FOR AGENDA

EBS/02/54

CONFIDENTIAL

March 22, 2002

To: Members of the Executive Board

From: The Secretary

Subject: **Cape Verde—Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility**

Attached for consideration by the Executive Directors is a paper on Cape Verde's request for a three-year arrangement under the Poverty Reduction and Growth Facility. This paper, together with the interim poverty reduction strategy paper (EBD/02/47, 3/22/02) and the associated joint staff assessment (EBD/02/48, 3/22/02), will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 20. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Cape Verde indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. G. Moser, AFR (ext. 37713) and Mr. T. Roy, AFR (ext. 35338).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the African Development Bank, the European Commission, and the European Investment Bank, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

CAPE VERDE

Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by Jean A. Clément and Shigeo Kashiwagi

March 21, 2002

- Two missions visited Praia during November 28–December 11, 2001 and January 28-February 2, 2002 to review performance under the August-December 2001 staff-monitored program (SMP) and discuss a medium-term program that could be supported by a new three-year arrangement under the Poverty Reduction and Growth Facility (PRGF).

- Cape Verde requests a three-year PRGF arrangement in support of the program, covering the period January 1, 2002–December 31, 2004, in an amount equivalent to SDR 8.64 million (90 percent of quota).

- The mission met with Prime Minister José Maria Neves, Finance Minister Carlos Burgo, the Governor of the Bank of Cape Verde, Olavo Correia, and other senior government officials. The staff also met with representatives from the private sector, trade unions, the donor community, nongovernmental organizations, and the chamber of commerce.

- The mission consisted of Mr. Moser (head), and Messrs. Olters, Zejan, and Roy (all AFR). The staff worked closely with Mr. van Houtte, the World Bank's country economist for Cape Verde. Mr. Ismael, from the Office of the Executive Director for Cape Verde, participated in the policy discussions.

- The authorities have agreed to the publication of the staff report, the letter of intent, and the memorandum of economic and financial policies.

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Appendices

I. Introduction

1. In the attached letter (Appendix I), **the Cape Verdean authorities request a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF)** in support of the program covering the period January 1, 2002-December 31, 2004, in the amount of SDR 8.64 million (90 percent of quota). The arrangement is in support of the policies and measures described in the memorandum of economic and financial policies (MEFP) attached to the letter and the interim poverty reduction strategy paper (I-PRSP) (EBD/02/__).[1] Table 1 summarizes the Fund position during the program period and Table 2 indicates the sequencing of the proposed purchases.

2. **On February 23, 1998, a 14-month Stand-By Arrangement was approved** by the Executive Board in an amount equivalent to SDR 2.1 million (30 percent of old quota). In May 1999, the Board extended the Stand-By Arrangement until December 1999 and raised the access to SDR 2.5 million (26 percent of new quota). In December 1999, the Board granted an additional extension until mid-March 2000. The authorities made no purchases under the program, and three reviews were completed in September 1998, May 1999, and March 2000.

3. **Cape Verde's relations with donors have improved recently, after souring in the run-up to the national and presidential elections in early 2001,** when the previous government loosened fiscal policies considerably and accrued sizable external payments arrears. Portugal—the largest bilateral donor—rescheduled Cape Verde's debt obligations and external arrears (US$29 million) in mid-2001, and reopened its hard currency credit line in support of the bilateral exchange rate arrangement. China also forgave its outstanding stock of debt (US$13 million), while Luxembourg pledged more than US$30 million in capacity-building and social sector support over the medium term. In addition, the World Bank approved a US$15 million structural adjustment credit in December 2001, and the European Union disbursed US$6 million in budget grants in the first quarter of 2002.

4. An analysis of Cape Verde's external debt situation and its sustainability is provided in Appendix II. Summaries of Cape Verde's relations with the Fund and the World Bank Group are provided in Appendices III and IV. Statistical issues are discussed in Appendix V, and Cape Verde's social and demographic indicators are summarized in Appendix VI.

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[1] The authorities' proposals for quantitative and structural performance criteria and benchmarks are set out in Tables 1 and 2 of Appendix I, Attachment II. The technical memorandum of understanding, which is also attached to Appendix I, contains a detailed description of the quantitative performance criteria, benchmarks and data reporting requirements.

II. Background and Recent Economic Developments [2]

5. Following a period of strong economic growth and accelerated implementation of structural reforms in Cape Verde, **the macroeconomic situation deteriorated considerably and the reform agenda stalled in the run-up to the elections in early 2001.**[3] To address the mounting internal and external imbalances, the newly-elected government that took office in February 2001 implemented during the second half of 2001 a near-term macroeconomic stabilization and adjustment program, which was monitored informally by Fund staff. Performance under the staff-monitored program (SMP) was satisfactory. To consolidate this effort and achieve a sustainable reduction in poverty, the authorities have launched a medium-term program covering the period 2002-04.

6. **Real GDP increased by 7 percent in 2000, reflecting an exceptionally good harvest, improved exports, and a fiscal stimulus, while consumer prices fell by 1 percent (on an end-period basis),** owing to lower food prices and the government's decision not to pass on to consumers the sizable increase in world oil prices (Table 3). However, on the fiscal front, the deterioration that began in the second half of 1999 accelerated in 2000, and the overall fiscal deficit (including grants) widened by 8 percentage points to 19 percent of GDP in 2000 (Table 4).

7. With donors and external creditors reducing their financial support as the fiscal situation deteriorated, **the overall fiscal deficit in 2000 was largely financed by domestic credit from the banking system and the accumulation of domestic and external arrears** (Tables 5-6). The expansionary financial policies, combined with the decline in donor inflows, led to substantial pressure on the exchange rate peg. Despite a modest reduction in the external current account deficit, lower privatization receipts and smaller donor inflows resulted in an overall balance of payments deficit of 8½ percent of GDP in 2000, primarily financed by a sizable drawdown of official reserves and the accumulation of external arrears (Tables 7-9).

8. **Fiscal policy remained expansionary during the first six months of 2001,** with an overall fiscal deficit (including grants) of CVEsc 3.2 billion (9 percent of annualized GDP) reflecting in part sizable election-related outlays, continued consumer subsidies on petroleum products, and the delayed reform of the student scholarship program. The January-June

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[2] The 2001 Article IV report (SM/01/145; 5/11/01) provides a detailed review of recent developments, including the deterioration in the macroeconomic situation in 2000.

[3] Parliamentary elections were held in January 2001 and resulted in the return to power of the Partido Africano da Independência de Cabo Verde (PAICV), which had governed the country from independence in 1975 to 1991. In subsequent presidential elections in February, Pedro Pires (Prime Minister from 1975 to 1991) defeated the incumbent party's candidate by a razor-thin margin after two rounds of voting.

deficit was largely financed by an increase in net domestic credit to the government from the banking system (2 percent of GDP), net foreign financing (4 percent of GDP), and the accumulation of domestic payments arrears (3 percent of GDP). Broad money increased by 3½ percent in the first six months of the year, in line with the estimated increase in nominal GDP, while net international reserves of the Bank of Cape Verde increased by €1 million (to a level of €30 million, or US$26 million).

III. Performance under the July-December 2001 Staff-Monitored Program

9. **Performance under the SMP was satisfactory** and all the quantitative and structural performance benchmarks were met (Table 10).[4] **The economy is estimated to have grown by 3.0 percent in 2001**, modestly lower than the program projection of 3.3 percent, partly because of the estimated impact of the events of September 11, 2001 and the slowdown in the world economy on the tourism sector and remittances (see Box 1 for a more detailed discussion). Consumer prices rose by less than expected—by 4 percent on average in 2001—with the increase largely reflecting the impact of the sizable increase in the administered price of retail petroleum products in March and August.

10. **An overall fiscal surplus (including grants) of CVEsc 1.2 billion was recorded in the second half of 2001, compared with a programmed deficit of CVEsc 0.4 billion (MEFP, para. 4)**. The improvement in the fiscal position is explained in part by the strong revenue performance, reflecting improved tax administration, the exceptional collection of tax and nontax revenue arrears, and unexpectedly large profit transfers from public enterprises. At the same time, expenditures were contained well below program ceilings as capital expenditure was substantially lower than projected (owing to delayed donor disbursements) and the wage bill was reduced. In addition, the government regularized a good part of its stock of domestic arrears (through reschedulings and cancellations) without accruing new domestic or external arrears.

11. **The overall fiscal deficit in 2001 was thus limited to 3 percent of GDP, compared with the target of 5 percent;** this performance allowed the central government to reduce its indebtedness vis-à-vis the banking system by CVEsc 0.7 billion (1 percent of GDP) in the second half of the year, compared with a programmed increase of CVEsc 0.7 billion. Concomitantly, net domestic assets of the central bank decreased by CVEsc 0.7 billion from June to December, compared with a programmed increase of CVEsc 0.5 billion.

12. **Monetary aggregates continued to stabilize in 2001, with broad money growth contained at 9½ percent**, compared with 13 percent in 2000. Nonetheless, broad money grew faster than programmed, mainly because emigrants' demand for domestic money balances increased as confidence rebounded. In addition, there was a sizable increase in

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[4] Owing to technical delays in drafting and reviewing proposed legislation, two structural benchmarks were met after the deadline.

demand for domestic money balances related to the conversion of euro zone countries' currency notes in advance of the introduction of the euro. In the event, larger capital inflows, the sizable conversion of euro zone currency notes, and end-of-year World Bank balance of payments support boosted gross international reserves considerably, with reserves reaching €47½ million (equivalent to US$42 million, or 1.6 months of imports) at end-2001, compared with the program target of €33 million.

13. **Cape Verde's external current account also improved substantially in 2001, with the overall deficit (including grants) falling by 5 percentage points of GDP to 10½ percent**. This improvement largely reflected the reduction in imports following the tightening of financial policies in mid-2001, reduced imports linked to donor projects, and lower international oil prices. The capital account registered a sizable surplus, equivalent to 11 percent of GDP, on account of strong private capital inflows and disbursements of concessional loans, including from the World Bank and Portugal. The resultant surplus in the balance of payments allowed for a strong buildup in reserves and the reduction of external debt arrears. The stock of external debt stood at US$346 million (62 percent of GDP) at the end of 2001, including US$15 million in arrears. (Appendix II provides a review of Cape Verde's external debt situation and sustainability).

14. **The government also made good progress on the structural front**. First, the retail price of key petroleum products was raised in August, virtually eliminating the remaining consumer subsidy by year end. Second, the Council of Ministers approved the legislative framework for introducing a value-added tax (VAT) and the liberalization of the external tariff regime in September, and submitted this framework to the National Assembly for approval in December (both actions were structural benchmarks).[5] Third, the government drafted a revised central bank organic law, with assistance from Fund staff; this law was approved by the Council of Ministers in February 2002, three months later than anticipated, as a consequence of the lengthy review of the technical issues involved by legal and banking experts. Finally, an international team of experts reviewed the administered price mechanism for domestic petroleum products and presented recommendations to the government in November for the introduction of an automatic and transparent pricing mechanism in 2002.

[5] Submission to the National Assembly was delayed by two months owing to the complex nature of the necessary technical support documents.

IV. Medium-Term Framework[6]

A. Poverty Reduction

15. **In the discussions, the authorities expressed their intention to sharpen their policy focus over the medium term on reducing poverty;** they observed that this would necessarily include a broad-based plan to increase growth and improve social services across all the country's islands. The authorities explained that, while the structural adjustment and economic modernization program implemented during the last decade had been successful, allowing for a sizable increase in income and improvements in social and health indicators, they believed it had benefited the population asymmetrically, insofar as it had widened the income inequality between rural and urban populations. According to the latest available survey, conducted in 1993, 30 percent of the population lives in poverty. The authorities are currently undertaking a new household expenditure survey (to be completed by October 2002) to update this estimate and as an important input into the PRSP.

16. **Cape Verde has a well-developed poverty strategy based on the 1997-2000 National Development Program (NDP) and National Poverty Alleviation Plan (NPAP).** The NDP is a comprehensive framework with macroeconomic stability, private sector-led growth, and social and environmental sustainability as key objectives; the NPAP targets rural poverty while aiming to improve the overall effectiveness of poverty reduction programs. The government updated its development framework in a document presented to parliament in November 2001 that describes its economic development and poverty objectives, as well as its policy priorities for the 2002-04 period. Known as the Grandes Opções do Plano, this paper outlines the government's priorities, including (i) the promotion of good governance; (ii) support for private sector-led growth and the broadening of the productive base; (iii) the development of human capital; (iv) the promotion of a holistic approach to fighting poverty; and (v) a balanced development of infrastructure across the territory of Cape Verde.

17. To guide the programs and policies that will achieve these objectives, in a way that is consistent with the overall macroeconomic framework, **the government is developing a comprehensive poverty reduction strategy paper (PRSP),** which it expects to complete in 2003. As a first step, the government prepared in January 2002 an I-PRSP, which provides a framework for the development of the full strategy. The I-PRSP contains a diagnosis of the poverty situation, including an analysis of the socioeconomic composition of poverty and the quality and timeliness of poverty statistics. The I-PRSP presents the priority focus of the poverty strategy, including increasing income and productive employment opportunities across the country, enhancing the capacity of the public sector to implement policy reforms and program mandates, improving access to social services, and improving governance and human development.

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[6] See paras. 7-11 of the MEFP attached to Appendix I for a more detailed discussion of these issues.

B. Macroeconomic Framework

18. **The policy discussions on the medium-term outlook took place against the backdrop of the recent improvement in the macroeconomic situation and increasing investor and donor confidence**. In this context, the government expressed its commitment over the medium term to (i) further improve its financial position, including reducing the unsustainable level of domestic public debt, so as to ensure macroeconomic stability and the viability of the exchange rate peg; and (ii) foster an enabling environment conducive to increasing private sector-led growth and markedly reducing poverty.

19. **The medium-term macroeconomic objectives for the 2002-04 period are to** (i) increase the annual rate of economic growth from 3 percent in 2001 to 4½-5 percent by 2004; (ii) reduce the annual rate of inflation from 4 percent in 2001 to that of Cape Verde's major trading partners by 2004 (2-2½ percent); (iii) narrow the external current account deficit (including grants) from 10½ percent of GDP in 2001 to 5½ percent in 2004; and (iv) increase gross international reserves from 1.6 months of imports of goods and services in 2001 to 2.2 months in 2004.

20. **The mission discussed with the authorities a medium-term macroeconomic framework** that could achieve these objectives, including alternative policy options and scenarios. Because the recent episode of rapid growth (averaging 7-8 percent) in the late 1990s had been accompanied by a marked deterioration in the macroeconomic situation and substantial pressure on the exchange rate, the authorities felt that growth in the range of 5 percent would be sustainable. The growth target would be achieved through an increase in domestic investment (particularly in the areas of tourism, infrastructure and housing) from 20 percent of GDP in 2001 to 22-22½ percent in 2004, financed to a large degree by increased public savings.

21. **Given the unsustainable domestic debt situation, the discussions necessarily focused on the fiscal aspects of the program,** including a sizable—but realistic—reduction in the overall fiscal deficit. The authorities noted that they intended to virtually eliminate the overall fiscal deficit (including grants), as well as cease domestic bank financing, by 2004. The medium-term fiscal program is oriented toward a further reduction in primary current expenditure of 2 percentage points of GDP, reflecting the elimination of consumer petroleum subsidies, constrained support for student scholarships, and reduced transfers to institutions and public enterprises. On the revenue front, after increasing substantially in 2001, total revenue (excluding grants) is expected to increase by ½ of 1 percentage point of GDP over the program period, rising to 22½ percent in 2004. The core revenue measure will be the replacement of the consumption tax with a broad-based VAT in 2003 (discussed in the MEFP, para.15).

22. **The mission also discussed with the authorities alternative fiscal scenarios to meet these objectives**, including a larger fiscal deficit trend than assumed under the baseline scenario, which would allow for greater infrastructure and social sector spending. However, the authorities were concerned about the potential negative impact of higher deficit spending,

financed by the domestic banking system, on macroeconomic stability, particularly given the already burdensome domestic debt situation. (Box 2 provides a review of the domestic public debt situation, including the domestic debt-reduction operation (DDRO) the government initiated in 1998.)

23. **The current level of the exchange rate appears to be broadly adequate (Figure 1).** Growth in exports of goods and services remains strong (particularly tourism), and sizable inflows of foreign private investment and foreign remittances have continued. The real effective exchange rate is at the same level as in 1998 when the Cape Verde escudo was last adjusted to improve competitiveness. Continued fiscal restraint is expected to further reduce pressure on the exchange rate peg while allowing for a further buildup of international reserves. The authorities agreed that monetary policy would also continue to be geared toward supporting the stability of the exchange rate peg, in the context of lowering the rate of inflation to that of the euro zone.

24. To ensure the stability of the exchange rate regime and improve the sustainability of the external debt situation, **the authorities proposed that external sector policies be geared toward achieving a marked reduction in the current account deficit (excluding grants) over the medium term**. This would be accomplished through policies designed to encourage an increase in tourism, intermediate exports and the continued decline in consumption imports, as well as to maintain high levels of official transfers. The current account deficit, amortization costs, and reserve buildup would be financed by continued strong foreign private investment, private capital inflows, and new highly concessional disbursements from official creditors.

25. **Structural measures over the medium term will focus on fiscal sustainability, improving the efficiency of government operations, and trade liberalization**. In this regard, the government intends to introduce a VAT, liberalize the external tariff regime, increase the statutory independence of the central bank, and introduce an automatic and transparent pricing mechanism for retail petroleum products.[7] In addition, in the areas in which the World Bank has taken a lead, the authorities are slated to complete the comprehensive privatization program, including privatizing the national airline (TACV) and liquidating the national import and distribution company (EMPA) and municipal transport operator (TRANSCOR). Reform of the civil service and pension system are other critical areas in which the government will receive World Bank and donor assistance over the medium term.

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[7] See Box 3 for a review of petroleum price policy in Cape Verde.

V. Key Issues for the 2002 Program

26. **The government's program for 2002 aims at ensuring macroeconomic stability and restoring internal and external viability** (achievement of which will help bring the economy onto a sustainable growth path), as well as at accelerating efforts to reduce poverty. Economic growth, in real terms, is expected to slow somewhat to about 2½ percent in 2002, due to the global environment detrimentally affecting the tourism sector and workers' remittances (see Box 1 for a more detailed discussion). And, with the effect on consumer prices of the increase in domestic petroleum prices in March and August 2001 tapering off, consumer price inflation is targeted to stabilize at about 3 percent. In addition, the government intends to further raise international reserves to a level of 1.7 months of imports. The policies the authorities have adopted to meet these objectives are set out in the MEFP (Appendix I, Attachment I).

A. Fiscal Policy

27. **Consolidating the fiscal position and addressing the unsustainable domestic debt burden are core objectives of the program in 2002.** In the context of substantially reducing the stock of arrears and financing the sizable retrenchment costs associated with liquidating two public enterprises, the overall fiscal deficit (including grants) is targeted to remain at 3 percent of GDP in 2002, after falling from 19 percent in 2000; meanwhile, the primary current surplus is programmed to increase from 3 percent of GDP in 2001 to 3½ percent in 2002.

28. **After rising markedly in 2001, domestic revenue (including domestic capital participation and net loan repayments) is projected to stabilize in the range of 22 percent of GDP in 2002.** Revenue measures to be implemented in 2002 are discussed in paragraph 14 of the MEFP. The most significant structural revenue measure will be the preparatory work undertaken to ensure the successful introduction of the VAT and the new external tariff and excise tax regime on January 1, 2003.

29. **Public spending will be strictly limited in 2002,** with primary current expenditure falling from 19 percent of GDP in 2001 to 18 percent in 2002, while capital expenditure increases by 3 percentage points of GDP, reflecting a return to more normal levels of foreign financing following the temporary decline in 2001. The program includes the following expenditure measures: (i) introducing an automatic and transparent pricing mechanism for retail petroleum products by end-June 2002 to de-link the budget from fluctuations in the world market price; (ii) limiting the increase in public sector salaries to 2½ percent, with the overall wage bill increasing by 6 percent to reflect the salary increase and the hiring of some 200-250 additional teachers and tax administration staff to meet a critical shortage; (iii) continuing to limit monthly stipends to university students abroad; and (iv) accelerating the divestiture program for public enterprises so as to eliminate subventions to several of the loss making operations.

30. **The authorities' program also includes an increase in funding for the social sector,** with current expenditure on health and education set to increase by 3½ percent in real terms in 2002. The social safety net will also be expanded to include elderly and disabled FAIMO (public works) workers by broadening the pension scheme to encompass them. A comprehensive public expenditure review (PER), with World Bank and bilateral donor support, will be completed by mid-2002 to analyze the adequacy and effectiveness of expenditures, especially those in the social sector. The PER will be used as an input into the preparation of the full PRSP and the 2003 budget.

31. **Expenditure management remains a key concern**, and the government has sought technical assistance from donors to help it to improve its control over spending. An externally financed budget advisor is expected to begin work on expenditure management during the first quarter of 2002. In addition, the government intends to improve its oversight and accounting of counterpart funds generated by domestic market sales of donated food aid and will conduct a program review of food aid sales and allocations of counterpart funds by end-June 2002.

32. **The outstanding stock of domestic arrears at end-2001 is estimated at CVEsc 3 billion**. The government is committed to regularizing the stock of these arrears through a combination of cash payments and restructuring agreements and will complete negotiations by end-June 2002 with the remaining domestic creditors to regularize such arrears. In addition, the government will not accrue new domestic arrears during the program period.

B. Domestic Public Debt

33. **The authorities are concerned about the unsustainable domestic debt situation and intend to hold a donors' conference in the coming months to restart the domestic debt-reduction operation (DDRO) begun in 1998**. The DDRO (described in Box 2) stalled in 2000 as donors froze balance of payments support in the face of sizable budget overruns and arrears accumulation by the government. The new program will be based on the principles of sequenced disbursements, tied to further fiscal consolidation and an improvement in the quality of public expenditure, as well as continued burden sharing between the government and donors. In light of the increased stock of domestic debt (estimated at some CVEsc 17 billion at end-2001, or 24 percent of GDP), the government intends to expand the scope of the original Trust Fund designed to take into account the new debt situation. The government is targeting a reduction in the domestic debt-to-GDP ratio to some 20 percent by end-2004.

C. Monetary, Financial Sector and External Reserve Policies

34. **Monetary policy during 2002 aims at further stabilizing the macroeconomic situation and supporting the exchange rate peg,** with gross international reserves of the Bank of Cape Verde (BCV) programmed to increase by €6 million (to 1.7 months of imports). Net domestic assets of the banking system are projected to rise by 5½ percent,

while net credit to the central government would increase by 2 percent and credit to the private sector by 3½-4 percent (all in terms of beginning-of-period broad money), while broad money is expected to expand by 6½ percent, in line with nominal GDP growth. As the macroeconomic situation continues to stabilize this year, it is expected that interest rates would begin to fall somewhat from current high levels (91-day treasury bill rates were 11.5 percent in nominal terms—8.5 percent in real terms—in February 2002).

35. **The introduction of a new central bank organic law that ensures the statutory independence of the central bank and international best practices by end-June 2002 is a key structural measure** (and performance criterion) under the program.[8] The new central bank law will, among other things, establish price stability as the overriding policy objective of the central bank, prohibit government borrowing from the central bank (with the exception of a temporary and limited overdraft account, which must be cleared at the end of each year), limit central bank "lender-of-last-resort" financial support to commercial banks, and establish a transparent process for appointing the central bank governor and board members.

36. While the current year program necessarily focuses on the critical issue of strengthening the independence of the central bank, **the authorities will also continue to strengthen the banking supervision department of the BCV, as well as commercial bank management**, with the support of capacity building technical assistance from key donors. The commercial banking sector is in sound financial condition, and has been strengthened considerably with the privatization of the largest state-owned bank in 2000. Nonperforming loans have declined significantly, falling from almost 22 percent in 1999 to 10 percent in 2000, largely reflecting the impact of the privatization (and further to 9 percent in 2001). (Box 4 provides an overview of the banking system based on a recent MAE assessment).

37. As discussed in paragraph 23 the current level of the exchange rate remains broadly competitive. Nonetheless, the authorities stressed that continued **consolidation of the fiscal position combined with an appropriately tight monetary stance in 2002 was necessary to support the exchange rate**.

D. External Sector Policy

38. **The government intends to further strengthen external viability in 2002.** This will include pursuing policies to enhance external competitiveness and promote nontraditional exports, with a view to attracting foreign private investment for tourism and light industry to take advantage of the opportunities presented as a result of the expected granting of duty-free access to the U.S. market. To assist in these efforts, the government will substantially strengthen its investment promotion center.

39. **The external current account deficit (including official transfers) is projected to widen by 1 percentage point of GDP to 11.3 percent in 2002**, owing to the expected fall in

[8] The main features of the new central bank law are described in Box 5.

net exports of goods and services and smaller remittances from Cape Verdeans living abroad—both of which are associated with the impact of the events of September 11, 2001 and the slowdown in world growth. However, continued strong foreign investment and private capital inflows are projected to limit the overall balance of payments deficit to some 2 percent of GDP. The balance of payments deficit, increase in reserves, and reduction in external arrears are expected to be financed by structural adjustment support from the World Bank, the European Union, and the African Development Bank.

40. The authorities have improved the public sector external debt database and assisted Fund staff in the preparation of a debt sustainability analysis (DSA) (Appendix II). As part of the process of preparing the DSA, the authorities solicited new creditor statements. A full reconciliation of the external debt database will be completed by mid-2002. The DSA concludes that Cape Verde's debt ratios—while difficult—will improve considerably over the medium to long run; they should remain at sustainable levels over the period 2002-12, assuming that the authorities continue to pursue prudent external debt and macroeconomic management policies.[9] The authorities have reached understandings with official multilateral and bilateral creditors to repay/reschedule/forgive the outstanding stock of external arrears (US$15 million at end-2001), and they expect to complete discussions on rescheduling and forgiveness options with export credit agencies by end-June 2002. The authorities are continuing their discussions with the Russian authorities regarding the disputed outstanding stock of debt; in the interim, the authorities continue to make ongoing annual payments as agreed.

E. Structural Reform Issues

41. **The staff team reached understandings with the authorities on a focused structural reform agenda, in close consultation with the World Bank and key donors (Box 6 and MEFP, paras. 28-31).** Structural reforms include (i) preparatory work for the introduction of the VAT and external tariff reform in 2003; (ii) reform of the central bank organic law to increase the bank's statutory independence (a performance criterion); and (iii) the introduction of an automatic and transparent pricing mechanism for retail petroleum products (also a performance criterion). In addition, a number of structural reforms integral to achieving the overall objectives of the program are covered by the World Bank, including the privatization agenda, public expenditure management, and civil service and pension system reform. With respect to accelerating the privatization program in 2002, the government has committed itself to liquidating EMPA and TRANSCOR, as well as to undertaking preparations for the privatization of the cold storage company (INTERBASE), the shipyards (CABMAR/CABNAVE), and the national airline (TACV).

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[9] The ratio of the net present value of Cape Verde's external public debt to exports is projected to fall from 164 percent in 2002 to 90 percent in 2012, while the debt-to-fiscal revenue ratio is projected to fall from 177 percent to 94 percent over the same period (Table 3 of Appendix II).

F. Poverty and Social Sector Issues

42. **The cornerstone of Cape Verde's poverty reduction strategy remains economic growth and employment generation, in conjunction with improvements in infrastructure and social services.**[10] The I-PRSP outlines the government's macroeconomic framework and growth strategy to meet its poverty objectives and the program described above is fully consistent with this medium-term macroeconomic framework.

43. The program in 2002 is expected to have a positive impact on poverty reduction, despite the slowdown in economic growth, through the increase in capital expenditure on infrastructure and social services, as well as the increase in recurrent expenditure on health and education. Social sector spending targets (described in Subsection V.A above) have been included in the program for 2002 and will remain important intermediate targets for achieving the ultimate poverty objectives. Over the medium term, sustainable economic growth in the range of 5 percent, combined with an emphasis on labor-intensive sectors (like tourism and services), remains the linchpin of the poverty strategy.

44. **The authorities are committed to addressing the adverse social impacts associated with the reforms initiated under the program**. In this regard, the authorities discussed the potential social impact of the liquidation of the two public enterprises in 2002 and noted they were in the process of preparing an action plan, in consultation with the World Bank and key donors, to mitigate that impact. In particular, the government will prepare a sizable retrenchment package for affected employees and is considering options for liquidating the enterprises' facilities and equipment in a way that would afford employment opportunities to a portion of the affected workers. With regard to the implementation of an automatic and transparent pricing mechanism for retail petroleum products, the government indicated that it intends to allow for a continued cross-subsidy between certain products primarily used by the poor (including, for example, butane in small containers), as well as gasoline and diesel, while eliminating any subsidy cost to the budget. The cross-subsidy was initiated in the context of the 2001 SMP, when the government raised petroleum product prices.

VI. Capacity-Building Technical Assistance

45. **Despite improvements, the statistical system remains weak,** and the government intends to improve the quality and timeliness of key economic and financial statistics during the program period. In particular, the National Statistics Institute (INE) will complete the compilation of the national accounts for 1998-2000, revise the market basket and weights used to calculate the consumer price index, and improve the coverage and quality of the balance of payments statistics during 2002.

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[10] See the joint staff assessment of the I-PRSP.

46. To improve its capacity to implement the program, the government will receive assistance from the World Bank to strengthen its expenditure allocation and review process, and it will received assistance from the other multilateral and bilateral donors in the areas of budget planning, expenditure control, treasury operations, and external debt management.

VII. Financing Requirements, Access, Capacity to Repay, and Risks

47. **External financing requirements under the baseline scenario are expected to remain large over the program period** (Table 11). While the external current account deficit (excluding official transfers) is projected to decline from 14 percent of GDP in 2002 to 9 percent in 2004, the government is committed to repaying external debt arrears, rebuilding international reserves, paying current external amortization obligations, and seeking donor contributions to reduce domestic debt. However, with continued strong foreign investment and private capital inflows, as well as the expected increase in project support from donors and official creditors, the financing gap, after including the Fund disbursements, is projected in the range of US$16 million per year. This gap is expected to be closed by disbursements from the World Bank, European Union, African Development Bank, and other bilateral donors.

48. **The three-year PRGF arrangement is proposed in an amount equivalent to 90 percent of quota**. Cape Verde currently has no outstanding obligations to the Fund; the outstanding use of Fund resources would, therefore, amount to SDR 8.6 million at end-March 2005, 3 percent of Cape Verde's projected external debt stock. The country's strong track record of servicing its debt obligations and the improvement in the fiscal and external position over the medium term are expected to allow the authorities to meet their repayment obligations to the Fund without difficulty. TRE is conducting a stage one safeguards assessment of the central bank, and any recommendations for improvement will be including as part of the first review of the arrangement.

49. **Nonetheless, balance of payments risks remain**, including (i) the vulnerability of the current account and reserve target to the impact of the events of September 11, 2001 and the slowdown in world economic activity, particularly related to the impact on tourism and remittances; (ii) less favorable private capital inflows than assumed under the program, which could materialize as a result of the slowdown in world growth or other factors in the subregion; and (iii) uncertainties regarding the government's ability to continue to consolidate the fiscal position and maintain an appropriately tight monetary stance. In discussions regarding these risks, the authorities expressed confidence that they could control risks in the areas directly under their control (including fiscal and monetary policy); however, exogenous factors, like lower remittances owing to world economic conditions, would continue to pose substantial risks over the medium term.

VIII. Program Monitoring

50. Program implementation for the first year under the PRGF arrangement will be monitored according to performance criteria and benchmarks presented in Tables 1 and 2 of

the MEFP (Appendix I, Attachment II). Table 3 of the MEFP describes the government's broader economic reform objectives for 2002. The definitions of the variables monitored as quantitative performance criteria and benchmarks are contained in the technical memorandum of understanding (Attachment III of Appendix I). Program implementation and the economic results associated with the program will be subject to two reviews per annum, the first by end-October 2002 and the second by March 15, 2003. Indicative performance benchmarks for end-March and end-June 2003, and the performance criteria for end-December 2002, will be set at the time of the first review.

IX. Staff Appraisal

51. **The staff welcomes Cape Verde's effective implementation of the staff-monitored program in 2001, which has allowed for a substantial improvement in the macroeconomic situation,** as reflected in the sizable reduction in the fiscal deficit and strong increase in international reserves. Close coordination between the newly elected government and the central bank fostered an environment in which revenues increased substantially, expenditures were constrained, and domestic financing by the government was precluded, thereby allowing for stronger-than-anticipated performance under the program.

52. **The timely implementation of a number of key measures under the SMP in 2001 was particularly impressive**, including the following: (i) the substantial increase in domestic retail prices of petroleum products in August, which virtually eliminated the consumer subsidy; (ii) the reduction in student scholarships abroad; (iii) the increase in the customs users' fee; (iv) the collection of tax arrears from large taxpayers; (v) the nonaccrual of new domestic and external payments arrears and the initiation of discussions to settle existing arrears; and (vi) the regularization of external arrears with Portugal and reopening of the credit line in support of the exchange rate with Portugal.

53. **The staff supports the strategy proposed by the government, including its emphasis on poverty reduction.** The new government has moved quickly to push forward the already comprehensive poverty agenda by completing an I-PRSP. They are to be commended for their efforts to increase ownership of the interim poverty strategy by involving a wide range of groups in civil society, including the poor directly, and to support the draft I-PRSP in a workshop including these groups. The I-PRSP appropriately stresses growth and improved social services across all the country's islands as critical to achieving the government's poverty objectives. **The government's program is consistent with the economic strategy outlined in the I-PRSP** and has an appropriate focus on poverty reduction over the medium term, including specific measures to increase spending on social services. The program is not expected to have significant short-term adverse effects on poverty. The World Bank staff concurs with these views.

54. **The medium-term focus on consolidating the fiscal position, correcting the unsustainable domestic debt situation, and encouraging private sector-led growth should allow for sustainable growth in the range of 5 percent per year and improve delivery of social services.** Given the medium-term nature of the structural problems facing

Cape Verde and the large financing requirements, the PRGF is the appropriate mechanism to support the program.

55. **Further reductions in recurrent expenditure over the medium term are necessary**, particularly subsidies, transfers, and the wage bill. Combined with lower domestic interest costs resulting from the fall in the stock of domestic debt and interest rates, these reductions should allow the authorities to raise capital expenditure on infrastructure and social services while virtually eliminating the overall fiscal deficit and government recourse to domestic bank financing.

56. **A key to ensuring macroeconomic stability and protecting the exchange rate peg will be the establishment of an independent central bank.** The staff strongly supports the government's objective of implementing a new central bank organic law by mid-year, which will establish an independent central bank with price stability as its primary objective.

57. **The program focuses on a few key structural reforms in 2002.** These include (i) preparation for the introduction of the VAT and a new external tariff regime; (ii) the introduction of the new central bank organic law; and (iii) the introduction of an automatic and transparent pricing mechanism for retail petroleum products that precludes budget support. In addition, the government intends to implement a number of important structural measures in the area of expertise of the World Bank, including the liquidation of two loss-making public enterprises (EMPA and TRANSCOR).

58. **The authorities' external sector strategy is appropriate**, with its emphasis on reducing the country's large current account deficit (excluding grants) over the medium term through an increase in net exports and sustainable official transfers. The staff concurs with the authorities that, in light of the openness of Cape Verde's economy, **the exchange rate peg remains appropriate.** It notes that given the underdevelopment of domestic financial markets, there remains scope for independent monetary operations, and that liquidity management through indirect monetary policy continues to be appropriate.

59. **Despite improvements, the statistical system remains weak**, particularly in the real and external sectors. The staff encourages the authorities to seek capacity-building technical assistance to improve its statistical base, particularly as it relates to the national income accounts, balance of payments and poverty statistics. Nevertheless, the staff believes that appropriate data will be available in a sufficiently timely manner to enable monitoring of the program.

60. **A number of risks remain for the program in 2002**, including the uncertainty surrounding the impact of the events of September 11, 2001 and the slowdown in the world economy, particularly as they relate to tourism, remittances, and private capital inflows. The authorities are strongly committed to the program but should be vigilant to prevent policy slippages that might add to these risks. In addition, they should be prepared to undertake additional measures to meet the program objectives if external factors prove to be less favorable than assumed in the program.

61. In view of the government's effective implementation of the program in 2001 and on the strength of its program, **the staff recommends that the request for the PRGF arrangement be approved**.

PROPOSED DECISION

The following draft decision, which may be adopted by a majority of votes cast, is proposed for adoption by the Executive Board:

1. The government of Cape Verde has requested a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 8.64 million.

2. The Fund determines that the Interim Poverty Reduction Strategy Paper (I-PRSP) submitted by Cape Verde set forth in EBD/02/47, 3/22/02 provides a sound basis for the development of a fully participatory Poverty Reduction Strategy Paper (PRSP) for Fund concessional financial assistance.

3. The Fund approves the arrangement set forth in EBS/02/54, 3/22/02 and decides that Cape Verde may request the first disbursement under the arrangement on the condition that the information provided by Cape Verde on the implementation of the measures specified in Table 2 attached to the letter dated March 11, 2002 is accurate.

4. Paragraph 3 above shall become effective on the date on which the Fund decides that the World Bank has concluded that the I-PRSP provides a sound basis for the development of a fully participatory PRSP for Bank concessional financial assistance.

Box 1. In the Aftermath of September 11, 2001

Tourism and international transport. The events of September 11, 2001 changed tourism not only by depressing overall demand but also by leading tourists to substitute vacation destinations in favor of those that are perceived to be safer. Tourism receipts are projected to stagnate in 2002 as lower world demand is offset by tourists' opting to visit Cape Verde in lieu of other destinations in the region. However, economic activities at Cape Verde's aviation and maritime hubs are projected to contract, following the deceleration in international trade.

Workers' remittances. The Cape Verdean émigré community's remittances—largely originating from the United States and Portugal—are expected to moderately decline, reflecting the deceleration of growth rates and a rise in unemployment in the main countries of origin.

Macroeconomic consequences. Following the immediate impact of tourism demand on commerce and services and of workers' remittances on the construction sector, it is expected that the real rate of economic growth will fall to about 2½ percent, rather than the previously forecast 4 percent in 2002. Including a one-off, import-sensitive investment made by the water and electricity company and a relatively low income elasticity of imports, it is forecast that, in 2002, the external current account deficit will widen by about 3 percentage points of GDP from the previous estimate.

The Impact of the Events of September 11, 2001 on Selected Economic Indicators for 2002

	Previous Estimate (SM/01/145)	Current Estimate (Table 1)	Events Affecting Variable Other Than the Impact of Sep. 11 and the Ensuing Global Recession
Real GDP (annual percentage change)	4.0	2.5	Degree of fiscal contraction (see below)
Average CPI (annual percentage change)	3.0	3.0	Petrol price increases (+1.0 percent), weakness in aggregate demand (–1.0 percent)
Overall fiscal balance, incl. grants[1]	– 4.4	– 2.9	Strength of policy measures
Total exports (annual percentage change)	13.5	– 4.0	...
Total imports (annual percentage change)	4.3	2.5	Lower domestic growth, partly offset by higher imports generated by investments in electricity and water
Remittances (annual percentage change)	4.0	– 3.4	...
External current account, incl. transfers[1]	– 8.2	– 11.3	See above

Sources: Cape Verdean authorities; and Fund staff estimates and projections.

[1] In percent of gross domestic product.

Box 2. Domestic Debt and the Domestic Debt-Reduction Operation

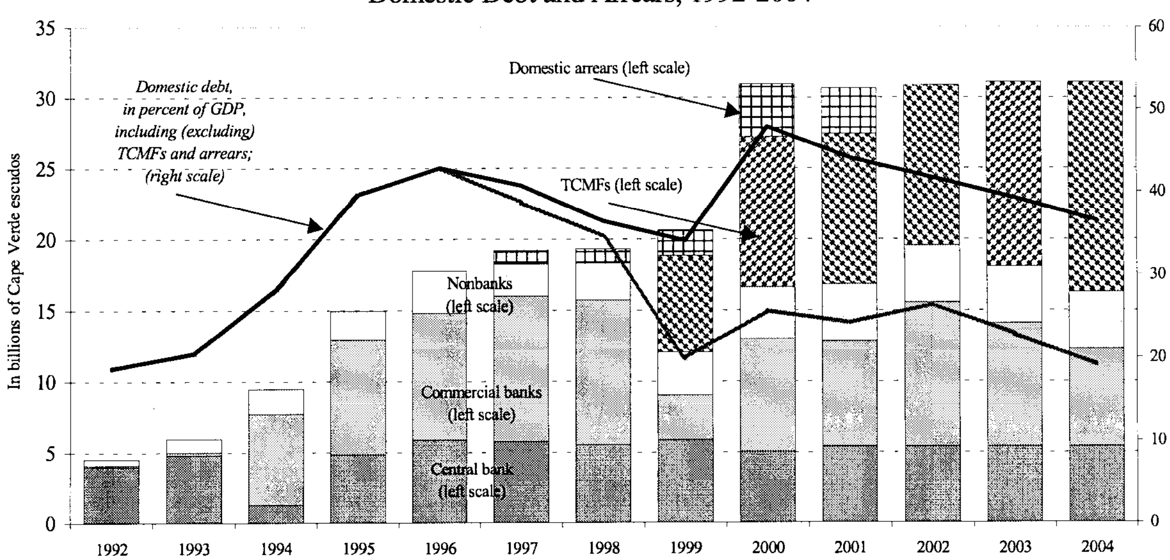
In 1997–98, the government launched a comprehensive domestic debt-reduction operation (DDRO), in cooperation with both the Fund and the World Bank, that aimed at (i) eliminating the entire CVEsc 18 billion (US$180 million) debt stock over the medium term; (ii) minimizing the operation's liquidity impact; (iii) mobilizing foreign resources; and (iv) accelerating the economy's transition toward a free-market economy.

The idea was to establish an offshore Trust Fund, financed by donor contributions and privatization receipts, that was to issue claims to itself (TCMFs), against which domestic debt titles were to be exchanged. As the fiscal and monetary situation would allow, the government was to buy back the TCMFs over a 20-year period, thereby permitting it to fully retire the debt overhang without injecting inflationary pressures into the economy.

The Trust Fund's establishment proceeded at a considerably slower pace than initially envisaged, and the mobilization of resources stood at CVEsc 10.6 billion (about 60 percent of the end-1997 stock of domestic debt) at the end of 2001. In the meantime, however, the government accumulated a significant amount of additional debt, raising the question of the viability of the DDRO in general and the government's credibility regarding new debt creation in particular.

As a first step, the new government undertook an internal study to determine, on a loan-by-loan basis, the actual stock of domestic debt. At end-December 2001, the government owed CVEsc 17.4 billion to banks and nonbanks in domestic debt (or about 24 percent of GDP), excluding about CVEsc 3 billion in domestic payments arrears. The mission supported the government's call for a donors' meeting during the second quarter of 2002 to discuss the continuation of the DDRO and possible donor financing.

Domestic Debt and Arrears, 1992-2004



Sources: Cape Verdean authorities; and staff estimates and projections.

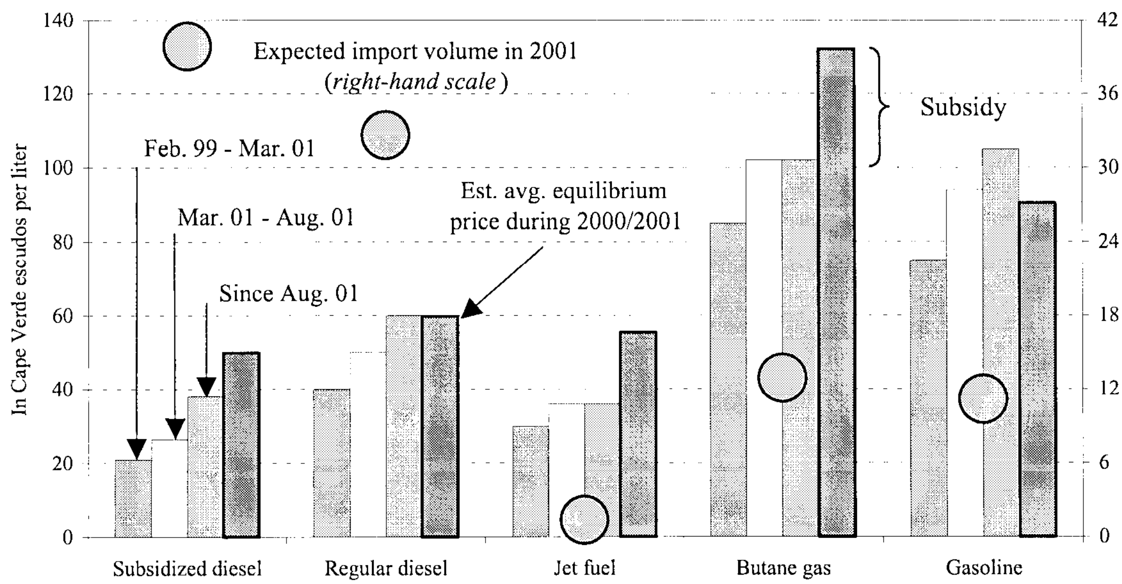
Box 3. Petrol Price Subsidies

Traditionally, Cape Verde's domestic petrol prices have been administered by the government and in February 1999, the price structure broadly reflected international prices. However, world market prices, in euro terms, more than doubled in 1999 and 2000, and without any domestic price adjustments, the government was required to subsidize domestic consumption. In 2000, these subsidies equaled CVEsc 2.8 billion, or close to 4½ percent of GDP. By end-2001, the government had accumulated domestic arrears vis-à-vis the country's two oil companies of CVEsc 1.7 billion (or 2½ percent of GDP), representing almost 60 percent of domestic arrears.

Given the turbulence in the market in recent years and the possibility of sizable subsidies, the government has realized the need for an automatic and transparent pricing mechanism for petrol products to reflect fluctuations in the world market. With support from the World Bank, its experts have studied different options to improve the efficiency of the current distribution arrangements, to ensure a minimum degree of equity in the modified system, and to introduce incentives to reduce costs. The study's proposals, published in December 2001, have taken into account three key principles: (i) the petrol prices on all nine islands are to be the same; (ii) some cross-subsidization to protect the poorest segments of the population (in regards to butane gas, electricity, and water) might need to be included; and (iii) the new pricing mechanism is to have a neutral effect on the budget. The government is committed to introducing a new system for petrol prices to that effect by mid-2002.

In the meantime, the government increased the prices of all petrol products in March 2001 and for diesel and gasoline—again—in August. Altogether, the price for diesel, as a weighted average, increased by 67 percent in 2001 and for gasoline by 40 percent. As shown in the accompanying figures, the administered prices for regular diesel are close to equilibrium prices, while the ones for gasoline are, in fact, above the break-even price. As a result, petrol subsidies in 2001 decreased significantly and, by year's end, had been virtually eliminated.

Administered and Estimated Equilibrium Petrol Prices, 2000-01



Sources: Cape Verdean authorities; and staff estimates and projections.

Box 4. Cape Verde's Commercial Banking System

Background. During the last decade, Cape Verde's banking system underwent a period of fundamental transition and modernization. First, in 1993, the government created two publicly held banks—the Banco Comercial do Atlântico (BCA) and the Caixa Económica de Cabo Verde (CECV)—by separating the commercial banking arms from the Bank of Cape Verde (BCV), which had been until then a monobank, and the post office. Second, two years later, foreign banks were legally permitted to operate in the country—attracting the Banco Totta e Açores and the Caixa Geral de Dépositos (CDG)—later to be renamed Banco Interatlântico—to open branches in Cape Verde in 1995 and 1997, respectively. Third, in late 1999–early 2000, the CECV and BCA were privatized, with the majority of shares held by Portuguese banks. Besides the four commercial banks, one off-shore bank, one venture capital company, a foreign exchange agency, and a credit card company are currently operating in Cape Verde.

Market Shares of Commercial Banks (September 30, 2001)
(in percent)

	Total credit volume (incl. credit to government and TCMFs 1/)	Deposit volume (excl. government deposits)
CDG group	73	74
Banco Comercial do Atlântico	68	68
Banco Interatlântico	5	6
Caixa Economica de Cabo Verde	24	22
Banco Totta e Açores	2	4

Source: BCV.
1/ Claims on the Trust Fund

Banking supervision. The 1996 central bank organic law stipulated that banking supervision be assumed by the central bank and follow the Basel Core Principles. The BCV's banking supervision department conducts both off- and on-site inspections, informing its board, on a monthly basis, of the individual banks' situation, including their compliance with prudential regulations. Banks may operate as universal banks but must comply with the following regulations: (i) equity stakes in firms not supervised by the BCV may not exceed certain maximum limits; (ii) equity and loans exceeding 10 percent of the bank's capital are considered high risk; any bank's exposure to a given client must therefore not exceed 25 percent of its capital, and the total amount of high risks not exceed eight times the amount of the bank's capital; (iii) the minimum capital of a bank is CVEsc 300 million, and the risk-weighted capital adequacy ratio is 10 percent (the definition of the various components of own capital and the criteria for weighting off-balance-sheet assets and accounts follow closely the rules adopted by the European Union); and (iv) banks are obliged to set up provisions for overdue loans, general credit risks, retirement pensions, survivors' benefits, and capital losses on securities and other investments (nonperforming loans are divided into five groups—up to 3, 6, 12, 36, and more months—with nonperforming loans secured by collateral requiring lower provisioning). The share of nonperforming loans in total credit (that is, credit to the private sector in domestic currency), according to information provided by the BCV, decreased from almost 22 percent in end-1998 to approximately 9 percent in end-2001, largely reflecting the bank privatizations in 1999–2000.

Deposits. On the liabilities side of the banking system, deposits of the private sector and public enterprises increased from CVEsc 24 billion in 1996 to CVEsc 39 billion in December 2001 (56 percent of GDP). Foreign currency deposits have remained at low and stable levels of about 3½–5½ percent of broad money. Banks must hold 18 percent of deposits as unremunerated reserve with the BCV, regardless of deposit terms and denomination of currency.

Emigrant deposits. The banks encourage emigrants to deposit their savings in domestic banks, offering higher interest rates than those on resident accounts. As a result, emigrants' deposits have steadily risen in recent years. The share of these deposits, which are mainly held in domestic currency, increased from 28 percent in 1996 to 40 percent in December 2001.

Box 5. The Revised Central Bank Organic Law

The Cape Verdean authorities, with close cooperation from the Fund, revised the central bank organic law (CBOL), with the aim of clarifying the central bank's overriding policy objectives and bringing the law more in line with international best practices. The new CBOL was approved by the Council of Ministers in February 2002 and is expected to be passed by the National Assembly during the first semester of 2002.

Objectives. The new CBOL has been designed to maximize the BCV's independence within the constraints imposed by Cape Verde's constitution (Article 92 of the Constitution stipulates that the "Bank of Cape Verde… collaborates in the definition of the government's monetary and foreign exchange policy and implements these autonomously"). Given the constitutional ambiguity in the definition of the central bank's objectives, the new CBOL assigns to the central bank the primary objective of achieving price stability.

Changes. With the new CBOL, the following changes have been introduced. First, cash advances to the government must not exceed—at any time—5 percent of the current revenue collected in the preceding year. Any overdraft account of this kind must be in balance at the end of each year. Second, a new article has been added to strengthen the independence and accountability of the BCV and to oblige the bank to report regularly to the government and the National Assembly. Third, admissible operations with domestic monetary policy instruments have been streamlined. Direct transactions with government securities have been limited to short-term repurchase operations with commercial banks. Furthermore, the central bank may grant short-term credit to commercial banks only if guaranteed by marketable government securities. In addition, to bridge temporary liquidity shortages, the central bank may, if necessary, act as lender of last resort. However, any lending of this type is limited to three times the borrowing entity's capital and carries a penalty interest rate. Fourth, new best practice procedures have been introduced for safeguarding the central bank's capital ("top-up" rules), determining net income, and distributing net profits. Fifth, institutional rules regarding the appointment and dismissal of the Governor and of the Board of Directors have been harmonized.

Box 6. Structural Conditionality

1. Status of structural measures from earlier programs

The Cape Verdean authorities met all structural measures under the Staff-Monitored Program (August 2001 – December 2001). VAT legislation was (i) approved by the Council of Ministers by end-September 2001 and (ii) submitted to parliament in December 2001, with a delay of two months. Likewise, the new central bank organic law was approved by the Council of Ministers in February 2002, with a delay of three months due to a lengthy review of the technical issues involved.

2. Coverage of structural conditionality in the current program

The structural prior actions, performance criteria, and benchmarks for the 2002 program, which are set out in Table 2 of the MEFP (Appendix I), aim at deepening fiscal stabilization, strengthening monetary policy, and improving the efficiency of the tax and tariff structure in Cape Verde. The prior actions encompass those conditions of the SMP that had not yet been finished at the time of negotiating the PRGF (early December 2001); all measures have been completed meanwhile. Structural performance criteria include (i) the introduction of the new central bank organic law (by end-June 2002) and (ii) the introduction of an automatic and transparent pricing mechanism for petroleum products (also by end-June 2002). Whereas the first measure is expected to prevent the recourse to monetary financing of the fiscal deficit in the future, the second measure will effectively detach the overall budgetary balance from movements in international oil prices. Structural performance benchmarks comprise (i) the inclusion of the VAT and external tariff reform in the 2003 budget (by October 2002) and (ii) the establishment of an external debt management committee (February 2002). The fulfillment of the first condition is a necessary step to guarantee a smooth transition to the new VAT tax regime. The newly created external debt committee will improve the government's management of international liquidity, preventing the recurrence of external payments arrears.

3. Structural areas covered by World Bank lending and conditionality

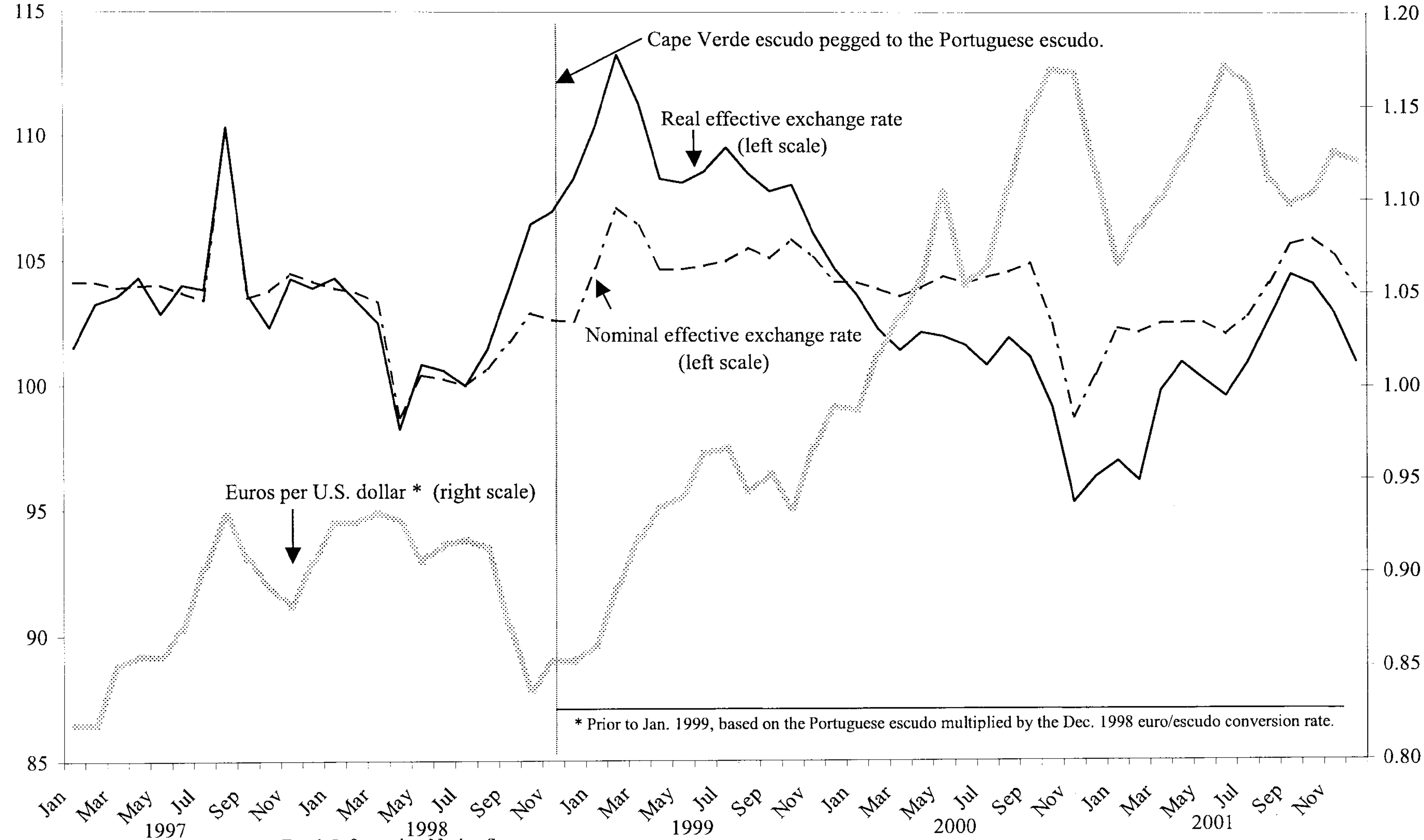
World Bank adjustment lending in 2002 will be delivered through the second tranche (US$ 7.5 million) of the US$15 million Structural Adjustment Credit (SAC) approved in December 2001. Conditionality under the SAC overlaps with the PRGF in several areas, with the World Bank taking the lead. These areas include: (i) the liquidation of the national food import and distribution company (EMPA) and a municipal transport operator (TRANSCOR); (ii) the preparation for privatization of the cold storage company (INTERBASE), the shipyards (CABMAR/CABNAVE), and the national airline (TACV); (iii) the introduction of an automatic and transparent pricing mechanism for petroleum products; and (iv) the completion of a public expenditure review.

4. Other relevant structural conditions not included in the current program

The structural conditions of the current program concentrate on the preparation rather than the introduction of the new VAT tax regime, which is envisaged for the beginning of 2003. In the long term, Cape Verde's pay-as-you-go pension system and large civil service are likely to generate significant risks to fiscal sustainability. Structural conditions mapping pension system and civil service reform will be considered in future programs.

Figure 1. Cape Verde: Real and Nominal Effective Exchange Rates, January 1997-December 2001

(Index, July 1998 = 100)



Source: International Monetary Fund; Information Notice System.

Table 1. Cape Verde: Fund Position During the Period of the PRGF Arrangement, April 2002 - April 2005

	Outstanding on Dec. 31, 2001	2002 June	2002 Dec.	2003 June	2003 Dec.	2004 June	2004 Dec.	2005 June
				(In millions of SDRs)				
Disbursements		1.23	1.23	1.23	1.23	1.23	1.23	1.23
of which: Poverty Reduction and Growth Facility		1.23	1.23	1.23	1.23	1.23	1.23	1.23
Repurchases/repayments		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ordinary resources		0.00	0.00	0.00	0.00	0.00	0.00	0.00
PRGF		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Charges and interests		0.01	0.01	0.02	0.02	0.02	0.03	0.03
Ordinary resources		0.00	0.00	0.00	0.00	0.00	0.00	0.00
PRGF		0.00	0.01	0.01	0.01	0.02	0.02	0.02
SDR charges		0.01	0.01	0.01	0.01	0.01	0.01	0.01
Total Fund credit outstanding (end of period)	0.00	1.23	2.47	3.70	4.94	6.17	7.40	8.64
Ordinary resources	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PRGF	0.00	1.23	2.47	3.70	4.94	6.17	7.40	8.64
				(In percent of quota, unless otherwise specified)				
Total Fund credit outstanding (end of period)	0.0	12.9	25.7	38.6	51.4	64.3	77.1	90.0
PRGF disbursements		12.9	12.9	12.9	12.9	12.9	12.9	12.9
Repurchases/repayments		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interests		0.1	0.1	0.2	0.2	0.3	0.3	0.3
Debt service (in percent of exports of goods and nonfactor services)		...	0.02	...	0.03	...	0.04	...

Sources: International Monetary Fund, Treasury's Department; and staff projections.

Table 2. Cape Verde: Proposed Schedule of Disbursement Under the PRGF Arrangement

Amount	Available Date	Conditions Necessary for Disbursement 1/
SDR 1.23 million	approval date	Executive Board approval of the three-year annual arrangement.
SDR 1.23 million	November 1, 2002	Observance of the performance criteria for June 30, 2002 and completion of the first review under the arrangement.
SDR 1.23 million	March 16, 2003	Observance of the performance criteria for December 31, 2002 and completion of the second review under the arrangement.
SDR 1.23 million	September 15, 2003	Observance of the performance criteria for June 30, 2003 and completion of the third review under the arrangement.
SDR 1.23 million	March 16, 2004	Observance of the performance criteria for December 31, 2003 and completion of the fourth review under the arrangement.
SDR 1.23 million	September 15, 2004	Observance of the performance criteria for June 30, 2004 and completion of the fifth review under the arrangement.
SDR 1.23 million	March 16, 2005	Observance of the performance criteria for December 31, 2004 and completion of the sixth review under the arrangement.

Source: International Monetary Fund.

1/ Other than the generally applicable conditions under the Poverty Reduction and Growth Facility (PRGF) arrangement.

Table 3. Cape Verde: Selected Economic and Financial Indicators, 1999-2004

	1999	2000	2001 SMP	2001 Est.	2002	2003 Prog.	2004
	(Annual percentage change, unless otherwise specified)						
National income and prices							
Real GDP	8.6	6.8	3.3	3.0	2.5	3.5	4.5
Real GDP (per capita)	6.8	4.6	1.1	0.8	0.3	1.3	2.2
Consumer price index (annual average)	4.4	-2.4	5.0	3.7	3.0	2.5	2.3
Consumer price index (end of period)	-1.5	-1.1	9.0	4.5	2.9	2.6	2.3
External sector							
Exports 1/	14.8	29.6	17.2	18.6	-4.0	3.6	7.7
Imports 1/	19.1	14.3	-3.2	-0.5	2.5	-1.3	2.6
Real effective exchange rate (annual average)	5.6	-7.4	...	0.3	...	...	...
Terms of trade (minus = deterioration)	0.0	-6.0	-1.5	-0.6	-0.2	-0.9	-0.3
Government budget							
Total revenue (excluding grants)	22.7	6.7	3.0	16.1	3.6	7.8	8.6
Total expenditure and net lending	21.9	24.5	-30.2	-37.8	17.9	5.0	4.2
Recurrent expenditure	33.8	20.5	-18.9	-15.8	6.1	3.8	2.4
Capital expenditure and net lending	-11.7	-2.9	-14.6	-53.0	70.2	8.0	8.9
Money and credit (in percent of opening-period M2) 2/							
Net domestic assets	7.3	15.8	5.6	3.9	5.4	...	...
Of which: net claims on the central government	-20.9	11.1	3.1	-0.2	1.7	...	...
Credit to the economy	7.6	1.6	4.1	6.9	3.6	...	...
Broad money	15.2	13.2	6.3	9.7	6.5	...	...
Velocity (GDP/M2)	1.75	1.65	1.62	1.59	1.57	...	...
Discount rate (in percent) 3/	8.5	9.5	11.5	11.5	...	...	...
	(In percent of GDP)						
Saving-investment balance							
Gross domestic investment	22.8	21.7	17.0	20.3	21.0	21.5	22.5
Public	6.1	5.5	4.4	2.4	3.9	3.9	3.9
Private	16.7	16.2	12.6	17.9	17.1	17.6	18.6
Gross national savings	7.9	6.1	9.4	10.0	9.7	13.7	16.9
Of which: public sector	2.9	-3.3	0.5	0.8	2.3	3.4	5.0
External current account (incl. official transfers)	-14.9	-15.6	-7.5	-10.4	-11.3	-7.8	-5.6
Government budget							
Total revenue (including grants)	27.7	26.1	24.4	23.2	25.9	26.5	26.9
Total expenditure and net lending	38.7	45.0	29.3	26.1	28.9	28.3	27.4
Total grants	7.2	5.6	4.8	1.1	3.7	4.1	4.3
Overall balance after grants	-11.0	-18.9	-4.9	-2.9	-2.9	-1.8	-0.5
Domestic bank financing	1.3	8.1	1.9	-0.1	1.1	0.3	0.0
Domestic public debt, net 4/	19.9	25.7	24.2	24.1	...	...	...
External current account (excluding official transfers)	-21.1	-20.4	-11.1	-11.0	-14.1	-11.1	-9.2
Overall balance of payments	8.5	-8.4	2.6	4.5	-1.8	-1.4	-0.9
Total external public debt (end of year; including Fund)	52.6	55.3	55.5	62.2	60.7	59.2	56.9
	(In millions of U.S. dollars, unless otherwise specified)						
External current account (after grants)	-87.5	-87.2	-41.6	-57.6	-68.1	-51.6	-39.8
Total external public debt (end of period)	295.4	301.3	346.7	345.7	366.7	390.8	403.3
External arrears (public sector; end of period)	3.8	27.8	17.9	15.3	0.0	0.0	0.0
Gross international reserves (end of period)	43.5	28.2	29.2	41.9	48.1	55.2	62.8
Gross international reserves (in months of imports of goods and services)	1.6	1.1	1.1	1.6	1.7	2.0	2.2
External debt service (in percent of exports of goods and nonfactor services)	35.2	32.0	24.3	22.0	17.5	17.4	18.3
Memorandum items:	(In units specified)						
Nominal GDP (in billions of Cape Verde escudos)	60.4	64.7	69.5	69.5	74.0	79.2	85.1
Nominal GDP (per capita, in U.S. dollars)	1,367	1,271	1,239	1,239	1,317	1,408	1,481
Exchange rate (Cape Verde escudos per U.S. dollar; period average)	102.7	115.9	125.0	123.2	...	...	...

Sources: Cape Verdean authorities; and staff estimates and projections.

1/ Exports and imports of goods and nonfactor services.

2/ Reflects revised presentation consistent with the Central Bank of Cape Verde.

3/ Lending rate.

4/ Excluding the claims on the offshore Trust Fund.

Table 4. Cape Verde: Fiscal Operations of the Central Government, 2000-04

	2000	2001				2002		2003	2004
		Jan.-Jun.	Jan.-Sep.	Jan.-Dec.		Jan.-Jun.	Jan.-Dec.	Prog.	
				Prog. 1/	Est.	Prog.			
	(In billions of Cape Verde escudos; unless otherwise indicated)								
Revenue, grants, and net lending	16.9	6.6	11.8	16.7	16.1	8.8	19.2	21.0	22.9
Domestic revenue	13.2	6.2	11.2	13.4	15.4	6.8	15.9	17.2	18.6
Tax revenue	11.8	5.6	9.9	11.9	13.0	6.1	13.6	15.1	16.6
Income and profit taxes	3.9	1.8	3.9	...	4.8	2.1	5.0	5.9	6.6
Consumption taxes	1.9	0.9	1.6	...	2.1	1.0	2.2	4.7	5.1
International trade taxes	4.8	2.5	3.8	...	5.3	2.6	5.5	3.6	4.0
Other taxes	1.2	0.4	0.6	...	0.8	0.4	0.8	0.9	0.9
Nontax revenue	1.5	0.6	1.3	1.5	2.4	0.7	2.4	2.1	2.1
Fees and penalties	0.4	0.1	0.3	...	0.3	0.2	0.4	0.4	0.4
Other nontax revenues	1.1	0.4	0.4	...	1.4	0.4	1.0	0.8	0.9
Profit transfers	0.0	0.1	0.6	0.2	0.6	0.1	1.0	0.9	0.7
Domestic capital participation	0.0	0.0	0.0	...	0.0	0.2	0.3	0.3	0.4
External grants	3.6	0.3	0.5	3.3	0.7	1.8	2.8	3.3	3.7
Capital grants	3.6	0.3	0.5	2.6	0.7	1.0	2.0	2.5	2.8
Budget support	0.0	0.0	0.0	0.7	0.0	0.8	0.8	0.8	0.9
Net lending	0.0	0.1	0.1	...	0.0	0.1	0.2	0.2	0.2
Total expenditure	29.1	9.8	13.6	20.3	18.1	10.4	21.4	22.4	23.4
Recurrent expenditure	17.5	7.4	10.8	14.2	14.8	7.6	15.6	16.3	16.6
Primary current expenditure	15.8	6.6	9.5	12.7	13.3	6.5	13.3	14.0	14.7
Wages and salaries	6.4	3.2	5.0	6.9	6.6	3.3	7.0	7.5	8.0
Goods and services	0.5	0.2	0.3	0.6	0.6	0.3	0.7	0.8	0.8
Transfers and subsidies 2/	6.8	3.0	3.9	4.6	5.7	2.3	4.7	4.7	4.7
Other expenditures	2.1	0.2	0.3	0.6	0.5	0.5	0.9	1.1	1.2
Domestic interest payments	0.8	0.5	0.8	1.0	0.9	0.8	1.7	1.4	1.1
External interest payments	0.9	0.3	0.5	0.6	0.5	0.3	0.6	0.8	0.8
Extraordinary expenditures	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social emergency measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring costs	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	7.1	2.4	2.7	6.1	3.4	2.8	5.7	6.2	6.7
Foreign financed	5.9	1.8	2.1	4.7	2.7	2.2	4.4	4.5	4.8
Domestically financed	1.3	0.6	0.6	1.4	0.7	0.6	1.3	1.7	1.9
Overall balance, including grants 3/	-12.3	-3.2	-1.8	-3.6	-2.0	-1.6	-2.2	-1.5	-0.5
Financing	12.3	3.2	1.8	3.6	2.0	1.6	2.2	1.5	0.5
Foreign (net)	3.0	1.4	1.1	1.2	2.2	0.7	0.0	-0.4	-0.5
Total drawings	3.9	5.2	5.2	6.3	7.0	1.8	3.0	2.6	2.6
Balance of payments, budget	1.7	3.6	3.6	4.2	5.0	0.6	0.6	0.6	0.6
Project loans	2.2	1.5	1.6	2.1	1.9	1.2	2.4	2.0	2.0
Amortization	-3.9	-2.5	-2.8	-3.7	-3.5	-0.8	-2.4	-2.3	-2.7
Bridge loans and Portuguese credit facility	-1.7	-1.9	-1.9	-2.4	-2.3	0.0	-0.6	-0.7	-1.1
Other	-2.3	-0.6	-0.9	-1.3	-1.2	-0.8	-1.8	-1.6	-1.6
Change in arrears	3.0	-1.3	-1.4	-1.4	-1.4	-0.4	-0.7	-0.7	-0.5
Debt relief	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Rescheduling, refinancing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cancellation 4/	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Domestic (net)	9.3	1.9	0.4	2.2	-0.2	0.3	0.0	-0.3	-0.7
Banking system	5.2	0.6	-0.2	1.3	-0.1	0.5	0.8	0.2	0.0
Nonbanks	2.1	0.3	1.0	3.6	1.4	2.8	2.5	-0.5	-0.7
Rescheduled arrears 5/	0.0	0.0	1.0	3.4	1.0	2.8	2.8	-0.5	-0.7
Bonds sold to nonbanks	0.4	0.3	0.0	0.1	0.4	0.0	0.0	0.0	0.0
Privatization revenues	1.7	0.0	0.1	0.0	0.0	0.0	-0.4	0.0	0.0
Domestic arrears	2.0	1.0	-0.5	-2.6	-1.5	-3.0	-3.2	0.0	0.0
Financing gap	0.0	-0.1	0.3	0.2	-0.1	0.6	2.1	2.1	1.6
Possible financing	0.0	0.0	0.0	0.0	0.0	0.6	2.1	...	...
Remaining financing gap	0.0	-0.1	0.3	0.2	-0.1	0.0	0.0	2.1	1.6
Memorandum items:									
Overall balance, excluding grants 6/	-15.9	-3.6	-2.4	-6.9	-2.7	-3.6	-5.4	-5.3	-4.7
Primary current balance 7/	-2.6	-0.4	1.7	0.7	2.0	0.3	2.6	3.1	3.9
Primary balance 8/	-14.1	-2.8	-1.0	-5.4	-1.3	-2.4	-3.1	-3.0	-2.8
Services rendered by government agencies 9/	0.0	0.0	0.0	0.2	0.2	0.3	0.3	0.0	0.0
External debt service (in percent of domestic revenue)	36.6	44.5	29.6	32.0	25.6	16.1	18.9	18.1	18.8
Social expenditures	...	...	...	...	4.8	...	5.9	6.7	7.4
Education (current expenditure)	...	...	...	...	3.2	...	3.4	3.9	4.2
Education (capital expenditure)	...	...	...	...	0.5	...	1.1	1.2	1.3
Health (current expenditure)	...	...	...	...	1.0	...	1.1	1.3	1.4
Health (capital expenditure)	...	...	...	...	0.1	...	0.4	0.4	0.4
Social expenditures as percent of total expenditure	...	...	...	...	26.7	...	27.7	30.0	31.5

Table 4. Cape Verde: Fiscal Operations of the Central Government, 2000-04 (concluded)

	2000	2001				2002		2003	2004
		Jan.-Jun.	Jan.-Sep.	Jan.-Dec.		Jan.-Jun.	Jan.-Dec.	Prog.	
				Prog. 1/	Est.	Prog.			
	(In percent of GDP; unless otherwise indicated)								
Revenue, grants, and net lending	26.1	19.1	22.7	24.1	23.2	23.8	25.9	26.5	26.9
Domestic revenue	20.5	17.9	21.5	19.3	22.1	18.3	21.5	21.7	21.9
Tax revenue	18.2	16.1	19.0	17.1	18.7	16.6	18.3	19.0	19.5
Income and profit taxes	6.0	5.2	7.5	...	6.9	5.6	6.8	7.4	7.7
Consumption taxes	2.9	2.7	3.0	...	3.0	2.7	2.9	5.9	5.9
International trade taxes	7.4	7.1	7.4	...	7.7	7.0	7.5	4.5	4.7
Other taxes	1.8	1.2	1.1	...	1.1	1.2	1.1	1.1	1.1
Nontax revenue	2.3	1.7	2.6	2.2	3.4	1.8	3.2	2.7	2.4
Fees and penalties	0.6	0.4	0.5	...	0.5	0.4	0.5	0.5	0.5
Other nontax revenues	1.7	1.1	0.8	...	2.0	1.0	1.3	1.1	1.1
Profit transfers	0.0	0.2	1.2	0.3	0.9	0.3	1.3	1.1	0.9
Domestic capital participation	0.0	0.0	0.0	...	0.0	0.4	0.4	0.4	0.4
External grants	5.6	0.9	0.9	4.8	1.1	4.8	3.7	4.1	4.3
Capital grants	5.6	0.9	0.9	3.8	1.1	2.7	2.7	3.1	3.3
Budget support	0.0	0.0	0.0	1.0	0.0	2.1	1.0	1.0	1.0
Net lending	0.0	0.3	0.2	...	0.0	0.2	0.2	0.2	0.2
Total expenditure	45.0	28.2	26.1	29.3	26.1	28.1	28.9	28.3	27.4
Recurrent expenditure	27.1	21.3	20.8	20.5	21.2	20.6	21.1	20.5	19.6
Primary current expenditure	24.4	19.1	18.2	18.3	19.2	17.5	18.0	17.7	17.3
Wages and salaries	9.9	9.3	9.5	9.9	9.5	9.0	9.4	9.4	9.3
Goods and services	0.7	0.6	0.6	0.9	0.8	0.9	1.0	1.0	1.0
Transfers and subsidies 2/	10.6	8.5	7.5	6.6	8.2	6.3	6.3	5.9	5.6
Other expenditures	3.2	0.7	0.6	0.9	0.7	1.2	1.3	1.4	1.4
Domestic interest payments	1.3	1.4	1.6	1.4	1.3	2.3	2.3	1.8	1.3
External interest payments	1.4	0.8	1.0	0.8	0.7	0.8	0.9	1.0	1.0
Extraordinary expenditures	6.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social emergency measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring costs	6.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	11.0	6.9	5.3	8.8	4.8	7.4	7.7	7.8	7.9
Foreign financed	9.1	5.3	4.0	6.8	3.8	5.9	5.9	5.6	5.6
Domestically financed	2.0	1.6	1.2	2.0	1.0	1.5	1.8	2.2	2.2
Overall balance, including grants 3/	-18.9	-9.1	-3.4	-5.2	-2.9	-4.3	-2.9	-1.8	-0.5
Financing	18.9	9.1	3.4	5.2	2.9	4.3	2.9	1.8	0.5
Foreign (net)	4.6	4.0	2.0	1.7	3.2	1.8	0.1	-0.5	-0.5
Total drawings	6.0	14.8	10.1	9.1	10.0	4.7	4.0	3.2	3.0
Balance of payments, budget	2.6	10.5	7.0	6.0	7.3	1.5	0.7	0.7	0.6
Project loans	3.5	4.4	3.1	3.0	2.8	3.2	3.2	2.5	2.3
Amortization	-6.1	-7.1	-5.4	-5.4	-5.0	-2.1	-3.2	-2.9	-3.1
Bridge loans and Portuguese credit facility	-2.6	-5.4	-3.6	-3.5	-3.3	0.0	-0.7	-0.9	-1.2
Other	-3.5	-1.7	-1.8	-1.9	-1.7	-2.1	-2.5	-2.0	-1.9
Change in arrears	4.6	-3.7	-2.6	-2.0	-2.0	-0.9	-0.9	-0.9	-0.5
Debt relief	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.1
Rescheduling, refinancing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cancellation 4/	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.1
Domestic (net)	14.4	5.5	0.8	3.2	-0.3	0.8	0.0	-0.4	-0.8
Banking system	8.1	1.7	-0.3	1.9	-0.1	1.4	1.1	0.3	0.0
Nonbanks	3.2	1.0	2.0	5.1	2.0	7.7	3.3	-0.6	-0.8
Rescheduled arrears 5/	0.0	0.0	1.9	5.0	1.4	7.7	3.8	-0.6	-0.8
Bonds sold to nonbanks	0.6	1.0	0.0	0.2	0.6	0.0	0.0	0.0	0.0
Privatization revenues	2.6	0.0	0.1	0.0	0.0	0.0	-0.5	0.0	0.0
Domestic arrears	3.1	2.8	-0.9	-3.8	-2.1	-8.2	-4.4	0.0	0.0
Financing gap	0.0	-0.3	0.6	0.3	-0.1	1.6	2.8	2.7	1.9
Possible financing	0.0	0.0	0.0	0.0	0.0	1.7	2.8	...	...
Remaining financing gap	0.0	-0.3	0.6	0.3	-0.1	-0.1	0.0	2.7	1.9
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Overall balance, excluding grants 6/	-24.6	-10.3	-4.5	-9.9	-3.9	-9.7	-7.3	-6.6	-5.5
Primary current balance 7/	-4.0	-1.2	3.3	1.0	2.9	0.8	3.5	3.9	4.6
Primary balance 8/	-21.9	-8.1	-2.0	-7.7	-1.9	-6.6	-4.2	-3.8	-3.3
Services rendered by government agencies 9/	0.0	0.0	0.0	0.3	0.3	0.8	0.4	0.0	0.0

Sources: Ministry of Finance and Planning; Bank of Cape Verde; and staff estimates and projections.

1/ Staff-monitored program.
2/ Includes the student scholarships.
3/ Overall balance including grants = revenue including grants - total expenditure.
4/ In 2001, China cancelled Cape Verde's entire stock of debt; this line reflects the financing of the debt service for the years 2001-04.
5/ A negative sign indicates the repayment of previous rescheduled arrears.
6/ Overall balance excluding grants = revenue excluding grants - total expenditure.
7/ Primary current balance = domestic revenue - primary current expenditure.
8/ Primary balance = domestic revenue - total expenditure + domestic and external interest payments.
9/ *Contas de ordem*, which are budgeted revenues from the direct provision of services by government agencies, offset by the same amount under current expenditure for each of these agencies.

Table 5. Cape Verde: Monetary Survey, 1999-2002 1/

	1999	2000	2001 Dec. SMP	2001 Dec. Est.	2002 Mar. Prog.	2002 Jun. Prog.	2002 Sep. Prog.	2002 Dec. Prog.
	(In millions of Cape Verde escudos, unless otherwise indicated)							
Net foreign assets (NFA)	8,110	7,139	7,439	9,557	9,765	9,824	10,008	10,066
Central bank	6,476	4,053	4,353	5,945	6,095	6,095	6,220	6,220
Commercial banks	1,634	3,086	3,086	3,612	3,670	3,729	3,788	3,846
Net domestic assets (NDA)	28,740	34,560	36,887	36,190	36,647	37,165	37,463	38,654
Domestic credit	32,885	41,184	44,187	43,895	44,352	44,869	45,168	46,359
Net claims on the government	13,978	21,702	23,002	21,522	21,722	22,170	19,822	22,322
Claims on the Trust Fund (TCMFs)	6,803	10,600	10,600	10,600	10,600	10,600	10,600	10,600
Net claims on central government	7,516	11,625	12,925	11,535	11,735	12,035	9,835	12,335
Claims on the central government	9,098	13,082	14,382	13,220	13,420	13,720	11,520	14,020
Deposits of the central government 2/	-1,582	-1,457	-1,457	-1,686	-1,686	-1,686	-1,686	-1,686
Net claims on local government	81	-57	-57	1	1	1	1	1
Net claims on other government agencies 3/	-422	-466	-466	-614	-614	-466	-614	-614
Credit to nonbank financial institutions	6	0	8	7	7	7	7	7
Credit to the economy	18,902	19,483	21,178	22,366	22,623	22,692	25,339	24,030
Other items (net)	-4,146	-6,624	-7,300	-7,704	-7,704	-7,704	-7,704	-7,704
Broad money (M2)	36,850	41,699	44,327	45,747	46,413	46,989	47,471	48,721
Narrow money (M1)	18,307	20,131	21,178	20,657	21,837	21,689	22,077	22,000
Currency in circulation	6,026	6,458	6,969	6,703	5,954	6,272	6,119	7,169
Demand deposits	12,281	13,672	14,210	13,954	15,883	15,417	15,958	14,831
Quasi money	16,432	19,371	20,714	22,962	21,944	22,316	22,446	24,179
Time deposits	15,343	18,081	19,455	21,881	20,565	20,919	21,035	22,731
Other quasi-monetary deposits 4/	1,090	1,290	1,259	1,082	1,380	1,397	1,411	1,448
Foreign currency deposits (FCDs) 5/	2,110	2,198	2,471	2,128	2,631	2,984	2,949	2,541
	(Changes in percent of beginning-of-period money stock)							
Net foreign assets	7.9	-2.6	0.7	5.8	0.5	0.6	1.0	1.1
Net domestic assets	7.3	15.8	5.6	3.9	1.0	2.1	2.8	5.4
Domestic credit	10.1	22.5	7.2	6.5	1.0	2.1	2.8	5.4
Net claims on the general government	2.5	21.0	3.1	-0.4	0.4	1.4	-3.7	1.7
Net claims on the central government	-20.9	11.1	3.1	-0.2	0.4	1.1	-3.7	1.7
Credit to the economy	7.6	1.6	4.1	6.9	0.6	0.7	6.5	3.6
Broad money	15.2	13.2	6.3	9.7	1.5	2.7	3.8	6.5
	(In units as indicated)							
Memorandum items:								
Gross international reserves (in millions of Cape Verde escudos)	4,678	3,349	3,649	5,238	5,579	5,579	5,894	5,894
Gross international reserves (in millions of U.S. dollars)	43.5	28.2	29.2	41.9	45.5	45.5	48.1	48.1
Gross international reserves (in millions of euros)	42.4	30.4	33.1	47.5	50.6	50.6	53.4	53.4
Net international reserves (in millions of Cape Verde escudos)	4,590	3,221	3,521	5,100	5,250	5,250	5,375	5,375
Net international reserves (in millions of U.S. dollars)	42.7	27.1	28.2	40.8	42.9	42.9	43.9	43.9
Net international reserves (in millions of euros)	41.6	29.2	31.9	46.2	47.6	47.6	48.7	48.7
Income velocity of broad money (GDP/average M2)	1.75	1.65	1.62	1.59	...	...	...	1.57
Money multiplier (M2 as a fraction of base money)	3.1	3.1	3.1	3.1	3.15	3.15	3.15	3.17
Gross international reserves (in percent of base money)	40.0	18.1	25.7	35.9	37.9	37.4	39.1	38.4
Gross international reserves (in percent of M2)	12.7	8.0	8.2	11.5	12.0	11.9	12.4	12.1
Gross international reserves (in months of imports of goods and services)	1.6	1.0	1.1	1.6	...	...	...	1.7

Sources: Bank of Cape Verde; and staff estimates and projections.

1/ Reflects revised presentation consistent with the Central Bank of Cape Verde.
2/ Includes investment project deposits, foreign currency deposits, funds for the regularization of public debt, autonomous funds and services, institutes with administrative and financial autonomy, IDA credit line at the BCV, compensatory entries, and other liabilities with the public treasury.
3/ Includes Instituto Nacional de Previdencia Social (INPS).
4/ Includes bond repurchase agreement of depository banks with nonbanks.
5/ Foreign currency deposits in this series also comprise foreign currency time deposits and other quasi-monetary deposits, which were formerly reported as time deposits.

Table 6. Cape Verde: Summary Accounts of the Bank of Cape Verde, 1999-2002

(In millions of Cape Verde escudos; end of period)

	1999	2000	2001		2002			
	Dec.	Dec.	Dec. SMP	Dec. Est.	Mar. Prog.	Jun. Prog.	Sep. Prog.	Dec. Prog.
Net foreign assets	6,476	4,053	4,353	5,945	6,095	6,095	6,220	6,220
Foreign assets	6,596	4,212	4,512	6,115	6,456	6,456	6,771	6,771
Foreign liabilities	-120	-160	-160	-170	-361	-361	-551	-551
Net domestic assets	5,225	9,499	9,871	8,635	8,635	8,835	8,835	9,135
Domestic credit	6,552	10,867	11,492	9,844	9,844	10,044	10,044	10,345
Net claims on general government	5,027	8,611	8,711	8,225	8,325	8,425	8,580	7,780
Claims on the Trust Fund	0	4,167	4,167	4,167	4,167	4,167	4,167	4,167
Net claims on central government	5,027	4,444	4,544	4,059	4,159	4,259	4,413	3,613
Claims on local government	0	0	0	0	0	0	0	0
Claims on other government agencies	0	0	0	0	0	0	0	0
Credit to the financial sector	337	1,099	1,661	438	338	438	284	1,384
Credit to the economy	1,188	1,157	1,121	1,181	1,181	1,181	1,181	1,181
Other items (net)	-1,326	-1,368	-1,622	-1,209	-1,209	-1,209	-1,209	-1,209
Monetary base	11,701	13,552	14,224	14,581	14,730	14,931	15,055	15,356
Currency issued	6,656	7,055	7,544	7,353	6,752	7,059	6,931	7,913
Currency in circulation	6,026	6,458	6,932	6,703	5,954	6,272	6,119	7,169
Cash reserves of depository institutions	630	597	612	650	798	787	812	744
Deposits of monetary institutions	5,045	6,497	6,680	7,228	7,979	7,872	8,125	7,443
Deposits of commercial banks	4,955	6,496	6,680	7,227	7,978	7,872	8,124	7,442
Deposits of nonbank financial institutions	90	1	1	1	1	1	1	1
Capital account	2,194	2,276	2,465	2,615	2,615	2,615	2,615	2,615

Sources: Bank of Cape Verde; and staff estimates and projections.

Table 7. Cape Verde: Balance of Payments, 1999-2004

	1999	2000	2001		2002	2003	2004
			SMP	Est.	Prog.		
	(In millions of Cape Verde escudos, unless otherwise indicated)						
Current account	-8,985	-10,111	-5,206	-7,203	-8,339	-6,194	-4,771
Excluding official current transfers	-12,744	-13,177	-7,702	-7,649	-10,411	-8,775	-7,868
Trade balance	-22,096	-25,366	-22,021	-23,095	-24,133	-23,062	-23,593
Exports, f.o.b.	807	2,774	3,700	3,705	3,282	3,648	4,019
Merchandise exports.	327	297	263	265	274	288	303
Reexports of fuel (net)	607	2,500	3,052	3,054	2,492	2,816	3,137
Of which: Reexport of fuel (gross)		3,073	3,711	3,714	2,819	3,186	3,726
Intermediate goods (net)	-36	71	489	485	503	529	562
Repairs (net)	-91	-93	-104	-99	12	15	17
Imports, f.o.b. 1/	-22,903	-28,139	-25,721	-26,800	-27,415	-26,710	-27,612
Of which: fuel for reexport		-2,254	-2,229	-2,216	-2,073	-2,205	-2,250
Services (net)	-1,117	603	1,148	1,358	675	769	1,631
Credit	10,862	12,350	14,029	14,238	13950	14,200	15,197
Of which: tourism	2,961	4,727	6,095	6,100	6,100	6,863	7,549
Debit	-11,979	-11,747	-12,881	-12,880	-13,275	-13,431	-13,565
Factor income (net)	-868	-1,337	-433	-430	-980	-1,070	-1,114
Of which: scheduled interest payments	-393	-917	-569	-476	-629	-807	-835
Technical assistance	0	0	0	0	0	0	0
Trust Fund interest receipts	...	100	396	397	412	441	508
Current transfers (net)	15,097	15,989	16,100	14,963	16,099	17,169	18,304
Official	3,759	3,066	2,496	446	2,072	2,581	3,097
Of which: food aid	875	709	1,348	446	...	...	...
Private	11,337	12,923	13,604	14,517	14,027	14,588	15,207
Of which: remittances	8,071	9,601	9,475	9,582	9,253	9,692	10,138
Capital and financial account	10,968	3,781	8,771	7,504	7,044	5,056	4,039
Direct investment	6,249	3,637	2,700	1,700	2,983	2,965	2,650
Of which: privatizations	5,432	2,437	0	0	0	490	490
Capital transfers	2,934	3,177	900	599	1,390	1,540	1,440
Project grants	591	566	600	299	700	700	600
Trust Fund grants	1,891	1,269	0	0	490	840	840
Other	452	1,342	300	300	200	0	0
Disbursements	6,325	3,882	6,303	6,972	3,195	2,910	3,030
Central government	5,826	3,882	6,303	6,972	2,950	2,550	2,550
Of which: bridge loans	2,318	1,650	0	0	0	0	0
Public enterprises	0	0	0	0	0	0	0
Trust Fund — loans	499	0	0	0	245	360	480
Amortizations due	-3,716	-3,920	-3,732	-3,465	-2,381	-2,307	-2,674
Central government	-3,716	-3,920	-3,732	-3,465	-2,381	-2,307	-2,674
Public enterprises	0	0	0	0	0	0	
Trust Fund investments	-3,991	-3,708	0	0	-735	-1,690	-1,810
Privatizations	-1,600	-2,438	0	0	0	-490	-490
Loans	-499	0	0	0	-245	-360	-480
Grants	-1,891	-1,269	0	0	-490	-840	-840
Private capital flows	3,166	713	2,600	1,698	2,592	1,638	1,403
Portfolio flows	293	13	94	94	98	103	108
Banking system	...	...	1,817	775	212	244	219
Commercial credits 2/	1,441	-773	803	943	1,056	1,055	830
Other 1/	1,433	1,472	-114	-114	1,225	235	246
Net errors and omissions	3,131	911	1,759	2,847	0	0	0
Overall balance	5,114	-5,419	1,806	3,147	-1,295	-1,138	-732
Financing	-5,114	5,419	-1,806	-3,147	1,296	1,138	732
Change in net central bank reserves	-2,980	2,423	-300	-1,879	-275	-350	-535
Of which: net IMF disbursements	0	0	0	0	381	380	379
Arrears (+=increase)	-1,210	2,996	-1,506	-1,393	-650	-732	-463
Debt relief	0	0	0	125	123	120	120
Financing gap	0	0	0	0	2,098	2,100	1,610
Possible financing	0	0	0	0	2,098	0	0
World Bank	0	0	0	0	919	0	0
Others	0	0	0	0	1,179	0	0
Remaining financing gap	0	0	0	0	0	2,100	1,610

Table 7. Cape Verde: Balance of Payments, 1999-2004 (concluded)

	1999	2000	2001		2002	2003	2004
			SMP	Est.	Program		
	(In millions of euros, unless otherwise indicated)						
Current account	-81.5	-91.7	-47.2	-65.3	-75.6	-56.2	-43.3
Excluding official current transfers	-115.6	-119.5	-69.8	-69.4	-94.4	-79.6	-71.4
Trade balance	-200.4	-230.0	-199.7	-209.4	-218.9	-209.1	-214.0
Exports, f.o.b.	7.3	25.2	33.6	33.6	29.8	33.1	36.4
Merchandise exports.	3.0	2.7	2.4	2.4	2.5	2.6	2.7
Reexports of fuel (net)	5.5	22.7	27.7	27.7	22.6	25.5	28.4
Of which: Reexport of fuel (gross)	0.0	27.9	33.7	33.7	25.6	28.9	33.8
Intermediate goods (net)	-0.3	0.6	4.4	4.4	4.6	4.8	5.1
Repairs (net)	-0.8	-0.8	-0.9	-0.9	0.1	0.1	0.2
Imports, f.o.b. 1/	-207.7	-255.2	-233.3	-243.0	-248.6	-242.2	-250.4
Of which: fuel for reexport	0.0	-20.4	-20.2	-20.1	-18.8	-20.0	-20.4
Services (net)	-10.1	5.5	10.4	12.3	6.1	7.0	14.8
Credit	98.5	112.0	127.2	129.1	126.5	128.8	137.8
Of which: tourism	26.8	42.9	55.3	55.3	55.3	62.2	68.5
Debit	-108.6	-106.5	-116.8	-116.8	-120.4	-121.8	-123.0
Factor income (net)	-7.9	-12.1	-3.9	-3.9	-8.9	-9.7	-10.1
Of which: scheduled interest payments	-3.6	-8.3	-5.2	-4.3	-5.7	-7.3	-7.6
Technical assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trust Fund interest receipts	...	0.9	3.6	3.6	3.7	4.0	4.6
Current transfers (net)	136.9	145.0	146.0	135.7	146.0	155.7	166.0
Official	34.1	27.8	22.6	4.0	18.8	23.4	28.1
Of which: food aid	7.9	6.4	12.2	4.0	...	...	...
Private	102.8	117.2	123.4	131.7	127.2	132.3	137.9
Of which: remittances	73.2	87.1	85.9	86.9	83.9	87.9	91.9
Capital and financial account	99.5	34.3	79.5	68.0	63.9	45.8	36.6
Direct investment	56.7	33.0	24.5	15.4	27.1	26.9	24.0
Of which: privatizations	49.3	22.1	0.0	0.0	0.0	4.4	4.4
Capital transfers	26.6	28.8	8.2	5.4	12.6	14.0	13.1
Project grants	5.4	5.1	5.4	2.7	6.3	6.3	5.4
Trust Fund grants	17.2	11.5	0.0	0.0	4.4	7.6	7.6
Other	4.1	12.2	2.7	2.7	1.8	0.0	0.0
Disbursements	57.4	35.2	57.2	63.2	29.0	26.4	27.5
Central government	52.8	35.2	57.2	63.2	26.8	23.1	23.1
Of which: bridge loans	21.0	15.0	0.0	0.0	0.0	0.0	0.0
Public enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trust Fund — loans	4.5	0.0	0.0	0.0	2.2	3.3	4.4
Amortizations due	-33.7	-35.5	-33.8	-31.4	-21.6	-20.9	-24.2
Central government	-33.7	-35.5	-33.8	-31.4	-21.6	-20.9	-24.2
Public enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trust Fund investments	-36.2	-33.6	0.0	0.0	-6.7	-15.3	-16.4
Privatizations	-14.5	-22.1	0.0	0.0	0.0	-4.4	-4.4
Loans	-4.5	0.0	0.0	0.0	-2.2	-3.3	-4.4
Grants	-17.2	-11.5	0.0	0.0	-4.4	-7.6	-7.6
Private capital flows	28.7	6.5	23.6	15.4	23.5	14.9	12.7
Portfolio flows	2.7	0.1	0.9	0.8	0.9	0.9	1.0
Banking system	...	...	16.5	7.0	1.9	2.2	2.0
Commercial credits 2/	13.1	-7.0	7.3	8.6	9.6	9.6	7.5
Other 1/	13.0	13.3	-1.0	-1.0	11.1	2.1	2.2
Net errors and omissions	28.4	8.3	16.0	25.8	0.0	0.0	0.0
Overall balance	46.4	-49.1	16.4	28.5	-11.7	-10.3	-6.6
Financing	-46.4	49.1	-16.4	-28.5	11.8	10.3	6.6
Change in net central bank reserves	-27.0	22.0	-2.7	-17.0	-2.5	-3.2	-4.9
Of which: net IMF disbursements	0.0	0.0	0.0	0.0	3.5	3.4	3.4
Arrears (+=increase)	-11.0	27.2	-13.7	-12.6	-5.9	-6.6	-4.2
Agreed rescheduling/cancellation of arrears	-8.4	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	1.1	1.1	1.1	1.1
Financing gap	0.0	0.0	0.0	0.0	19.0	19.0	14.6
Possible financing	0.0	0.0	0.0	0.0	19.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	8.3	0.0	0.0
Others	0.0	0.0	0.0	0.0	10.7	0.0	0.0
Remaining financing gap	0.0	0.0	0.0	0.0	0.0	19.0	14.6
Memorandum items:							
Current account, incl. transfers (percent of GDP)	-14.9	-15.6	-7.5	-10.4	-11.3	-7.8	-5.6
Current account, excl. transfers (percent of GDP)	-21.1	-20.4	-11.1	-11.0	-14.1	-11.1	-9.2
Overall balance (percent of GDP)	8.5	-8.4	2.6	4.5	-1.8	-1.4	-0.9

Sources: Bank of Cape Verde; and staff estimates and projections.

1/ In 2002, includes a one-off investment project by the private energy company, financed by foreign loans.

2/ For 2001, assumes oil import financing of US$7.2 million.

Table 8. Cape Verde: External Public Debt, 1999-2001
(In millions of U.S. dollars, unless otherwise indicated; end of period)

	1999			2000			2001		
	Contracted	Disbursed	Outstanding	Contracted	Disbursed	Outstanding	Contracted	Disbursed Est.	Outstanding
Multilateral 1/	425.1	265.4	210.8	422.1	291.3	226.9	446.2	348.7	252.2
AfDF	115.6	74.4	71.6	125.8	81.6	77.9	124.9	96.6	86.2
IDA	152.8	88.2	86.8	144.6	103.7	101.9	157.6	111.9	110.1
BADEA	48.0	30.4	14.9	48.0	32.5	12.5	61.3	49.3	20.6
AfDB	21.1	21.1	6.8	17.1	17.1	1.3	16.5	16.5	1.3
EIB	16.9	14.3	10.4	16.9	14.3	9.0	15.6	12.0	8.1
OPEC	27.1	16.1	4.7	29.6	19.3	7.3	28.1	25.1	7.7
IFAD	25.4	10.9	10.1	24.1	11.1	10.2	25.0	21.7	8.9
Saudi Fund	2.3	2.8	0.7	2.3	2.3	0.0	4.0	4.0	0.3
NDF	2.9	2.3	2.3	2.9	2.3	2.3	2.9	2.9	2.9
NSF	13.0	4.8	2.7	10.8	7.1	4.5	10.4	8.7	6.2
Bilateral	119.1	100.0	84.6	126.0	100.0	74.4	139.7	111.8	70.7
Government	84.8	66.6	61.6	91.7	66.6	55.5	88.0	75.9	56.0
China	21.3	13.4	13.4	21.3	13.4	13.4	9.6	9.6	0.0
Kuwait	20.1	13.3	9.1	20.1	8.6	2.5	19.6	9.0	4.4
Portugal	21.6	18.4	18.4	29.2	24.2	24.2	44.9	43.2	41.3
South Africa	6.9	7.9	7.2	6.9	7.9	3.8	1.6	1.8	0.0
Abu Dhabi	1.5	0.2	0.2	1.5	0.2	0.2	0.2	0.2	0.2
Germany	13.4	13.4	13.4	12.7	12.3	11.4	12.1	12.1	10.1
Export credit agencies	34.3	33.4	23.0	34.3	33.4	18.9	51.6	35.9	14.7
Caisse Général des Dépôts (Portugal)	12.0	11.6	4.7	12.0	11.6	3.9	26.4	14.3	4.7
ICO (Spain)	7.3	6.8	6.8	7.3	6.8	6.7	7.3	6.8	1.3
CACEX (Brazil)	3.0	3.0	2.7	3.0	3.0	2.2	5.9	3.7	2.4
SOMEC (Portugal)	12.0	12.0	8.7	12.0	12.0	6.2	12.0	11.1	6.3
Private companies	...	...	...	...	...	...	16.8	8.5	8.2
Banco Esp. Santo	...	...	...	...	...	...	15.8	7.5	7.5
MSF	...	...	...	...	...	...	1.0	1.0	0.7
Total 2/	544.1	365.3	295.4	548.1	391.3	301.3	602.7	469.0	331.2
As percentage of GDP	96.9	65.1	52.6	100.6	71.8	55.3	108.4	84.3	59.6

Source: Cape Verdean authorities.

1/ African Development Fund; International Development Association; Arab Bank for Economic Development in Africa; African Development Bank; European Investment Bank; Organization of Petroleum Exporting Countries; International Fund for Agricultural Development; Saudi Fund for Development; Nordic Development Fund; Nigeria Special Fund.
2/ Excluding external arrears.

Table 9. Cape Verde: External Debt Arrears by Creditors, 1999-2001

(In thousands of U.S. dollars, unless otherwise indicated)

	Dec. 31, 1999			Dec. 31, 2000			Dec. 31, 2001		
	On principal	On interest	Total	On principal	On interest	Total	On principal	On interest	Total
Multilateral 1/	1,505	205	1,710	2,403	686	3,089	2,903	804	3,706
AfDF	0	20	20	0	17	17	0	0	0
BADEA	0	0	0	813	0	813	406	413	819
EIB	1,050	0	1,050	734	225	959	893	129	1,022
IFAD	0	128	128	91	44	135	0	0	0
OPEC	0	57	57	388	291	679	1,166	262	1,428
NDF	0	0	0	0	9	9	0	0	0
NTF	0	0	0	0	0	0	0	0	0
Saudi Fund	455	0	455	377	100	477	438	0	438
WB - IDA	...	...	...	...	...	...	0	0	0
Bilateral	1,627	439	2,066	22,768	1,947	24,715	8,829	2,733	11,562
Government 1/	25	439	464	14,741	308	15,049	1,148	792	1,940
Abu Dhabi	25	0	25	14	7	21	86	0	86
Kuwait	0	407	407	803	175	978	1,021	248	1,269
Portugal	0	32	32	13,924	126	14,050	40	544	584
China	...	...	...	...	...	...	0	0	0
Agencies	1,602	0	1,602	8,027	1,639	9,666	7,681	1,941	9,622
CACEX (Brazil)	0	0	0	757	167	924	1,006	185	1,191
ICO (Spain)	0	0	0	6,070	1,277	7,347	6,075	1,293	7,368
SOMAGUE (Portugal)	1,602	0	1,602	1,200	195	1,395	600	457	1,057
Caisse Général des Dépôts (Portugal)	...	...	...	...	...	...	0	7	7
Private companies	...	...	...	...	...	...	0	2	2
MSF (Portugal)	...	...	...	...	...	...	0	2	2
Total	3,132	644	3,776	25,171	2,633	27,804	11,732	3,539	15,270
(In millions of Cape Verde escudos)	337	69	406	2,989	313	3,302	1,466	442	1,909

Source: Cape Verdean authorities.

1/ African Development Fund; Arab Bank for Economic Development in Africa; European Investment Bank; International Fund for Agricultural Development; Organization of Petroleum Exporting Countries; Nordic Development Fund; Nigeria Trust Fund; Saudi Fund for Development; World Bank - International Development Association.
2/ Excluding Russia, where discussions are ongoing regarding the disputed debt stock. In the interim period, Cape Verde and Russia
reached understandings whereby Cape Verde paid a one-off amount and continues to make yearly installments of US$90,000.

Table 10. Cape Verde: Quantitative and Structural Benchmarks Under the July-December 2001 Staff-Monitored Program 1/ 2/

	2000	2001						
			Cumulative flows from end-June 2001					
	Dec.	June	Sep.			Dec.		
	Actual	Actual	Benchmarks	Adj. benchm. 3/	Actual	Benchmarks	Adj. benchm. 4/	Actual
I. Quantitative benchmarks								
			(In billions of Cape Verde escudos)					
1. Ceiling on net domestic credit to the central government from the banking system 5/	11.6	12.2	0.5	0.9	-0.8	0.7	0.6	-0.7
2. Ceiling on net domestic assets of the central bank 5/	9.5	9.4	0.4	0.8	-0.2	0.5	0.3	-0.7
3. Ceiling on the accumulation of domestic payments arrears by the central government 6/	1.5	2.3	0.2	0.2	0.0	0.3	0.3	0.0
4. Ceiling on the accumulation of new external debt arrears by the central government 6/	3.0	3.4	0.0	0.0	0.0	0.0	0.0	0.0
5. Ceiling on new public and publicly guaranteed nonconcessional external borrowing (excluding normal trade credits)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:								
			(In millions of euros)					
Floor on net international reserves of the Bank of Cape Verde (BCV) 7/	29.2	0.9	0.9	-2.6	1.5	1.9	3.4	16.2

II. Structural benchmarks	**Test Date**	
1. Approval of VAT legislation by the Council of Ministers	End-September 2001	Completed
2. Submission of VAT legislation to National Assembly	End-October 2001	Completed in December 2001
3. Approval by the Council of Ministers of revised central bank organic law, and other necessary legislation, to increase the independence of the central bank.	End-November 2001	Completed in February 2002

Sources: Cape Verde authorities; and staff estimates.

1/ Quantitative performance criteria are described in the technical memorandum of understanding (Appendix I, Attachment III).

2/ Program exchange rates are CVEsc 110.3 = EUR 1 and CVEsc 125 = US$1.

3/ Adjusted as described in footnotes 5 and 7, for the shortfall of EUR 5 million from the Portuguese credit facility at the time.

4/ Adjusted as described in footnotes 5 and 7, for the shortfall of EUR 7 million from the EU adjustment grant at the time, and an additional disbursement of a nonproject World Bank adjustment credit of US$ 7.5 million in December 2001.

5/ The ceiling will be adjusted upward (downward) by the cumulative downward (upward) deviations from program assumptions about nonproject disbursements from World Bank (EUR 0 million), European Union adjustment grants (EUR 7 million in 2001:Q4), and the Portuguese credit facility (EUR 5 million in 2001:Q3). Maximum cumulative adjustment not to exceed EUR 3.5 million.

6/ For 2001 program, cumulative benchmarks from end-July 2001 (instead of end-June 2001).

7/ The indicative floor on net international reserves of the Bank of Cape Verde will be adjusted downward (upward) by the cumulative downward (upward) deviations from program assumptions about nonproject disbursements from World Bank (EUR 0 million), European Union adjustment grants (EUR 7 million in Q4), and the Portuguese credit facility (EUR 5 million in Q3). Maximum cumulative adjustment not to exceed EUR 3.5 million.

Table 11. Cape Verde: External Financing Requirements, 1999-2004
(In millions of euros)

	1999	2000	2001	2002	2003	2004
			Est.		Prog.	
I. Gross financing requirements						
1. External current account deficit (excl. official transfers)	-115.6	-119.5	-69.4	-94.4	-79.6	-71.4
2. Amortizations on external public debt	-33.7	-35.5	-31.4	-21.6	-20.9	-24.2
3. Trust fund investments	-36.2	-33.6	0.0	-6.7	-15.3	-16.4
Privatizations	-14.5	-22.1	0.0	0.0	-4.4	-4.4
Loans	-4.5	0.0	0.0	-2.2	-3.3	-4.4
Grants	-17.2	-11.5	0.0	-4.4	-7.6	-7.6
4. Repayment of arrears (+=arrears incurred)	-11.0	27.2	-12.6	-5.9	-6.6	-4.2
5. Change in gross central bank reserves	-27.0	22.0	-17.0	-5.9	-6.6	-8.3
II. Available financing						
6. Direct investment	62.0	33.0	15.4	27.1	26.9	24.0
7. Private capital flows	28.7	6.5	15.4	23.5	14.9	12.7
Portfolio flows	2.7	0.1	0.8	0.9	0.9	1.0
Banking system	...	...	7.0	1.9	2.2	2.0
Commercial credits	13.1	-7.0	8.6	9.6	9.6	7.5
Other	13.0	13.3	-1.0	11.1	2.1	2.2
8. Disbursements from official creditors	105.0	79.0	68.7	41.6	40.4	40.5
Central government	52.8	35.2	63.2	26.8	23.1	23.1
Bridge loans	21.0	15.0	0.0	0.0	0.0	0.0
Trust Fund — loans	4.5	0.0	0.0	2.2	3.3	4.4
Project grants	5.4	5.1	2.7	6.3	6.3	5.4
Trust Fund grants	17.2	11.5	0.0	4.4	7.6	7.6
Other	4.1	12.2	2.7	1.8	0.0	0.0
9. Current official transfers	34.1	27.8	4.0	18.8	23.4	28.1
10. IMF disbursements	0.0	0.0	0.0	3.5	3.4	3.4
11. Agreed rescheduling/cancellation of arrears	-8.4	0.0	0.0	0.0	0.0	0.0
12. Debt relief	0.0	0.0	1.1	1.1	1.1	1.1
13. Possible financing	0.0	0.0	0.0	19.0	0.0	0.0
World Bank	0.0	0.0	0.0	8.3	0.0	0.0
Others	0.0	0.0	0.0	10.7	0.0	0.0
14. Financing gap	0.0	0.0	0.0	0.0	19.0	14.6
15. Other flows 1/	-2.1	6.7	-25.8	0.0	0.0	0.0

Sources: Cape Verdean authorities; and staff estimates and projections.
1/ Includes all other net financial flows, and errors and omissions.

Cape Verde: Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Attached hereto is a letter (the "Letter") dated March 11, 2002, with its annexed Memorandum on Economic and Financial Policies (the "Memorandum") and Technical Memorandum of Understanding ("the Technical Memorandum"), from the Minister of Finance and Economic Planning of Cape Verde requesting from the International Monetary Fund, as Trustee of the Poverty Reduction and Growth Facility Trust (the "Trustee"), a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of Cape Verde intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of Cape Verde intend to pursue during the first year of the arrangement; and

(c) understandings of Cape Verde with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Cape Verde will pursue for the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust, as amended.

1. (a) For a period of three years from April 5, 2002, Cape Verde will have the right to request loan disbursements from the Trustee in a total amount equivalent to SDR 8.64 million, subject to the availability of resources in the Poverty Reduction and Growth Facility Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 3.70 million until April 4, 2003, the equivalent of SDR 6.17 million until April 4, 2004 and the equivalent of SDR 8.64 million until April 4, 2005.

(c) During the first year of the arrangement:

(i) the first loan, in an amount equivalent to SDR 1.23 million, will be available on April 5, 2002, at the request of Cape Verde;

(ii) the second loan, in an amount equivalent to SDR 1.23 million, will be available on November 1, 2002 at the request of Cape Verde subject to paragraph 2 below; and

(iii) the third loan, in an amount equivalent to SDR 1.23 million, will be available on March16, 2003 at the request of the Cape Verde subject to paragraphs 1(d) and 2 below.

(d) The conditions for the third loan referred to in paragraph 1(c)(iii) above shall be determined in the context of the first review of Cape Verde's program with the Trustee contemplated in paragraph 2(e) below. The right of Cape Verde to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement shall be determined in the context of the second review of Cape Verde's program with the Trustee contemplated in paragraph 2(e) below.

2. Cape Verde will not request the disbursement of the second loan specified in paragraphs 1(c)(ii) above:

(a) if the Managing Director of the Trustee finds that, with respect to the second loan, the data as of end-June 2002, indicate that:

(i) the ceiling on the net domestic credit to the central government from the banking system, or

(ii) the ceiling on the net domestic assets of the central bank, or

(iii) the ceiling on the accumulation of new domestic payment arrears by the central government, or

(iv) the floor on the net international reserve of the central bank, or

(v) the ceiling on contracting or guaranteeing by the central government of nonconcessional external debt with a maturity of more than one year, or

(vi) the ceiling on the outstanding stock of nonconcessional external debt with a maturity of less than one year owed or guaranteed by the central government,

referred to in paragraph 41 and Table 1 of the Memorandum, was not observed; or

(b) if the Managing Director of the Trustee find that, with respect to the second loan, Cape Verde has not carried out its intentions with regard to the following structural performance criteria by June 30, 2002:

(A) the new organic central bank law to strengthen statutory independence of the central bank becoming effective as specified in paragraph 27 and Table 2 of the Memorandum; and

(B) approval by Council of Ministers of the automatic and transparent pricing mechanism for retail petroleum products, publication of the mechanism in the official gazette and implementation of such mechanism as specified in paragraph 30 and Table 2 of the Memorandum; or

(c) if, at any time during this arrangement, the central government accumulates any external payment arrears as specified in paragraph 41 and Table 1 of the Memorandum; or

(d) if Cape Verde has:

(i) imposed or intensified restrictions on payments and transfers for current international transactions, or

(ii) introduced or modified multiple currency practices, or

(iii) concluded bilateral payments agreements that are inconsistent with Article VIII, or

(iv) imposed or intensified import restrictions for balance of payments reasons; or

(e) until the Trustee has determined that with regard to the second loan, the first review of Cape Verde's program scheduled for completion no later than October 31, 2002, and with regard to the third loan, the second program review scheduled for completion no later than March 15, 2003, referred to in paragraph 41 of the Memorandum has been completed.

If Cape Verde is prevented from requesting disbursements under this arrangement because of this paragraph 2, such disbursements may be made available only after consultation has taken place between the Trustee and Cape Verde and understandings have been reached regarding the circumstances in which Cape Verde may request further disbursements.

3. In accordance with paragraph 3 of the Letter, Cape Verde will provide the Trustee with such information as the Trustee requests in connection with the progress of Cape Verde in implementing the policies and reaching the objectives of the program supported by this arrangement.

4. In accordance with paragraph 4 of the Letter, during the period of this arrangement, Cape Verde shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while Cape Verde has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, Cape Verde will consult with the Trustee from time to time, at the initiative of the government or whenever the Managing Director of the Trustee

requests consultation on Cape Verde's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to Cape Verde or of representatives of Cape Verde to the Trustee.

March 11, 2002

Mr. Horst Köhler
Managing Director
International Monetary Fund
700-19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Dear Mr. Köhler:

The government of Cape Verde implemented during the period August-December 2001 a wide-ranging economic stabilization and adjustment program that was informally monitored by Fund staff. The staff-monitored program (SMP) helped stabilize the macroeconomic situation and facilitated our dialogue with other multilateral agencies and donors.

The attached memorandum of economic and financial policies reviews performance under the SMP and sets out the objectives the government of Cape Verde intends to pursue in the context of a new medium-term program covering the period January 1, 2002-December 31, 2004. To facilitate the achievement of these objectives and implementation of the necessary policies, the government requests a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 8.64 million (90 percent of quota).

The government will make every effort to improve the coverage and timeliness of economic and financial statistics and provide the IMF with such information the Fund requests to monitor the program adequately. In this context, the government will consult regularly with the IMF staff and keep it informed of the progress in the implementation of economic and social policies.

The government believes that the policies and measures described in the attached memorandum are adequate to achieve its program objectives but will take any further measures that may prove necessary for this purpose. After the period of the new PRGF arrangement and for as long as Cape Verde has outstanding financial obligations to the Fund arising from the loans under the arrangement, the government will consult with the Fund from time to time, at the initiative of the government or whenever the Managing Director requests consultation, on Cape Verde's economic and financial policies.

The government of Cape Verde will conduct with the Fund two reviews of the first annual program supported by the new arrangement, the first not later than end-October 2002 and the second before end-April 2003.

Sincerely yours,

/s/

Carlos Augusto Duarte Burgo
Minister of Finance and Economic Planning

Attachment

Cape Verde: Memorandum of Economic and Financial Policies for 2002-04

I. Introduction

1. **Following a period of strong economic growth and accelerated implementation of structural reforms, the macroeconomic situation deteriorated considerably and the reform agenda stalled in the run-up to the legislative and presidential elections in early 2001**. Following national elections in January and February 2001, the new government that took office committed itself to a substantial tightening of financial policies during the second half of 2001, as well as an acceleration of structural reforms, in the context of a staff-monitored program (SMP) with the IMF. This memorandum reviews performance under the August-December 2001 SMP, presents the medium-term objectives of the government's program, and sets out the policies and measures the government of Cape Verde intends to pursue in the first year of the program.

2. To guide its policy framework, **the government has prepared an interim poverty reduction strategy paper (I-PRSP) in a national consultative process** with civil society. The government's full poverty reduction strategy will be developed in the coming year, focusing on a framework to achieve broad-based improvements in living standards in the context of a sustainable high-growth strategy, improved governance and transparency, and enhanced delivery of social services.

II. Performance Under the August-December 2001 SMP

3. **Performance under the SMP was satisfactory, and all quantitative benchmarks were met.** The central government during the second half of the year managed to reduce its indebtedness vis-à-vis the banking system by CVEsc 0.7 billion (1 percent of GDP), compared with a programmed increase in domestic bank financing of CVEsc 0.7 billion. Concomitantly, net domestic assets of the central bank decreased by CVEsc 0.7 billion over the same period, compared with a programmed increase of CVEsc 0.5 billion. In addition, the government regularized a good part of its stock of domestic arrears (through reschedulings and cancellations) without accruing new domestic arrears. There was also no new accumulation of external debt arrears by the central government or nonconcessional external borrowing during the program period.

4. **An overall fiscal surplus (including grants) of CVEsc 1.2 billion was recorded in the second half of 2001, compared with a programmed deficit of CVEsc 0.4 billion**. The sizable improvement in the fiscal position is explained in part by the strong increase in domestic revenue, which exceeded forecasts by CVEsc 2 billion, reflecting improved tax administration, the exceptional collection of tax and nontax revenue arrears, and unexpectedly large profit transfers from public enterprises. These higher domestic receipts were able to offset, to a large degree, smaller-than-programmed capital grants and the

delayed disbursement of European Union budget support.[1] At the same time, **expenditures were contained well below program ceilings,** aided by lower capital expenditure (primarily foreign financed), the large increase in domestic retail petroleum prices (which virtually eliminated the government's domestic petroleum subsidy to consumers), and the reduction in loans to university students abroad. These reductions, however, were in part offset by larger transfers to municipalities and public institutions. Nonetheless, the overall fiscal deficit in 2001 was limited to 3 percent of GDP, well below the deficit target of 5 percent.

5. **In the wake of the fiscal consolidation observed in the third and fourth quarters, monetary aggregates continued to stabilize**. Broad money expanded by 9½ percent in 2001, compared with an increase of 13 percent in the previous year. Money growth was constrained as the banking system's net claims on the central government fell by 0.4 percent, while credit to the private sector increased by 6.9 percent and net foreign assets of the banking system increased by 5.8 percent (as a share of beginning-of-period broad money). Gross international reserves of the Bank of Cape Verde (BCV) increased sharply, by €17 million, during the third and fourth quarters. At the end of 2001, international reserves stood at €47½ million (equivalent to US$42 million, or 1.6 months of imports). This sharp increase was due, in large part, to purchases from commercial banks reflecting sizable emigrants' deposits, the World Bank's end-December disbursement of US$7.5 million, and the BCV's one-off purchase of some US$8 million in foreign currency from commercial banks; the BCV's purchase, in turn, reflected customers' conversions of euro zone countries' currency notes into local currency in advance of the introduction of the euro.

6. **The government made good progress on the structural front**. The Council of Ministers approved the legislative framework for introducing a value-added tax (VAT) and the liberalization of the external tariff regime in September (a structural benchmark) and submitted it to the National Assembly for approval in December (also a structural benchmark). Submission to the National Assembly was delayed by two months, owing to the complex nature of the necessary technical support documents. The government drafted a revised central bank organic law, with assistance from Fund staff, which was approved by the Council of Ministers in February 2002 three months later than anticipated, as a consequence of the lengthy review of the technical issues involved by legal and banking experts. In addition, an international team of experts, with World Bank assistance, reviewed the administered price mechanism for domestic petroleum products and presented initial recommendations to the government in November for the introduction of an automatic and transparent pricing mechanism in 2002.

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[1] The European Union adjustment grant (€7 million) was delayed, while the World Bank structural adjustment credit (US$7.5 million) was accelerated and disbursed in December.

III. Program for 2002-04

A. The Poverty Reduction Framework for the Medium-Term Program

7. **Cape Verde has a well-developed poverty reduction strategy based on the 1997-2000 National Development Program (NDP) and the National Poverty Alleviation Plan (NPAP).** The NDP is a comprehensive framework with macroeconomic stability, private sector-led growth, and social and environmental sustainability as key objectives. The NPAP consciously targets rural poverty, while aiming at an improvement in the overall effectiveness of poverty reduction programs. The NPAP is based on three pillars: (i) labor-intensive public works financed largely by counterpart funds generated from donated food aid; (ii) economic integration of the poor; and (iii) a social emergency fund, geared to respond to disasters and epidemics. The new administration updated this vision in a document presented to parliament in November 2001 that describes the government's economic development and poverty objectives, as well as its policy priorities for the 2002-04 period. Known as the Grandes Opções do Plano, this paper outlines the government's sectoral objectives and priorities. The five priorities are (i) the promotion of good governance; (ii) support for private sector-led growth and the broadening of the productive base; (iii) the development of human capital; (iv) the promotion of a holistic approach to fighting poverty; and (v) a balanced development of infrastructure across the territory of Cape Verde.

8. To help design and implement the programs and policies that will achieve these objectives, in a way that is consistent with the overall macroeconomic framework, **the government is developing a comprehensive poverty reduction strategy paper (PRSP), which it expects to complete in 2002-03**. As a first step, the government prepared in January 2002 an interim PRSP (I-PRSP) that provides a framework for the development of the full strategy. The I-PRSP contains a diagnosis of the poverty situation, including an analysis of the socioeconomic composition of poverty and the quality and timeliness of poverty statistics. The I-PRSP presents the priority focus of the poverty strategy, including increasing income and productive employment opportunities across the country, enhancing the capacity of the public sector to implement policy reforms and program mandates, improving access to social services, and strengthening governance and human development. Consistent with this strategy, this memorandum presents the government's medium-term program for the period January 1, 2002-December 31, 2004 and the specific objectives and policies it will pursue during the first year of the program.

B. Medium-Term Program Objectives

9. Over the medium term, **the government will focus on maintaining macroeconomic stabilization and a policy environment that encourages a broad-based increase in economic growth and poverty reduction**. While economic growth decelerated somewhat in 2001, partially reflecting an uneven rainy season and the deteriorating global environment unfolding in the wake of the events of September 11, 2001, real GDP growth is expected to increase significantly over the medium term. This growth will be led by strong private sector

investment and improvements in basic infrastructure, which will boost tourism and the nascent export sector, and by a continued strong performance in the construction and services sectors.

10. **The key macroeconomic objectives of the program are** to (i) increase the annual rate of economic growth from 3 percent in 2001 to 4½-5 percent by 2004; (ii) reduce the annual rate of inflation from 4 percent in 2001 to that of Cape Verde's major trading partners by 2004 (2-2½ percent); (iii) reduce the external current account deficit (including grants) from 10½ percent of GDP in 2001 to 5½ percent in 2004; and (iv) increase gross international reserves from 1.6 months of imports of goods and services in 2001 to 2.2 months in 2004. The improvement in growth would be supported by a rebound in domestic investment from 20 percent of GDP in 2001 to 22-22½ percent in 2004. The program also targets a broad-based reduction in poverty, including, in particular, a sustained reduction in infant mortality rates and an increase in life expectancy.[2]

11. To achieve these objectives, **the government will ensure a supportive macroeconomic framework**, including (i) a stable macroeconomic environment, with an appropriately constrained fiscal and monetary policy stance, necessary to support the pegged exchange rate and encourage private investment; (ii) the elimination of domestic and external payments arrears and the timely payment of debt service; (iii) a more focused role for the public sector in the economy, including through divestiture, deregulation, and civil service reform; (iv) the acceleration of the domestic debt-reduction operation, with a view to reducing markedly the domestic debt-to-GDP ratio; and (v) the improved targeting of public expenditure to the social sectors, and the greater effectiveness of that expenditure, including improvements in the delivery of health and education services.

C. Program for 2002

12. The government's program for 2002 aims at ensuring macroeconomic stability and restoring internal and external viability; bringing the economy onto a sustainable growth path; and accelerating efforts to reduce poverty. Within this framework, **the main macroeconomic objectives of the program are to** (i) maintain annual economic growth in a range of 2½-3 percent; (ii) reduce end-period inflation to 3 percent; and (iii) increase gross international reserves by €6 million (to 1.7 months of imports).

[2] Infant mortality rates fell from 74 per thousand in 1987 to 56 in 1997, while life expectancy increased from 64 years to 68 years over the same period. In 1998, in comparison, infant mortality rates for Sub-Saharan Africa were 92 per thousand, and life expectancy was 50 years.

Fiscal policy

13. Following the significant improvement in fiscal performance in 2001, fiscal policy for 2002 is geared toward continuing the consolidation. **In the context of a substantial reduction in domestic and external arrears and sizable retrenchment outlays associated with the liquidation of two public enterprises, the overall fiscal deficit** (including grants) is targeted to remain at 3 percent of GDP (CVEsc 2.2 billion) in 2002, after falling from 19 percent of GDP in 2000; the primary current surplus is expected to increase from 3 percent to 3½ percent of GDP (CVEsc 2.6 billion) over the same period. This outcome will be achieved through spending restraints and targeted revenue measures. In order to ensure the government's ability to pay—in a timely manner—all authorized expenditures, the treasury will strengthen internal control mechanisms, prioritize spending, and ensure the availability of resources for committed expenditures. The government is committed to achieving the fiscal targets agreed under the program, which are based on lower domestic revenue projections and lower expenditures than included in the budget approved by the National Assembly. Lower domestic revenue estimates reflect, in large part, the estimated impact of the events of September 11, 2001 on tourism and remittances, the impact of slower world economic growth in 2002, and the nonreoccurrence of a number of one-off measures in 2001 (including the collection of tax and nontax revenue arrears). The lower domestic revenue projections under the program in 2002 will be partially offset by larger foreign grants. In addition, the government will meet the reduced expenditure targets under the program by using its statutory authority to limit transfers to institutions and capital expenditure.

14. As the government accelerates its efforts to reinforce tax administration and payment discipline and introduces several additional tax measures, **domestic revenue (including domestic capital participation and net loan repayments) is projected to stabilize in the range of 22 percent of GDP in 2002 (CVEsc 16.4 billion), after increasing substantially in 2001.** Revenue measures in 2002 include actions in six areas. First, an increase in the tax on certain unsubsidized petroleum products will cover the amortization costs associated with repaying the regularized domestic debt accumulated with the petroleum companies. (This increase will be introduced in concert with the new petroleum price mechanism by end-June 2002 and is expected to generate some CVEsc 140 million in 2002). Second, the customs user fee will be increased by 1 percentage point to 9 percent. Third, the temporary reduction in the preferential tax rate for commercial banks introduced in 2000 will be eliminated. Fourth, tax arrears will be collected through the formation of a special tax collection task force. Fifth, profit transfers will be increased as government reviews the audited accounts of selected public enterprises. Finally, the collection of debt service due to the government from public enterprises will be improved.

15. **Structural reforms in the fiscal area aim at expanding the tax base and strengthening revenue collection.** These reforms will center on the replacement of the consumption tax (levied on imported commodities) with a broad-based VAT at a uniform rate of 15 percent and the liberalization of the external tariff regime. The VAT and tariff reform proposals were approved by the Council of Ministers in September 2001 and submitted to the National Assembly in December 2001. The government will undertake

considerable preparatory work, with the assistance of several bilateral and multilateral donors, during the remainder of 2002 to ensure the successful introduction of the VAT on January 1, 2003, including (i) restructuring the VAT committee and the National Tax Institute; (ii) providing training to the tax administration; (iii) installing the necessary information systems; and (iv) undertaking a nationwide publicity campaign during the remainder of 2002.

16. **The government inherited a system of numerous custom and tax exemptions for a wide variety of sectors**. While the government continues to support the exemption from taxes and duties of certain high-priority sectors and diplomatic missions, it intends to undertake a review of exemptions by end-September 2002, and to introduce measures to prioritize their application and reduce the level, in the context of the 2003 budget.

17. Following the dramatic reduction in expenditures in 2001, **public spending will continue to be strictly limited**. As a result, primary current expenditures, as a share of GDP, will fall from 19 percent in 2001 to 18 percent in 2002 (CVEsc 13.3 billion). The continued expenditure consolidation will be achieved through the implementation of the following measures:

- After having effectively eliminated petrol price subsidies in 2001 (through increases in the administered price), the government will introduce an automatic and transparent pricing mechanism for retail petroleum products by end-June 2002 to delink the budget from fluctuations in the world market price.

- The government will limit the increase in public sector salaries to 2.5 percent, in line with the wage negotiations concluded with the trade unions in November 2001. The overall wage bill will increase by 6 percent reflecting the salary increase, the hiring of some 200 additional teachers, and the increase in tax administration staff to meet a critical shortage.

- During 2002, and before a new financing mechanism is established for university-level student scholarships abroad, the government will continue to limit monthly subventions.

- The treasury will further strengthen its efforts to (i) prioritize expenditure; (ii) verify—prior to a spending authorization—that sufficient funds are available to pay for the corresponding goods and services in a timely manner; and (iii) identify and eliminate wasteful expenditure.

- The government will accelerate the divestiture program for public enterprises in order to reduce subventions and limit a further buildup in contingent liabilities of the central government.

18. **The government is confident that these measures will be sufficient to ensure that the overall fiscal deficit target is met.** However, it is prepared to institute further revenue-enhancing and expenditure-reducing measures, if necessary, to meet the performance benchmarks. In this regard, the government will undertake a formal review of budget performance at the end of each quarter and adjust expenditure in the subsequent quarter (focusing on transfers to institutions and capital expenditure) so as to meet the cumulative fiscal deficit benchmarks.

19. As outlined in the I-PRSP, **the government will ensure adequate funding for priority social sectors**, primarily health and education, protecting them from possible across-the-board expenditure cuts (should these become necessary). Current expenditure on health and education will be maintained at 6 percent of GDP in 2002. In addition, the government will broaden the pension scheme to encompass elderly and disabled FAIMO (public works) workers. In this context, the government will undertake a comprehensive public expenditure review (PER), with World Bank support, to analyze the adequacy and effectiveness of expenditures, especially those in the social sectors. This information will be an important input into the preparation of the full PRSP. A draft PER is expected to be completed by July 2002.

20. Particular emphasis will be placed on ensuring—in a sustainable manner—that **qualified students in Cape Verde continue to have access to tertiary education**. In July 2000, the government took over from the banking sector the responsibility for a system of de facto scholarships, adding to fiscal outlays the equivalent of more than 1 percent of GDP in that year. During 2001, as costs continued to accelerate, the government reduced the level of fiscal support for overseas scholarships. In 2002, with donor assistance, the government's reform efforts in this area will be based on the following key principles and goals: (i) qualified students in Cape Verde should have access to some form of financing; (ii) a socially responsible mechanism should be introduced, to ensure that beneficiaries, after graduation, repay student loans in a timely manner; and (iii) the treasury's net contribution to funding tertiary education should fall to a sustainable level. The government has encouraged the development of commercial bank financing mechanisms (although without financial support) to achieve these ends and commercial banks have begun providing unsubsidized finance.

21. **Disbursements of capital expenditure are projected in the range of 8 percent of GDP in 2002**, including a contribution by the government equivalent to 2 percent of GDP. To better leverage donor contributions, the government intends to strengthen public investment planning and programming. It will therefore institute, on a quarterly basis, meetings of locally represented donors and the Ministry of Finance and Economic Planning to review proposed disbursement schedules and actual disbursements. It is hoped that the meetings will also lead to improved discussion of project and sector priorities, as well as enhanced donor coordination and information sharing.

22. **Expenditure management remains a key concern**, and the government has sought technical assistance from donors to help it to improve its control over spending. An

externally financed budget advisor is expected to begin work during the first quarter of 2002. The government will continue its current implementation of a two-tier liquidity buffer, by which 10 percent of proposed transfers to autonomous institutions and 15 percent of certain proposed transfers to nonautonomous institutions are withheld.

23. During the program period, **the government intends to improve its oversight and accounting of counterpart funds** generated by domestic market sales of donated food aid. As a first step, a program review of food aid sales and allocations of counterpart funds will be completed by end-June 2002. Based on this review, the government will institute transparent and detailed guidelines for the generation and use of counterpart funds, in consultation with relevant donors, by end-October 2002.

24. **The outstanding stock of domestic arrears at end-2001 is estimated at CVEsc 3 billion**. The government is committed to regularizing the stock of these arrears through a combination of cash payments and restructuring agreements and will complete negotiations by end-June 2002 with the remaining domestic creditors to regularize such arrears. In addition, the government will not accrue new domestic arrears during the program period.

25. **Transparency and good governance in public finances are important objectives of the government**. In this regard, the government will transmit the final 2001 budget accounts to the National Assembly by end-December 2002, after which an independent audit of the accounts for 2001 will be completed by the Tribunal de Contas.

Monetary and financial sector policies

26. **Complementing the fiscal efforts, monetary policy during 2002 aims at stabilizing the macroeconomic situation and supporting the exchange rate peg,** with gross international reserves of the BCV programmed to increase by €6 million (to 1.7 months of imports). In the context of the further consolidation of the fiscal position, net domestic assets of the banking system are projected to rise by 5½ percent (as a share of beginning-of-period broad money) in 2002, while net credit to the central government would increase by 2 percent (also as a share of beginning-of-period broad money). The reduction in the growth of net credit to the central government should allow for an expansion in credit to the private sector in the range of 3½-4 percent (in terms of beginning-of-period broad money), while broad money is expected to expand by 6½ percent, in line with nominal GDP growth. The central bank is committed to actively utilizing the monetary instruments at its disposal (including discount rates, open market operations and its liquidity absorption facility) in order to control liquidity and achieve the monetary targets established under the program. The BCV will also continue to closely monitor the health of the banking system, including strengthening its supervision of commercial banks.

27. **The government believes that a fully independent central bank is necessary** to ensure macroeconomic stability and support the exchange rate regime, and it is committed to granting the BCV such independence. Consequently, a new central bank organic law **which**

ensures the statutory independence of the central bank and international best practices will become effective by end-June 2002 (a structural performance criterion under the program). The new central bank law will, among other things, establish price stability as the overriding policy objective of the central bank, prohibit government borrowing from the central bank (with the exception of a temporary and limited overdraft account that must be cleared at the end of each year), limit central bank "lender-of-last-resort" financial support to commercial banks, and establish a transparent process for appointing the central bank governor and board members. The government and the BCV redrafted the central bank organic law, with technical assistance from the IMF, in late 2001, and it was approved by the Council of Ministers in February 2002.

Structural policies

28. **A major component of the program is the liberalization of the external tariff regime**, which will lower average rates, reduce the number of tariff bands, remove inconsistencies in the taxation of similar items, and eliminate customs fees and minor taxes. The new tariff structure will be streamlined into seven tariff bands ranging from zero to fifty percent, with the average unweighted tariff rate lowered from 23½ percent (including the 9 percent customs fee) in the present tariff regime to 12½ percent. The new tariff regime will be introduced on January 1, 2003, in conjunction with the VAT, with IMF and other donor technical assistance. The combined impact of the introduction of the VAT and the lowering of tariff rates is expected to be revenue neutral.

29. The government intends to accelerate, with the support of the World Bank, the public enterprise reform program, taking into account the changing market environment and financial position of the remaining parastatals. **EMPA (the food import and distribution company) and TRANSCOR (an urban transport company active in Mindelo and Praia) are slated to be liquidated in 2002.** Given the substantial retrenchment costs associated with liquidation, the government is seeking financial support from its key bilateral and multilateral partners, but it will nonetheless move ahead with the planned liquidations, given the rapid accrual of contingent liabilities. SALMAR (a cold storage company) and CERIS (the brewery) were sold in late 2001. During 2002, a second cold storage company (INTERBASE), the shipyards (CABMAR/CABNAV), and the national airline (TACV) will be made ready for privatization.

30. A study of the oil sector in Cape Verde was completed in November 2001, with the support of the World Bank. It clarified the pricing system for oil distillates distributed in Cape Verde and addressed key issues, including cost efficiency, equity, and an assessment of the distributors' past submissions to government for compensation of fuel sold at fixed domestic prices. On the basis of the study's findings, **the government will regularize its arrears with the oil distributors by end-June 2002. In addition, the government will implement an automatic and transparent pricing mechanism for retail petroleum products, with the publication of such a mechanism in the official gazette and implementation of such mechanism by end-June 2002 (a performance criterion under the program).** The new pricing mechanism will be approved by the Council of Ministers and

published in the official gazette by end-June 2002. The mechanism will require automatic, transparent, and timely changes to domestic retail prices of petroleum products based on changes in world market prices. The oil pricing policy will ensure that the government will not incur any new liabilities related to domestic petroleum sales, while ensuring adequate distribution of oil to all islands. Any price subsidies proposed for specific products (in particular, butane) will be targeted specifically to the poor and transparently included in the budget.

31. **The government is committed to improving the delivery of social services**, including specific policies aimed at (i) increasing the poor's access to social services; (ii) containing the spread of HIV/AIDS; and (iii) strengthening food security programs. This will be accomplished, first, by undertaking an extensive review of current expenditure policies by July 2002 and developing a medium-term expenditure plan to protect these services. In addition, the government will analyze the poverty and social impact of key measures to be supported by the program, including the impact of the proposed changes to the petroleum price mechanism, in order to minimize their impact on the poor.

Domestic debt-reduction operation

32. To address Cape Verde's sizable and unsustainable domestic debt burden, **the government is seeking donor support for the continuation and acceleration of the stalled domestic debt-reduction operation (DDRO)** under the Trust Fund, which began in 1998.[3] The government will convene a donor roundtable in the first half of 2002 to discuss continuing the DDRO. The program will be based on the principles of sequenced disbursements, tied to further fiscal consolidation and an improvement in the quality of public expenditure, as well as continued burden sharing between the government and donors. In light of the increased stock of domestic debt (estimated at some CVEsc 17 billion at end-2001, or 24 percent of GDP), the government will consider expanding the scope of the original Trust Fund design to take into account the new debt situation. The government is targeting a reduction in the domestic debt-to-GDP ratio to some 20 percent by end-2004.

The PRSP process

33. The I-PRSP provides an outline of the process to be undertaken to complete the full PRSP, including the collection and analysis of poverty data, addressing institutional issues and involving civil society, as well as more operational issues. **A nationwide participatory process is planned for developing the PRSP**, with various consultative groups identified, including groups organized along thematic lines, such as education, health, the environment, private sector development, macroeconomic management, etc. These groups will provide advice on specific issues (technical, managerial, sectoral, etc.) as they arise. A separate,

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[3] The Trust Fund includes €100 million in contributions that were used to reduce the debt stock.

broad-based group will act as a steering committee for the PRSP. Its role will be to ensure that policies proposed under the PRSP are consistent with the macroeconomic framework, and that execution, reporting, and monitoring mechanisms are adequate to support the objectives of the PRSP.

External sector policies

34. **A key objective of Cape Verde's external policy is to enhance external competitiveness and promote nontraditional exports** in order to achieve external viability and strengthen growth prospects. In particular, opportunities presented as a result of the soon-to-be-granted duty-free access to the U.S. market will be vigorously pursued, including through the attraction of foreign private investment for light industry. To boost the potential return from these activities, the government intends to strengthen its foreign investment promotion center and relations with potential investors. The government is aware that the pursuit of prudent fiscal and credit policies, as well as the implementation of the envisaged structural reforms, will be key to strengthening Cape Verde's external position.

35. Given Cape Verde's openness and the particular importance of tourism, international transportation services, and workers' remittances, **it is expected that the country's external position will be affected in 2002 by the deterioration in the global economic environment after September 11, 2001**. In particular, tourism receipts are projected to remain at the levels seen in 2001, while workers' remittances—largely originating from the United States and Portugal—are expected to fall by some 3½ percent, reflecting the considerable deceleration of growth rates, and the rise in unemployment rates, in the countries of origin. As a result, Cape Verde's external current account deficit (excluding transfers) is expected to widen by 3 percentage points of GDP in 2002 (to 14 percent of GDP), with the overall balance deteriorating by 6 percentage points to –2 percent of GDP.

36. **The government has developed a plan to eliminate the stock of external arrears** (estimated at US$15 million at the end of-2001), based on understandings reached with each of its multilateral and bilateral creditors. Discussions with export credit agencies will be completed by end-June 2002. Based on these understandings, the outstanding stock of multilateral external payments arrears will be eliminated through cash payments and reschedulings by end-June 2002. Given the already high level of Cape Verde's external public debt (60 percent of GDP at end-2001), the government will refrain from contracting any new nonconcessional debt over the program period.[4]

37. **The Ministry of Finance is committed to improving its management of public sector external debt**. Toward this end, it has begun to improve its database on debt and debt service. To further its efforts, the Ministry of Finance and Economic Planning has established

[4] At the end of 2001, the estimated stock of external public debt was US$331 million, excluding arrears.

a committee responsible for the management of public sector external debt. The committee, which meets monthly, including the Office of the Treasury (DGT), the Budget Office (DGO), the BCV, and the Office of International Cooperation at the Ministry of Foreign Affairs, is responsible for reviewing the government's rolling monthly cash-flow plan for the payment of external debt-service obligations falling due, verifying payments made, and eliminating the outstanding stock of external arrears through cash payments and rescheduling arrangements.

Capacity building and technical assistance

38. The implementation capacity of the government to implement the package of policies needed to achieve the overarching objectives of the program will be enhanced in 2002. First, a key ingredient in ensuring the success of the program will be the government's ability to adequately monitor performance. In this area, **the government will improve the quality and timeliness of key economic and financial statistics during the program period, including the national income accounts, the consumer price index (CPI) and the balance of payments.** In this regard, the National Statistics Institute (INE) expects to complete the compilation of the national accounts for 1998-2000 by end-September 2002 and to rebase the series to 2002. In addition, the INE will revise by end-2002 the market basket and weights used to calculate the CPI, based on the current household survey. In addition, the BCV, with the assistance of the IMF, will improve the coverage and quality of the balance of payments statistics during 2002.

39. **The government has established a formal interagency program monitoring committee to implement its poverty reduction and growth program.** The committee, chaired by the Ministry of Finance and Economic Planning, includes key ministries, the central bank, and the INE. The committee will review monthly macroeconomic developments as well as program implementation, and will prepare monthly reports to the Minister of Finance and Economic Planning on performance under the program, which will be forwarded to the IMF on a monthly basis.

40. To improve its capacity to implement the program, **the government will receive assistance from the World Bank in strengthening its expenditure allocation and review process** and from the other multilateral and bilateral donors in budget planning, expenditure control, treasury operations, and external debt management. Implementation of the program will be improved by the early provision of this important technical assistance.

D. Program Monitoring

41. **Program implementation for the first year under the PRGF arrangement will be monitored according to performance criteria and benchmarks presented in Tables 1 and 2** (attached). Table 3 describes the government's broader economic reform objectives for 2002. The definitions of the variables monitored as quantitative performance criteria and benchmarks are contained in the technical memorandum of understanding (Attachment III). Program implementation and the economic results associated with the program will be

subject to two reviews per annum, the first by end-October 2002 and the second by March 15, 2003. Indicative performance benchmarks for end-March and end-June 2003 and the performance criteria for end-December 2002 will be set at the time of the first review.

Table 1. Cape Verde: Quantitative Performance Criteria and Benchmarks Under the First Annual Program Supported by the PRGF Arrangement 1/ 2/

		2001	2002			
			Cumulative flows from end-December 2001			
		Dec.	Mar.	Jun.	Sep.	Dec.
		Est.	Indicative benchmark	Performance criteria	Indicative benchmark	Indicative benchmark
I.	**Quantitative benchmarks**		(In billions of Cape Verde escudos)			
1.	Ceiling on net domestic credit to the central government from the banking system 3/	11.5	0.2	0.5	-1.7	0.8
2.	Ceiling on net domestic assets of the central bank 3/	8.6	0.0	0.2	0.2	0.5
3.	Ceiling on the accumulation of new domestic payment arrears by the central government	3.2	0.0	0.0	0.0	0.0
			(In millions of U.S. dollars)			
4.	Ceiling on the accumulation of new external debt arrears by the central government 4/	15.3	0.0	0.0	0.0	0.0
5.	Ceiling on the contracting or guaranteeing of nonconcessional external debt with original maturity of more than one year by the central government 5/	0.0	0.0	0.0	0.0	0.0
6.	Ceiling on the outstanding stock of nonconcessional external debt with a maturity of less than one year by the central government. 6/	0.0	0.0	0.0	0.0	0.0
			(In millions of euros)			
7.	Floor on net international reserves of the Bank of Cape Verde (BCV) 7/	46.2	1.4	1.4	2.5	2.5
II.	**Memorandum items**		(In billions of Cape Verde escudos)			
1.	Floor on the primary current fiscal balance (indicative target)	2.0	-0.2	0.3	2.9	2.6
2.	Nonproject external financial assistence, including credit line (program assumption)	5.0	1.3	2.0	3.4	3.4

Sources: Cape Verdean authorities; and staff estimates and projections.

1/ Quantitative performance criteria and benchmarks are described in the technical memorandum of understanding (Attachment III).
2/ Program exchange rates for 2002 are CVEsc 110.3 = EUR 1 and CVEsc 122.5 = US$1.
3/ The ceiling will be adjusted upward (downward) by the cumulative downward (upward) deviations from program assumptions about nonproject disbursements from the World Bank (US$7.5 million), the African Development Bank (SDR 4 million), European Union adjustment grants (EUR 12 million), and the Portuguese credit facility (EUR 5 million). Maximum cumulative adjustments will not exceed 75 percent of programmed disbursements.
4/ This performance criterion is on a continuous basis.
5/ This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangments, the Portuguese credit line, and borrowings from the Fund.
6/ The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect . to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000). Excluded from this performance criterion are rescheduling arrangments, the Portuguese credit line, borrowings from the Fund, and normal import-related credits.
7/ The floor on net international reserves of the BCV will be adjusted downward (upward) by the cumulative downward (upward) deviations from program assumptions about nonproject disbursements from the World Bank (US$7.5 million), the African Development Bank (SDR 4 million), European Union adjustment grants (EUR 12 million), and the Portuguese credit facility (EUR 5 million). Maximum cumulative adjustments will not exceed 75 percent of programmed disbursements.

Table 2. Cape Verde: Structural Performance Criteria and Benchmarks Under the First Annual Program Supported by the PRGF Arrangement

Measures	Test Dates
I. Prior actions	
1. Submission of value-added tax (VAT) legislation to the National Assembly	Done
2. Approval by the Council of Ministers of new central bank organic law to strengthen statutory independence of the central bank	Done
II. Structural performance criteria	
1. New organic central bank law to strengthen statutory independence of central bank to become effective	End-June 2002
2. Approval by the Council of Ministers of the automatic and transparent pricing mechanism for retail petroleum products, publication of such mechanism in the official gazette, and implementation of such mechanism	End-June 2002
III. Structural performance benchmarks	
1. Inclusion of VAT and external tariff reform in 2003 budget	October 2002
2. Establishment of external debt management committee to oversee external debt strategy and ensure timely payments of debt service falling due	February 2002 (Done)

Table 3. Cape Verde: Structural Reform Objectives in 2002

Measures	Dates
1. Fiscal and monetary	
a. Preparation of tax reform, including introduction of value-added tax and external tariff reform on January 1, 2003	Continuous
b. Inclusion of VAT and external tariff reform in 2003 budget	October 2002
c. Strengthening of tax administration department of Ministry of Finance to implement VAT	Continuous
d. Review of tax exemption policy and preparation of action plan to reduce exemptions	September 2002
e. Strengthening of implementation of new tax collection system through commercial banks	Continuous
f. With donor assistance, rationalization of strategy and financing for university-level scholarships	December 2002
g. Strengthening of fiscal management and control through improved Treasury expenditure control procedures	Continuous
h. Completion of preliminary public expenditure review with World Bank assistance	July 2002
i. Transmission of final FY 2001 budget accounts to National Assembly for review	December 2001
j. Introduction of new organic central bank law to strengthen statutory independence of central bank	June 2002
2. External sector	
a. Preparation for introduction of new streamlined tariff regime on January 1, 2003	Continuous
b. Establishment of external debt management committee to oversee external debt strategy and ensure timely payments of debt service falling due	February 2002
3. Structural and data issues	
a. Acceleration of domestic debt reduction operation, including hosting donors' conference during the first half of 2002	Continuous
b. With World Bank assistance, acceleration of program to liquidate EMPA and the municipal transport operator (TRANSCOR)	Continuous
c. Introduction of automatic and transparent pricing mechanism for petroleum products	June 2002
d. Development of improved information systems to track poverty and poverty programs of the government	December 2002
e. Improvement of the quality of key economic and financial sector data, including the real sector, balance of payments and external debt statistics	Continuous

Cape Verde: Technical Memorandum of Understanding for the First Annual Program Under the PRGF Arrangement

1. This memorandum sets out the understandings between the Cape Verdean authorities and the IMF staff regarding the definition of the quantitative performance criteria and benchmarks and reporting requirements under the first annual program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement.

I. Quantitative Performance Criteria and Benchmarks[1 2]

A. Government Finances

2. Total government revenue is defined as the sum of all tax and nontax revenues, domestic capital participation, and net lending, cumulative since the start of the calendar year, excluding privatization proceeds and external grants. Tax and nontax revenue are defined in accordance with the *Government Finance Statistics Manual* (GFS) 1986, section IV.A.1.

3. The floor on the primary current fiscal balance cumulative from the beginning of calendar year 2002 constitutes an indicative performance target. The primary current fiscal balance is defined as the difference between total government revenue (defined above in para. 1) and current primary expenditures on a commitment basis. Current primary expenditures equal total government expenditures on a commitment basis less interest obligations on external and domestic debt, capital expenditures, and retrenchment payments made as a part of the public enterprise privatization and liquidation reform.

4. For the purposed of this memorandum, privatization proceeds will be understood to mean all monies received by the government from the sale or concessioning of a public company, organization, or facility to a private company or companies, organization(s), or individual(s), as well as any proceeds generated from the liquidation of a public company, less restructuring costs.

Reporting requirements. Data on the implementation of the budget compiled by the Ministry of Finance and Economic Planning (DGT) will be provided on a monthly basis, to be submitted not later than five weeks after the end of each month, including (i) government revenue by category, including external budget support grants; (ii) government expenditure,

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[1] See Table 1 of the memorandum of economic and financial policies (MEFP).

[2] The data source used to evaluate the performance criteria on net domestic credit to the central government, net domestic assets of the central bank, and net international reserves will be the Cabo Verde—Panorama Bancario tables prepared monthly by the Banco de Cabo Verde (BCV) Statistics and Research Department and forwarded electronically to the IMF African and Statistics Departments.

including primary current expenditure, domestic and external interest payments, and capital expenditure, including domestic capital expenditure and estimates of externally financed capital expenditure; (iii) the gross payment and gross accumulation of domestic payment arrears; (iv) external loan receipts and principal payments; (v) external arrears payments and accumulation; (vi) bank and nonbank financing; (vii) privatization receipts; and (viii) any other revenue, expenditure, or financing not included above.

B. Net Domestic Assets of the Central Bank

5. The ceiling on the cumulative change, from the beginning of calendar-year 2002, in net domestic assets of the Banco de Cabo Verde constitutes a performance criterion. Net domestic assets (NDA) of the Banco de Cabo Verde (BCV) are defined as reserve money minus net foreign assets of the BCV, evaluated at the program exchange rates presented below. The program ceilings for NDA will be adjusted upward (downward) by the cumulative downward (upward) deviations from program assumptions about nonproject disbursements from the World Bank, African Development Bank, European Union adjustment grants, and the Portuguese credit facility. The maximum cumulative adjustment will not exceed 75 percent of the planned disbursements. Reserve money comprises bank reserves and deposits of the monetary institutions and private sector with the central bank, as well as cash in circulation.

Reporting requirements. The preliminary monthly balance sheets of the BCV and the consolidated commercial banks will be transmitted on a monthly basis, with a maximum delay of five weeks. The definitive version of the monthly balance sheet of the BCV will be provided as soon as available.

C. Net Bank Credit to the Central Government

6. Net credit to the central government from the banking system is defined as the overall position of the main central government institutions vis-à-vis the banking system—that is, the stock of all outstanding claims on the central government (loans, advances, and all other government debt instruments, such as long-term government securities) held by the central bank and by commercial banks, less all deposits held by the central government with the central bank and with commercial banks, as they are reported monthly by the BCV to the IMF. The INPS (the social security agency) is not included in central government accounts. Net bank credit to the central government excludes claims on the Trust Fund (TCMFs).

7. Claims on the central government held by the central bank comprise the following items: (i) *crédito conta corrente OGE*; (ii) *Tesouro público protocolo*; (iii) *títulos governo central—obrigações nova serie*; (iv) *créditos a regularizar m/n e m/e*; (v) *outros créditos ao governo*; and (vi) any other claims, or claims on the central government to be regularized, held by the central bank.

8. Deposits held by the central government with the central bank comprise the following items: (i) *depósitos do governo central—depósitos a ordem m/n*; (ii) *depósitos do governo*

central—depósitos a ordem m/e; (iii) *outros passivos com o T.P.*; and (iv) *depósitos em administração—retroceso de linhas de crédito.*

9. Claims on the central government held by the commercial banks comprise the following items: (i) *Obrigações do Tesouro*; (ii) *bilhetes do Tesouro*; (iii) *protocolos*; (iv) *emprestimos*; (v) *outros créditos*; and (vi) any other claims, or claims on the central government to be regularized, held by the commercial banks. Item (v) is understood to include claims resulting from the privatization of the Caixa Económica de Cabo Verde, amounting to CVEsc 795.5 million.

10. Deposits held by the central government with the commercial banks comprise the following items: (i) *dep. governo central em m/n—D.G.T.*; (ii) *dep. governo central em m/n—serviços autónomos*; (iii) *dep. governo central em m/n—fundos autónomos*; (iv) *dep. governo central em m/n—projectos de investimentos*; (v) *dep. governo central em m/n—fundos de contrapartida*; (vi) *dep. governo central em m/n—institutos c/autonomia administ. e financeira excepto INPS*; (vii) *dep. governo central em m/e*, and (viii) *outros passivos com o governo.*

Reporting requirements. The preliminary monthly balance sheets of the BCV and the consolidated commercial banks will be transmitted on a monthly basis, with a maximum delay of five weeks. The definitive version of the monthly balance sheet of the BCV will be provided as soon as available.

D. Ceiling on Nonconcessional External Debt Contracted or Guaranteed by the Central Government

11. Under the program, ceilings on medium- and long-term, as well as on short-term, nonconcessional external debt constitute performance criteria. Nonconcessional external debt is defined as debt contracted or guaranteed by the central government with a grant element of less than 35 percent, calculated using currency-specific commercial interest reference rates (CIRRs) published by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Debt rescheduling and debt reorganization are excluded from the limits on nonconcessional external debt. There will be no new nonconcessional external debt contracted or guaranteed by the central government (excluding borrowing from the Fund) in 2002. The definition of short-term nonconcessional external debt excludes normal short-term (less than one year) import-related financing. The Portuguese government precautionary credit line in support of the exchange rate peg is also excluded from the definition of nonconcessional external debt. In addition, the central government will not guarantee any external debt contracted by state enterprises and will maintain the policy of not guaranteeing private sector external debt. The performance criterion on medium- and long-term nonconcessional external indebtedness applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000) but also to commitments contracted or guaranteed for which value has not been received. With respect to the performance criterion on short-term nonconcessional external indebtedness, the term "debt"

has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000).

Reporting requirements. The government of Cape Verde will consult with Fund staff before assuming any liabilities in circumstances where they are uncertain whether the instrument in question falls under the performance criterion. Details of all new external debt, including government guarantees, indicating terms of debt and creditors, will be provided on a monthly basis within four weeks of the end of each month.

E. Net International Reserves of the Central Bank

12. The floor on the cumulative change, from the beginning of calendar-year 2002, in net international reserves (NIR) of the Banco de Cabo Verde (BCV) constitutes a performance criterion under the program. **Net international reserves** (NIR) of the BCV are defined as gross international reserves of the BCV net of its short-term external liabilities, calculated at the program exchange rate described below. Gross reserves of the BCV are those that are readily available (i.e., liquid and marketable and free of any pledges or encumberments), controlled by the BCV, and held for the purposes of meeting balance of payments needs and intervening in foreign exchange markets. They include gold, holdings of SDRs, the reserve position at the IMF, holdings of foreign exchange and traveler's checks, demand and short-term deposits at foreign banks abroad, fixed-term deposits abroad that can be liquidated without penalty, and any holdings of investment grade securities. External liabilities of the BCV comprise liabilities to nonresidents contracted by the BCV with an original maturity of less than a year, any net off-balance-sheet position of the BCV (futures, forwards, swaps, or options) with either resident and nonresidents, any arrears on principal and interest to external creditors and suppliers, and purchases from the IMF. The program floors for NIR will be adjusted downward (upward) by the cumulative downward (upward) deviations from program assumptions about nonproject disbursements from the World Bank, European Union adjustment grants, African Development Bank, and the Portuguese credit facility. The maximum cumulative adjustment will not exceed 75 percent of the planned disbursements.

Reporting requirements. A table on NIR prepared by the BCV, including an account-by-account listing of gross foreign assets and gross foreign liabilities of the BCV, will be transmitted on a monthly basis, with a maximum delay of five weeks. The table will include the value of each asset/liability denominated in the currency it is held, as well as the value in Cape Verde escudos and the conversion exchange rate used.

F. Nonaccumulation of New Domestic Payment Arrears

13. As part of the program, the government will not accumulate any new domestic payment arrears. This will be monitored through the monthly execution of the cash-flow plan and the corresponding release of budget appropriations. For programming purposes, a domestic payment obligation to suppliers is deemed to be in arrears if it has not been paid within the normal grace period of 60 days (30 days for government salaries and debt service) or such other period as has been contractually agreed with the supplier after the verified

delivery of the concerned goods and services, unless the amount or the timing of the payment is subject to good faith negotiations between the government and the creditor. The outstanding stock of domestic payment arrears at end-December 2001 is estimated at CVEsc 3.2 billion.

Reporting requirements. The Ministry of Finance and Economic Planning, through the DGT, will submit on a quarterly basis a detailed table of the stock of domestic payments arrears, including the accumulation, payment, rescheduling and write-off of domestic payments arrears during the quarter. The data are to be provided within four weeks after the end of the quarter.

G. Nonaccumulation of External Arrears

14. As part of the program, the government will not accumulate any new external payments arrears on a continuous basis. This will be monitored through the monthly execution of the cash-flow plan and the corresponding release of budget appropriations.

15. External arrears are defined as total external debt-service obligations of the government that have not been paid by the time they are due, unless the definition of an arrear has been defined contractually between the government and creditor. External arrears exclude arrears on external debt, pending the conclusion of debt-rescheduling agreements. The outstanding stock of external arrears at end-December 2001 amounted to US$15.3 million.

Reporting requirements. Data on (i) debt service payments and (ii) external arrears accumulation and payments will be transmitted on a quarterly basis by the Ministry of Finance and Economic Planning, DGT, within four weeks of the end of each quarter. In addition, the government will inform the Fund staff immediately of any accumulation of external arrears.

H. Program Exchange Rates and Nonproject Budgetary Support

16. Performance under the program will be assessed based on program exchange rates. The program exchange rates for this purpose are: CVEsc 110.3 = €1; CVEsc 122.5 = US$1; CVEsc 0.55 = Esc 1 (Portuguese escudos); and US$1.28 = SDR 1.

17. The 2002 program assumes (i) €12 million in nonproject budget support will be provided by the European Union, comprising €7 million in the first quarter and €5 million in the third quarter; (ii) US$7.5 million in nonproject budget support from the World Bank in the third quarter; (iii) SDR 4 million in nonproject budget support from the African Development Bank in the second quarter; and (iv) 1 billion Esc drawn from the Portuguese credit facility in the first quarter and repaid in the fourth quarter.

II. Other Data Requirements for Program-Monitoring Purposes

18. Data on exports and imports, including volume and prices, and compiled by the Director of Customs and the BCV, will be transmitted on a quarterly basis within four weeks after the end of each quarter. A preliminary quarterly balance of payments, compiled by the BCV, will be forwarded within four weeks after the end of each quarter.

19. The monthly disaggregated consumer price index for Cape Verde, compiled by the National Statistics Institute (INE), will be transmitted monthly, within four weeks after the end of each quarter.

20. Quarterly data on imports and sales of petroleum products, including values, volume, and estimated subsidy/surplus per liter (and for total sales) for each product, will be submitted quarterly, within four weeks after the end of each quarter, by the Ministry of Finance.

21. Documentation of all measures taken by the government to meet performance benchmarks or criteria under the program will be transmitted to the Fund staff within one week after the day of implementation.

Cape Verde: External Debt Sustainability Analysis

I. Introduction

This note presents an assessment of Cape Verde's external public debt situation at the end of 2001 and evaluates its sustainability over the medium term through an examination of standard debt indicators within the context of a ten-year macroeconomic and balance of payments framework. The note has been prepared by IMF staff with assistance from the Cape Verdean authorities. The scenarios presented in this analysis are dependent on a number of key assumptions and, as a consequence, are essentially illustrative by nature. The preliminary debt-service projections and resulting net present value (NPV) calculations are based on debt information provided by the Cape Verdean authorities, on a loan-by-loan basis, pending the completion of the reconciliation of Cape Verde's loan portfolio with creditors' statements.[1]

II. The Level and Composition of External Debt

Cape Verde's external public medium- and long-term debt (including arrears) amounted to some US$346 million at end-2001 (Appendix II, Table 1). The NPV of this debt was estimated at US$220 million, equivalent to about 40 percent of GDP, 184 percent of exports,[2] and 178 percent of government revenue. Debt service due in 2001 accounted for 28 percent of exports of goods and nonfactor services. The external debt consisted of obligations to multilateral creditors (US$256 million), bilateral creditors (US$82 million), and commercial creditors (US$8 million). The largest bilateral creditor is Portugal (US$42 million), followed by Germany, Spain (ICO), and Kuwait (the Kuwait Fund for Arab Economic Development). Among the multilateral institutions, the World Bank (IDA) and the African Development Bank Group (AfDB/AfDF) were the largest creditors, with debt stocks of US$110 million and US$86 million, respectively. Cape Verde has no outstanding purchases from the Fund.

The end-2001 debt stock includes arrears of US$15 million, of which US$4 million was interest arrears (Appendix II, Table 2). Significant arrears were due to the Arab Bank for

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[1] In August 2001, the Cape Verdean authorities reorganized the Debt Management Department of the Ministry of Finance to reconcile individual loan accounts with creditors' statements and improve the efficiency of debt management. The department is examining for correctness and for comparison with creditor statements all outstanding loans to official and nonofficial creditors as part of a debt-recording and debt-management project. Full reconciliation is expected by mid-2002.

[2] NPV of debt-to-exports ratios reported in this note have been measured using a three-year moving average of exports of goods and nonfactor services. In 2001, government revenues and exports of goods and nonfactor services stood at 22 percent and 26 percent of GDP, respectively.

Economic Development in Africa (BADEA), the OPEC Fund for International Development, the Kuwait Fund for Arab Economic Development, and bilateral export agencies of Spain, Brazil and Portugal. There were, however, no arrears owed to the World Bank or AfDB/AfDF.

Cape Verde has never benefited from Paris Club debt reschedulings. However, in the period 1995-99, debt restructuring and rescheduling operations were concluded with the Caixa Geral de Depósitos (Portugal), BADEA, the Saudi Fund for Development, the Abu Dhabi Fund for Development, and CACEX (Brazil). In 2001, Cape Verde concluded a substantial debt rescheduling with Portugal. With minimal commercial debts, Cape Verde has never benefited from London Club reschedulings.

III. Debt Sustainability Analysis

This indicative debt sustainability analysis (DSA) examines the debt situation on the basis of the end-2001 status of all external obligations, including arrears. The key economic assumptions underpinning the DSA (Appendix I, Box 2) are consistent with the macroeconomic framework for the period 2002-04 presented in the program. The projections assume that all debt service falling due is paid and that the external arrears are cleared based on understandings with creditors. As concerns new borrowing needs identified in the balance of payments projections from 2005 onwards, 75 percent of this amount is assumed to be provided by multilateral lenders, including IDA, while the remaining 25 percent is assumed to be provided by bilateral creditors on concessional terms.[3] Official grants are assumed to amount on average to US$32 million per year during 2005–12.

Under the conditions assumed in the baseline scenario (Appendix II, Table 3), Cape Verde's outstanding public debt would decline from 61 percent of GDP in 2002 to 36 percent in 2012. The NPV of the stock of debt, estimated at US$219 million at end-2001, would increase from US$225 million at end-2002 to US$262 million in 2012 (Appendix II, Table 4). Based on these assumptions, the NPV of debt-to-exports ratio would fall from 164 percent in 2002 to 90 percent in 2012, while, in terms of government revenue, the NPV of debt would fall from 177 percent to 94 percent over the same period. The debt-service ratio, which reached the exceptional level of 28 percent of exports of goods and nonfactor services in 2001, is projected to decline from 18 percent in 2002 to 6 percent in 2012. In terms of government revenue, the debt service also will fall from 19 percent in 2002 to 7 percent in 2012. These developments reflect the implementation of sound economic and financial policies, a stable external environment particularly from 2003 onwards, and the high degree of concessionality of the new borrowing.

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[3] The following bilateral lending terms have been assumed: 5-year grace period, 20-year maturity, and 2 percent interest. At end-2001 commercial interest reference rates, these terms and conditions provide a grant element of 35 percent for a U.S. dollar-denominated loan.

Given the predominance of tourism in Cape Verde's external current account, a sensitivity analysis has been conducted to assess the vulnerability of Cape Verde's external situation to less optimistic tourism growth assumptions (Appendix II, Tables 5 and 6). Under this alternative scenario, starting in 2005, tourism revenue is projected to grow by only 5 percent per year, while real GDP growth is expected to fall to 3.5 percent per year. Reflecting these less favorable tourism developments, the average annual growth rate of imports is expected to be 4 ½ percent, and foreign direct investment is expected to remain stable in nominal terms, while commercial credits in the capital account reflect the lower level of imports. In this slower-growth scenario, the external current account deficit (excluding official transfers) remains at around 9 percent of GDP from 2006 onwards, and Cape Verde will not be able to accumulate gross official reserves above 2.3 months of imports of goods and nonfactor services.

The resulting larger current account deficit, the associated larger financing gap relative to the baseline scenario, and lower GDP growth increase the debt burden. The results show that, compared with the baseline scenario, the NPV of debt and, hence, the ratio of NPV of debt to exports and the ratio of NPV of debt to government revenue are higher in all projection years, reaching, respectively, 131 percent and 114 percent in 2012. Thus, in the event that tourism growth is significantly lower than the historical trend, the NPV of debt ratios would still remain below the threshold levels set out under the enhanced HIPC Initiative.

IV. Conclusion

In light of these illustrative scenarios, which assume the pursuit of sound financial policies over the medium-term horizon, and pending the reconciliation of all outstanding obligations with creditors, two preliminary conclusions can be drawn. First, Cape Verde's debt dynamics appear to improve steadily over the medium term in the baseline scenario, assuming stable external conditions and positive developments in tourism and private transfers. Second, using the HIPC Initiative thresholds as illustrative benchmarks, Cape Verde's debt ratios are projected to remain at sustainable levels over the projection period, assuming that the authorities continue to pursue prudent external debt and macroeconomic management policies.

Box 1. Main Macroeconomic Assumptions for the Baseline Scenario

The assumptions underpinning the DSA for the period 2002-04 are based on the macroeconomic framework underlying the program. The following macroeconomic assumptions have been maintained for the period 2005-12 in producing the baseline ten-year DSA projections:

- Real GDP growth is expected to remain at 4.5 percent for the whole period. Economic growth is assumed to be underpinned by adequate macroeconomic policies and structural reform.

- Exports of goods and nonfactor services are expected to grow by 8.5 percent per year, mostly driven by the growth of tourism, which is expected to be 9 percent per year.[1] Imports are assumed to grow by 6 percent per year.

- Private transfers are expected to grow by 3 percent per year, driven by an annual growth of 5 percent in workers' remittances[2] and a gradual decline in other private transfers.

- As a result of these assumptions, the current account deficit (excluding official transfers) is projected to narrow from 14.1 percent of GDP in 2002 to 7.2 percent in 2012.

- Inflation is projected to remain low throughout the projection period, at about 2½ percent per year, reflecting the maintenance of economic policies supportive of the peg of the Cape Verde escudo to the Euro.

- Gross international reserves are projected to increase progressively to 3.5 months of imports of goods and nonfactor services in 2012.

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[1] The average annual rate of growth of tourism income in the period 1995-2001 was 42.5 percent.

[2] The average annual rate of growth of workers' remittances in the period 1995-2001 was 5.2 percent.

Figure 1. Cape Verde: Net Present Value of External Debt at End-2001
(In percent of total)

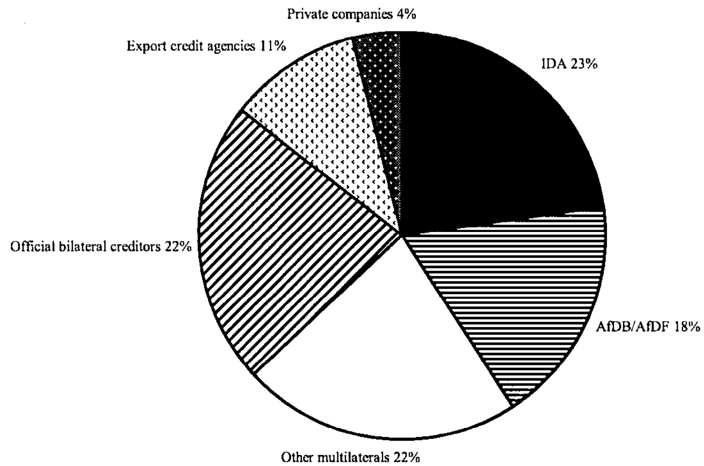
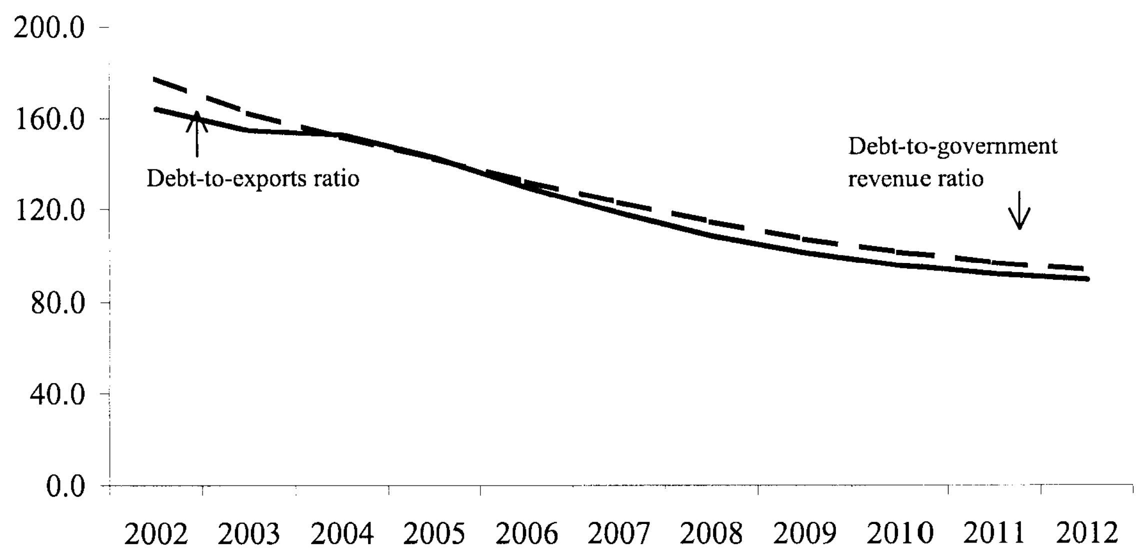


Figure 2. Cape Verde: Net Present Value of Debt-to-Exports and NPV of Debt-to-Government Revenue Ratios (in percent), Baseline Scenario, 2002-12



Sources: Cape Verdean authorities; and staff estimates and projections.

Table 1. Cape Verde: Nominal and Net Present Value (NPV) of Public Debt Outstanding 1/
(As of end-December 2001)

	Nominal Debt at End-2001		NPV of Debt at End-2001	
	Millions of U.S. dollars	Percent of total debt	Millions of U.S. dollars	Percent of total debt
Multilateral 2/	256.0	74.1	138.9	63.2
AfDF	86.2	24.9	39.6	18.0
IDA	110.1	31.9	50.1	22.8
BADEA	21.4	6.2	18.6	8.5
AfDB	1.3	0.4	1.3	0.6
EIB	9.1	2.6	9.0	4.1
OPEC	9.1	2.6	8.1	3.7
IFAD	8.9	2.6	4.8	2.2
Saudi Fund	0.7	0.2	0.4	0.2
NDF	2.9	0.8	1.3	0.6
NSF	6.2	1.8	5.6	2.6
Bilateral	82.2	23.8	72.3	32.9
Government	57.9	16.8	49.0	22.3
China	0.0	0.0	0.0	0.0
Kuwait	5.7	1.6	5.2	2.4
Portugal	41.9	12.1	34.5	15.7
South Africa	0.0	0.0	0.0	0.0
Abu Dhabi	0.3	0.1	0.3	0.1
Germany	10.1	2.9	9.1	4.1
Export credit agencies	24.3	7.0	23.3	10.6
Caisse Général des Dépôts	4.7	1.4	4.7	2.1
ICO (Spain)	8.7	2.5	8.5	3.9
CACEX (Brazil)	3.6	1.1	3.5	1.6
SOMEC (Portugal)	7.3	2.1	6.5	3.0
Private companies	7.5	2.2	8.7	3.9
Banco Esp. Santo	7.5	2.2	8.5	3.9
MSF	0.1	0.0	0.1	0.1
Total	345.7	100.0	219.8	100.0
As percent of GDP	62.2		39.5	
As percent of export of goods and NFS	289.8		184.2	

Source: Ministry of Finance.

1/ The debt contracted with Russia amounts to 10.65 million roubles. An understanding dated 12/30/92 exists between the two parties, according to which Cape Verde agrees to a one-off US$358,146 payment and yearly installments of US$90,000 up to US$450,000. Discussions between the two parties are still ongoing.

2/ African Development Fund; International Development Association; Arab Bank for Economic Development in Africa; African Development Bank; European Investment Bank; Organization of Petroleum Exporting Countries; International Fund for Agricultural Development; Saudi Fund for Development; Nordic Development Fund; Nigeria Special Fund.

Table 2. Cape Verde: External Debt Arrears, 2001
(In thousands of U.S. dollars)

	On Principal	On Interest Est.	Total
Multilateral 1/	2,902	804	3,706
Arab Bank for Economic Development in Africa	406	413	819
European Investment Bank	893	129	1,022
Organization of Petroleum Exporting Countries	1,166	262	1,428
Saudi Fund for Development	438	0	438
Bilateral	8,829	2,733	11,562
Government	1,148	792	1,940
Abu Dhabi	86	0	86
Kuwait	1,021	248	1,269
Portugal	40	544	584
Agencies	7,681	1,941	9,622
CACEX (Brazil)	1,006	185	1,191
ICO (Spain)	6,075	1,293	7,368
SOMAGUE (Portugal)	600	457	1,057
CGD (Portugal)	0	7	7
Private	0	2	2
MSF (Portugal)	0	2	2
Total	11,731	3,539	15,271

Source: Ministry of Finance.

Table 3. Cape Verde: Debt Sustainability Analysis, Baseline Scenario, 2002-12

(In millions of U.S. dollars, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Nominal GDP growth (annual percentage change)	6.5	7.0	7.5	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Nominal GDP	604.0	659.8	709.4	759.0	812.1	869.0	929.8	994.9	1064.5	1139.1	1218.8
Export of goods and nonfactor services	140.7	148.7	160.1	177.6	197.2	214.9	234.3	252.0	271.1	291.6	313.5
Of which: tourism income	49.8	57.2	62.9	70.8	79.6	87.6	96.3	104.0	112.4	121.4	131.1
Import of goods and nonfactor services	-332.2	-334.5	-343.1	-369.3	-391.9	-416.4	-442.0	-467.9	-495.7	-525.1	-556.4
Factor income (excl. interest due)	-2.9	-2.2	-2.3	-1.7	-1.6	-1.6	-1.5	-1.5	-1.5	-1.5	-1.5
Private transfers	114.5	121.6	126.7	130.5	134.4	138.5	142.6	146.9	151.3	155.9	160.5
Of which: remittances	75.5	80.8	84.5	88.7	93.1	97.8	102.7	107.8	113.2	118.9	124.8
Current account, excl. interest and official transfers	-79.9	-66.4	-58.6	-62.9	-61.9	-64.6	-66.5	-70.0	-74.7	-79.1	-83.9
Total debt service due	-24.6	-26.0	-29.2	-21.1	-20.4	-18.7	-19.5	-19.5	-19.5	-19.5	-18.1
Interest due	-5.1	-6.7	-7.0	-5.1	-4.9	-4.7	-4.5	-4.4	-4.4	-4.4	-4.4
Amortization due	-19.4	-19.2	-22.3	-16.0	-15.6	-14.0	-15.0	-15.0	-15.2	-15.2	-13.6
Arrears (increase +)	-5.3	-6.1	-3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trust Fund investments	-6.0	-14.1	-15.1	-5.0	-3.3	-1.7	0.0	0.0	0.0	0.0	0.0
Financing requirements	-115.7	-112.5	-106.8	-89.0	-85.7	-84.9	-86.1	-89.5	-94.2	-98.6	-102.0
Net reserves (increase -)	-2.2	-2.9	-4.5	-8.6	-10.7	-11.8	-12.9	-13.8	-15.2	-16.6	-18.1
Gross official reserves	48.1	55.2	62.8	71.4	82.1	93.8	105.7	117.9	130.9	145.2	161.3
Official disbursements (official transfers and capital transfers)	28.3	34.3	37.8	38.8	39.1	38.7	38.3	38.7	39.3	39.8	40.2
Net private capital flows	21.2	13.6	11.7	13.9	14.8	15.9	17.4	18.4	19.4	21.2	22.3
Foreign direct investment	24.4	24.7	22.1	26.3	27.3	27.6	28.1	28.4	28.9	29.4	29.9
Of which: privatizations	0.0	4.1	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 1/	43.2	41.8	38.7	18.6	15.1	14.6	15.2	17.8	21.8	24.9	27.7

Source: staff estimates and projections.

1/ For 2002-2004, the financing gap includes central government loans.

Table 4. Cape Verde: Debt Sustainability Analysis, Baseline Scenario, Selected Indicators, 2002-12

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public debt-to-GDP ratio (in percent)	60.7	59.2	56.9	53.5	49.9	46.7	43.7	41.1	39.0	37.3	36.1
Net Present Value (NPV) of debt (in millions of U.S. dollars)	224.8	227.9	230.5	231.6	231.6	233.2	234.3	236.9	242.4	250.4	262.2
NPV of debt-to-GDP ratio (in percent)	37.2	34.5	32.5	30.5	28.5	26.8	25.2	23.8	22.8	22.0	21.5
NPV of debt-to-export of goods and nonfactor services ratio (in percent)	164.2	154.7	152.8	142.8	129.9	118.6	108.7	101.3	96.0	92.2	89.8
NPV of debt-to-government revenue ratio (in percent)	177.3	162.4	151.8	142.5	132.3	123.3	114.7	107.3	101.7	96.9	93.9
Debt service-to-exports of goods and non factor services ratio (in percent)	18.0	17.6	19.4	13.0	11.5	9.5	9.1	8.3	7.7	7.2	6.2
Debt service-to-exports of goods, nonfactor services and remittances ratio (in percent)	11.4	11.3	12.0	7.9	7.0	6.0	5.8	5.4	5.1	4.8	4.1
Debt service-to-government revenue ratio (in percent)	19.4	18.5	19.3	13.0	11.7	9.9	9.6	8.8	8.2	7.6	6.5
Stock of debt (in millions of U.S. dollars)	366.7	390.8	403.3	405.9	405.4	406.0	406.1	408.9	415.6	425.3	439.4
Debt service (in millions of U.S. dollars)	24.6	26.0	29.2	21.1	20.4	18.7	19.5	19.5	19.5	19.5	18.1
Assumptions											
Real GDP growth rate (in percent)	2.5	3.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Export of goods and nonfactor services growth rate (in percent)	-4.0	3.6	7.7	10.9	11.0	9.0	9.0	7.5	7.6	7.5	7.5
Tourism income growth rate (in percent)	0.0	12.5	10.0	12.5	12.5	10.0	10.0	8.0	8.0	8.0	8.0
Import of goods and nonfactor services growth rate (in percent)	2.5	-1.3	2.6	7.6	6.1	6.3	6.1	5.9	5.9	5.9	6.0
Private transfers growth rate (in percent)	-3.4	4.0	4.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Government revenue (in percent of GDP)	21.0	21.3	21.4	21.4	21.5	21.8	22.0	22.2	22.4	22.7	22.9
Memorandum items:											
Current account, excl. transfers (in percent of GDP)	-14.1	-11.1	-9.2	-9.0	-8.2	-8.0	-7.6	-7.5	-7.4	-7.3	-7.2
Current account, incl. transfers (in percent of GDP)	-11.3	-7.8	-5.6	-4.9	-4.3	-4.3	-4.2	-4.2	-4.3	-4.4	-4.5
Private transfers (in percent of GDP)	19.0	18.4	17.9	17.2	16.6	15.9	15.3	14.8	14.2	13.7	13.2
Gross official reserves (in months of imports of goods and nonfactor services)	1.7	2.0	2.2	2.3	2.5	2.7	2.9	3.0	3.2	3.3	3.5
Official disbursements, incl. capital transfers (in percent of GDP)	4.7	5.2	5.3	5.1	4.8	4.5	4.1	3.9	3.7	3.5	3.3
Net private capital flows (in percent of GDP)	3.5	2.1	1.6	1.8	1.8	1.8	1.9	1.8	1.8	1.9	1.8

Source: staff estimates and projections.

Table 5. Cape Verde: Debt Sustainability Analysis, Alternative Scenario, 2002-12
(In millions of U.S. dollars, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Nominal GDP growth (annual percentage change)	6.5	7.0	7.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Nominal GDP	604.0	659.8	709.4	751.9	797.0	844.8	895.5	949.3	1006.2	1066.6	1130.6
Export of goods and nonfactor services	140.7	148.7	160.1	168.1	176.5	185.2	194.3	204.2	214.6	225.5	236.7
Of which: tourism income	49.8	57.2	62.9	66.1	69.4	72.8	76.5	80.3	84.3	88.5	92.9
Import of goods and nonfactor services	-332.2	-334.5	-343.1	-369.3	-375.1	-393.4	-412.2	-430.7	-450.3	-470.8	-492.4
Factor income (excl. interest due)	-2.9	-2.2	-2.3	-1.7	-1.7	-1.6	-1.6	-1.6	-1.6	-1.6	-1.7
Private transfers	114.5	121.6	126.7	130.5	134.4	138.5	142.6	146.9	151.3	155.9	160.5
Of which: remittances	75.5	80.8	84.5	88.7	93.1	97.8	102.7	107.8	113.2	118.9	124.8
Current account, excl. interest and official transfers	-79.9	-66.4	-58.6	-72.4	-65.8	-71.3	-76.8	-80.7	-85.9	-91.1	-96.8
Total debt service due	-24.6	-26.0	-29.2	-21.2	-20.5	-18.8	-19.8	-19.8	-20.0	-20.2	-18.9
Interest due	-5.1	-6.7	-7.0	-5.2	-5.0	-4.8	-4.8	-4.8	-4.8	-4.9	-5.1
Amortization due	-19.4	-19.2	-22.3	-16.0	-15.6	-14.0	-15.0	-15.0	-15.2	-15.3	-13.8
Arrears (increase +)	-5.3	-6.1	-3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trust Fund investments	-6.0	-14.1	-15.1	-5.0	-3.3	-1.7	0.0	0.0	0.0	0.0	0.0
Financing requirements	-115.7	-112.5	-106.8	-98.6	-89.7	-91.8	-96.6	-100.5	-105.9	-111.3	-115.7
Net reserves (increase -)	-2.2	-2.9	-4.5	-5.5	-1.0	-3.2	-6.7	-3.4	-7.4	-3.9	-8.2
Gross official reserves	48.1	55.2	62.8	68.3	69.4	72.4	78.2	79.9	85.0	86.7	92.9
Official disbursements (official transfers and capital transfers)	28.3	34.3	37.8	38.8	39.1	38.7	38.3	38.7	39.3	39.8	40.2
Net private capital flows	21.2	13.6	11.7	13.9	14.3	15.2	16.5	17.2	18.0	19.5	20.4
Foreign direct investment	24.4	24.7	22.1	22.1	22.1	22.1	22.1	22.1	22.1	22.1	22.1
Of which: privatizations	0.0	4.1	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 1/	43.2	41.8	38.7	29.4	15.2	19.0	26.5	25.8	33.8	33.9	41.3

Source: staff estimates and projections.

1/ For 2002-2004, the financing gap includes central government loans.

Table 6. Cape Verde: Debt Sustainability Analysis, Alternative Scenario, Selected Indicators, 2002-12

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public debt-to-GDP ratio (in percent)	60.7	59.2	56.9	55.4	52.2	49.9	48.3	46.7	46.0	45.1	45.0
Net Present Value (NPV) of debt (in millions of U.S. dollars)	224.8	227.9	230.5	236.9	236.8	240.4	246.8	253.2	264.5	276.4	294.6
NPV of debt-to-GDP ratio (in percent)	37.2	34.5	32.5	31.5	29.7	28.5	27.6	26.7	26.3	25.9	26.1
NPV of debt-to-export of goods and nonfactor services ratio (in percent)	164.2	154.7	152.8	149.0	140.8	136.1	133.2	130.1	129.4	128.7	130.6
NPV of debt-to-government revenue ratio (in percent)	177.3	162.4	151.8	147.3	138.0	130.5	125.5	120.1	115.4	114.0	113.7
Debt service-to-exports of goods and non factor services ratio (in percent)	18.0	17.6	19.4	13.3	12.2	10.6	10.7	10.2	9.8	9.4	8.4
Debt service-to-exports of goods, nonfactor services and remittances ratio (in percent)	11.4	11.3	12.0	8.2	7.6	6.6	6.7	6.3	6.1	5.9	5.2
Debt service-to-government revenue ratio (in percent)	19.4	18.5	19.3	13.2	12.0	10.2	10.1	9.4	8.7	8.3	7.3
Stock of debt (in millions of U.S. dollars)	366.7	390.8	403.3	416.7	416.3	421.4	432.9	443.7	462.4	480.9	508.4
Debt service (in millions of U.S. dollars)	24.6	26.0	29.2	21.2	20.5	18.8	19.8	19.8	20.0	20.2	18.9
Assumptions											
Real GDP growth rate (in percent)	2.5	3.5	4.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Export of goods and nonfactor services growth rate (in percent)	-4.0	3.6	7.7	5.0	5.0	4.9	4.9	5.1	5.1	5.1	5.0
Tourism income growth rate (in percent)	0.0	12.5	10.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Import of goods and nonfactor services growth rate (in percent)	2.5	-1.3	2.6	7.6	1.6	4.9	4.8	4.5	4.6	4.6	4.6
Private transfers growth rate (in percent)	-3.4	4.0	4.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Government revenue (in percent of GDP)	21.0	21.3	21.4	21.4	21.5	21.8	22.0	22.2	22.8	22.7	22.9
Memorandum items:											
Current account, excl. transfers (in percent of GDP)	-14.1	-11.1	-9.2	-10.3	-8.9	-9.0	-9.1	-9.0	-9.0	-9.0	-9.0
Current account, incl. transfers (in percent of GDP)	-11.3	-7.8	-5.6	-6.2	-4.9	-5.2	-5.5	-5.6	-5.7	-5.9	-6.1
Private transfers (in percent of GDP)	19.0	18.4	17.9	17.4	16.9	16.4	15.9	15.5	15.0	14.6	14.2
Gross official reserves (in months of imports of goods and nonfactor services)	1.7	2.0	2.2	2.2	2.2	2.2	2.3	2.2	2.3	2.2	2.3
Official disbursements, incl. capital transfers (in percent of GDP)	4.7	5.2	5.3	5.2	4.9	4.6	4.3	4.1	3.9	3.7	3.6
Net private capital flows (in percent of GDP)	3.5	2.1	1.6	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8

Source: staff estimates and projections.

Cape Verde: Relations with the Fund
(As of December 31, 2001)

I. **Membership Status**: Joined 11/20/1978; Article XIV

II. **General Resources Account**:	SDR million	%Quota
Quota	9.60	100.0
Fund holdings of currency	9.60	99.98
Reserve position in Fund	0.00	0.02

III. **SDR Department**:	SDR million	%Allocation
Net cumulative allocation	0.62	100.0
Holdings	0.01	2.42

IV. **Outstanding Purchases and Loans**:

None.

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
Stand-by arrangement	02/20/1998	03/15/2000	2.50	0.00

VI. **Projected Obligations to Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2002	2003	2004	2005	2006
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	0.02	0.04	0.05	0.06	0.06
Total	0.02	0.04	0.05	0.06	0.06

VII. **Safeguards Assessments**:

Under the Fund's assessment policy, the Bank of Cape Verde (BCV) is subject to a full safeguards assessment with respect to the forthcoming PRGF arrangement. The safeguards assessment of the BCV is underway and is expected to be completed by the first review of the program.

VIII. **Exchange Arrangements**:

The currency of Cape Verde, the Cape Verde escudo, was pegged to the Portuguese escudo from mid-1998 to end-1998, and from January 4, 1999 it has been pegged to the euro, at a rate of CVEsc 110 per EUR. There are no taxes or subsidies on purchases or sales of foreign exchange. There are no arrangements for forward cover against exchange rate risk operating in the official or the commercial banking sector.

IX. **Article IV Consultation**:

The Article IV Consultation discussions were held in Praia during the period March 3-16, 2001. The staff report (SM/01/145; 5/11/01) was completed on May 16, 2001. The Executive Board approved its conclusion on June 15, 2001. The previous Article IV consultation had been concluded on May 24, 1999. Cape Verde's standard 12-month cycle had been delayed because authorities in 2000 had requested a postponement of the mission twice, for preparations for the elections.

X. **Technical Assistance**:

Since 1985, the Fund has provided technical assistance to both the Bank of Cape Verde and to the Ministry of Finance in several areas: (i) by MAE for the Bank of Cape Verde, in organization and methods, management of external debt, monetary and banking statistics, accounting, credit, and foreign exchange operations, public debt, and the separations of the functions of the Bank of Cape Verde; and (ii) by FAD for the Ministry of Finance, in organization and budgetary procedures, budgeting, tax policy, and tax administration. The Cape Verdean authorities also benefited from the expertise of several STA missions aiming at improving the money and banking, balance of payments, national accounts, and general statistics.

An FAD mission, in June-July 1999, and a resident advisor, since March 2000, have been advising the authorities on the rationalization of the import tariff and the overhaul of the domestic indirect tax system, including the introduction of a value-added tax (VAT), scheduled for the beginning of 2003. In November 2000, an MAE technical assistance mission advised the authorities on the desirability of a strongly anchored exchange rate regime.

XI. **Resident Representatives**

None.

Cape Verde: Relations with the World Bank Group
Statement of IDA Operations

(As of December 31, 2001; in millions of U.S. dollars)

Credit No.	Projects	Principal Amount	Disbursed	Undisbursed	Approved Date	Closing Date
	10 credits closed	97.8	94.6	0.2		
35870	Structural Adjustment Loan	15.0	7.0	7.6	13-Dec-01	31-Dec-02
24661	Transport Infrastructure Suppl.	5.0	0.5	4.5	30-Jan-01	31-Dec-03
32940	Public Sector Reform & Capacity Building	3.0	1.6	1.3	23-Nov-99	30-Jun-02
32230	Education &Training Consolidation	6.0	2.7	3.1	25-May-99	30-Jun-03
31210	Privatization Technical Assistance	9.0	5.9	2.9	21-Jul-98	31-Dec-03
32050	Energy/Water	17.5	3.5	12.3	11-May-99	30-Jun-04
32240	Social Sector Development	16.1	3.1	11.9	25-May-99	31-Aug-03
	Total active projects	71.6	4.3	43.6		
	Active and closed projects	169.4	118.9	43.8		

Note: Disbursed amount may be higher than commitment (approved amount) due to exchange rate vis-à-vis SDR.

Statement of IFC Investments

(In millions of U.S. dollars)

			Original Gross Commitments				Disbursed	
FY Approved	Company	Type of business	Loan	Equity	Quasi	Participation	Loan	Quasi
1992	Growela 1/	Shoe manufacturing	0.15	0.00	0.00	0.00	0.15	0.00
1999	Britagem 2/	Construction materials	1.14	0.00	0.18	0.00	0.00	0.00
Total portfolio			1.29	0.00	0.18	0.00	0.15	0.00
Pending commitment								
2001	Moura	Transport	0.47	0.00	0.00	0.00		
Total pending commitments			0.47	0.00	0.00	0.00		

1/ Growela = shoe manufacturing.
2/ Britagem = cement and construction materials.

1. As of December 31, 2001, IDA had extended 17 credits to Cape Verde, amounting to about US$169.4 million equivalent, of which about US$118.9 million equivalent has been disbursed. Ten credits are closed, and the current portfolio includes seven credits, for a total amount of about US$71.6 million equivalent, with an undisbursed balance of about US$43.6 million.

2. The Bank's strategy for Cape Verde for fiscal year 1998-2000 was formulated to support (i) macroeconomic management and domestic debt reduction; (ii) consolidation of policy reforms in support of private sector development and (iii) human resource development and poverty reduction. The deterioration in the macroeconomic environment since 1999 means that the context for IDA assistance has changed rapidly. However, given the new administration's swift move to address fiscal problems, the Bank, as presented in its Country Assistance Strategy (CAS) Progress Report of August 1, 2001, is positioning itself to support the Government's measures to restore macroeconomic stability and the structural reforms to maintain growth.

3. The current portfolio gives a high priority to capacity building. The **Privatization Technical Assistance Project** is developing local capacity to design and implement reforms in the public enterprise sector, monitor performance, and build private sector capacity through training. National capacity building has also been strengthened under the **Transport and Infrastructure Project** through large-scale contracting of road works to local construction enterprises. The **Public Sector Reform Project** aims to prepare the next phase and modernization of the public sector. The **Energy/Water Project** aims to improve the supply of power, water and sanitation systems, to increase operational and end-use efficiency in the power and water sectors, to lessen the barriers to the development of renewable energy sources, and to foster the sound management of water resources.

4. Two projects were approved in financial year (FY) 99 in the social sectors. The **Social Sector Development Project** aims to support poverty reduction among the 30 percent of the population living below the poverty line by (i) assisting the government in the restructuring of the labor-intensive public works program (FAIMO) by creating an institutional capacity (AGECABO) to execute public works; (ii) strengthening the capacity of municipalities, communities and nongovernmental organizations, in planning, implementing, and monitoring cost-effective poverty alleviation intervention; and (iii) establishing a central capacity to coordinate, monitor, and evaluate the Poverty Alleviation Programs. The aim of the **Education and Training Consolidation Project** is to support the development of a technically and financially sustainable education and training system that will ensure an educated and flexible workforce responding to Cape Verde's social and economic goals.

5. A structural adjustment operation was approved in December 2001. The credit supports the government's stabilization program and helps implement critical structural reforms in support of renewed growth and poverty alleviation by (i) implementing structural reforms in the petroleum sector; (ii) supporting an accelerated privatization program in the transport and infrastructure sector; (iii) creating an environment conducive to private sector development and enhancing revenue mobilization; and (iv) strengthening fiscal and balance of payments sustainability.

6. The lending program in the run-up to the new CAS (Board presentation in FY 03) is led by two operations: a credit to support the fight against HIV/AIDS and a growth and competitiveness project.

7. As of September 30, 2001, the IFC had two ongoing investments in Cape Verde in construction materials and transport, totaling about US$1.61 million, with US$1.61 million currently undisbursed. Past IFC investments in Cape Verde have included activities in shoe manufacturing. The IFC will continue to focus on the development of small and medium-scale enterprises. Cape Verde became a member of MIGA in May 1993. MIGA has issued four contracts of guarantee for one project in the mining sector for a total amount of $2.2 million.

8. The World Bank, IFC, and MIGA will continue to coordinate their respective roles to support development activities in Cape Verde.

Cape Verde: Statistical Issues

The data compilation and reporting system in Cape Verde is weak and suffers from a shortage of financial and human resources. Cape Verde's transition to a market-oriented economy has not been accompanied by the development of an integrated macroeconomic database capable of supporting economic and financial analysis within a broad macroeconomic framework. STA fielded a multisector mission to Cape Verde in August 1996 and several follow-up missions, including in money and banking statistics, government finance statistics, balance of payments statistics, and national accounts. An Assessment of Technical Assistance Project mission took place in June–July 1999 to evaluate the pilot project that was started in 1996 to improve macroeconomic statistical systems. The mission found that great improvements had been made in all aspects of Cape Verde's statistical systems.

Three statistical advisors were stationed in Praia during 1998: (i) an expert on balance of payments statistics; (ii) a national accounts and price statistics expert; and (iii) an advisor on general statistics legislation and policy. In addition, the World Bank agreed to provide partial funding for the development of new data sources for an agricultural census in 1999, a population and housing census in 2000, and a household income and expenditure survey in 2001. The preliminary results of the population and housing census in 2000 are now available from the National Statistics Institute. Data on population and housing statistics will be published separately for each island.

Real sector

With assistance from the World Bank, national accounts estimates have been prepared through 1996. Preliminary national accounts estimates through 1997 have been prepared with the assistance of the STA statistical advisor and the French government. National accounts from 1996 and 1997 have been finalized at end-2001.Work on data for 1998-99 has started in late 2000 and is expected to be finalized by summer 2002. Meanwhile, preliminary GDP estimates for 1999 and forecasts for 2000 on the basis of a quick-accounts calculation system have been prepared jointly with the Fund's African Department. The STA mission (1999), as well as the Technical Assistance Assessment Mission (2000) have reported that notable progress has been made in reforming the institutional structure and the legal framework for the production of real sector statistics, most importantly through the establishment of the National Statistical Institute as an autonomous institution to replace the former General Directorate of Statistics. However, much remains to be done to improve the quality and timeliness of data, including (i) the introduction of phased improvements to the present system of calculations of final estimates until the old series can be replaced by the updated series utilizing the new base year; (ii) the extension of the preliminary accounts to include estimates at constant prices and of final uses; (iii) the establishment of institutional arrangements to improve the collection of basic data, mainly those related to the expenditures on the public sector investment program and the financial data of enterprises; and (iv) the establishment of an interinstitutional system for calculating quarterly indicators of GDP. The

National Statistics Institute intends to use the results of the 2001 household income and expenditure survey to shift the base year of national accounts in constant prices from 1980 to 2001.

The official consumer price index (CPI) is obsolete, as the weights date back to 1989, four years before the import liberalization that considerably changed the composition of consumption. The introduction of a reweighted CPI is planned for 2002. The National Statistics Institute has improved the timeliness of its CPI, so that an alternative CPI reported monthly by the Bank of Cape Verde (BCV) has been discontinued, as recommended by the 1996 STA multisector mission.

Government finance

Fiscal data cover the budgetary central government transactions, municipal taxes, and that part of the budgetary execution of semiautonomous public institutions that is financed through those institutions' own revenues (e.g., fees and so-called *contas de ordem*, which are added to both revenue and expenditure on the basis of the amounts budgeted by the respective agencies). These data do not include the transactions of the social security agency and other extrabudgetary agencies. Some of the main deficiencies in government finance statistics were partially addressed in 1997 and in the context of the 1998 budget preparation with the implementation of some of the recommendations made by an FAD technical assistance mission on expenditure control in 1996.[1] The management of government expenditures has been improved with the consolidation of most accounts previously held with commercial banks at the central bank level. In addition, government agencies' reporting, as well as the coordination among the treasury, the budget directorates, and the central bank, has also been improved, with the Ministry of Economic Coordination being the single point of commitment, execution, and monitoring of public expenditure. In the context of the 1998 budget, the central government's and autonomous agencies' accounts have been centralized and compiled at the Ministry of Economic Coordination. With progressive decentralization and the granting to municipalities of access to bank credit, this action will help promote a broader consolidation of general government operations. However, improvement is still needed in recording various government operations—in particular, regarding data on foreign grants and loans—that have been the source of expenditure overruns in the past and have led to the accumulation of a large stock of domestic debt. Reporting to AFR has usually coincided with official meetings. No government finance data are reported for publication in *International Financial Statistics (IFS)* or *Government Finance Statistics (GFS) Yearbooks*.

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[1] Abdelali Tazi and others, "Cape Verde: Consolidation of Public Expenditure" (Praia, Cape Verde: IMF, Fiscal Affairs Department, 1997).

Money and banking

The central bank compiles and transmits monthly monetary statistics. Balance sheet data for the central bank and four commercial banks (Caixa Económica de Cabo Verde, Banco Comercial do Atlântico, Banco Totta e Açores, and Banco Interatlântico) are provided with a lag of approximately six weeks.

The Assessment of Technical Assistance Project mission of June–July 1999 and the Technical Assistance Assessment Mission (2000) found that, since 1996, significant progress has been made in the area of monetary and financial statistics, both in terms of the analytical quality and timeliness of the data: (i) the methodology used by the BCV's Money and Banking Division (MBD) for the compilation of the monetary aggregates follows closely the *Monetary and Financial Statistics Manual*; (ii) monthly consolidated accounts for the banking system are compiled within four to six weeks of the end of the reference month; (iii) the MBD verifies regularly the consistency of the foreign accounts of the banking system with the data compiled by the BPD.

As a result of extensive "hands-on" training and courses provided by STA to the staff of the MBD and to commercial banks, the institutional capacity of the BCV to compile monetary statistics has improved considerably. However, there is still a need to improve the timeliness of the monetary data reported to the Fund, particularly the consolidated analytical accounts for the commercial banks.

Balance of payments

The quality and timeliness of balance of payments statistics have shown improvements since the last two missions in that area. The BCV currently compiles quarterly statistics with a considerable lag from the reference period. A greater use of surveys has permitted a significant expansion of data sources and statistical coverage, which, to a large extent, follows the recommendations of the fifth edition of the *Balance of Payments Manual, (BPM5).* Balance of payments statistics are provided to AFR on the occasion of official contacts.

The balance of payments mission that visited Cape Verde in 1999 evaluated the implementation of a new international transactions reporting system (ITRS) that provides information as specified in *BPM5*, and it revised the operation and preliminary results of the new system of quarterly enterprise surveys, which will supplement and cross-check the information available through the ITRS. The mission also assisted the BCV in its endeavor to initiate the compilation of data on direct investment, commercial credits, and financial loans, so as to expand the coverage of external debt. In spite of the recent overall improvement in the balance of payments statistics of Cape Verde, large inconsistencies continue to affect items of exceptional financing and on some transactions related to recent privatizations. A major remaining problem is the lack of information on private capital flows, particularly foreign direct investment and commercial credits. The BCV requested technical assistance in this area in December 2001, and STA is considering formulating a technical assistance program for the next fiscal year.

The last published data in the 2001 edition of the *Balance of Payments Statistics Yearbook (BOPSY)* and in *IFS* refer to 1998. The BCV has provided STA with revised data for 1999, which are being processed. The Cape Verdean authorities also provided STA with technical notes describing the methodologies and compilation procedures used for balance of payments statistics, which were published in Part III of the 2001 *BOPSY.*

External debt and arrears

An adequate database seems to be in place, although additional improvements will be necessary to allow for reliable debt sustainability analyses. The Treasury Department of the Ministry of Economic Coordination is able to provide a breakdown by creditors for debt and arrears.

Cape Verde: Core Statistical Indicators
(As of January 31, 2001)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of latest observation	12/31/01	12/31/01	12/31/01	12/31/01	12/31/01	11/30/01	12/31/01	09/30/01	09/30/01	09/30/01	1997	12/31/01
Date received	01/02	01/02	01/02	01/02	01/02	01/02	01/02	12/01	12/01	12/01	12/01	01/02
Frequency of data	M	M	M	M	M	M	M	Q	Q	Q	A	A
Frequency of reporting	M	M	M	M	M	M	V	V	V	V	V	V
Source of update	CB	CB	CB	CB	CB	CB	INE	CB	CB	MEC	INE	CB
Mode of reporting	C	C	C	C	C	C	C	M	M	M	M	M
Confidentiality	C	B	B	B	B	C	C	C	C	B	C	B
Frequency of publication	M	M	M	M	M	M	M	SA	A	A	V	V

Notes: Frequency of data: D = daily; M = monthly; Q = quarterly; SA = semiannual; and A = annual.
Frequency of reporting and frequency of publication: M = monthly; SA = semiannual; A = annual; and V = irregular.
Source of update: CB = Bank of Cape Verde; INE = National Institute of Statistics; and MEC = Ministry of Economic Coordination.
Mode of reporting: C = cable or facsimile; and M = mission/staff visit.
Confidentiality: B = for use by the staff and the Executive Board; and C = for unrestricted use.

Cape Verde: Selected Social and Demographic Indicators 1/

	Cape Verde	Sub-Saharan Africa 2/
Population		
Population (in thousands)	440	642,812
Annual rate of growth (1996-00)	2.3	2.8
Density (persons per 1,000 hectares)	1,090	272
Population characteristics		
Life expectancy at birth (years)	69	47
Male	66	46
Female	72	48
Infant mortality (per thousand)	23	92
Crude death rate (per thousand; 1999)	7	16
Crude birth rate (per thousand; 1999)	32	40
Fertility rate (births per woman)	4.0	5.3
Urban population (percent)	54	34
Health		
Population per physician (1999)	4,274	7,464
Population per hospital bed (1999)	631	737
Immunization rate (percent under 12 months)		
DPT	69	57
Measles	61	59
Access to improved water source		
Percent of population	70	55
Urban	76	82
Rural	26	41
Education		
Adult illiteracy (percent)	25	40
Male	16	31
Female	33	47
Primary school enrollment (net)	96	...
Pupils-teacher ratio (primary schools; 1999)	29	40
Labor force		
Total (in thousands; 1998)	166	282,666
Female (percent; 1998)	39	42

Sources: World Bank; Cape Verde I-PRSP; and staff estimates.

1/ Figures for Cape Verde refer to the year 2000, unless otherwise indicated.

2/ Figures for Sub-Saharan Africa refer to the latest year available from 1997-2000.