INTERNATIONAL MONETARY FUND

IMF Country Report No. 26/43

CABO VERDE

February 2025

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF QUANTITATIVE PERFORMANCE CRITERION, MODIFICATION OF QUANTITATIVE PERFORMANCE CRITERIA, AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CABO VERDE

In the context of the Cabo Verde – 2024 - Fifth Review Under the Extended Credit Facility Arrangement, Request for a Waiver of Nonobservance of Quantitative Performance Criterion, Modification of Quantitative Performance Criteria, and Second Review Under the Resilience and Sustainability Facility Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 17, 2025, following discussions that ended on November 26, 2024, 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 [date on page 1 of final report circulated].
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Cabo Verde.

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

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Washington, D.C.

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PRESS RELEASE

PR25/008

IMF Executive Board Completes Fifth Review Under the Extended Credit Facility Arrangement, Request for a Waiver of Nonobservance of Quantitative Performance Criterion, Modification of Quantitative Performance Criteria, and Second Review Under the Resilience and Sustainability Facility Arrangement for Cabo Verde

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the fifth review of the 36-month arrangement under the Extended Credit Facility (ECF) with Cabo Verde, and the second review of the 18-month arrangement under the Resilience and Sustainability Facility (RSF).

- The ECF-supported program aims to strengthen public finances and put debt on a downward path, reduce fiscal risks from public enterprises, modernize the monetary policy framework, and raise growth potential. The RSF supports government efforts to implement macro-critical climate reforms and catalyze private climate finance.

- All ECF performance criteria were met except the gross international reserves (GIR) quantitative performance criteria (QPC), although the Bank of Cabo Verde has taken corrective actions to address the missed target. All indicative targets (IT), except for GIR, and structural benchmarks (SBs) through September 2024 were met. One RSF reform measure (RM) was completed, with three delayed to the next review.

Washington, DC: The Executive Board of the IMF completed the fifth review of Cabo Verde's performance under the 36-month ECF arrangement that was approved on June 15, 2022, and the second review of the 18-month RSF arrangement that was approved on December 11, 2023. The completion of the fifth ECF review allows the authorities to draw the equivalent of SDR 4.5 million (approximately US$ 5.87 million), while completion of the second RSF review will allow disbursement of SDR 2.632 million (approximately US$ 3.43 million).

In completing the fifth review under the ECF arrangement, the Executive Board approved the authorities' request for modification of the end-December 2024 performance criteria. The Executive Board supported the delayed implementation of three RMs under the RSF arrangement.

Cabo Verde continues to grow strongly, reflecting a rebound in tourism, robust export performance, as well as private consumption growth. The authorities have been successful in maintaining macro-financial stability. Real GDP growth is projected at 6 percent in 2024 with low inflation, a small current account deficit, and an adequate level of international reserves to protect the peg. The public debt-to-GDP ratio continues a downward path, reflecting continued high growth and an improved primary balance.

Performance under the ECF continues to be strong. All QPCs for end-June 2024 were met along with the continuous PCs, except for the QPC on GIR. GIR still cover the minimum 5-months of imports target followed by Banco de Cabo Verde (BCV), and the BCV has embarked on corrective actions with two policy rate increases of a cumulative 75 basis points in November and December 2024 and forward guidance to indicate the intent of closing the differential with the ECB policy rate. All ITs to September 2024 were met, except for the one on GIR. One SB due end-June 2024 and two SBs due end-September 2024 were met, while the SB due end-July 2024 was implemented with a short-delay in September. Under the RSF, one RM was completed at end-November 2024, while three are delayed to the next review.

Cabo Verde's near-term economic outlook remains favorable. Growth is projected to gradually converge to its potential rate of about 4.8 percent by 2029. Inflation is forecast at 2 percent over the medium-term, broadly in line with euro area inflation. The current account deficit is estimated to have narrowed in 2024 and then stabilize at around 2.5 percent over the medium-term. Debt is projected to continue declining as the primary balance moves to a surplus in 2025 and thereafter improves to over 1 percent of GDP.

The macroeconomic outlook is subject to downside risks, as Cabo Verde is vulnerable to external and internal shocks. Downside risks could emanate from weakened demand in major tourism markets and external price shocks. The effects of climate change—droughts, sea level rise, and natural disasters could affect the country's long-term outlook via damage to coastal infrastructure and tourism. State-Owned Enterprise (SOE) reforms remain critical to improve financial performance and reduce fiscal and financial sector risks. The country's high level of debt is a source of vulnerability, and concessional financing to limit debt servicing cost remains important. On the upside, stronger tourism growth could lead to higher overall economic activity.

Following the Executive Board discussion on Cabo Verde, Acting Chair and Deputy Managing Director Bo Li issued the following statement:

"Economic activity in Cabo Verde was strong in 2024, and the near-term outlook is favorable. Inflation was low and is expected to remain at moderate levels in the medium term. Downside risks to the outlook include potential lower external demand from major tourism sources, fiscal risks should state-owned enterprise reforms stall, and climate change shocks.

"Program performance under the extended credit facility arrangement was generally strong. All performance criteria were met, except the target on gross international reserves, but the authorities have taken appropriate corrective actions. All program-supported structural reforms were also met, although one with a short delay. Progress under the resilience and sustainability facility (RSF) arrangement is steady. While it has been slower than foreseen, this reflects the complexity and interconnectedness of the reform measures.

"The fiscal position is estimated to have been tighter than budgeted in 2024, and the debt-to-GDP ratio continues to decline. Over the medium term, domestic revenue mobilization and steadfast progress on fiscal structural reforms are needed, while protecting social spending and enhancing public investment execution. Steady progress on the reform of state-owned enterprises remains critical for limiting fiscal risks and improving services.

“The monetary policy framework is focused on safeguarding the exchange rate peg. The Central Bank of Cabo Verde should continue to tighten rates to reduce the interest rate differential with the European Central Bank’s policy rate and protect external buffers. The financial sector remains stable, capitalized, profitable, and liquid, albeit with rising non-performing loans, which requires close monitoring.

“The authorities should continue implementing their ambitious structural reform agenda. This includes, in particular, the implementation of the reform measures under the RSF arrangement to help catalyze broader financial and technical support for building climate resilience.”

INTERNATIONAL MONETARY FUND

CABO VERDE

December 18, 2024

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF QUANTITATIVE PERFORMANCE CRITERION, MODIFICATION OF QUANTITATIVE PERFORMANCE CRITERIA, AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT

EXECUTIVE SUMMARY

Context. Cabo Verde's recent strong economic growth is driven by tourism, exports, private consumption, and remittances, but hampered by slow government investment. The government has maintained macro-financial stability but faces risks from global uncertainties, supply chain issues, and commodity price fluctuations.

Outlook and Risks. Cabo Verde's near-term economic outlook remains favorable. Real GDP growth is projected at 6 percent in 2024 and 5 percent in 2025, converging gradually from 2026 to potential growth (4.8 percent). Inflation is forecast to be below 2 percent in 2024 and stay at that level over the medium-term, broadly in line with Euro-area inflation. The current account deficit is expected to shrink considerably to 0.3 percent of GDP in 2024, reflecting stronger export performance and weaker capital goods imports, and to stabilize at around 2.5 percent of GDP over the medium term. The outlook is subject to external and internal shocks. Also, the high risk of overall debt distress is a concern, notwithstanding the continued decline in the public debt-to-GDP ratio, as is the financial performance of some large state-owned enterprises (SOEs). Mitigating factors include the authorities' strong track record under the current Fund-supported program, which shows strong program ownership.

Program Issues. All quantitative performance criteria (QPCs) for end-June 2024 were met, along with the continuous PCs, except for the QPC on gross international reserves (GIR). Nonetheless, GIR still cover the minimum 5-months of imports target followed by the Central Bank of Cabo Verde (BCV), and the BCV has embarked on corrective actions. All Indicative Targets (IT) to September 2024 were met, except for GIR. One Structural Benchmark (SB) due end-June 2024 and two SBs due end-September 2024 were met, while the SB due end-July 2024 was implemented with a short-delay in September. One RSF

Reform Measure (RM) due for this review had been completed at end-November 2024 and three are delayed and will be assessed at the next review. Program expires in June 2025 and the authorities have indicated a desire for continued program engagement.

Modifications of conditionality. Staff support the authorities request for a waiver for the non-observance of the end-June 2024 PC on GIR based on corrective action—interest rates increase and forward guidance—that is being undertaken by the BCV, and a modification of the end-December 2024 PC on GIR to reflect the lower base. Staff also support the modification of the end-December QPCs on domestic financing and the NPV of new external debt (ceilings) in line with the revised financing assumptions for 2024. Staff concur with delaying RM7, RM8 and RM9 to the next review.

Approved By
Costas Christou (AFR) and Niamh Sheridan (SPR)

The discussions took place in Praia, Cabo Verde during November 18-26, 2024. The team consisted of Justin Tyson (head), Jose Sulemane, Nombulelo Gumata, Daniel Cunha, and F. Barroeta (all AFR), B. Albuquerque (SPR), R. Garcia-Verdu (Res. Rep.), and C. Furtado (Local Economist, Res. Rep. Office). Mr. Pedro Miranda (OEDBR) also participated in the mission. The mission met with Vice Prime Minister and Minister of Finance and Business Development Olavo Correia, Central Bank Governor Oscar Santos, members of the National Assembly, other government and central bank officials, representatives of the private sector, and development partners. Lester Magno (AFR) assisted in the preparation of this report.

CONTENTS

TABLES

ANNEXES

APPENDICES

CONTEXT AND RECENT DEVELOPMENTS

Context

1. **Cabo Verde's economy continues to grow strongly.** Strong economic growth reflects ongoing expansion of tourism and robust export performance, as well as private consumption growth and continued inflow of remittances. Investment is a drag on growth, largely due to the slow execution of the government's capital budget. The authorities have been successful in maintaining macro-financial stability and remain committed to the program's objectives. Given Cabo Verde's vulnerabilities, developments in global commodity prices, supply chain disruptions, and global uncertainties, with their potential macro-financial stability implications, could challenge near-term Cabo Verdean macroeconomic management.

2. **The political situation is stable, although elections over the coming year or so could put pressure on public finances.** Municipal elections, on December 1, 2024, seen as a barometer for the legislative and presidential elections that will take place in 2026, went smoothly. Although no major issues were expected during and after the Municipal elections, the preparation of the 2025 budget reflects pressure on the Ministry of Finance to address some long-standing issues related to spending, including the lack of indexation of teachers' wages to inflation over the past few years.

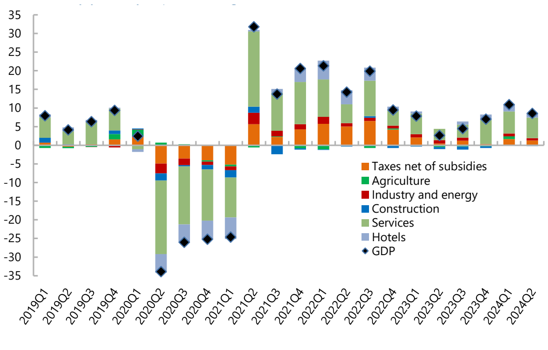
3. **A 36-month ECF arrangement (approved June 2022, SDR 45.03 million, 190 percent of quota) supports the government's economic agenda**. Its main objectives are to strengthen public finances, lower debt, improve public enterprises, modernize monetary policy, and boost growth. An 18-month RSF arrangement (approved December 2023, SDR 23.7 million, 100 percent of quota) focuses on climate reforms and mobilizing private finance for climate adaptation and transition.

Recent Developments

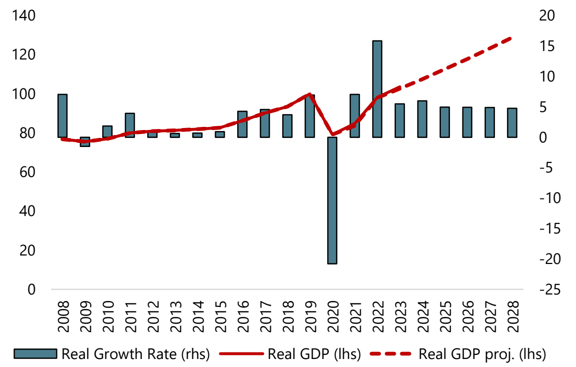
4. **Macroeconomic performance has been relatively strong in 2024**.

- **Real GDP growth is projected at 6 percent and inflation remains low (Text Figure 1).** Economic activity grew almost 9.7 percent y-o-y in the first half of the year, reflecting the ongoing expansion of tourism (Text Figure 2a). On the demand side, the main contributions came from net exports and private consumption, offset by a drag from investment. Given that Q4 typically sees robust tourism, growth for the whole year is expected to remain strong. Inflation has remained below 2 percent for several months, mirroring declines in the Euro area and imported food prices. CPI inflation stood at 1.0 percent (annual average) in October 2024, flat relative to the previous month, and only registered a 1.7 percent y-o-y increase.

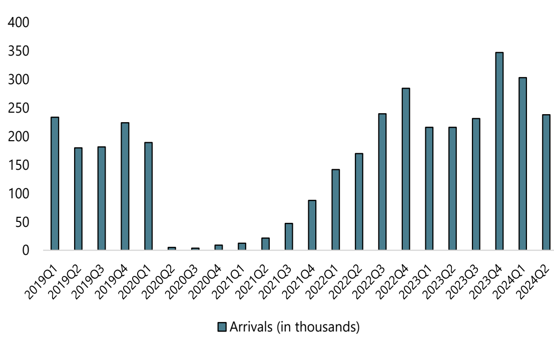
Text Figure 1a. Cabo Verde: Contributions to Growth
(Quarterly, year-on-year percent change)



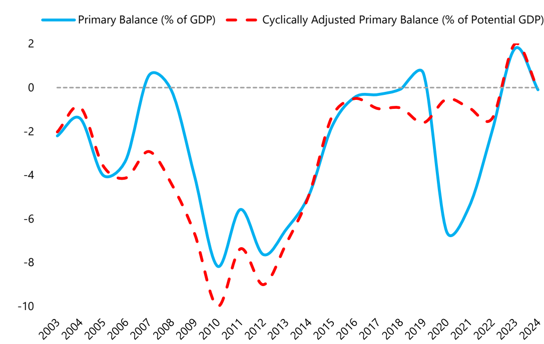
Text Figure 1b. Cabo Verde: Real Output and Growth Rates
(2019 Base = 100)



Text Figure 2a. Cabo Verde: Tourism Developments



Text Figure 2b. Cabo Verde: Primary Balance and Cyclically Adjusted Primary Balance



Sources: Cabo Verdean authorities and IMF staff estimates.

- **Budget execution through end-September indicates an overperformance against the 2024 fiscal objectives.** The primary deficit is projected at 0.1 percent of GDP, an improvement relative to the fourth review (0.6 percent of GDP deficit). Economic activity and policy measures linked to enhancing electronic invoicing and modernizing tax arrears collection supported an increase in tax revenues through end-September (13 percent y-o-y). Non-tax revenue is lower-than-projected due to underperforming capital projects that are financed by grants and lower concessions and fees (that are earmarked). Primary expenditure grew by 10.9 percent y-o-y. Goods and services spending and transfers were the positive drivers, as was net acquisition of non-financial assets, even if the latter was significantly lower than budgeted. Slower growth in the wage bill and a fall in other current expenditures, mainly due to the underperformance of earmarked revenue sources, helped contain the overall primary expenditure growth rate. As a result, the primary balance in Q32024 registered a surplus of CVE 3,607 million overperforming the program projections for the period of CVE – 2,740 million. Net external financing is projected to be lower than the fourth review due to the under-execution of capital expenditures, the postponement of the fifth ECF and second RSF review disbursement from 2024 to 2025, and revisions to the World Bank's disbursement schedule.

- **The external balance will be stronger than expected but the level of reserves fell short of the target (Table 6)**. The current account recorded a surplus of 1.2 percent of GDP during the first three quarters of 2024 due to stronger exports of goods, tourism receipts, and remittances. Moreover, weaker import growth, related to capital goods, also helped to increase the current account balance. The current account deficit is projected to shrink considerably to 0.3 percent of GDP in 2024, from 2.2 percent in 2023. Gross international reserves (GIR) were €666 million at end-June against a target of €693 million and dropped to €625 million in August, as banks continued to take advantage of the interest rate spread between the BCV and ECB policy rates by acquiring more external assets, coupled with reduced external financing. Despite the decline relative to June, reserves have been increasing since September and recovered to €661 million at end-October 2024. GIR are projected to stand at €646 million by end-2024, enough to cover 5.1 months of imports, down from 5.6 months of imports during the fourth review.

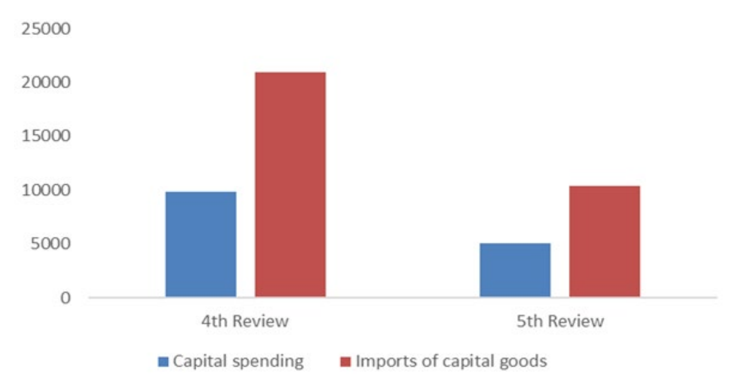
Box 1. Cabo Verde: Capital Spending and Imports of Capital Goods

The imports of capital goods are projected to decline to 10.4 billion CVE in 2024 versus the projected increase to 20.9 billion in the fourth review, due mostly to the underperformance of government capital spending (text figure). The projections assume an import content of around 90 percent for capital spending.

This revision to the projections contributed to a lower growth of imports of goods and services of 4.9 percent compared with 16.6 percent in the fourth review. Weaker import growth, coupled with stronger exports, leads to the narrowing of the current account deficit to 0.3 percent of GDP in 2024, down from 5.2 percent in the fourth review.

Box 1. Text Figure 1. Cabo Verde: Capital Spending and Imports of Capital Goods, 2024

(Millions of CVE)



Source: IMF staff estimates.

- **The monetary policy stance is being tightened to protect reserves.** The Monetary Policy Committee (MPC) raised the policy rate by 25 bps in November and by 50 bps in December to 2.25 percent. The BCV also raised the overnight lending rate and the liquidity absorption rate in

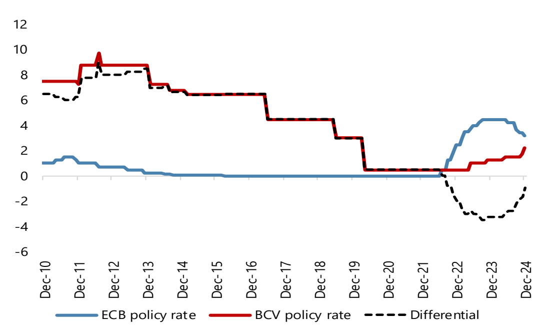
line with the policy rate increase. In addition, it provided forward guidance on its intent to close the interest rate differential with the ECB and protect reserves. Banks have benefitted from the differential by acquiring more external assets while decreasing external liabilities. On a net basis, banks' external assets increased from
€29 million at end-2022 to €229 million at end-October 2024, complicating the BCV's efforts to maintain the levels of its reserves (Box 2). The real ex ante policy rate turned positive during the early months of 2024 as inflation decelerated faster than anticipated. As of September-2024, M2 grew at 7.9 percent (y-o-y), total deposits by 7.6 percent, and credit to the economy by 7.1 percent.

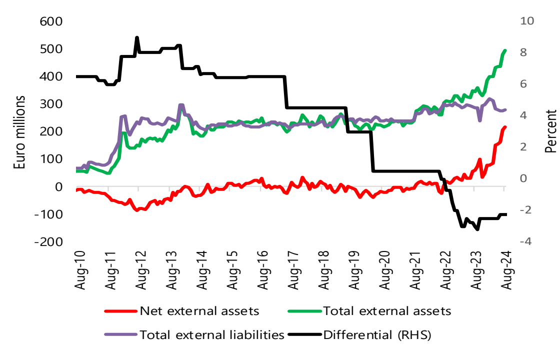
Box 2. Cabo Verde: BCV-ECB Interest Rate Spread, Commercial Banks' Deposits Abroad and BCV Reserves

Monetary policy in Cabo Verde is anchored by the fixed exchange rate regime (a fixed parity with the euro) and the inflation target of 2 percent that aims to ensure conditions for price stability. The BCV aims to protect the exchange rate regime's credibility by targeting a level of gross international reserves sufficient to ensure the short-term coverage of external liabilities. To support the peg, the BCV targets international reserves in the range of 5 to 5½ months of prospective imports. Post COVID pandemic, the BCV maintained a negative interest rate spread with the ECB (text figure). This has incentivized banks to substantially increase their external assets (Text Figure 1).

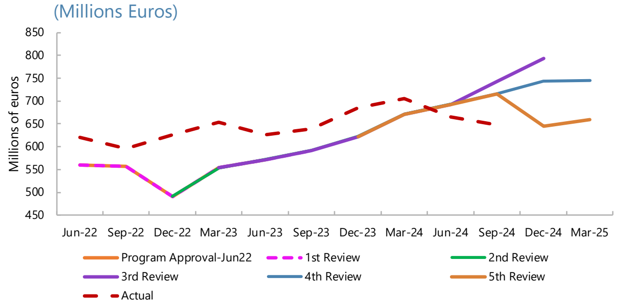
The increase in the banks' external assets has placed significant pressure in the BCV's ability to accumulate reserves, resulting in the decline in the level of reserves and coverage in months of imports (Text Figure 2).

Box 2. Text Figure 1. Cabo Verde: Projection of Growth of International Reserves

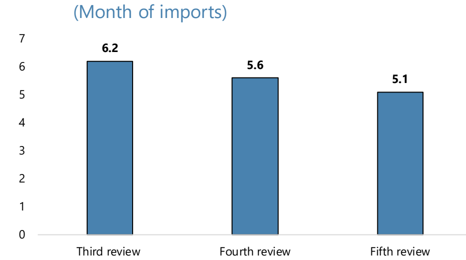




Evolution of Reserves Under the Program
(Millions Euros)



Reserves Cover in Months of Imports for 2024
(Month of imports)



Sources: Cabo Verdean authorities and IMF staff estimates.

- **The financial sector appears stable, adequately capitalized, profitable, and liquid, although with rising NPLs (Table 5)**. At end-September 2024, regulatory capital to risk-weighted assets (CAR) was 22.5 percent, a small decrease relative to end-December 2023 (23.8 percent), although well-above the regulatory minimum of 12 percent. The return on equity and return on assets stood at 13.4 and 1.4 percent, respectively, a decrease compared to end-December 2023. 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 7.3 percent at end 2023 to 11 percent of total loans at end-September 2024, with concentration in the transport sector (SOEs), real estate related to tourism, construction, and trade. In addition, credit-at-risk has been increasing, raising concerns of future risks.

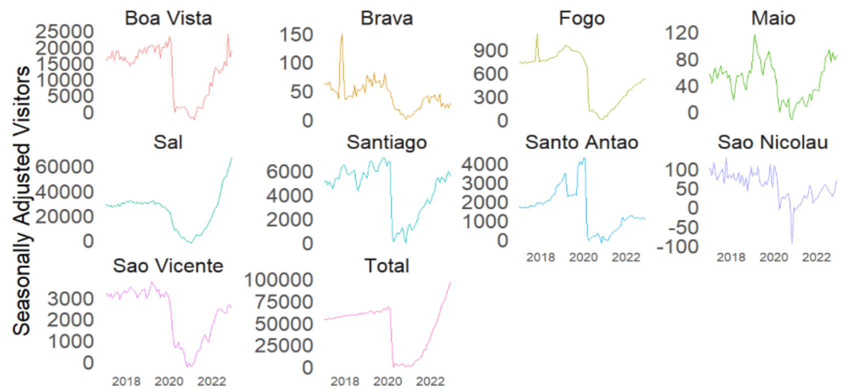
OUTLOOK AND RISKS

5. The macroeconomic outlook remains favorable. Growth is projected at 5 percent in 2025, converging gradually to a potential growth rate of 4.8 percent. Inflation is forecast to be below 2 percent in 2024 and stay at that level over the medium-term, broadly in line with Euro-area inflation. The current account deficit is expected to widen over the medium term to about 2.5 percent of GDP, largely driven by higher capital expenditures associated with the climate-related reform measures and private sector investment plans. The medium-term current account deficit is expected to be slightly narrower than previously on account of stronger remittances and exports of tourism that have consistently overperformed since the pandemic. Gross international reserves are projected to stabilize at 5.5 months of imports. Fragilities arising from the economy's small size, lack of export diversification, and vulnerability to exogenous shocks call for a prudent level of reserves.

6. Uncertainty and downside risks are relatively large as Cabo Verde is vulnerable to both external and internal shocks. World and regional conflicts and economic slowdown pose significant risks to the islands. New energy shocks could weaken the outlook and worsen both the fiscal and the external balances and strain household budgets. The effects of climate change—droughts, sea level rise, and natural disasters—could affect the country's long-term outlook via damage to coastal infrastructure and tourism. By contrast, faster-than-expected growth in major trading partners, strong progress in the structural reforms' agenda, and improving inter-island connectivity (Box 3) represent upside risks. Internally, political pressures in the run-up to the elections, though under control, could slow important reforms. A failure to advance State-Owned Enterprise (SOE) reforms could constitute a major source of fiscal risk. The country's high-risk level of debt is a source of vulnerability and thus concessional financing to limit debt servicing cost is important. Financial stability risks come from large sovereign exposures, high NPLs and credit risks for some banks (also linked to SOEs), and high credit and deposits concentration for most banks.

Box 3. Cabo Verde: Elasticity of Tourism in Small Developing States (SDS): Evidence from Cabo Verde

Box 3. Text Figure 1.Cabo Verde: Seasonally Adjusted Monthly Visitors by Island

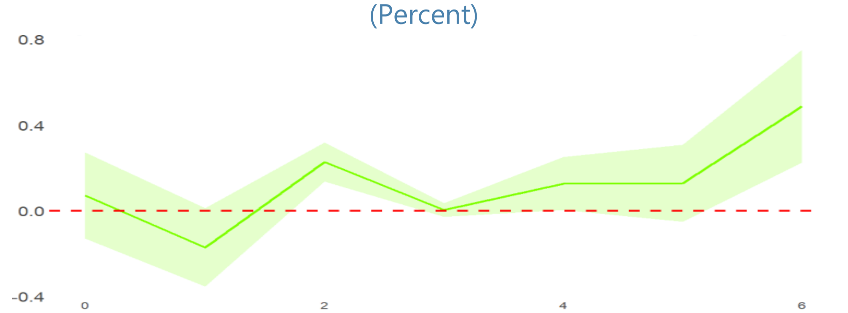


Source: IMF staff calculations.

Tourism Developments in Cabo Verde: an uneven recovery. By 2022, total foreign tourism flows surpassed pre-pandemic levels, driven by the strong performance of Sal and Boa Vista, which saw visitor numbers soar to over 60,000 and 25,000 per month, respectively. In contrast, islands like Santiago, São Vicente, and Santo Antão are recovering more slowly and remain below pre-pandemic levels. The other smaller islands continue to see modest visitor numbers, still far from their previous trends.

Box 3. Text Figure 2. Cabo Verde: Impact of 1 Percent Increase in Tourism on Domestic VAT

(Percent)



Source: IMF staff calculations.

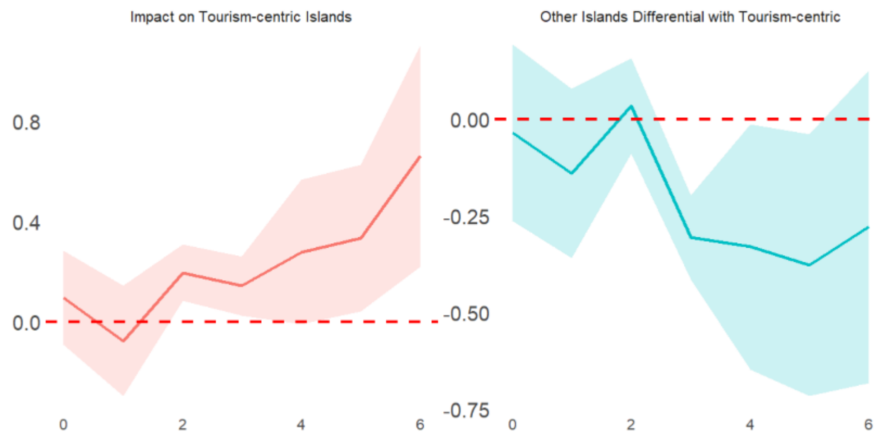
Empirical strategy: Cabo Verde as a natural experiment. Its archipelagic structure, consisting of nine inhabited islands with poor inter-island connectivity, allows us to cleanly isolate tourism-driven economic disturbances, particularly on tourism-centric islands like Sal and Boa Vista, without interference from other islands. The analysis begins by estimating the effects of tourism activity, measured through foreign arrivals, on island-level monthly VAT collection in Cabo Verde without initially distinguishing between tourism-centric and non-tourism-centric islands. The model is then refined to capture these differential impacts, allowing the study to isolate and analyze the distinct responses between tourism hubs and other regions (Cunha and García-Verdu forthcoming).[1]

[1] Our empirical strategy employs a local projections approach to estimate the short-term impact of tourism on economic activity in Cabo Verde. Using island-level data, we regress seasonally-adjusted VAT collections on foreign tourist arrivals, controlling for island and time fixed effects. The model includes lagged values of both economic activity and tourism arrivals to capture dynamic effects over time. We refine the analysis by interacting tourism with a dummy for tourism-centric islands, allowing us to estimate heterogeneous impacts across regions. Standard errors are clustered at the island level.

Box 3. Cabo Verde: Elasticity of Tourism in Small Developing States (SDS): Evidence from Cabo Verde (concluded)

Improving inter-island connectivity is key to further enhance the impact of tourism on growth. The estimated tourism elasticity of VAT collections across all Cabo Verde islands is around 0.5 after six months. When differentiating between regions, the elasticity for tourism-centric islands like Sal and Boa Vista is about 0.7, reflecting a strong and immediate increase in VAT collections. In contrast, non-tourism-centric islands show a lower elasticity of about 0.4. The differential response highlights the importance of ensuring that tourism's benefits are not limited to a few key regions but are shared across the national economy through the improvement of inter-island connectivity.

Box 3. Text Figure 3. Cabo Verde: Impact of 1 Percent Increase in Tourism on Domestic VAT
(Percent)



Sources: IMF staff calculations.

PROGRAM PERFORMANCE

7. Performance under the ECF arrangement has been generally strong, although one QPC has been missed, and the RSF arrangement implementation is slower than expected.

- All **quantitative performance criteria** (QPCs) for end-June 2024 were met, along with the continuous PCs, except the floor on GIR, which was missed by 8 million euros, after using adjusters. As a share of months of imports, GIR remain within the interval followed by the BCV, and the BCV is taking corrective actions to address the shortfall and request a waiver. All Indicative Targets (IT) to September were met, except the one on GIR for end-September (Table 6).

- The **SBs** related to SOE and fiscal sector reforms for end-June and end-September 2024, respectively, have been met (Table 7). The annual estimate of tax expenditures (due end-September) was completed end-September and was sent to Parliament on October 1. The organic BCV law (due end-July) was submitted to parliament with a slight delay in September.

- The **RMs** for the 2nd RSF review are progressing, albeit more slowly than foreseen. The Fiscal Risk Statement with quantitative analysis linked to climate change risk (RM2) was published with the Budget 2025 submitted to Parliament. The Unique Social Registry (USR) has been expanded to all poor and vulnerable households (RM7), but the extension to households in areas vulnerable to climate change and natural disaster risk is delayed pending the availability of vulnerability maps (RM8); both are now expected to be completed in early 2025. The development of a climate information architecture for banks (RM9) is also delayed as the BCV builds capacity and rolls out the reform to banks. In the meantime, BCV has undertaken online training with MCM and additional CD is planned.

POLICY DISCUSSIONS

A. Strengthen Public Finances to Preserve Debt Sustainability

8. The 2025 budget submitted to parliament is aligned with the fiscal path in the program. The budget targets a primary surplus of 0.4 percent of GDP, above the program target of zero balance. Capitalization costs, not foreseen in the program, are offset by the higher primary surplus and the use of deposits. Consequently, staff assesses that the overall impact of the budget on public debt is in line with the program projections (see Text table 1) and thus meets the criteria to complete the SB for end-December 2024.

Text Table 1. Cabo Verde: Revised 2024-25 Fiscal Framework

	2024						2025					
	Budget		4th Review-SR		Proj.		Budget		4th Review-SR		Proj.	
	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP
Revenue	77,050	27.5	75,727	26.9	67,064	24.1	90,584	30.5	76,613	25.5	82,554	27.7
Taxes	55,281	19.8	53,974	19.2	54,010	19.4	60,544	20.4	60,392	20.1	60,549	20.3
Grants	6,410	2.3	6,409	2.3	3,958	1.4	4,944	1.7	4,308	1.4	4,917	1.7
Other revenue	15,337	5.5	15,344	5.4	9,096	3.3	25,017	8.4	11,913	4.0	17,088	5.7
Expenditure	85,227	30.5	83,764	29.7	73,607	26.5	95,667	32.2	82,524	27.4	87,807	29.5
Expense 1/	74,417	26.6	73,882	26.2	68,076	24.5	80,998	27.3	71,074	23.6	78,050	26.2
Net acquisition of nonfinancial assets	10,810	3.9	9,882	3.5	5,531	2.0	14,668	4.9	11,450	3.8	9,757	3.3
Primary balance	-1,938	-0.7	-1,819	-0.6	-325	-0.1	1,092	0.4	45	0.0	1,104	0.4
Overall balance	-8,177	-2.9	-8,036	-2.9	-6,542	-2.4	-5,082	-1.7	-5,910	-2.0	-5,253	-1.8
Net other liabilities	657	0.2	-558	-0.2	-558	-0.2	-1,115	-0.4	-410	-0.1	-1,540	-0.5
o/w Onlending to SOEs for investment purpose	-194	-0.1	-441	-0.2	-441	-0.2	-696	-0.2	-628	-0.2	-696	-0.2
o/w Other onlending (net)	-75	0.0	172	0.1	172	0.1	315	0.1	227	0.1	315	0.1
o/w Capitalization	-2,600	-0.9	-2,600	-0.9	247	0.1	-2,200	-0.7	0	0.0	-2,200	-0.7
o/w Drawdown of deposits	1,215	0.4	0	0.0	0	0.0	1,856	0.6	0	0.0	1,431	0.5
Financing needs	-7,520	-2.7	8,594	3.1	7,100	2.6	6,197	2.1	6,312	2.1	6,794	2.3
Financing	7,520	2.7	8,594	3.1	7,100	2.6	6,197	2.1	6,312	2.1	6,794	2.3
Domestic (net)	3,835	1.4	-378	-0.1	5,494	2.0	1,549	0.5	21	0.0	1,012	0.3
External (net)	3,685	1.3	8,972	3.2	1,607	0.6	4,648	1.6	6,291	2.1	5,782	1.9
Public debt (percent of GDP)	…		…	110.0	…	111.8	…		…	105.6	…	107.1
Memorandum items:												
Of which non-cash revenues 2/	0	0.0	0	0.0	0	0.0	4,911	1.7	0	0.0	0	0.0
Of which non-cash expenditures 2/	0	0.0	0	0.0	0	0.0	4,911	1.7	0	0.0	0	0.0
Nominal GDP	279,849		281,711		277,851		296,751		300,883		297,596	

Sources: Cabo Verdean authorities and IMF staff projections.

1/ Considering 2025 budget clause to adjust downwards use of goods and service

2/ Program projections do not include non-cash transactions as per the TMU definitions

- **Non-tax revenue.** The most notable revenue difference between the budget and staff projections arises in other revenues, specifically a non-cash transfer of CVE 4,911 million from ASA, the state-owned air traffic control company, which corresponds to a non-cash acquisition of non-financial assets of the same value. These transactions are excluded from staff program projections due to their non-cash nature. In addition, revised program projections for other revenues are CVE 5,175 million higher than at the fourth review mainly due to the non-recurrent second installment of the airport concession fee of CVE 4,961 million.

- **Tax-Revenue.** Tax revenue in the budget is aligned with program estimates and incorporate the tax policy measures outlined in Text Table 2 derived from the action plan to reduce tax expenditures (SB, for end-September 2024). For 2025, the tax-to-GDP ratio is projected to increase by 0.9 percent of GDP (Text Table 2), of which 0.5 percent of GDP come from reducing customs exemptions, while respecting WTO commitments, and 0.4 percent of GDP from the introduction of a tourism tax on arrivals. Additionally, with support from the World Bank, the authorities legislated a reduction of the CIT exemption on the import component of large investments – the revenue impact is lagged, yielding an additional 0.3 percentage points of GDP in 2026. With support from FAD, the authorities committed to submitting a draft law in 2025 to propose changes to the VAT legal framework with an expected yield of 0.2 percent of GDP in 2026.

Text Table 2. Cabo Verde: Tax Revenue Projections 2023-25
(Percent of GDP)

Tax revenue to GDP ratio 2023 (Fourth review)	**18.8**
Change in nominal GDP (rebasing)	0.5
Tax revenue to GDP ratio 2023 (Fifth review)	**19.3**
2024 tax measures	**0.1**
Fourth review tax policy measures	0.2
2024 growth revision	-0.1
Tax revenue to GDP ratio 2024 (fifth review)	**19.4**
Tax policy measures 2025	**0.9**
Reduction in tax expenditures (customs and excise)	0.5
ECOWAS implementation	0.3
Harmonize tobacco, alcohol, and fuel taxation	0.2
Other taxes	0.4
Tourists arrivals	0.4
Tax revenue to GDP ratio 2025 (fifth review)	**20.3**
Tax policy measures 2026	**0.5**
Reduction in tax expenditures (Non-customs)	0.2
Item by item revision of VAT exemptions	0.2
Reduction in tax expenditures	0.3
Ending of CIT exemption on import component of new investments	0.3
Tax revenue to GDP ratio 2026 (fifth review)	**20.8**

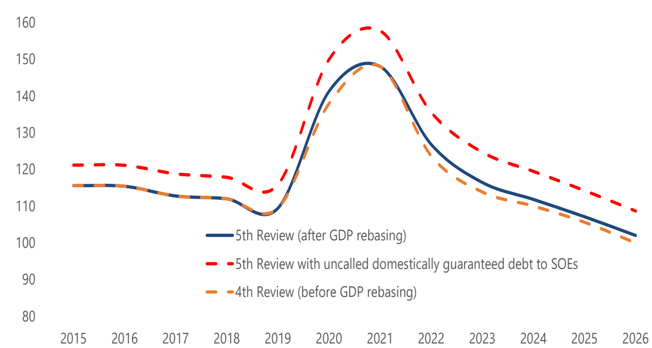
Sources: Cabo Verdean authorities and IMF staff estimates.

- **Spending**. The program now envisages a primary spending-to-GDP ratio at 2 percentage points above the fourth review projections. Half the increase is explained by higher spending on goods and services tied to background studies for the public investment pipeline (program spending financed by partners) and the other half by an expansion of the transfers from the central government to municipalities that is linked by law with revenue growth. The budget also introduced a clause empowering the Ministry of Finance to hold back goods and services expenditures to target the program primary balance (0.4 percent of GDP) and smooth out medium-term expenditures. Adjusted for the non-cash transaction, staff's projected expenditure for 2025 are CVE 2,948 million lower than in the draft budget, as the staff's projections for earmarked revenues, tied to current expenditures, are more conservative.

- **Financing.** Net external financing in 2025 are projected to be slightly higher than estimated during the fourth review due to the postponement of IMF disbursements from end-2024 to 2025, and the first disbursement from the Global Gateway package supported by the European Union. Net domestic financing is projected to be 1.6 percentage points of GDP lower in relation to 2024 levels. Other debt creating flows are larger than the fourth review projections due to the continued capitalization to SOEs. The primary balance for 2025 has been revised upward, with half of the increase in capitalization relative to the fourth review program projections offset by the higher primary balance. The remaining half is offset by a drawdown of government deposits. According to the authorities, the capitalization in 2025 is for: NEWCO, a shell company created in 2019 consolidating the liabilities from the 2019 TACV privatization, to repay the legacy debt; capital contributions to international organizations; and capital for the new SOEs (Text Table 5) [1]. Importantly, the primary balance path was reviewed to offset the impact of continued SOE capitalization aiming to keep the debt reduction path envisaged in the program.

9. **The public debt-to-GDP ratio continues to decline.** Debt (program basis) is projected to decrease from 116.4 percent in 2023 to 111.8 percent at the end of 2024, mainly reflecting the strong growth and fiscal performance in 2024. Even with higher public investment in 2025, the public debt-to-GDP ratio is projected to improve to 107.1 percent by end-2025, lower than its pre-pandemic level. The current joint World Bank/IMF Debt Sustainability Analysis expands the DSA perimeter incorporating domestically guaranteed debt to SOEs and unicipalities in line with the latest analysis (SR No 24/9). Cabo Verde's risk of external debt distress remains moderate, but the overall risk of debt distress remains high. The DSA incorporates domestic borrowing costs that reflect ongoing monetary policy tightening. Specifically, the framework assumes medium-term borrowing rates averaging 3.5 percent in the forecast horizon. The analysis indicates that public debt is sustainable

Text Figure 2. Cabo Verde: Public Debt, 2015–26
(Percent)



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

[1] NEWCO accounts for 1,600 million CVE out of 2,200 million capitalization.

due to manageable debt service from the favorable debt structure. The authorities mentioned that a target of around 70 percent of GDP by 2034 (based on current program coverage) could be an appropriate medium-term anchor for fiscal policy.

10. The realization of the medium-term fiscal objectives is dependent on continued progress on revenue mobilization and expenditure reform. For 2026, staff's projected current primary expenditures are 0.8 percent of GDP lower than in 2025 to offset the unwinding of the 2025 airport concession fee on the structural primary balance. In the medium -term, additional measures aimed at mitigating international tax avoidance, promoting a green transition, further reductions of tax exemptions in VAT, PIT, and custom tariffs would boost revenue. On the expenditures side, primary spending is projected to stabilize around 25.6 percent of GDP. The wage bill is projected to be about 9.7 percent of GDP, in line with Small Island Developing State peers. The medium-term steady-state primary balance is projected to stabilize at approximately 1.4 percent of GDP, representing an increase of 0.4 percent of GDP relative to the fourth review, to offset the debt-creating flows stemming from continued capitalization. The World Bank's is currently undertaking a Public Finance Review. The medium-term fiscal path could be impacted by the knock-on effects of climate-related events on the economy.

Text Table 3. Cabo Verde: External Borrowing Program, 2024–25

	2024		2025	
PPG External Debt Contracted or Guaranteed	**Volume of New Debt, USD million 1/**	**Present Value of New Debt, USD Million 1/**	**Volume of New Debt, USD Million 1/**	**Present Value of New Debt, USD Million 1/**
Sources of debt financing	96.9	57.8	134.5	83.2
Concessional debt, of which 2/	96.9	57.8	135.5	83.2
Multilateral debt	72.7	43.3	102.2	62.8
Bilateral debt	24.2	14.5	33.3	20.4
Non-concessional debt, of which	0.0	0.0	0.0	0.0
Semi-concessional debt 3/				
Commercial terms 4/				
Uses of debt financing	96.9	57.8	134.5	83.2
Infrastructure	33.8	20.1	57.3	35.2
Budget financing	63.2	37.7	77.2	47.3

Sources: Cabo Verdean Authorities; IMF Staff calculations

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.
The 2024 QPC on the present value of new debt is set according to the latest DSA (SR No 24/9).

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.

Text Table 4. Cabo Verde: Sources of Financing for 2024–26
(Millions of CVE)

	2024		2025		2026	
	Millions of Escudos	Percent of GDP	Millions of Escudos	Percent of GDP	Millions of Escudos	Percent of GDP
Total financing needs	7,100	2.6	6,794	2.3	4,884	1.5
Financing sources	7,100	2.6	6,794	2.3	4,884	1.5
Domestic Financing (Net)--Issuance of treasury securities	5,495	2.0	1,493	0.5	4,670	1.5
External financing (Net)	1,606	0.6	5,300	1.8	215	0.1
Disbursements	11,525	4.1	15,341	5.2	10,740	3.4
Of which budget support	6,458	2.3	7,396	2.5	4,842	1.5
IMF	2,284	0.8	3,371	1.1	0	0.0
Of which RSF	1,068	0.4	2,146	0.7	0	0.0
World Bank	2,522	0.9	2,522	0.8	2,522	0.8
African Development Bank	1,652	0.6	1,503	0.5	2,320	0.7
Program and project loans	4,627	1.7	6,948	2.3	5,308	1.7
EU GLOBAL GATEWAY	0	0.0	2,580	0.9	2,580	0.8
AFD	584	0.2	0	0.0	0	0.0
JICA	559	0.2	1,878	0.6	0	0.0
OFID	357	0.1	0	0.0	0	0.0
World Bank	2,418	0.9	1,970	0.7	2,308	0.7
BADEA	706	0.3	510	0.2	0	0.0
Kuwait	2	0.0	0	0.0	0	0.0
Other	1	0.0	9	0.0	420	0.1
Onlending loans	465	0.2	441	0.1	998	0.3
Amortization	9,920	3.6	10,041	3.4	10,526	3.5

Sources: Cabo Verdean authorities and IMF staff projections.

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

11. SOEs continue to pose risks for the government's reform program. Recent reforms on SOE transparency have improved the availability of information for decision making. In addition, the unbundling of Electra (the energy SOE), with the support of the WB, is a good step towards wider structural reforms in the energy sector, in line with the direction supported by the RSF. Nonetheless, challenges in reducing SOEs losses, particularly in the transport sector, exacerbate risks for the fiscal accounts. At the same time, the airline SOE has defaulted on bank loans, pushing up NPLs. Some of those bad loans also carry a government guarantee. More importantly, the national airline uses resources that might more usefully be deployed to improve inter-island connectivity – a growth bottleneck.

12. Efforts to restructure or divest the SOE sector should be maintained. The authorities have launched a process of privatization in airport logistics and potential concessions in other areas, e.g. ports and pharmaceutical (Text Table 5). The new SOE law (enacted in April 2024) aims to clarify the interactions between SOE commercial operations and government related policies. The authorities should work on a clear strategy for domestic inter-island air transport, while also dealing with TACV, the loss-making SOE airline focused on international routes.

13. Developments in air transport offer a chance to focus on essential services and lower fiscal risks. After the inter-island air transport concessionaire withdrew, the government launched a new SOE airline to maintain connectivity. While this deviates from the goal of shifting from operator to regulator, it currently breaks even without straining the budget. Nonetheless, inter-island connectivity needs further improvements. Meanwhile, TACV, the SOE for international routes, remains unprofitable. The entry of an international low-cost airline in the Cabo Verde market could provide good competition on international flights. This in turn provides an opportunity to reconsider the best use of public finances to support connectivity, but the authorities are wary of becoming too dependent on low-cost providers.

Text Table 5. Cabo Verde: SOE Developments

	Type	Sector	Year	Status	Yield (Percent of GDP)
Pipeline of privatization and concessions					
Caixa	Privatization	Banking	2024	Completed	0.6
EMPROFAC	Privatization	Pharmaceutical	2025/2026	Preparation of privatization documents in progress	0.4
CV Handling	Privatization	Airport logistics	2025	Privatization auction is scheduled for 1H2025	n/a
ENAPOR	Concession	Ports	n/a	Preparation of privatization documents in progress	n/a
ELECTRA	Privatization	Energy	n/a	Unbundling of ELECTRA is completed.	n/a
CVT	Privatization	Telecom	n/a	Preparation of privatization documents in progress	n/a
CABNAVE	Privatization	Shipyard	n/a	Preparation of privatization documents in progress	n/a
AEB	Privatization	Water	n/a	Preparation of privatization documents in progress	n/a
TACV	Privatization	Airline	n/a	Focus on international flights. Expected operational break-even by 2026	n/a
New SOEs					
LACV	Creation of a SOE	Airline	2025	New airline to focus exclusively on the domestic market	n/a
CV LOGISTICA	Creation of a SOE	Logistic	2025	Food logistic company to address lack of scale bottlenecks	n/a

Sources: Cabo Verdean authorities and IMF staff estimates.

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

14. The monetary policy framework is focused on safeguarding the peg and is being tightened to reverse the erosion of reserve buffers. The conventional fixed peg exchange rate regime continues to provide a stable anchor for monetary policy, supported by adequate external buffers. Although BCV started to increase the policy rate since 2023, the inverted interest rate differential with the ECB has led banks to place deposits abroad, undermining reserve accumulation. The BCV has committed to continue raising the rates in the short term to close the interest rate differential. Although reserves remain adequate to protect the peg, they are estimated to fall to the low end of the cover target range of the BCV in 2024 (5.1 months), from 5.9 months of imports in 2023. This calls for continued decisive action from the BCV, including through forward guidance, to signal the commitment to closing the interest rate differential with the ECB in the near term. Swift action in closing the gap is even more important amid the considerable uncertainty about the ECB's anticipated pace of rate cuts.

15. The financial sector remains highly concentrated. As of end-September 2024, the seven banks in the system held assets equivalent to 126.4 percent of GDP. Two domestic systemically important banks jointly account for a large share in industry total assets and deposits. In general, the banking system appears to be resilient to liquidity risk. The risks of the banking system's high dependence on deposits from the social security agency (INPS), can create liquidity concerns for some banks, depending on the behavior of the INPS. MCM is planning in early 2025 a TA mission on macroprudential issues.

16. The banking sector's large exposures warrant close monitoring. Based on the latest stress tests and the most recent FSI data to September 2024, the banking system appears to be resilient to simple shocks, but vulnerable to the risk of portfolio concentration and with a high exposure to the sovereign (through the domestic debt market, and loans to public and private companies with public guarantees) (Annex III). NPLs have increased to 11 percent of total loans in Q3 2024, up from 8.3 percent in Q1, largely due to loss-making SOEs. Some NPLs have public guarantees, which could lead to fiscal costs. Additionally, given the increase in the credit-at-risk levels, the BCV should use supervisory tools and macroprudential measures to tackle NPLs as a first line of defense. In this context, BCV should update prudential provisioning guidelines to levels of jurisdictions in the region and best practices, in line with the IMF's CD advice.

17. Cabo Verde's banking system currently has substantial excess liquidity. This can be attributed in part to the decrease in the minimum required reserves ratio (Box 4), the injection of additional long-term liquidity during the COVID-19 pandemic, and the lack of domestic lending opportunities. The excess liquidity further incentivizes banks to move assets abroad. Gradually increasing reserve requirements towards pre-pandemic norms to help mop up the existing excess liquidity can yield substantial benefits, including an increase in international reserves, the strengthening of financial stability in a more structural way, and improvement in the monetary policy transmission mechanism. The BCV may also consider carrying out open market operations more actively to better manage banks' excess liquidity, while increasing the share of liquidity injections that it currently sterilizes.[2]

18. The BCV continues to implement the recommendations of the 2022 safeguards assessment. Amendments to the Organic Law of the BCV to, inter alia, strengthen the BCV's decision-making structure, autonomy, accountability, and transparency in line with the IMF safeguards assessment recommendations, were submitted to parliament with a slight delay in September (**SB end-July 2024**). These amendments are expected to be discussed by Parliament in early 2025. The BCV remains committed to implementing the outstanding safeguards recommendations, including the full adoption of International Financial Reporting Standards for FY2024.

19. The current supervisory and regulatory framework relating to AML/CFT should be strengthened and priority given to address strategic AML/CFT deficiencies. While Cabo Verde has introduced some measures aimed at addressing the technical compliance deficiencies identified in its mutual evaluation report (MER), these have not warranted any technical compliance upgrades since its MER in May 2019. Following the approval of the National Strategy for Preventing and Combating Money Laundering, Terrorist Financing, and the Proliferation of Weapons of Mass Destruction (ENCAVE) in April 2023, the authorities in charge of this matter, including the BCV for the financial system, launched initiatives in two key areas:

- **AML/CFT and Supervisory Framework to financial institutions:** i) the establishment of an AML/CFT team within the Department of Microprudential Supervision during 2024; ii) a proposal for an independent AML/CFT unit and inclusion of AML/CFT measures in BCV's 2025–2028 strategic plan; iii) capacity building; and iv) partnerships with supervisory colleges and the AML/CFT Interministerial Commission.

[2] The BCV has in the past only sterilized around eight percent of the liquidity injection through open market operations.

- **Legal and Regulatory Developments:** i) strengthening the laws to address ML/FT risks, including BCV's supervisory role over Virtual Asset Service Providers; and ii) Notice No. 1/2024 mandates the prior registration of key functions, such as Compliance.

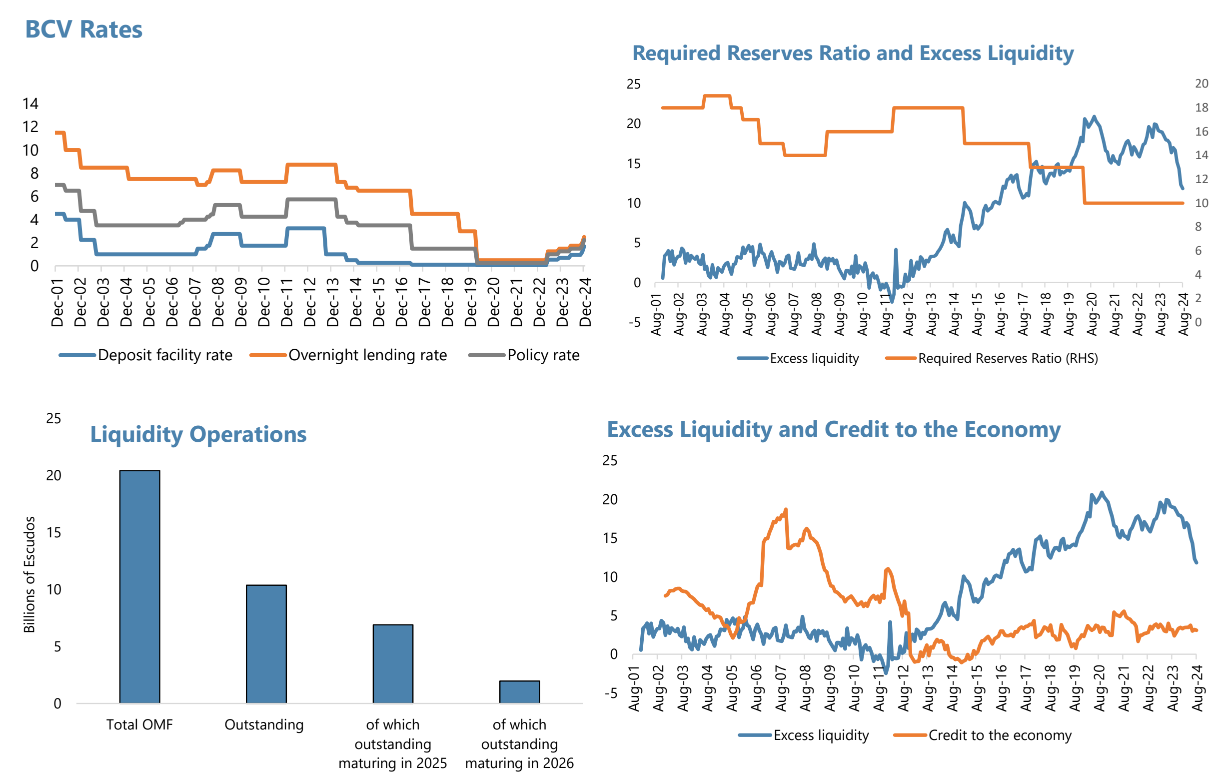
20. **Finally**, the authorities will also prioritize supervisory activities for Designated Non-Financial Businesses and Professions (DNFBPs) based on risk assessments.

Box 4. Cabo Verde: Excess Liquidity and Monetary Policy in Cabo Verde

Monetary policy in Cabo Verde is anchored by the fixed exchange rate regime (a fixed parity with the euro) and the inflation target of 2 percent that aims to ensure conditions for price stability. To support the peg, the BCV targets international reserves in the range of 5 to 5½ months of prospective imports.

During the pandemic, to enhance the availability of liquidity in the banking system, the BCV (i) loosened the monetary policy stance and reduced the policy rate by 125 basis points to 0.25 percent (ii) reduced the minimum reserve requirements ratio from 13 to 10 percent, (iii) reduced the overnight deposit rate by 5 basis points to 0.05 percent, (iv) set up a long-term lending instrument - Operações Monetárias de Financiamento (OMF) for banks at 0.75 percent, and (v) called on banks to grant delayed payment of loans without implications on non-performing loans (NPLs) and provisioning (the moratorium expired in 2023). These measures contributed to the increase in excess liquidity, but credit growth to economy remained relatively subdued (see figures below).

Box 4. Text Figure 1. Cabo Verde: Data Indicators

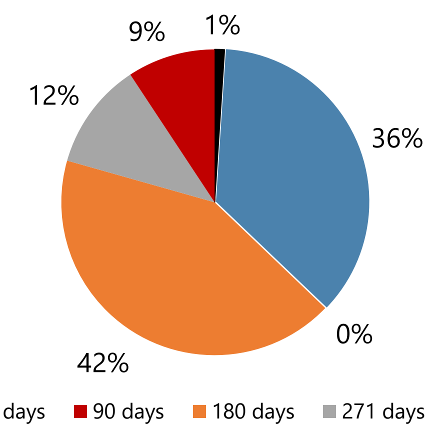


Sources: IMF staff calculations.

Box 4. Cabo Verde: Excess Liquidity and Monetary Policy in Cabo Verde (concluded)

The BCV uses the standing deposit facility instrument and sterilization instruments to manage excess liquidity. Excess reserves are remunerated at the deposit facility rate. The main sterilization instruments are the short-term (14 days) Títulos de Regularização Monetária (TRM) and long term (30 days and longer) Títulos de Intervenção Monetária (TIMs). The BCV has in the past aimed to sterilize 8-8.5 percent of liquidity injected through international reserves accumulation. However, the BCV increased the open market operations to 48 percent during 2024 to assist in its endeavors to accumulate international reserves and mop-up excess liquidity (see figures below).[1]Nonetheless, structural factors like the very low turnover in the interbank market and the limited development of the government securities market continue to hinder the transmission mechanism.

Box Text Figure 2. Cabo Verde: Open Market Operations



Sources: Cabo Verdean authorities and IMF staff projections.

[1] The BCV increased open market operations from CVE 6.5 billion to CVE 9.6 billion in October 2024.

D. Reforms for Broad-Based Growth and Increased Climate Resilience

21. Structural reforms and policies are needed to help build resilience to protracted shocks, including climate change. The five-year development strategy (PEDS II) sets priorities in areas of access to finance and improving the business environment. The authorities should continue to pursue reforms to improve the business environment, especially those directed to the SMEs, and to facilitate private sector-led economic diversification. Reducing the high costs of finance, electricity, water, and transport, which are major impediments, is an important component of these reforms. Diversification efforts are being pursued through two channels. Firstly, within the main tourism sector, actively moving towards more integrated resort projects. Secondly, promoting alternative sectors, such as the blue economy and digital economy. In this context, RMs under the RSF facilitate an enabling environment for private climate finance, helping link the RSF and PEDS II priorities.

22. Supporting vulnerable households is a government priority. Targeted cash transfers to the poorest have increased, funded from the Social Protection Fund, itself financed by the tourism tax and non-earmarked revenues. The Ministry of Family and Social Inclusion has expanded the coverage of the Unique Social Registry (USR) to 100 percent of poor and vulnerable households (including from rural areas) as identified based on the latest household budget survey, to help offset the negative impacts of policies linked with climate-related supported by the RSF (part of RM 7).

23. Progress on RMs in support of the climate change agenda is mixed, with capacity constraints delaying some RMs. In terms of RMs for the current review:

Completed RMs

- The Ministry of Finance submitted to the Parliament the annual Fiscal Risk Statement (FRS) (**RM2**) in early October 2024, as a component of the Budget 2025 submission. The FRS includes a quantitative analysis of fiscal risks generated by climate change.

Substantial Progress with Delayed Completion

- The USR was expanded to 100 percent of poor and vulnerable households – a significant achievement in itself. The ability of the Ministry of Family and Social Inclusion to offer inclusion to households living in areas vulnerable to climate change is awaiting the availability of vulnerability maps (**RM7**).

- The National Institute of Territorial Management (INGT) has made progress in defining natural disaster risk and vulnerability maps. These maps show where climate hazards might affect areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, and businesses. These will then be disseminated. To date, INGT has worked on 5 maps and expects to complete the process early next year. In addition, land use planning and construction code requirements are being amended to consider disaster risks and vulnerabilities for urban and rural development planning and for designing and construction infrastructure and buildings (**RM8**).

Slower Progress

- The BCV attended an online MCM training/webinar on how to develop a climate information architecture for banks, including a taxonomy. Given the complexity of this measure and the need for additional CD, the BCV has indicated that this RM will be delayed to the next review. They are in the process of contracting a consultant to help develop the architecture, a publication of climate risk and opportunities, and disclosure guidelines to help banks submit their internal roadmaps (**RM9**). MCM will provide CD in 2025 to review the work of the consultant.

Future RMs

- On RM5, preliminary findings from an FAD mission on electricity subsidy reforms indicate that some information needed to calculate the cost-recovery tariff is missing at the required level of disaggregation. For example, separate accounting data for electricity generation, electricity distribution, water desalination, and detailed data on the subsidies it has provided to Electra.

- On RM6, the FAD mission, which is the same team for the water subsidy reform, has learned that the same problems are prevalent in the water sector (since Electra is a major water producer, and ARME also regulates the water tariffs). Moreover, the fact that there is not a single utility state-owned enterprise (SOE) like in electricity, but rather several utilities across the various islands, each with its own business model, further complicates the cost-recovery tariff calculation. As a result of these findings, the mission planned for January has been postponed to March to allow more time for some of the needed information to be provided and for an assessment to be made of what a realistic coverage is in terms of utilities.

- On the positive side for both RM5 and RM6, the information on the analytical accounting currently missing is being produced, so there are good prospects that RM5 and RM6 will be able to be implemented, albeit with a delay relative to the original timeline. The authorities remain committed and the main constraint faced is producing the analytical accounting. The recent unbundling of Electra, in anticipation of a potential privatization in 2H 2025, is providing a strong impetus to produce the missing analytical accounting. In the water sector there is some prior work on this area funded by LuxDev.

PROGRAM ISSUES AND RISKS

24. Modifications of conditionality. The authorities request a waiver for the non-observance of the end-June 2024 PC on GIR based on corrective action—interest rates increase and forward guidance—taken by the BCV, and a modification of the end-December 2024 PC on GIR to reflect the lower base. Additionally, the authorities request the modification of the end-December QPCs on domestic financing and the NPV of new external debt (ceilings) in line with the revised financing assumptions for 2024 (see paragraph 8). Moreover, there is slow progress with RM7, RM8 and RM9 with implementation delayed until the next review.

25. Financing assurances. The Fund-supported program continues to be fully financed with firm commitments for the next 12 months, hence, until the end of the program. Net external financing is lower than projected in the fourth review due to the under-execution of capital expenditures, the postponement of the IMF disbursement from 2024 to 2025, and revisions to the World Bank's disbursement schedule. Lower net external financing is offset by the reduction of gross financing needs and domestic financing supported by strong financial position of the domestic holders of government debt. In addition to Fund support, financing in the last year of the ECF is being provided through budget support from development partners and multinational development institutions, including the World Bank, the EU and the African Development Bank.

26. Cabo Verde's capacity to repay the Fund is assessed as adequate (Table 8). Fund credit outstanding would peak at 380 percent of quota by 2025. Credit outstanding would peak at about 4.1 percent of GDP, 16.7 percent of gross international reserves, and 10 percent of exports by 2025. At the same time, annual repayments to the Fund would peak at 1.1 percent of exports, 1.7 percent of reserves, and almost 10 percent of PPG external debt service, all in 2029.

27. Risks to the program are assessed as moderate. Further global slowdown, the escalation of the wars in Ukraine and Gaza, and tighter global and regional financial conditions may increase risks to the program. Also, the high risk of overall debt distress remains a concern. If risks materialize, keeping the authorities' strong track record and ownership under the current Fund-supported programs will help any proactive adjustment of policies in consultation with Fund staff.

28. Data provision and capacity development. Data provision has been adequate for both surveillance and program monitoring. The capacity development strategy is well aligned with the ECF-supported program and the RSF (Figure 6). IMF CD has supported the implementation of past IMF staff advice, with relatively good traction. CD priorities continue to strengthen reforms in the areas of revenue mobilization, public financial management (including the climate dimension on budgeting and public investments), central bank operations, banking supervision, financial stability, and macro statistics.

29. Use of RSF resources. RSF disbursements would increase external financing by about CVE 0.7 billion in 2024 and 2.5 CVE billion in 2025. The RSF substitutes more expensive domestic financing with cumulative estimated savings in debt service of 0.7 percent of GDP until 2029. These savings will help build buffers and make Cabo Verde more resilient to climate-related shocks.[3] They will also create fiscal space, including to support critical climate-related public investment. From the balance of payment standpoint, RSF disbursements increase international reserves by the disbursement amounts in 2024 and 2025, respectively.

[3] An MoU between the MoF and BCV was signed which details the institutional arrangements.

Text Table 6. Cabo Verde: External Financing Gap 2020-25
(Millions of Euros, unless otherwise specified)

	2020	2021	2022	2023	2024	2025
Current account balance	**-246**	**-210**	**-76**	**-51**	**-7**	**-59**
Balance of goods and services	-513	-551	-437	-412	-347	-420
Exports of goods	113	151	269	238	277	298
Imports of goods	692	753	1013	1062	1111	1230
Exports of services	258	245	543	669	759	809
Imports of services	192	194	236	257	272	296
Balance on primary income	-36	-24	-27	-28	-56	-62
Balance on secondary income	303	364	388	389	397	423
Financing						
Capital account	22	23	21	17	31	36
Financial account, net[1]	7	-159	-57	-64	24	-24
Direct investment, net	-55	-78	-99	-139	-92	-93
Portfolio investment, net	0	1	0	0	0	0
Other investment, net	61	-92	18	29	156	-9
Net acquisition of financial assets	12	66	45	92	166	19
Net incurrance of liabilities	-49	158	28	62	10	27
Monetary Authority	-1	1	0	0	0	0
Central Government	-30	93	45	6	15	48
Disbursements 1/	10	133	84	95	105	139
Amortization	-41	-39	-38	-89	-90	-91
Exceptional financing	0	0	0	0	0	0
Commercial Banks	4	39	20	-6	-23	-2
Non-bank flows	-21	24	-38	63	19	-19
Errors and omissions/2	25	29	-2	-30	0	0
Overall balance	-206	10	24	46	-49	59
Financing	206	-10	-9	-27	61	-48
Change in reserves (-:=increase, excl. ECF and RSF)	75	-10	-9	-27	61	-48
Loans (Multilaterals excl. IMF)	131	0	0	0	38	37
Financing gap	0	0	-14	-19	-11	-11
Use of ECF	0	0	14	19	11	11
Residual Gap	0	0	0	0	0	0
Memorandum Items:						
Change in reserves (-:= increase, incl. ECF and RSF)	75	-10	-24	-46	40	-79
Targeted reserves path as months of prospective imports	7.4	5.7	5.7	5.9	5.1	5.2
Use of Fund credit: RSF	0	0	0	0	10	19

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

STAFF APPRAISAL

30. Cabo Verde continues to grow strongly, and the near-term outlook is favorable despite some downside risks. Real growth is estimated at 6 percent in 2024 and is expected to be 5 percent in 2025. Inflation is forecast at 1.5 percent, end-2024, and 2 percent in 2025, broadly in line with Euro-area inflation. The broadly balanced current account deficit in 2024 is expected to widen to about 2.2 percent of GDP in 2025, as imports pick up. The level of GIR is projected to remain within the interval followed by the BCV, and broadly stable over the medium term. However, the economy remains vulnerable to external shocks impacting tourism activity, as well as climate risks.

31. Fiscal performance in 2024 is strong and staff urges the authorities to use any revenue overperformance and expenditure smoothing to improve on the 2025 primary deficit. The forecast improvement in the 2024 primary balance is partially due to under execution of capital spending and staff urges the authorities to improve investment execution in 2025. Capital spending will support growth and the risk of overheating is minimal due to the high import content. The 2025 budget gives the MoF authority to meet the program's primary balance target for 2025 and smooth the medium-term fiscal adjustment path. Medium-term improvement in the primary balance is dependent on domestic revenue mobilization measures and reforms. Fiscal risks from SOEs and PPPs need to be closely monitored and mitigating measures adopted. Any delays in SOE reforms could undermine the credibility of the authorities' reform agenda and fiscal sustainability.

32. Monetary policy should continue the tightening cycle to protect the exchange rate peg and build reserve buffers. Despite interest rate hikes since 2023, lower rates than the ECB have led banks to deposit funds abroad, reducing reserves. To address this, BCV should further increase its interest rate and provide strong and clear forward guidance on the need to close the interest rate gap with the ECB. The BCV is also considering strong macro-prudential actions to complement monetary policy, including the reassessment of reserve requirements to better manage excess liquidity, large exposures, and non-performing loans while ensuring financial stability.

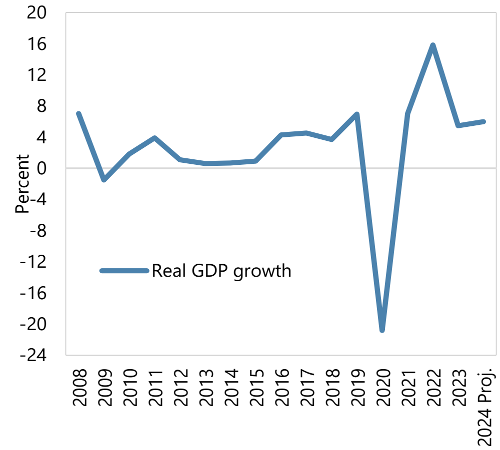
33. Program performance has been strong. All June 2024 QPCs and continuous PCs under the ECF were met, except for GIR, with corrective actions being taken. All Indicative Targets (IT) to September were met, except the one on GIR for end-September. One Structural Benchmark (SB) due end-June 2024 and two SBs due end-September 2024 were met, while the SB due end-July 2024 was implemented with a short-delay in September. Climate-related RM2 under the RSF was completed and despite good progress it is proposed that RMs 7, 8 and 9 be assessed at the next review.

34. Reforms should continue to target productivity, growth, and resilience to shocks, including climate change. The PEDS II strategy focuses on improving access to finance and the business environment. The RSF supports the climate transition through reforms in the energy-water sector, including by strengthening infrastructure, reducing cost and encouraging private sector growth. Social policies target poverty reduction, equity, and support for vulnerable groups.

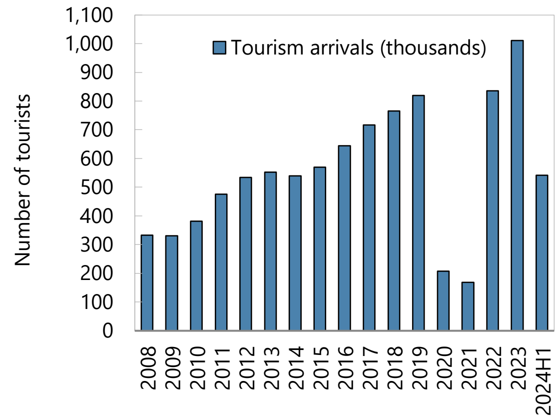
35. Staff recommends the completion of the fifth review under the ECF and the second review under the RSF arrangements. Staff supports the request for a waiver for the nonobservance of the GIR QPC and modifications to end-December 2024 QPCs on GIR, domestic financing, and NPV of new external debt. Staff also support the delayed implementation of RMs 7, 8 and 9 under the RSF arrangement.

Figure 1. Cabo Verde: Recent Economic Developments

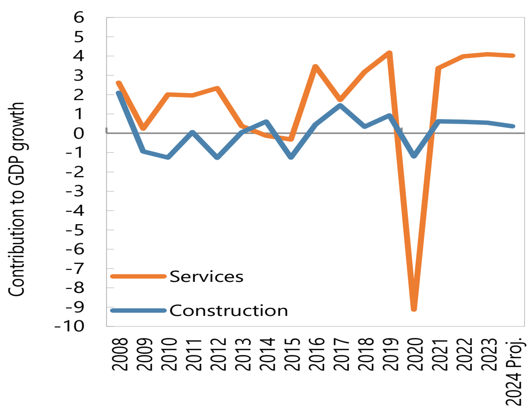
Economic growth has remained strong in 2024…



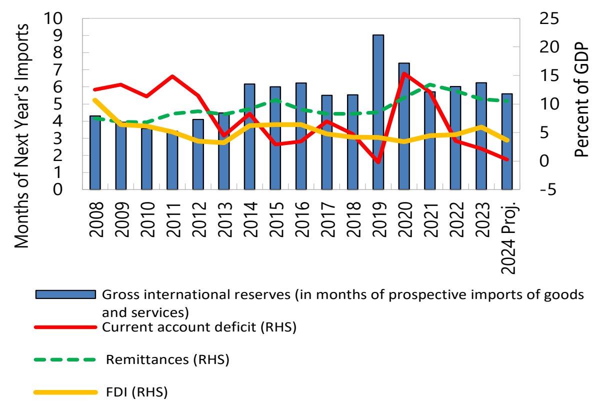
…reflecting strong arrivals in the tourism sector…



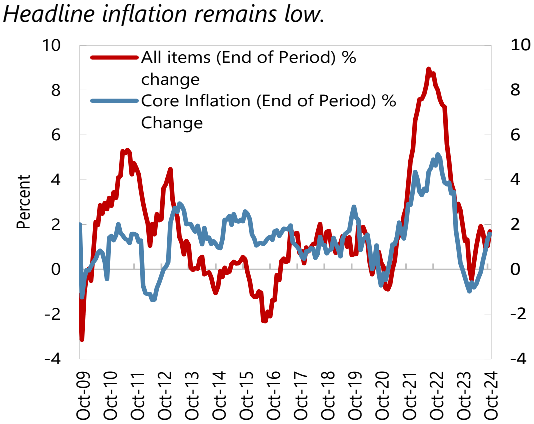
… and a continued recovery in the Services' sector.



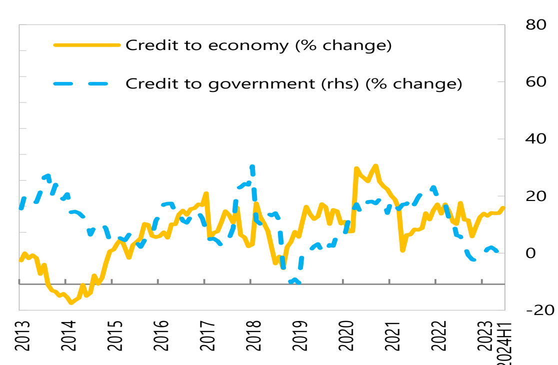
FDI and remittances helped support reserves despite bank outflows.



Headline inflation remains low.



Credit to the government fell due to strong fiscal performance.

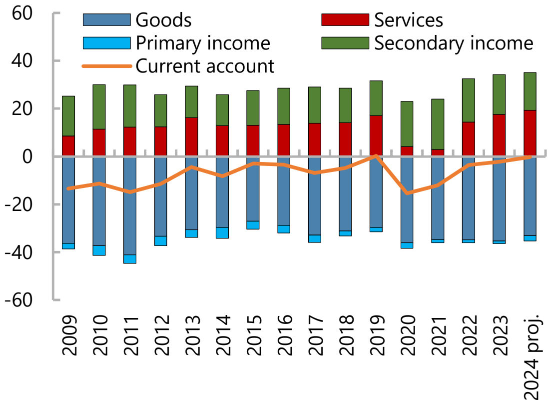


Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 2. Cabo Verde: External Sector Developments

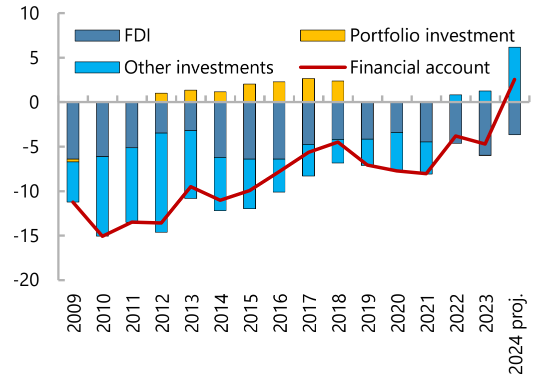
Strong export performance and weaker capital goods imports will narrow the current account deficit in 2024.

Current Account Balance
(Percent of GDP)



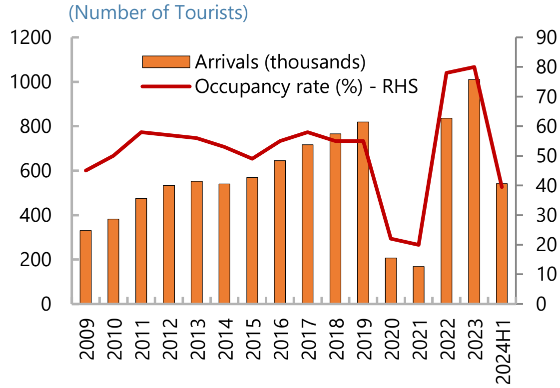
The financial account is expected to turn positive in 2024 due to strong banks' deposit outflows.

Financial Account Composition
(Percent of GDP)



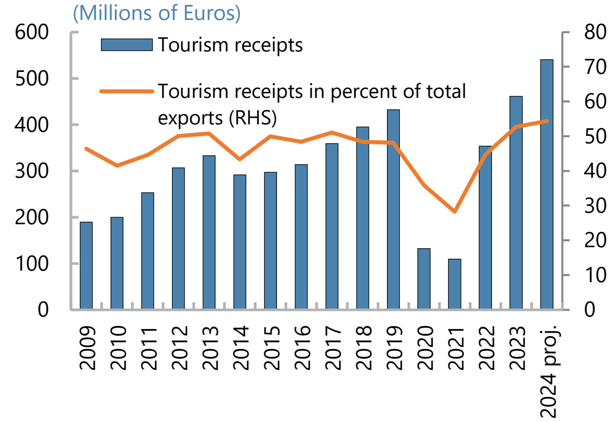
Tourism arrivals have continued to increase and are estimated to remain above pre-pandemic levels...

Tourism Arrivals and Occupancy Rate
(Number of Tourists)



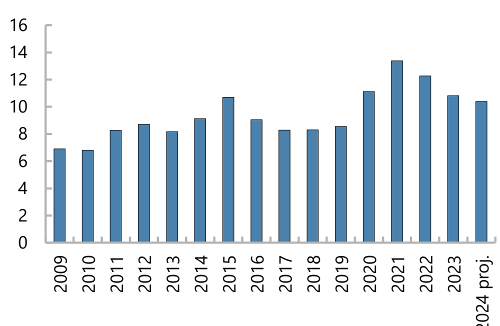
... resulting in a steady increase in tourism receipts.

Tourism Receipts
(Millions of Euros)



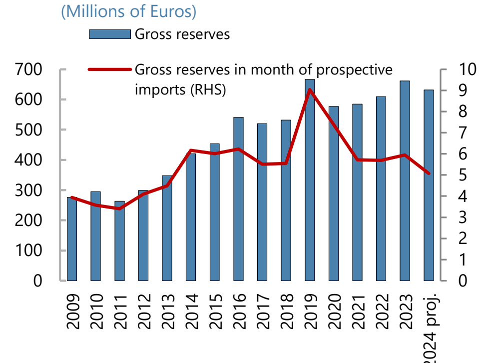
Remittances are estimated to stabilize in 2024, remaining an important source of foreign currency...

Remittances
(Percent of GDP)



... although large deposit outflows have led to a decline in the country's reserve position.

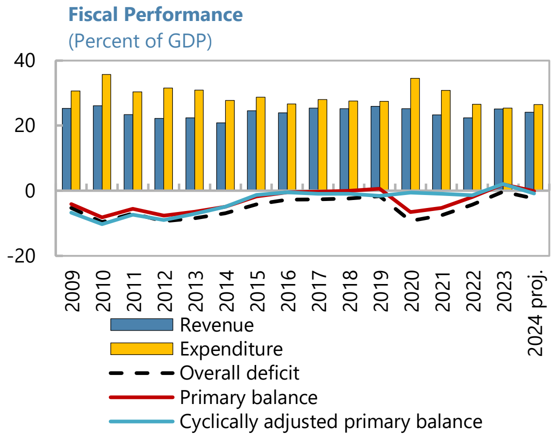
Reserves
(Millions of Euros)



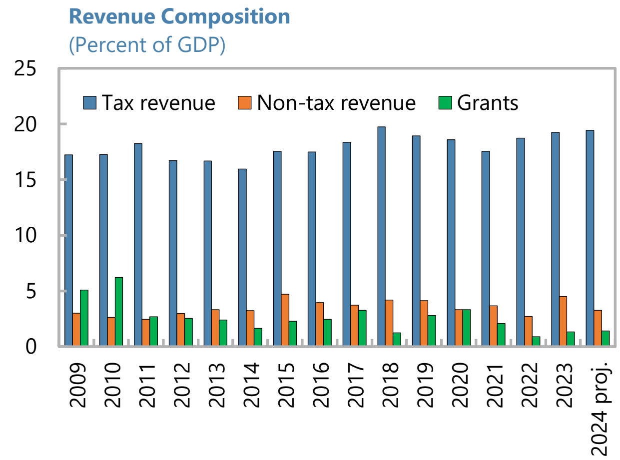
Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 3. Cabo Verde: Fiscal Sector Developments

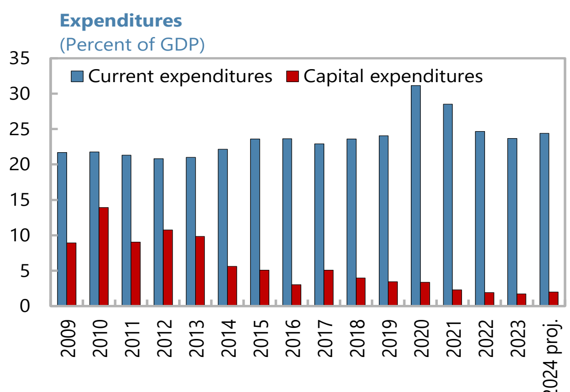
The fiscal outcome in 2024 aligns with the program...



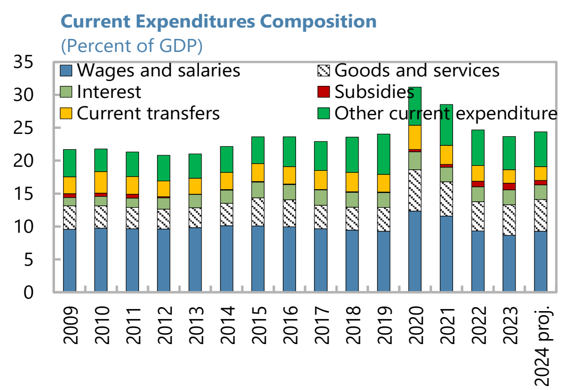
...with a tax-to-GDP ratio slightly above 2023.



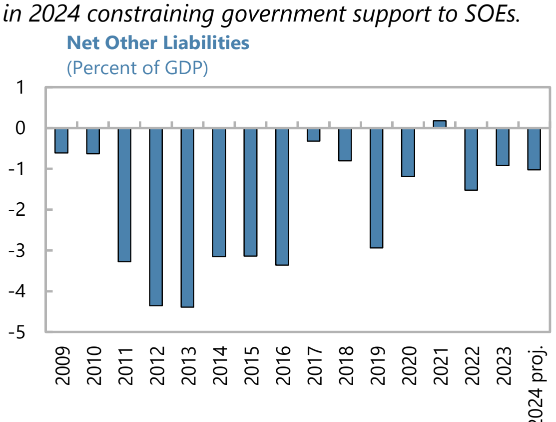
Expenditures are projected to increase at the margin.



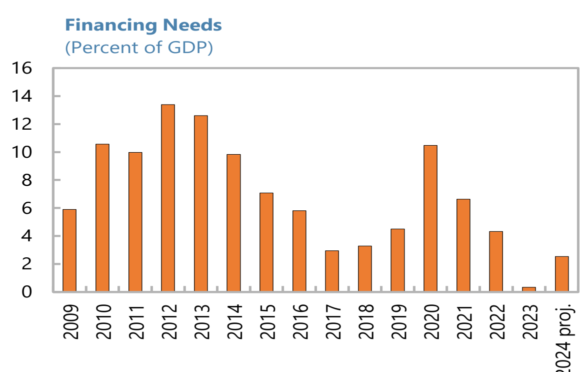
Current expenditure increases due to the expansion of goods and services and the wage bill.



Net other liabilities are projected to be broadly stable in 2024 constraining government support to SOEs.



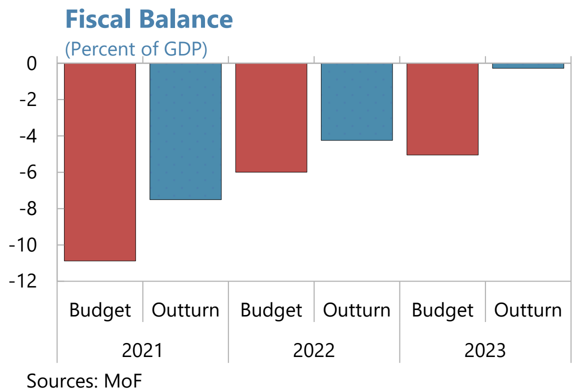
As a result, financing needs are projected to rise mostly due to unwinding of 2023 one-off airport concession fee.



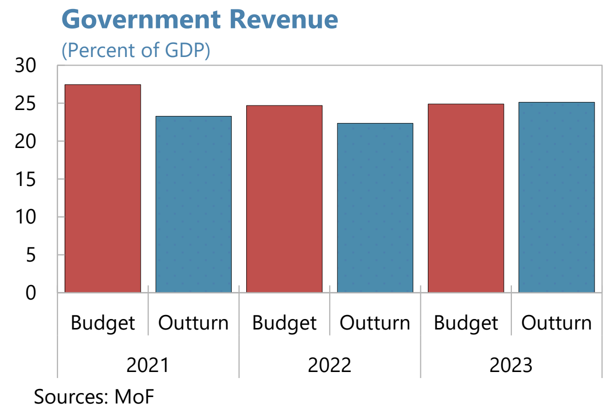
Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 4. Cabo Verde: Budget Credibility

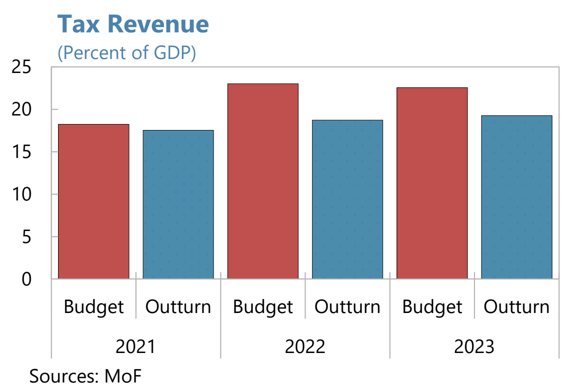
Fiscal deficits have been significantly smaller than anticipated in the budget during 2021-23



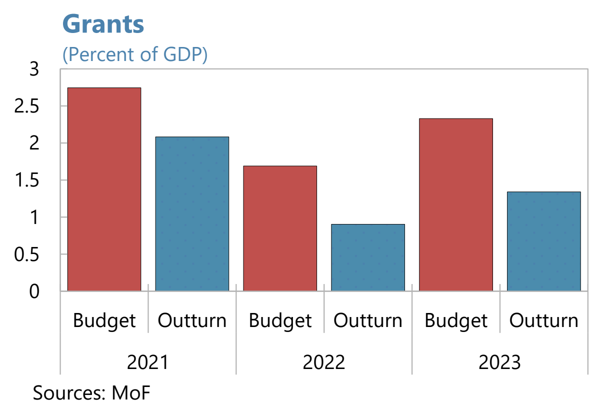
While revenues fell slightly short of budget projections



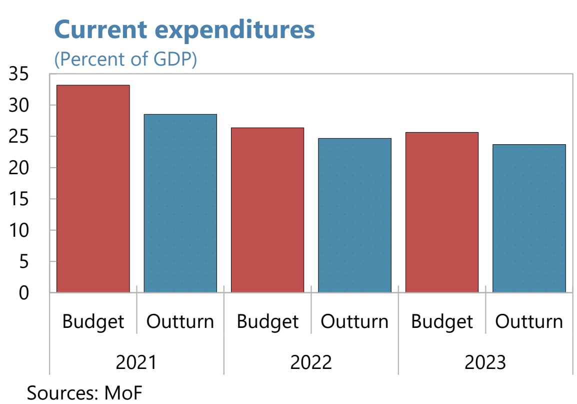
...with tax revenue falling a tad below budget projections



..., and grants consistently underperforming.



On the flip side, current expenditures steadily recorded a budget execution rate of around 90 percent



Capital spending shortfalls were the primary factor behind the better-than-expected fiscal deficit performance during 2021-23.

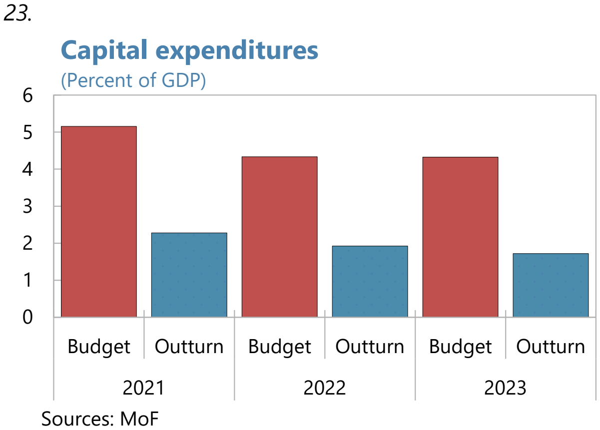
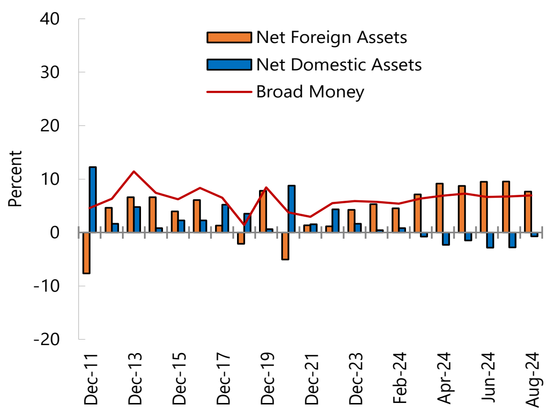


Figure 5. Cabo Verde: Monetary and Financial Sector Developments

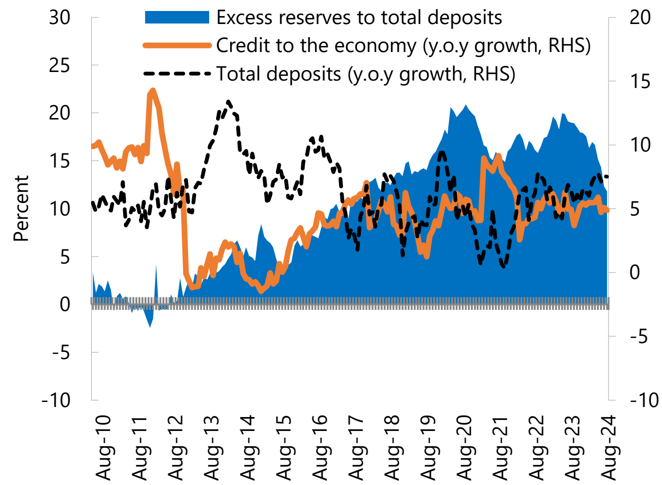
At end August 2024 broad money increased due to the increase of foreign assets…

Broad Money and Counterparts
(Annual change in percent of broad money)



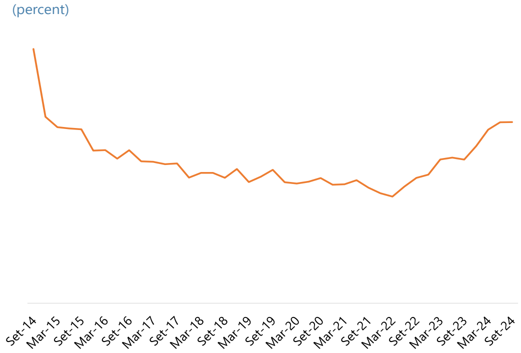
…credit to the economy increased even with the gradual phasing out of the COVID-19 relief measures.

Credit to the Economy and Deposits
(percent change)



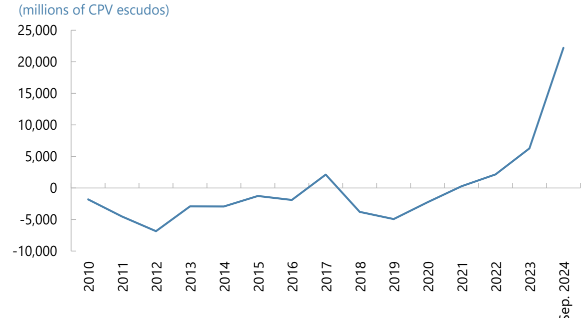
Credit-at-Risk has been increasing since 2022.

Credit-at-Risk to Total Credit
(percent)



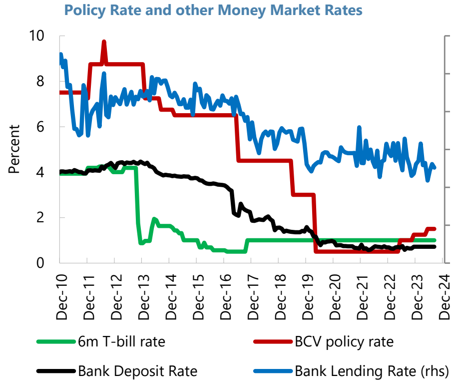
Meanwhile, interest rates differential is leading to increasing bank deposits abroad

NFA - Commercial Banks EOP Balnace
(millions of CPV escudos)



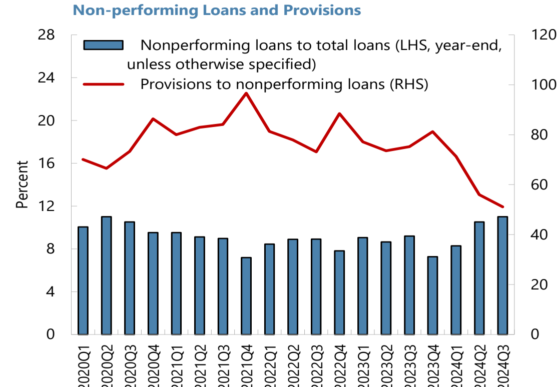
The central bank started to adjust its policy rate, narrowing the interest differential with the ECB rates.

Policy Rate and other Money Market Rates



Nonperforming loans increased in Q3 2024, with concentration in transport, real estate and tourism sectors.

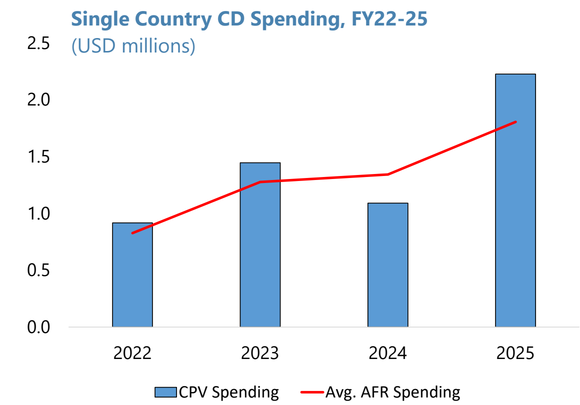
Non-performing Loans and Provisions



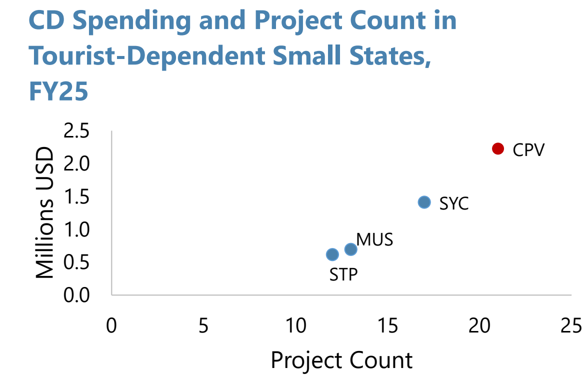
Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 6. Cabo Verde: Capacity Development Overview

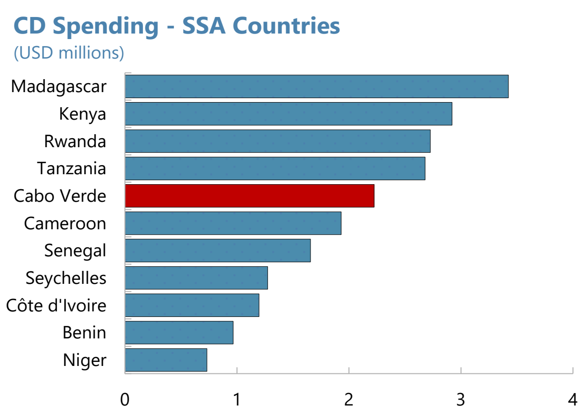
CD spending in CPV is broadly in line with the AFR average, but projected to rise....



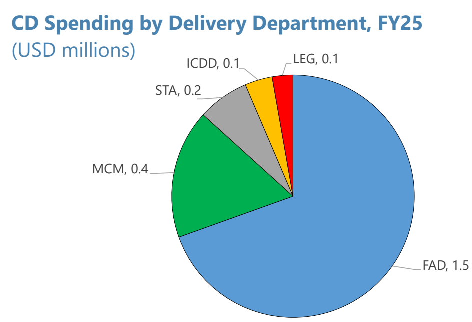
...CPV fares well compared to SDS peers.



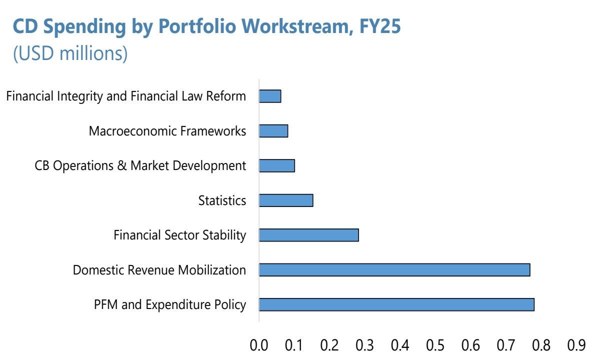
CD spending is in line with other RSF countries.



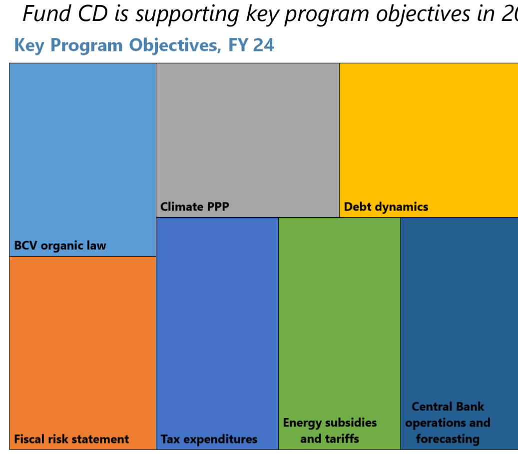
FAD is responsible for most of the CD delivery...



...under core spending and revenue work streams.



Fund CD is supporting key program objectives in 2024



Source: IMF staff calculations based on CDMAP data.

Notes: Years denote fiscal years. Data for FY22 to FY24 is actual data, data for FY25 is based on planned activities in CDMAP as of October 2024. Only projects in the stages "Approval", "Execution" and "Complete" are included. Average spending includes all single country spending in AFR divided by 45.

Table 1. Cabo Verde: Selected Economic Indicators, 2021–29

	2021	2022	2023	2024		2025	2026	2027	2028	2029
		Act.	Act.	SR ECF 4th review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percent change)									
National accounts and prices 1/										
Real GDP	7.0	15.8	5.5	4.7	6.0	5.0	4.9	4.9	4.8	4.8
GDP deflator	1.0	6.3	3.8	2.0	2.1	2.0	2.1	2.2	2.1	2.0
Consumer price index (annual average)	1.9	7.9	3.7	2.0	1.0	1.5	2.0	2.0	2.0	2.0
Consumer price index (end of period)	5.4	7.6	1.3	2.0	1.5	2.0	2.0	2.0	2.0	2.0
External sector										
Exports of goods and services	6.4	105.2	11.7	8.3	14.2	6.8	7.1	6.4	7.1	6.9
Of which: tourism	-16.4	225.5	31.6	10.6	15.0	6.9	7.4	7.2	7.3	7.2
Imports of goods and services	7.0	32.0	5.6	16.6	4.9	10.4	7.8	6.7	7.5	6.7
	(Change in percent of broad money, 12 months earlier)									
Money and credit										
Net foreign assets	1.4	1.2	2.5	2.6	5.7	2.6	1.1	2.5	1.8	2.6
Net domestic assets	1.6	4.6	3.8	4.3	0.9	4.3	5.2	4.7	3.8	3.1
Net claims on the central government	2.4	3.1	0.1	-0.1	-2.6	0.3	0.9	0.4	0.0	-0.2
Credit to the economy	4.2	3.9	3.5	4.3	3.5	4.0	4.3	4.2	3.7	3.3
Broad money (M2)	3.0	5.8	6.3	6.9	6.6	7.0	6.3	7.2	5.6	5.7
	(Percent of GDP, unless otherwise indicated)									
Savings and investment										
Domestic savings	17.6	19.2	18.1	19.4	22.3	21.4	20.1	19.8	19.7	20.2
Government	-5.2	0.8	1.2	0.0	-0.3	1.4	1.2	1.6	1.7	2.5
Private	22.8	18.4	16.9	19.4	22.6	20.0	18.9	18.2	18.0	17.6
National investment	26.2	25.7	23.6	24.5	22.6	23.6	22.5	22.3	22.2	22.6
Government	2.3	1.9	1.7	3.5	2.0	3.3	2.5	2.6	2.8	3.6
Private	23.9	23.8	21.9	21.0	20.6	20.3	20.0	19.7	19.4	19.0
Savings-investment balance	-8.5	-6.5	-5.5	-5.2	-0.3	-2.2	-2.4	-2.5	-2.5	-2.5
Government	-7.4	-1.1	-0.6	-3.5	-2.3	-1.9	-1.3	-1.0	-1.1	-1.1
Private	-1.1	-5.4	-4.9	-1.7	2.0	-0.3	-1.1	-1.5	-1.4	-1.4
External sector										
External current account (including official transfers)	-12.1	-3.5	-2.2	-5.2	-0.3	-2.2	-2.4	-2.5	-2.5	-2.5
External current account (excluding official transfers)	-14.5	-4.9	-3.8	-7.2	-1.3	-3.4	-2.8	-2.9	-2.9	-2.8
Overall balance of payments	0.6	1.1	2.0	2.2	-1.6	2.9	1.7	2.4	1.7	2.1
Gross international reserves (months of prospective imports of goods and services)	5.7	5.7	5.9	5.6	5.1	5.2	5.2	5.3	5.3	5.4
Government finance										
Revenue	23.3	22.3	25.1	26.9	24.1	27.7	27.0	27.0	26.9	27.0
Tax and nontax revenue	21.2	21.4	23.8	24.6	22.7	26.1	25.2	25.3	25.2	25.3
Grants	2.1	0.9	1.3	2.3	1.4	1.7	1.8	1.7	1.7	1.7
Expenditure	30.8	26.6	25.4	29.7	26.5	29.5	27.9	27.1	27.1	27.3
Primary balance	-5.3	-2.0	2.0	-0.6	-0.1	0.4	1.3	1.3	1.4	1.4
Overall balance (incl. grants)	-7.5	-4.3	-0.3	-2.9	-2.4	-1.8	-0.9	-0.1	-0.3	-0.3
Net other liabilities (incl. onlending)	0.9	-0.1	-0.1	-0.2	-0.2	-0.5	-0.6	-0.5	-0.4	-0.4
Total financing (incl. onlending and capitalization)	6.6	4.3	0.3	3.1	2.6	2.3	1.5	0.6	0.7	3.2
Net domestic credit	1.6	2.4	0.2	-0.1	2.0	0.5	1.5	0.7	0.1	-0.4
Net external financing	5.0	2.0	0.2	3.2	0.6	1.8	0.1	-0.1	0.6	1.1
Public debt stock and service 2/										
Total nominal government debt	148.0	126.8	116.4	110.0	111.8	107.1	102.0	96.4	91.3	86.5
External government debt	105.4	87.8	75.2	77.4	75.2	71.4	66.5	62.0	58.6	55.9
Domestic government debt	42.6	39.0	41.2	32.6	36.6	35.7	35.5	34.4	32.7	30.6
External debt service (percent of exports of goods and	17.6	14.2	11.6	10.9	10.2	9.6	9.4	9.2	8.5	8.1
Present value of PPG external debt										
Percent of GDP (risk threshold: 55%) ..	57.2	53.5	54.2	51.3	50.7	48.6	45.5	42.6	40.3	38.4
Percent of exports (risk threshold: 240%) ..	197.4	139.9	139.9	137.5	123.4	118.7	111.0	104.7	99.0	94.2
Present value of total debt										
Percent of GDP (benchmark: 70%) ..	104.3	98.2	98.2	83.9	95.1	91.4	87.6	83.2	78.8	74.4
Memorandum items:										
Public debt with domestically guaranteed debt to SOEs 3/	157.7	135.5	124.7	117.9	119.5	114.2	108.7	102.7	97.1	91.9
Nominal GDP (billions of Cabo Verde escudos)	191.3	235.6	258.0	281.7	277.9	297.6	318.8	341.6	365.3	390.6
Gross international reserves (€ millions, end of period)	595	626	686	743	646	715	763	837	894	970

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/€.

2/ The public debt perimiter is definied according the program covering the central government and external guarantees to SOEs

3/ In line with the DSA perimiter covering the central government and external and domestic guarantees to SOEs

Table 2. Cabo Verde: Balance of Payments, 2021–29

(Millions of Euros; unless otherwise indicated)

	2021	2022	2023	2024		2025	2026	2027	2028	2029
		Act.	Act.	SR ECF 4th review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-210	-76	-51	-132	-7	-59	-69	-77	-83	-87
Trade balance	-602	-744	-824	-980	-834	-932	-999	-1071	-1145	-1221
Exports, f.o.b.	151	269	238	290	277	298	320	344	369	394
Imports, f.o.b.	753	1013	1062	1270	1111	1230	1319	1415	1514	1614
Consumer goods	257	323	351	354	358	400	438	473	508	536
Intermediate goods	133	167	172	181	175	202	215	227	242	266
Capital goods	72	83	91	190	94	104	110	118	126	134
Others (including fuel)	290	440	447	545	484	525	556	597	638	678
Fuel	77	124	135	148	135	139	142	153	163	172
Services (net)	51	307	412	459	487	512	538	576	608	650
Receipt	245	543	669	662	759	809	864	916	980	1049
Of which: tourism	112	363	478	523	550	588	631	677	727	779
Payment	194	236	257	203	272	296	326	340	373	398
Primary Income (net)	-24	-27	-28	-23	-56	-62	-49	-54	-51	-59
Of which: interest on public debt	-30	-77	-16	-14	-16	-15	-16	-16	-17	-18
Secondary Income (net)	364	388	389	411	397	423	441	472	506	542
General Government	41	28	38	51	27	31	13	13	13	13
Other Sectors	324	360	351	361	370	392	428	459	492	528
Of which: remittances	232	262	253	247	266	284	304	326	348	373
Capital account	23	21	17	40	31	36	34	18	19	23
Of which: Grants	7	9	9	27	23	27	25	9	10	14
Financial account 1/	-159	-57	-64	-97	24	-24	-35	-59	-64	-64
Foreign direct investment	-78	-99	-139	-112	-92	-93	-95	-96	-98	-99
Portfolio investment	1	0	0	1	0	0	0	0	0	0
Other investment	-92	18	29	14	156	-9	12	-36	-23	-41
Net acquisition of financial assets	66	45	92	65	166	19	87	20	35	37
Net incurrence of liabilities	158	28	62	51	10	27	75	57	58	78
Monetary authority	1	0	0	0	0	0	0	0	0	0
Central government	93	45	6	45	15	48	-3	-2	21	38
Disbursements	133	84	95	135	105	139	92	98	119	137
Amortization	-39	-38	-89	-90	-90	-91	-95	-100	-98	-99
Exceptional financing 2/	0	0	0	0	0	0	0	0	0	0
Commercial banks	39	20	-6	7	-23	-2	7	3	1	0
Non-bank flows	24	-38	63	-2	19	-19	72	56	36	40
Errors and omissions 3/	29	-2	-30	0	0	0	0	0	0	0
Overall balance	10	24	46	5	-49	59	48	74	57	76
Financing	-10	-9	-27	-22	61	-48	-48	-74	-57	-76
Reserve assets excl ECF and RSF (-:=accumulation)	-10	-9	-27	-22	61	-48	-48	-74	-57	-76
Financing gap	0	-14	-19	-17	-11	-11	0	0	0	0
Use of ECF	0	14	19	17	11	11	0	0	0	0
Residual gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Use of Fund credit: RSF	0	0	0	19	10	19	0	0	0	0
Change in reserves incl. ECF and RSF (-:=accumulation)	-10	-24	-46	-57	40	-79	-48	-74	-57	-76
Current account (incl. official transfers, percent of GDP)	-12.1	-3.5	-2.2	-5.2	-0.3	-2.2	-2.4	-2.5	-2.5	-2.5
Current account (excl. official transfers, percent of GDP)	-14.5	-4.9	-3.8	-7.2	-1.3	-3.4	-2.8	-2.9	-2.9	-2.8
Overall balance (percent of GDP)	0.6	1.1	2.0	2.2	-1.6	2.9	1.7	2.4	1.7	2.1
Gross international reserves	595	626	686	743	646	715	763	837	894	970
Months of next year's imports of goods and services	5.7	5.7	5.9	5.6	5.1	5.2	5.2	5.3	5.3	5.4
Gross international reserves excl. RSF	595	626	686	724	636	686	734	808	865	941
Months of next year's imports of goods and services	5.7	5.7	5.9	5.5	5.0	5.0	5.0	5.1	5.2	5.2
External public debt	2,164	2,249	2,234	2,347	2,205	2,256	2,185	2,129	2,109	2109
External aid (grants and loans, percent of GDP)	10.4	5.6	6.0	8.4	6.1	7.3	4.5	3.9	4.3	4.6
Nominal GDP	1,735	2,137	2,339	2,555	2,520	2,699	2,891	3,098	3,313	3542

Sources: Bank of Cabo Verde; and IMF staff estimates and projections.
1/ Including international reserves and exceptional financing.
2/ Debt service suspension under the G-20 Initiative.
3/ Including banks' delays on trade credit reporting.

Table 3a. Cabo Verde: Statement of Operations of the Central Government, 2023–29[1]

(Millions of CVE)

	2023	2024			2025	2026	2027	2028	2029
	Act.	4th review	YTD	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	64,824	75,727	49,288	67,064	82,554	85,952	92,273	98,198	105,555
Tax	49,699	53,974	41,847	54,010	60,549	66,357	71,571	76,062	81,887
Taxes on income and profit	12,640	13,191	10,627	13,302	14,283	15,598	17,240	18,435	20,011
Taxes on goods and services	26,073	28,040	22,274	28,282	30,292	34,079	36,525	39,256	42,273
Taxes on international trade	10,157	11,857	8,288	11,533	13,772	13,903	14,831	15,191	16,201
Other taxes	829	885	658	893	2,202	2,776	2,975	3,181	3,402
Grants	3,461	6,409	1,493	3,958	4,917	5,661	5,767	6,167	6,594
Other revenue	11,664	15,344	5,885	9,096	17,088	13,934	14,934	15,968	17,074
Fees and penalties	425	1,013	362	571	489	412	412	412	441
Property Income	5,030	4,619	572	2,606	8,914	3,409	4,655	4,748	4,698
Sale of Goods and Services	5,676	8,258	4,637	5,059	6,461	6,890	7,328	7,775	8,230
Other (inc. social contributions)	534	1,455	314	860	1,225	3,222	2,539	3,034	3,706
Expenditure 2/	65,532	83,764	50,350	73,607	87,807	88,863	92,713	99,259	106,765
Expense	61,098	73,882	46,898	68,076	78,050	80,894	83,831	89,030	92,727
Compensation of employees	22,358	26,999	16,623	25,919	28,943	31,002	33,227	35,528	37,988
Use of goods and services	11,971	16,600	8,759	13,446	17,877	17,715	17,765	17,535	18,749
Interest	5,867	6,218	4,669	6,218	6,357	7,114	5,002	6,183	6,578
Subsidies	2,576	1,885	1,411	1,885	2,073	2,051	2,029	2,008	1,987
Current transfers	5,840	7,400	4,869	6,636	8,335	8,428	9,032	9,658	10,327
Social benefits	9,664	10,740	7,832	10,740	10,780	11,055	12,195	13,226	14,142
Other expense (incl. capital transfer)	2,823	4,040	2,734	3,232	3,686	3,530	4,580	4,892	2,958
Net acquisition of nonfinancial assets	4,434	9,882	3,452	5,531	9,757	7,969	8,883	10,229	14,038
Primary balance	5,159	-1,819	3,607	-325	1,104	4,202	4,561	5,122	5,367
Overall balance	-708	-8,036	-1,062	-6,542	-5,253	-2,911	-441	-1,062	-1,211
Net other liabilities	-167	-558	60	-558	-1,540	-1,976	-1,600	-1,600	-1,600
Onlending to SOEs for investment purpose 3/	-465	-441	-13	-441	-998	-590	0	0	0
Other onlending (net)	284	172	342	172	227	215	0	0	0
Capitalization	-2,200	-2,600	-1,647	-2,600	-2,200	-1,600	-1,600	-1,600	-1,600
Other	2,215	2,312	1,378	2,312	1,431	0	0	0	0
Financing needs	875	8,594	-1,002	7,100	6,794	4,887	2,041	2,662	2,811
Total financing	875	8,594	1,115	7,100	6,794	4,887	2,041	2,662	2,811
Net domestic financing	472	-378	1,169	5,494	1,012	3,409	1,808	17	-1,299
Net external financing	403	8,972	-54	1,607	5,782	1,478	233	2,644	4,110
Unidentified Financing (Financing Gap)	0	0		0	0				
Net errors and omissions (+ overfinancing)	0	0		0	0	0	0	0	0
Memorandum items:									
Counter factual overall balance without RSF 4/		-8,427		-6,738	-5,834	-3,471	-980	-1,580	-1,708
Cumulative estimated RSF savings from substituting more expensive domestic financing 4/		390		195	776	1,336	1,875	2,393	2,890
Social Spending	17,304	18,478		18,639	19,963	21,383	22,918	24,505	26,202
Total Public Investment	5,038	11,028		6,677	11,226	9,031	8,883	10,229	14,038
of which: public investment done by SOEs	465	441		441	998	590	0	0	0

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

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

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

3/ On lend to SOEs for public investment execution.

4/ Assuming a nominal interest rate differential of 4 percent and average term to maturity differential of 13 years between RSF and domestic financing.

Table 3b. Cabo Verde: Statement of Operations of the Central Government, 2023–29[1] (Percent of GDP)

	2023	2024			2025	2026	2027	2028	2029
	Act.	4th review	YTD	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	25.1	26.9	17.7	24.1	27.7	27.0	27.0	26.9	27.0
Taxes	19.3	19.2	15.1	19.4	20.3	20.8	20.9	20.8	21.0
Taxes on income and profit	4.9	4.7	3.8	4.8	4.8	4.9	5.0	5.0	5.1
Taxes on goods and services	10.1	10.0	8.0	10.2	10.2	10.7	10.7	10.7	10.8
Taxes on international trade	3.9	4.2	3.0	4.2	4.6	4.4	4.3	4.2	4.1
Other taxes	0.3	0.3	0.2	0.3	0.7	0.9	0.9	0.9	0.9
Grants	1.3	2.3	0.5	1.4	1.7	1.8	1.7	1.7	1.7
Other revenue	4.5	5.4	2.1	3.3	5.7	4.4	4.4	4.4	4.4
Expenditure 2/	25.4	29.7	18.1	26.5	29.5	27.9	27.1	27.2	27.3
Expense	23.7	26.2	16.9	24.5	26.2	25.4	24.5	24.4	23.7
Compensation of employees	8.7	9.6	6.0	9.3	9.7	9.7	9.7	9.7	9.7
Use of goods and services	4.6	5.9	3.2	4.8	6.0	5.6	5.2	4.8	4.8
Interest	2.3	2.2	1.7	2.2	2.1	2.2	1.5	1.7	1.7
Subsidies	1.0	0.7	0.5	0.7	0.7	0.6	0.6	0.5	0.5
Current transfers	2.3	2.6	1.8	2.4	2.8	2.6	2.6	2.6	2.6
Social benefits	3.7	3.8	2.8	3.9	3.6	3.5	3.6	3.6	3.6
Other expense (incl. capital transfer)	1.1	1.4	1.0	1.2	1.2	1.1	1.3	1.3	0.8
Net acquisition of nonfinancial assets	1.7	3.5	1.2	2.0	3.3	2.5	2.6	2.8	3.6
Primary balance	2.0	-0.6	1.3	-0.1	0.4	1.3	1.3	1.4	1.4
Overall balance	-0.3	-2.9	-0.4	-2.4	-1.8	-0.9	-0.1	-0.3	-0.3
Net other liabilities	-0.1	-0.2	0.0	-0.2	-0.5	-0.6	-0.5	-0.4	-0.4
Onlending to SOEs for investment purpose 3/	-0.2	-0.2	0.0	-0.2	-0.3	-0.2	0.0	0.0	0.0
Other onlending (net)	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Capitalization	-0.9	-0.9	-0.6	-0.9	-0.7	-0.5	-0.5	-0.4	-0.4
Other	0.9	0.8	0.5	0.8	0.5	0.0	0.0	0.0	0.0
Financing Needs	0.3	3.1	-0.4	2.6	2.3	1.5	0.6	0.7	0.7
						0.2	0.2	0.8	1.1
Total financing	0.3	3.1	0.4	2.6	2.3	1.5	0.6	0.7	0.7
Net domestic financing	0.2	-0.1	0.4	2.0	0.3	1.1	0.5	0.0	-0.3
Net external financing	0.2	3.2	0.0	0.6	1.9	0.5	0.1	0.7	1.1
Net errors and omissions (+ overfinancing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Counter factual overall balance without RSF 4/		-3.0		-2.4	-2.0	-1.1	-0.3	-0.4	-0.4
Cumulative estimated RSF savings from substituting more expensive domestic financing 4/		0		0.1	0.3	0.4	0.5	0.7	0.7
Debt-to-GDP (Fifth review)	116.4	110.0		111.8	107.1	102.0	96.5	91.4	86.6
Change in debt-to-GDP	-19.1	-3.8		-4.6	-4.7	-5.1	-5.6	-5.1	-4.8
of which: contribution from primary deficit	-2.0	0.6		0.1	-0.4	-1.3	-1.3	-1.4	-1.4
of which: contribution from real GDP growth	-7.0	-5.1		-7.0	-5.4	-4.7	-4.4	-4.0	-3.8
of which: contribution from average real interest rate	0.1	-0.3		0.1	0.7	0.3	0.4	0.4	0.5
of which: contribution from other debt creation flows 1/	-10.1	0.9		2.2	0.3	0.6	-0.2	-0.1	-0.1
Social Spending	6.7	6.6		6.7	6.7	6.7	6.7	6.7	6.7
Total Public Investment	2.0	3.9		2.4	3.8	2.8	2.6	2.8	3.6
Of which: public investment done by SOEs	0.2	0.2		0.2	0.3	0.2	0.0	0.0	0.0
GDP at current market prices (billions of CVEsc)	258.0	281.7	277.9	277.9	297.6	318.8	341.6	365.3	390.6

Sources: Cabo Verdean authorities; and IMF staff estimates and projections.
1/ Includes net other liabilities, fx depreciation, and other debt-creating flows
2/ Higher expenditures on compensation of employees and on goods and services for 2020 partly reflect the broadening of the fiscal coverge.
3/ On lend to SOEs for public investment execution.
4/ Assuming a nominal interest rate differential of 4 percent and average term to maturity differential of 13 years between RSF and domestic financing.

Table 4. Cabo Verde: Deposit Corporations Survey, 2021–29

(Millions of CVE, unless otherwise indicated)

	2021	2022	2023	2024			2025	2026	2027	2028	2029
			Act.	YTD	SR ECF 4th review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Central Bank											
Net foreign assets	60,629	61,810	66,503	58,132	72,836	62,114	69,786	75,067	83,210	89,511	97,875
Of which: *Foreign assets*	65,636	69,036	75,592	69,148	81,924	71,203	78,875	84,156	92,298	98,600	106,964
Foreign liabilities	-5,007	-7,227	-9,089	-11,016	-9,089	-9,089	-9,089	-9,089	-9,089	-9,089	-9,089
Net domestic assets	6,268	11,111	11,909	8,006	10,974	21,479	19,639	20,021	18,713	18,159	15,912
Net domestic credit	-1,955	143	592	-4,090	-343	10,162	8,323	8,705	7,396	6,843	4,595
Government (net)	-7,972	-9,140	-6,916	-10,015	-6,916	-6,916	-6,916	-6,916	-6,916	-6,916	-6,916
Other public non-financial corporations (net)	0	0	0	0	0	0	0	0	0	0	0
Other depository corporations (net)	4,498	7,635	5,730	4,237	4,786	15,290	13,442	13,815	12,497	11,935	9,678
Others	1,519	1,648	1,779	1,688	1,788	1,788	1,797	1,806	1,815	1,824	1,833
Other items (net)	8,223	10,968	11,317	12,096	11,317	11,317	11,317	11,317	11,317	11,317	11,317
Reserve money (RM, M0)	66,897	72,921	78,412	66,138	83,810	83,592	89,425	95,088	101,922	107,671	113,787
Currency in circulation	14,720	15,181	16,080	15,420	16,552	16,590	17,212	18,302	19,618	20,724	21,901
Bank reserves	52,177	57,739	62,333	50,718	67,257	67,002	72,213	76,786	82,305	86,947	91,885
Other depository corporations											
Net foreign assets	3,090	4,520	5,355	23,976	9,733	23,354	22,412	20,124	19,286	18,656	18,714
Reserves	52,467	56,033	61,517	50,483	67,257	67,002	72,213	76,786	82,305	86,947	91,885
Net domestic assets	195,079	205,271	213,449	200,681	233,500	219,212	237,623	256,379	277,089	294,434	312,161
Net domestic credit	221,735	239,624	251,084	243,416	274,730	260,442	282,792	305,863	331,300	353,824	377,224
Government (net)	43,888	51,413	49,003	39,661	48,977	51,936	52,866	55,398	56,762	57,086	39968
Other public non-financial corporations (net)	5,783	6,857	7,512	6,720	8,015	7,689	8,397	9,205	10,056	10,897	21466
Private sector (net)	127,717	134,831	141,852	144,956	151,334	145,184	158,554	173,818	189,883	205,767	405330
Other items (net)	-26,656	-34,353	-37,635	-42,048	-41,230	-41,230	-45,169	-49,484	-54,211	-59,390	-65,063
Deposits	198,169	209,791	223,450	232,443	243,233	242,565	260,035	276,503	296,374	313,090	330,875
Deposit corporations survey											
Net foreign assets	63,718	66,329	71,858	82,109	82,569	85,467	92,198	95,191	102,495	108,168	116,589
Foreign assets	99,880	106,860	113,542	123,745	125,030	124,599	131,130	134,851	142,453	148,195	156,659
Of which: gross international reserves	65,636	69,036	75,592	69,148	81,924	71,203	78,875	84,156	92,298	98,600	106,964
Foreign liabilities	-36,162	-40,531	-41,684	-41,636	-42,461	-39,131	-38,932	-39,660	-39,958	-40,027	-40,070
Net domestic assets	149,183	158,957	167,559	157,637	173,284	169,767	180,845	195,143	208,705	220,584	230,837
Net domestic credit	170,936	185,609	193,230	185,161	203,600	195,437	206,516	220,814	234,375	246,255	256,508
Net claims on general government (net)	35,916	42,273	42,087	31,797	42,061	45,020	45,950	48,482	49,845	50,170	49,662
Credit to the economy	135,019	143,336	151,143	153,364	161,539	159,418	169,566	181,332	193,530	205,085	215,845
o/w Credit to Private Sector	129,224	136,470	143,623	146,638	153,518	151,722	161,162	172,120	183,466	194,180	204,115
o/w Credit to Public Non-financial Corporations	5,783	6,857	7,512	6,720	8,015	7,689	8,397	9,205	10,056	10,897	11,723
Other items (net)	-21,752	-26,652	-25,671	-27,524	-30,317	-25,671	-25,671	-25,671	-25,671	-25,671	-25,671
Broad money (M2)	212,902	225,286	239,417	247,532	255,853	255,234	273,043	290,334	311,200	328,752	347,426
Narrow money (M1)	108,405	120,585	131,606	134,123	140,621	140,301	150,091	159,595	171,065	180,713	190,978
Currency outside banks	11,416	12,236	12,414	12,063	12,620	12,669	13,008	13,832	14,826	15,662	16,551
Demand deposits	96,989	108,349	119,192	122,060	128,001	127,632	137,083	145,764	156,240	165,052	174,427
Quasi-money	99,663	98,824	100,938	105,917	107,885	107,606	115,114	122,404	131,201	138,601	146,474
Foreign currency deposits	4,833	5,877	6,873	7,493	7,346	7,327	7,838	8,335	8,934	9,438	9,974
Year on Year Growth					(Percent)						
Net foreign assets	4.8	4.1	8.3	15.8	8.0	18.9	7.9	3.2	7.7	5.5	7.8
Net domestic assets	2.3	6.6	5.4	1.0	6.4	1.3	6.5	7.9	6.9	5.7	4.6
Net domestic credit	8.4	8.6	4.1	3.0	5.4	1.1	5.7	6.9	6.1	5.1	4.2
Net claims on government	14.6	17.7	-0.4	-5.1	-0.1	7.0	2.1	5.5	2.8	0.7	-1.0
Credit to the economy	6.8	6.2	5.4	4.9	6.9	5.5	6.4	6.9	6.7	6.0	5.2
o/w Credit to Private Sector	7.1	5.6	5.2	4.9	6.9	5.6	6.2	6.8	6.6	5.8	5.1
o/w Credit to Public Non-financial corporations	1.8	18.6	9.6	3.5	6.7	2.3	9.2	9.6	9.2	8.4	7.6
Broad money (M2)	3.0	5.8	6.3	9.0	6.9	6.6	7.0	6.3	7.2	5.6	5.7
Reserve money (RM, M0)	-5.1	9.0	7.5	-14.2	6.9	6.6	7.0	6.3	7.2	5.6	5.7
Memorandum items:											
Emigrant deposits/total deposits (percent)	27.2	26.5	25.2	25.0	31.9	25.0	25.0	25.0	25.0	25.0	25.0
Excess reserves/total deposits (percent)	17.8	17.5	18.4	18.4	17.7	17.6	17.8	17.8	17.8	17.8	17.8
Money multiplier (M2/M0)	3.2	3.1	3.1	3.7	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Money velocity (Nominal GDP/M2)	0.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Broad money (M2 in percent of GDP)	111.3	95.6	92.8	89.1	90.8	91.9	91.7	91.1	91.1	90.0	88.9

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

Table 5. Cabo Verde: Financial Soundness Indicators of the Banking Sector, 2020–24Q3

(End-year; percent unless otherwise indicated)

	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3
Capital adequacy																			
Regulatory capital to risk-weighted assets	18.1	18.3	18.6	19.4	19.6	20.0	20.9	21.4	22.0	21.4	21.9	22.2	22.7	21.4	21.8	23.8	23.6	22.5	22.5
Regulatory Tier 1 capital to risk-weighted assets	18.6	18.8	19.0	19.8	20.1	20.5	20.9	21.1	21.6	21.1	21.5	22.6	23.2	22.1	22.5	24.4	24.2	23.3	23.4
Asset quality 1/																			
Nonperforming loans to total loans	10.1	11.0	10.5	9.5	9.5	9.1	9.0	8.1	8.2	8.8	8.9	7.8	9.1	8.7	9.2	7.3	8.3	10.5	11.0
Nonperforming loans net of provisions to capital	20.4	23.9	16.6	7.1	10.9	8.5	7.6	1.6	7.4	9.4	11.6	3.9	8.6	10.8	9.3	6.5	11.2	22.6	
Provisions to nonperforming loans	70.1	66.5	73.3	86.4	80.0	83.0	84.1	95.5	81.3	77.9	73.2	88.4	77.1	73.5	75.3	81.3	71.3	55.9	51.1
Earnings and profitability																			
Return on assets	0.4	0.6	1.0	1.3	0.4	0.8	1.2	1.4	0.4	0.8	1.3	1.5	0.4	0.9	1.3	1.8	0.5	0.9	1.4
Return on equity	5.3	7.9	12.7	15.4	4.9	9.1	12.7	14.9	4.4	8.7	13.6	16.0	4.4	9.2	13.6	18.0	4.6	9.3	13.4
Interest margin to gross income	78.2	85.8	86.7	85.7	84.8	83.1	83.5	80.8	83.9	82.0	78.6	80.0	83.6	82.7	83.5	79.7	84.1	82.5	82.2
Noninterest expenses to gross income	46.4	49.3	48.9	48.9	45.5	45.3	45.4	46.0	46.5	45.6	44.2	46.2	45.7	45.4	46.2	44.8	44.4	44.2	44.7
Liquidity 2/																			
Liquid assets to total assets	23.8	25.4	25.9	25.1	23.0	21.7	22.6	24.3	24.1	22.8	23.2	24.6	24.8	25.2	25.7	25.0	25.6	24.7	25.2
Liquid assets to short-term liabilities	27.8	30.0	30.8	29.9	27.5	26.1	28.0	30.5	30.1	28.5	29.1	31.5	31.6	32.3	32.8	32.7	33.8	31.9	32.5
Additional indicators																			
Government deposits over total deposits	19.6	19.1	19.7	19.6	19.0	18.0	17.7	16.0	15.7	15.8	17.1	17.0	17.3	17.6	17.6	17.9	17.0	17.3	17.8
Demand deposits over total deposits	51.8	51.6	51.7	51.1	51.6	51.4	50.9	51.8	52.6	51.8	52.9	53.3	53.8	54.3	54.1	53.4	54.4	53.8	
Total credit over total deposits	52.9	53.2	53.6	54.7	55.5	56.1	57.8	56.9	55.5	56.3	56.1	57.4	56.7	56.9	56.3	57.5	57.0	56.8	
Personnel cost over cost of operations	59.2	57.8	57.7	58.0	60.4	59.7	58.4	58.0	58.0	57.4	56.5	55.6	58.1	57.5	56.5	55.4	58.7	57.5	

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, March 2024-March 2025[1]

(Millions of CVE, unless otherwise indicated)

	2024											2025	
	end-March			end-June			end-September			end-December		end-March	
	Indicative Targets (IT)	Actual	Status	Performance Criteria (PC)	Actual	Status	Indicative Targets (IT)	Actual	Status	Performance Criteria (PC)	ɔposed Revised Performance Criteria (PC)	Indicative Targets (IT)	Proposed Revised Indicative Targets Criteria (PC)
Quantitative performance criteria													
Primary balance, floor [2]	-1849	1069	met	-2417.4	1070.0	met	-2740.6	3607.1	met	-3063.9		7	
Tax revenue, floor	8088	12855	met	21029	27171	met	37501.4	41847.2	met	53973.7		14808	
Net other liabilities, floor [3]	-418	344	met	-2296	-1113	met	-2583	-1318	met	-2870		-139	
Net domestic financing, ceiling	3093	-849	met	4021	-349	met	2241.25	1037.70	met	462	5494	96	
Nonaccumulation of domestic arrears [4]	0	0	met	0.0	0	met	0	0	met	0		0	
Non-accumulation of external payment arrears [4]	0	0	met	0.0	0	met	0	9	met	0		0	
PV of new external debt, ceiling (in millions of US Dollars)	24	17	met	37	27	met	95.4	32.6	met	125.5	58	19	
Nominal level of new nonconcessional external debt of centra	0	0	met	0.0	0	met	0	0	met	0 0		0	
Gross international reserves (in millions of euros), floor [2]	671	706	met	693	666	not met	716	647	not met	743	646	745	659
Indicative Targets													
Social spending, floor	3690	3783	met	7379	8052	met	12934.5	13336.7	met	18490.1		4941	
Non-quantitative continuous PCs													
Non-imposition or intensification of restrictions on the													
making of payments and transfers for current international													
Non-introduction or modification of multiple currency practices													
Non-imposition or intensification of import restrictions for balance of payments reasons													
Non-conclusion of bilateral payments agreements that are inconsistent with Article VIII													
Memorandum items:													
Net onlending	116.6	300.0		136	328		165.209	328		194		82	
Capitalization	1100	-360		1600	1442		2100.2	1647		2600		0	
Program assumptions													
Project and budget support grants	526	526		1121	2732		3765.34	4963		6409.3		1077	
External debt service	2409	2409		4818	6947		8424.69	9577		12031.9		0	
Sales of assets	106	126		226	252		465.3	252		705.0		118	
Project and budget support loans	1816	1816		4238	6581		11995.3	11526		19752.2		3840	

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

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

[2] The ceiling or floor will be adjusted as specified in the

[3] Until december 2023, Net other liabilites includes net onlending, capitalization, use of deposits, privatization. From June 2024 onwards, the definition was narrowed down to SOEs support focusing on net onlending to SOEs and capitalization

[4] Continuous.

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

Actions	Target date	Objective	Status
Fiscal reforms			
1) Invoice electronically at least 50 percent of tax payers for VAT	End-December 2022	Improve revenue collection	Met
2) Submit to parliament the budget for 2023 that is in line with commitments under the program.	End December 2022	Support fiscal and debt sustainability	Met
3) Compile and publish historical series of government financial statistics for general government.	End-March 2023	Improve fiscal transparency	Met
4) Publish annual budget execution reports for the general government.	End-September 2023	Improve fiscal transparency	Met
5) Construct a Compliance Risk Management system to allow for the optimization of tax revenue collection by end-December 2023.	End-December 2023	Support fiscal and debt sustainability	Met
6) Submit to parliament the budget for 2024 that is in line with the primary balance commitment under the program.	End-December 2023	Support fiscal and debt sustainability	Met
7) Develop and publish an action plan to reduce tax expenditures by 1 percent of GDP and include published estimates of annual tax expenditures in the budget to improve transparency	End-September 2024	Support fiscal and debt sustainability	Met
8) Implement the action plan to reduce tax expenditures during in the 2025 budget	End-December 2024	Support fiscal and debt sustainability	
9) Broadening the coverage of fiscal risk analysis and reporting to include PPPs	End-September 2024	Support fiscal and debt sustainability	Met
10) Adopt a budget for fiscal year 2025 that is in line with the program parameters	End-December 2024	Support fiscal and debt sustainability	
SOEs reforms			
11) 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
12) Introduce a quarterly monitoring report on SOEs budget execution.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
13) 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	Met
14) Based on the July 2023 structural benchmark, publish in the annual report on public companies the targets agreed between the Ministry of Finance and Business Development and the six largest public companies , on improving financial performance and reducing the need for central government support.	End-June 2024	Improve fiscal reporting and reduce fiscal risks	Met
Monetary policy reforms			
15) Preannounce a schedule for TIM and TRM auctions.	End-June 2022	Support the development of the money market	Met
16) Introduce composite indicators of economic activity.	End-June 2023	Support monetary policy analysis	Met
Financial sector reforms			
17) Submit draft amendments to the BCV Law, in line with IMF recommendations, to the Ministry of Finance with a view to (i) establishing an independent oversight process that is separate from executive management, (ii) strengthening the BCV's personal and financial autonomy, and (iii) enhancing transparency and accountability mechanisms	End-December 2022	Strengthen BCV institutional framework	Met
18) Carry out a comprenhensive study of loan losses and provisions at the expiration of the credit moratorium.	End-December 2022	Strengthen financial stability	Met
19) Develop a common framework for the resolution of crisis related NPLs.	End-December 2022	Strengthen financial stability	Met
20) 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	Met
21) Submit the draft amendments to the BCV Law, in line with IMF recommendations, to parliament with a view to (i) establish an independent oversight process that is separate from executive management, (ii) strengthen the BCV's personal and financial autonomy, and (iii) enhance transparency and accountability mechanisms	End-July 2024	Strengthen BCV institutional framework	Not Met; implemented with a delay in September

Table 8. Cabo Verde: Indicators of Capacity to Repay the Fund, 2024-43

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
Fund obligations based on existing credit (millions of SDRs)																				
Principal	0.0	2.4	4.7	5.9	8.6	11.0	9.6	7.2	6.1	3.4	1.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Charges and interest	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.1	1.1	1.1
Total	1.3	3.6	5.9	7.1	9.8	12.2	10.8	8.4	7.3	4.6	2.4	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.6
Fund obligations based on existing and prospective credit (millions of SDRs)																				
Principal	0.0	2.4	4.7	5.9	8.6	11.0	10.5	9.0	7.9	5.2	3.0	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
o/w PRGT	0.0	2.4	4.7	4.7	4.7	4.7	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w RST	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	1.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Charges and interest	1.3	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.4	1.4	1.3	1.3	1.2	1.2
o/w PRGT	0.0	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.1
o/w RST	1.3	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Total	1.3	6.2	11.1	12.2	14.9	17.4	14.4	10.6	9.5	6.8	4.8	5.4	6.3	6.2	6.2	6.1	6.1	6.0	6.0	5.9
Total obligations based on existing and prospective credit																				
Millions of SDRs	1.3	3.8	6.3	7.5	10.2	12.6	12.1	10.6	9.5	6.8	4.6	3.9	3.9	3.9	3.8	3.7	3.7	3.6	3.6	3.5
o/w PRGT	0.0	2.8	5.3	5.3	5.3	5.3	2.9	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.1
o/w RST	1.3	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.3	2.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Millions of U.S. dollars	1.7	5.1	8.4	10.0	13.6	17.0	16.2	14.2	12.7	9.1	6.1	5.3	5.2	5.2	5.1	5.0	5.0	4.9	4.8	4.7
o/w PRGT	0.0	3.7	7.0	7.0	7.1	7.1	3.9	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.5	0.4	0.4	0.3	0.2	0.1
o/w RST	1.7	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.8	3.4	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Percent of exports of goods and services	0.1	0.4	0.7	0.7	0.9	1.1	1.0	0.8	0.7	0.4	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Percent of debt service	1.1	3.2	4.9	6.3	8.2	10.0	9.2	7.5	6.5	4.9	3.1	2.7	2.6	2.6	2.5	2.4	2.3	2.3	2.4	2.4
Percent of quota	5.3	16.1	26.7	31.5	42.9	53.3	50.9	44.7	40.0	28.6	19.2	16.6	16.5	16.3	16.0	15.8	15.6	15.4	15.1	14.9
Percent of gross international reserves	0.3	0.7	1.1	1.2	1.5	1.7	1.6	1.4	1.2	0.8	0.5	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1
Percent of GDP	0.1	0.2	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Outstanding Fund credit																				
Millions of SDRs	65.0	90.1	85.3	79.5	70.9	59.8	49.4	40.4	32.5	27.3	24.3	22.0	19.6	17.2	14.9	12.5	10.1	7.8	5.4	3.0
o/w PRGT	59.7	66.4	61.6	55.8	47.2	36.1	25.7	16.7	8.8	3.6	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w RST	5.3	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.4	22.0	19.6	17.2	14.9	12.5	10.1	7.8	5.4	3.0
Millions of U.S. dollars	86.1	119.5	113.7	106.1	94.9	80.3	66.2	54.2	43.6	36.6	32.7	29.5	26.3	23.1	20.0	16.8	13.6	10.4	7.2	4.1
o/w PRGT	79.1	88.1	82.1	74.5	63.2	48.5	34.4	22.4	11.8	4.8	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w RST	7.0	31.5	31.6	31.7	31.7	31.8	31.8	31.8	31.8	31.8	31.4	29.5	26.3	23.1	20.0	16.8	13.6	10.4	7.2	4.1
Percent of exports of goods and services	7.7	10.0	8.9	7.8	6.5	5.2	4.0	3.0	2.3	1.8	1.5	1.2	1.0	0.8	0.7	0.5	0.4	0.3	0.2	0.1
Percent of debt service	54.4	74.6	65.8	67.6	57.5	47.3	37.5	28.5	22.3	19.9	16.8	14.8	13.1	11.5	9.7	8.0	6.3	4.9	3.6	2.0
Percent of quota	274.2	380.0	360.0	335.2	299.1	252.5	208.3	170.3	137.1	115.2	102.7	92.8	82.8	72.8	62.8	52.8	42.8	32.8	22.8	12.8
Percent of gross international reserves	13.3	16.7	14.9	12.7	10.6	8.3	6.7	5.2	4.1	3.3	2.7	2.1	1.7	1.3	1.0	0.7	0.5	0.4	0.2	0.1
Percent of GDP	3.2	4.1	3.6	3.2	2.7	2.1	1.6	1.2	0.9	0.7	0.6	0.5	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.0
Net Use of Fund Credit (millions of SDRs)	14.3	25.1	-4.7	-5.9	-8.6	-11.0	-10.5	-9.0	-7.9	-5.2	-3.0	-2.3	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
Disbursements	14.3	27.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	2.4	4.7	5.9	8.6	11.0	10.5	9.0	7.9	5.2	3.0	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Memorandum items:																				
Exports of goods and services (millions of U.S. dollars)	1119.5	1192.3	1280.6	1360.0	1455.3	1555.9	1675.0	1784.6	1901.6	2049.9	2214.7	2414.0	2564.1	2779.9	3039.8	3360.9	3674.5	4053.0	4422.4	4869.2
Debt service (millions of U.S. dollars)	158.2	160.3	173.0	157.1	165.0	169.8	176.5	189.8	195.7	183.9	194.3	198.8	200.3	201.5	206.6	209.5	216.7	213.3	202.6	201.7
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
Gross international reserves	645.7	715.3	763.2	837.1	894.2	970.1	989.7	1044.0	1075.0	1125.4	1221.7	1384.5	1547.1	1772.5	2020.4	2299.0	2597.4	2887.3	3183.5	3798.1
GDP (millions of U.S. dollars)	2723.6	2908.9	3126.0	3344.3	3573.5	3821.0	4074.8	4346.7	4635.9	4944.2	5272.2	5620.6	5992.3	6392.1	6818.4	7271.8	7757.5	8274.1	8824.7	9417.1

Sources: IMF Staff estimates and projections.

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

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

Source: IMF staff estimates.
Note: Quota is SDR 23.70 million.

Table 10. Cabo Verde: Access and Phasing Under the RSF Arrangement, 2024-25

Available date	SDR million	Percent of Quota	Total Disbursements	Conditions for disbursement
15-Mar-24	2.632	11.11	5.264	Reform measure 1 implementation review
15-Mar-24	2.632	11.11		Reform measure 3 implementation review
2-Dec-24	2.632	11.11	10.528	Reform measure 2 implementation review
2-Dec-24	2.632	11.11		Reform measure 7 implementation review
2-Dec-24	2.632	11.11		Reform measure 8 implementation review
2-Dec-24	2.632	11.11		Reform measure 9 implementation review
15-May-25	2.632	11.11	7.908	Reform measure 4 implementation review
15-May-25	2.632	11.11		Reform measure 5 implementation review
15-May-25	2.644	11.16		Reform measure 6 implementation review
Total access	**23.7**	**100.0**		

Source: IMF staff estimates.

Note: Quota is SDR 23.7 million.

Table 11. Cabo Verde: RSF Reform Measures Matrix

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	STATUS	DEVELOPMENT PARTNER ROLE	TIMING
National coordination and management of climate change is under the MAE that is not able to ensure cross sector coordination	**RM1.** Government will establish a council/body for coordinating climate change policy planning and strategy, and DRM under the Heads of Government, with a clear tasks, responsibilities and procedures, including mechanisms for (i) holding entities accountable for consistency across sectoral plans in line with the national development strategy (PEDS II) and international commitments (NDC), and (ii) providing strategic oversight of DRM defined in the TORs, with implementation reflected in the protocols of regular meetings. The MAE serves as secretariate.	Climate Policy Diagnostic (CPD)	None needed	Completed. The Cabinet approved on May 7 the Resolution nº 38/2024, which was published in the Official Gazette on May 10, 2024, I Série Nº 42-1106I (https://kiosk.incv.cv/1.1.42.5747/)	LuxDev provided TA on the climate governance function and associated legal amendments	End-April 2024; 4th ECF Review
Natural disaster and climate related risk not adequately featured in fiscal planning	**RM2**. To improve fiscal risk management, the Ministry of Finance will conduct and publish in the annual Fiscal Risk Statement quantitative analysis of the fiscal risks generated by climate change.	C-PIMA; CPD	IMF CD from FAD was delivered in July 2024 to support changes.	Completed. The Fiscal Risk Statement was published alongside the draft 2025 budget sent to parliament.	World Bank has prior actions and triggers in the latest DPF supporting a stronger PIM framework and aligned with the C-PIMA recommendations	RM completed end-September 2024; 5th ECF Review

Table 11. Cabo Verde: RSF Reform Measures Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	STATUS	DEVELOPMENT PARTNER ROLE	TIMING
Investments don't reflect needed physical resilience to Climate Change	**RM3**. The Ministry of Finance will enact amendments to the PPP legal framework to ensure climate requirements are reflected in PPP agreements and the Ministry of Finance will publish a manual integrating these requirements throughout the PPP capital project lifecycle, from project identification to contract management stages.	C-PIMA	FAD/LEG CD in March to support the authorities on the amendments of the PPP legislation and the Manual.	Completed. Changes were approved by Cabinet in April and published in the Official Gazette on May 8, 2024 (Decreto-lei 21/2024, I Série nº 40-1012 (https://kiosk.incv.cv/1.1.40.5737/)		End-April. 2024; 4th ECF Review
	RM4. To scale up and systematize climate finance the Ministry of Finance will (i) adopt a national climate finance mobilization strategy that comprehensively identifies the financing instruments to unlock climate finance sources; and (ii) develop and publish, a pipeline of appraised public capital projects, including climate-related projects, as part of the budget process.	C-PIMA	Luxembourg and follow up support from FADM2 in first half of 2025	On track. The climate finance strategy is largely complete and presented at COP 29. It will be published in mid-December. Work on the pipeline of projects is ongoing work and expected to be complete in early 2025.	LuxDev is providing TA to formulate a climate finance strategy	End-April 2025; 6th ECF Review

Table 11. Cabo Verde: RSF Reform Measures Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	STATUS	DEVELOPMENT PARTNER ROLE	TIMING
Mitigation, adaptation and resilience in the energy sector are held up by energy inefficiency and obstacles to transition	**RM5**. To support energy transition plans, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of electricity (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting electricity tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments. (Ministry of Industry, Trade and Energy and MoF)	CPD	FADEP support on the analytical study of tariffs and distributional impact in December 2024.	On track. Cooperation with international partners on tariffs is advanced (e.g., calculating cost recover rates). There is ongoing work by LuxDev which will be incorporated by FAD's technical assistance mission. Authorities are preparing the business plans for each of the new business units (EPEC and EDEC). It will be important for these to include the information needed for assessing cost recovery tariffs.	WB energy projects are providing support on unbundling the energy SOE. LuxDev is also supporting work on tariff reforms.	End-April 2025; 6th ECF Review

Table 11. Cabo Verde: RSF Reform Measures Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	STATUS	DEVELOPMENT PARTNER ROLE	TIMING
Access to water resources and fiscal sustainability are vulnerable to long-run climate impacts due to lack of investment and non-ecological use	**RM6** To support reform initiatives, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of water (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting water tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments, and/or by financing infrastructure investment transparently from the budget, with a view to ensure sustainability of the water sector. (National Water and sanitation Agency (ANAS) and MoF)	CPD	FAD support for tariff review and the distributional impact in January 2025.	Authorities are setting out the investment plans needed for the water sector. Cooperation with international partners on tariffs is advanced (e.g., calculating cost recover rates). The scope of what is possible by the test date is likely to narrow to Santiago Island (which is where most of the losses are accrued) due to the diversity of water business and management models across islands.	LuxDev is supporting work on tariff reforms.	End-April 2025; 6th ECF Review
	RM7. The Unique Social Registry (USR) will be expanded to provide the basis for a social support system that can efficiently mitigate the implications of climate transition and climate hazard events. To this end, the Ministry of Family and Social Inclusion and the MoF will expand coverage of the USR to 100 percent of poor and vulnerable households (including from rural areas) as identified based on the latest household budget survey, and offer inclusion in the USR to 100 percent of the households in climate vulnerable areas.	CPD		Delayed. The USR has been expanded and covers 100 percent of poor and vulnerable households. Work on offering inclusion to households in climate vulnerable areas is dependent on RM8. URS web page: www.csu.cv	WB	End-November 2024; 5th ECF Review

Table 11. Cabo Verde: RSF Reform Measures Matrix (concluded)						
KEY CHALLENGE	**REFORM MEASURE**	**DIAGNOSTIC REFERENCE**	**IMF CD INPUT**	**STATUS**	**DEVELOPMENT PARTNER ROLE**	**TIMING**
	RM8 INGT or new unit/council for CC management and DRM will develop and disseminate natural disaster risk and vulnerability maps, including information on how and where climate hazards might affect the areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses. The land use planning regulation and construction code requirements will be amended to consider disaster risks and vulnerabilities for urban and rural development planning and for designing and constructing infrastructure and buildings.			Delayed. The authorities started working on this RM and using own resources to finance the activities. INGC is working on defining the natural disaster and vulnerability maps, which also supports RM7.		End-November 2024; 5th ECF Review
Green financing/Climate Finance	**RM9**. The BCV will develop a climate information architecture for banks, consisting of 1) the adoption of a climate change adaptation and mitigation taxonomy, and 2) the publication of climate risk and opportunities and disclosure guidelines, so that banks are expected to submit their internal roadmaps within six months from the effective date of application of the guideline, followed by progress reports every six months.		MCM has delivered an online presentation to the BCV to help set the ground for future work	Delayed. BCV engaged an external consultancy. In addition, MCM will support in two ways: i) meet the external consultant and review the work; and ii) bilateral CD (remotely and in-person).	TBC	End-November 2024; 5th ECF Review

Annex I. Risk Assessment Matrix[1]

(Scale—high, medium, or low)

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
		Conjunctural risks	
Intensification of regional conflicts	**High** Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High** The economy would be hit by disruptions in the supply chain, terms of trade and the tourism sector deteriorate resulting in the balance of payments problems and lower FDI, increase inflation leading to food insecurity and poverty.	• Slow down planned unwinding of policy support while ensuring that recovery is well entrenched. • Create fiscal space through spending review and tax mobilization for new policies to mitigate supply shocks in the economy. • A shift in tourism to Cabo Verde could also mitigate the impact.
Global growth slowdown	**Medium** • Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops.	**Medium** Recession in key tourist markets would lower tourist arrivals and slow down economic recovery and revenues. Rising core yields and risk premia will increase the cost of new debt and add pressure to foreign reserves and financial account due to a "Fly-to-quality" effect. Rising yields could also reduce the flow of migrant deposits.	• Maintain adequate reserves and fiscal consolidation and reliance on concessional financing from bilateral and/or multilateral creditors. • Develop contingency plans to lower the impact of delayed recovery. • Stand ready to tighten monetary policy.

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

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Commodity price volatility	**High** Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability	**High** Worsening of the current account, generating balance of payments problems. Commodity prices increase, especially in oil and food, joint with supply disruptions, leads to a higher inflation, and impacts vulnerable consumers.	• Build external buffers and resilience to shocks. • Diversification of energy usage (renewable energies transition), to mitigate oil price shocks. • Increase government's targeted supports to vulnerable groups.
Structural Risks			
Deepening geoeconomic fragmentation	**High** Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**High** Cabo Verde is an open economy, highly dependent on imports (food, intermediates, and fuel), remittances and tourism. Hence any disruption on each of these areas is bound to deeply affect economic activity.	• The limited fiscal resources should be prioritized and allocated to investments that increase diversification across tourism source markets. • Contingency planning should be undertaken in anticipation of operational or financial disruptions. • Accelerate the implementation of structural reforms to support international competitiveness and productivity.
Extreme climate events	**Medium** Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	**Medium/High** Prolonged drought or other climate-related shocks would undermine agricultural production with negative impact on GDP growth and inflation.	• Build resilience to weather-related shocks and accelerate growth-enhancing reforms. • Prioritize public investments projects resilient to climate change, improve risk management and building codes.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
		Domestic	
Faltering fiscal consolidation efforts	**Medium/High** Less ambitious and slower fiscal consolidation efforts and delayed SOEs reforms as the economy returns to normal.	**High** Delayed fiscal consolidation efforts and SOEs reforms would undermine macroeconomic stability and hinder the return to pre-COVID medium-term fiscal and debt sustainability trajectory.	Unwind temporary measures, advance revenue-enhancing reforms, improve capital expenditure management, reduce fiscal risks, notably linked to SOEs, and contain non-priority spending.
Delays in implementing measures to increase productivity and restructure SOEs	**Medium** Delays in structural reforms implementation, particularly in the public enterprises sector.	**Medium** Delays in advancing the structural reform agenda would hinder competitiveness, potential GDP growth and employment.	Follow through with SOEs reform plans and accelerate other structural reforms as soon as possible, to improve the business environment, reduce the State's role in productive activities and enhance growth potential.

Annex II. Debt Decomposition and Capacity to Repay

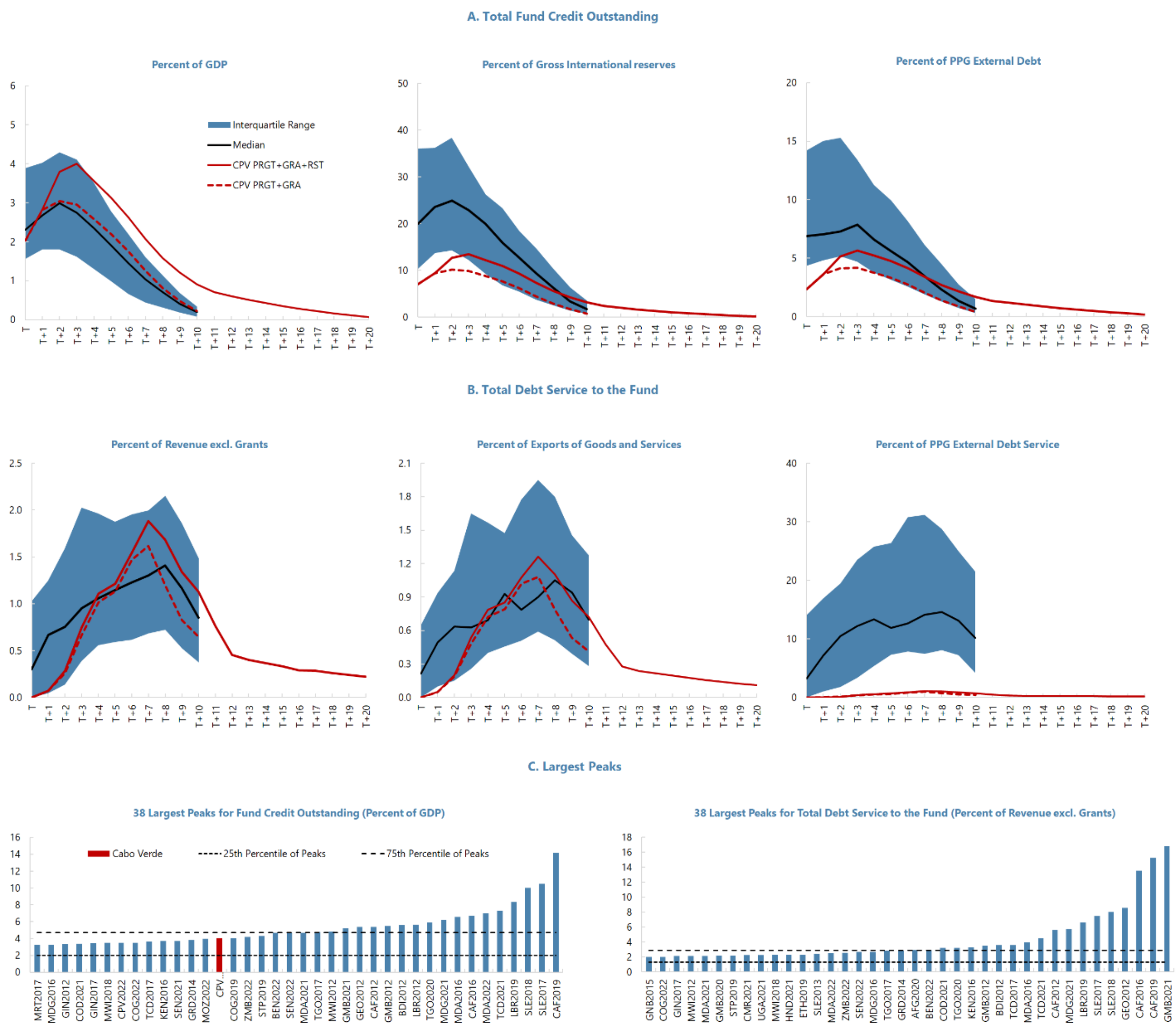
Table 1. Cabo Verde: Decomposition of Public Debt and Debt Service by Creditor, 2023-25[1]

	Debt Stock (end of period)				Debt Service						
	2023			#	2023	2024	2025	#	2023	2024	2025
	(In US$)	*(Percent total debt)*	*(Percent GDP)*			*(In US$)*				*(Percent GDP)*	
Total	2969.7	100.0	115.2		284.1	266.2	267.9		11.0	10.3	10.4
External	2045.7	68.9	79.4		131.5	115.5	119.3		5.1	4.5	4.6
Multilateral creditors[2]	1194.2	40.2	46.3		37.6	53.2	35.8		1.5	2.1	1.4
IMF	100.6	3.4	3.9		0.0	0.0	3.2		0.0	0.0	0.1
World Bank	599.9	20.2	23.3		14.7	15.4	15.8		0.6	0.6	0.6
African Development Bank Fund	266.8	9.0	10.4		7.2	22.0	2.0		0.3	0.9	0.1
European Investment Bank(incl.EEC)	46.8	1.6	1.8		3.9	3.8	3.8		0.2	0.1	0.1
Other Multilaterals	180.2	6.1	7.0		11.4	11.5	10.5		0.4	0.4	0.4
BADEA	37.7	1.3	1.5		0.6	0.6	0.0		0.0	0.0	0.0
CEDEAO	13.0	0.4	0.5		1.4	1.4	1.4		0.1	0.1	0.1
FAD	97.9	3.3	3.8		5.2	5.2	5.2		0.2	0.2	0.2
Bilateral Creditors	374.3	12.6	14.5		28.1	28.6	28.3		1.1	1.1	1.1
Paris Club	188.0	6.3	7.3		16.9	15.1	15.0		0.7	0.6	0.6
France	46.0	1.5	1.8		6.6	4.9	4.8		0.3	0.2	0.2
Japan	72.0	2.4	2.8		3.4	3.2	3.2		0.1	0.1	0.1
Other (Spa, Belg, Aus, Swed)	70.0	2.4	2.7		7.0	7.0	7.0		0.3	0.3	0.3
Non-Paris Club	186.2	6.3	7.2		11.2	13.4	13.3		0.4	0.5	0.5
Portugal	150.1	5.1	5.8		6.4	8.6	8.5		0.2	0.3	0.3
China	24.2	0.8	0.9		3.4	3.8	3.7		0.1	0.1	0.1
Kuwait	11.9	0.4	0.5		1.4	1.1	1.1		0.1	0.0	0.0
Bonds	0.0	0.0	0.0		0.0	0.0	0.0		0.0	0.0	0.0
Commercial creditors	458.3	15.4	17.8		67.6	43.1	61.5		2.6	1.7	2.4
BPI	76.8	2.6	3.0		10.7	10.6	10.5		0.4	0.4	0.4
Caixa Geral Déposito (CGD)	379.5	12.8	14.7		56.9	32.5	50.9		2.2	1.3	2.0
Other international creditors	0.0	0.0	0.0		0.0	0.0	0.0		0.0	0.0	0.0
Domestic	870.7	29.3	33.8		153.1	151.2	149.0		5.9	5.9	5.8
T-Bills	26.2	0.9	1.0		0.0	0.0	0.0		0.0	0.0	0.0
Bonds	838.0	28.2	32.5		0.0	0.0	0.0		0.0	0.0	0.0
Loans	0.0	0.0	0.0		0.0	0.0	0.0		0.0	0.0	0.0
Memo items:	202.0	7.1	7.8								
Collateralized debt[3]	0.0	0.0	0.0								
Contingent liabilities[4]	202.0	7.1	7.8								
o/w: Public guarantees	202.0	7.1	7.8								

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)
3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts.
See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.
4/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g., potential legal claims, payments resulting from PPP arrangements).

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

(Percent of the Indicated Variable)



Notes:

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

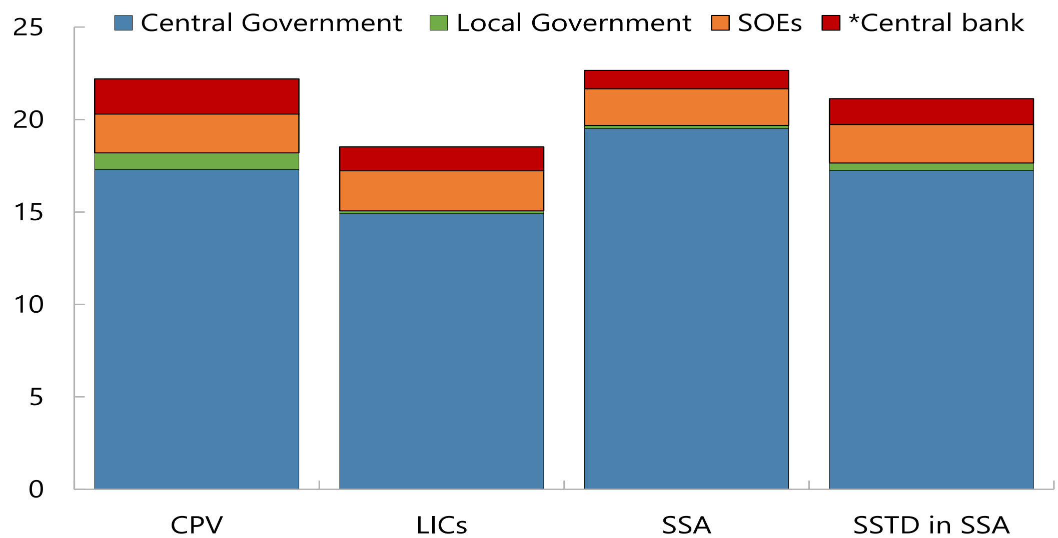
Source: IMF staff calculations.

Annex III. The Sovereign-Bank Nexus in Cabo Verde[1]

1. The sovereign-bank nexus in Cabo Verde is broadly aligned with regional averages, but large exposures warrant close monitoring. Based on the latest stress tests and the most recent FSI data to September 2024, the banking system appears to be resilient to simple shocks, but vulnerable to risks stemming from portfolio concentration and with a high exposure to the sovereign (through the domestic debt market and also loans to public and private companies backed by public guarantees). The sovereign-bank nexus in Cabo Verde is at the level of SSA, but above other Small States Tourism Dependent (SSTD) countries in SSA and LICs (Text Figure 1).

Text Figure 1. Cabo Verde: Public Sector-Bank Nexus

(Bank Claims on Public Sector, Percent of Assets, End-2023)



Source: Cabo Verdean authorities, IMF MFS and Staff estimates.

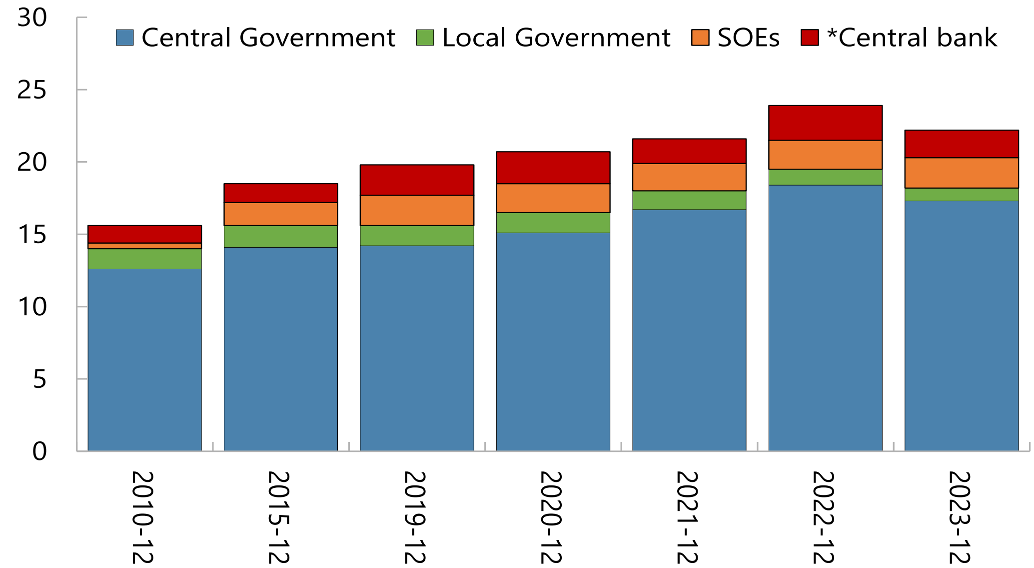
Notes: *Central Bank = Central Bank, excluding deposits; SSTD = Small states tourism dependent (COM, MUS, SYC and STP)

2. After increasing for a decade, the sovereign exposure started to decline in 2023 (Text Figure 2). By the end of 2023, banks' exposures to public sector and SOEs, including debt securities and loans, stood at 51 percent of claims on private sector at end-2023, ranking in the middle in comparison with peer countries. Private sector credit-to-GDP stood at 55.8 percent in 2023, above the average in SSA and to peers, with credit-to-GDP gap at -12.9 percent[2]. High lending by banks to the public sector is a subject of further analysis, given that there is not a clear crowding-out effect, especially in a situation of excess liquidity in the banking system.

[1] The 2025 Article IV consultation will undertake a deeper dive on the sovereign-bank nexus in Cabo Verde.

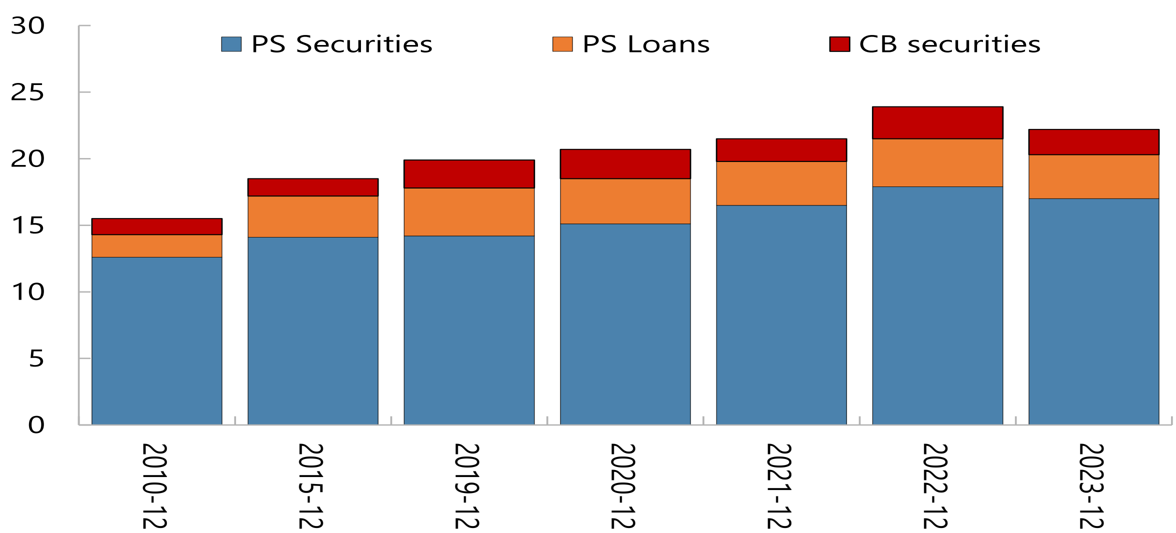
[2] The credit-to-GDP gap is calculated as the deviation of the actual credit to private sector in percent of GDP from its trend. In this case the trend is linear.

Text Figure 2. Cabo Verde: Banks' Exposure to the Public Sector
(By Public Entity, Percent of Assets)



Source: Cabo Verdean authorities, IMF MFS and Staff estimates.
Notes: *Central Bank = Central Bank, excluding deposits.

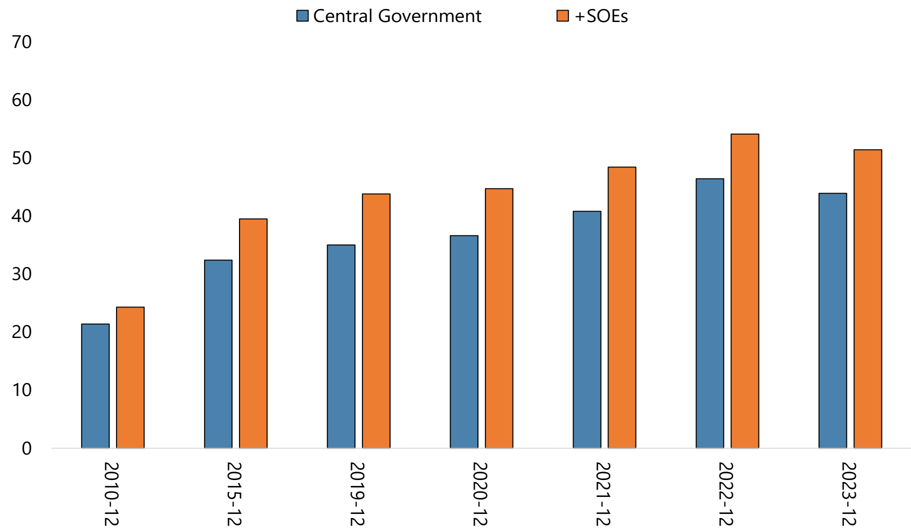
Text Figure 3. Cabo Verde: Banks' Exposure to the Public Sector
(By Financial Instrument, Percent of Assets)



Source: Cabo Verdean authorities, IMF MFS and IMF Staff estimates.

Text Figure 4. Cabo Verde: Claims on Public Sector/Claims on Private Sector[1]

(Percent)

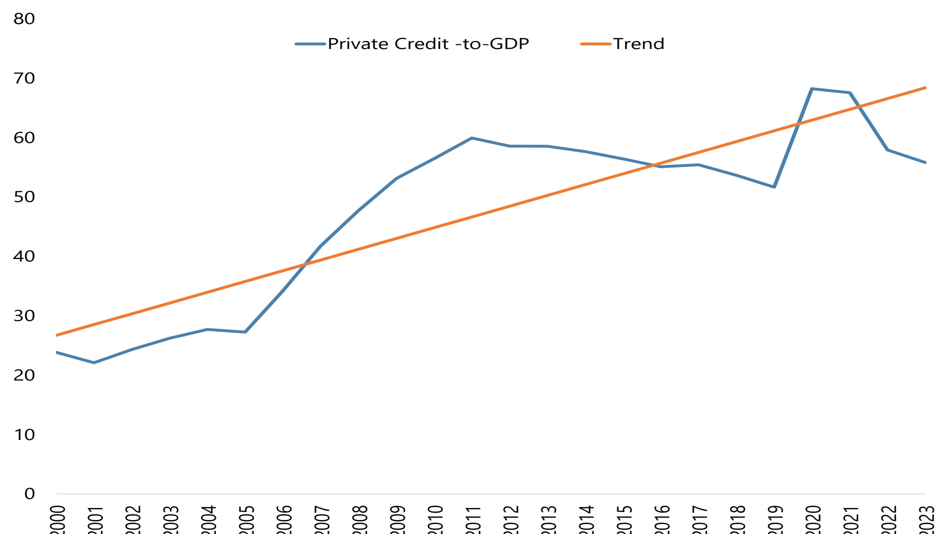


[1] The column "+SOEs" is the sum of the Central Government and SOEs.

Source: Cabo Verdean authorities, IMF MFS and IMF Staff estimates.

Text Figure 5. Cabo Verde: Private Credit-to-GDP

(Percent)



Source: Cabo Verdean authorities, IMF MFS and IMF Staff estimates.

3. **The banking-sovereign nexus in Cabo Verde is complicated by the presence of SOEs and the role of the social security agency (INPS)**. Bank claims on SOEs often carry a central government guarantee, which means that problems in the SOE sector can have both financial sector and fiscal spillovers. In addition, INPS is a systemic depositor in the banking system (20 percent of overall deposits), holds about one third of the domestic government securities and also invests as a shareholder in both banks and the SOEs. Staff plan further analytical work in the context of the 2025 Article IV consultation to further map and analyze these linkages.

Appendix I. Letter of Intent

Praia

December 18, 2024

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

Madame Managing Director:

1. **We thank the IMF for its support under the Extended Credit Facility (ECF) and Resilience and Sustainability (RSF) arrangements,** which have been vital in addressing balance of payments needs, sustaining reserves, and promoting resilient growth despite global challenges. With IMF backing, Cabo Verde continues implementing its economic program aligned with the Sustainable Development Strategy 2022–2026 (PEDS II), focusing on recovery, building buffers, resilience, and climate challenges.

2. **Our program performance under the three-year ECF arrangement has been strong.** All quantitative performance criteria (QPCs) for end-June 2024 were met, along with the continuous PCs, except for the QPC on gross international reserves (GIR). Nonetheless, GIR still cover the minimum 5-months of imports target followed by the BCV, and the BCV has embarked on corrective actions. The BCV raised rates in November and December and we commit to continue raising the rates in the short term to close the interest rate differential and issue forward guidance, to signal the commitment to closing the interest rate differential with the ECB. All Indicative Targets (IT) to September were met, except the one on GIR for end-September. One Structural Benchmark (SB) due end-June 2024 and two SBs due end-September 2024 were met, while the SB due end-July 2024 was implemented with a short-delay in September. Regarding the four RSF Reform Measures (RMs) for this review, one has been completed at end-November 2024 and the other three will be delayed to the next review. Bearing in mind the achievements to date, we are requesting a disbursement equivalent to SDR 4.5 million under the ECF (or 19 percent of our quota), and SDR 2.632 million under the RSF (or 11.11 percent of our quota). We request a waiver for the non-observance of the QPC on GIR (June-2024), and also request modification of the end-December 2024 QPC on GIR reflecting the lower base, on domestic financing and on the NPV of new external debt, in line with the revised financing assumptions for 2024. All are reflected in the Technical Memorandum of Understanding (TMU).

3. **Climate change threatens our country's growth due to reliance on rainfed agriculture and more frequent droughts and floods, causing economic volatility.** Addressing these risks is a top government priority, with strategies in place to tackle vulnerabilities. However, external

financial support is essential to implement the planned reforms and investments under the RSF arrangement.

4. The government is committed to strengthen the resilience to climate change. To this end, we propose realistic timelines on the implementation of the remaining RMs. We face some delays in implementing RM7, RM8 and RM9, given the specific challenges linked with them. The RSF resources will help support the government's ongoing efforts to respond to the pressing challenges of climate change and strengthen the resilience of the economy and populations. In particular, it will support the implementation of new reforms aimed at equipping the government with modern tools for coordination, monitoring, assessing, and managing climate risks.

5. The attached MEFP, supplementing the June 6, 2024, memorandum, outlines recent developments, policies for 2024–25, and criteria, targets, and benchmarks for the arrangement. Disbursements depend on meeting these benchmarks (Tables 1 and 2). The policies aim to strengthen the macroeconomic framework, attract development partner financing, enhance governance, and protect vulnerable populations amid food and energy crises. The government will provide all data needed to assess the TMU policies.

6. We will maintain close dialogue with the IMF, consulting on any revisions to MEFP commitments and providing updates on our progress.

7. 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 TMU. In addition, the government authorizes the IMF to publish this letter and its attachments, as well as the staff report, once the review has been approved by the IMF Executive Board. We will also post these documents, including their Portuguese versions, on the Government's official webpage.

Sincerely,

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

Attachments:

- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies for 2024–25

This memorandum outlines recent economic trends, the medium-term outlook, and program goals. Key objectives include: (i) improving public finances to boost investment, lower debt, and enhance social inclusion; (ii) mitigating fiscal risks from public enterprises; (iii) modernizing monetary policy and strengthening the financial system; and (iv) fostering growth and resilience to climate shocks.

BACKGROUND, RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

1. Cabo Verde's economy continues to grow strongly. Growth in 2024 is projected at 6 percent and inflation remains low, with a favorable near-term outlook despite risks. Growth is being driven by strong tourism receipts, as well as by private consumption, partially offset by a drag from investment. Real growth is projected at 5 percent in 2025 and moving towards potential growth over the medium-term. Inflation eased in 2024 and is expected to stabilize at below 2 percent in 2025. Reserves were at €666 million (5 months of imports) in June-2024, against a target of €693 million, as banks have continued to take advantage of the interest rate spread between the BCV and ECB policy rates by acquiring more external assets, coupled with reduced external financing. The current account deficit is expected to shrink considerably to 0.3 percent in 2024, reflecting stronger export performance and weaker capital goods imports, and to stabilize at around 2.5 percent over the medium term.

2. The fiscal position is tighter than projected thus far in 2024, driven by under execution of investment and higher tax revenues. Economic activity and policy measures supported an increase in tax revenues through end-September (13 percent y-o-y). Primary expenditure grew by 12.4 percent y-o-y. Goods and services spending and transfers were the positive drivers, as was net acquisition of non-financial assets, even if the latter was significantly lower than budgeted. Slower growth in the wage bill and a fall in other current expenditures also helped contain the overall primary expenditure growth rate. As a result, the primary balance over January-August 2024 registered a surplus of CVE 3,292 million.

3. The public debt-to-GDP ratio continues to decline. It is projected to decrease from 116.4 percent of GDP in 2023 to 111.8 percent at the end of 2024, mainly reflecting the strong growth and fiscal performance in 2024. Even with higher public investment in 2025, the public debt-to-GDP ratio is projected to improve to 107.1 percent by end-2025, lower than its pre-pandemic level. Our risk of external debt distress remains moderate, but the overall risk of debt distress remains high. Public debt is sustainable due to manageable debt service from the favorable debt structure.

4. **Monetary policy has continued to tighten to safeguard the peg and build reserves.** The Banco de Cabo Verde (BCV), following the recommendations of the Monetary Policy Committee (MPC), raised the policy rate in November and December 2024 to 2.25 percent, and committed to continue narrowing the interest rate differential with the ECB policy rate in the near term to protect reserves. Banks have benefitted from the differential by acquiring more external assets while decreasing external liabilities. The real ex ante policy rate turned positive during the early months of 2024 as inflation decelerated faster than anticipated. As of September-2024, M2 grew at 7.9 percent (y-o-y), total deposits by 7.6 percent, and credit to the economy by 7.1 percent.

5. **The Sustainable Development Strategy 2022-2026 (PEDS II) drives our growth agenda**, focusing on structural reforms like inclusive tourism, an air transport hub, modern public administration, digital innovation, and a blue economy zone. It supports wave energy, desalination, and diaspora investment, backed by tax reforms and compliance measures included in the 2025 budget.

6. **Cabo Verde faces significant risks from external and internal shocks.** These risks for our economy include global conflicts, economic slowdowns, energy shocks, and climate change impacts like droughts and rising sea levels, which threaten infrastructure and tourism. Upside risks include stronger trading partner growth, structural reforms, and better inter-island connectivity. Key challenges include high debt distress risk, reliance on concessional financing, and fiscal risks from slow SOE reforms. Financial stability concerns arise from sovereign exposure, high NPLs, and concentrated credit and deposits in banks.

REFORMS UNDER THE ECF-SUPPORTED PROGRAM AND THE RSF

A. Strengthening Public Finances to Preserve Public Debt Sustainability

7. **Our fiscal program aims for sustained consolidation to reduce debt, improve fiscal health, and lower debt distress risks**. Key reforms include strengthening the fiscal framework and SOE sector. The primary fiscal balance will continue to improve to a surplus of 1.3 percent by 2026. The overall deficit will shrink from 2.4 in 2024 to 1.8 percent by program end and 0.3 percent by 2028. Revenue growth will come from higher taxes on tobacco, alcohol, tourism, and imports. Public debt is projected to drop from 116.4 percent of GDP in 2023 to 91.4 percent by 2028.

8. **Budget execution through end-September indicates an overperformance against the 2024 fiscal objectives.** The primary deficit is projected at 0.1 percent of GDP, an improvement relative to the fourth review (0.6 percent of GDP deficit). This is driven by robust tax revenues until September 2024, which are expected to continue in the second half in line with economic activity, as well as lower-than-planned current and capital expenditures. Current spending is projected below budgeted levels due to the underperformance of earmarked grants and other revenues. Net

external financing is projected to be lower than the fourth review due to the under-execution of capital expenditures, the postponement of the fifth ECF and second RSF review disbursement from 2024 to 2025, and revisions to the World Bank's disbursement schedule.

9. Our composition of financing has changed slightly. Net external financing for 2025 is slightly higher than earlier estimates due to delayed ECF, RSF, and EU disbursements. Net domestic financing will be 1.7 percent of GDP lower than in 2024. Increased SOE capitalization, mainly for the airline sector, raises debt flows, but an improved primary balance offsets this. Higher financing needs in the draft budget will also be covered by drawing on government deposits.

10. The 2025 budget submitted to the parliament is in line with the ECF-supported program (SB for end-December 2024). The draft for the 2025 budget, submitted to the parliament in October, was aligned with program parameters, implying a surplus in the primary balance. Tax revenue in the budget is aligned with the program estimates, reflecting tax policy measures related to the reduction of customs exemptions from the action plan to reduce tax expenditures (SB, for end-September 2024). We also introduced a clause in budget law empowering the Ministry of Finance to restrict goods and services expenditures in order to meet the program primary balance of 0.4 percent of GDP and smooth out the current expenditure between 2025 and 2026. Accordingly, we are targeting a primary balance of CVE 1,092 million for 2025 in line with staff's projections.

11. We are implementing measures to boost domestic revenue, supported by IMF TA. For 2025, the tax-to-GDP ratio is anticipated to rise by 0.9 percent of GDP. This increase is expected to be driven by a 0.5 percent of GDP gain from the reduction of customs exemptions and an additional 0.4 percent of GDP from the introduction of a tourism tax on international arrivals. aiming to offset the underlying carbon footprint. Furthermore, with support from the World Bank, we have enacted a new law that reduces the CIT exemption on the import component of large investments. This measure, set to take effect in 2026, is projected to generate an additional 0.3 percent of GDP in revenue, further strengthening the fiscal framework over the medium term. With support from FAD, we are committed to submitting to parliament in 2025 a law to propose changes in the VAT legal framework with an expected yield of 0.2 percent of GDP in 2026.

12. Over the medium term, we will streamline current spending, prioritize investments, and target cash transfers to end extreme poverty by 2026. We are committed to reduce current primary expenditures as a share of GDP in 2026 via efficiency gains in the use of good and services and the wage bill to offset the impact of the unwinding of the 2025 airport concession fee on the structural primary balance. Over the medium term, additional measures aimed at enhancing fiscal sustainability are projected to significantly boost revenue. These measures include strategies to mitigate international tax avoidance, promote a green transition, and implement further reductions in tax exemptions across VAT, PIT, and customs tariffs. These efforts are designed to strengthen the fiscal framework while supporting sustainable economic growth and environmental objectives.

Capital spending will be tightly focused, and social programs reviewed to protect the most vulnerable amid rising prices and climate risks. To meet fiscal goals, we will enhance revenue mobilization, improve expenditure management, and advance SOE reforms to sustain debt stability.

13. The Government is committed to enhancing public investment efficiency to support growth. Following IMF TA recommendations, improvements will include: (i) redefining thresholds to focus on key projects, (ii) implementing a pre-screening system for all project ideas, (iii) using multi-criteria analysis for prioritization, and (iv) adopting a pre-implementation checklist.

14. We are taking steps to ease Cabo Verde's debt burden, including a memorandum with Portugal on debt-for-climate swaps. Updated debt legislation aligns with the 2018 review, supporting internal debt sustainability analysis (DSA). ICD has provided CD and training in the second half of 2024 which will aid future budget preparation. Additionally, a revised guarantees law establishes a fund, financed by beneficiaries, to mitigate noncompliance risks.

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

15. SOEs remain a major challenge in the government's reform program. Recent transparency reforms have improved decision-making, and the unbundling of Electra is a positive step for the energy sector. However, SOE losses, particularly in transport, are an ongoing concern. The national airline has had some difficulties with loans, increasing NPLs and potentially draining fiscal resources.

16. Efforts to restructure or privatize SOEs is in progress. We have started privatizing airport logistics and exploring concessions in areas like ports and pharmaceuticals. The new SOE law (April 2024) clarifies the relationship between SOEs and government policies. The air transport sector presents both opportunities and risks. We are working on a clear strategy for domestic inter-island transport and also TACV, which would put it on a sound financing footing by 2026. We are wary of relying too much on low-cost international airlines.

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

17. Monetary policy aims to protect the exchange rate peg, but is being tightened to reverse the erosion of reserve buffers. The fixed peg remains stable, supported by external buffers. Since 2023, the BCV has raised the policy rate, but the wide negative interest rate gap with the ECB has led banks to increase their holding of deposits abroad, limiting reserve accumulation. To address this, the BCV has increased the policy rate at the November and December MPC meetings, while signaling its intent on closing the interest rate gap with the ECB policy rate in the near term. While reserves are still sufficient to maintain the peg, they are expected to drop to 5.1 months of imports by 2024. We will continue with decisive actions, including through forward guidance, to signal the commitment to closing the interest rate differential with the ECB in the short term.

18. Recent developments in the banking sector require close monitoring due to large exposures. Stress tests show the system is resilient to simple shocks but vulnerable to portfolio concentration and high sovereign exposure. NPLs rose to 11 percent in Q3 2024, up from 8.3 percent in Q1, mainly due to loss-making SOEs, some with public guarantees. The BCV will use supervisory tools and macroprudential measures to address NPLs, updating prudential provisioning guidelines to align with regional standards and IMF recommendations.

19. Cabo Verde's banking system currently has substantial excess liquidity. This can be attributed in part to the decrease in the minimum required reserves ratio and the injection of additional long-term liquidity during the COVID-19 pandemic, and to the lack of domestic lending opportunities. The excess liquidity further incentivizes banks to move assets abroad. Increasing reserve requirements towards pre-pandemic norms would help stabilize the financial system in a more structural way, while also improving the monetary policy transmission mechanism. The BCV will also consider carrying out open market operations more actively to better manage banks' excess liquidity, while increasing the share of liquidity injections that it currently sterilizes.

20. The current AML/CFT framework is being strengthened. Following the approval of the National Strategy for Preventing and Combating Money Laundering, Terrorist Financing, and the Proliferation of Weapons of Mass Destruction (ENCAVE) in April 2023, the authorities in charge of this matter, including the BCV for the financial system, launched initiatives in two key areas:

- **AML/CFT and Supervisory Framework to financial institutions:** i) the establishment of an AML/CFT team within the Department of Microprudential Supervision during 2024; ii) a proposal for an independent AML/CFT unit, inclusion of AML/CFT measures in BCV's 2025–2028 strategic plan, and staff reinforcement in the AML/CFT team; iii) capacity building, with continued staff training and sectoral risk assessments of banks to guide inspections; and iv) partnerships with supervisory colleges and the AML/CFT Interministerial Commission.
- **Legal and Regulatory Developments:** i) strengthening the laws to address AML/CFT risks, including BCV's supervisory role over Virtual Asset Service Providers; ii) Notice No. 1/2024 mandates the prior registration of key functions, such as Compliance Officers; and iii) Institutional strengthening of regulatory, law enforcement, and intelligence entities, with a focus on staff specialization and training.

21. Finally, the country will also prioritize supervisory activities for Designated Non-Financial Businesses and Professions (DNFBPs) based on risk assessments, ensuring a sustainable and effective national AML/CFT system.

22. Our focus is on modernizing the financial system to support inclusive growth and financial stability. We will review key financial laws, monitor new technologies and cyber risks, and provide BCV staff training on IFRS17 for the insurance sector. We have enhanced stress test frequency, improved risk assessment tools, and plan to include climate risks by 2025. We will strengthen the bank resolution regime and have submitted amendments to the BCV Organic Law to the parliament to improve its autonomy and transparency.

23. Strengthening the monetary policy transmission and economic monitoring remains a priority. In response to excess liquidity, we analyze the impact of monetary policy on liquidity management and have introduced new economic indicators and improved short-term forecasts. BCV and the Ministry of Finance are also working with the World Bank on a national fintech strategy to foster innovation, competition, and reduce transaction costs.

24. We are improving the accuracy of monetary and financial sector statistics. Over the past year, we've aligned BCV's data with IMF standards, using the 2016 IMF Monetary and Financial Statistics Manual. This new system resolves discrepancies between BCV's surveys and IMF data. Ongoing improvements will include better credit data by economic activity, using INE's classification.

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

25. Structural reforms and policies are needed to help build resilience to protracted shocks, including climate change. The five-year development strategy (PEDS II) focuses on improving access to finance and the business environment. Key reforms target SMEs and aim to reduce the high costs of finance, electricity, water, and transport. Diversification efforts include expanding integrated resort projects in tourism and promoting sectors like the blue economy, digital economy, industry, and agriculture using desalinated water. RSF reforms support private climate finance, linking to PEDS II's goal of improving access to finance.

26. Legal procedures for businesses will be streamlined by reducing waiting times and improving connections with judicial processes. Focus will be on land titling, where unclear ownership delays investment. We will digitalize information for easier access, helping resolve disputes more quickly.

27. Supporting vulnerable households is a government priority. Targeted cash transfers to the poorest have increased, funded from the Social Protection Fund, itself financed by the tourism tax and non-earmarked revenues. The Ministry of Family and Social Inclusion has expanded the coverage of the Unique Social Registry (USR) to 100 percent of poor and vulnerable households (including from rural areas) as identified based on the latest household budget survey, to help offset the negative impacts of policies linked with climate-related supported by the RSF (part of RM 7). The program will protect social safety net spending and expand support for vulnerable families. Through cash transfers, the government empowers the most vulnerable, ensuring food security, education, and health expenses for children, while also providing job market training to enhance resilience and human capital.

E. Policies and Measures to Address Climate Change Challenges

28. Sustainable development depends on addressing climate change impacts, which are exacerbating our challenges. Scarcity of natural resources and reliance on imported energy hinder growth and pose obstacles to reducing GHG emissions. In partnership with development allies, we aim to transition to renewable energy, improve service access, and achieve sustainability in energy and water sectors. Our Nationally Determined Contribution (NDC) targets a 18 percent reduction in GHG emissions by 2030, aiming for net zero by 2050, while promoting climate-resilient private sector investment.

29. The RSF supports our climate reforms and private finance for adaptation and transition, helping us achieve the goals in PEDS II and the NDC. It will aid in accelerating climate transition by focusing on: (i) strengthening climate governance, (ii) improving resilience, (iii) enhancing energy efficiency, (iv) promoting water sustainability, and (v) building financial sector resilience to climate change (Table 3).

30. We have implemented one of the four RMs due under the 2nd Review of the RSF and made substantial progress on the others.

- The Ministry of Finance submitted to the Parliament the annual Fiscal Risk Statement (FRS) (**RM2**) in early October 2024, as a component of the Budget 2025 submission. The FRS includes a quantitative analysis of fiscal risks generated by climate change.
- The USR was expanded to 100 percent of poor and vulnerable households-an important achievement in this area. The ability of the Ministry of Family and Social Inclusion to offer inclusion to households living in areas vulnerable to climate change is delayed pending the availability of vulnerability maps (**RM7**) by the National Institute of Territorial Management (INGT).
- INGT has made progress in defining natural disaster risk and vulnerability maps. These maps show where climate hazards might affect areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, and businesses. These will then be disseminated. To date, INGT has worked on 5 maps and expects to complete the action by end-year. In addition,

land use planning and construction code requirements are being amended to consider disaster risks and vulnerabilities for urban and rural development planning and for designing and construction infrastructure and buildings (**RM8**).

- The BCV attended an online MCM training/webinar on how to develop a climate information architecture for banks, including a taxonomy. BCV will contract a consultant to help develop the architecture, a publication of climate risk and opportunities, and disclosure guidelines to help banks submit their internal roadmaps (**RM9**). Given the complexity of this measure and the need for additional CD, the BCV has indicated that this RM will be delayed to the next review. BCV has requested MCM to provide CD in 2025 to review the work of the consultant.

31. Work on the remaining RSF measures is ongoing.

- With support from LuxDev we have developed a Strategic Plan for Climate Finance mobilization that comprehensively identifies the financing instruments to unlock climate finance sources; and which we presented at COP 29 in November 2024. Work to develop and publish, a pipeline of appraised public capital projects, including climate-related projects, as part of the budget process is ongoing (**RM4, April-2025**).

- As part of the energy transition plans, which will require substantial infrastructure investment, we are working with the World Bank on the unbundling of the energy SOE. In addition, through collaboration with LuxDev we have advanced reforms to (i) determine the cost-recovery rate for the provision of electricity (fully reflecting operational and capital cost), and (ii) identify any discrepancy between the existing tariff and so defined cost recovery. Further work is needed to undertake a distributional impact assessment, with CD from the FAD IMF in December 2024. We will then publish and adopt regulations establishing a methodology for adjusting electricity tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments (**RM5, April-2025**).

- In the water sector, we have similarly collaborated with LuxDev to (i) determine the cost-recovery rate for the provision of water (fully reflecting operational and capital cost), and (ii) identify any discrepancy between the existing tariff and so defined cost recovery. As with energy, we will undertake a distributional impact assessment with FAD IMF in January 2025 to support and then publish and adopt regulations establishing a methodology for adjusting water tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments, and/or by financing infrastructure investment transparently from the budget, with a view to ensure sustainability of the water sector (**RM 6, April-2025**).

F. Financing and Program Monitoring

32. **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 sixth program review is scheduled to be completed as of March 2025 (based on end-December 2024 test date). We requested a waiver for the non-observance of the end-June 2024 QPC on GIR. Additionally, we request to modify for end-December 2024: i) the QPC on GIR to reflect the lower base; and ii) the QPC on domestic financing and the NPV of new external debt in line with the revised financing assumptions for 2024. The program will continue with monitoring on a semi-annual basis by the IMF Executive Board. Under the RSF, monitoring will be done by means of the reform measures. The completion of the RM7, RM8 and RM9 will be completed and reviewed by the next test date. These are detailed in Table 3 of the MEFP.

Table 1. Cabo Verde: Quantitative Performance Criteria Under the ECF, March 2024-March 2025[1]

(Millions of Escudos, unless otherwise indicated)

	2024											2025	
	end-March			end-June			end-September			end-December		end-March	
	Indicative Targets (IT)	Actual	Status	Performance Criteria (PC)	Actual	Status	Indicative Targets (IT)	Actual	Status	Performance Criteria (PC)	Proposed Revised Performance Criteria (PC)	Indicative Targets (IT)	Proposed Revised Indicative Targets Criteria (PC)
Quantitative performance criteria													
Primary balance, floor [2]	-1849	1069	met	-2417.4	1070.0	met	-2740.6	3607.1	met	-3063.9		7	
Tax revenue, floor	8088	12855	met	21029	27171	met	37501.4	41847.2	met	53973.7		14808	
Net other liabilities, floor [3]	-418	344	met	-2296	-1113	met	-2583	-1318	met	-2870		-139	
Net domestic financing, ceiling	3093	-849	met	4021	-349	met	2241.25	1037.70	met	462	5494	96	
Nonaccumulation of domestic arrears [4]	0	0	met	0.0	0	met	0	0	met	0		0	
Non-accumulation of external payment arrears [4]	0	0	met	0.0	0	met	0	9	met	0		0	
PV of new external debt, ceiling (in millions of US Dollars)	24	17	met	37	27	met	95.4	32.6	met	125.5	58	19	
Nominal level of new nonconcessional external debt of central government, ceiling4	0	0	met	0.0	0	met	0	0	met	0 0		0	
Gross international reserves (in millions of euros), floor [2]	671	706	met	693	666	not met	716	647	not met	743	646	745	659
Indicative Targets													
Social spending, floor	3690	3783	met	7379	8052	met	12934.5	13336.7	met	18490.1		4941	
Non-quantitative continuous PCs													
Non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions													
Non-introduction or modification of multiple currency practices													
Non-imposition or intensification of import restrictions for balance of payments reasons													
Non-conclusion of bilateral payments agreements that are inconsistent with Article VIII													
Memorandum items:													
Net onlending	116.6	300.0		136	328		165.209	328		194		82	
Capitalization	1100	-360		1600	1442		2100.2	1647		2600		0	
Program assumptions													
Project and budget support grants	526	526		1121	2732		3765.34	4963		6409.3		1077	
External debt service	2409	2409		4818	6947		8424.69	9577		12031.9		0	
Sales of assets	106	126		226	252		465.3	252		705.0		118	
Project and budget support loans	1816	1816		4238	6581		11995.3	11526		19752.2		3840	

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

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

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

[3] Until december 2023, Net other liabilites includes net onlending, capitalization, use of deposits, privatization. From June 2024 onwards, the definition was narrowed down to SOEs support focusing on net onlending to SOEs and capitalization

[4] Continuous.

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

Actions	Target date	Objective	Status
Fiscal reforms			
1) Invoice electronically at least 50 percent of tax payers for VAT	End-December 2022	Improve revenue collection	Met
2) Submit to parliament the budget for 2023 that is in line with commitments under the program.	End December 2022	Support fiscal and debt sustainability	Met
3) Compile and publish historical series of government financial statistics for general government.	End-March 2023	Improve fiscal transparency	Met
4) Publish annual budget execution reports for the general government.	End-September 2023	Improve fiscal transparency	Met
5) Construct a Compliance Risk Management system to allow for the optimization of tax revenue collection by end-December 2023.	End-December 2023	Support fiscal and debt sustainability	Met
6) Submit to parliament the budget for 2024 that is in line with the primary balance commitment under the program.	End-December 2023	Support fiscal and debt sustainability	Met
7) Develop and publish an action plan to reduce tax expenditures by 1 percent of GDP and include published estimates of annual tax expenditures in the budget to improve transparency	End-September 2024	Support fiscal and debt sustainability	Met
8) Implement the action plan to reduce tax expenditures during in the 2025 budget	End-December 2024	Support fiscal and debt sustainability	
9) Broadening the coverage of fiscal risk analysis and reporting to include PPPs	End-September 2024	Support fiscal and debt sustainability	Met
10) Adopt a budget for fiscal year 2025 that is in line with the program parameters	End-December 2024	Support fiscal and debt sustainability	
SOEs reforms			
11) 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
12) Introduce a quarterly monitoring report on SOEs budget execution.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
13) 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	Met
14) Based on the July 2023 structural benchmark, publish in the annual report on public companies the targets agreed between the Ministry of Finance and Business Development and the six largest public companies , on improving financial performance and reducing the need for central government support.	End-June 2024	Improve fiscal reporting and reduce fiscal risks	Met
Monetary policy reforms			
15) Preannounce a schedule for TIM and TRM auctions.	End-June 2022	Support the development of the money market	Met
16) Introduce composite indicators of economic activity.	End-June 2023	Support monetary policy analysis	Met
Financial sector reforms			
17) Submit draft amendments to the BCV Law, in line with IMF recommendations, to the Ministry of Finance with a view to (i) establishing an independent oversight process that is separate from executive management, (ii) strengthening the BCV's personal and financial autonomy, and (iii) enhancing transparency and accountability mechanisms	End-December 2022	Strengthen BCV institutional framework	Met
18) Carry out a comprenhensive study of loan losses and provisions at the expiration of the credit moratorium.	End-December 2022	Strengthen financial stability	Met
19) Develop a common framework for the resolution of crisis related NPLs.	End-December 2022	Strengthen financial stability	Met
20) 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	Met
21) Submit the draft amendments to the BCV Law, in line with IMF recommendations, to parliament with a view to (i) establish an independent oversight process that is separate from executive management, (ii) strengthen the BCV's personal and financial autonomy, and (iii) enhance transparency and accountability mechanisms	End-July 2024	Strengthen BCV institutional framework	Not Met; implemented with a delay in September

Table 3. Cabo Verde: RSF Reform Measures Matrix

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	STATUS	DEVELOPMENT PARTNER ROLE	TIMING
National coordination and management of climate change is under the MAE that is not able to ensure cross sector coordination	**RM1.** Government will establish a council/body for coordinating climate change policy planning and strategy, and DRM under the Heads of Government, with a clear tasks, responsibilities and procedures, including mechanisms for (i) holding entities accountable for consistency across sectoral plans in line with the national development strategy (PEDS II) and international commitments (NDC), and (ii) providing strategic oversight of DRM defined in the TORs, with implementation reflected in the protocols of regular meetings. The MAE serves as secretariate.	Climate Policy Diagnostic (CPD)	None needed	Completed. The Cabinet approved on May 7 the Resolution nº 38/2024, which was published in the Official Gazette on May 10, 2024, I Série Nº 42-1106I (https://kiosk.incv.cv/1.1.42.5747/)	▪ LuxDev provided TA on the climate governance function and associated legal amendments	▪ End-April 2024; 4th ECF Review
Natural disaster and climate related risk not adequately featured in fiscal planning	**RM2**. To improve fiscal risk management, the Ministry of Finance will conduct and publish in the annual Fiscal Risk Statement quantitative analysis of the fiscal risks generated by climate change.	C-PIMA; CPD	IMF CD from FAD was delivered in July 2024 to support changes.	Completed. The Fiscal Risk Statement was published alongside the draft 2025 budget sent to parliament.	World Bank has prior actions and triggers in the latest DPF supporting a stronger PIM framework and aligned with the C-PIMA recommendations	RM completed end-September 2024; 5th ECF Review

INTERNATIONAL MONET

Table 3. Cabo Verde: RSF Reform Measures Matrix (continued)

KEY CHALLENGE	▪ REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	STATUS	DEVELOPMENT PARTNER ROLE	TIMING
Investments don't reflect needed physical resilience to Climate Change	**RM3**. The Ministry of Finance will enact amendments to the PPP legal framework to ensure climate requirements are reflected in PPP agreements and the Ministry of Finance will publish a manual integrating these requirements throughout the PPP capital project lifecycle, from project identification to contract management stages.	C-PIMA	FAD/LEG CD in March to support the authorities on the amendments of the PPP legislation and the Manual.	Completed. Changes were approved by Cabinet in April and published in the Official Gazette on May 8, 2024 (Decreto-lei 21/2024, I Série nº 40-1012 (https://kiosk.incv.cv/1.1.40.5737/)		End-April. 2024; 4th ECF Review
	RM4. To scale up and systematize climate finance the Ministry of Finance will (i) adopt a national climate finance mobilization strategy that comprehensively identifies the financing instruments to unlock climate finance sources; and (ii) develop and publish, a pipeline of appraised public capital projects, including climate-related projects, as part of the budget process.	C-PIMA	Luxembourg and follow up support from FADM2 in first half of 2025	On track. The climate finance strategy is largely complete and presented at COP 29. It will be published in mid-December. Work on the pipeline of projects is ongoing work and expected to be complete in early 2025.	LuxDev is providing TA to formulate a climate finance strategy	End-April 2025; 6th ECF Review

Table 3. Cabo Verde: RSF Reform Measures Matrix (continued)						
KEY CHALLENGE	**REFORM MEASURE**	**DIAGNOSTIC REFERENCE**	**IMF CD INPUT**	**STATUS**	**DEVELOPMENT PARTNER ROLE**	**TIMING**
Mitigation, adaptation and resilience in the energy sector are held up by energy inefficiency and obstacles to transition	**RM5**. To support energy transition plans, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of electricity (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting electricity tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments. (Ministry of Industry, Trade and Energy and MoF)	CPD	FADEP support on the analytical study of tariffs and distributional impact in December 2024.	On track. Cooperation with international partners on tariffs is advanced (e.g., calculating cost recover rates). There is ongoing work by LuxDev which will be incorporated by FAD's technical assistance mission. Authorities are preparing the business plans for each of the new business units (EPEC and EDEC). It will be important for these to include the information needed for assessing cost recovery tariffs.	WB energy projects are providing support on unbundling the energy SOE. LuxDev is also supporting work on tariff reforms.	End-April 2025; 6th ECF Review

Table 3. Cabo Verde: RSF Reform Measures Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	STATUS	DEVELOPMENT PARTNER ROLE	TIMING
Access to water resources and fiscal sustainability are vulnerable to long-run climate impacts due to lack of investment and non-ecological use	**RM6** To support reform initiatives, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of water (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting water tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments, and/or by financing infrastructure investment transparently from the budget, with a view to ensure sustainability of the water sector. (National Water and sanitation Agency (ANAS) and MoF)	CPD	FAD support for tariff review and the distributional impact in January 2025.	Authorities are setting out the investment plans needed for the water sector. Cooperation with international partners on tariffs is advanced (e.g., calculating cost recover rates). The scope of what is possible by the test date is likely to narrow to Santiago Island (which is where most of the losses are accrued) due to the diversity of water business and management models across islands.	LuxDev is supporting work on tariff reforms.	End-April 2025; 6th ECF Review
	RM7. The Unique Social Registry (USR) will be expanded to provide the basis for a social support system that can efficiently mitigate the implications of climate transition and climate hazard events. To this end, the Ministry of Family and Social Inclusion and the MoF will expand coverage of the USR to 100 percent of poor and vulnerable households (including from rural areas) as identified based on the latest household budget survey, and offer inclusion in the USR to 100 percent of the households in climate vulnerabe areas.	CPD		Delayed. The USR has been expanded and covers 100 percent of poor and vulnerable households. Work on offering inclusion to households in climate vulnerable areas is dependent on RM8. URS web page: www.csu.cv	WB	End-November 2024; 5th ECF Review

Table 3. Cabo Verde: RSF Reform Measures Matrix (concluded)						
KEY CHALLENGE	**REFORM MEASURE**	**DIAGNOSTIC REFERENCE**	**IMF CD INPUT**	**STATUS**	**DEVELOPMENT PARTNER ROLE**	**TIMING**
	RM8 INGT or new unit/council for CC management and DRM will develop and disseminate natural disaster risk and vulnerability maps, including information on how and where climate hazards might affect the areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses. The land use planning regulation and construction code requirements will be amended to consider disaster risks and vulnerabilities for urban and rural development planning and for designing and constructing infrastructure and buildings.			Delayed. The authorities started working on this RM and using own resources to finance the activities. INGC is working on defining the natural disaster and vulnerability maps, which also supports RM7.		End-November 2024; 5th ECF Review
Green financing/Climate Finance	**RM9**. The BCV will develop a climate information architecture for banks, consisting of 1) the adoption of a climate change adaptation and mitigation taxonomy, and 2) the publication of climate risk and opportunities and disclosure guidelines, so that banks are expected to submit their internal roadmaps within six months from the effective date of application of the guideline, followed by progress reports every six months.		MCM has delivered an online presentation to the BCV to help set the ground for future work	Delayed. BCV engaged an external consultancy. In addition, MCM will support in two ways: i) meet the external consultant and review the work; and ii) bilateral CD (remotely and in-person).	TBC	End-November 2024; 5th ECF Review

Attachment II. Technical Memorandum of Understanding

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

PROGRAM EXCHANGE RATES

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

Table 1. Cabo Verde: Program Exchange Rates

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

Source: WEO April period average exchange rates

QUANTITATIVE AND CONTINUOUS TARGETS

A. Floor on the Primary Balance of the Central Government

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

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

- Revenues are recorded when the funds are transferred to a government revenue account. Tax revenues are recorded as net of tax refunds.
- Central government primary expenditure is recorded on a cash basis and covers recurrent expenditures and capital expenditure.

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

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

Date	Grants projected under the program, cumulative from the beginning of the year (in million CV Escudos)
31-Dec-23	5,225
30-Jun-24	1,121
31-Dec-24	6,409
30-Jun-25	2,154

Source: Cabo Verdean Authorities: IMF Staff estimates

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

B. Cumulative Floor on Central Government Tax Revenue

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

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

C. Floor on Net Other Liabilities

8. Net Other Liabilities is defined as the sum of loans to state-owned enterprises (SOEs) and municipalities (onlending) and capitalization. The floor of central government net other liabilities will be measured as cumulative over the calendar year. 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 reflected with an inverted sign in total Net Other Liabilities and defined as disbursement of these loans minus repayment of previous loans by SOEs to the central government. Capitalization is reflected with an inverted sign in total Net Other Liabilities and 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.

D. Ceiling on Net Domestic Financing of the Central Government

9. 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 2023, end-June 2024, and end-December 2024 (PCs) must be equal to or less than the amounts indicated in Table 1 (of QPCs) attached to the MEFP.

10. 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.

11. 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-23	12,351
30-Jun-24	3,613
31-Dec-24	11,468
30-Jun-25	6,012

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).

12. **The NDF ceiling of the government will be adjusted upward (downward) by the shortfall (surplus) in privatization proceeds relative to program projections.**

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

Table 4. Cabo Verde: Privatization Income Projected Under the Program

Date	Privatization income projected under the program, cumulative from the beginning of the year (in million CV Escudos)
31-Dec-23	0
30-Jun-24	1,156
31-Dec-24	2,312
30-Jun-25	0

Source: Cabo Verdean Authorities: IMF Staff estimates

14. **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

15. **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.

16. **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

17. **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.

18. **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.

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

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

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

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

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

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

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

21. 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.

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

22. 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

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

24. 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

25. 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.

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

Table 5. Cabo Verde: External Debt Service Projected Under the Program (GIR)

Date	External debt service projected under the program, cumulative from the beginning of the year (in million CV Escudos)
31-Dec-23	12,921
30-Jun-24	4,818
31-Dec-24	11,195
30-Jun-25	5,856

Source: Cabo Verdean Authorities: IMF Staff estimates

Table 6. Cabo Verde: External Financial Assistance and Project and Budget Loans Projected Under the Program

Date	External financial assistance and project and budget loans projected under the program, cumulative from the beginning of the year (in million CV Escudos)
31-Dec-23	21,888
30-Jun-24	5,360
31-Dec-24	26,162
30-Jun-25	19,667

Source: Cabo Verdean Authorities: IMF Staff estimates

I. Non-Accumulation of External Payments Arrears

27. **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.

28. **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.

29. **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

30. **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.

31. **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.

K. RSF Reform Measures

32. **Cost recovery tariff under RM 5 and 6 should reflect the capital cost of infrastructure and the operational cost.** Infrastructure cost will cover the investment as needed during the transition, as well as the maintenance and replacement based on the useful life of such infrastructure. The operational cost will reflect the current and target energy mix.

33. **Climate vulnerability information under RM8 will cover**: (i) maps on vulnerability to sea-level rise projection based on identified climate scenarios with full coverage of territory; (ii) climate vulnerability maps for the seven (seven out of 22) most populated and/or most climate vulnerable municipalities; and (iii) maps including information on the occurrence of past climate hazards with additional information on the expected implications of climate change as implied by the identified climate scenarios. These maps will be made available online. The requirements for using

information from vulnerability maps in land use and construction planning should be reflected in the National Regulations for Territory Management and Urban Planning (Decree-Law 61/2018) or the related regulations, and the Technical Building Code (Order 4/2012).

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

34. **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.

35. **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).

36. **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).

37. **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.

38. **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.

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

40. **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.

41. **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.

42. **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.

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

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

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

INTERNATIONAL MONETARY FUND

CABO VERDE

December 18, 2024

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF QUANTITATIVE PERFORMANCE CRITERION, MODIFICATION OF QUANTITATIVE PERFORMANCE CRITERIA, AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

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

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

Cabo Verde's external debt risk continues to be moderate consistent with the last joint WB/IMF Debt Sustainability Analysis (DSA) of January 2024,[1] *while the overall risk of debt distress remains high. Coverage of the public sector has been expanded to include the stock of uncalled domestically guaranteed debt to loss-making SOEs and municipalities. The detailed risk rating for external debt distress shows limited room to absorb shocks. The present value (PV) of public and publicly guaranteed (PPG) external debt-to-GDP is below the threshold over the forecast horizon and breaches the threshold under the export stress test in line with the debt path of the last DSA. Liquidity indicators (debt service to revenue and to export ratios) continue to be below their respective*

[1] Cabo Verde's debt-carrying capacity is assessed as "strong" as in the previous DSA with a composite index (CI) score of 3.26, which is based on the October 2024 WEO and the 2023 CPIA.

thresholds under the baseline mainly due to the significantly concessional characteristics of Cabo Verde's external debt. The PV of total public debt-to-GDP is projected to breach the threshold during 2024–2029 under the baseline scenario -- a longer period relative to previous DSA -- due to the inclusion of the stock of uncalled domestically guaranteed debt to State-Owned Enterprises (SOEs) and breaches the threshold under the stress tests over the forecast period.

The external and overall debt outlook is assessed to be sustainable contingent on meeting several assumptions. These include steady economic growth around potential, consistent fiscal consolidation in line with the ECF program, and structural reforms, especially related to SOEs. Enhancing the performance of SOEs will help reduce critical fiscal risks and foster a better business environment. Prudent borrowing policies through sourcing mainly concessional external loans and strengthened debt management, as well as measures to enhance the functioning of the government securities market are critical to sustainable debt dynamics over time. In view of Cabo Verde's vulnerability to exogenous shocks, continuous progress in export and output diversification is also needed for long-term debt sustainability.

PUBLIC DEBT COVERAGE

1. The debt coverage in this DSA comprises debt owed by the central government and certain government guarantees. Coverage of the public sector has been expanded to include the stock of uncalled domestically guaranteed debt to loss-making SOEs (8 percent of GDP at end-2023)[2] and municipalities (0.2 percent of GDP at end-2023). This aligns with the treatment of government guarantees on SOEs' external borrowing, which were already included in the baseline stock of debt (0.7 percent of GDP at end-2023). Consistent with the fiscal accounts, social security funds and local governments are excluded from the DSA. The coverage of extra budgetary funds (EBFs) is focused on government support to State-Owned Enterprises (SOEs) through on-lending and capitalization. The authorities have undertaken important efforts to widen the coverage and reporting of public sector debt, including through support from the World Bank.[3] External debt is defined on a residency basis.

2. The contingent liability default stress test is modified from the last DSA reflecting the inclusion of domestically guaranteed debt of SOEs in the DSA perimeter. The default shock of 0 percent of GDP for the components of general government not captured in the baseline stock of debt is kept at the default level consistent with the size of publicly guaranteed

[2] In line with Appendix 3 of the LIC-DSA guidelines, guaranteed debt to the national air traffic control company (Aeroportos e Segurança Aérea, ASA), equivalent to 0.6 percent of GDP at end-2023, has been excluded from DSA perimeter as the company is not considered a source of fiscal risk to the central government. This assessment is based on the company's strong balance sheet, high cash generation, and steady cash flows (and its role as a net contributor to the central government budget). The company also publishes comprehensive annual reports, with the latest being 2023 (available on the UASE website). The expansion of the perimeter was done from 2015 onwards.

[3] Efforts to expand debt coverage have been supported by the World Bank through the Performance and Policy Actions under the Sustainable Development Financing Policy (SDPF). Specifically, the coverage of the quarterly public debt bulletin has been broadened to include debt of SOEs, the social pension fund, and guaranteed debt from municipalities.

domestic debt of local governments.[4] The social security fund (INPS) financial position is strong, and fiscal risk is minimal, as a result the contingent liability stress test is not adjusted for its exclusion. The default shock of 2 percent of GDP for SOEs' debt is adjusted after the incorporation of domestically guaranteed debt to SOEs in the DSA perimeter. Using as starting point the tailored shock used in the last DSA of 28.2 percent of GDP, the stock domestically guaranteed debt to SOEs (8.6 percent of GDP as of end-2023) and on-lending from the central government (9.1 percent of GDP as of end-2023) were subtracted. This yields a tailored contingent liability shock of 10.5 percent of GDP. The default shock of 1.2 percent of GDP is kept for public private partnerships (PPPs). Finally, Cabo Verde's financial sector appears sound and the default minimum value of 5 percent of GDP for the financial market shock seems appropriate.

3. Ongoing enhancements in the risk assessment of SOEs and broader fiscal transparency are significant steps in the right direction. Financial reporting and governance within SOEs have improved. Key reforms include: (i) the implementation of the IMF's SOE Health Check Tool, which has helped the SOEs unit (Unidade de Acompanhamento do Sector Empresarial do Estado - UASE) strengthen its analysis and assessment of fiscal risks from SOEs (latest report from Q4-2023); (ii) the provision of consolidated data on financial transactions between the government, individual SOEs, and the sector as a whole to improve transparency and facilitate fiscal risk assessments; (iii) improvements to annual reports on contingent liabilities, SOE performance, and the introduction of quarterly SOE performance reports; (iv) the adoption and publication of a comprehensive ownership policy to further enhance the management and oversight of the SOE portfolio; (v) the revision of the overarching State Enterprise Sector Law (Lei do Sector Público Empresarial do Estado), which is currently under discussion at the National Assembly and (vi) the creation of PARPÚBLICA, responsible for managing the state's corporate investments, and IMOPÚBLICA, tasked with managing the state's immovable property. Additionally, efforts to increase publicly accessible information, such as the Portal da Transparência initiative and the *SOE Manager* are welcome.[5]

[4] According to authorities, the stock of local government debt is either directly guaranteed by central government or indirectly via the use of future transfer from the central government as collateral.

[5] The 'SOE Manager' platform is a digitized ICT tool and database aimed to systematically capture data directly and in real-time from SOEs. Based on the inputs provided by SOEs, it automatically generates aggregate performance information and dashboards for the SOE ownership institution (UASE). This will facilitate the preparation of annual aggregate SOE portfolio and quarterly performance reports which UASE has prepared in recent years. The SOE Manager could also help anticipate potential SOE performance challenges more proactively and inform related fiscal risk analysis.

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

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

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

1	The country's coverage of public debt	The central government plus extra budgetary funds, central bank, government-guaranteed debt			
		Default		Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	10.5	
4	PPP	35	percent of PPP stock	1.2	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			16.7	

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

BACKGROUND

A. Evolution and Composition of Public Debt

4. Cabo Verde experienced robust tourism driven growth in the pre pandemic period, which was supported by structural reforms. Between 2016 and 2019, growth averaged 5 percent per year, supported by favorable global conditions coupled with important structural reforms, mainly impacting on the SOE sector. After a period of debt financed counter cyclical fiscal policy in the wake of the Global Financial Crisis, public debt decreased from its peak of 121 percent of GDP in 2015 to 115.7 percent in 2019.

5. The COVID-19 pandemic contributed to a substantial increase in external and overall public sector debt levels. Total public sector debt reached 157.5 percent of GDP (148 percent excluding SOE domestic guarantees) at end-2021 (Text Figure 1). The increase in the debt ratio was due to the large output contraction of 20.8 percent and a higher public sector overall deficit of 9.3 percent of GDP in 2020, which was financed mainly with increased external concessional borrowing, largely from multilateral institutions to mitigate the impact of the economic shock particularly on vulnerable groups.

Text Table 1. Cabo Verde: External Debt Profile by Type of Creditors, 2023

	Percent of GDP	Percent of external debt	Average maturity (in years)	Average interest rate
Multilateral	47.6	59.3	18.3	0.93%
Bilateral	14.7	18.3	10.7	0.87%
Commercial	18.0	22.4	10.4	1.59%
Total external debt	80.2	100.0	15.2	1.07%

Source: Cabo Verdean authorities and IMF staff estimates.

6. A strong rebound in economic growth in recent years coupled with fiscal policy tightening has contributed to a steady decline in the debt to GDP ratio. The tourism driven recovery from the pandemic was strong as the economy grew by 15.8 and 5.5 percent in 2022 and 2023 respectively. The primary deficit contracted to 2 percent of GDP in 2022 implying a solid fiscal consolidation impulse of 3.4 percent of GDP, chiefly explained by a contraction of primary expenditures, vis-à-vis the 2021 primary deficit of 5.4 percent of GDP. In 2023, the primary balance reached 2 percent of GDP (highest ever in the time series), driven primarily by stronger tax revenues, one-off payment from the airport concession fee, and a lower-than-expected execution of capital investments, delivering a strong consolidation fiscal impulse of 4 percent GDP relative to 2022. The combined effect of robust fiscal consolidation and output recovery caused a significant reduction in the debt to GDP ratio to 125 percent of GDP (116.4 percent of GDP excluding SOE domestic guarantees) at end 2023.

7. As of end 2023, public external debt represented 80 percent of GDP and remains highly concessional. External debt held by SOEs accounts for 0.7 percent of GDP. Multilateral institutions are the main creditors of Cabo Verde (Text Table 1). The International Monetary Fund, World Bank, and the African Development Bank account for about 59.3 percent of external public debt. Bilateral creditors account for about 18.3 percent of external public debt, of which Portugal is the largest creditor. Debt servicing costs are moderate with an average interest rate of about 1.07 percent and average maturity of about 15.2 years. The exchange rate risk is low due to the exchange rate peg to the Euro. The external assessment suggests an undervaluation of the exchange rate and international reserves are at a strong level. Commercial creditors hold 18.3 percent of external public debt. The Portuguese Caixa Geral de Depósitos (CGD) accounts for 82.8 percent of total commercial loans, provided under favorable terms with an average maturity of 10.4 years and average interest rate of 1.6 percent.

8. **Domestic public debt, which stood at 44.8 percent of GDP at end-2023, is mostly held by the banking sector in the form of medium and long-term Treasury securities.** At end-2023, central government domestic debt (excluding guarantees to SOE debt) accounted for 36.2 percent of GDP (Text Figure 1). Treasury bonds accounted for 96.4 percent. Commercial banks hold 65.1 percent of domestic government securities and non-banks hold 34.9 percent, most of which is with the national social security fund. Access to domestic debt is supported by excess liquidity in the banking system and interest rates on domestic debt remains moderate. The reliance on domestic debt has been largely steady over last decade around 30 percent of total public debt.

9. **Publicly guaranteed debt stood at 10.3 percent of GDP at end-2023 (Text Table 2)**. State guarantees are used mainly for SOEs' domestic debt. For 2023, the stock of publicly guaranteed domestic debt consists primarily of liabilities of ELECTRA, Aguas de Santiago, TACV, Prog. Start-up/Ecosistema, NEWCO and ICV and AEB to the domestic banking system; and borrowing by a few municipalities. ASA, TACV, SDTIBM, ELECTRA were the recipients of the largest guarantees in 2023.[6] External debt guarantees are 0.7 percent of GDP. State guarantees account for 7.4 percent of total debt (Text Figure 1).

Text Table 2. Cabo Verde: Publicly-Guaranteed Debt, 2019–2023

	2019			2020			2021			2022			2023		
	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt
External Debt (A)	**395**	**0.2**	**100.0**	**1,655**	**0.9**	**100.0**	**2,243**	**1.2**	**100.0**	**2,121**	**0.9**	**100.0**	**1,916**	**0.7**	**100.0**
contracted by SOEs	395	0.2	100.0	1,655	0.9	100.0	2,243	1.2	100.0	2,121	0.9	100.0	1,916	0.7	100.0
contracted by private entities	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Domestic Debt (B)	**18,425**	**8.3**	**100.0**	**15,618**	**8.8**	**100.0**	**22,157**	**11.6**	**100.0**	**24,528**	**10.4**	**100.0**	**24,675**	**9.6**	**100.0**
contracted by local governments	363	0.2	2.0	356	0.2	2.3	382	0.2	1.7	440	0.2	1.8	440	0.2	1.8
contracted by SOEs	13,858	6.3	75.2	14,972	8.5	95.9	18,175	9.5	82.0	20,144	8.5	82.1	22,059	8.6	89.4
contracted by private entities	4,204	1.9	22.8	290	0.2	1.9	3,601	1.9	16.3	3,944	1.7	16.1	2,176	0.8	8.8
Total Publicly-Guaranteed Debt (A+B)	**18,820**	**8.5**		**17,273**	**9.8**		**24,401**	**12.8**		**26,649**	**11.3**		**26,592**	**10.3**	

Source: Cabo Verdean authorities and IMF staff calculations.

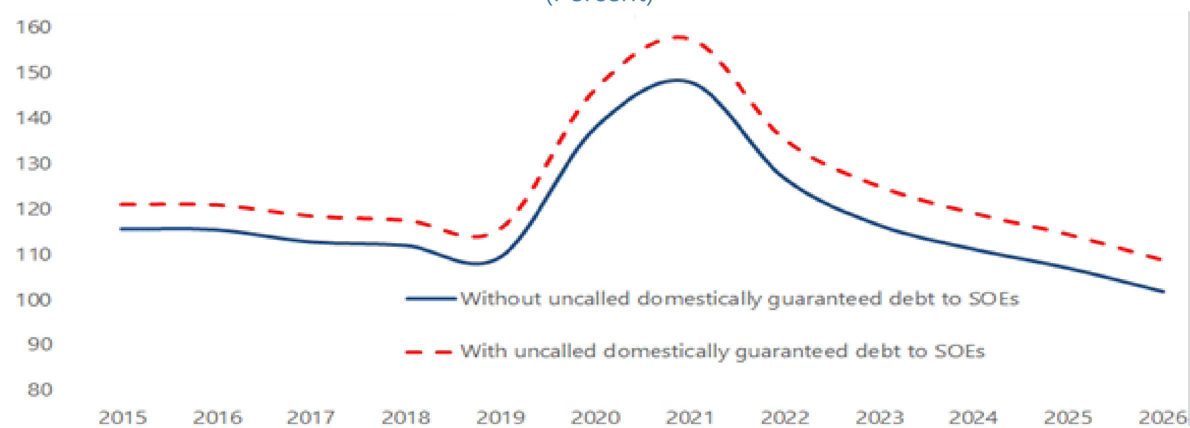
[6] Annual financing needs of TACV, after its nationalization in July 2021, are estimated at 1 percent of GDP and has been financed through direct capitalization and central government guaranteed domestic loans.

Box 1. Cabo Verde: Expanded DSA Coverage

The current joint World Bank/IMF Debt Sustainability Analysis expands the DSA perimeter incorporating domestically guaranteed debt to SOEs in line with the last analysis (SR No 24/9). The coverage of the Debt Sustainability Framework (DSF) should be as broad as possible. According to the 2018 IMF Guidance Note on the Bank-Fund DSF for Low-income Countries, the debt perimeter should encompass almost the entirety of public sector debt including private sector debt guaranteed by the public sector, with the exception of public financial corporations. A limited definition of public debt in the DSA can contribute to unexpected increases in the level of debt explained by sources outside the defined perimeter.

At end-2023, domestic debt accounted for 35.8 percent of total public debt (Text Figure 1), of which ¾ corresponds to central government debt and ¼ to the stock of uncalled guarantees to SOEs. The difference in debt level between the current DSA perimeter with domestically guaranteed debt to SOEs and previous one without such guarantees is explained by the stock domestic guarantees to SOEs (Box 1 Text Figure). At end 2023, the stock of uncalled domestically guaranteed debt to loss-making SOEs and municipalities was 8.2 percent of GDP and the underlying debt service of such guaranteed totaled 3.1 percent of GDP.

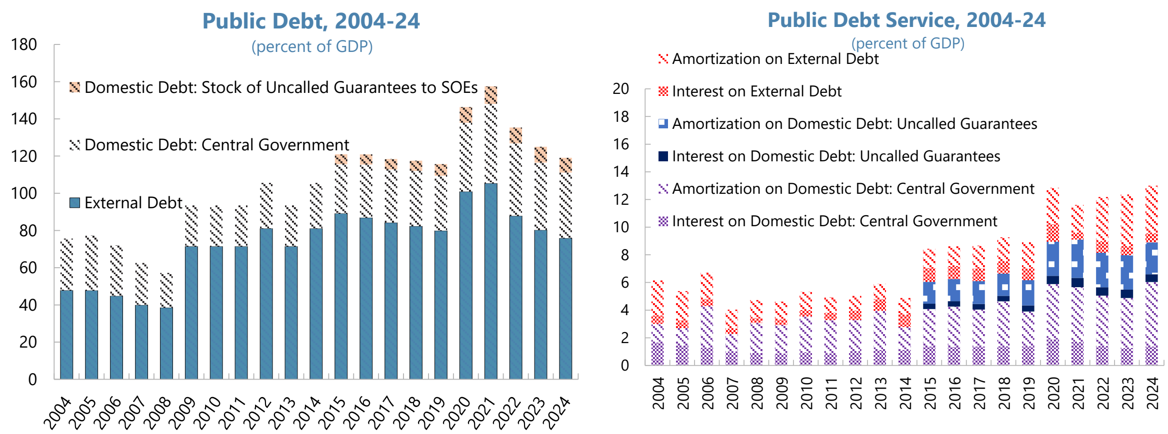
Box 1. Text Figure 1. Cabo Verde: Public Debt, 2015-26
(Percent)



10. The cost of the central government's domestic debt service continues to be moderate, while the debt service of domestic guarantees to SOEs is relatively expensive. At end-2023, domestic central government debt service was 4.9 percent of GDP reflecting a relatively low refinancing risk as the average maturity is around 6 years and a low interest bill with an average interest rate of about 3.5 percent. The debt service on uncalled domestic guarantees extended to SOEs, which account for approximately ¼ of the central government's domestic debt, was 3.1 percent of GDP in 2023, which are non-cashflow payments from the central government perspective if the guarantees are not called. With the average maturity around 3 years and average interest rate of 6.1 percent, these loans carry an elevated refinancing risk when compared to central government debt.

11. Debt service on external public debt is moderate. The ratio of public external debt service to exports increased from 10.8 percent in 2022 to 12.6 percent in 2023, reflecting a moderation in exports after the tourism sector strong recovery. The ratio is estimated to decline steadily from 2024 onwards as the economy converges to potential and exports remain healthy due to the expansion of capacity in the tourism sector. The ratio of public external debt service to revenue increased to about 20.5 percent in 2023 from 19.1 percent in 2022 and is projected to steadily decrease overtime averaging about 14 percent over the medium term (2026-2031), declining thereafter mainly driven by lower gross financing needs and higher revenues. Total public debt service including the debt service of uncalled domestic guarantees to SOEs absorbed about 51 percent of revenue and grants of the central government in 2023 and is projected to reach 56 percent in 2029 and steadily decline thereafter primarily due to increased revenues. It's important to note that the additional debt service linked to SOE guarantees does not impact central government cash flows.

Text Figure 1. Cabo Verde: Profile of Public Debt and Debt Service, 2004–24



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

12. Historical private external debt derived from international investment position (IIP) data indicate a stock of about 14.7 percent of GDP at end-2023, marking a significant decline from its peak of 20.7 percent in 2020. This downward trend reflects a broad-based reduction in external borrowing across both bank and non-bank sectors.

Box 2. Cabo Verde: A Deeper Understanding of the SOE Landscape

The current joint World Bank/IMF Debt Sustainability Analysis expands the DSA perimeter incorporating domestically guaranteed debt to SOEs in line with the last analysis (SR No 24/9). The coverage of the Debt Sustainability Framework (DSF) should be as broad as possible. According to the 2018 IMF Guidance Note on the Bank-Fund DSF for Low-income Countries, the debt perimeter should encompass almost the entirety of public sector debt including private sector debt guaranteed by the public sector, with the exception of public financial corporations. A limited definition of public debt in the DSA can contribute to unexpected increases in the level of debt explained by sources outside the defined perimeter.

The financial cost of supporting Cabo Verde's State-Owned Enterprises (SOEs) from 2019 to 2023 placed considerable strain on the national budget. Government expenditures on SOEs including subsidies, transfers, and debt servicing for on-lent loans, as well as capital injections were notably high, surpassing half of the nation's health spending and over a third of its education budget on average. Fiscal pressures intensified during the pandemic, which exacerbated SOEs' financial challenges and led to the need for increased support. Capital injections rose from 0.4 percent of GDP in 2020 to 0.8 percent by 2023, mainly directed at support to the national airline as well as meeting financial obligations of NewCo. Additionally, a rise in government-guaranteed SOE debt reaching 8.6 percent of GDP by 2023 has elevated the risk of contingent liabilities, leaving the budget more vulnerable to potential repayment defaults.

Fiscal risks linked to SOEs arise from both explicit liabilities, such as government-backed debt and loans extended to SOEs, and implicit risks, including overdue SOE payments and costs tied to public service obligations. For instance, the amount of SOE debt guaranteed by the government, now exceeding 8 percent of GDP, is concentrated within a few large but financially struggling entities, which has led to roll-over and renegotiation of guarantees given limited repayment capacity. Liquidity challenges for SOEs benefiting from on-lent loans means these have become an increasingly significant liability. Persistent financial underperformance among many SOEs has contributed to a substantial rise in contingent liabilities, particularly driven by debt restructuring needs and additional borrowing.

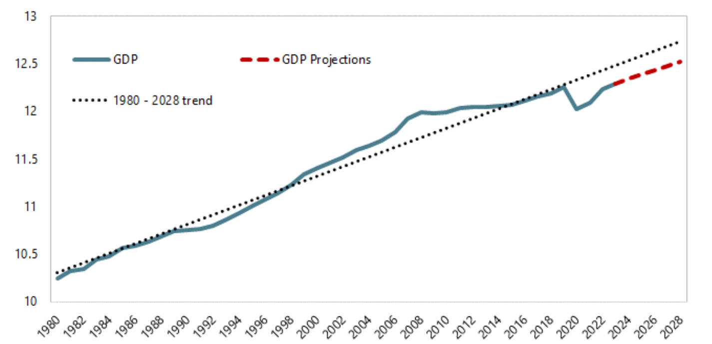
A comprehensive approach to enhance SOE governance and performance is needed. Key reforms include adopting and consistently implementing updated SOE laws, establishing a clear SOE ownership policy, and operationalizing Parpública as a holding company – ensuring full transparency. Performance management should be improved through timely data submission on the SOE Manager platform and clear performance targets with associated incentives. The selection of SOE board members should emphasize competence and independence, while transparency can be increased by ensuring timely reporting of non-financial data. Fiscal discipline is crucial, including through application of guaranteed fees and improved transparency in SOE transactions amongst each other and the public sector. Commitment to minimizing the state's support to SOEs is equally important. Additionally, reforms should separate commercial and non-commercial activities, strengthen regulatory neutrality, and ensure that SOEs operate under similar financial and procurement conditions as private firms.

Source: Integrated SOE Framework assessment (World Bank Group, forthcoming)

B. Outlook and Key Macroeconomic Assumptions

13. **The macroeconomic assumptions underlying the projections are broadly in line with the last DSA.** GDP growth is projected at 6 percent in 2024 and to converge over the medium term to potential growth of 4.8 percent (Text Figure 2 and Text Table 3).[7]Inflation is expected to moderate in 2024 after the normalization in 2023. A worsening in terms of trade is a source of risk, as the pass through from international oil and food prices continue to affect Cabo Verde with imports accounting for about 80 percent of consumption products.

Text Figure 2. Cabo Verde: Real GDP
(Millions of 2015 CVE, log scale)



14. **Medium- and long-term growth will be supported by the implementation of structural reforms aimed at improving public sector efficiency, the business environment, and increasing access to finance**. The authorities are implementing the five-year development strategy (*Plano Estratégico para o Desenvolvimento Sustentável* – PEDS II) building on the long-term development plan (Cabo Verde Ambition 2030). Priority areas include (i) completing SOE reforms, including through privatization, and improving the efficiency of public enterprises; (ii) promoting economic diversification by leveraging the potential of the blue economy; (iii) reducing the level of informality; and (iv) facilitating access to finance, particularly for small and medium-sized enterprises. The implementation of key reforms will be supported through technical assistance and project financing from the World Bank and the ongoing ECF arrangement. The key macroeconomic assumptions are:

- *Real GDP growth. Cabo Verde's real GDP expanded by 5.5 percent in 2023.* Growth is projected to reach 6 percent in 2024 reflecting strong performance – driven by tourism - during the first half of the year and gradually converge to long-term growth of 4.8 percent (supported by key structural reforms described above in paragraph 14).[8]

[7] The level of GDP from 2019 to 2022 was revised in Q1 2024 to further finetune the completion of the rebasing of the national account statistics from 2007 to 2022.9 The published data indicates nominal GDP in 2022 was 2.5 percent lower compared to the last DSA. Growth estimates for 2024 are higher than presented in the October WEO due to the availability of more recent data.

[8] This growth reflects a revised assessment of Cabo Verde long-term historical trend growth rate using HP filter model, which indicated that this averaged at 5.4 percent in 1980-2019 – or 5.1 percent when also considering also the post-COVID period (1980-2023).

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

	2022	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 - 32 Proj.	2033 - 43 Proj.
Real GDP growth								
Current DSA	15.8	5.5	6.0	5.0	4.9	4.9	4.8	4.8
January 2024 DSA	17.1	4.4	4.5	4.6	4.6	4.7	4.5	4.5
June 2023 DSA	17.7	4.4	4.5	4.6	4.6	4.7	4.5	4.5
2022 ECF Request	4.0	4.8	5.7	5.5	5.0	4.5	4.5	4.5
GDP Deflator								
Current DSA	6.3	3.8	1.6	2.0	2.1	2.2	2.0	2.1
January 2024 DSA	7.7	4.3	2.1	2.0	2.0	2.0	2.0	2.0
June 2023 DSA	6.4	4.5	2.0	2.0	2.0	2.0	2.0	2.0
2022 ECF Request	4.5	2.6	2.0	2.0	2.0	2.0	2.0	2.0
Fiscal balance (including grants)								
Current DSA	-4.3	-0.3	-2.4	-1.8	-0.9	-0.1	-0.3	0.1
January 2024 DSA	-4.3	-3.4	-3.4	-2.1	-1.2	-0.4	-0.9	-1.5
June 2023 DSA	-4.2	-4.4	-3.2	-2.4	-2.4	-0.6	-0.7	-2.1
2022 ECF Request	-6.3	-5.6	-4.0	-2.1	-0.9	-0.8	-1.4	-2.9
Overall financing needs (including onlending)								
Current DSA	-4.3	-0.3	-2.6	-2.3	-1.5	-0.6	-0.7	0.1
January 2024 DSA	-4.3	-4.0	-3.6	-2.3	-1.3	-0.4	-0.9	-1.5
June 2023 DSA	-4.2	-3.7	-4.0	-2.4	-2.4	-0.6	-0.7	-2.1
2022 ECF Request	-7.0	-6.2	-4.2	-2.3	-1.1	-0.8	-1.4	-2.9
Current account balance (including grants)								
Current DSA	-3.5	-2.2	-0.3	-2.2	-2.4	-2.5	-2.4	-0.2
January 2024 DSA	-3.7	-5.9	-6.1	-6.3	-5.8	-5.4	-3.7	-1.5
June 2023 DSA	-3.6	-5.6	-4.6	-4.4	-4.4	-3.7	-3.2	-1.9
2022 ECF Request	-14.1	-6.2	-5.9	-4.7	-4.6	-4.2	-3.6	-3.2
Total Debt/GDP Ratio 1/								
Current DSA	135.5	124.7	119.5	114.2	108.7	102.7	87.5	55.5
January 2024 DSA	135.8	128.1	123.8	118.3	112.1	105.6	88.5	61.4
June 2023 DSA	129.9	121.0	117.3	113.1	108.9	102.8	86.4	62.1
2022 ECF Request	154.6	148.0	140.1	131.1	122.8	115.7	99.1	77.0
Cv$/USD exchange rate (e-o-y)								
Current DSA	104.1	101.1	102.2	102.1	102.1	102.2	102.2	102.2
January 2024 DSA	104.1	99.7	99.4	99.0	99.1	99.9	99.9	99.9
June 2023 DSA	104.1	104.3	104.7	105.1	105.5	106.4	107.5	107.5
2022 ECF Request	98.5	96.9	95.8	95.0	94.5	94.2	94.2	94.2

Sources: Cabo Verdean authorities; and IMF staff estimates and projections.
1/ Including the stock of uncalled domestic guarantees to SOEs

- *Tourism services*. The framework assumes continued growth in the tourism sector reflecting in part an increase in hotel capacity linked to the opening of new hotels, diversification of markets and steady FDI inflows. UK, Portugal, Germany, and Belgium are the most common countries of origin of tourists arriving in Cabo Verde. The impact of continued growth in the tourism sector will be seen in higher services exports and increased tax revenues – with a positive impact on debt sustainability.

- *Inflation*. Inflation narrowed to 1.3 percent and the GDP deflator to 3.8 percent in 2023 (from 7.9 and 6.3 in 2022, respectively) in line with the decrease in fuel and commodity prices. Inflation and the GDP deflator are projected to move to 2 percent and 2.1 percent, respectively in 2024 due to the normalization of fuel and commodities prices.

- *The use of RSF resources and climate related risks*. RSF disbursements increase external financing by about CVE 1 billion in 2024 and CVE 2.1 billion in 2025. The RSF substitutes more expensive domestic financing. From 2026 onwards, the funding substitution ends and net domestic issuance returns to its prior path. From the balance of payment standpoint, RSF disbursements increase international reserves by CVE 0.7 billion and CVE 2.5 billion in 2024 and 2025, respectively. The additional reserve buffer supports the authorities' climate-related investments and reforms and helps catalyze financing for climate change mitigation and adaptation strategies[9]. The public investment path is constrained by the need to put public debt dynamics on a firm downward path. Thus, it is below the Nationally Determined Contribution (NDC) estimation of the total funding required to support climate adaptation and mitigation activities. The NDC estimates investment needs (public and private) between now and 2030 at about 6.1 percent of GDP per year. The macro-framework assumes productivity-enhancing and climate-related reforms help lift potential growth. Natural disasters and climate change events are a key source of risk as they have direct impact on tourism and, thus, on economic activity.

Public sector deficit. The current framework centers on ambitious, revenue-driven fiscal consolidation. On expenditures, the medium-term approach aims to gradually reduce the primary expenditures-to-GDP ratio, balancing climate priorities and essential reforms, with capital spending rising moderately. The wage bill and goods/services spending will grow below inflation after the 2024 increase, partly offsetting past nominal freezes. The fiscal deficit, which improved from 4.3 percent of GDP in 2022 to 0.3 percent in 2023, is set to stabilize at around 0.6 percent in the medium term, driven by better revenue mobilization and spending restraint. Recent revenue measures (VAT invoicing, tobacco tax, and airport concessions) are in place, with a planned review of tax expenditures to yield up to 1 percent of GDP over 2025 and 2026. Safeguards ensure vulnerable support, while SOE reforms aim to reduce capitalization and on-lending from 2025 onwards, reducing net financing needs to 0.6 percent of GDP by 2027.

- *Current account deficit.* The medium-term current account deficit is expected to improve relative to the previous DSA, projected at 2.4 percent of GDP in 2026. The baseline forecasts a deficit of 0.3 percent in 2024 and 2.2 percent in 2025, driven by stronger exports, tourism, and remittances, alongside slower import growth early in 2024. Exports were boosted by EU fish licenses approved in January, but rising imports (especially capital goods) are set to widen the deficit later in the year. By 2028-2032, the deficit is projected to average around 3.9 percent of GDP, with continued growth in tourism and remittances. Despite strong exports and FDI, international reserves fell to €647 million, which is still a strong level, in September 2024 due to increased bank holdings abroad but are expected to recover slightly by year-end, covering five months of imports. Compared to the last DSA, the current account is set to deteriorate due to

[9] The authorities have made progress on reforms linked to the RSF to address climate risks. This includes improving fiscal transparency by requiring the Ministry of Finance to publish an annual Fiscal Risk Statement that includes climate-related risks. To ensure climate resilience in infrastructure projects, legal amendments now integrate climate requirements into public-private partnership agreements, supported by a comprehensive project management manual. A national climate finance strategy is being developed alongside a pipeline of climate-related capital projects, set for publication in early 2025. In the energy and water sectors, reforms seek to establish cost-recovery tariffs based on operational and capital expenses, guided by distributional impact assessments and regulatory frameworks.

increased imports tied to RSF reforms and low-carbon technologies, while medium-term FDI is expected to rise, benefiting tourism and RSF-led reforms.

15. The DSA assumes a financing mix consistent with a prudent borrowing strategy, emphasizing external financing on concessional terms, with the share of domestic debt remaining about 30 percent. Financing for the 2024 budget comes from domestic lending and concessional and semi-concessional loans, mainly from multilateral institutions including the World Bank, African Development Bank, other bilateral partners. Multilateral and bilateral funding for budget support around US$96 million, about 3.5 percent of GDP is expected to be provided during 2024. The DSA is premised on continued concessional external support in the short and medium term but assumes a very gradual move toward lower concessional resources in the long term, including semi-concessional loans (with a grant element of less than 35 percent) and limited non-concessional borrowing, consistent with Cabo Verde’s middle-income status. The domestic debt profile assumes bonds issuance with maturities of at least 4 years in line with the profile of domestic debt portfolio at end-2023. The average interest rate is set to 3 percent for T-bills, and 4 and 5 percent for short-term and medium to longer-term bonds, respectively. These projections are subject to risks associated with a tightening of monetary policy to contain capital outflows, that could affect the entire yield curve.

16. Tool for assessing the realism projections for domestic public debt (Text Figure 2), which are explained below.

- **Domestic debt to GDP ratio**: The domestic debt-to-GDP ratio shows a significant decline from around 43.2 percent in 2024 to 24.7 percent by 2034. At end-2034, the domestic debt-to-GDP ratio, excluding the stock of uncalled guarantees to SOEs, is projected to be close to the level in peers at around 19 percent of GDP.

- **Domestic debt service to revenues (including grants)**: After a steady rise from 2021, the debt service-to-revenue ratio peaks in 2029 at around 43 percent. From 2030 onwards, domestic debt service to revenues shows a steady decline reaching 36.8 percent in 2034.

- **Net domestic debt issuance**: Following a sharp increase in net domestic debt issuance in 2020 due to heightened financing needs related to the pandemic, the issuance ratios move towards zero in 2023-2026 and turn slightly negative from 2026 onward, as concessional external debt becomes main source of financing.

- **Borrowing assumptions**: The majority (98 percent) of new domestic debt issuance is expected to be medium to long-term (MLT), with favorable terms, including a low average real interest rate of 1.4 percent and a 6-year average maturity. Short-term debt accounts for only 2 percent, with a negative real interest rate of -0.1 percent, showing a preference for longer-term, more sustainable financing. It’s important to note that additional debt service does not impact central government cash flows. Furthermore, the domestic market has sufficient depth, supported by banking sector liquidity and INPS's pension fund capacity, to absorb any potential guarantee calls as key marginal buyers.

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

- **Fiscal adjustment.** The realism tools indicate that the fiscal adjustment path is feasible and achievable through a combination of measures including strengthening of domestic revenue mobilization, and expenditure restraint supported by average growth near potential. The proposed primary balance adjustment path of about 1 percent of GDP over 2024–26 is [roughly in the middle of the] historical distribution of adjustment for LICs. Furthermore, the authorities have identified and implemented some of the policy measures which they estimate could increase revenue collections by close to 1 percent of GDP. In that regard the authorities increased the rate of the tourist tax, implemented the 5 percent duty on previously exempted imports and continue to advance revenue mobilization efforts including from electronic tax invoicing. The adjustment will be supported by steady growth at about the historical average. The DSA's realism tools do not signal any other signs of over-optimism in terms of large changes to investment or contributions to growth compared to previous DSAs (Figure 4). Tools for assessing the realism of the baseline scenario do not flag significant and systematic deviations from historical experience.

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

- **Consistency between fiscal adjustment and growth** (Figure 4). The projected growth path for 2024 and 2025 is consistent with lower-end multiplier-based projections range due to the large import content of investment and consumption. The realism of the expected adjustment is predicated on the authorities' commitment to further fiscal consolidation and restructuring of SOEs. It is also underpinned by a steady increase in economic activity following the return to pre pandemic growth levels, on account of strong activity in the tourism and transportation sectors. Moreover, additional growth impetus is expected from structural reforms under the strategic plan for sustainable development (PEDS II).

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

C. Country Classification and Determination of Stress Test Scenarios

18. Cabo Verde's debt-carrying capacity is assessed as "strong" as in the June 2022 DSA for second review of the Policy Coordination Instrument (PCI) (Text Table 4). The debt-carrying capacity is determined by the composite indicator (CI) combining the World Bank Country Policy and Institutional Assessment (CPIA), external conditions captured by world economic growth and country-specific factors. The methodology is based on the data from the October 2024 World Economic Outlook (WEO) vintage and the 2023 CPIA, the CI score for Cabo Verde stands at 3.26, which is slightly above the last DSA and the threshold of 3.05 applicable for a "strong" rating. The CI score reflects positive contributions from the CPIA (46 percent), international reserves (32 percent), world growth (12 percent), remittances (6 percent) and country real growth rate (4 percent) that are all broadly in line with the last DSA. Debt burden thresholds associated with the strong debt carrying capacity under the framework are summarized in Text Table 5.

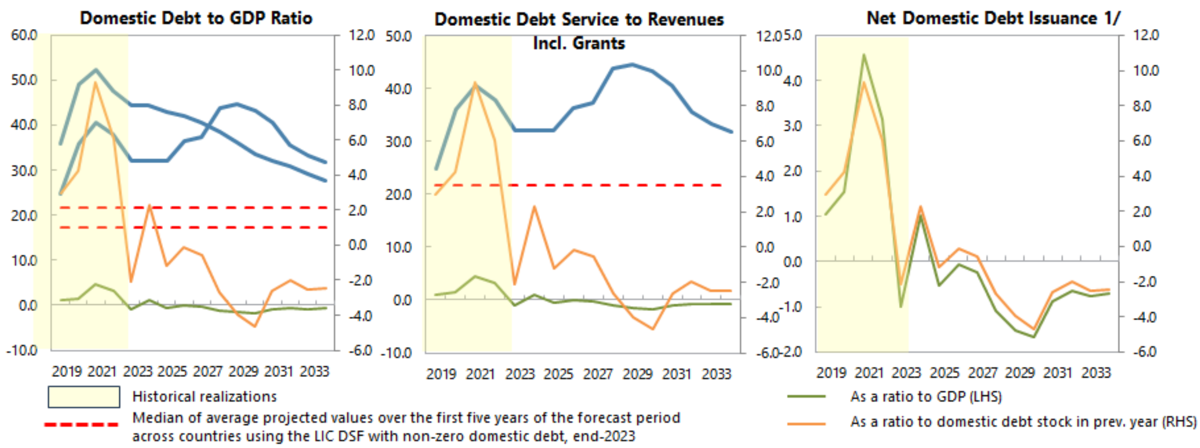
Text Table 4. Cabo Verde: CI Score Summary Table

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.852	1.483	46%
Real growth rate (in percent)	2.719	5.094	0.139	4%
Import coverage of reserves (in percent)	4.052	52.320	2.120	65%
Import coverage of reserves^2 (in percent)	-3.990	27.374	-1.092	-34%
Remittances (in percent)	2.022	10.288	0.208	6%
World economic growth (in percent)	13.520	2.967	0.401	12%
CI Score			3.26	100%
CI rating			Strong	

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

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

Text Figure 2. Cabo Verde: Indicators of Domestic Public Debt, 2019-2034



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	98%
Short-term	2%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	1.5%
Avg. maturity (incl. grace period)	6
Avg. grace period	0
Domestic short-term debt	
Avg. real interest rate	-0.1%

Sources: Country authorities; and staff estimates and projections.

Note: 1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

DEBT SUSTAINABILITY ANALYSIS

19. The debt sustainability analysis relies, in addition to the baseline projections, on the six standardized stress tests. None of the tailored stress tests is triggered for Cabo Verde.

A. External Public Debt

20. Under the baseline scenario, the PV of PPG external debt-to-GDP ratio remains below its threshold throughout the projection period (Figure 1, Tables 2 and 4). This is mainly driven by robust growth and is broadly in line with the January 2024 DSA. The risk of external debt is assessed as moderate, as was the case in the last DSA. The other external debt burden indicators remain comfortably below their prescribed thresholds under the baseline scenario throughout the DSA horizon. The PV of PPG external debt ratios to GDP and exports are expected to steadily decrease over time. Both debt service-to-exports and debt service-to-revenue ratios display similar patterns, decreasing continuously through the projection period.

21. The PV of PPG external debt-to-GDP ratio however breaches its threshold for an extended period under the stress test scenarios (Figure 1, Tables 2 and 4). Under the most extreme shock, currency depreciation, the PV of PPG external debt-to-GDP ratio rises to about 71 percent in 2025 before gradually decreasing to the threshold of 50 percent of GDP up to 2030. The threshold is also breached under three of the remaining six standardized bound tests, albeit to different extents with the breach being more protracted under the exports bound test.

22. The PV of PPG external debt-to-exports ratio and debt service to export ratio exceeds the respective thresholds from 2025–33 under the export stress test. The projected trajectories of PPG external debt burden indicators appear vulnerable to exports shock, highlighting the potential adverse impact of Cabo Verde's exposure to adverse shocks due to the high concentration of economic and export activity in the tourism sector.

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

B. Total Public Debt

24. The PV of total public debt-to-GDP ratio exceeds the 70 percent benchmark through 2030 under the baseline scenario (Figure 2, Tables 3 and 5) giving rise to a mechanical high-risk signal. The prescribed benchmark is also breached under each of the six standardized bound tests, tailored combined contingent liability test, and natural disaster shock, with growth shock being the most severe with the threshold being breached throughout the projection period. Furthermore, the debt outlook, as shown by the other public DSA indicators, is particularly vulnerable to export and climate disaster shocks.[10] The impact of the shocks, including the climate disaster shock, can be seen in Tables 4 and 5.

C. Risk Ratings and Vulnerabilities

25. Cabo Verde's overall public debt is sustainable but remains at high risk of debt distress. The present value of public debt to GDP remains above its threshold under the baseline scenario through 2030, suggesting a high risk of debt distress. Debt service is projected to average about 50 percent of revenues over the next five years, which represents a moderately large share of future fiscal revenues. The additional debt service from uncalled domestic guarantees to SOEs does not impact central government cash flows. Furthermore,

[10] The standardized climate disaster shock assumes an increase of public debt of 10 percent of GDP at the second year of the forecast horizon.

the domestic market has sufficient depth, supported by banking sector liquidity and INPS's pension fund capacity, to absorb any potential guarantee calls as key marginal buyers. Stress tests indicate that Cabo Verde is most vulnerable to a growth shock. Under these shocks, public debt would remain above the threshold for a prolonged period. The risk of debt distress is partly mitigated by support from Portugal, the main bilateral creditor, through an agreement to swap debt service payments on some debt to Portugal (worth on average about 6.6 million Euro per year) up until 2025 for climate-related investments that was agreed before the RSF negotiations.[11]

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

27. There are significant risks to the assessment. The outlook depends primarily on a broadly stable global environment that continues to support a vibrant tourism sector. However, higher fuel and commodity prices and weaker than expected economic outlook in key markets could reduce the rate of economic growth. In the long-term, climate change risks could impact the economy – notably through the tourism sector, which is centered around coastal regions.[12] Medium to long-term debt sustainability would be supported by focused implementation of growth-enhancing structural reforms, particularly actions to reduce fiscal risk from SOEs and address critical infrastructure gaps. Measures to develop the government securities market and lower the costs of domestic borrowing will be also crucial going forward.

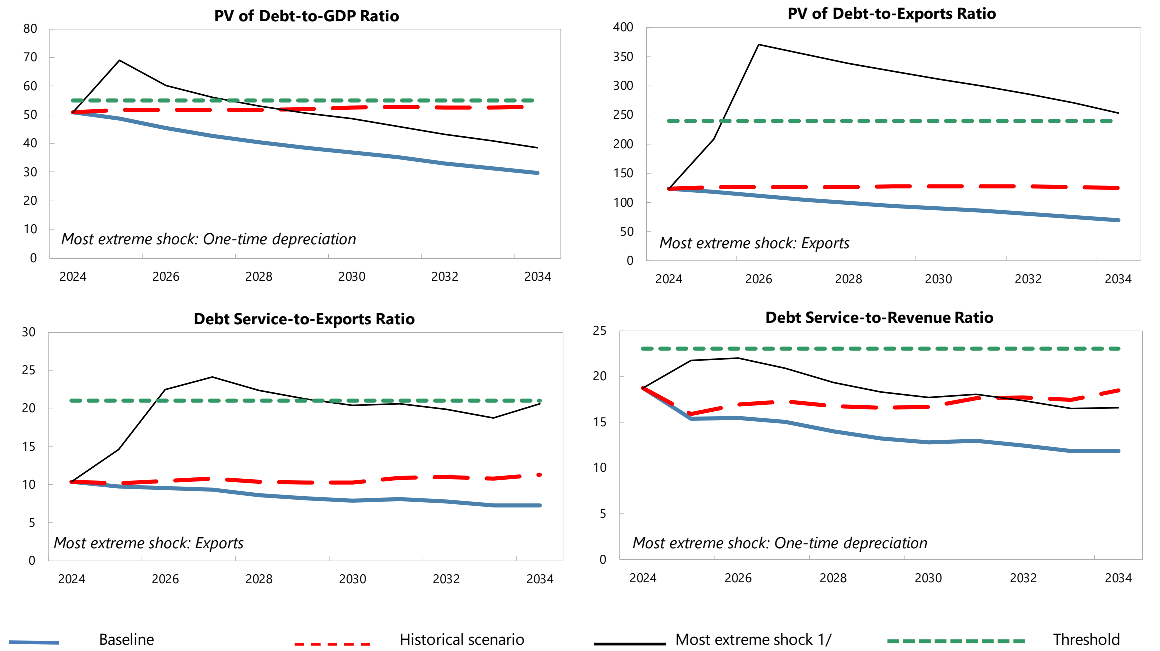
D. Authorities’ Views

28. Our fiscal program aims for sustained consolidation to reduce debt, improve fiscal health, and lower debt distress risks. Key reforms include strengthening the fiscal framework and SOE sector. The primary fiscal balance will continue to improve to a surplus of 1.4 percent by 2026. The overall deficit will shrink from 2.4 in 2024 0.2 percent by 2028. Revenue growth will come from higher taxes on tobacco, alcohol, tourism, and imports.

[11] Portugal agrees to swap Cape Verde's debt for environmental investment | Reuters. The set of rules to operationalize the fund was not set yet and, thus, the debt service coming due is being paid to Portugal. After the definition of the operational framework, the needed adjustments will be done to channel the paid debt service to the fund.

[12] Importantly, the *forthcoming* World Bank Group Country Climate Diagnostic Report shows that, in the absence of climate action, climate change would be impact not only growth, but would raise long-term investment, import and financing needs.

Figure 1. Cabo Verde: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2024–34



Customization of Default Settings		
	Size	Interactions
Standardized Tests		Yes
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

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

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	8	8

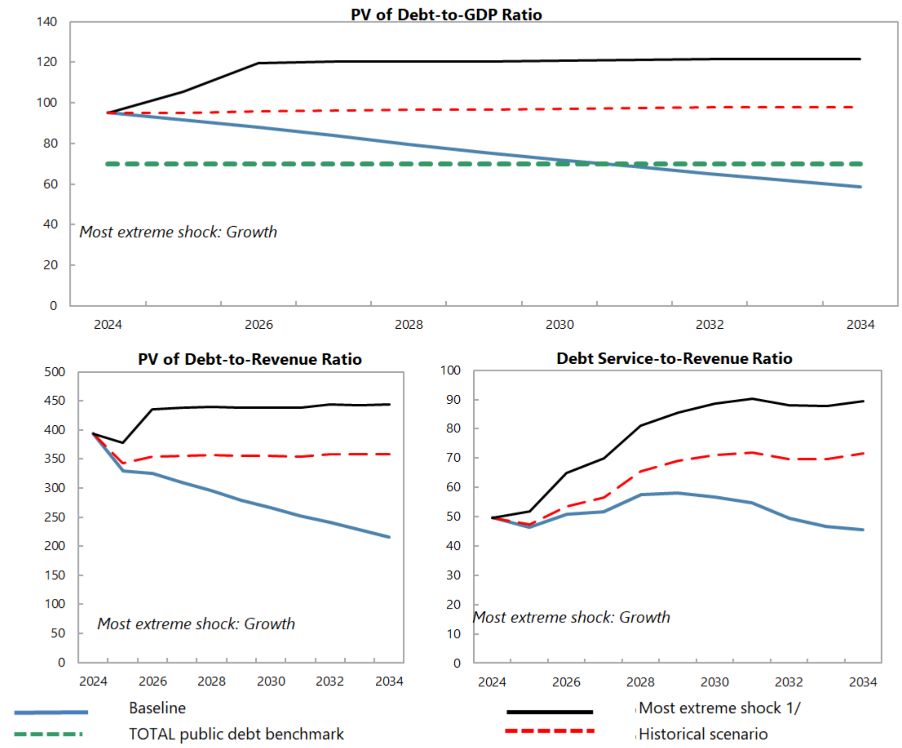
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Cabo Verde: Indicators of Public Debt Under Alternative Scenarios, 2024–34



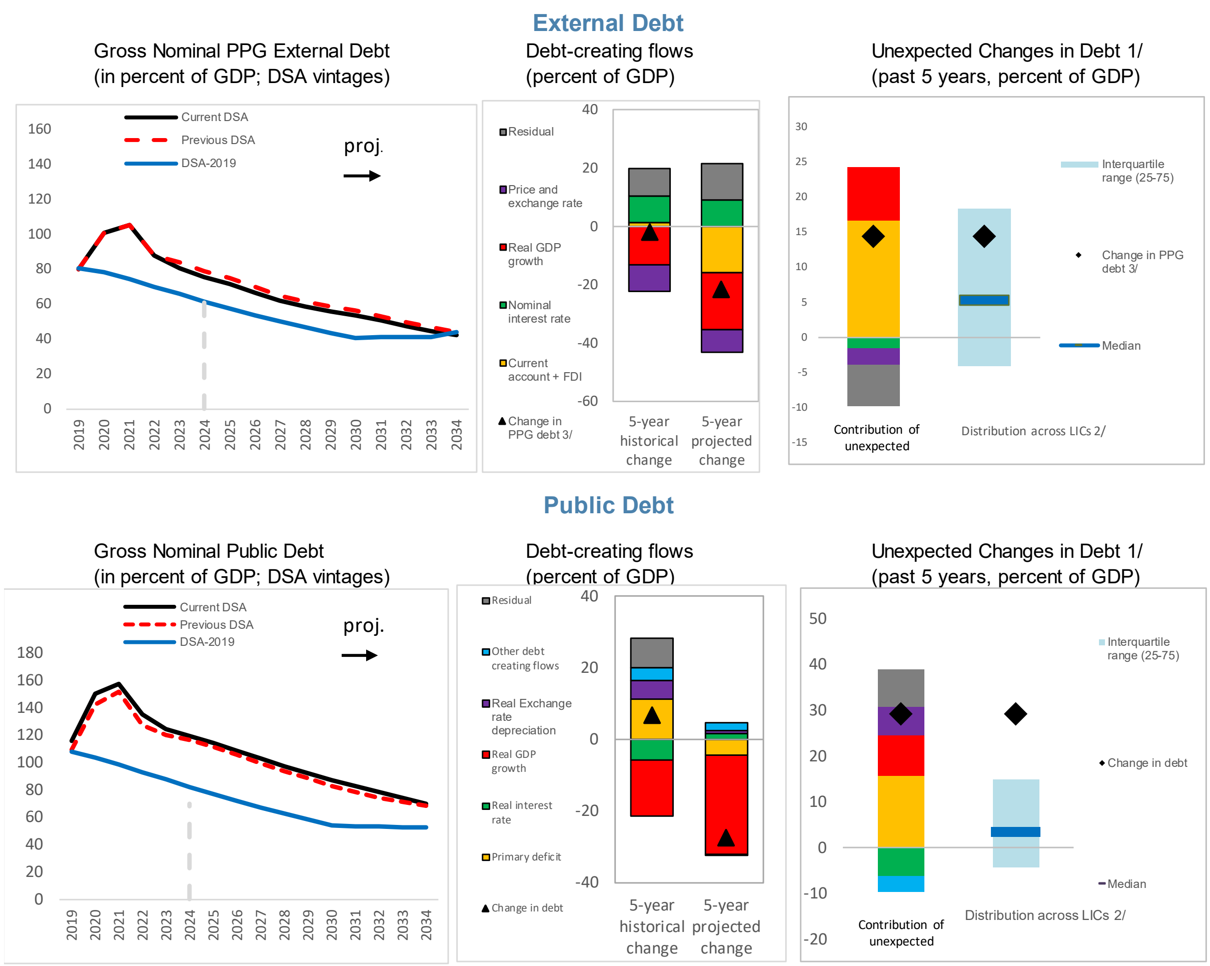
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	24%	24%
Domestic medium and long-term	75%	75%
Domestic short-term	2%	2%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	8	8
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.5%	1.5%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-0.1%	-0.1%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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



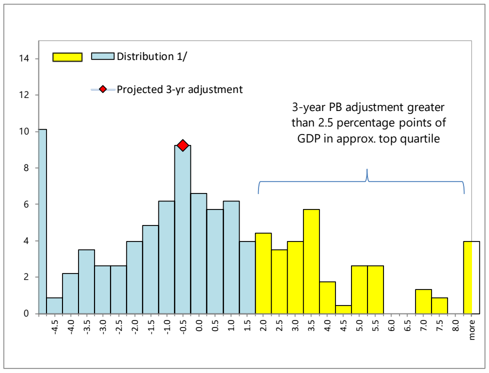
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

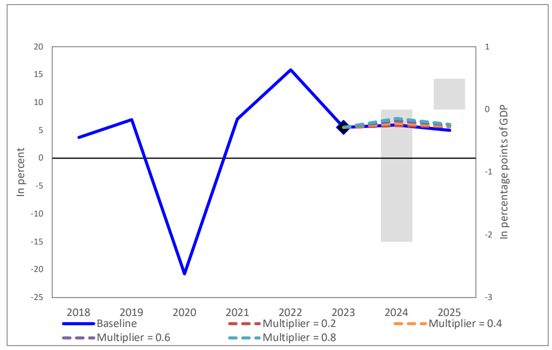
Figure 4. Cabo Verde: Realism Tools

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



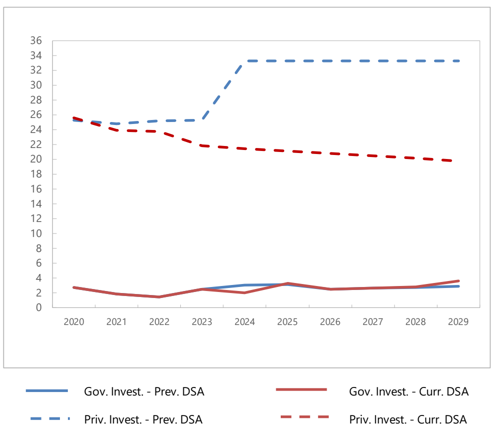
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths



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

Public and Private Investment Rates
(Percent of GDP)



Contribution to Real GDP growth
(Percent of GDP)

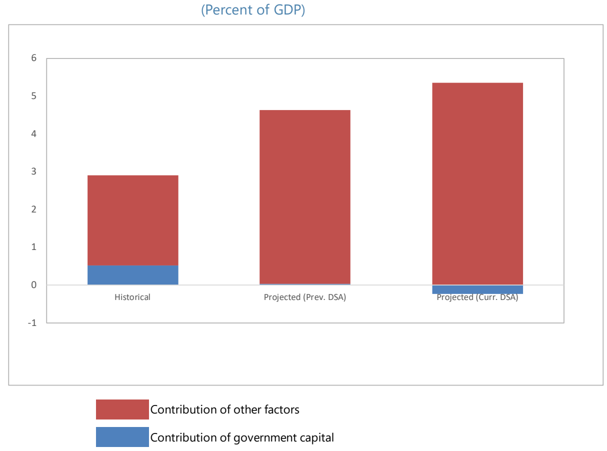
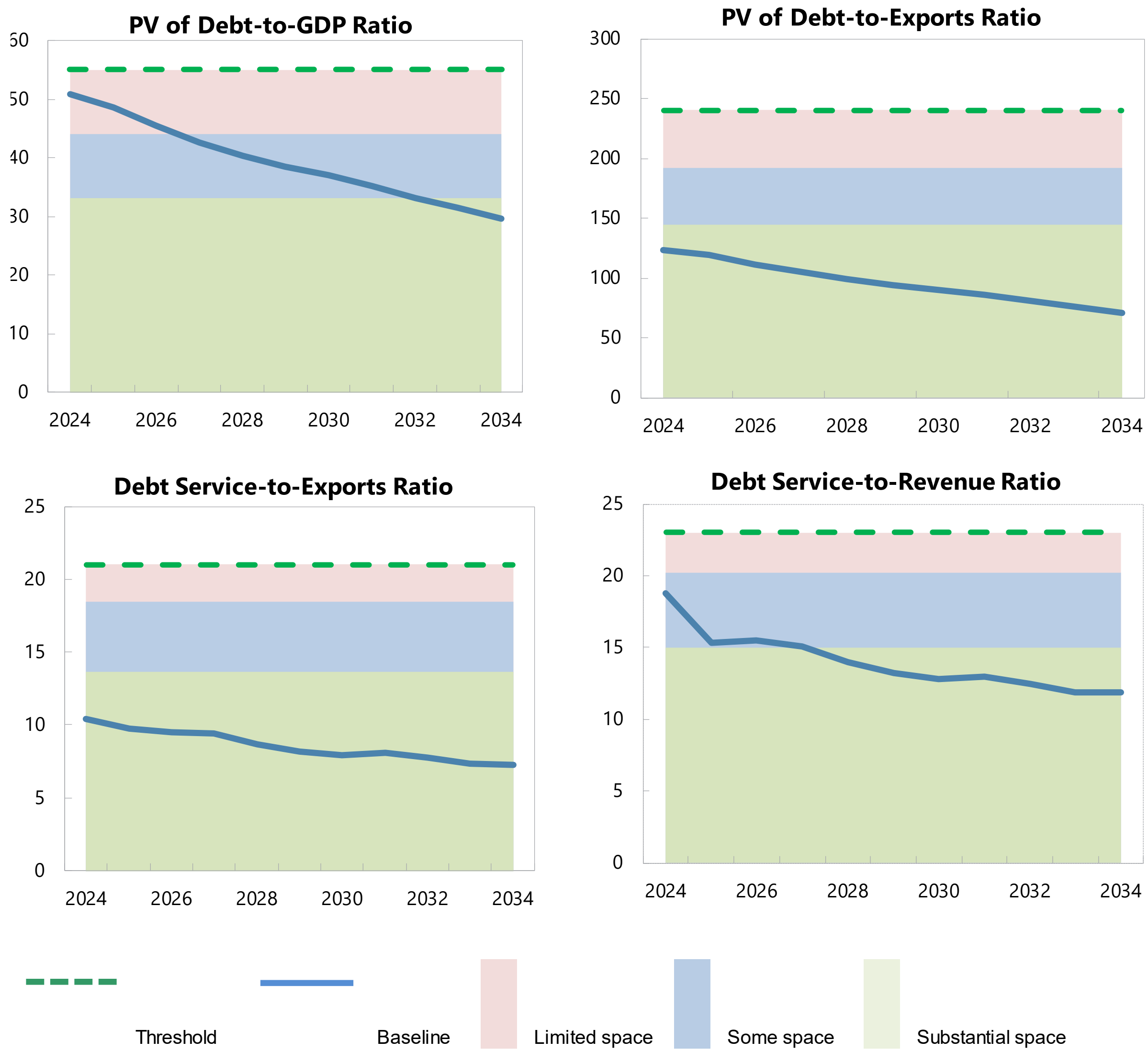


Figure 5. Cabo Verde: Qualification of the Moderate Category, 2024–34[1/]



Sources: Country authorities; and staff estimates and projections.

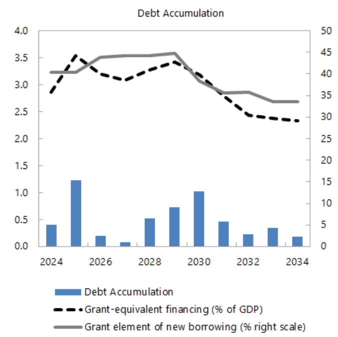
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

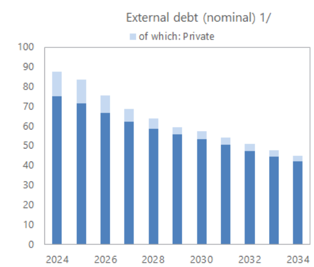
Table 2. Cabo Verde: External Debt Sustainability Framework, Baseline Scenario, 2023–44

(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	95.6	87.5	83.6	75.6	68.7	63.7	59.5	45.0	29.1	**101.8**	**63.1**
of which: public and publicly guaranteed (PPG)	80.2	75.2	71.4	66.5	62.0	58.6	55.9	41.9	29.1	**87.8**	**57.1**
Change in external debt	-9.7	-8.2	-3.9	-8.1	-6.9	-5.0	-4.1	-2.8	-1.4		
Identified net debt-creating flows	-15.4	-8.7	-5.3	-4.7	-4.1	-3.5	-3.2	-3.1	-8.2	**-1.4**	**-3.9**
Non-interest current account deficit	0.1	-1.7	0.4	0.6	0.7	0.8	0.8	-0.3	-4.6	**3.9**	**0.4**
Deficit in balance of goods and services	17.6	13.8	15.6	15.9	16.0	16.2	16.1	15.2	12.7	**19.7**	**15.8**
Exports	38.8	41.1	41.0	41.0	40.7	40.7	40.7	42.0	54.4		
Imports	56.4	54.9	56.6	56.9	56.6	57.0	56.8	57.2	67.1		
Net current transfers (negative = inflow)	-16.6	-15.7	-15.7	-15.3	-15.2	-15.3	-15.3	-15.6	-17.2	**-16.2**	**-15.5**
of which: official	-1.6	-1.1	-1.2	-0.5	-0.4	-0.4	-0.4	-0.3	0.0		
Other current account flows (negative = net inflow)	-0.9	0.3	0.5	-0.1	0.0	-0.2	0.0	0.1	-0.1	**0.4**	**0.1**
Net FDI (negative = inflow)	-6.0	-3.7	-3.5	-3.3	-3.1	-2.9	-2.8	-2.3	-3.7	**-5.1**	**-2.9**
Endogenous debt dynamics 2/	-9.5	-3.4	-2.2	-2.0	-1.7	-1.4	-1.2	-0.4	0.2		
Contribution from nominal interest rate	2.1	2.0	1.8	1.8	1.7	1.7	1.6	1.6	1.6		
Contribution from real GDP growth	-5.1	-5.3	-4.1	-3.8	-3.4	-3.1	-2.9	-2.0	-1.4		
Contribution from price and exchange rate changes	-6.4	...	...	...	...	...	...	...	...		
Residual 3/	5.7	0.5	1.5	-3.3	-2.8	-1.5	-0.9	0.3	6.7	**2.5**	**-0.7**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	**54.2**	**50.7**	**48.6**	**45.5**	**42.6**	**40.3**	**38.4**	**29.6**	**20.6**		
PV of PPG external debt-to-exports ratio	**139.9**	**123.4**	**118.7**	**111.0**	**104.7**	**99.0**	**94.2**	**70.4**	**37.8**		
Total external debt service-to-exports ratio	**227.9**	**223.4**	**186.5**	**180.5**	**168.1**	**160.0**	**151.5**	**115.7**	**73.7**		
PPG debt service-to-exports ratio	**12.6**	**10.4**	**9.8**	**9.5**	**9.4**	**8.6**	**8.2**	**7.2**	**3.9**		
PPG debt service-to-revenue ratio	**20.5**	**18.77**	**15.3**	**15.5**	**15.1**	**14.0**	**13.2**	**11.9**	**7.7**		
Gross external financing need (Million of U.S. dollars)	297.3	348.8	426.2	470.1	510.9	542.1	578.9	763.5	809.6		
Key macroeconomic assumptions											
Real GDP growth (in percent)	5.5	6.0	5.0	4.9	4.9	4.8	4.8	4.5	4.5	**2.9**	**4.8**
GDP deflator in US dollar terms (change in percent)	6.5	1.6	1.7	2.4	2.0	2.0	2.0	2.1	-9.0	**0.0**	**2.0**
Effective interest rate (percent) 4/	2.2	2.2	2.2	2.3	2.5	2.6	2.7	3.5	5.1	**2.1**	**2.8**
Growth of exports of G&S (US dollar terms, in percent)	14.6	14.2	6.5	7.4	6.2	7.0	6.9	8.0	0.0	**7.1**	**7.7**
Growth of imports of G&S (US dollar terms, in percent)	8.4	4.8	10.0	8.1	6.5	7.5	6.7	5.8	0.0	**3.2**	**7.1**
Grant element of new public sector borrowing (in percent)	...	40.4	40.4	43.8	44.3	44.2	44.8	33.6	32.7	**...**	**39.5**
Government revenues (excluding grants, in percent of GDP)	23.8	22.7	26.1	25.2	25.3	25.2	25.3	25.6	27.9	**22.0**	**25.2**
Aid flows (in Million of US dollars) 5/	136.7	111.5	125.2	132.0	136.8	163.6	186.8	157.9	271.1		
Grant-equivalent financing (in percent of GDP) 6/	...	2.9	3.5	3.2	3.1	3.3	3.4	2.3	2.2	**...**	**3.0**
Grant-equivalent financing (in percent of external financing) 6/	...	57.4	56.0	63.6	63.7	62.0	61.6	57.9	61.1	**...**	**59.4**
Nominal GDP (Million of US dollars)	2,530	2,724	2,909	3,126	3,344	3,573	3,821	5,272	8,955		
Nominal dollar GDP growth	12.4	7.6	6.8	7.5	7.0	6.9	6.9	6.6	-4.9	**2.8**	**6.9**
Memorandum items:											
PV of external debt 7/	69.6	63.0	60.9	54.5	49.2	45.3	42.0	32.7	20.6		
In percent of exports	179.7	153.3	148.6	133.0	121.0	111.3	103.2	77.8	37.8		
Total external debt service-to-exports ratio	45.5	44.1	43.3	43.3	43.4	42.5	42.0	40.7	32.0		
PV of PPG external debt (in Million of US dollars)	1371.5	1381.7	1415.1	1421.0	1423.3	1440.6	1466.4	1558.9	1840.6		
(PVt-PVt-1)/GDPt-1 (in percent)		0.4	1.2	0.2	0.1	0.5	0.7	0.2	-2.0		
Non-interest current account deficit that stabilizes debt ratio	9.8	6.5	4.2	8.6	7.6	5.8	4.9	2.5	-3.2		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

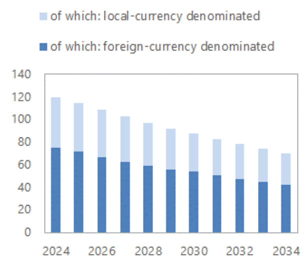
Table 3. Cabo Verde: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–44

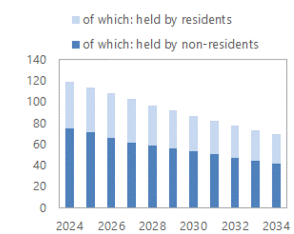
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	157.7	135.5	124.7	119.5	114.2	108.7	102.7	97.1	91.9	69.6	62.6	126.8	93.2
of which: external debt	105.4	87.8	80.2	75.2	71.4	66.5	62.0	58.6	55.9	41.9	29.1	87.8	57.1
Change in public sector debt	7.8	-22.2	-10.9	-5.2	-5.2	-5.6	-6.0	-5.5	-5.2	-4.2	25.6		
Identified debt-creating flows	3.2	-18.8	-13.1	-6.6	-5.0	-5.4	-5.8	-5.3	-5.1	-4.1	25.6	2.5	-5.0
Primary deficit	5.3	2.0	-2.0	0.1	-0.4	-1.3	-1.3	-1.4	-1.4	-1.5	26.4	1.9	-1.2
Revenue and grants	23.3	22.3	25.1	24.1	27.7	27.0	27.0	26.9	27.0	27.0	0.0	24.2	26.8
of which: grants	2.1	0.9	1.3	1.4	1.7	1.8	1.7	1.7	1.7	1.5	0.0		
Primary (noninterest) expenditure	28.6	24.3	23.1	24.3	27.4	25.6	25.7	25.5	25.6	25.6	26.4	26.0	25.7
Automatic debt dynamics	-1.2	-21.0	-11.2	-6.9	-5.2	-4.7	-5.0	-4.4	-4.1	-2.9	-0.8		
Contribution from interest rate/growth differential	-11.6	-27.4	-8.7	-6.9	-5.2	-4.7	-5.0	-4.4	-4.1	-2.9	-0.8		
of which: contribution from average real interest rate	-1.7	-5.8	-1.7	0.1	0.5	0.7	0.1	0.3	0.3	0.2	0.8		
of which: contribution from real GDP growth	-9.9	-21.6	-7.0	-7.0	-5.7	-5.4	-5.1	-4.7	-4.4	-3.2	-1.6		
Contribution from real exchange rate depreciation	10.4	6.4	-2.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.9	0.2	0.1	0.2	0.5	0.6	0.5	0.4	0.4	0.3	0.0	1.4	0.4
Privatization receipts (negative)	0.0	0.0	0.0	-0.8	-0.5	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	-0.9	0.2	0.1	1.0	1.0	0.6	0.5	0.4	0.4	0.3	0.0		
Residual	4.6	-3.4	2.2	1.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	0.0	0.6	0.0
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	98.2	95.1	91.4	87.6	83.2	78.8	74.4	57.2	54.1		
PV of public debt-to-revenue and grants ratio	...	...	390.9	393.9	329.6	325.0	308.0	293.2	275.4	211.6	100.1		
Debt service-to-revenue and grants ratio 3/	51.7	56.2	51.5	49.6	46.5	50.8	51.5	56.8	56.9	43.1	18.0		
Gross financing need 4/	16.4	14.7	11.0	12.3	13.0	13.0	13.0	14.3	14.4	10.5	31.2		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	7.0	15.8	5.5	6.0	5.0	4.9	4.9	4.8	4.8	4.5	4.5	2.9	4.8
Average nominal interest rate on external debt (in percent)	0.5	1.0	1.3	0.9	0.8	0.8	0.9	0.9	0.9	1.4	1.5	1.1	1.0
Average real interest rate on domestic debt (in percent)	4.3	-1.4	0.5	3.1	3.0	3.3	1.7	2.1	2.3	1.5	13.9	3.6	2.3
Real exchange rate depreciation (in percent, + indicates depreciation)	11.4	7.5	-3.0	...	...	...	...	...	...	...	...	3.4	...
Inflation rate (GDP deflator, in percent)	1.0	6.3	3.8	1.6	2.0	2.1	2.2	2.1	2.0	2.1	-9.0	1.9	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-3.8	-1.4	0.3	11.1	18.5	-1.7	5.0	4.0	5.5	4.2	4.3	0.3	5.9
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-2.5	24.2	8.9	5.3	4.8	4.3	4.7	4.1	3.8	2.8	0.8	10.2	3.8
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus extra budgetary funds, central bank, government-guaranteed debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

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

Table 4. Cabo Verde: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt 2024–34

(Percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	51	49	45	43	40	38	37	35	33	31	30
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	51	52	52	52	52	52	53	53	52	52	53
B. Bound Tests											
B1. Real GDP growth	51	55	**57**	54	51	48	46	44	42	39	37
B2. Primary balance	51	50	47	45	43	41	40	38	36	35	33
B3. Exports	51	**57**	**68**	**65**	**62**	**59**	**58**	**55**	53	50	48
B4. Other flows 3/	51	51	50	47	45	43	41	39	37	35	33
B5. Depreciation	51	**69**	**60**	**56**	53	50	49	46	43	41	38
B6. Combination of B1-B5	51	**59**	**60**	**57**	54	51	50	47	45	43	40
C. Tailored Tests											
C1. Combined contingent liabilities	51	51	49	46	44	42	41	40	38	36	35
C2. Natural disaster	51	51	48	45	43	42	41	39	37	36	34
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	123	119	111	105	99	94	90	85	81	76	70
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	123	126	126	127	127	128	128	128	128	126	126
B. Bound Tests											
B1. Real GDP growth	123	119	111	105	99	94	90	85	81	76	70
B2. Primary balance	123	121	116	110	105	101	97	93	89	84	78
B3. Exports	123	209	**371**	**355**	**339**	**325**	**311**	**299**	**286**	**271**	**253**
B4. Other flows 3/	123	124	122	115	109	104	100	95	90	85	79
B5. Depreciation	123	119	104	97	92	87	83	79	74	70	65
B6. Combination of B1-B5	123	160	129	175	166	159	151	145	137	129	120
C. Tailored Tests											
C1. Combined contingent liabilities	123	126	119	113	108	104	101	97	93	88	83
C2. Natural disaster	123	127	120	114	109	104	101	97	92	88	83
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	10	10	10	9	9	8	8	8	8	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	10	10	10	11	10	10	10	11	11	11	11
B. Bound Tests											
B1. Real GDP growth	10	10	10	9	9	8	8	8	8	7	7
B2. Primary balance	10	10	10	10	9	8	8	8	8	8	8
B3. Exports	10	15	**22**	**24**	**22**	**21**	20	21	20	19	21
B4. Other flows 3/	10	10	10	10	9	8	8	8	8	8	8
B5. Depreciation	10	10	10	9	8	8	8	8	8	7	7
B6. Combination of B1-B5	10	12	14	14	13	12	12	12	12	11	12
C. Tailored Tests											
C1. Combined contingent liabilities	10	10	10	10	9	8	8	8	8	8	8
C2. Natural disaster	10	10	10	10	9	9	8	9	8	8	8
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	19	15	16	15	14	13	13	13	12	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	19	16	17	17	17	17	17	18	18	17	19
B. Bound Tests											
B1. Real GDP growth	19	17	20	19	18	17	16	16	16	15	15
B2. Primary balance	19	15	16	15	14	13	13	13	13	12	12
B3. Exports	19	15	16	17	16	15	15	15	14	14	15
B4. Other flows 3/	19	15	16	16	14	14	13	13	13	12	13
B5. Depreciation	19	22	22	21	19	18	18	18	17	16	17
B6. Combination of B1-B5	19	16	18	18	17	16	15	15	15	14	16
C. Tailored Tests											
C1. Combined contingent liabilities	19	15	16	15	14	14	13	13	13	12	12
C2. Natural disaster	19	15	16	15	14	13	13	13	13	12	12
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 5. Cabo Verde: Sensitivity Analysis for Key Indicators of Public Debt, 2024-34

(Percent) 1/

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
					PV of Debt-to-GDP Ratio						
Baseline	**95**	**91**	**88**	**83**	**79**	**74**	**71**	67	64	61	57
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**95**	**95**	**96**	**96**	**96**	**95**	**95**	**96**	**96**	**96**	**96**
B. Bound Tests											
B1. Real GDP growth	**95**	**105**	**119**	**119**	**119**	**118**	**118**	**119**	**119**	**119**	**119**
B2. Primary balance	**95**	**96**	**97**	**93**	**88**	**83**	**79**	**75**	**71**	68	64
B3. Exports	**95**	**100**	**111**	**105**	**100**	**96**	**91**	**87**	**84**	**80**	**75**
B4. Other flows 3/	**95**	**94**	**92**	**88**	**83**	**79**	**75**	**71**	68	64	61
B5. Depreciation	**95**	**112**	**107**	**101**	**96**	**90**	**86**	**81**	**78**	**74**	70
B6. Combination of B1-B5	**95**	**101**	**105**	**101**	**98**	**95**	**93**	**91**	**89**	**86**	**84**
C. Tailored Tests											
C1. Combined contingent liabilities	**95**	**107**	**102**	**97**	**92**	**87**	**82**	**78**	**75**	**71**	67
C2. Natural disaster	**95**	**102**	**98**	**94**	**89**	**84**	**81**	**77**	**74**	**70**	67
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
					PV of Debt-to-Revenue Ratio						
Baseline	394	330	325	308	293	275	261	247	237	224	212
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	394	342	354	353	354	351	349	348	352	351	351
B. Bound Tests											
B1. Real GDP growth	394	378	435	434	435	431	431	430	435	434	435
B2. Primary balance	394	346	361	343	326	307	291	275	264	250	237
B3. Exports	394	361	410	391	374	353	337	321	309	294	279
B4. Other flows 3/	394	338	342	324	309	291	276	261	251	238	225
B5. Depreciation	394	404	397	376	357	335	316	299	287	272	258
B6. Combination of B1-B5	394	364	385	371	362	350	341	331	326	316	307
C. Tailored Tests											
C1. Combined contingent liabilities	394	384	378	359	342	321	305	288	277	262	249
C2. Natural disaster	394	368	364	346	331	312	297	282	272	259	247
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
					Debt Service-to-Revenue Ratio						
Baseline	50	47	51	51	57	57	55	53	47	44	43
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	50	47	53	56	65	68	69	70	67	67	68
B. Bound Tests											
B1. Real GDP growth	50	52	65	69	80	84	86	87	84	84	85
B2. Primary balance	50	47	54	58	63	64	62	60	54	49	48
B3. Exports	50	47	52	54	59	59	57	54	49	46	46
B4. Other flows 3/	50	47	51	52	57	57	56	53	48	45	44
B5. Depreciation	50	50	58	59	65	66	65	63	59	56	55
B6. Combination of B1-B5	50	50	57	60	68	70	70	70	66	64	64
C. Tailored Tests											
C1. Combined contingent liabilities	50	47	60	61	67	67	66	64	55	51	50
C2. Natural disaster	50	47	57	58	64	65	64	62	54	51	50
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by Mr. André Roncaglia, Executive Director for Cabo Verde, Mr. Felipe Antunes, Alternate Executive Director, and Mr. Pedro Miranda, Senior Advisor to Executive Director
January 17, 2025

On behalf of our Cabo Verdean authorities, we thank Mr. Tyson and his team for the insightful report. The authorities appreciate the frank and constructive policy dialogue with staff, including in the review mission in November, and continue to value the IMF's productive engagement with Cabo Verde.

Recent economic developments and outlook

Cabo Verde's macroeconomy continued its strong performance in 2024. Economic activity grew 9.4 percent in the first semester, reflecting the expansion of tourism, robust export performance, and private consumption growth. Staff projects 6 percent GDP growth in the year. Inflation remains under control at 1.7 percent year-over-year. The external sector overperformed relative to expectations, with a 1.2 percent of GDP current account surplus in the first three quarters of the year, reflecting strong goods exports, tourism receipts, and the continued inflow of remittances. Import growth was lower than expected, reflecting weaker capital goods imports as public investment lagged. The financial sector is well-capitalized, profitable and liquid.

The economic outlook remains positive, but significant downside risks are present. Growth is expected to gradually moderate towards the potential growth rate. Inflation is projected to remain below 2 percent over the medium-term, in line with Euro-area inflation. The current account is expected to converge towards a deficit of about 2.5 percent over the medium-term, as investment picks up and capital goods imports increase, in part due to climate-related reform measures. However, as a small island economy, Cabo Verde is subject to considerable downside risks, including due to climate change, which could impact the country through droughts, sea level rise, and increased frequency and severity of extreme weather events.

Program performance

Performance has remained strong and the authorities' commitment to the program goals is unwavering. All the quantitative performance criteria (QPC) for this review were met, as were the continuous PCs, with the exception of the floor for gross international reserves (GIR). In particular, the fiscal performance in the first three quarters of 2024 outpaced expectations, registering a primary surplus in the third quarter and indicating a primary deficit of just 0.1 percent of GDP in the year. While international reserves fell short of program goals, they remain within the Banco de Cabo Verde's (BCV's) target range relative to monthly imports, and determined corrective action has been taken. After falling between June and August, reserves have been increasing since September. All indicative targets for the review were met, with the exception of the one relative to GIR. Structural benchmarks (SBs) for fiscal and SOE reforms were met, and the SB related to the organic BCV law was completed with a slight delay. Considerable progress has been made on the ambitious set of Reform Measures (RMs) under the RSF, and the authorities remain determined to push forward the critical climate agenda and achieve program goals.

Fiscal and debt policies

Fiscal outcomes in 2024 and the budget for 2025 demonstrate the authorities' commitment to fiscal sustainability. Tax administration measures together with strong economic activity drove an increase of 13 percent year-over-year in tax revenues, helping the fiscal primary balance outperform projections. The 2025 budget is in line with the medium- term fiscal strategy. As a result, the public debt-to-GPD ratio is expected to continue to decline through 2025 even with higher public investment. Reductions in tax expenditures, including customs exemptions and corporate income taxes, as well as the introduction of a tourism tax, will boost revenues in 2025 and 2026. The authorities are cognizant of the importance of further reforms to contain current expenditures and improve the execution of public investment.

Improvements in governance and transparency aim to increase public sector efficiency and reduce fiscal risks from state-owned enterprises (SOEs). The new SOE law is an important step forward in this regard, as are ongoing efforts to restructure or divest some public enterprises. With support from the World Bank and other development partners, the authorities are studying options to increase efficiency and mitigate risks in the key transport, energy and water sectors.

Monetary and financial policies

Monetary policy is being tightened in order to protect the fixed peg exchange rate regime. In line with its forward guidance, the Banco de Cabo Verde (BCV) has continued to gradually raise rates to close the interest rate differential with the ECB and reduce the incentive for banks to place deposits abroad. International reserves, which remain within the BCV`s target range of 5 to 5.5 months of prospective imports, have resumed their upward trend. In light of these corrective actions, the authorities request a waiver for the unmet QPC for GIR and a modification of the end-December QPC in order to reflect the lower base.

The authorities continue to strengthen the institutional framework underpinning Cabo Verde's resilient financial system. Banks are well-capitalized, liquid, and profitable**.** Regulatory capital at 22.5 percent of risk-weighted assets is well above the regulatory minimum of 12 percent. The authorities are closely monitoring the recent increase in NPLs and are prepared to use supervisory tools and macroprudential measures if needed. Amendments to the Organic Law of the BCV will improve the Central Bank's governance and were submitted to parliament in September. Furthermore, the authorities have launched initiatives to further strengthen the AML/CFT framework.

Growth and climate resilience reforms

The five-year development strategy aims to improve access to finance and the business environment in order to increase potential growth and economic resilience and to continue reducing youth unemployment and poverty. In line with a focus on small and medium enterprises, legal procedures for businesses will be streamlined. Economic diversification will be encouraged by investment in the digital economy, connectivity, and the blue economy. Another priority is supporting vulnerable households through targeted cash transfers. Towards this end, the Ministry of Family and

Social Inclusion has expanded the coverage of the social registry to 100 percent of poor and vulnerable households (part of RM 7).

The ambitious climate change reforms supported by the RSF are key to Cabo Verde's sustainable development goals. The RSF supports Cabo Verde's climate adaptation and transition efforts by focusing on strengthening climate governance, improving resilience, enhancing energy efficiency, promoting water sustainability, and building financial sector resilience to climate change. As part of this agenda, the Ministry of Finance included a quantitative analysis of fiscal risks due to climate change in its annual Fiscal Risk Statement as part of its 2025 Budget. Other RMs under the RSF have been delayed, but substantial progress has been made on the expansion of the social registry and the development of natural disaster risk and vulnerability maps. The BCV has also made progress on developing a climate information architecture for banks, but completion of this measure will be delayed to the next review due to its complexity and the need for additional capacity development. The authorities are also advancing critical reforms related to energy and water tariffs.

Concluding remarks

Cabo Verde continues to benefit from its close engagement with the Fund. Along with the authorities' strong ownership and steadfast commitment to their policies, the candid policy dialogue with Fund staff over the past few years has been key to achieving consistent results in the authorities' ambitious development and climate change strategies. Whereas the economic performance has been strong and significant reforms have been implemented, major challenges still need to be overcome in order to ensure long-term macroeconomic stability, boost potential growth, improve social welfare, and increase resilience to climate change. The authorities count on the continued support of the Fund as they pursue these key goals.