

GREEN/20/23

March 24, 2020

Green Statement from Mr. Mouminah, Mr. Alkhareif and Ms. Al Saud on Cabo Verde—First Review Under the Policy Coordination Instrument and Request for Modification of Targets (EBS/20/11)

We thank staff for the informative report and Mr. Bevilaqua and Mr. Fachada for their helpful statement. We are in broad agreement with staff's analysis and policy recommendations and would limit our remarks to a few issues.

- 1. We welcome the strong performance under the Policy Coordination Instrument (PCI), and support the completion of the first review and associated decision.** In particular, we take positive note that all quantitative and reform targets were met, while the target floor on tax revenue was marginally missed. Also, we are encouraged to note that the economic situation has been improving in recent years, with growth above historical trends, and strengthening fiscal and external positions. However, the country faces significant challenges, including from the Covid-19 outbreak. The economy is also vulnerable to external shocks and debt distress. To this end, we encourage the authorities to remain vigilant and step up their efforts in ensuring macroeconomic stability.
- 2. As a small tourism-dependent island, the impact of COVID-19 could be strong.** Here, we welcome the swift and effective measures taken by the authorities to limit the outbreak, and positively note that only few cases have been reported so far. Indeed, the COVID-19-related issues could weigh heavily on economic activity especially in the services sector. Therefore, the authorities should stand ready to take the needed measures to mitigate the impact on the economy. Furthermore, vulnerabilities to natural disasters require major reforms to increase structural, financial, and post-disaster resilience. In this context, we welcome the established Emergency Fund to support the affected population. Here, we encourage the IMF to enhance its cooperation with the World Bank in this area.
- 3. Efforts to reduce fiscal risks and enhance debt sustainability should continue.** Indeed, we support the continued focus on rationalizing expenditures, strengthening procurement procedures, and bringing the debt-to-GDP ratio below 100 percent over the medium term. In this regard, we welcome the parliament approval of the establishment of the Sovereign Private Investment Guarantee Fund (SPIGF). However, we note staff concerns that the SPIGF, as currently planned, would instantly increase public gross debt by 5.7 percent of GDP and may raise debt service obligations. We therefore encourage further efforts to ensure fiscal prudence.
- 4. We also welcome that financial stability indicators have continued to improve.** Still, the global unfavorable outlook could severely affect the confidence in the banking system. In this context, we welcome the authorities' efforts to tackle the legacy of non-performing loans and call

for further efforts to ensure financial resilience. We urge the authorities to strengthen the AML/CFT framework in line with FATF requirements, which will help avoid loss of correspondent banking relationships.

5. Finally, we are encouraged by the authorities' firm commitment to structural reforms, including in improving the business environment. In this context, we welcome the authorities' continued efforts to improve the business climate, including by improving public transparency and reporting. Like staff, we encourage the authorities to advance broad-based reforms to support private sector development, particularly small and medium-sized enterprises, which will enhance growth prospects.

With these remarks, we wish the authorities further success in their policy implementation.