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INTERNATIONAL MONETARY FUND
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3:30 p.m., April 22, 2020

3. Cabo Verde—Request for Disbursement Under the Rapid Credit Facility

Documents: EBS/20/63, and Cor. 1, and Cor. 2, and Sup. 1

Staff: Kabedi-Mbuyi, AFR; Wiegand, SPR

Length: 31 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors	Alternate Executive Directors
	I. Mannathoko (AE)
	F. Sylla (AF)
	B. Lischinsky (AG)
N. Ray (AP)	
A. Bevilaqua (BR)	
	P. Sun (CC)
	J. Montero (CE), Temporary
L. Levonian (CO)	
	C. Just (EC)
A. Buisse (FF)	
	K. Merk (GR)
S. Bhalla (IN)	
	A. Ribeiro Mateus (IT), Temporary
	K. Chikada (JA)
	M. El Qorchi (MD)
	F. Al-Kohlany (MI), Temporary
	T. Manchev (NE), Temporary
	J. Sigurgeirsson (NO)
	L. Palei (RU)
M. Mouminah (SA)	
	K. Tan (ST)
	P. Trabinski (SZ)
S. Riach (UK)	
	R. Farber (US), Temporary

C. McDonald, Acting Secretary
 K. Hviding, Summing Up Officer
 B. Zhao, Board Operations Officer
 M. McKenzie, Verbatim Reporting Officer

Also Present

African Department: C. Amo-Yartey, C. Cruz, A. Fedelino, M. Kabedi-Mbuyi, E. Mensah, F. Parulian, L. Pio Perez. Communications Department: G. Vilkas. Institute for Capacity Development: N. Feerick. Legal Department: D. Schwarz. Strategy, Policy, and Review Department: J. Wiegand. World Bank Group: J. Reyes. Executive Director: A. Andrianarivelo (AF), A. Mahasandana (ST). Alternate Executive Director: S. Geadah

(MI), R. N'Sonde (AF), P. Rozan (FF), B. Saraiva (BR). Senior Advisors to Executive Directors: M. Choueiri (MI), L. Marek (EC). Advisors to Executive Directors: M. Bernatavicius (NO), A. Biriukv (RU), E. Boukpepsi (AF), D. Fadhel (MI), H. Koh (GR), K. Kuretani (JA), A. Nainda (AE), D. Susiandri (ST), J. Yoo (AP), J. Al Saud (SA), E. Comolet (FF).

3. CABO VERDE—REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

Mr. Bevilaqua and Mr. Fachada submitted the following statement:

On behalf of the Cabo Verdean authorities, we would like to express our gratitude to management and the staff team for the timely response to their request for a disbursement under the Rapid Credit Facility (RCF) in the amount of 100 percent of quota (SDR 23.7 million). IMF financial support will help the authorities overcome the impact of the COVID-19 shock on the health system, the economy and the livelihood of the Cabo Verdean people. This support will play an important role in the authorities' comprehensive policy response to the pandemic and will reduce fiscal and external financing gaps projected for 2020. The authorities are confident that IMF financial assistance will catalyze additional bilateral and multilateral support, including from the World Bank, the African Development Bank and other development partners.

Engagement with the Fund

Less than one month ago, on March 30, the Executive Board completed the first review under Cabo Verde's Policy Coordination Instrument (PCI). Performance under the PCI has been strong, underscoring the authorities' commitment to robust macroeconomic policies and reforms. The quick consideration of the RCF request has been facilitated by this positive performance. This reveals the usefulness of the PCI for countries that did not have a balance of payments needs at time of approval, but are nevertheless vulnerable to exogenous shocks, as is the case of Cabo Verde with the current global pandemic.

At the time of the discussions between staff and the authorities for the first review under the PCI, the Cabo Verdean economy was in a period of cyclical and structural strength. Real GDP grew 5.7 percent in 2019, the fastest rate since 2008. Inflation was subdued while the fiscal accounts registered a 0.7 percent of GDP primary surplus last year. External indicators were also robust in 2019, with a current account deficit of just 0.2 percent of GDP and a substantial accumulation of international reserves (+ €133 million, equivalent to a 25.1 percent increase compared to end-2018).

Impact of the COVID-19 Pandemic

The macroeconomic scenario changed drastically as a result of the COVID-19 outbreak. As a small, open and tourism-dependent economy with

Western Europe as its main source market, Cabo Verde has been severely impacted by the pandemic even if the number of cases in the country has remained relatively contained. As of April 20, one fatality has been registered—a British tourist vacationing in the island of Boa Vista. There is a total of 67 cases, mostly in Boa Vista—the second main tourist destination but one of the less populated islands—including several employees of the hotel where the deceased had stayed.

The authorities have acted decisively to contain the contagion and even in Boa Vista, community spread appears to be limited. Still in February, the authorities prohibited the entry of tourists from affected countries and later in the month banned flights from/to Italy, an important source market. Flight suspensions were later extended to other countries, before the ban of all international flights in mid-March. Inter-island travel has also been suspended. In late March, the President declared a national state of emergency, now extended until May 2 for the three most affected islands and April 26 for the remaining islands. Non-essential activities, including businesses, schools, and universities are closed and public events are prohibited until further notice. The authorities have also implemented strict social distancing guidelines.

Projections under the authorities' baseline scenario suggest that real GDP growth for 2020 could decline from 5.5 percent, which was expected before the COVID-19 outbreak, to -5.8 percent. The authorities estimate a decline in tourist arrivals of about 60 percent when compared to 2019, with special impact in the second and third quarters of this year. Disruptions to production and services due to containment measures will impact several activities including transportation, retail, manufacturing and construction, among others.

The pandemic has created significant balance of payments needs. The reduction in tourism revenues and the postponement of foreign direct investment will only partially be offset by the decline in imports. Remittances, an important source of foreign exchange, are expected to drop significantly, especially as labor market conditions deteriorate in the countries with the largest Cabo Verdean communities. Staff's estimate of a total external gap slightly above 14 percent of GDP relative to the pre-COVID-19 scenario clearly illustrates the challenges faced by the authorities.

Policy Response

In response to the pandemic, the authorities have decided to implement a less restrictive fiscal policy. Health care spending, including the purchase of medical supplies and equipment, together with social protection are expected to increase by more than 1 percent of GDP. Social protection measures include support to informal sector workers and the population with no income, as well as the elderly—in many cases, these groups were previously supported by remittances sent by relatives living abroad, but this source of income has now become uncertain. The increase in healthcare and social expenditure will partially be compensated by reprioritizing capital spending and containing non-essential current spending. On the revenue side, the authorities project a significant drop in tax collection due to the contraction in economic activity and imports. To support the business sector and preserve jobs, the authorities have deferred certain tax payments up to the end of the year and are providing loan guarantees, especially for micro, small and medium-sized enterprises.

On the monetary and macroprudential fronts, the Banco de Cabo Verde (BCV) announced in March a series of measures to reduce interest rates, support the liquidity of the banking system and foster credit creation. The policy rate, as well as the overnight and the discount rates were cut to record lows while reserve requirements were reduced. The BCV also introduced a new long-term liquidity instrument with a maturity up to three years. In addition, the BCV implemented important prudential measures, including allowing banks to defer loan repayments on request by borrowers with a good standing for three months, and reducing temporarily banks' capital adequacy ratios until December 2021.

The authorities expect that the set of fiscal, monetary and macroprudential policies will help attenuate the impact of the crisis and support employment, businesses and households, especially the most vulnerable. Nevertheless, they stand ready to take additional actions as the situation evolves. Looking beyond the COVID-19 shock, the authorities are confident that, with the suspension of travel restrictions and the gradual resumption of global activity, the Cabo Verdean economy will be in a favorable position to grow again in 2021. However, they are aware that uncertainties about the duration and potential spread of the pandemic weigh on the country's recovery prospects.

Conclusion

The authorities remain fully committed to the medium-term objectives outlined in their 2017/2021 Strategic Plan for Sustainable Development (PEDS). They also remain committed to the PCI program, although recognizing that quantitative fiscal targets will need to be adjusted in the next review. As soon as the crisis recedes, they will resume policies and reforms to improve the fiscal position, put public debt back on a downward trend and further improve the business environment. The authorities continue to evaluate the engagement with the Fund as an important element bolstering their structural reforms efforts.

The COVID-19 pandemic is posing enormous challenges to the people and to the government of Cabo Verde. This is a small island state with limited resources and the authorities count on the support and solidarity of the international community to assist during this critical period, including through grants and external debt relief.

Mr. Kaya, Mr. Just and Mr. Marek submitted the following statement:

We thank staff for the informative set of reports and Mr. Bevilaqua and Mr. Fachada for their useful Buff statement. Cabo Verde will be adversely affected by the COVID-19 pandemic, in particular through the slowdown in the tourism sector, which is critical for the economy. The sharp decline in the FDI inflow will contribute to the widening of the current account deficit and worsen the BoP position. The contraction in growth and exports will weigh on the fiscal position, which will be further exacerbated by additional expenditures related to crisis-mitigation measures, resulting in estimated financing needs of 11.3 percent of GDP. We take positive note of the authorities' good performance under the PCI arrangement as well as their swift response to mitigate the impact of the pandemic and support their request for a disbursement under the Rapid Credit Facility in the amount of SDR 23.7 million (100 percent of quota).

The crisis-containment measures are well targeted, but public finances need to be kept in check. As already in 2019, the current DSA still indicates that the risk of external and total debt distress is high. While public debt is assessed as sustainable, it is expected to reach 137.4 percent of GDP at end-2020 and bringing it on a downward path will require substantial reform efforts in public spending and revenue mobilization, considering that the growth outlook is subject to high downside risks. In this regard, addressing inefficiencies of State-owned Enterprises (SOEs) is critical as well as

implementing measures supporting faster development in the tourism sector, including reforms of transportation services.

Additional financing will be pivotal to complement the RCF resources. As the RCF would cover about 15 percent of the projected BoP financing gap, substantial additional financial participation from external partners is needed. We are encouraged that the World Bank, EU and African Development Bank have announced that they would frontload their contributions. The authorities will need to take credible steps to ensure coverage of the residual financing gap.

The monetary and financial sector measures are broadly appropriate, but pockets of vulnerabilities need to be closely monitored. The loosening of the monetary policy stance and enhancing liquidity to the banking system are warranted at the current juncture. We also welcome the authorities' commitment to undergo an updated safeguards assessment and provide IMF staff with access to the central bank's (BCV) most recently completed external audit reports. Considering the high level of NPLs, we concur with staff that the BCV should enhance its NPLs reporting and monitoring activities, in particular to ensure that borrowers resume loan repayments and banks continue to carefully assess the credit quality of exposures.

Ms. Levonian, Ms. McKiernan and Mr. Sylvester submitted the following statement:

We thank staff for the concise report and Messrs. Bevilaqua and Fachada for their insightful buff statement. Prior to the onset of the COVID-19 pandemic, the Cabo Verdean authorities, with Fund support and the PCI, were making good progress in navigating Cabo Verde out of a difficult economic period. However, as a small, tourism-dependent state, Cabo Verde is now facing serious headwinds from the unfolding COVID-19 crisis. The authorities have responded proactively to contain the spread of the virus and mitigate its economic impact. They have requested support under the Rapid Credit Facility (RCF) to help address the huge fiscal financing gap and balance of payment needs that have emerged. We support the request for an RCF disbursement equivalent to 100 percent of quota. We offer the following additional comments.

We commend the authorities for their response to date to combat COVID-19, including through swift fiscal and monetary policy responses, including re-allocating non-priority current expenditures toward increased healthcare, social protection, and corporate sector support spending. It will be

important to continue to target the most vulnerable households and sectors of the economy in order to make efficient use of the fiscal policy response.

Looking further ahead, the authorities should refocus their efforts on reducing debt vulnerabilities. We note the challenges to fiscal space and that, if the pandemic persists longer than expected or the economic recovery is weaker than projected, Cabo Verde may face debt sustainability challenges. We note that Cabo Verde has contingent liabilities and welcome comments on the potential for any such liabilities to crystallize. We encourage the authorities to keep focused on debt sustainability and welcome their commitment—as stated in the Buff—to resume policies and reforms to improve the fiscal position and put public debt on a downward trend “as soon as the crisis recedes.” We hope that the use of international reserves can be avoided by sufficient multilateral and bilateral support being catalyzed.

We wish the authorities all the success in their efforts amid challenging conditions.

Mr. De Lannoy, Mr. Lischinsky, Mr. Moreno, Mr. Psalidopoulos and Mr. Tan submitted the following joint statement:

We thank staff for the concise and timely report and Mr. Bevilaqua and Mr. Fachada for their insightful Buff statement. Prior to the global pandemic, Cabo Verde’s economic performance had been robust, backed by strong macroeconomic policies under the PCI program. However, the virus outbreak locally has substantially lowered its growth prospects and is projected to worsen the fiscal and external positions. Against this backdrop and that public debt is deemed sustainable and the capacity to repay the Fund is adequate, we support Cabo Verde’s request for financial assistance under the Rapid Credit Facility (RCF) amounting to 100 percent of its quota to address the urgent Balance of Payments needs. We broadly concur with the staff appraisal and would like to offer the following points for emphasis:

We commend the authorities’ swift response to contain the outbreak. Various policy measures, notably in healthcare and prevention, that are supported by a reorientation of fiscal policies are much welcome. Given the increased spending amid a projected revenue shortfall, we appreciated the authorities’ initiative to free up some fiscal space by reallocating non-priority expenditures, etc. Adequate healthcare and social protection are key priorities and the authorities should be prepared to take further steps, if need be, including the effective implementation of well-targeted social programs to protect the most vulnerable people. We are also pleased that the authorities are

drawing from their past experience in responding to natural disasters and encourage them to sustain their reform efforts and strong performance under the PCI program.

The residual financing need remains a key challenge for the country. After taking into account the IMF's financial assistance, the country is still facing a net financing need of about 2.6 percent of GDP which is expected to be fulfilled by additional domestic borrowing. We would welcome staff's further elaboration on the likelihood that the authorities could secure financing from domestic sources. We welcome the loans and grants from the World Bank, the European Union and the African Development Bank and encourage the authorities to leverage on the RCF financing to mobilize additional grants and concessional loans from other development partners to fill the financing need. Given the high risk of debt distress, this is important to strengthen Cabo Verde's fiscal and debt sustainability in the long run.

Financial developments will merit continued attention given the high level of NPLs. As the crisis impact the ability of borrowers to repay their debt, we appreciate the authorities' call on banks to delay loan payments for borrowers affected by the consequences of the pandemic. Nonetheless, we share staff's recommendations to mitigate the associated risks and emphasize the need to ensure this measure is transparent and well-targeted. In this regard, we take due note of the authorities' clarification that the moratorium is only available to households and companies in good standing with their loan payment record at end-March 2020.

With these comments, we wish Cabo Verde success in their policy endeavors during this challenging time.

Mr. Sun and Ms. Cai submitted the following statement:

We thank staff for the informative reports and Mr. Bevilaqua and Mr. Fachada for the helpful Buff statement. The COVID-19 pandemic has put a heavy toll on Cabo Verde's economy, although the economic recovery was gaining momentum before the outbreak. Given the urgent balance of payments need and the satisfactory performance under the Policy Coordination Instrument (PCI), we support the authorities' request for a disbursement under the Rapid Credit Facility.

We welcome the authorities' swift reaction to cope with the pandemic, including preparing the National Contingency Plan and activating an emergency plan. We believe that well targeted policy measures supporting the

corporate sector and households, such as temporary tax relief, would be important at this stage. In the medium term, better revenue administration, including strengthening revenue collection capacity, would also be helpful. We encourage the authorities to continue strengthening the tax agency's administrative capacity and addressing the remaining vulnerabilities in the fiscal area.

To address the immediate challenges compounded by the COVID-19 pandemic, monetary policy relaxation by the central bank is necessary considering the rapidly evolving situation and heightened uncertainties ahead. More efforts are needed to improve the monetary policy transmission mechanism and enhance the resilience of the banking system. Although non-performing loans have declined in recent years, they remain high. Could staff comment on the possible impact of COVID-19 on NPLs, and whether staff have discussed with the authorities about plans to deal with higher NPLs if they materialize? We nevertheless encourage the authorities to continue strengthening NPL classification and loan provisioning, and boosting banks' capital when conditions permit, as these measures can better complement the efforts to fight the pandemic.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Sigurgeirsson and Mr. Bernatavicius submitted the following statement:

We thank staff for the set of reports, and Mr. Bevilaqua and Mr. Fachada for their helpful Buff statement. We note the authorities' commitment indicated in the LOI and Buff statement towards meeting the medium-term objectives set under the PCI program and swift policy actions aimed at containing the spread of the virus. Against this backdrop, we support the authorities' request for a disbursement under the RCF. We would like to emphasize three issues.

The performance under the PCI program approved last year has been strong. We particularly welcome the progress made in reforming the SOEs, as the situation in this sector has been an item of concern. Overall, economic growth in recent years has been robust, amid low inflation and improving fiscal and external position. Unfortunately, the negative economic impact of the COVID-19 is likely to be severe, due to significant reliance on the tourism sector.

Despite meaningful improvements in recent years, the risk of debt distress remains high. As public-to-GDP ratio remains well above 100 percent, there is a need to resume fiscal consolidation, once the pandemic passes. On the other hand, we note that despite elevated public debt levels, debt service indicators are considered manageable under various stress scenarios and that according to staff analysis public debt is assessed to be sustainable.

We welcome the authorities' commitment to undergo an updated safeguards assessment. We note that the authorities will provide Fund staff with the central bank's annual audit report and authorize the external auditors to hold discussions with staff. We agree with staff, that an adequate level of international reserves would provide confidence for the timely payment of RCF debt service obligations.

Mr. Ray and Mr. Yoo submitted the following statement:

We thank staff for their timely staff report and Mr. Bevilaqua and Mr. Fachada for their informative Buff statement, which outlines how the pandemic is affecting the economy as well as indicating the steps the authorities are undertaking to contain the spread of the virus and address the macroeconomic challenges.

We support Cabo Verde's request for financial support in the amount of SDR 23.7 million through a disbursement under the Rapid Credit Facility with the aim of meeting the country's urgent external and fiscal financing needs to mitigate the impact of the pandemic.

We note that this is about 15 percent of Cabo Verde's balance of payments (BOP) need and hope that Fund support can assist to catalyze additional donor support. We also note that the authorities intend to use a drawdown on international reserves to cover about 60 percent of the estimated BOP need. We would welcome staff's views on the authorities' intention and the adequacy of Cabo Verde's reserves to support the peg.

We are mindful that the risk of total and external debt stress is high, though public debt remains sustainable and the capacity to repay the Fund is adequate. We welcome the authorities' commitment to robust reforms and the existing PCI program.

Mr. Merk and Ms. Koh submitted the following statement:

We thank staff for a concise set of papers and Mr. Bevilaqua and Mr. Fachada for the informative Buff. The COVID-19 pandemic is likely to have a major economic impact on Cabo Verde, threatening hard-won gains in macroeconomic stability. The economic outlook has weakened significantly as the concurrent shock to the global economy is heavily affecting the tourism sector. In view of the resulting urgent balance of payments need, we support the authorities' request for a disbursement under the RCF equivalent to 100 percent of quota (SDR 23,7 Mio.). The recent completion of the first review under Cabo Verde's Policy Coordination Instrument (PCI) was helpful to assess the current request for Fund's disbursement. We would like to focus our comments on the following aspects:

Already high risks to debt sustainability have increased further. We therefore welcome the authorities' efforts to create some fiscal space by reallocating non-priority current expenditures and containing disruptions to their public investment program. Moreover, we highlight that debt is assessed to be sustainable only conditional on the implementation of prudent fiscal policies in the aftermath of the COVID-19 crisis. Against this background, we take positive note of the authorities' commitment to resuming the momentum interrupted by the health crisis in this area and to accelerate growth-enhancing reforms under the Plan for Sustainable Development (PEDS) as conditions permit, to support the return to the pre-COVID-19 medium-term outlook.

Owing to the impact of the COVID-19 pandemic, staff projects a BOP financing gap of around 197 Mio. EUR mainly on the back of substantially lower tourism receipts. We note that more than half of this gap is assumed to be met by a quite significant drawdown of foreign exchange reserves (-123 Mio EUR). At the same time, a still sizeable share (i.e. 40 percent or 30 Mio EUR) of the remaining gap would be covered by resources from the RCF and other IFIs. While reserves will remain well above traditional adequacy metrics and a drawdown appears justifiable, we nevertheless encourage the authorities to seek additional grants and concessional resources from development partners in order to avoid a further reserve drawdown should downside risks materialize.

Good financial governance of Fund resources should guide us also during extraordinary times like these, where pressures to act swiftly are high. We expect from the authorities and from staff to work towards ensuring that disbursed funds are used in a well-targeted, cost-effective and transparent manner.

Mr. Palei and Mr. Biriukov submitted the following statement:

We thank staff for the well-written report and Mr. Bevilaqua and Mr. Fachada for their informative Buff statement. Just a month ago Cabo Verde successfully completed the first review under the Policy Coordination Instrument (PCI). Economic performance was strong, and the authorities made substantial progress on structural reforms, notably, under the Plan for Sustainable Development (PEDS). The COVID-19 pandemic has brought multiple shocks to the Cabo Verdean economy. The global economic downturn and travel restrictions, combined with mitigating measures taken by the authorities to prevent a local outbreak, lead to recession and weaken external and fiscal positions. With these in mind, we support Cabo Verde's request for the approval of the RCF in the amount of 100 percent of quota.

We commend the authorities for a swift response to the pandemic. Fiscal policy has been appropriately loosened to finance additional healthcare measures, support the corporate sector and enhance social protection. Monetary policy has been eased even despite the fact that the currency peg to the euro imposes constraints on the BCV. We support the staff proposal to enhance reporting and monitoring mechanisms of non-performing loans (NPLs), given the high level of NPLs and granted delayed payments of loans without implications on provisioning.

While we commend the authorities for properly responding to pandemic-related shocks, it will be essential to revisit the medium-term objectives under the PEDS and the PCI and to adopt a strategy to safeguard hard-won macroeconomic gains. Staff estimate Cabo Verde's overall risk of debt distress as high with risks tilted to the downside. We agree that focus on debt sustainability remains essential.

We would appreciate it if staff could provide additional information about the debt composition and debt service payments to multilateral, bilateral, and commercial creditors in 2020-22. In particular, we are interested in more granular details on the situation with commercial creditors and how the Fund's financing compares with commercial debt repayments.

With these remarks, we wish the authorities success in facing challenges ahead.

Mr. Farber, Ms. Pollard and Mr. Grohovsky submitted the following statement:

Cabo Verde had been making good progress under their PCI, with strong growth, an improving external position, and a reduction in fiscal risks. The COVID-19 outbreak and related containment measures now threaten that progress, with output expected to decline 5.5 percent this year on the back of the lockdown measures and collapsing tourism from a previous projection of 5 percent growth. We therefore support the authorities' RCF request for 100 percent of quota and their efforts to contain the outbreak. We are hopeful that the gains made over the last several years are not lost during the crisis, especially if the crisis is worse than expected, and that progress continues after the crisis subsides, noting in particular the importance of fiscal consolidation and public financial management reforms. Importantly, the authorities will need to find a way to balance significant fiscal risks with the necessary crisis response to prevent further outbreaks or deterioration of the economic situation.

We note that the risk of debt distress is high and downside risks are considerable, with debt to GDP above 120 percent before the crisis hit and expected to hit 137 percent of GDP at end-2020. We support the necessary containment of spending by reprioritizing away from civil service and capital spending towards necessary health and social expenditures to deal with the outbreak. This is an area that will require close monitoring going forward, particularly if the growth rebound under the baseline scenario fails to materialize or if the COVID-19 outbreak lasts longer than currently anticipated. We note two key sectors are particularly vulnerable and may take time to recover – tourism and transportation – as well as the risk of a significant decline in remittance flows. Financial stability risks are also heightened, and we support staff's advice for prudence in loan payment delays. Staff comments on the ability of and measures taken by the authorities to service the high debt, particularly in an environment of major economic disruption, would be welcome.

We also note that the RCF will only cover a small amount of the financing gap, with the remainder to be covered by other donors and a drawdown of foreign exchange reserves. The drawdown in reserves seems appropriate but should not go beyond what is currently projected; donor support will therefore be critical. Could staff comment on how far along the authorities are in receiving both commitments and disbursements from development partners, noting that any shortfall would force reserves to cover the gap?

Mr. Geadah and Mr. Al-Kohlany submitted the following statement:

We thank staff for the useful report and Mr. Bevilaqua and Mr. Fachada for the helpful Buff statement. In light of the urgent balance of payments and fiscal financing needs arising from the impact of the COVID-19 pandemic, we support the Cabo Verdean authorities' request for a disbursement under the Rapid Credit Facility (RCF) in the amount of SDR 23.7 million, equivalent to 100 percent of quota. The RCF financing will cover part of the fiscal and balance of payment financing needs.

Prior to the outbreak of the pandemic, the economic performance had been robust, supported by strong macroeconomic policies, as evidenced by the strong performance under the Policy Coordination Instrument supported program. The pandemic has disrupted activity in this small island state and GDP is now expected to fall by about 5.5 percent in 2020. Tourism and the hospitality sector, the backbone of Cabo Verde's economy, is expected to be hard hit as tourist arrivals are estimated to decline by more than 60 percent if the current situation persists until end-September.

We note staff assessment that the external position is projected to deteriorate significantly, and gross international reserves to decline to about 5 months of imports by end 2020, down from the equivalent of 8 months of imports in 2019. Could staff indicate these levels in terms of the Fund's ARA metric? We would also appreciate staff comments on whether the recent developments could affect the exchange rate policy, and staff advice in this regard.

We support the authority's immediate fiscal priorities. We take positive note of the prevention and preparedness measures being implemented, and the actions taken to strengthen the health sector to enhance the country's preparedness for a potential outbreak. We also note the authorities' plans to revisit spending priorities to free up fiscal space including reallocating non-priority spending. The authorities are supporting the private sector and scaling up spending on social protection. We welcome the authorities' plans to make the fiscal stimulus measures targeted and temporary and encourage them to remain vigilant to the rising public debt level which is assessed to be at high risk of distress. The 2020 accommodative fiscal policy should be incorporated within a medium-term plan focusing on fiscal consolidation, with the objective of placing public debt on a downward trajectory.

We welcome the measures taken by the central bank and the Monetary Policy Committee to mitigate the effects of the pandemic on the banking system including by lowering the policy rate and enhancing liquidity in the banking system. We share staff's assessment that high NPL level poses risk, and we encourage the authorities to enhance its NPL reporting and monitoring mechanisms as part of the efforts to strengthen banking supervision.

Mr. Chikada, Mr. Trabinski, Mr. Danenov and Mr. Kuretani submitted the following joint statement:

We thank staff for the informative set of reports and Messrs. Bevilaqua and Fachada for their insightful Buff statement. We commend Cabo Verde's strong policy implementation under the Policy Coordination Instrument (PCI). However, the severe economic impact of the COVID-19 pandemic has led to urgent and large balance of payment (BOP) needs. While the country faces several challenges including high public debt and elevated levels of Non-Performing-Loans (NPLs), we support the request for disbursement under the Rapid Credit Facility, given the authorities' commitment to the program. We expect that the Fund's financial support will catalyze donor support and help close the residual financing gap. We would like to emphasize the following points:

Catalyzing additional support is crucial to cover the urgent BOP needs and ensure debt sustainability. We commend the authorities' policy response to contain the spread of COVID-19 pandemic and their commitment to mitigate its economic and social impacts, specifically those affecting the most vulnerable. According to the DSA, we note that the country's risk of external and total debt distress is high, while the granularity in the risk rating is sustainable. Given the fact that the debt sustainability is subject to considerable downside risks, it is crucial to treat the containment measures as temporary. Moreover, the authorities should ensure a well-targeted use of fiscal space and pay due consideration to the fiscal risks stemming from the pandemic. Timely multilateral donor support catalyzed by the Fund would be equally important to fill the remaining financing gap.

The authorities should focus on addressing the high NPLs levels. We note that the Monetary Policy Committee called on banks to grant delayed payment of loans without implications on NPLs and provisioning. In this regard, we concur with staff that the central bank should enhance its NPLs reporting and monitoring mechanisms, given their high levels.

Once the pandemic abates, we encourage the authorities to return to the pre-crisis policies, guided by the development goals set out in the Plan for Sustainable Development (PEDS). The authorities should accelerate growth-enhancing reforms after the COVID-19 pandemic. To this end, it will be imperative to advance fiscal consolidation and structural reforms, including by eliminating fiscal risks generated by loss-making SOEs. In this regard, we welcome that the authorities remain committed to their medium-term objectives under the PEDS and the PCI.

Ms. Mannathoko and Ms. Nainda submitted the following statement:

We thank staff for a concise report and Messrs. Bevilaqua and Fachada for their insightful Buff statement. Cabo Verde achieved important milestones in recent years, but the impact of the COVID-19 pandemic could reverse this progress. We commend the authorities on a solid governance and macroeconomic policy track record, with strong reform implementation under the policy coordination instrument (PCI), including notable progress with structural reforms that have contributed to robust growth, a low inflation environment and a steady improvement in the external balance before this global health crisis. Given the magnitude of the crisis, we recognize the urgent need for emergency financing to help address balance of payments needs.

We support the request for a 100 percent of quota disbursement under the Rapid Credit Facility. While Cabo Verde is generally susceptible to exogenous shocks, the impact of the COVID-19 pandemic will be significant. As a tourism dependent island economy, the sharp decline in tourism receipts and weaker-than-projected global economic conditions, alongside declining remittances are expected to result in a contraction of about 5.8 percent in 2020 compared to pre-crisis projected growth of 5.5 percent. Fund assistance should therefore aim to support a quick recovery. Cabo Verde's debt is sustainable, its capacity to repay the Fund remains adequate and it has no outstanding debt to the Fund. In view of the residual financing gap, we hope the RCF will catalyze support from other development partners to augment emergency financing.

Debt profile: While debt is assessed as sustainable, the risk of debt distress is high and exacerbated by the risks posed by COVID-19. Prior to the crisis, sustained revenue mobilization efforts contributed to an improved fiscal position, as did noticeable progress with the state-owned enterprise reforms. COVID-19 could however undermine this progress, with debt now expected to reach 137 percent of GDP at end-2020. We therefore urge the authorities to remain fully committed to prudent borrowing policies and encourage staff to

support the authorities' efforts to secure grants and concessional loans, and to strengthen debt management. We also highlight the importance of strong public financial management and expenditure controls and the need for a well-timed exit plan to be built into the COVID emergency strategy.

Monetary and financial policies: We support the accommodative monetary policy stance and measures to enhance liquidity in the banking system. We also endorse measures to encourage banks to renew, refinance, and restructure loans to individuals and businesses. Given the high level of non-performing loans (NPLs), we support staff in urging the authorities to enhance NPL reporting and monitoring mechanisms, and to ensure that alleviation measures are targeted at borrowers who were solvent and bankable prior to the crisis. We urge ongoing monitoring of broader financial stability risks, as an extended crisis could exacerbate these significantly; and encourage staff to assist authorities' efforts to conduct financial sector impact assessments of COVID-19 pandemic disruptions.

Post-COVID reform agenda: Beyond the immediate crisis, we welcome the indication in the Buff statement of the authorities' continued full commitment to the medium-term objectives outlined in their 2017/2021 Strategic Plan for Sustainable Development and to the PCI program (noting the inevitable post-COVID adjustments to fiscal targets). A growth-friendly fiscal consolidation and the reduction of contingent liabilities under the medium-term strategy will help the country return to a more sustainable fiscal path and reduce debt vulnerabilities.

With these remarks, we wish the Cabo Verdean authorities success in their efforts to address the impacts of the COVID-19 pandemic.

Mr. Mouminah, Mr. Alkhareif and Ms. Al Saud submitted the following statement:

We thank staff for the well-written report and Mr. Bevilaqua and Mr. Fachada for their helpful Buff statement. We concur with the staff appraisal and would provide the following remarks for emphasis.

We support the authorities' request for financial assistance under the Rapid Credit Facility (RCF) to meet urgent BoP needs. As a tourism-dependent small island state, the exogenous shock caused by the COVID-19 pandemic is expected to result in a severe economic contraction, significantly impacting the tourism sector and remittances, leading to significantly weakened external and fiscal positions, and increased social hardship. Also, the economy was on a solid footing before the crisis and the authorities had made some

hard-earned gains as a result of the reforms that were underway and supported by the PCI. In addition, fiscal financing needs to cover health and social protection expenses related to COVID-19 necessitate timely donors' support. In this context, the RCF arrangement should play an important catalytic role for financing from other development partners. While Cabo Verde is at high risk of debt distress and debt sustainability is subject to considerable downside risks, we note staff's assessment that public debt is sustainable and the capacity to repay the Fund is adequate. We are reassured that international reserves are adequate to support the peg and provide some buffers against external shocks.

We welcome the swift and effective measures taken by the authorities to limit the COVID-19 outbreak. Particularly, we encourage continued efforts to reallocate non-priority expenditures to create some fiscal space to cover necessary healthcare measures and mitigate its economic and social impact. Indeed, the COVID-19-related issues will adversely affect households' incomes and will raise unemployment. Therefore, we urge the authorities to stand ready to take all available measures to support the most vulnerable individuals and firms, provided that such measures should be well-targeted, temporary, and fully transparent. In this context, we welcome the authorities' consideration to staff's advice in continuing their efforts in improving banks' governance, monitoring, and reporting mechanisms to minimize risks from non-performing loans.

Looking ahead, once the COVID-19 crisis has subsided, we welcome the authorities' strong commitment to resume the swift implementation of the Policy Coordination Instrument (PCI) program. Resumption of the reforms to achieve development goals, safeguard hard-won macroeconomic gains and support inclusive growth will be important. We agree with the authorities that some quantitative targets will need to be reassessed. Indeed, resuming tourism activities, completing large infrastructure projects, and enhancing reforms implementation will help support returning Cabo Verde to its pre-COVID-19 trajectory. We encourage continued efforts to further strengthen debt sustainability.

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

Mr. Raghani, Mr. Sylla and Mrs. Boukpepsi submitted the following statement:

We thank staff for their report and Messrs. Bevilaqua and Fachada for their insightful Buff statement.

The Policy Coordination Instrument (PCI)- supported program has helped the Cabo Verde's authorities maintain the reform momentum and enhance macroeconomic stability. However, these gains are likely to be undermined by the effects of the COVID-19 pandemic. The global economic slowdown and travel limitations along with the adverse impact of the authorities' mitigation measures are putting pressures on public finances and external buffers in an economy highly reliant on tourism. Revenues are projected to decline, along with foreign direct investment and remittances. In this context, growth is expected to significantly contract in 2020 and the fiscal and external positions to deteriorate while COVID-19 related spending is being scaled up. We support Cabo Verde's request for a disbursement under the Rapid Credit Facility (RCF) equivalent to 100 percent of quota to help address the urgent balance of payments needs. As the RCF will cover 15 percent of the estimated financing needs, we hope that additional support from Cabo Verde's development partners will fill the remaining gap.

We commend the authorities for the swift measures taken to respond to the COVID-19 shock. The early formulation of containment, healthcare and treatment measures, notably under the National Contingency Plan, have been appropriate and have enabled the country to contain the local outbreak. In addition, we take positive note of the relief actions for the corporate sector, workers, households as well as the targeted social measures for the most vulnerable. Reallocating non-priority spending and tapping on the external buffers are important steps to accommodate COVID-19 related spending and the authorities should be commended in that regard. As for monetary policy, the recent loosening of the policy stance by Banco de Cabo Verde, is warranted to prevent liquidity shortages in the banking system. However as stressed by staff, it will be important to closely monitor developments, especially the effects of the temporary reduction of banks' capital adequacy ratios and the moratorium vis-à-vis the high level of non-performing loans.

We welcome the authorities' commitment to their medium-term macroeconomic objectives under their PCI-supported program. As the effects of the pandemic shock dissipate, it will be essential to continue building on the hard-won macroeconomic gains, pursuing efforts to ensure fiscal and debt sustainability and advancing with bold structural reforms to promote strong and inclusive growth.

With these remarks, we wish Cabo Verde and its people success in overcoming the shock caused by the COVID-19 pandemic.

Mr. Bhalla and Ms. Dhillon submitted the following statement:

We thank staff for the reports, and Mr. Bevilaqua and Mr. Fachada for their helpful Buff statement.

The performance under the PCI program approved last year was strong. But as a small, open and tourism-dependent economy the macroeconomic scenario changed drastically as a result of the COVID-19. We note the authorities' commitment to reforms and actions aimed at containing the spread of the virus and to their medium-term objectives outlined in their 2017/2021 Strategic Plan for Sustainable Development. We support the authorities' request for a disbursement under the RCF.

We note that the Debt Sustainability Analysis shows that Cabo Verde's risk of external and total debt distress is high. Public debt is expected to reach 137.4 percent of GDP at end- 2020 reflecting both higher borrowing and the decline in nominal GDP. Resuming the 99.4 percent of GDP debt levels by 2025 will need a rebound in tourism and domestic activities, and a resumption of planned reforms, especially as the country transitions to a post COVID scenario. At these debt levels, we would like to hear more from staff on whether they foresee a requirement to limit additional borrowing and the restructuring of debt for major creditors.

We welcome the authorities' commitment to updated safeguards assessment and that the authorities will provide Fund staff with the central bank's annual audit report and authorize the external auditors to hold discussions with staff.

With these comments we wish the authorities the best in their endeavors.

The Acting Chair (Mr. Zhang) made the following statement:

Cabo Verde is a small tourist-dependent island economy, which has been hit hard by the COVID 19 pandemic. The global economic downturn, travel restrictions, and the lockdown have led to social hardships and are very likely to result in a significant output loss and increased fiscal and external financing gaps. In your gray statements, you welcomed the authorities' swift action to stem the local transmission of the virus and the measures taken to help mitigate the economic and social impacts of the pandemic. While mindful of the public debt dynamics, the stability of the financial sector, and the transparent use of the funds, in your gray statements, you support the efforts to help Cabo Verde to cushion the impact of the crisis and to resume its

previously good growth prospects. With that, I look forward to a good discussion.

The staff representative from the African Department (Ms. Kabedi-Mbuyi), in response to questions and comments from Executive Directors, made the following statement: ¹

I would like to thank Directors for their questions and express my appreciation to the authorities, Mr. Bevilaqua, and his office for the continuous close collaboration. We circulated the staff responses to technical questions raised in the gray statements, so I will limit my remarks now to two main points, one general comment, and two remarks on the policy questions raised by Directors.

I would like to note that the key issues raised by the Board, namely, the coverage of financing generated by the economic impact of COVID-19, debt sustainability, and the use of reserves are at the center of the staff's dialogue with the authorities and are also at the center of the authorities' dialogue with Cabo Verde's other development partners.

From the outset, the authorities have been stressing the need to get mostly grants to address the financing needs generated by this crisis, to support their objective of keeping public debt on a declining trend and taking it to a level below 100 percent of GDP over the medium term. In the same context, they have been taking administrative measures, including through technical assistance, to continue enhancing revenue mobilization while keeping nonpriority spending in check. They have also been advocating for debt relief to free up fiscal space for priority spending and contain potential cuts in capital expenditure.

The sustained efforts made in the last four years to support macroeconomic stability, enhance growth prospects, and reduce regional disparities have produced encouraging results and have provided Cabo Verde with foundations on which they can resume growth efforts after the crisis.

Turning to the two policy issues raised by the Board. On the exchange rate, we do not anticipate that the recent developments will affect the exchange rate policy because, in our assessment, Cabo Verde has an adequate level of reserves, and Cabo Verde also has a line of credit with the Bank of Portugal that can help protect the peg. Nevertheless, we have been advising the authorities and supporting their approach to focus on seeking grants and concessional loans in order to contain potential loss of reserves.

¹ Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

The second issue is on debt management. It is true that Cabo Verde's stock of debt is high. However, it is mostly on highly concessional terms. Therefore, we do not foresee difficulties for Cabo Verde to service its debt. This being said, the authorities are engaging their bilateral creditors for debt relief, including in the context of the G-20 debt initiative. To our knowledge, the authorities have not taken any steps for a debt restructuring with their creditors.

Mr. Tan made the following statement:

We thank staff and Mr. Bevilaqua and Mr. Fachada respectively for the helpful reports and buff statement, as well as the written responses and clarifications today.

First of all, we share the observation by other Directors, that sound policies and reforms have put the country in a better position to face these challenging times. This is a commendable outcome, given that the recent progress is at risk of being eroded. It also gives us hope that the continuing efforts on this front will prepare the country for a faster and stronger recovery when the crisis is behind them. Further to our joint gray statement with four other Directors, we have some questions to add.

Like many other tourism-dependent island countries, we are deeply concerned with the socio-economic impact on Cabo Verde arising from the pandemic. This underscores the emphasis by several Directors on addressing the urgent social protection needs and leveraging the catalytic role of the RCF resources for additional external financing.

We do have one question for staff regarding whether broader lessons could be drawn from other tourism-dependent small island states on more targeted measures that could help to mitigate the impact, particularly on the informal sector operators and seasonal workers, in this case. Looking ahead, we wonder whether other tourism-dependent countries, such as Dominica, Grenada, and St. Lucia, will be coming to the Board soon. This will be helpful, as the acute social and economic impacts on these countries will continue to be felt long after they emerge from the health crisis.

We appreciate the staff's response to our technical question on the likelihood of domestic financing, which is limited to 3 percent of GDP. We would like to hear further from staff on whether that level of financing and beyond—assuming there are no legal restrictions—will be feasible under the current circumstances; and, if not, what more could be done to help the authorities, including other financing alternatives.

Lastly, the Policy Coordination Instrument (PCI) provides an important tool to anchor and signal the authorities' prudent policies and

reform efforts. We are encouraged by their commitment to the medium-term objectives under the Strategic Plan for Sustainable Development (PEDS) and PCI. We understand that much uncertainty remains and that staff may not have had a chance yet to discuss this in detail with the authorities. We wonder if the staff could share some preliminary thoughts on how the PCI reform objectives may be updated in the context of the current crisis. This would be helpful to the authorities as the crisis unfolds, including with a view on the most impactful areas that were identified as post-crisis reform efforts to increase the potential upside for the country going forward.

With that, we wish Cabo Verde and its people well.

Mr. Alkhareif made the following statement:

I would like to start off by thanking the mission chief and her team for the excellent work and Mr. Bevilaqua and Mr. Fachada for the insightful buff statement. We have issued a gray statement, in which we supported the authorities' request for the RCF, which will help to meet the urgent balance of payments needs. I will be very brief.

I would like to emphasize that we are reassured that the international reserves are adequate to support the exchange rate peg and provide some buffers against external shocks. I very much welcome the mission chief's remarks that seeking grants and fiscal adjustment will be important to preserve financial stability. And here, I also appreciate the remarks on the G-20 debt initiative. The IMF could play a role to encourage the authorities to seek debt relief from the G-20 partners to help improve the fiscal situation.

With these remarks, we wish the authorities every success in their future endeavors.

Mr. Merk made the following statement:

We thank staff for the concise set of papers and Mr. Bevilaqua and Mr. Fachada for the helpful buff statement. We have issued a gray statement, so I have only a few brief remarks.

First, we support the authorities' request for a disbursement under the RCF.

Second, the high risks to debt sustainability have increased further. We welcome that staff and the authorities keep a close eye on it, including by reallocating nonpriority expenditures. We welcome staff's opening remarks in that regard.

We encourage the authorities to seek additional grants and concessional resources from development partners in order to avoid a further reserve draw-down, should downside risks materialize, fully in line with the staff's remarks.

Lastly, we expect the authorities and staff to work toward ensuring that the disbursed funds are used in a well-targeted, cost-effective, and transparent manner.

Mr. Sylla made the following statement:

I would like to thank the staff for the report and Mr. Bevilaqua and Mr. Fachada for their buff statement. We issued a gray statement.

I just have one question, which is related to the country's airline, Cabo Verde Airlines. We all know the importance and the impact of that state-owned enterprise to the fiscal space of the country. I would like to ask if there are any mitigating measures for this company to handle this big crisis.

The staff representative from the African Department (Ms. Kabedi-Mbuyi), in response to further questions and comments from Executive Directors, made the following additional statement:

In terms of lessons from other countries, we have tried to do that. As a matter of fact, at the departmental level, we are exchanging ideas on what lessons we can have in terms of the peer learning, what is being done in the countries, and what has worked well. We will definitely look into that and advise the authorities to also learn from these lessons.

Cabo Verde, unfortunately, has experience with being hit by weather-related shocks, so they have had to deal with providing social protection programs and assisting the most vulnerable groups. This is done in conjunction and in collaboration with municipalities, so very close to where the vulnerable groups are located. This has been done before in a transparent and efficient way.

Regarding domestic debt, if the limit is lifted, there is potential for the authorities to issue more securities because our last assessment was that there was over-liquidity in the banking system, to the tune of around 15 percent of GDP. So there is room for the authorities to issue securities and increase their domestic debt, if needed. Our understanding is that there they are still hopeful to get more external financing in terms of loans and grants and mostly grants to also contain the borrowing in the domestic market, but there is definitely room for them to do so.

In terms of the PCI objective, we have not started this discussion in terms of reviewing the quantitative targets. The authorities have indicated their commitment to maintain the reform momentum. However, as the Board knows, most of them in privatizations have been put on hold, given the current circumstances. We hope to be working with the authorities in the coming days on the supplementary budget for 2020. So that would be the ground and the starting point to see how fiscal quantitative targets will be revised under the program, but this discussion has not started yet.

Regarding the airlines, what we understand is that, before this crisis, Cabo Verde Airline was really on the way to financial viability. Unfortunately, like most airlines, it is grounded now. The positive information we have heard is that they have not laid off their staff, so that is encouraging. The authorities indicated that they are discussing with the airlines. They are seeking to prepare a whole new financial approach because everything has now changed and has been negatively affected by the crisis. At this stage, mitigating measures have not been defined. The authorities are working toward that in terms of preparing a new business plan for the airline.

The staff representative from the Strategy, Policy, and Review Department (Mr. Wiegand), in response to questions and comments from Executive Directors, made the following statement:

I will add a couple of words on the question asked: What are the lessons learned for tourism-independent countries from this crisis? I think what we have learned at this stage is that small, open island economies are very vulnerable to external shocks—shocks to tourism; in some cases, shocks to commodities markets; also, shocks to capital flows, which quickly translate into financing needs. While at this stage we are busy with assessing emergency financing requests, going forward, we will surely draw broader lessons from the crisis, including for small states.

Mr. Bevilaqua made the following concluding statement:

I would like to start by expressing our appreciation to Ms. Kabedi-Mbuyi and all the African Department team for their partnership with the authorities and our office, and for putting together this request in a very short period of time. I also thank Executive Directors for their ample support to the RCF for Cabo Verde, through their written statements and their constructive comments this afternoon, which I will immediately convey to the authorities.

Mr. Chair, according to the World Economic Outlook projections released last week, Cabo Verde is expected to suffer in 2020 the second largest drop in GDP in Sub-Saharan Africa compared to 2019 - only lower than Seychelles. This gives a clear dimension of the challenges that the authorities are facing in the middle of the collapse in tourism, one of the

sectors that were most impacted at a global scale by the COVID-19 pandemic. The outbreak hit Cabo Verde in a moment when the economy was particularly strong, due in part to the favorable external environment but also due to early dividends from the structural reforms that the authorities have implemented in the last three to four years.

The priority of the authorities at this moment is to strengthen the health care system, protect lives, and limit the adverse impact of the crisis on employment and activity by providing financial support to firms affected by the necessary containment measures. The government is also providing support to workers in the informal sector and families with no income. Their policy response is large, timely, and well-targeted, as recommended by the Fund and documented by staff in their report.

The authorities are also preparing for the recovery phase once the pandemic is contained. They are aware that restrictions to global travel will probably continue for some time and that the pandemic may bring behavioral changes to the travel industry. In their baseline scenario, they are working with a gradual recovery in the tourism sector starting only in the fourth quarter of 2020.

Nonetheless, the crisis will leave legacies in Cabo Verde. The main legacy will certainly be a higher public debt burden. The authorities recognize that public debt is already high and will increase further in 2020. However, debt is highly concessional, with long maturity and sustainable, according to IMF and World Bank staffs. Even so, the fiscal effort necessary in forthcoming years to keep public debt at a sustainable path will unavoidably increase. This is the reason why the authorities are focused on efforts to cover their financing gap with grants, rather than loans.

They thank the European Union for the generosity in granting €5 million, as announced last Friday, to provide food security to vulnerable families in extreme poverty and to complement income for workers in the informal sector and the self-employed. The authorities are also discussing possible debt relief from bilateral partners.

Before closing, I would like to address a couple of additional issues. First, like in many other countries, the authorities are taking macroprudential measures to support the economy, including allowing banks to defer loan repayments on request by borrowers with a good standing. This is not unique to Cabo Verde. It's true that NPLs are comparatively higher in the country, but mostly due to issues going back to the global financial crisis and that have not been resolved so far. In any case, the authorities are fully aware that they need to maintain best practices in monitoring the evolution of NPLs.

Second, on good governance in the use of the RCF resources. Directors can be reassured that good governance and transparency are basic pillars of the fiscal administration in Cabo Verde. The country systemically ranks among the top 3 countries in governance and transparency indicators in Sub-Saharan Africa, with better rankings than many advanced economies.

I close my remarks thanking once again the staff team, management and the Executive Board for their support to Cabo Verde. The authorities have demonstrated their commitment to reforms in the recent past, generating great results. I am confident that they will be successful again with their crisis response.

The following summing up was issued:

Executive Directors noted that as a small tourist-dependent island economy, Cabo Verde is severely affected by the COVID-19 pandemic. The global economic downturn and travel restrictions have led to a sharp drop in tourism, remittances, and other inflows, and the measures taken by the authorities to limit local transmission have suppressed domestic economic activity. Directors observed that this had caused significant social hardship, as well as large balance of payments and fiscal financing gaps.

Directors welcomed the swift action taken by the authorities to contain the local spread of the pandemic, and to mitigate its economic and social impact, including by support to the private sector, and by providing liquidity in the banking system. They noted the efforts to free up fiscal space from non-priority expenditures and to channel financial support to the most vulnerable, drawing on previous experiences with natural disasters.

Directors noted that, beyond the crisis, the medium-term outlook remains broadly positive, with a resumption of global growth and tourism, improving external and fiscal positions and low inflation. They stressed, however, the need to carefully monitor the sustainability of public debt, the stability of the financial sector, including the high level of non-performing loans, and the transparent use of the funds. To consolidate the hard-won macroeconomic gains, they urged the authorities to continue to implement the reform program supported by the Policy Coordination Instrument.

Directors expected that the emergency financing under the Rapid Credit Facility would catalyze much needed support from other development partners. They called on the international community to help support Cabo

Verde cushion the impact of the crisis and to resume its strong inclusive growth.

The Executive Board took the following decision:

Cabo Verde—Request for Disbursement Under the Rapid Credit Facility

1. Cabo Verde has requested a loan disbursement in an amount equivalent to SDR 23.7 million (100 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.
2. The Fund notes the intentions of Cabo Verde as set forth in the letter from the Minister of Finance and the Governor of the Banco de Cabo Verde, dated April 14, 2020, and approves the disbursement in accordance with the request. (EBS/20/63, 04/16/20)

Decision No. 16764-(20/48), adopted
April 22, 2020

APPROVAL: October 28, 2022

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

External Sector Issues

1. *We note staff assessment that the external position is expected to deteriorate significantly, and gross international reserves to decline to about 5 months of imports at end-2020, down from the equivalent of 8 months of imports at end-2019. Could staff indicate these levels in terms of the Fund ARA metrics?*

- The result of the most recent reserve adequacy assessment (July 2019) using the Fund's LICs/MICs reserves template suggests an adequate level of reserves of about 3.6 months of prospective imports of goods and services for Cabo Verde. However, given fragilities in terms of country size, limited export diversification and vulnerability to exogenous shocks, staff called for a higher reserve level of about 5 months of imports for the medium term.

2. *Could staff comment on how far along the authorities are in receiving both commitments and disbursements from development partners, noting that any shortfall would force reserves to cover the gap?*

- Discussions between the authorities and Cabo Verde's development partners are advanced. They cover two main components: (i) pre-COVID-19 committed financing, expected to be disbursed in April/May for the World Bank, the EU and the African Development Bank; and (ii) additional grants and concessional loans to enhance the response to the health crisis.

3. *We would appreciate it if staff could provide additional information about the debt composition and debt service payments to multilateral, bilateral and commercial creditors in 2020-22. In particular, we are interested in more granular details on the situation about commercial creditors and how the Fund's financing compares with commercial debt repayments.*

- Cabo Verde's external debt obligations are mostly due to multilateral creditors (the World Bank and the African Development Bank) that on average, account for about 70 percent of the total stock of debt. There are no commercial loans for the medium term. In general, Cabo Verde's external debt is on highly concessional terms. Below is a table with details on debt service projections for 2020 -22.

Table 1. Summary of Projected External Debt Service For Public and Publicly Guaranteed Debt, 2020-22¹
(In Million USD, unless otherwise indicated)

	Debt Service		
	2020	2021	2022
External By Creditor Type			
Multilateral	36.11	40.07	44.58
Principal	29.65	31.84	35.39
Interest	6.46	8.23	9.19
Bilateral - Paris Club	9.79	12.35	12.50
Principal	8.26	10.59	10.66
Interest	1.53	1.76	1.84
Bilateral - Non-Paris Club	18.62	18.60	18.61
Principal	16.46	16.57	16.66
Interest	2.16	2.02	1.95
Other	12.00	18.35	31.24
Principal	0.00	10.29	23.41
Interest	12.00	8.05	7.83
TOTAL:	76.52	89.37	106.93
Sources: Cabo Verdean Authorities; and IMF Staff projections.			
¹ On disbursement basis.			

Fiscal Policy Issues

4. *We would welcome staff's further elaboration on the likelihood that the authorities could secure financing from domestic sources.*

- Under the current assumptions, domestic financing is limited to the maximum of 3 percent of GDP allowed under the law. There is potential for higher borrowing from the government securities market if this limit is lifted because the banking system is currently over-liquid.

5. *We note that Cabo Verde has contingent liabilities. We welcome comments on the potential for any such liabilities to crystalize.*

- The authorities have indicated that potential realization of contingent liabilities will depend on the severity and duration of the health crisis and the strength of the economic recovery thereafter. They are monitoring developments particularly for key SOEs that had contributed to contingent liabilities in recent years in the transportation, energy and housing sectors. Improvement in these SOEs' financial positions in 2019 is expected to help them address the impact of COVID-19.

Financial Sector Issues

6. *Could staff comment on the possible impact of COVID-19 on NPLs, and whether staff has discussed with the authorities about plans to deal with higher NPLs if they materialize.*

- A deeper than expected recession could weaken the asset quality of the banking system further. The authorities have indicated that monitoring of NPLs reporting will be enhanced during the implementation of COVID-19 related measures. More generally, they

have been working with banks and the judicial system in the past several years to address the issue of legacy loans linked to the 2008 global financial crisis, that account for more than 70 percent of NPLs.

- Staff has not discussed with the authorities, measures to address a potential increase in NPLs related to the economic impact of the COVID-19 pandemic.