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STATEMENT BY THE INTERNATIONAL MONETARY FUND STAFF
INVESTMENT FORUM CABO VERDE 2019
SEPTEMBER 30–OCTOBER 1, 2019

This statement provides IMF staff's assessment of the macroeconomic situation and prospects for Cabo Verde. It is informed by Staff's policy advice in the 2019 Article IV Consultation concluded by the IMF Executive Board in July 2019, and under the Policy Coordination Instrument for Cabo Verde, approved by the IMF Executive Board on July 15, 2019.

1. **Economic performance continues to improve with strong growth and low inflation**. The economic recovery that started in 2016 is taking hold, with real GDP growth estimated at 4.7 percent on average during 2016–18, and 5 percent during the first half of 2019. The recovery has benefitted from continued good performance in tourism-related activities, strong growth in the industry sector, and private investment. Inflation has remained benign in recent years despite a spike in 2018 due to higher fuel prices and the impact of the drought. It stood at 1.5 percent (y/y) at end-August 2019. The external position has been improving, with gross international reserves remaining comfortably above 5 months of prospective imports of goods and services.

2. **The fiscal position has strengthened, with lingering vulnerabilities**. Tax administration measures implemented in the last three years, as well as expenditure restraint have been instrumental in putting public finances on a stronger footing and securing a declining trend in public debt as a share of GDP. To shore up these gains and build fiscal buffers, it is essential to improve revenue mobilization further through measures to combat tax evasion and broaden the tax base, enhance audits to contain the accumulation of tax arrears, and streamline exemptions, notably on the value-added tax, customs duties and excises. Continued expenditure restraint will remain necessary to safeguard the achievement of medium-term fiscal objectives. In addition, a sustained reduction, and elimination over time, of transfers from the budget to loss-making State-Owned Enterprises (SOEs) is needed to reduce financing needs and support medium-term fiscal and debt sustainability. This is also essential to eliminate fiscal risks generated by SOEs and to increase fiscal space for priority spending.

3. **The current fiscal and monetary policy mix is appropriate for safeguarding the peg to the euro and building foreign reserves**. Given low inflation, adequate international reserves, and low interest rates in the Euro area, a change in the monetary policy stance is not warranted at this stage. Nonetheless, the Central Bank of Cabo Verde (BCV) should remain vigilant for any sign of increasing inflationary pressures, monitor closely financial developments in the Euro area, and adapt the monetary policy stance as needed. In addition, the BCV should continue to accumulate international reserves to preserve external buffers and guard against vulnerabilities.

4. Financial stability indicators have improved. The financial sector remains stable and banks' profitability increased, although asset quality continues to be weak, calling for decisive measures to reduce the high level of NPLs. The BCV should continue to enhance banking supervision, to advance the preparation of a credit information system that would facilitate bank's assessment of creditworthiness, and to work with banks on the recovery of collaterals, particularly in the case of legacy loans that make up the largest share of NPLs.

5. Cabo Verde's risk of external and overall debt distress is assessed as high. The last Debt Sustainability Analysis (DSA) carried out jointly by the IMF and World Bank staffs shows that Cabo Verde's risk of debt distress is high, unchanged compared with the 2018 DSA. However, the medium-to-long-term outlook has improved compared with the macroeconomic framework underlying the 2018 DSA, mainly on the back of higher growth, and lower fiscal and current account deficits, improving prospects for better debt dynamics. Bringing public debt to sustainable levels requires sustained fiscal consolidation efforts; prudent borrowing policies, relying on concessional borrowing; successful restructuring of SOEs and; implementation of growth-enhancing structural reforms.

6. The medium-term outlook is positive. Real GDP growth is projected at 5 percent in 2019–24, on the back of sustained growth in the tourism and industry sectors, as well as increased activity in the transportation sector supported by the successful privatization of air and maritime transportation activities that took place earlier this year. Economic activity would also benefit from the projected increase in private investments, planned infrastructure projects, and enhanced investor confidence resulting from the implementation of structural reforms. Inflation is projected at 1.2 percent for 2019, and below 2 percent in the medium term, consistent with the average in the Euro area. The external position is set to improve further during 2019–24, thanks to good performance in tourism, other exports and remittances; and with continued high FDI flows that would contribute to maintaining international reserves at around 5 months of prospective imports of goods and services.

7. There are important risks to the outlook with the balance tilted to the downside because of Cabo Verde's vulnerability to shocks. On the downside, worse than expected external conditions, particularly economic slowdown in the Euro area and Brexit would impact tourism flows, and a sharp tightening of global financial conditions would affect growth and the external position. Downside risks also emanate from potential weather-related shocks. Domestically, weakening of fiscal consolidation efforts and delays in structural reforms implementation, particularly for SOEs restructuring would adversely affect the outlook. The main upside risks relate to stronger performance in tourism, increased FDI-driven investments in relation with the implementation of the authorities' Strategic Plan for Sustainable Development (PEDS), continued successful restructuring of SOEs, and faster progress in other growth-enhancing structural reforms.

8. The IMF maintains close engagement with Cabo Verde, carried out through policy advice in the context of Article IV Consultations, and review discussions under Cabo Verde's Policy Coordination Instrument (PCI) approved by the IMF Executive Board on July 15, 2019. The PCI is a non-financing instrument to signal the authorities' commitment to reforms and sound policies, and to help catalyze financing. The IMF engagement with Cabo Verde covers also capacity development activities delivered through technical assistance and training.

Table 1. Cabo Verde: Selected Economic Indicators, 2015–24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.			Proj.			
				(Annual percent change)						
National accounts and prices 1/										
Real GDP	1.0	4.7	4.0	5.5	5.0	5.0	5.0	5.0	5.0	5.0
GDP deflator	1.7	-0.2	0.5	1.4	1.5	1.6	1.6	1.8	1.8	1.8
Consumer price index (annual average)	0.1	-1.4	0.8	1.3	1.2	1.6	1.6	1.8	1.8	1.8
Consumer price index (end of period)	-0.5	-0.3	0.3	1.0	1.0	1.6	1.6	1.8	1.8	1.8
External sector										
Exports of goods and services	-11.6	9.5	11.5	13.3	8.9	10.0	11.2	11.2	11.2	11.2
Of which: tourism	2.0	6.9	14.5	3.5	8.1	9.8	11.2	11.4	11.4	11.4
Imports of goods and services	-12.3	10.3	17.2	8.0	8.7	8.7	8.7	8.7	8.7	8.7
				(Change in percent of broad money, 12 months earlier)						
Money and credit										
Net foreign assets	4.0	6.1	1.3	-2.1	2.0	2.8	2.4	2.6	3.3	3.1
Net domestic assets	2.3	2.3	5.2	3.5	5.0	3.5	3.6	3.8	3.1	3.3
Net claims on the central government	-0.2	2.5	1.5	4.3	0.6	0.2	0.2	0.4	0.1	0.2
Credit to the economy	1.8	2.4	4.4	1.9	3.0	3.3	3.4	3.5	3.6	3.6
Broad money (M2)	6.2	8.4	6.5	1.4	7.0	6.3	6.0	6.4	6.4	6.4
				(Percent of GDP, unless otherwise indicated)						
Savings and investment										
Domestic savings	35.6	33.2	31.7	32.3	32.7	32.8	33.4	34.2	34.7	35.4
Government	0.7	-0.7	0.8	1.8	2.3	2.3	2.7	3.2	3.6	3.7
Private	34.9	34.0	30.9	30.4	30.5	30.6	30.6	31.0	31.1	31.7
National investment	38.7	37.1	38.3	36.7	36.9	36.9	37.4	38.1	38.3	39.0
Government	5.6	3.4	5.7	4.4	5.1	4.3	3.4	3.7	3.9	4.0
Private	33.2	33.8	32.6	32.3	31.8	32.6	34.0	34.3	34.4	35.0
Savings-investment balance	-3.2	-3.9	-6.6	-4.5	-4.2	-4.1	-4.1	-3.9	-3.6	-3.6
Government	-4.9	-4.1	-4.9	-2.6	-2.8	-2.0	-0.7	-0.5	-0.4	-0.3
Private	1.7	0.2	-1.7	-1.9	-1.3	-2.0	-3.4	-3.3	-3.3	-3.3
External sector										
External current account (including official transfers)	-3.2	-3.9	-6.6	-4.5	-4.2	-4.1	-4.1	-3.9	-3.6	-3.6
External current account (excluding official transfers)	-6.6	-6.6	-10.3	-7.2	-7.5	-7.1	-6.0	-5.6	-5.2	-5.1
Overall balance of payments	2.2	5.5	-0.9	0.5	3.6	2.6	2.8	2.9	3.1	2.9
Gross international reserves (months of prospective imports of goods and services)	6.0	6.1	5.5	5.1	5.3	5.3	5.3	5.3	5.4	5.4
Government finance										
Revenue	26.9	26.6	28.6	28.1	31.7	30.4	28.9	28.8	28.8	28.8
Tax and nontax revenue	24.4	23.9	24.9	26.7	28.9	28.5	28.0	27.9	28.0	28.0
Grants	2.5	2.7	3.7	1.4	2.8	1.9	0.9	0.8	0.8	0.8
Expenditure	31.4	29.6	31.5	30.9	33.9	31.8	30.1	29.8	29.7	29.6
Primary balance	-2.0	-0.5	-0.4	-0.3	0.7	1.0	1.2	1.2	1.2	1.2
Overall balance (incl. grants)	-4.6	-3.0	-3.0	-2.8	-2.2	-1.5	-1.2	-1.0	-0.9	-0.8
Net other liabilities (incl. onlending)	-3.2	-3.4	-0.4	-1.0	-4.3	-2.2	-0.9	-0.2	-0.2	-0.2
Total financing (incl. onlending and capitalization)	7.8	5.6	4.0	3.8	6.5	3.7	2.1	1.3	1.1	1.0
Net domestic credit	1.2	2.9	0.2	1.4	1.0	0.4	0.4	0.7	0.1	0.4
Net external financing	6.7	2.7	4.0	1.5	5.5	3.3	1.7	0.6	1.0	0.6
Public debt stock and service										
Total nominal government debt	126.6	128.4	127.0	123.9	121.4	116.8	111.0	104.6	98.5	92.7
External government debt	97.7	96.7	94.9	91.0	89.3	86.3	82.1	77.0	72.7	68.2
Domestic government debt	29.0	31.7	32.1	32.9	32.1	30.5	28.9	27.6	25.9	24.6
External debt service (percent of exports of goods and services)	6.4	6.0	6.3	5.8	7.6	6.8	7.4	7.9	7.4	6.8
Present value of PPG external debt										
Percent of GDP (risk threshold: 55%)	...	...	...	61.9	64.0	62.4	60.1	56.8	54.0	51.0
Percent of exports (risk threshold: 240%)	...	...	...	126.6	128.2	121.4	112.2	101.9	93.2	84.6
Present value of total debt										
Percent of GDP (benchmark: 70%)	...	...	...	97.2	95.8	92.7	88.8	84.3	79.7	75.4
Memorandum items:										
Nominal GDP (billions of Cabo Verde escudos)	158.7	165.8	173.4	185.6	197.8	211.1	225.3	240.9	257.5	275.2
Gross international reserves (€ millions, end of period)	453.3	536.2	522.7	531.1	596.6	645.8	704.1	767.2	838.7	911.3

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

1/ The Cabo Verdean exchange rate has been pegged to the Euro since 1999, at a rate of 110.265 CVE/€.