

GREEN/20/15

March 23, 2020

Green Statement from Mr. Chodos, Mr. Lischinsky and Mr. Morales on Cabo Verde—First Review Under the Policy Coordination Instrument and Request for Modification of Targets (EBS/20/11)

We thank staff for a comprehensive report and Mr. Bevilacqua and Mr. Fachada for their insightful Buff statement. We agree with Mr. Bevilacqua and Mr. Fachada that the current review fully meets LOT criteria, given that the program is broadly on track and the policy stance has not changed. The Policy Coordination Instrument (PCI)- supported program has helped the authorities maintain the reform momentum and enhance macroeconomic stability. Given the authorities commitment and Cabo Verde's strong performance, we support the completion of the first review under the program, and the modification of quantitative targets for the second and third reviews. However, we should keep in mind that global developments would affect the feasibility to meet the new targets. In fact, the authorities estimate a GDP reduction of 4 percent due to the impact of Covid-19 for 2020. We take positive note that staff and the authorities are working on a revised macroeconomic baseline.

Cabo Verde's economy is growing at the fastest pace since 2008, while preserving macroeconomic stability. As Mr. Bevilacqua and Mr. Fachada indicate in their statement, Cabo Verde shows a strong track record on building strong institutions, improving governance, and enforcing the rule of law. Continuous investment on physical and human capital has been paying off. Since 1980, real income per capita has increased six-fold, poverty has declined, and economic activity has diversified with strong performance of tourism, commerce, manufacturing, public utilities and more recently construction and transportation. The external position continued to improve in 2019, with the current account deficit declining to 0.2 percent of GDP in 2019, contributing to the buildup of international reserves. This seems to confirm that Cabo Verde's external position is broadly consistent with fundamentals.

We commend the authorities for exceeding the September 2019 primary surplus target. Nonetheless, under-execution of public investment remains a concern, and fiscal revenue experienced shortfalls in several categories. We encourage the authorities to assess the recently completed review of tax exemptions to identify those potentially subject to reversal, and redouble efforts to collect tax arrears, including from SOEs. On a related point, we welcome that the 2020 budget submitted to Parliament is in line with commitments under the program.

On the creation of the Sovereign Private Investment Guarantee Fund (SPIGF) we notice a discrepancy regarding its impact on gross debt. On the one hand, staff, who participated in all the steps to create this institution, points out that it **would** increase public gross debt by 5.7 percent of GDP, and **may** raise debt service obligations, with implications for Cabo Verde's debt sustainability. On the other hand, the authorities express that the FSGIF (as called by the authorities) will **not** affect gross public debt and that when it be fully operational, would have a lending capacity equivalent to around 5.8 percent of GDP.

In this regard, we welcome the inclusion of the strategy on the operationalization of the SPIGF as a new reform target under the program which could help shed some light on this important issue. We understand that the authorities attach high importance to this Trust as a potential driver of much-needed foreign investment in the country.

We look forward to the establishment of a national commission to evaluate AMF/CFT risks by the end of 2020. Minimal loss correspondent banking relationships (CBRs) reflects Cape Verde's sound AML/CFT practices. However, the authorities should remain vigilant given the country's reliance on migrant deposits and remittances.

We commend authorities for the preventive measures taken to deal with the Covid-19 pandemic and we wish them and the people of Cabo Verde all the best in these difficult times.