

**EXECUTIVE
BOARD
MEETING**

EBS/22/42
Correction 1

June 10, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Cabo Verde—Request for an Arrangement Under the Extended Credit Facility**

Board Action: The attached corrections to EBS/22/42 (6/3/22) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views:

Pages 15 and 32

Questions:

Mr. Darius, AFR (ext. 34085)
Ms. Gumata, AFR (ext. 38928)

FINANCING AND PROGRAM MODALITIES

33. The Extended Credit Facility (ECF) will help address protracted BOP needs stemming from the impact of the pandemic and, more recently, the war in Ukraine. The effect of these shocks on the BOP are projected to persist with tourism expected to return to the pre-pandemic level at the end of the medium term, generating persistent downward pressure on reserves. The ECF arrangement provides financing to bolster reserves, help close the fiscal financing gap and support reforms under the authorities' development strategy. Reform implementation will also be supported by well-targeted capacity development from the IMF (Annex VI) and other donors.

Text Table 5. Cabo Verde: Impact of the Ukraine War on the Balance of Payments
(Millions of Euros, unless otherwise indicated)

	2022		Difference	
	Pre-war	War		percent of GDP
Current Account	-177	-273	-96	-4.9
Trade Balance	-615	-716	-101	-5.2
Services	192	169	-23	-1.2
Of which tourism	237	226	-11	-0.6
Primary Income	-74	-48	26	1.4
Secondary Income	320	323	3	0.1
Capital and Financial account	-192	-172	20	1.0
Overall balance	15	-100	-115	-5.9
Change in reserves (increase:-)	-15	100	115	5.9
of which IMF/ECF expected financing		28		1.5
Residual financing gap		0		0

Sources: Bank of Cabo Verde; IMF staff projections

34. Funding under the ECF will help close the financing gap and support a financing mix with greater reliance on concessional external financing (Text table 6). In the absence of the Fund program, high levels of domestic financing could lead to crowding out of the private sector, increase debt servicing costs to levels that could compromise medium-term sustainability, and leave the economy with insufficient reserve buffers to manage BOP challenges.⁷ In this regard, the remaining external financing gap for the 2022 budget will be filled mostly with concessional loans from multilateral institutions including the World Bank, AfDB, and other bilateral partners and a drawdown of the recent SDR allocation (about 1 percent of GDP) (MEFP18).

35. Staff considers access of SDR 45.03 million (190 percent of quota; around USD 63.37 million) (Table 10) under the 36-month ECF to be appropriate. The program will provide a policy anchor to the authorities' fiscal reform plan, including achieving a primary surplus that helps place debt on a sustained downward path, while addressing Cabo Verde's financing needs associated with the significant increase in the price of imports. The program will also support the gradual economic recovery from the COVID-19 and Ukraine war shock. Access is proposed to be frontloaded (some 95 percent of access in 2022, followed by equal purchases) to help buffer against the headwinds associated with the war in Ukraine, which are expected to be of greater magnitude during the first year of the program.

⁷The fiscal rule limiting domestic financing to 3 percent of GDP has been suspended by Parliament for 2022.

Table 7. Cabo Verde: Decomposition of Public Debt and Debt Service by Creditor, 2021-23¹

	Debt Stock (end of period)			Debt Service					
	2021	2021	2021	2021	2022	2023	2021	2022	2023
	(In US\$)	(Percent total debt)	(Percent GDP)	(In US\$)			(Percent GDP)		
Total	2885.2	100.0	143.0	174.5	204.8	210.7	8.6	9.4	8.9
External	2048.0	71.0	101.5	81.0	107.7	113.9	4.0	5.0	4.8
Multilateral creditors ²	1109.4	38.5	55.0	36.5	56.9	61.8	1.8	2.6	2.6
IMF	67.5	2.3	3.3	0.0	0.2	0.2	0.0	0.0	0.0
World Bank	523.4	18.1	25.9	5.9	12.1	12.3	0.3	0.6	0.5
African Development Bank Fund	263.2	9.1	13.0	14.6	26.4	28.4	0.7	1.2	1.2
European Investment Bank(incl.EEC)	36.6	1.3	1.8	4.4	0.9	0.8	0.2	0.0	0.0
Other Multilaterals	218.8	7.6	10.8	11.6	17.3	20.0	0.6	0.8	0.8
BADEA	42.4	1.5	2.1	3.3	9.4	11.7	0.2	0.4	0.5
CEDEAO	15.8	0.5	0.8	1.2	0.0	0.0	0.1	0.0	0.0
FAD	112.1	3.9	5.6	4.1	6.3	6.6	0.2	0.3	0.3
Bilateral Creditors	418.9	14.5	20.8	24.4	16.5	19.2	1.2	0.8	0.8
Paris Club	228.7	7.9	11.3	10.1	13.1	14.2	0.5	0.6	0.6
France	57.9	2.0	2.9	3.0	4.4	4.4	0.1	0.2	0.2
Japan	90.5	3.1	4.5	1.7	2.9	3.3	0.1	0.1	0.1
Other (Spa, Belg, Aus, Swed)	80.2	2.8	4.0	5.4	5.8	6.4	0.3	0.3	0.3
Non-Paris Club	188.3	6.5	9.3	14.3	3.4	5.1	0.7	0.2	0.2
Portugal	139.6	4.8	6.9	9.8	0.9	2.5	0.5	0.0	0.1
China	33.0	1.1	1.6	2.8	0.1	0.1	0.1	0.0	0.0
Kuwait	15.7	0.5	0.8	1.7	2.5	2.5	0.1	0.1	0.1
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	522.7	18.1	25.9	20.1	34.3	32.9	1.0	1.6	1.4
BPI	88.5	3.1	4.4	1.6	5.7	5.2	0.1	0.3	0.2
Caixa Geral Déposito (CGD)	427.9	14.8	21.2	18.0	28.5	27.6	0.9	1.3	1.2
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	837.2	29.0	41.5	93.5	97.1	96.8	4.6	4.5	4.1
T-Bills	5.1	0.2	0.3	0.0	0.1	0.0	0.0	0.0	0.0
Bonds	821.5	28.5	40.7	0.0	31.6	0.0	0.0	1.5	0.0
Loans	10.5	0.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0

^{1/} As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

^{2/}Multilateral creditors² 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 Arrear).