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To: Members of the Executive Board

From: The Acting Secretary

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

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CABO VERDE

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

June 3, 2022

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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	Sustainable
Application of judgement	No

Cabo Verde's risk of overall debt distress remains high, unchanged from the joint WB/IMF Debt Sustainability Analysis (DSA) of October 2020¹. The risk of external debt distress, on the other hand, is assessed at moderate, upgraded from the last DSA. The present value (PV) of public and publicly guaranteed (PPG) external debt-to-GDP ratio breaches its threshold only in 2022 under the baseline, and protractedly under stress test scenarios. The breach under the baseline is of shorter duration compared to the last DSA due to the GDP rebasing. Liquidity indicators (debt service to revenue and to export ratios) remain firmly below their respective thresholds under the baseline, reflecting the high concessional nature of Cabo Verde's external debt. The PV of total public debt-to-GDP ratio is projected to breach the threshold during 2022–28 under the baseline scenario and stress test; at the same time, The external and overall debt outlook is assessed to be sustainable and is predicated on several assumptions, including continued recovery of economic activity in 2022, a return to the pre-pandemic fiscal consolidation path as well as resumption of structural reforms, notably to restructure State-Owned Enterprises (SOEs) to reduce fiscal risks (including from contingent liabilities) and improve the 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 are also needed for long-term debt sustainability.

¹Cabo Verde's debt-carrying capacity is assessed as "strong" as in the previous DSA with a composite index score of 3.23, which is based on the October 2021 WEO and the 2020 CPIA.

PUBLIC DEBT COVERAGE

1. Coverage of the public sector is in line with the previous DSA (Table 1). Consistent with the fiscal accounts, social security funds and local governments are excluded from the DSA, while the coverage of extra budgetary funds (EBFs) is focused on government support to State-Owned Enterprises (SOEs) through on-lending and capitalization. Government guarantees to SOEs' external borrowing are included in the baseline stock of debt, but publicly guaranteed domestic debt and non-guaranteed debt by SOEs are not included. Efforts to broaden the coverage of public sector debt are ongoing, including under a World Bank project focused on SOEs.² External debt is defined on a residency basis.

2. Recent efforts to strengthen the quality and coverage of public debt data have shown results. As part of the Fund supported program, the authorities introduced a new system of recording and monitoring debt which resulted in more accurate and timely dissemination of information on public debt. This should help improve the quality and timeliness of data available to the authorities for planning and debt management purposes.

3. The contingent liability tailored stress test is amended to reflect gaps in the debt coverage discussed above (Table 1). First, the default shock of 0 percent of GDP for the components of general government not captured in the baseline stock of debt is raised to 0.2 percent of GDP to account for the size of publicly guaranteed domestic debt of local governments. The social security fund (INPS) financial position is strong, with minimal fiscal risk and the contingent liability stress test does not require adjustments for its exclusion. Second, the default shock of 2 percent of GDP for SOEs' debt is raised to 26.4 percent of GDP to reflect vulnerabilities associated with³ publicly guaranteed domestic borrowing by ELECTRA, TACV, IFH, ENAPOR, NEWCO, CERMI amounting to CVE 20.8 billion at end-2021 (10.4 percent of GDP); and (ii) non-guaranteed domestic debt of loss-making SOEs totaling CVE 34.3 billion (about 16 percent of GDP).⁴ Third, the default shock of 1.1 percent of GDP is kept for public private partnerships (PPPs). Fourth, given that most banks are foreign-owned and well-capitalized, Cabo Verde's financial sector does not exhibit significant vulnerabilities that warrant an upward adjustment of the default minimum value of 5 percent of GDP for the financial market shock.

²Efforts to expand debt coverage are supported by the World Bank through the Policy and Performance Action under the Sustainable Development Financing Framework. Specifically, the coverage of the quarterly public debt bulletin will be broadened to include debt of SOEs, the social pension fund, and guaranteed debt from municipalities.

³Government-guaranteed domestic borrowing of municipalities from the banking system stood at CVE 359 million at end-December 2021 (see Text Table 2 for more details).

⁴The total stock of non-guaranteed domestic debt stood at CVE 80.0 billion at end-2019, of which CVE 34.3 billion represented borrowing by eight SOEs that recorded negative net income in 2019 (ELECTRA, TACV, ICV, SCS, FIC, EHTCV, APN, and LEC). Data for 2020 and 2021 is not yet available.

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

Subsectors of the public sector	Check box
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	0.2	To reflect vulnerabilities associated with guaranteed and non-guaranteed domestic debt.
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	26.4	
4 PPP	35 percent of PPP stock	1.1	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
Total (2+3+4+5) (in percent of GDP)		32.7	

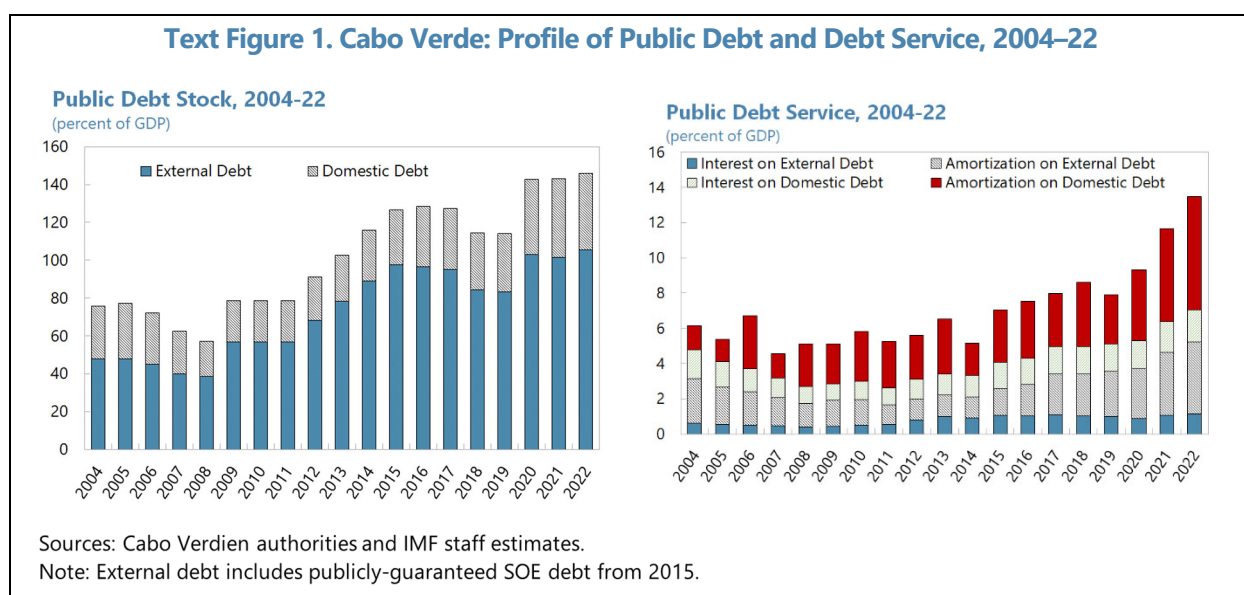
1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed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

BACKGROUND

A. Evolution and Composition of Public Debt

4. Prior to the COVID-19 crisis, Cabo Verde experienced robust growth driven by a thriving tourism sector and benefited from structural reforms, particularly in the SOE sector. Between 2016 and 2019, growth averaged 4.7 percent (3.4 in per capita terms). Favorable global conditions coupled with important structural reforms, mainly impacting the SOE sector, supported growth. The privatization efforts of the government helped support investor and consumer confidence. Public debt had decreased from its peak of 128.4 percent of GDP in 2016 to 115 percent in 2019. The poverty rate in 2019 was 10.2 percent (using US\$3.2 per day PPP in 2011).

5. The COVID-19 pandemic contributed to a substantial increase in external and overall public sector debt levels. Total public sector debt reached 143 percent of GDP at end-2021 up from 114 percent in 2019 (Text Figure 1). The large increase in the debt ratio reflected the substantial decline in output level and a higher public sector deficit of 7.3 percent of GDP, financed largely through increased external concessional borrowing mainly from multilateral institutions to cushion the economic effects of the pandemic. Recognizing the severe impact posed by the crisis, and despite limited policy buffers, the authorities rapidly implemented measures to contain and mitigate the impact of the pandemic, including a comprehensive vaccination campaign. As of April 2022, the country has one of the highest vaccination rates in Africa.⁵ The rebound in economic activity in 2021 resulted in a reduction in the poverty rate to 12.3 percent.



⁵Around 74 percent of the eligible adult population has received two doses, about 77 percent of eligible teenagers has received at least one dose, and boosters has been applied to 15.8 percent of eligible adults.

6. Cabo Verde's public external debt is highly concessional (Text Table 1). Multilateral Institutions are the main creditors with the World Bank and the African Development Bank accounting for about 27.3 percent of external public debt, while Portugal is the most significant bilateral creditor.⁶ The cost of servicing the debt is modest with an average interest rate of about 1 percent and average maturity of about 30 years. The exchange rate risk is low thanks to the peg with the external assessment pointing to undervaluation and the comfortable foreign currency reserve position.

Text Table 1. Cabo Verde: External Debt Profile by Type of Creditors, 2021

	Percent of GDP	Percent of external debt	Average maturity (in years)	Average interest rate
Multilateral	55	54.2	27.9	0.94%
Bilateral	20.8	20.5	18.9	1.01%
Commercial	25.9	25.3	20.0	1.59%

Source: Cabo Verdean authorities and IMF staff estimates.

7. Domestic debt consists mostly of medium and long-term Treasury securities. At end-2021, domestic debt accounted for 29 percent of total public debt (Text Figure 1), comprising mainly Treasury bonds (98 percent); with an average maturity and interest rate of about 7 years, and 4.5 percent respectively. Commercial banks hold 53.6 percent of domestic government securities, with non-banks holding 46.4 percent of which the national social security fund accounts for 22 percent.

8. External and total public debt service appears manageable. The ratio of public external debt service to exports reached 18.6 percent in 2021, reflecting the decline in exports due to the COVID-19 shock. The ratio is estimated to increase 2022 and decline thereafter in line with the recovery in economic activity. The ratio of public external debt service to revenue rose to 16 percent in 2020 and increased further to 22 percent in 2021 and is projected to average about 18 percent over the medium term and decline thereafter. Total public debt service absorbed about 41 percent of revenue and grants in 2022 and is projected to climb to about 49 percent in 2024 and steadily decline thereafter.

9. Publicly guaranteed debt stood at CVE 23.3 billion (11.9 percent of GDP) at end-2021 (Text Table 2). The State guarantee is mainly issued for SOEs' domestic debt. For 2021, the stock of publicly guaranteed domestic debt consists primarily of liabilities of ELECTRA, ENAPOR, IFH, TACV, NEWCO and CERMI to the domestic banking system; and borrowing by a few municipalities.⁷ TACV and NEWCO are the larger recipients of guarantees after 2019.⁸

⁶Commercial loans mainly consist of debt owed to Portuguese based Caixa Geral de Depósitos (CGD) under favorable terms: an average maturity of 20 years and average interest rate of 1.55 percent.

⁷The issuance and management of State guarantee is regulated by Decree-Law 42 of June 29, 2018, which clarified the entities that could benefit from guarantees and under which conditions. It also cut red tape by empowering the Ministry of Finance and Planning in authorizing up to CVE 50 million of guarantees per project.

⁸Annual 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.

Text Table 2. Cabo Verde: Publicly-Guaranteed Debt, 2018–2021

	2018			2019			2020			2021		
	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)	1,674	0.8	100.0	395	0.2	100.0	1,913	1.1	100.0	2,502	1.3	100.0
contracted by SOEs	1,674	0.8	100.0	395	0.2	100.0	1,913	1.1	100.0	2,502	1.3	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
Domestic Debt (B)	11,077	5.5	100.0	13,843	6.5	100.0	15,369	8.5	100.0	20,832.4	10.6	100.0
contracted by local governments	396	0.2	3.6	363	0.2	2.6	356	0.2	2.3	359	0.2	1.7
contracted by SOEs	10,681	5.3	96.4	13,473	6.3	97.3	15,004	8.3	97.6	20,474	10.4	98.3
contracted by private entities	0	0.0	0.0	8	0.0	0.1	9	0.0	0.1	0	0.0	0.0
Total Publicly-Guaranteed Debt (A+B)	12,751	6.3		14,238	6.7		17,283	9.6		23,335	11.9	

Source: Cabo Verdean authorities and IMF staff calculations.

10. Historical series of private external debt derived from international investment position (IIP) data indicate a stock of about 15.3 percent of GDP at end-2021. Private debt includes both bank and non-bank external debt.

11. Cabo Verde participated in the G-20 Debt Service Suspension Initiative (DSSI). The DSSI is a net-present-value (NPV) neutral exercise intended to provide eligible countries with liquidity relief from May 2020 -December 2021 to allow them to redirect resources in response to the COVID-19 pandemic. The DSSI provided around US\$15.4 million in debt service relief, including US\$2.9 million in interest in 2020. The G-20 extended the DSSI initiative until the end of 2021, which provided an additional US\$45.9 million in debt service relief. Portugal has agreed to provide additional debt service relief in 2022 of US\$1.3m. The debt service relief from the DSSI is captured in the baseline. Repayments to ensure NPV-neutrality will occur over 2022–25 and average about US\$15 million per year.

B. Outlook and Key Macroeconomic Assumptions

12. Compared to the last DSA (October 2020) the macroeconomic assumptions underlying the projections have been adjusted to reflect the lingering effects of the pandemic and the impact of the Ukraine-Russia crisis. The Ukraine war has increased inflationary pressures and reduced growth prospects in 2022, highlighting the structural vulnerability of the country to external shocks. The main transmission channels are higher international oil and food prices, as Cabo Verde imports about 80 percent of consumption products, domestic prices have increased in line with international developments. The authorities have announced a package of measures to help mitigate the impact of rising fuel and food prices on the most vulnerable. The package of measures includes the reduction of VAT on electricity from 15 to 8 percent and an increase in the energy subsidy to poor households 30 to 50 percent.

13. The level of GDP has been revised in line with the completion of the of the rebasing of the national account statistics to 2015 from 2007. The published data indicate nominal GDP about 10 percent higher than previous estimates, which reflected a more accurate measure of the services sector.

14. The projected medium and long-term real GDP growth is expected to be lower compared to the last published DSA (IMF Country Report No. 20/297) (Text table 3). Real GDP growth contracted by 14.8 percent in 2020 due to the impact of the COVID19 pandemic. Economic growth is estimated to have rebounded to 7 percent in 2021. It is projected to increase by 4 percent in 2022 (revised downwards from 6 percent due to the impact of the Ukraine war) and thereafter gradually stabilize around potential to reflect the more gradual recovery of lost output from the pandemic (Text Table 3). Relatively subdued near term economic growth is expected to be followed by more robust economic activity over the medium term supported by recovery of the tourism sector as the impact of the pandemic gradually wanes; and as the vaccine coverage provides confidence of Cabo Verde's ability to exit the pandemic.

15. Medium- and long-term growth will be supported by the successful implementation of structural reforms aimed at improving public sector efficiency, the business environment, and increasing access to finance. The authorities are developing a new five-year development strategy based on the recently completed 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 diversification by leveraging the potential of the blue economy; (iii) reducing informality; and (iv) facilitating access to finance, particularly for small and medium-sized enterprises. The implementation of key reforms will be supported through TA and investment from the World Bank and under the new ECF arrangement.

	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 - 31 Proj.	2032 - 42 Proj.
Real GDP growth							
Current DSA	4.0	4.8	5.7	5.5	5.0	4.5	4.5
2020 2nd PCI Review	4.8	5.7	6.0	6.2	5.5	5.5	5.5
GDP Deflator							
Current DSA	4.5	2.6	2.0	2.0	2.0	2.0	2.0
2020 2nd PCI Review	1.4	1.5	1.6	1.7	1.8	1.8	2.0
Fiscal balance (including grants)							
Current DSA	-6.3	-5.6	-4.0	-2.1	-0.9	-1.1	-2.9
2020 2nd PCI Review	-3.7	-1.8	-0.8	0.0	-0.2	0.1	0.3
Overall financing needs (including onlending)							
Current DSA	-7.0	-6.1	-4.1	-2.3	-1.1	-1.1	-2.9
2020 2nd PCI Review	-3.9	-2.0	-1.0	-0.2	-0.2	0.1	0.3
Current account balance (including grants)							
Current DSA	-14.1	-6.2	-5.9	-4.7	-4.6	-3.8	-3.4
2020 2nd PCI Review	-6.4	-4.1	-2.1	-1.8	-1.4	-0.9	-0.9
Total Debt/GDP Ratio							
Current DSA	145.9	139.7	132.5	124.0	116.2	98.9	76.1
2020 2nd PCI Review	130.0	122.8	114.9	106.3	98.9	79.4	46.1
Cv\$/USD exchange rate (e-o-y)							
Current DSA	98.5	96.9	95.8	95.0	94.5	94.2	94.2
2020 2nd PCI Review	93.1	93.0	93.0	93.1	93.1	93.1	93.1

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

- *Real GDP growth.* Cabo Verde's real GDP growth rate is projected at 4 percent in 2022 and 4.8 percent in 2023. Real output is projected to converge to the pre pandemic level in 2024 and the growth rate is projected to decline to about 5 percent through 2027. Over the long run, real GDP growth is projected to stabilize at 4.5 percent.⁹
- *Tourism services.* The framework assumes an initial gradual rebound of the tourism sector to reach the pre pandemic level by 2029. The impact of the Russia Ukraine crisis is likely to dent the pace of the near term rebound. However, recent increases in hotel capacity linked to the opening of new hotels will support a sustained increase in tourism arrivals over the medium to longer term.
- *Inflation.* Inflation is projected to increase to 6.5 percent in 2022 in line with the recent uptick in fuel and commodity prices, due to the impact of the Russia-Ukraine crisis. For the remainder of the projection period, inflation is expected to gradually decline to reach 2 percent by 2024 in line with euro area forecast.
- *Public sector deficit.* The current framework is predicated on a slightly more delayed but still ambitious and steadfast fiscal consolidation path. The overall fiscal deficit is estimated to have improved slightly from 9.1 percent of GDP in 2020 to 7.3 percent of GDP in 2021 and is projected to improve further to 6.3 percent of GDP in 2022. The fiscal position is projected to gradually improve to a surplus of about 1 percent of GDP in 2027. The fiscal effort in the near and medium term is assumed to be underpinned by strengthened domestic revenue mobilization and expenditure restraint with an unwinding of COVID-19 related expenditures. Several revenue measures, such as invoicing electronically at least 50 percent of taxpayers for VAT, the increase in tobacco tax, and the concession of the airport management company, are expected to bolster revenue collections. Fiscal adjustment will be implemented with safeguards to protect and broaden support for the vulnerable. The projected improvement in the primary balance from a deficit of -5.1 percent of GDP in 2021 to a surplus of about 1 percent of GDP by 2026, combined with a reduction in government financial support to SOEs reflecting continuous reform efforts would bring total financing to about 1.2 percent of GDP by 2026.
- *Current account deficit.* Compared to the previous DSA, the external current account deficit is projected to be above 3 percent of GDP from 2022-2026. The baseline scenario assumes a current account deficit of 14.1 percent in 2022 and 6.2 percent in 2023. This reflects the protracted impact of the pandemic, the impact of higher fuel and commodity prices, as well as the significant ongoing investments in the tourism sector. The current account deficit is projected to decline to about 4.2 percent of GDP in 2027 supported by continued strong recovery in the tourism sector and steady growth in remittances. Strong export performance and increased remittances, together with higher FDI inflows and IMF financing under ECF would help sustain international reserves at about 5 months of prospective imports.

⁹The long term historical average growth rate (1980-2000) was 4.7 percent and 5.2 percent if 2020 is excluded, while the five-year pre-pandemic average growth rate stood at 4 percent.

16. The DSA assumes a financing mix consistent with a prudent borrowing strategy, emphasizing external financing on concessional terms, in the near term with the share of domestic debt remaining broadly stable at about 30 percent. Financing for the revised 2022 budget will be filled mostly with grants and concessional and semi-concessional loans, mainly from multilateral institutions including the World Bank, African Development Bank, other bilateral partners, and draw-down of the recent SDR allocation. Multilateral and bilateral funding for budget support of US\$43.8 million (2.2 percent of GDP) is expected to be provided during 2022. The DSA is premised on continued concessional foreign 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 that would account for 96 percent of the stock in the medium term, in line with the profile of domestic debt portfolio at end-2021. The average interest rate is set to 1 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 inflationary pressures that could affect the entire yield curve. Finally, the authorities have drawn down the US\$32 million (1.5 percent of GDP) of the recent SDR allocations to finance the 2022 and 2023 budget.

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

- The realism tools indicate that the fiscal adjustment path is ambitious, but staff are of the view that it is achievable through a combination of measures including strengthening of domestic revenue mobilization, expenditure restraint and the unwinding of COVID-19 related expenditures from 1.8 percent of GDP in 2021 to 1.6 percent of GDP in 2022. The proposed primary balance adjustment path of about 3.6 percent of GDP over 2022-2024 is in the top quartile of the historical distribution for LICs. However, the authorities have identified several policy measures which they estimate could increase revenue collections by close to 1 percent of GDP (detailed in the ECF request). The frontloading of policy measures provides a strong basis for the central government to achieve its goal of reducing the fiscal deficit to 4 percent of GDP by 2024. The adjustment will be supported by relatively robust near-term growth that are above the pre-pandemic historical average as the framework anticipates a steady and strong rebound from the COVID-19 pandemic. 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, while price and exchange rate changes are projected to exert downward pressure on debt accumulation also in line with the historical experience. For total public debt, the projected

contribution of real GDP growth to public debt reduction is significantly higher compared to the historical five-year change, reflecting higher forecasted near-term growth rebound from the effects of COVID-19. Continued fiscal consolidation efforts and restructuring of SOEs will limit the contribution of the primary deficit to public debt accumulation relative to what the past five years would suggest. Unexpected changes in the 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 2022 and 2023 is in line with the multiplier-based projections. 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 initial strong rebound in economic activity from the effects of the pandemic, on account of strong activity in the tourism and transportation sectors. In addition, additional growth impetus is expected from reforms aimed at transforming Cabo Verde into an air and maritime transportation hub in the medium term, under the strategic plan for sustainable development (PEDS).
- 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 previous 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 hover around 4 percent of GDP in the medium term broadly similar to the previous DSA, while private investment is expected to remain at about 40 percent of GDP on average over 2022-26.

C. Country Classification and Determination of Stress Test Scenarios

18. Cabo Verde's debt-carrying capacity is assessed as "strong" as in the October 2020 DSA for second review of the 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 2021 World Economic Outlook (WEO) vintage and the 2020 CPIA, the CI score for Cabo Verde stands at 3.23, which is slightly above the threshold of 3.05 applicable for a "strong" rating. The CI score reflects positive contributions from the CPIA (45 percent), international reserves (32 percent), world growth (13 percent), remittances (7 percent) and country real growth rate (3 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	3.776	1.45	45%
Real growth rate (in percent)	2.719	4.119	0.11	3%
Import coverage of reserves (in percent)	4.052	53.614	2.17	67%
Import coverage of reserves^2 (in percent)	-3.990	28.745	-1.15	-35%
Remittances (in percent)	2.022	10.705	0.22	7%
World economic growth (in percent)	13.520	3.137	0.42	13%
CI Score			3.23	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

DEBT SUSTAINABILITY ANALYSIS

19. The debt sustainability analysis relies, in addition to the baseline projections on the six standardized stress tests and the contingent liability stress test. While the former uses the default settings, the latter is customized to address potential vulnerabilities stemming from the incomplete coverage of public sector debt as explained in paragraph 2. 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 breaches its threshold only in 2022 and lies below the threshold for the rest of projection period (Figure 1, Tables 2 and 4). The breach under the baseline is of shorter duration compared to the last DSA due to the GDP rebasing. The risk of external debt is assessed as moderate, an improvement relative to the last DSA which was assessed as high risk of external debt distress. 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, peaking in 2022 for the former and 2023 for the latter as Cabo Verde commence

repayment of the principal on loans from the Portuguese bank Caixa Geral de Depósitos (CGD), and decreasing gradually thereafter.

21. The PV of PPG external debt-to-GDP ratio also breaches its threshold for an extended period under the stress test scenarios (Figure 1, Tables 2 and 4). Under the most extreme shock, to exports, it rises to just under 80 percent in 2024 before gradually decreasing but remains above the threshold of 55 percent of GDP up to 2032. The threshold is also breached under the remaining five standardized bound tests, albeit to different extents, and under the tailored combined contingent liabilities test from 2022-2031.

22. The PV of PPG external debt-to-exports ratio and debt service to export ratio exceeds the respective thresholds from 2023-2032 under the export stress test. The projected trajectories of PPG external debt burden indicators appear vulnerable to export and growth shocks and to a one-time depreciation 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.

B. Total Public Debt

23. The PV of total public debt-to-GDP ratio exceeds the 70 percent benchmark through 2028 under the baseline scenario (Figure 2, Tables 3 and 5). The prescribed benchmark is also breached up to 2029 under the six standardized bound tests and the tailored combined contingent liabilities test, with the combined contingent liabilities shock being the most severe. Furthermore, the debt outlook, as shown by the other public DSA indicators, is particularly vulnerable to growth shocks and to contingent liabilities associated with SOEs' debt which emerge as the most extreme shock.

C. Risk Ratings and Vulnerabilities

24. Cabo Verde's DSA is classified at "moderate" risk of external debt distress. The PV of PPG external debt-to-GDP ratio breaches its threshold in 2022 under the baseline scenario, thereby signaling a moderate risk of external debt distress and is particularly sensitive to export and growth shocks. However, it is projected to decline below the 55 percent threshold from 2023 onwards. The external debt service to revenue indicator is sensitive to a one-time depreciation that would result in an initial spike in the ratio.

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 to 2028, suggesting a high risk of debt distress. Debt service is projected to average about 43 percent of revenues over the next five years, which represents a large share of future fiscal revenues. Stress tests indicate that Cabo Verde is most vulnerable to a growth shock. Under such a shock, all three public debt indicators would be set on an explosive path. The risk of debt distress is partly mitigated by support from Portugal, the main bilateral creditor.

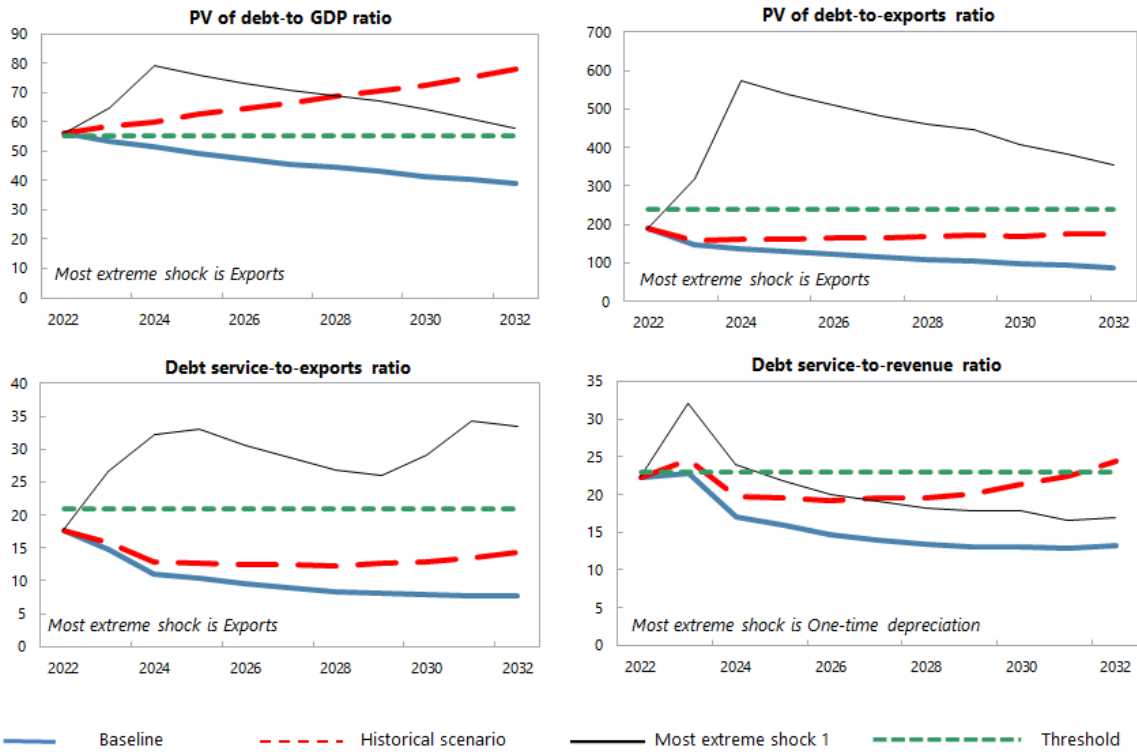
26. Heightened uncertainty over the global economic outlook suggests the need for a prudent approach that emphasizes macroeconomic stability, particularly fiscal discipline. High debt levels reduce the space for public expenditures in support of a robust and inclusive economic recovery. The authorities should prioritize further 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 how quickly the COVID-19 pandemic is contained domestically and globally and Cabo Verde's ability to withstand the effects of the Ukraine war. Likewise, higher oil prices and continued supply chain disruptions could hinder the economic recovery. However, Cabo Verde's impressive and strong commitment to good governance and transparency, coupled with a very successful vaccination campaign, should allow a gradual resumption of activity in the tourism sector. 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. The authorities agreed with the results of the DSA, and highlighted the challenges associated with reducing the debt stock given the frequency and magnitude of external shocks. The COVID-19 pandemic severely disrupted the planned fiscal consolidation path which would have resulted in a sharp decline in the debt stock. The pandemic exposed the structural challenges facing the economy, including heavy dependence on tourism, and vulnerability to exogenous shocks, which has been further magnified by the spillover effects of the Ukraine war and the ongoing drought. They indicated that the already limited fiscal space was exhausted by the health crisis, with the need to introduce measures to support the economy. They highlighted the impact of the recent increases in food and fuel prices triggered by the war in Ukraine on the vulnerable and which requires further interventions to mitigate the impact. The authorities however, reaffirmed their continued commitment to fiscal consolidation to preserve debt sustainability and reduce the risk of overall debt distress. In that regard they noted that the policies agreed under the new Extended Credit Facility and continued support from other development partners, notably the World Bank is critical for the success of the economic reform agenda. They highlighted the high uncertainties of macroeconomic assumptions particularly with the Ukraine war and welcome more direct Fund engagement on the available policy options. At the same time, the authorities indicated that they remain committed to prudent borrowing policies, and will work towards strengthening debt management practices, and improving the functioning of the government securities market, to enhance debt sustainability over the long term.

Figure 1. Cabo Verde: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2022–32



Customization of Default Settings		
	Size	Interactions
Standardized Tests		Yes
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices ^{2/}	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 for 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	1.9%	1.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	6	6

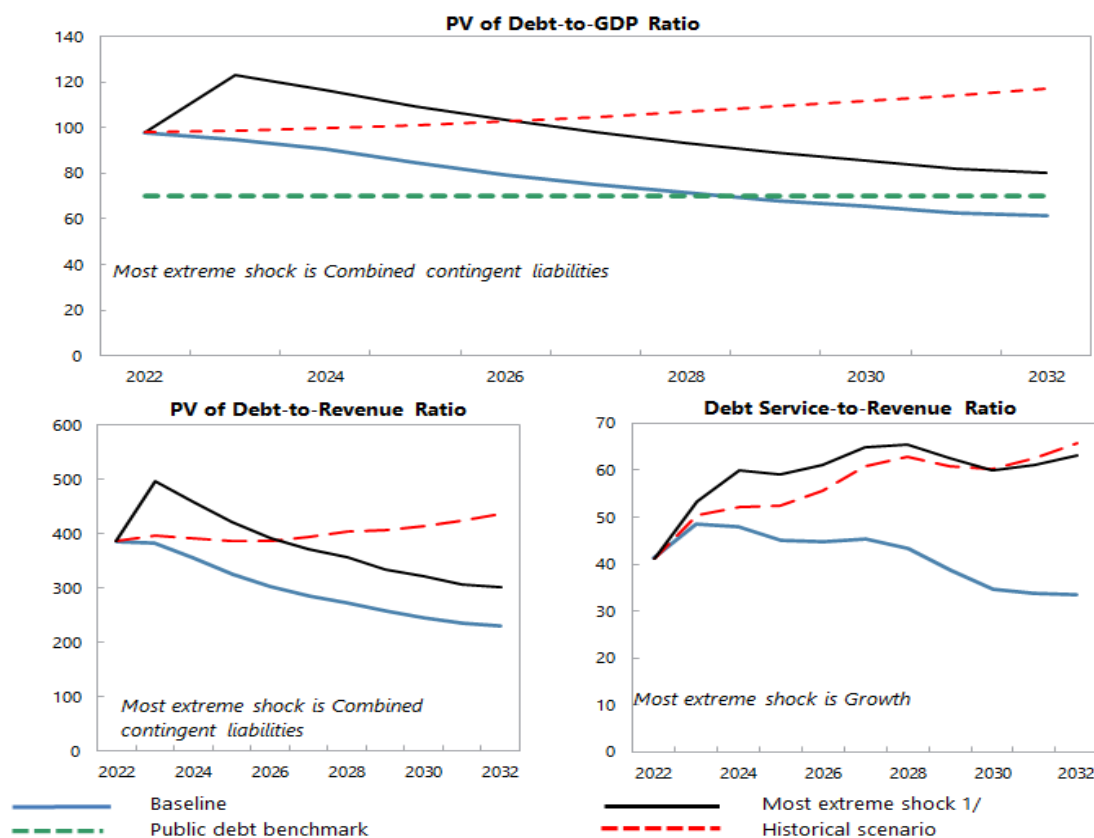
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2032. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme 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, 2022–32



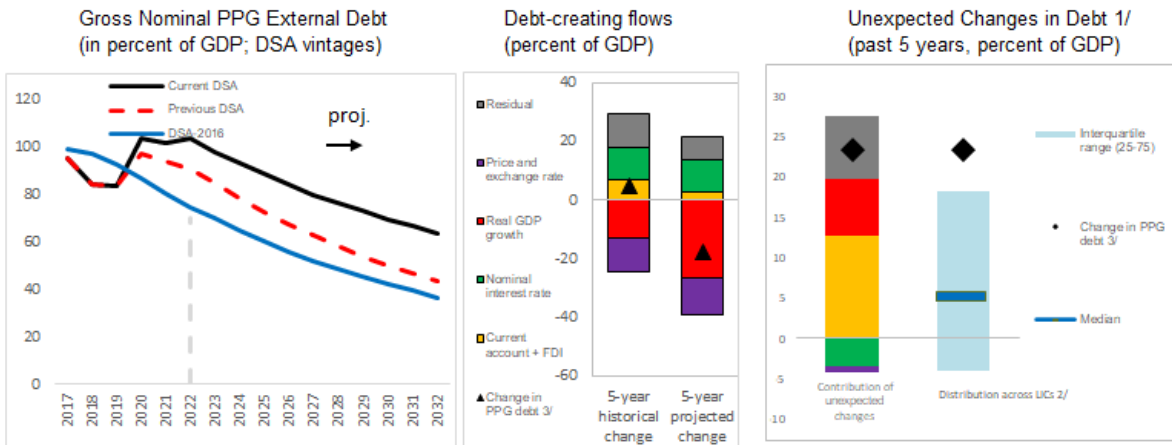
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	44%	44%
Domestic medium and long-term	55%	55%
Domestic short-term	1%	1%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.9%	2.9%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-1%	-1.0%

* 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.

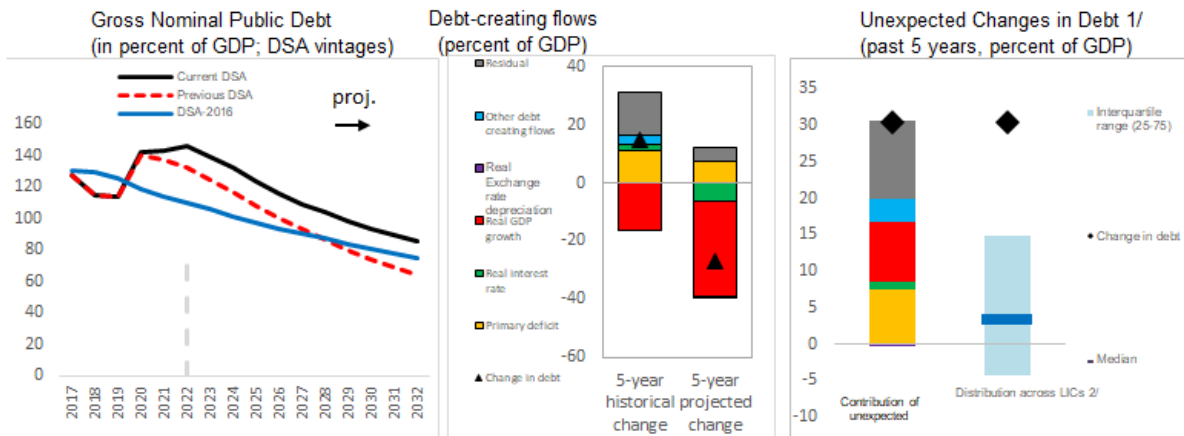
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. 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 extreme 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



Public debt



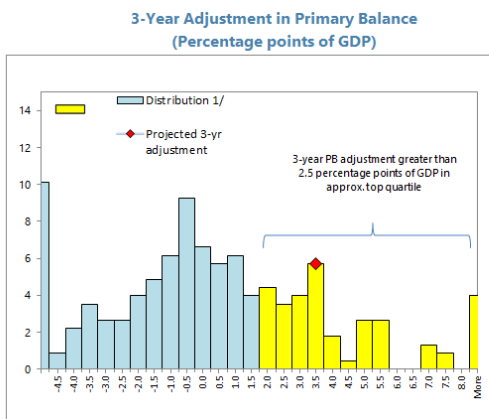
Sources: Country authorities; and staff estimates and projections.

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

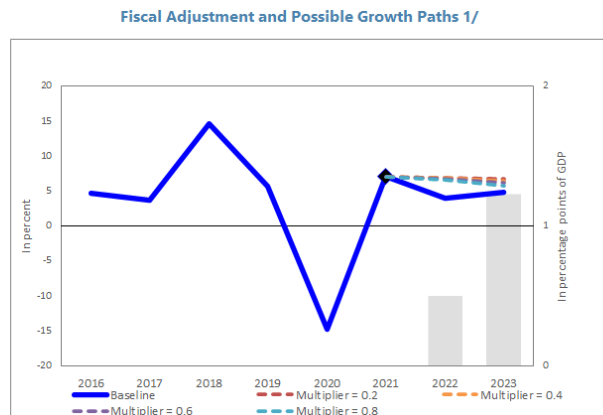
2/ Distribution across LICs for which LIC DSAs were produced.

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

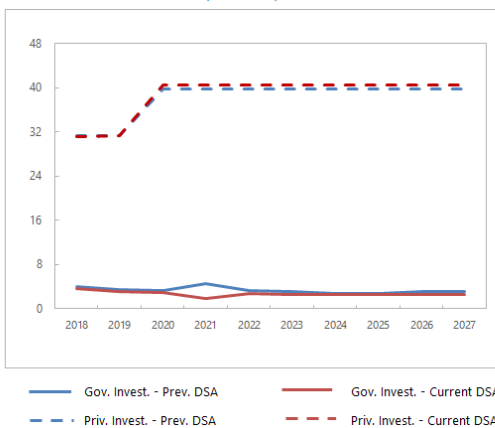


1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.



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 (% of GDP)



Contribution to Real GDP growth (percent, 5-year average)



Table 2. Cabo Verde: External Debt Sustainability Framework, Baseline Scenario, 2021–42
(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	119.4	122.4	116.6	111.7	106.8	101.1	96.0	75.7	40.5	103.9	97.5
of which: public and publicly guaranteed (PPG)	101.5	103.6	97.7	93.1	88.4	83.7	79.6	63.5	40.5	89.7	81.3
Change in external debt	-4.0	2.9	-5.8	-4.8	-4.9	-5.7	-5.1	-3.8	-3.3		
Identified net debt-creating flows	-6.3	5.6	-4.5	-4.1	-5.4	-4.5	-3.1	-3.2	0.1	1.0	-2.9
Non-interest current account deficit	8.8	11.7	3.6	3.8	2.6	2.6	2.2	1.3	2.8	4.9	3.2
Deficit in balance of goods and services	26.0	28.3	20.4	19.0	17.7	17.1	16.0	12.7	11.9	19.9	17.1
Exports	29.0	29.7	36.6	37.7	38.4	39.1	40.1	44.2	50.8		
Imports	55.0	57.9	57.0	56.7	56.1	56.2	56.1	56.9	62.7		
Net current transfers (negative = inflow)	-18.0	-16.6	-16.8	-15.9	-15.7	-15.2	-14.4	-11.9	-9.5	-16.0	-14.4
of which: official	-2.9	-2.1	-1.9	-1.3	-1.1	-1.0	-0.9	-0.7	0.0		
Other current account flows (negative = net inflow)	0.9	0.1	0.0	0.7	0.7	0.6	0.6	0.5	0.3		
Net FDI (negative = inflow)	-3.5	-3.8	-5.3	-3.9	-4.4	-4.1	-3.1	-3.0	-2.3	1.0	-2.9
Endogenous debt dynamics 2/	-11.7	-2.3	-2.8	-4.0	-3.6	-2.9	-2.2	-1.5	-0.3	-4.9	-3.6
Contribution from nominal interest rate	2.4	2.4	2.5	2.1	2.1	2.0	2.0	1.9	1.5		
Contribution from real GDP growth	-7.7	-4.7	-5.3	-6.1	-5.7	-5.0	-4.3	-3.4	-1.9		
Contribution from price and exchange rate changes	-6.5	...	...	...	...	...	...	...	...
Residual 3/	2.3	-2.6	-1.3	-0.7	0.5	-1.3	-1.9	-0.6	-3.4	4.1	-1.1
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	60.3	55.9	53.4	51.4	49.3	47.3	45.6	38.9	25.7		
PV of PPG external debt-to-exports ratio	208.1	188.4	145.7	136.3	128.4	121.0	113.7	88.1	50.6		
PPG debt service-to-exports ratio	13.4	17.7	14.7	11.0	10.3	9.5	8.9	7.8	5.5		
PPG debt service-to-revenue ratio	18.9	22.3	22.9	17.1	15.9	14.6	14.0	13.2	10.4		
Gross external financing need (Million of U.S. dollars)	227.7	314.1	119.5	137.4	97.1	103.8	127.1	125.1	348.3		
Key macroeconomic assumptions											
Real GDP growth (in percent)	7.0	4.0	4.8	5.7	5.5	5.0	4.5	4.5	4.5	2.4	4.7
GDP deflator in US dollar terms (change in percent)	5.5	-1.6	4.1	3.4	3.0	2.7	2.3	2.0	1.9	-0.7	2.2
Effective interest rate (percent) 4/	2.2	2.0	2.3	2.0	2.0	2.1	2.1	2.5	3.7	2.5	2.2
Growth of exports of G&S (US dollar terms, in percent)	44.5	4.7	34.5	12.5	10.7	9.8	9.7	8.5	8.6	1.9	11.4
Growth of imports of G&S (US dollar terms, in percent)	15.1	7.8	7.3	8.6	7.4	8.1	6.8	7.6	7.7	-0.5	7.3
Grant element of new public sector borrowing (in percent)	...	37.1	37.8	37.9	37.9	33.6	33.6	30.0	30.1	...	34.4
Government revenues (excluding grants, in percent of GDP)	20.6	23.5	23.6	24.4	24.9	25.4	25.7	26.0	26.9	22.8	25.1
Aid flows (in Million of US dollars) 5/	174.2	188.9	197.9	204.3	191.0	151.2	144.6	161.9	274.5		
Grant-equivalent financing (in percent of GDP) 6/	...	4.4	3.9	3.7	3.2	2.4	2.2	1.7	1.6	...	2.7
Grant-equivalent financing (in percent of external financing) 6/	...	50.5	46.7	46.5	47.1	44.7	44.7	39.2	40.3	...	45.1
Nominal GDP (Million of US dollars)	2,112	2,161	2,356	2,574	2,796	3,015	3,224	4,447	8,424		
Nominal dollar GDP growth	12.9	2.3	9.0	9.3	8.6	7.8	7.0	6.6	6.4	1.8	7.0
Memorandum items:											
PV of external debt 7/	78.3	74.7	72.2	70.0	67.7	64.7	62.1	51.2	25.7		
in percent of exports	269.9	251.6	197.1	185.7	176.3	165.4	154.8	115.8	50.6		
Total external debt service-to-exports ratio	18.6	22.4	18.5	14.6	13.7	12.8	12.1	10.2	7.2		
PV of PPG external debt (in Million of US dollars)	1274.7	1208.5	1257.2	1322.3	1378.6	1426.6	1470.1	1729.8	2168.9		
(Pvt-Pvt-1)/GDP-1 (in percent)	...	-3.1	2.3	2.8	2.2	1.7	1.4	1.3	-0.9		
Non-interest current account deficit that stabilizes debt ratio	12.9	8.8	9.4	8.6	7.5	8.3	7.2	5.1	6.1		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g) + \epsilon a (1+i)] / (1+g+p+g)$ 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; ϵ = nominal appreciation of the local currency; and a = 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.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

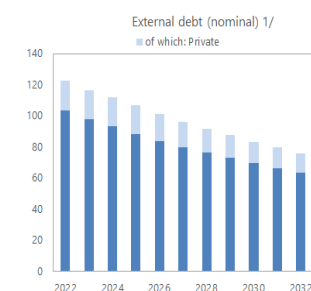
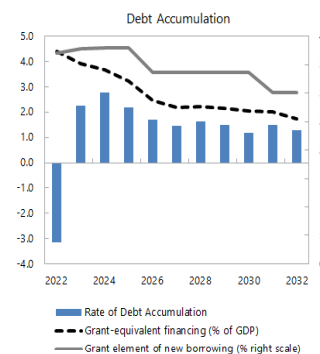


Table 3. Cabo Verde: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–42
(Percent of GDP, unless otherwise indicated)

	Actual		Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections	
Public sector debt 1/	143.0	145.9	139.7	132.5	124.0	116.2	109.5	86.0	66.1	120.6	112.6	
of which: external debt	101.5	103.6	97.7	93.1	88.4	83.7	79.6	63.5	40.5	89.7	81.3	
Change in public sector debt	0.4	2.9	-6.1	-7.2	-8.5	-7.8	-6.6	-3.2	-2.7			
Identified debt-creating flows	2.3	-3.6	-5.4	-6.9	-8.3	-7.6	-6.5	-3.0	-0.9	4.8	-5.5	
Primary deficit	4.8	4.3	3.1	1.2	-0.5	-1.0	-1.0	0.8	1.6	3.6	0.5	
Revenue and grants	22.6	25.4	24.8	25.5	25.9	26.3	26.5	26.5	27.5	25.4	26.1	
of which: grants	2.0	1.9	1.2	1.1	1.0	0.9	0.8	0.6	0.6			
Primary (noninterest) expenditure	27.5	29.7	27.9	26.7	25.5	25.3	25.5	27.3	29.1	29.0	26.6	
Automatic debt dynamics	-1.7	-8.0	-8.5	-8.1	-7.9	-6.6	-5.4	-3.8	-2.5			
Contribution from interest rate/growth differential	-11.2	-10.7	-7.4	-7.5	-7.2	-6.1	-5.2	-3.8	-2.5			
of which: contribution from average real interest rate	-1.9	-5.2	-0.8	0.0	-0.3	-0.2	-0.2	0.1	0.4			
of which: contribution from real GDP growth	-9.3	-5.5	-6.6	-7.5	-6.9	-5.9	-5.0	-3.8	-3.0			
Contribution from real exchange rate depreciation	9.5	...	...	...	...	...	...	...	...
Other identified debt-creating flows	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	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			
Debt relief (HIPC and other)	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Residual	-1.9	9.2	-1.9	-0.9	-0.9	-0.6	-0.5	-0.2	-1.8	1.7	0.3	
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	104.7	97.9	95.0	90.5	84.7	79.6	75.5	61.4	51.3			
PV of public debt-to-revenue and grants ratio	462.6	385.8	383.2	355.1	326.4	302.3	285.1	231.4	186.3			
Debt service-to-revenue and grants ratio 3/	41.0	41.3	48.5	48.0	45.1	44.6	45.5	33.5	32.2			
Gross financing need 4/	14.1	14.6	14.7	13.4	11.2	10.7	11.0	9.6	10.5			
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	7.0	4.0	4.8	5.7	5.5	5.0	4.5	4.5	4.5	2.4	4.7	
Average nominal interest rate on external debt (in percent)	1.0	1.0	1.2	0.9	0.9	0.9	1.0	1.2	1.6	1.2	1.1	
Average real interest rate on domestic debt (in percent)	2.8	-0.4	1.9	3.0	1.4	1.5	1.6	2.0	2.3	2.5	1.7	
Real exchange rate depreciation (in percent, + indicates depreciation)	10.2	...	...	...	...	...	...	...	...	2.8	...
Inflation rate (GDP deflator, in percent)	1.8	4.5	2.6	2.0	2.0	2.0	2.0	2.0	1.9	0.7	2.3	
Growth of real primary spending (deflated by GDP deflator, in percent)	-5.2	12.5	-1.7	1.1	0.8	4.3	5.1	7.4	3.0	0.9	4.7	
Primary deficit that stabilizes the debt-to-GDP ratio 5/	4.5	1.5	9.3	8.4	8.1	6.8	5.6	4.0	4.3	-5.9	5.6	
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			

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.

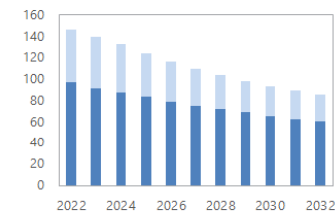
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (-): a primary surplus, which would stabilize the debt ratio only in the year in question.

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.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/

■ of which: local-currency denominated
■ of which: foreign-currency denominated



■ of which: held by residents
■ of which: held by non-residents

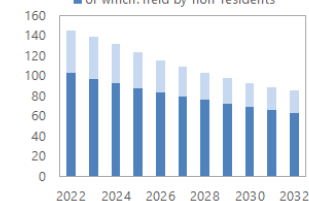


Table 4. Cabo Verde: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt 2022–32
(Percent)

	Projections										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to-GDP ratio											
Baseline	56	53	51	49	47	46	44	43	41	40	39
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	56	58	60	63	65	66	69	70	73	75	78
B. Bound Tests											
B1. Real GDP growth	56	59	63	60	58	56	54	53	51	49	48
B2. Primary balance	56	55	55	53	51	50	49	47	46	45	43
B3. Exports	56	65	79	76	73	71	69	67	64	61	58
B4. Other flows 2/	56	56	56	54	51	50	48	47	45	43	42
B6. One-time 30 percent nominal depreciation	56	75	67	64	61	59	57	56	54	52	51
B6. Combination of B1-B5	56	69	71	69	66	64	62	60	57	55	53
C. Tailored Tests											
C1. Combined contingent liabilities	56	64	62	61	60	59	58	58	56	55	54
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	188	146	136	128	121	114	109	105	97	93	88
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	188	159	159	163	166	165	169	171	169	174	176
B. Bound Tests											
B1. Real GDP growth	188	146	136	128	121	114	109	105	97	93	88
B2. Primary balance	188	149	145	137	130	123	119	116	107	103	98
B3. Exports	188	320	572	539	509	480	462	445	408	382	355
B4. Other flows 2/	188	154	148	139	132	124	119	114	105	100	95
B6. One-time 30 percent nominal depreciation	188	146	126	119	112	105	101	97	89	86	82
B6. Combination of B1-B5	188	271	167	306	289	272	261	251	229	217	204
C. Tailored Tests											
C1. Combined contingent liabilities	188	174	165	158	152	146	143	141	132	128	123
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	18	15	11	10	10	9	8	8	8	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	18	16	13	13	13	12	12	13	13	13	14
B. Bound Tests											
B1. Real GDP growth	18	15	11	10	10	9	8	8	8	8	8
B2. Primary balance	18	15	11	11	10	9	9	8	8	8	8
B3. Exports	18	27	32	33	31	29	27	26	29	34	33
B4. Other flows 2/	18	15	11	11	10	9	9	8	8	8	8
B6. One-time 30 percent nominal depreciation	18	15	11	10	9	9	8	8	8	7	7
B6. Combination of B1-B5	18	22	23	21	20	19	17	17	19	19	19
C. Tailored Tests											
C1. Combined contingent liabilities	18	15	12	11	10	10	9	9	9	9	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	22	23	17	16	15	14	13	13	13	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	22	25	20	20	19	19	20	20	21	22	24
B. Bound Tests											
B1. Real GDP growth	22	25	21	19	18	17	16	16	16	16	16
B2. Primary balance	22	23	17	16	15	14	14	13	14	14	14
B3. Exports	22	23	18	19	17	16	16	15	18	21	21
B4. Other flows 2/	22	23	17	16	15	14	14	13	14	14	14
B6. One-time 30 percent nominal depreciation	22	32	24	22	20	19	18	18	18	17	17
B6. Combination of B1-B5	22	24	21	19	18	17	16	16	19	18	19
C. Tailored Tests											
C1. Combined contingent liabilities	22	23	18	17	16	15	15	14	14	14	15
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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/ 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.

2/ Includes official and private transfers and FDI.

Table 5. Cabo Verde: Sensitivity Analysis for Key Indicators of Public Debt, 2022-32
(Percent)

	Projections										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	98	95	91	85	80	75	72	68	66	63	61
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	98	99	100	101	103	105	107	109	112	114	117
B. Bound Tests											
B1. Real GDP growth	98	106	117	115	113	112	112	111	112	113	114
B2. Primary balance	98	98	98	92	86	82	78	74	71	68	66
B3. Exports	98	106	118	111	105	100	96	92	88	84	80
B4. Other flows 2/	98	98	95	89	84	79	76	72	69	66	64
B6. One-time 30 percent nominal depreciation	98	118	111	103	97	92	87	83	79	76	74
B6. Combination of B1-B5	98	102	106	100	96	93	90	87	85	82	81
C. Tailored Tests											
C1. Combined contingent liabilities	98	123	117	110	103	98	93	89	86	82	80
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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.
Public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	386	383	355	326	302	285	273	257	246	235	231
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	386	397	391	387	388	393	404	408	415	423	437
B. Bound Tests											
B1. Real GDP growth	386	427	456	438	425	420	422	416	417	419	429
B2. Primary balance	386	395	385	353	327	309	296	278	266	254	250
B3. Exports	386	429	463	428	400	380	366	347	331	313	302
B4. Other flows 2/	386	396	372	343	318	300	288	271	259	248	242
B6. One-time 30 percent nominal depreciation	386	476	435	397	367	346	331	311	297	284	279
B6. Combination of B1-B5	386	412	412	385	364	349	341	326	316	307	306
C. Tailored Tests											
C1. Combined contingent liabilities	386	496	458	422	392	371	356	335	321	308	302
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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	41	49	48	45	45	45	43	39	35	34	33
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 1/	41	51	52	52	56	61	63	61	60	63	66
B. Bound Tests											
B1. Real GDP growth	41	53	60	59	61	65	66	62	60	61	63
B2. Primary balance	41	49	50	50	49	50	49	44	39	38	37
B3. Exports	41	49	49	48	47	48	46	41	39	42	41
B4. Other flows 2/	41	49	48	46	45	46	44	39	36	35	35
B6. One-time 30 percent nominal depreciation	41	54	56	54	54	55	54	50	46	46	47
B6. Combination of B1-B5	41	51	54	53	54	56	56	52	49	49	49
C. Tailored Tests											
C1. Combined contingent liabilities	41	49	65	61	60	61	60	55	44	43	42
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.