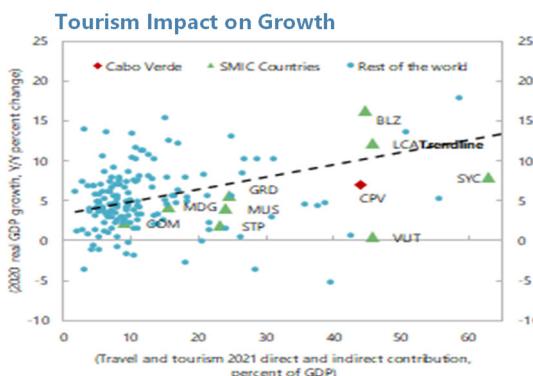
Sources: Cabo Verdean authorities; and IMF staff estimates.



International reserves are projected to remain adequate reflecting increased FDI and higher remittances.



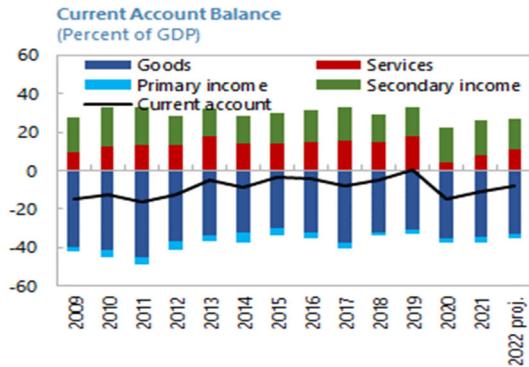
Tourism Dependency and GDP Growth - 2021



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

## Figure 2. Cabo Verde: External Sector Developments

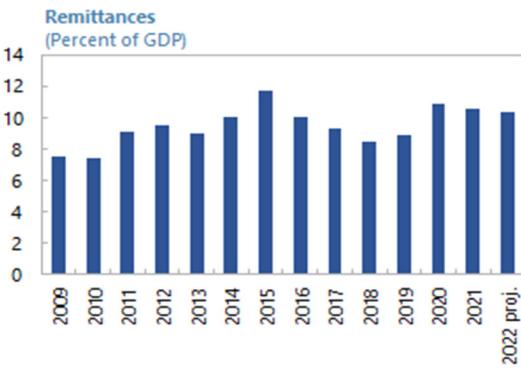
The current account deficit is expected to shrink in 2022 in line with tourism recovery.



Tourism arrivals are projected to increase but remain well below pre pandemic levels.

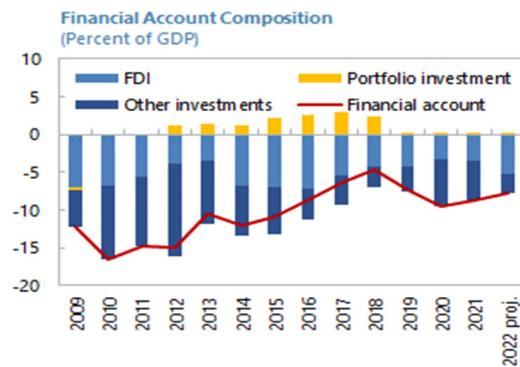


Remittances are projected to remain strong in 2022 and an important source of foreign currency...

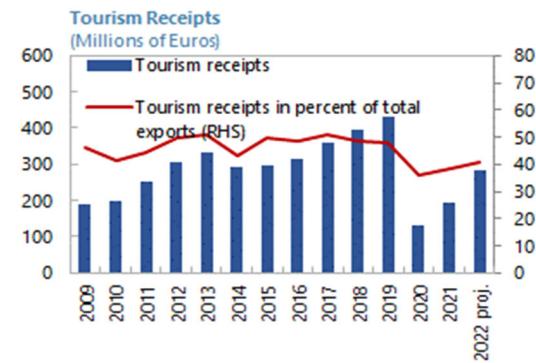


Sources: Cabo Verdean authorities; and IMF staff estimates.

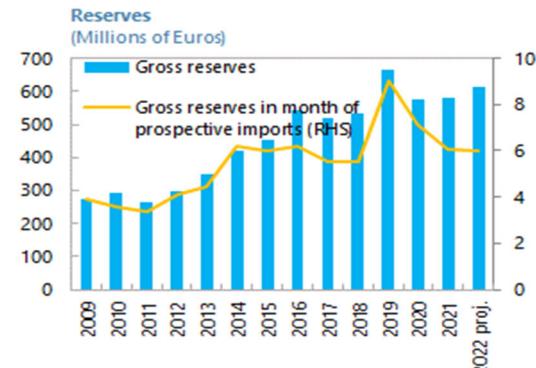
The financial account is projected to improve reflecting increased FDI.



Resulting in a steady increase in tourism receipts.

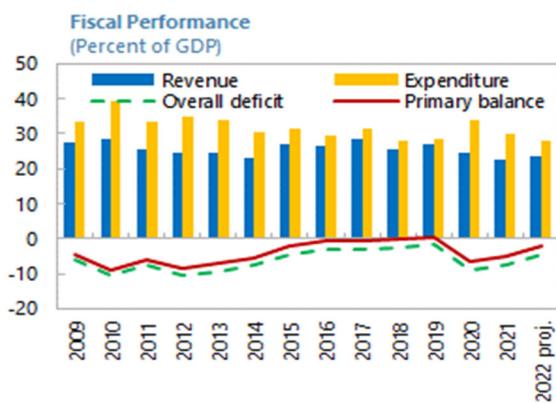


... supporting the country's strong reserve position.

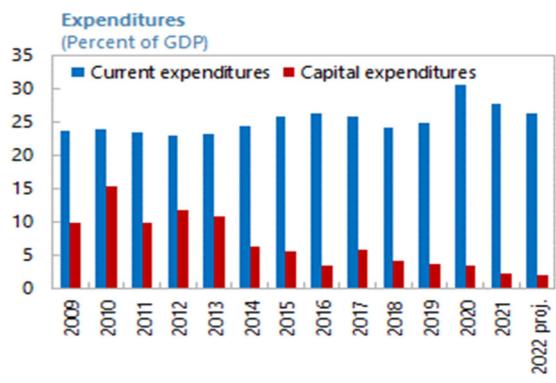


### Figure 3. Cabo Verde: Fiscal Sector Developments

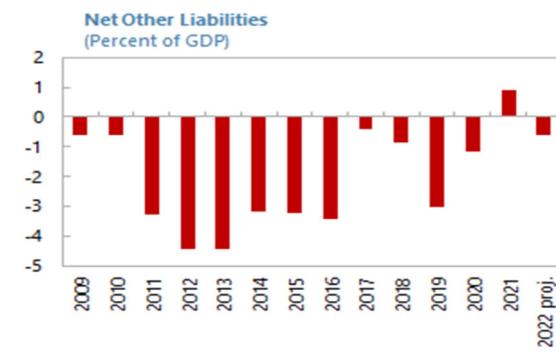
Fiscal performance is projected to improve in 2022 ...



Expenditures are projected to decline...

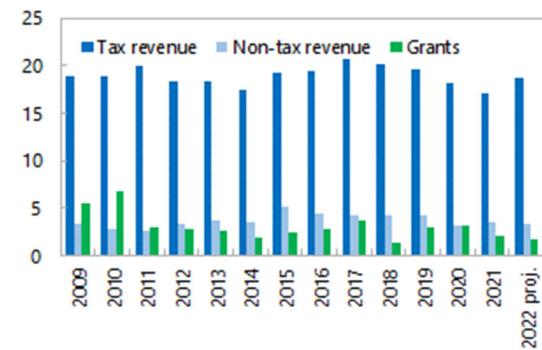


Net other liabilities are projected to increase in 2022 reflecting higher government support to SOEs.



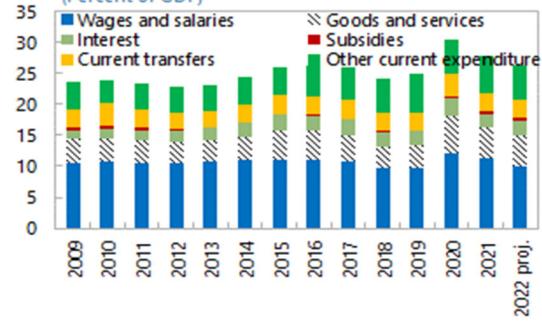
...with tax revenues expected to rebound strongly due to an acceleration in economic growth.

#### Revenue Composition



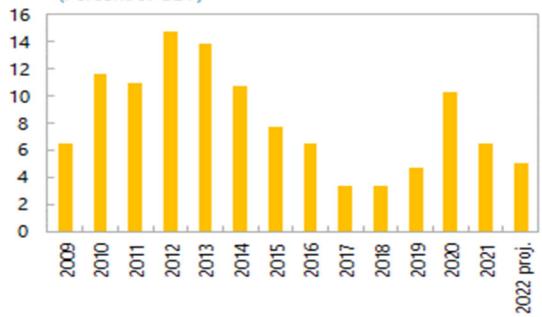
...reflecting lower current expenditure due in part to the unwinding of COVID-19 related spending.

#### Current Expenditures Composition (Percent of GDP)



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

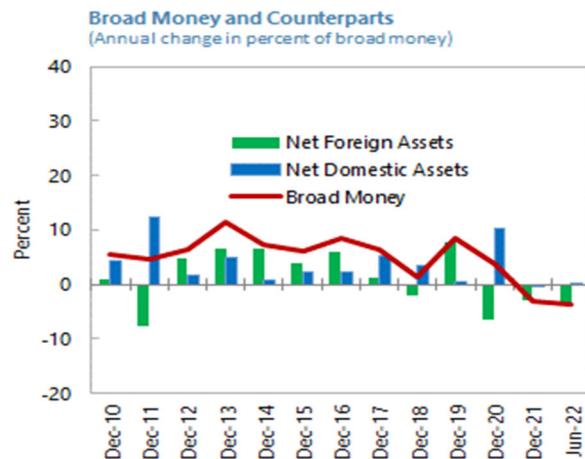
#### Financing Needs (Percent of GDP)



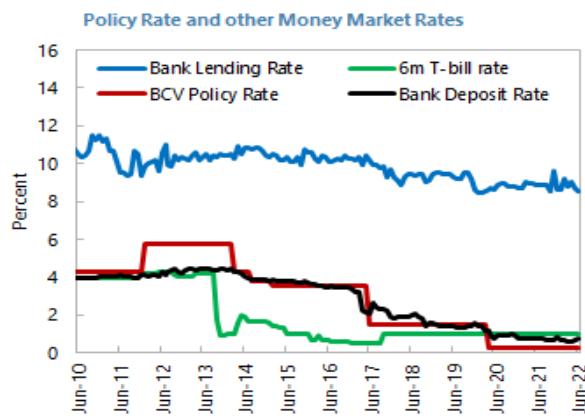
Sources: Cabo Verdean authorities; and IMF staff estimates.

### Figure 4. Cabo Verde: Monetary and Financial Sector Developments

*At end June 2022 broad money decreased due to the continued decline in foreign currency reserves...*

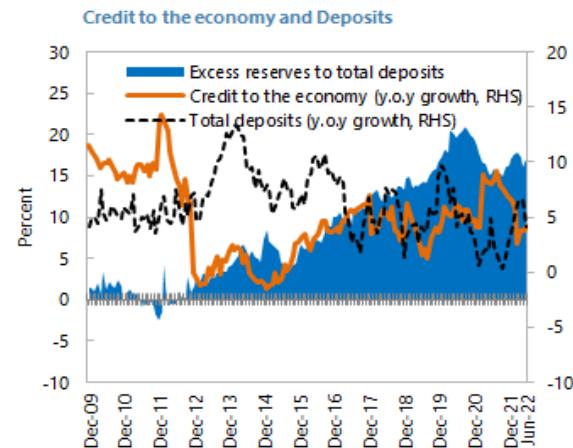


*The central bank lowered the policy rate in response to the COVID-19 pandemic.*

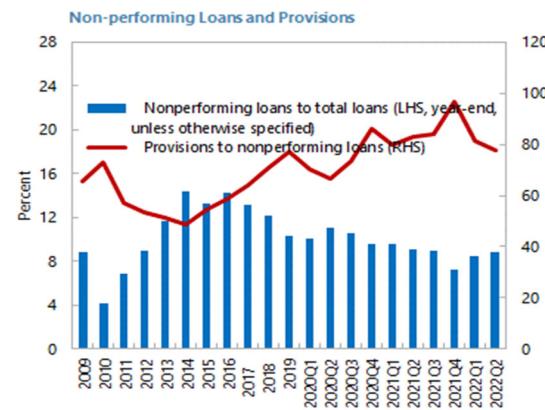


Sources: Cabo Verdean authorities; and IMF staff estimates.

*...credit to the economy slowed reflecting the gradual phasing out of the COVID-19 relief measures.*



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



**Table 1. Cabo Verde: Selected Economic Indicators, 2019–27**

	2019	2020	2021	2022		2023		2024	2025	2026	2027
				CR 22/235	Proj.	CR 22/235	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percent change)											
<b>National accounts and prices 1/</b>											
Real GDP	5.7	-14.8	7.0	4.0	10.5	4.8	4.4	5.4	5.3	5.0	4.5
GDP deflator	0.6	-0.9	1.8	4.5	7.0	2.6	4.5	2.0	2.0	2.0	2.0
Consumer price index (annual average)	1.1	0.6	1.9	6.5	8.0	3.5	4.5	2.0	2.0	2.0	2.0
Consumer price index (end of period)	1.9	-0.9	5.4	6.5	8.0	3.5	4.5	2.0	2.0	2.0	2.0
<b>External sector</b>											
Exports of goods and services	10.2	-58.7	39.1	11.2	37.5	32.6	11.4	11.7	11.2	11.4	11.5
Of which: tourism	9.4	-69.1	48.4	14.2	47.1	22.2	15.6	16.9	13.2	12.0	10.0
Imports of goods and services	1.6	-23.2	10.9	14.4	19.5	5.8	7.9	7.0	7.1	6.6	8.5
(Change in percent of broad money, 12 months earlier)											
<b>Money and credit</b>											
Net foreign assets	7.8	-6.6	1.2	-10.6	1.3	2.7	-0.4	1.7	1.9	2.6	2.6
Net domestic assets	0.6	10.3	0.8	12.2	8.2	5.0	7.0	5.0	4.5	4.2	4.0
Net claims on the central government	-4.8	-1.3	0.6	1.8	0.9	1.6	0.9	1.2	-0.2	-0.4	-0.7
Credit to the economy	2.3	2.9	2.6	5.1	3.3	1.3	2.6	1.8	2.4	1.8	1.5
Broad money (M2)	8.4	3.8	2.0	1.6	9.6	7.7	6.6	6.7	6.4	6.8	6.6
(Percent of GDP, unless otherwise indicated)											
<b>Savings and investment</b>											
Domestic savings	37.3	20.7	31.0	30.0	35.1	35.2	32.1	32.0	34.8	37.7	39.8
Government	0.1	-7.4	-4.5	-2.6	-2.0	-1.8	0.5	1.1	2.7	3.3	3.2
Private	37.2	28.1	35.5	32.6	37.1	37.0	31.6	30.9	32.1	34.4	36.7
National investment	37.1	35.7	42.2	44.1	42.8	41.4	38.9	37.4	39.3	41.1	43.0
Government	3.6	3.3	2.2	3.4	1.9	3.1	4.4	4.0	4.0	3.6	3.8
Private	33.6	32.4	40.0	40.7	40.9	38.2	34.5	33.4	35.3	37.6	39.2
Savings-investment balance	0.2	-15.0	-11.3	-14.1	-7.8	-6.2	-6.8	-5.4	-4.5	-3.4	-3.2
Government	-3.4	-10.7	-6.7	-5.9	-4.0	-4.9	-3.9	-2.9	-1.3	-0.3	-0.6
Private	3.6	-4.3	-4.5	-8.1	-3.8	-1.3	-3.0	-2.5	-3.2	-3.1	-2.6
<b>External sector</b>											
External current account (including official transfers)	0.2	-15.0	-11.3	-14.1	-7.8	-6.2	-6.8	-5.4	-4.5	-3.4	-3.2
External current account (excluding official transfers)	-2.5	-17.6	-14.2	-16.1	-9.6	-8.1	-8.5	-6.8	-5.6	-4.3	-4.0
Overall balance of payments	6.8	-4.6	-1.0	-5.2	1.8	2.6	-0.3	1.5	1.7	2.3	2.3
Gross international reserves (months of prospective imports of goods and services)	9.0	7.1	6.1	5.0	6.0	5.1	5.5	5.5	5.5	5.5	5.5
<b>Government finance</b>											
Revenue	26.8	24.7	22.6	25.4	23.7	24.8	25.6	25.8	26.1	26.4	26.6
Tax and nontax revenue	23.9	21.4	20.6	23.5	22.0	23.6	23.6	24.5	24.9	25.2	25.5
Grants	2.9	3.2	2.0	1.9	1.7	1.2	2.1	1.3	1.3	1.2	1.1
Expenditure	28.5	33.8	29.9	31.7	28.2	30.4	30.4	29.3	28.0	27.3	27.4
Primary balance	0.7	-6.4	-5.1	-3.6	-2.0	-2.6	-2.5	-1.0	0.0	1.0	1.0
Overall balance (incl. grants)	-1.7	-9.1	-7.3	-6.3	-4.4	-5.6	-4.8	-3.5	-1.9	-0.9	-0.8
Net other liabilities (incl. onlending)	-3.0	-1.2	0.9	-0.7	-0.6	-0.5	0.8	-0.1	-0.2	-0.2	0.0
Total financing (incl. onlending and capitalization)	4.6	9.6	6.4	7.0	5.0	6.2	4.0	3.7	2.1	1.1	1.2
Net domestic credit	1.3	3.0	1.6	3.5	1.7	3.0	1.6	2.2	-0.3	-0.7	-1.2
Net external financing	3.3	6.6	4.8	3.5	3.3	3.2	2.4	1.4	2.4	1.8	2.0
<b>Public debt stock and service</b>											
Total nominal government debt	114.0	142.6	143.0	145.9	128.1	139.7	122.4	118.3	113.5	108.7	105.2
External government debt	82.6	103.1	101.5	103.6	90.5	97.7	85.2	83.1	80.7	79.7	78.8
Domestic government debt	31.4	39.5	41.5	42.3	37.6	42.0	37.2	35.2	32.7	29.0	26.4
External debt service (percent of exports of goods and services)	5.4	14.8	13.5	17.7	15.1	14.7	15.0	11.2	10.3	9.4	8.7
Present value of PPG external debt											
Percent of GDP (risk threshold: 55%)	55.8	70.3	57.2	55.9	51.3	53.4	50.2	48.9	48.0	47.9	48.0
Percent of exports (risk threshold: 240%)	119.9	335.9	197.4	188.4	152.4	145.8	146.1	137.0	129.6	124.5	119.4
Present value of total debt											
Percent of GDP (benchmark: 70%)	92.4	105.4	101.4	97.9	90.7	95.0	87.4	84.5	81.1	77.5	75.1
<b>Memorandum items:</b>											
Nominal GDP (billions of Cabo Verde escudos)	213.9	180.7	196.8	213.8	232.7	229.8	253.9	272.9	293.1	313.9	334.6
Gross international reserves (€ millions, end of period)	666.1	582.4	591.3	491.0	629.7	544.3	621.8	659.8	704.1	770.4	841.4

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, 2019–27**  
 (Millions of Euros; unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				CR 22/235	CR 22/235	Proj.	Proj.	Proj.	Proj.
<b>Current account</b>	4	-246	-201	-273	-164	-128	-157	-135	-119
Trade balance	-595	-579	-609	-716	-688	-665	-735	-755	-766
Exports, f.o.b.	237	113	166	178	238	282	267	297	341
Imports, f.o.b.	833	692	775	895	926	948	1002	1052	1107
Consumer goods	297	256	239	270	276	294	284	340	369
Intermediate goods	168	159	132	145	155	159	163	121	112
Capital goods	92	93	72	83	76	96	102	111	106
Others (including fuel)	276	185	333	397	420	399	453	479	504
Fuel	83	62	76	100	112	85	120	131	137
Services (net)	343	66	145	169	226	240	261	286	300
Receipt	662	258	351	398	473	481	524	588	642
Of which: tourism	432	133	198	226	291	276	337	394	446
Payment	319	192	206	229	246	241	263	301	343
Primary Income (net)	-38	-36	-59	-48	-49	-54	-57	-65	-69
Of which: interest on public debt	-17	-15	-30	-19	-20	-24	-27	-19	-21
Secondary Income (net)	294	303	322	323	347	351	373	400	416
General Government	53	43	52	40	40	40	37	33	30
Other Sectors	241	260	270	283	307	311	336	367	385
Of which: remittances	172	178	189	195	219	214	239	261	281
<b>Capital account</b>	11	22	28	38	38	30	55	41	42
Of which: Grants	6	10	16	25	25	17	42	29	29
<b>Financial account 1/</b>	-12	-229	-174	-235	-126	-98	-103	-93	-78
Foreign direct investment	-84	-55	-62	-74	-111	-111	-61	-122	-85
Portfolio investment	1	0	0	0	0	0	0	0	0
Other investment	-62	-100	-95	-61	-54	-41	-34	-10	-37
Net acquisition of financial assets	4	-18	-39	-8	-8	5	5	5	6
Net incurrence of liabilities	65	82	56	52	46	46	38	14	42
Monetary authority	0	-1	1	0	0	0	0	0	0
Central government	64	101	72	73	66	66	59	35	63
Disbursements	96	128	111	156	154	155	151	115	144
of which RCF			29						
Prospective ECF Financing				28	14	11	25	11	6
Amortization	-32	-41	-39	-83	-88	-88	-92	-80	-81
Exceptional financing 2/	0	14	40	0.0	0	0.0	0	0	0
Commercial banks	4	4	5	5	5	5	5	5	5
Non-bank flows	-3	-21	-21	-26	-26	-26	-26	-26	-3
Reserve assets (+ accumulation)	132	-75	-17	-100	38	53	-8	38	44
<b>Errors and omissions 3/</b>	-28	-5	0	0	0	0	0	0	0
<b>Overall balance</b>	132	-75	-17	-100	38	53	-8	38	44
<b>Memorandum items:</b>									
Current account (incl. official transfers, percent of GDP)	0.2	-15.0	-11.3	-14.1	-7.8	-6.2	-6.8	-5.4	-4.5
Current account (excl. official transfers, percent of GDP)	-2.5	-17.6	-14.2	-16.1	-9.6	-8.1	-8.5	-6.8	-5.6
Overall balance (percent of GDP)	6.8	-4.6	-1.0	-5.2	1.8	2.6	-0.3	1.5	1.7
Gross international reserves	666	582	591	491	630	544	622	660	704
Months of current year's imports of goods and services	6.9	7.9	7.2	5.2	6.4	5.5	5.9	5.9	5.8
Months of next year's imports of goods and services	9.0	7.1	6.1	5.0	6.0	5.1	5.5	5.5	5.5
External public debt	1,900	2,003	2,147	2,371	2,271	2,426	2,352	2,473	2,590
External aid (grants and loans, percent of GDP)	8.0	11.1	10.0	11.4	10.4	10.2	10.0	7.1	7.6
Nominal GDP	1,940	1,639	1,785	1,939	2,110	2,084	2,302	2,475	2,658
									3,035

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 4. Cabo Verde: Monetary Survey, 2019–27**  
 (Millions of Cabo Verde escudos, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Proj.	Proj.	Proj.	Proj.	Proj.
<b>Net foreign assets</b>	70,782	57,716	60,142	62,931	62,026	66,173	71,113	78,497	86,390
Foreign assets	98,658	91,373	91,271	94,593	94,232	98,933	104,439	112,400	120,881
Of which: gross international reserves	73,453	64,213	65,197	69,432	68,567	72,756	77,633	84,950	92,773
Foreign liabilities	-27,876	-33,658	-31,129	-31,662	-32,206	-32,760	-33,326	-33,903	-34,491
<b>Net domestic assets</b>	128,361	148,917	150,581	167,917	184,026	196,422	208,266	219,889	231,787
Net domestic credit	152,510	146,433	152,702	161,955	170,016	177,509	183,301	187,435	190,245
Net claims on general government (net)	31,929	20,036	20,949	23,257	25,393	28,451	28,051	27,237	25,565
Investment in TCMFs 1/	11,112	6,433	6,433	6,433	6,433	6,433	6,433	6,433	6,433
Net claims on the central government	23,909	21,380	22,545	24,511	26,600	29,664	29,259	28,174	26,234
Credit to central government	41,943	44,681	47,114	49,475	52,228	53,906	54,397	52,697	51,548
Deposits of central government	-18,034	-23,300	-24,569	-24,964	-25,628	-24,242	-25,138	-24,523	-25,314
Of which: project deposits	-68	-80	-80	-80	-80	-80	-80	-80	-80
Net claims on local government and other agencies 2/	-3,093	-7,777	-8,029	-7,686	-7,640	-7,647	-7,642	-7,370	-7,102
Credit to the economy	120,581	126,396	131,753	138,698	144,623	149,058	155,250	160,198	164,679
Other items (net)	-24,148	2,484	497	5,962	14,010	18,913	24,965	32,455	41,542
<b>Broad money (M2)</b>	199,143	206,632	210,723	230,847	246,052	262,595	279,379	298,387	318,177
Narrow money (M1)	97,273	104,469	90,318	112,759	120,186	128,267	136,465	145,749	155,416
Currency outside banks	9,980	11,115	10,475	11,569	12,331	13,160	14,001	14,954	15,946
Demand deposits	87,293	93,354	79,843	101,190	107,855	115,106	122,464	130,795	139,470
Quasi-money	96,444	97,565	102,050	111,796	119,160	127,171	135,300	144,505	154,089
Foreign currency deposits	5,428	4,599	5,743	6,292	6,706	7,157	7,614	8,132	8,672
<b>(Change in percent of broad money, 12 months earlier)</b>									
Net foreign assets	7.8	-6.6	1.2	1.3	-0.4	1.7	1.9	2.6	2.6
Net domestic assets	0.6	10.3	0.8	8.2	7.0	5.0	4.5	4.2	4.0
Net domestic credit	-2.2	-3.1	3.0	4.4	3.5	3.0	2.2	1.5	0.9
Net claims on the central government	-4.8	-1.3	0.6	0.9	0.9	1.2	-0.2	-0.4	-0.7
Credit to the economy	2.3	2.9	2.6	3.3	2.6	1.8	2.4	1.8	1.5
Other items (net)	2.8	13.4	-1.0	2.6	3.5	2.0	2.3	2.7	3.0
Broad money (M2)	8.4	3.8	2.0	9.6	6.6	6.7	6.4	6.8	6.6
<b>Memorandum items:</b>									
Emigrant deposits	65,365	66,422	108,032	127,718	136,130	145,282	154,568	165,084	176,033
Emigrant deposits/total deposits (percent)	34.6	34.0	53.9	58.2	58.2	58.2	58.2	58.2	58.2
Excess reserves/total deposits (percent)	16.7	14.9	15.6	13.9	20.6	14.1	14.2	14.0	15.0
Money multiplier (M2/M0)	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Money velocity (Nominal GDP/M2)	1.1	0.9	0.9	1.0	1.0	1.0	1.0	1.1	1.1
Credit to the economy (percent change) 3/	3.7	4.8	4.2	5.3	4.3	3.1	4.2	3.2	2.8
Broad money (M2 in percent of GDP)	93.1	114.3	107.1	99.2	96.9	96.2	95.3	95.0	95.1

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, 2018–22Q3**  
 (End-year; percent unless otherwise indicated)

	2018	2019	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3
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	21.1	22.0	21.4	21.9
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	21.0	21.6	21.1	21.5
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	7.2	8.4	8.8	8.9
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	1.2	7.4	9.4	11.6
Provisions to nonperforming loans	71.0	77.0	70.1	66.5	73.3	86.4	80.0	83.0	84.1	96.7	81.3	77.9	73.2
Earnings and profitability													
Return on assets	0.3	1.3	0.4	0.6	1.0	1.3	0.4	0.8	1.2	1.5	0.4	0.8	1.3
Return on equity	4.8	17.8	5.3	7.9	12.7	15.4	4.9	9.1	12.7	15.9	4.4	8.7	13.6
Interest margin to gross income	79.6	81.1	78.2	85.8	86.7	85.7	84.8	83.1	83.5	81.3	83.9	82.0	78.6
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
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
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
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
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
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
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

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, June 2022–December 2023<sup>1</sup>**  
 (Millions of Escudos, unless otherwise indicated)

	2022						2023						
	Performance Criteria (PC)	PC/IT with adjuster	end-June		end-September		end-December		Performance Criteria (PC)	Indicative Targets (IT)	Performance Criteria (PC)	Indicative Targets (IT)	Performance Criteria (PC)
			Status	Indicative Targets (IT) Cumulative from the beginning of the calendar year	Actual	Indicative Targets (IT)	Actual	Status					
<b>Quantitative performance criteria</b>													
Primary balance, floor <sup>2</sup>	-4,635	-4,489	-2,040	met	-7,500	-2,780	met	-7,750	-2,612.0	-4,141.0	-5,564.2	-6,298.0	
Tax revenue, floor	16,916		20,478	met	27,161	31,026	met	38,215	9,550.1	19,095.0	31,483.0	45,849.0	
Net other liabilities, ceiling <sup>3</sup>	-742		1,525	met	-358	105	met	-1,455	-625.3	-1,150.2	1,940.3		
Net domestic financing, ceiling	6,388		3,576	met	7,100	7,092	met	7,501	5,651	5,886	4,920.5	4,179	
Nonaccumulation of domestic arrears <sup>4</sup>	0		0	met	0	0.0	met	0.0	0	0	0	0	0
Non-accumulation of external payment arrears <sup>4</sup>	0		0	met	0	0.0	met	0.0	0	0	0	0	0
PV of new external debt, ceiling (in millions of US Dollars)	61		18	met	84	28.0	met	94	46	60	75	83	
Nominal level of new nonconcessional external debt of central government, ceiling <sup>4</sup>	0		0	met	0	0.0	met	0.0	0	0	0	0	0
Gross international reserves (in millions of euros), floor <sup>2</sup>	560	553	620	met	557	601	met	491	554	572	592	622	
<b>Indicative Targets</b>													
Social spending, floor	5,750		6,710	met	8,928	10,511	met	15,800	2,923	6,180	10,009.0	17,304.0	
<b>Non-quantitative continuous PCs</b>													
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													
<i>Memorandum items:</i>													
Net onlending	515		180		1,289	106		2,790	413.4	827	1,286	1,654	
Capitalization	1,363		951		1,763	1,938		2,151	300.0	765.3	880.1	2,200.0	
<b>Program assumptions</b>													
Project and budget support grants	675		529		875	1,083		3,982	522.5	623.3	2,090.0	5,225.0	
External debt service	5,665		5,174		9,281	6,745		11,226	3,664.8	6,445.4	10,664.6	12,921.0	
Sales of assets	351		369		431	409		648	142.2	516.6	612.0	747.0	
Project and budget support loans	4,125		2,986		10,188	4,377		14,333	913.9	5,887.7	10,733.2	16,663.0	

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

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

<sup>2</sup> Stock of reserves in millions of Euros. The ceiling or floor will be adjusted as specified in the TMU.

<sup>3</sup> Net other liabilities includes net onlending, capitalization, and other assets.

<sup>4</sup> Continuous.

**Table 7. Cabo Verde: Structural Benchmarks Under the ECF for 2022-23**

<b>Actions</b>	<b>Target date</b>	<b>Objective</b>	<b>Status</b>
<b>Fiscal reforms</b>			
Invoice electronically at least 50 percent of tax payers for VAT	End-December 2022	Improve revenue collection	
Submit to parliament the budget for 2023 that is in line with commitments under the program.	End December 2022	Support fiscal and debt sustainability	
Compile and publish historical series of government financial statistics for general government.	End-March 2023	Improve fiscal transparency	
Publish annual budget execution reports for the general government.	End-September 2023	Improve fiscal transparency	
Construct a Compliance Risk Management system to allow for the optimization of tax revenue collection by end-December 2023. <b>(Proposed new SB)</b>	End-December 2023	Support fiscal and debt sustainability	
Submit to parliament the budget for 2024 that is in line with the primary balance commitment under the program. <b>(Proposed new SB)</b>	End-December 2023	Support fiscal and debt sustainability	
<b>SOEs reforms</b>			
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
Introduce a quarterly monitoring report on SOEs budget execution.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	met
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	
<b>Monetary policy reforms</b>			
Preannounce a schedule for TIM and TRM auctions.	End-June 2022	Support the development of the money market	met
Introduce a composite indicators of economic activity.	End-June 2023	Support monetary policy analysis	
<b>Financial sector reforms</b>			
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	
Carry out a comprehensive study of loan losses and provisions at the expiration of the credit moratorium.	End-December 2022	Strengthen financial stability	
Develop a common framework for the resolution of crisis related NPLs.	End-December 2022	Strengthen financial stability	
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. <b>(Proposed new SB)</b>	End-December 2023	Strengthen financial stability	

**Table 8. Cabo Verde: Indicators of Capacity to Repay the Fund, 2022-42**

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
<b>Fund obligations based on existing credit (millions of SDRs)</b>																					
Principal	0.0	0.0	0.0	2.4	4.7	5.9	7.0	7.0	4.6	2.3	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Charges and interest	0.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	
Total	0.0	0.9	0.9	3.3	5.6	6.8	7.9	7.9	5.5	3.1	2.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	
<b>Fund obligations based on existing and prospective credit (millions of SDRs)</b>																					
Principal	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	
Charges and interest	0.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	
Total	0.0	0.9	0.9	3.3	5.6	6.8	9.5	12.4	11.8	9.9	8.8	6.1	3.1	1.3	0.9	0.9	0.9	0.9	0.9	0.9	
<b>Total obligations based on existing and prospective credit</b>																					
Millions of SDRs	0.0	0.9	0.9	3.3	5.6	6.8	9.5	12.4	11.8	9.9	8.8	6.1	3.1	1.3	0.9	0.9	0.9	0.9	0.9	0.9	
Millions of U.S. dollars	0.0	1.1	1.2	4.2	7.3	8.8	10.9	14.2	13.6	11.4	10.1	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Percent of exports of goods and services	0.0	0.1	0.1	0.4	0.7	0.8	0.9	1.0	0.9	0.7	0.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Percent of debt service	0.0	0.8	0.8	3.2	5.6	6.9	8.2	10.4	9.5	7.6	6.4	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Percent of quota	0.0	3.7	3.7	13.7	23.7	28.5	39.9	52.2	49.8	41.7	37.0	25.6	13.2	5.6	3.7	0.0	0.0	0.0	0.0	0.0	
Percent of gross international reserves	0.0	0.2	0.2	0.6	1.0	1.1	1.3	1.4	1.2	0.9	0.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Percent of GDP	0.0	0.0	0.0	0.2	0.3	0.3	0.4	0.5	0.4	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Outstanding Fund credit</b>																					
Millions of SDRs	35.0	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	0.0	0.0	0.0	0.0	0.0	0.0	
Millions of U.S. dollars	46.7	72.0	84.1	86.7	80.3	72.3	54.2	41.0	28.5	18.1	9.1	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Percent of exports of goods and services	6.3	9.0	9.4	8.9	7.6	6.3	4.3	3.0	1.9	1.1	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Percent of debt service	32.8	47.4	58.2	65.9	61.6	56.7	40.9	30.1	20.0	12.1	5.7	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Percent of quota	148	233	271	280	260	235	199	151	105	66	33	11	2	0	0	0	0	0	0	0	
Percent of gross international reserves	7.1	11.4	12.6	12.4	10.7	9.1	6.3	4.1	2.5	1.4	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Percent of GDP	2.1	3.1	3.4	3.3	2.9	2.5	1.8	1.3	0.8	0.5	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Net Use of Fund Credit (millions of SDRs)</b>																					
Disbursements	11.3	20.3	9.0	2.1	-4.7	-5.9	-8.6	-11.5	-10.9	-9.0	-7.9	-5.2	-2.3	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	
Repayments	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Memorandum items:</b>																					
Exports of goods and services (millions of U.S. dollars)	746.1	804.2	895.0	976.2	1062.1	1150.4	1251.5	1385.5	1530.6	1644.8	1792.8	1929.5	2103.6	2284.2	2445.7	2644.2	2918.9	3236.6	3543.7	3876.9	4210.6
Debt service (millions of U.S. dollars)	142.2	151.9	144.5	131.5	130.4	127.4	132.5	136.2	142.4	149.4	158.3	166.6	179.5	188.8	199.7	210.5	216.3	221.2	230.7	230.0	218.1
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	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7
Gross international reserves	661.1	631.8	667.9	699.0	747.3	792.9	865.5	898.7	1135.1	1276.0	1436.3	1602.0	1775.7	1955.0	2140.0	2361.3	2611.4	2869.0	3179.7	3478.3	3960.6
GDP (millions of U.S. dollars)	2215.5	2393.3	2505.5	2639.4	2761.8	2859.9	2961.5	3156.6	3364.6	3586.4	3822.7	4074.6	4343.1	4629.3	4934.4	5259.6	5606.2	5975.7	6369.5	6789.2	7236.6

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	11.3	47.5	Executive Board approval of ECF
15-Oct-22	11.3	47.5	Observance of end-June 2022 performance criteria and completion of the first review under the arrangement
15-Mar-23	4.5	19.0	Observance of end-Dec 2022 performance criteria and completion of the second review under the arrangement
15-Oct-23	4.5	19.0	Observance of end-June 2023 performance criteria and completion of the third review under the arrangement
15-Mar-24	4.5	19.0	Observance of end-December 2023 performance criteria and completion of the fourth review under the arrangement
15-Oct-24	4.5	19.0	Observance of end-June 2024 performance criteria and completion of the fifth review under the arrangement
15-Mar-25	4.5	19.0	Observance of end-December 2024 performance criteria and completion of the sixth review under the arrangement
Total	45.0	190.0	

Source: IMF staff estimates.

Note: Quota is SDR 23.70 million.

## Annex I. Risk Assessment Matrix<sup>1</sup>

(Scale—high, medium, or low)

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
<b>Intensifying spillovers from Russia's war in Ukraine</b>	<b>High</b> Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	<b>High</b> Inflation rise could disrupt the recovery in tourism and economic activity, with a negative impact on economic growth and the external and fiscal position.	Slow down planned unwinding of policy support while ensuring that recovery is well entrenched.
<b>Geopolitical tensions, other disruptions and deglobalization.</b>	<b>High</b> Intensified geopolitical tensions, war in Ukraine leads to escalation of sanctions, security risks, conflicts, and wars cause economic and political disruptions, refugee migration, fragmentation of the international monetary system, production reshoring, a decline in global trade, and lower investor confidence.	<b>High</b> 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 Foreign Direct Investment, increase inflation leading to food insecurity and poverty.	Create fiscal space through spending review and tax mobilization for new policies to mitigate supply shocks in the economy. Prioritize and target public spending towards the most vulnerable people. Diversify the economy. Additional grants and concessional loans to cover external needs.
<b>De-anchoring of inflation expectations and stagflation.</b>	<b>Medium</b> A Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	<b>Medium</b> 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.	Take concessional debt with Bilateral and/or Multilateral creditors during high yield period. Maintain a relatively large liquidity buffer and measures to keep domestic markets liquid. Stand ready to tighten monetary policy.

<sup>1</sup> 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. Short term and medium term are meant to indicate that the risk could materialize within 1 year and 3 years, respectively."

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
<b>Commodity price shocks</b>	<b>High</b> A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	<b>High</b> 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.	Build external buffers and resilience to shocks. Diversification of energy usage (renewable energies transition), to mitigate oil price shocks.
<b>Cyber attacks</b>	<b>Medium</b> Cyber-attacks on critical infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	<b>Medium</b> 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.
<b>Higher frequency and severity of natural disasters related to climate change.</b>	<b>Medium</b> Higher frequency and severity of natural disasters cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies.	<b>Medium/High</b> 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.
<b>Faltering fiscal consolidation efforts.</b>	<b>Medium/High</b> Less ambitious and slower fiscal consolidation efforts and delayed SOEs reforms after the health crisis.	<b>High</b> Delayed resumption of fiscal consolidation efforts and SOEs reforms after COVID-19 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.
<b>Delays in implementing measures to increase productivity and restructure SOEs.</b>	<b>Medium</b> Delays in structural reforms implementation, particularly in the public enterprises sector.	<b>Medium</b> 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 a number of 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. This assistance to SOEs has been a major contributor to the rapid accumulation of public debt. The value of the assets of the SOEs was equivalent to 61 percent of the GDP in 2021 and 54 percent at the end of Q1-2022. Their liabilities accounted for 54.5 percent of GDP in 2021 and 49 percent at end-Q1-2022). Finally, the stock of government guarantees to SOEs, a contingent liability, was close to 10 percent of GDP at end 2021, and estimated at 8.5 percent at end-Q1-2022.
- 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 2022-2026. Key steps included: (i) the sale of majority shares in the national airline (TACV) to a strategic partner;<sup>1</sup> (ii) the introduction of greater private sector participation in maritime inter-island transportation; (iii) the restructuring 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.
- 3. The government intends to advance the privatization of SOEs during 2022-26.** There are 33 companies, with part government ownership, of which there are eleven that the authorities intend to privatize. The State Business Sector Monitoring Unit (UASE) within the Ministry of Finance is responsible for setting the SOEs' reforms framework and is developing tools to promote good governance and transparency. During 2022-2023, UASE will deliver on the implementation of a collaborative platform that will allow the monitoring and evaluation of the SOEs performance, through the introduction of automated data collection and analytical reporting tools including dashboards with financial and non-financial performance indicators. The UASE will also develop its own portal, which will facilitate communication with SOEs, as well as with civil society.
- 4. Cabo Verde Airlines (TACV) is a key priority, and the Government intends to complete its reorganization and resume its privatization efforts.** The Government is in the process of reorganizing the airline and is looking for potential partners. Under the new plan, which is delayed, TACV has started operations with one aircraft in 2022, with plans 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.

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<sup>1</sup> The privatization process, which commenced in 2019, was aborted due to concerns with the strategic that resulted in the government having to take over ownership of the airline.

**5. Financial reporting and governance of the SOEs sector will be further enhanced through the implementation of a number of measures:** (i) the adoption since Q1-2022 of the IMF's SOE Health Check Tool to streamline, strengthen the SOEs unit's (UASE) analysis and the assessment of fiscal risks stemming from SOEs; (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 initiation of 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.

**6. 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 without delay 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. Debt Decomposition and Capacity to Repay

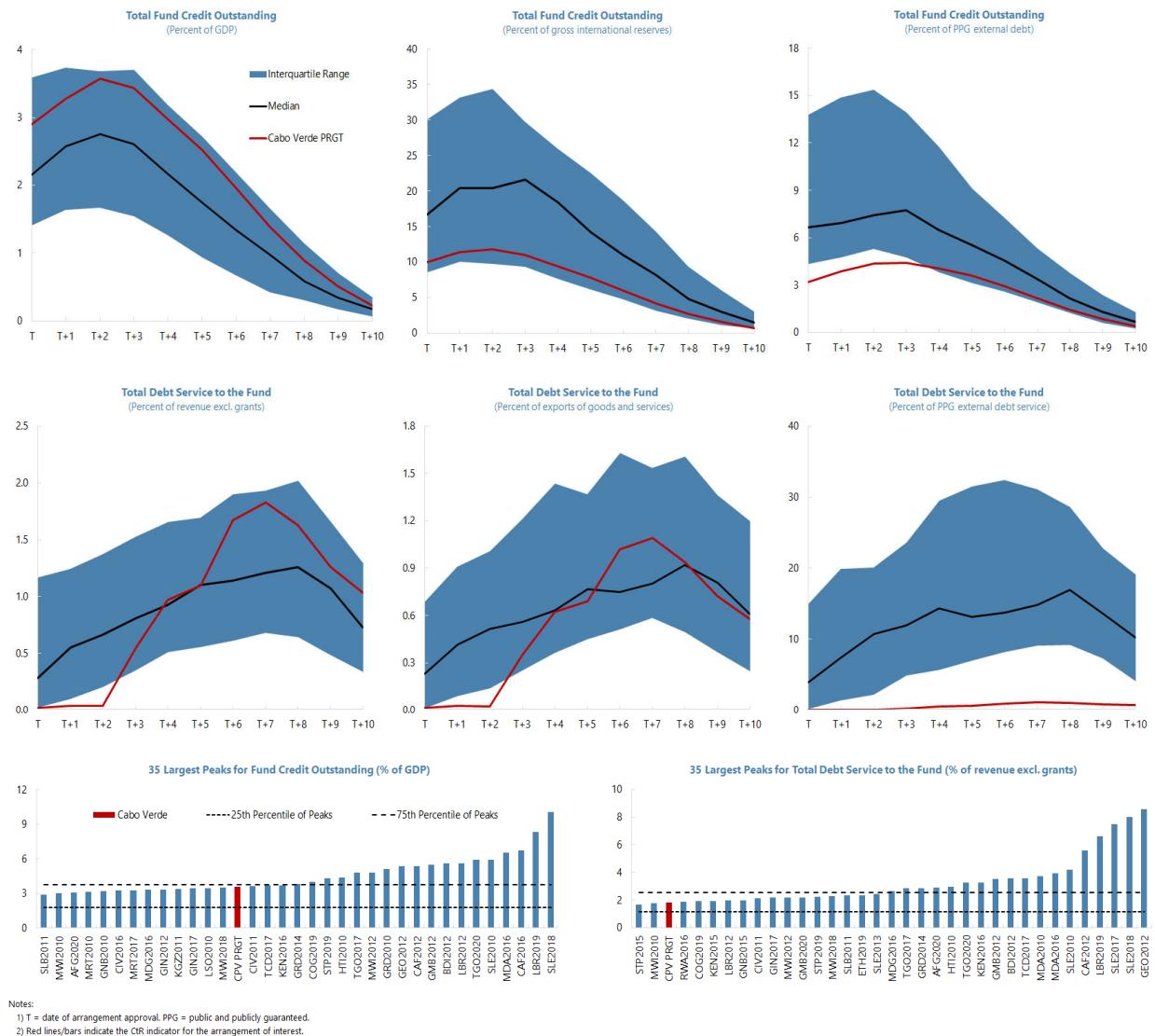
**Table 1. Cabo Verde: Decomposition of Public Debt and Debt Service by Creditor, 2021-23<sup>1</sup>**

	Debt Stock (end of period)			Debt Service			(Percent GDP)
	2021		2021	2022	2023	2021	
	(In US\$)	(Percent total debt)	(Percent GDP)	(In US\$)			
<b>Total</b>	2885.2	100.0	143.0	174.5	186.0	195.1	8.6
<b>External</b>	2048.0	71.0	101.5	81.0	88.9	98.3	4.0
Multilateral creditors <sup>2</sup>	1109.4	38.5	55.0	36.5	70.2	76.7	1.8
IMF	67.5	2.3	3.3	0.0	0.2	0.2	0.0
World Bank	523.4	18.1	25.9	5.9	12.1	12.3	0.3
African Development Bank Fund	263.2	9.1	13.0	14.6	36.7	40.4	0.7
European Investment Bank( incl.EEC)	36.6	1.3	1.8	4.4	0.9	0.8	0.2
Other Multilaterals	218.8	7.6	10.8	11.6	20.3	23.0	0.6
BADEA	42.4	1.5	2.1	3.3	12.4	14.7	0.2
CEDEAO	15.8	0.5	0.8	1.2	0.0	0.0	0.1
FAD	112.1	3.9	5.6	4.1	6.3	6.6	0.2
Bilateral Creditors	418.9	14.5	20.8	24.4	16.5	19.2	1.2
Paris Club	228.7	7.9	11.3	10.1	13.1	14.2	0.5
France	57.9	2.0	2.9	3.0	4.4	4.4	0.1
Japan	90.5	3.1	4.5	1.7	2.9	3.3	0.1
Other (Spa, Belg, Aus, Swed )	80.2	2.8	4.0	5.4	5.8	6.4	0.3
Non-Paris Club	188.3	6.5	9.3	14.3	3.4	5.1	0.7
Portugal	139.6	4.8	6.9	9.8	0.9	2.5	0.5
China	33.0	1.1	1.6	2.8	0.1	0.1	0.0
Kuwait	15.7	0.5	0.8	1.7	2.5	2.5	0.1
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	522.7	18.1	25.9	20.1	2.1	2.3	1.0
BPI	88.5	3.1	4.4	1.6	0.6	0.6	0.1
Caixa Geral Déposito (CGD)	427.9	14.8	21.2	18.0	1.5	1.7	0.9
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Domestic</b>	837.2	29.0	41.5	93.5	97.1	96.8	4.6
T-Bills	5.1	0.2	0.3	0.0	0.1	0.0	0.0
Bonds	821.5	28.5	40.7	0.0	31.6	0.0	0.0
Loans	10.5	0.4	0.5	0.0	0.0	0.0	0.0

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 Arrears)

**Figure 1. Cabo Verde: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries**  
 (Percent of the indicated variable)



## Appendix I. Letter of Intent

Praia

December 19, 2022

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 your support to the Republic of Cabo Verde during these challenging moments. To support the efforts aimed at enabling our country to meet its balance of payments needs, help rebuild the foreign exchange reserves, and restore the conditions for more vigorous growth, the Government of Cabo Verde continues to implement its economic and financial program supported by a three-year arrangement under the IMF's Extended Credit Facility (ECF). This program is being implemented under the new Sustainable Development Strategy 2022-2026 (PEDS), as the country continues to face serious economic, environmental and health challenges.

Our country continues to be affected by the ripple effects of the global Covid-19 pandemic, rising food and fuel prices due to Russia's war in Ukraine and our policy space remains constrained due to the high debt level which in part reflects the impact of external shocks. Nevertheless, the economy is now in the midst of an economic recovery from the COVID-19 induced recession as tourism activities return towards pre-pandemic levels, and our government continue to provide support for the most vulnerable and at the same time take measures to improve the fiscal position. The recovery although strong remains at risk to the significant uncertainty regarding developments in Cabo Verde's major tourism markets, particularly the UK.

Our country's macroeconomic performance under the three-year ECF arrangement has been good. We have met all the quantitative criteria for end-June 2022, as well as the indicative target on social spending. Structural benchmarks for end-June 2022 and end-September 2022 have also been met. Bearing in mind the program achievements to date, we are requesting a disbursement equivalent to SDR 11.26 million (or 47.5 percent of our quota).

The attached Memorandum of Economic and Financial Policies (MEFP), which supplements the memorandum signed on June 2, 2022, describes the recent economic and financial developments, presents the economic and financial policies that the government intends to implement during 2022–24 and defines the quantitative criteria, indicative targets, and structural benchmarks through

end-December 2023. 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.

Our government has been transparent and accountable in the execution of COVID-19 related expenditures and published the appropriate information on the official website of the Ministry of Finance. In addition, these expenditures have been subject to audit by the Courts of Accounts. We also prepared the guidelines related to the use of the recent SDR allocation for social and priority spending (particularly in the areas of health, agriculture and environment, education, infrastructure, and land use planning).

The ECF-supported program will provide a framework for the implementation of reforms set forth in the PEDS, 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/\_\_\_\_\_

Olavo Correia  
Vice-Prime-Minister and Minister of Finance

\_\_\_\_\_  
/s/\_\_\_\_\_

Óscar Santos  
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 2022–2025

*This memorandum describes recent economic developments, the outlook for 2022-23 and the medium term, and program objectives and the policies and measures to achieve them. The program is geared towards maintaining economic and financial stability, reducing vulnerabilities to external shocks, and strengthening the prospects for higher, sustainable, and inclusive growth. 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 reduce 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 climate related events.*

### **BACKGROUND, RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

#### **1. The economic recovery is underway in 2022 despite the weak external environment.**

The economic rebound continued during the first and second quarters of 2022, with first half growth of 17.2 percent y/y. Real GDP growth is expected to reach 10.5 percent in 2022 reflecting a stronger than anticipated rebound in the tourism sector. Inflation is picking up driven by higher food prices. Inflation increased to 8.5 percent (y/y) in October 2022 due to higher food, electricity, gas, and transportation costs reflecting the impact of the war in Ukraine. It is expected to be 8 percent at end-2022. The current account deficit is projected to improve relative to the program on account of the strength of the tourism sector and strong inflows of remittances.

#### **2. The fiscal outlook for 2022 is aided by the improvement in 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 opted to save the revenue over-performance through expenditure restraint on non-essential public investment projects, and policies to contain the growth of the wage bill, transfers, and subsidies. As a result, program targets on the primary balance for 2022 are likely to be exceeded.

#### **3. 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 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. The central bank continues to closely monitor reserves and inflation developments and will stand ready to adjust policy settings 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 4.3 percent up to September, 2022 and is expected to reach around 5.3 percent at end-2022.

**4. The debt-to-GDP ratio is projected to improve relative to earlier forecasts.** It is now forecasted to decrease from 143 percent in 2021 to 128 percent at the end of 2022, mainly due to higher nominal growth and aided by the improved primary deficit.

**5. In 2023, growth is projected to slow to 4.4 reflecting a downward revision in global growth and a return to pre-pandemic levels of exports.** Inflation is projected at 4.5 percent. The current account deficit narrows to about 6.8 percent of GDP in 2023.

**6. In the medium term, the implementation of structural reforms envisaged in our Sustainable Development Strategy 2022-2026 (PEDS) will be critical for the fiscal consolidation and to continue along the path set out in the ECF-supported program.** PEDS 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; create a modern public administration; 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. Real GDP growth would average 4.9 percent during 2023–27, driven by a healthy expansion. 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 implementation of the ECOWAS common external tariff. By 2027, revenues are projected to climb to 26.6 percent of GDP and expenditures would gradually decline to 27.4 percent of GDP and the primary balance would move into a surplus position of 1 percent of GDP. Public debt would decline to 96.8 percent of GDP.

**7. Risks to the outlook are tilted to the downside.** The main downside risks relate to uncertainty about the trajectory of the COVID-19 pandemic and the evolution of the spillover impact of the Ukraine war that could worsen our baseline scenario, consequently weigh on the economic outlook, weakening external demand from lower economic activity in Cabo Verde's major tourism markets that could dampen growth and increases in fuel and food prices, that could weaken domestic demand, increase the number of households that require support from safety net programs and put pressure on the budget. Covid-related lockdowns would present a major challenge given the reliance on tourism. Fiscal risks could also stem from insufficient progress in consolidation and failure to advance State-Owned Enterprise (SOE) reforms. 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 2 percent of GDP in 2022 to a zero balance by the end of the program and a surplus of about 1 percent of GDP in 2027; the overall fiscal deficit would decline from 7.3 percent of GDP in 2021 to about 1 percent of GDP over the same period. A portion of the adjustment in 2022 and 2023 is based on the implementation of a carefully selected set of revenue measures. 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 143 percent in 2021 to 96.8 percent in 2027.

**9. The draft budget for 2023 submitted to parliament is consistent with the primary balance agreed under the ECF (end-December 2022 SB).** The budget assumes revenues about 7.2 billion escudos (12.7 percent) higher than the ECF forecast. The budgeted revenue reflects increased contributions from grants of about 1 percent of GDP (particularly from China) and property income as the delayed airport concession and Caixa Económica shifts to 2023, and gains from an increase in the rate of the tourist tax and settling of accounts of about 0.3 percent of GDP. The budget assumes a return to the pre-war in Ukraine public investment path in support of the PEDS—that implies capital expenditure of 4 billion escudos (51 percent) above the ECF forecast. Current spending is 3.2 billion escudos higher (5.2 percent). The spending increases are financed by higher revenues. Relative to the 2022 outturn, gains are expected on taxes on goods and services and on income and profits. Current expenditures are expected to increase mainly due to increase spending on goods and services reflecting in part higher inflation. 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. Capital expenditures are budgeted at 4.7 percent of GDP, but implementation will be dependent on the full realization of concession revenue of about 1.5 percent of GDP. We have identified contingency measures of 2.1 percent of GDP to reduce capital spending and some expenditure on goods and services should the projected revenue not materialize. The primary fiscal deficit is now projected at 2.5 percent of GDP in 2023.

**10. Budgeted financing needs are projected to remain broadly stable in 2023.** Budgeted financing needs are projected at 4.8 percent of GDP slightly lower than the outturn for 2022. Domestic funding under the 2023 budget is lower than the outturn for 2022 and is in line with the 3 percent of GDP. External financing will be filled mostly with concessional and partially concessional loans, mainly from multilateral institutions, including the World Bank 0.7 percent of

GDP), African Development Bank (1 percent of GDP), a drawdown of the recent SDR allocation (0.9 GDP), the resources provided under the ECF program, and official creditors.

**11. In 2022 we started to introduce a set of carefully selected revenue policy and administration measures which is expected to support higher revenues in 2022 and beyond.**

Key tax policy measures include (i) the introduction of electronic invoicing covering at least 50 percent of taxpayers for VAT (**end-December 2022 SB**); (ii) the imposition of a 5 percent import duty on previously exempted goods such as business furniture and equipment, which generated a gain of 0.13 percent of GDP with the same expected again in 2023; and (iii) the increase in the excise tax on tobacco by 75 percent, with revenue gains of 0.13 percent of GDP in 2022. We have requested CD from the IMF in early 2023 to assist in rationalizing tax expenditures. 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

**12. We will continue to rationalize current expenditure and improve the delivery of investment spending with clear priorities.** In the near-term, current spending will remain broadly stable but, 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.

**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, 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; (ii) 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 (**SB**); and the publication of annual budget execution reports for the general government.

**16. We will continue our efforts to ease Cabo Verde's public debt burden.** We have already reached an agreement with Portugal to continue receiving debt service relief in line with the DSSI treatment during the year 2022, and we will continue conversations with other creditor partners.

**17. We will update key aspects of the debt law, institute the guarantee fund, and enhance debt reporting and analysis.** The debt legislation will be updated in line with the 2018 review, which provided guidance on the type of analysis and reporting which should be produced; and steps will be taken to clearly identify the required reports. The requirement in the debt management strategy for conducting internal debt sustainability analysis (DSA) will be implemented. Officers in the Ministry of Finance have already received the relevant training and the ministry intends to conduct the first internal DSA by January 2023. This would help inform the 2023 budget. Furthermore, the Government will undertake 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 effort 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 tool will be prepared—which we started with the first quarter of 2022—as well as quarterly monitoring report of SOEs' budget execution (**SB**). These reforms will

also 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 (**SB**).

**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 plans 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 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. Macroeconomic Stabilization Fund

**20. As part of the broader strategy of strengthening the fiscal framework we will establish a macroeconomic stabilization fund.** Cabo Verde is a small open economy and is highly susceptible to external shocks. We have had to contend with an ongoing drought from 2017, the devastating economic impact of the pandemic and the spillover effects from the Ukraine war. These events highlight the need for us to build buffers to help mitigate the effect of external shocks including from the impact of climate change, which usually worsens the fiscal position. The creation of the Macroeconomic Stabilization Fund establishes a platform on which we will start to build buffers to help mitigate the impact of exogenous shocks on the economy and public finances.

**21. Cape Verde is highly vulnerable to floods, droughts, earthquakes, and volcanic eruptions, which imposes significant cost on the economy.** The average economic damage from natural disasters, particularly floods was estimated to cost US\$18 million (1 percent of GDP) per year by the World Bank. Higher levels of damages are likely in the future due to the impact of climate change, which would be magnified by the fact that Cabo Verde consists of several islands.

**22. The range and magnitude of global shocks has severely impacted Cabo Verde.** In that regard we will redouble our efforts to implement reforms to improve our resilience and secure long-term sustainability. In order to achieve this, we will ensure that there is strategic alignment, institutional cooperation, and operational coordination at an intersectoral, multidisciplinary level, by the public entities involved in the process.

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

**23. 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 38 million euros, 6.5 percent in 2022 before falling slightly in 2023 as the global economic downturn weakens export demand. 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 excessive. We are in the process of unwinding the COVID-19 related monetary policy stimulus as the recovery is underway 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 5 to 5½ months of prospective imports.

**24. 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) (**SB met at end-June 2022**). Policy analysis will be reinforced, including through the introduction of composite indicators of economic activity and strengthening near-term forecasting (**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.

**25. 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 in June 2022. However, we will publish a comprehensive study of loan losses and provisions at the expiration of the credit moratorium by end-December 2022 (**SB**), 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 are developing a common framework for the resolution of crisis related NPLs (**SB**). Recent improvements in the AML/CFT framework, including the establishment of a national AML/CFT

committee and Cabo Verde's recent exit from the EU list of non-cooperative jurisdictions for tax purposes have helped preserve correspondent banking relationships.

**26. We plan to further improve the AML/CFT effectiveness, in line with the recommendations found in the 2019 GIABA mutual evaluation report.** This could include effective risk-based supervision for financial institutions and designated non-financial businesses and professions (DNFBP) and undertaking the sectorial risk assessment of DNFBPs.

**27. 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. In addition, the stress testing methodology will be revamped to include detailed banking data and cyber security risk assessment. We are amending the BCV Law to strengthen the decision-making structure, autonomy, accountability and transparency of the central bank in line with the IMF safeguards assessment. Supported by technical assistance from the IMF we will submit draft amendments to the BCV Law, to the Ministry of Finance which will address the gaps identified (SB).

**28. We will accelerate work towards the adaption of Basel II Pillar 1.** During the first half of 2023 an evaluation will be undertaken on the implementation of the Basel principles through the BCP Self-Assessment.

**29. We continue to improve on 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.

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

**30. Structural reforms are aimed at improving the business environment, addressing labor market inefficiencies, and increasing access to finance.** Cabo Verde's PEDS is based on the

recently completed long-term development plan (Cabo Verde Ambition 2030). Key priority areas include: (i) completing 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. Climate change adaptation and mitigation including achieving the 30 percent renewable energy target by 2026 and 50 percent by 2030, and digitalization including the development of technology parks are also two key priorities of the government (Table 3).

**31. 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.

**32. 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.

**33. 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.

**34. 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.

## F. 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 second, third and fourth program reviews are scheduled to be completed by March 2023, October 2023, and March 2024 (based on end-December 2022, end-June 2023 and end December 2023 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, June 2022–December 2023<sup>1</sup>**  
(Millions of Escudos, unless otherwise indicated)

	2022						2023					
	end-June		end-September		end-December		end-March		end-June (proposed)		end-September	
	Performance Criteria (PC)	PC/IT with adjuster	Actual	Status	Indicative Targets (IT)	Actual	Status	Performance Criteria (PC)	Indicative Targets (IT)	Performance Criteria (PC)	Indicative Targets (IT)	Performance Criteria (PC)
<b>Quantitative performance criteria</b>												
Primary balance, floor <sup>2</sup>	-4,635	-4,489	-2,040	met	-7,500	-2,780	met	-7,750	-2,612.0	-4,141.0	-5,564.2	-6,298.0
Tax revenue, floor	16,916	20,478	1,525	met	27,161	31,026	met	38,215	9,550.1	19,095.0	31,483.0	45,849.0
Net other liabilities, ceiling <sup>3</sup>	-742	-358	105	met	-358	105	met	-1,455	-501.5	-625.3	-1,150.2	1,940.3
Net domestic financing, ceiling	6,388	3,576	met	met	7,100	7,092	met	7,501	5,651	5,886	4,920.5	4,179
Nonaccumulation of domestic arrears <sup>4</sup>	0	0	met	met	0	0.0	met	0.0	0	0	0	0
Non-accumulation of external payment arrears <sup>4</sup>	0	0	met	met	0	0.0	met	0.0	0	0	0	0
PV of new external debt, ceiling (in millions of US Dollars)	61	18	met	met	84	28.0	met	94	46	60	75	83
Nominal level of new nonconcessional external debt of central government, ceiling <sup>4</sup>	0	0	met	met	0	0.0	met	0.0	0	0	0	0
Gross international reserves (in millions of euros), floor <sup>2</sup>	560	553	620	met	557	601	met	491	554	572	592	622
<b>Indicative Targets</b>												
Social spending, floor	5,750	6,710	met	met	8,928	10,511	met	15,800	2,923	6,180	10,009.0	17,304.0
<b>Non-quantitative continuous PCs</b>												
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												
<i>Memorandum items:</i>												
Net onlending	515	180			1,289	106		2,790	413.4	827	1,286	1,654
Capitalization	1,363	951			1,763	1,938		2,151	300.0	765.3	880.1	2,200.0
<b>Program assumptions</b>												
Project and budget support grants	675	529			875	1,083		3,982	522.5	623.3	2,090.0	5,225.0
External debt service	5,665	5,174			9,281	6,745		11,226	3,664.8	6,445.4	10,664.6	12,921.0
Sales of assets	351	369			431	409		648	142.2	516.6	612.0	747.0
Project and budget support loans	4,125	2,986			10,188	4,377		14,333	913.9	5,887.7	10,733.2	16,663.0

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

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

<sup>2</sup> Stock of reserves in millions of Euros. The ceiling or floor will be adjusted as specified in the TMU.

<sup>3</sup> Net other liabilities includes net onlending, capitalization, and other assets.

<sup>4</sup> Continuous.

**Table 2. Cabo Verde: Structural Benchmarks for 2022-23 under the ECF**

<b>Actions</b>	<b>Target date</b>	<b>Objective</b>	<b>Status</b>
<b>Fiscal reforms</b>			
Invoice electronically at least 50 percent of tax payers for VAT	End-December 2022	Improve revenue collection	
Submit to parliament the budget for 2023 that is in line with commitments under the program.	End December 2022	Support fiscal and debt sustainability	
Compile and publish historical series of government financial statistics for general government.	End-March 2023	Improve fiscal transparency	
Publish annual budget execution reports for the general government.	End-September 2023	Improve fiscal transparency	
Construct a Compliance Risk Management system to allow for the optimization of tax revenue collection by end-December 2023. <b>(Proposed new SB)</b>	End-December 2023	Support fiscal and debt sustainability	
Submit to parliament the budget for 2024 that is in line with the primary balance commitment under the program. <b>(Proposed new SB)</b>	End-December 2023	Support fiscal and debt sustainability	
<b>SOEs reforms</b>			
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
Introduce a quarterly monitoring report on SOEs budget execution.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	met
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	
<b>Monetary policy reforms</b>			
Preannounce a schedule for TIM and TRM auctions.	End-June 2022	Support the development of the money market	met
Introduce a composite indicators of economic activity.	End-June 2023	Support monetary policy analysis	
<b>Financial sector reforms</b>			
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	
Carry out a comprehensive study of loan losses and provisions at the expiration of the credit moratorium.	End-December 2022	Strengthen financial stability	
Develop a common framework for the resolution of crisis related NPLs.	End-December 2022	Strengthen financial stability	
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. <b>(Proposed new SB)</b>	End-December 2023	Strengthen financial stability	

**Table 3. Cabo Verde: Proposed SBs for End-2023**

<b>Actions</b>	<b>Target date</b>	<b>Objective</b>
<b>Fiscal reforms</b>		
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
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
<b>Financial Sector reforms</b>		
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 4. Cabo Verde: Other Reforms under the ECF, 2022-25**

<b>Fiscal reforms</b>
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.
<b>SOEs reforms</b>
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 ASA, Cvhandling, Emprofac, Inpharma, TACV, Electra, Enapor, Cabvane, CASHIER and, CVTelecom.
<b>Monetary policy reforms</b>
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.
<b>Financial sector reforms</b>
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 first half of 2023.
<b>Public sector investment and digital reforms</b>
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 (SI).
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.
<b>Legal framework reforms</b>
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:

<b>Table 1. Cabo Verde: Program Exchange Rates</b>	
Currency	Program Exchange 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.** It does not include local government (municipalities), extrabudgetary units, 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)
30-Jun-22	675
31-Dec-22	3,982
30-Jun-23	623
31-Dec-23	5,225

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. Ceiling 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 ceiling 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-December 2022, end-June 2023 and end-December 2023 (PCs) must be equal to or less than the amounts indicated in Table 2 (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	3,624
31-Dec-23	12,351

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. 15688-(14/107), adopted December 5, 2014.**

(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.<sup>1</sup> 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.<sup>1</sup> For debts with a grant element equal or below zero, the PV will be set equal to the nominal

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<sup>1</sup> 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.

**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)
30-Jun-22	5,665
31-Dec-22	11,226
30-Jun-23	6,445
31-Dec-23	12,921

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)
30-Jun-22	4,800
31-Dec-22	18,315
30-Jun-23	6,511
31-Dec-23	22,119

Source: Cabo Verdean Authorities; IMF Staff estimates

**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.

### 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 in June 2022 reform.** 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.