Cape Verde: Common Indicators Required for Surveillance

(As of April 30, 2008)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	04/1/08	04/1/08	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Nov-07	Dec-07	M	M	M
Reserve/Base Money	Mar-08	Apr-08	M	M	M
Broad Money	Mar-08	Apr-08	M	M	M
Central Bank Balance Sheet	Mar-08	Apr-08	M	M	M
Consolidated Balance Sheet of the Banking System	Mar-08	Apr-08	M	M	M
Interest Rates[2]	Mar-08	Apr-08	M	M	M
Consumer Price Index	Feb-08	Mar-08	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Dec-07	Feb-08	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-07	Feb-08	Q	Q	Q
External Current Account Balance	Q4-07	Feb-08	Q	Q	Q
Exports and Imports of Goods and Services	Q4-07	Feb-08	Q	Q	Q
GDP/GNP	2006	Oct-07	A	A	A
Gross External Debt	Dec-07	Feb-08	Q	Q	Q
International Investment Position	N/A	N/A	N/A	N/A	N/A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA)

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IMF Concludes 2008 Article IV Consultation with Cape Verde

On June 30, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Cape Verde and completed the fourth review of the Policy Support Instrument.[1]

Background

Over the last several years, Cape Verde has achieved a major economic transformation. Real per capita GDP has increased on average by over 7 percent a year, faster than other small island economies and other countries in sub-Saharan Africa. The unemployment rate fell by more than 10 percentage points between 2001 and 2006. Cape Verde is also on track to achieve most of the MDGs by 2015, including halving the 1990 poverty level. This is remarkable for a small island economy with no natural resources. The transformation is reflected in an economy that is increasingly becoming service-based, led by tourism and commerce. In recognition of its strong performance and policy credibility, Cape Verde was accepted as a special partner of the European Union in November 2007, was invited to join the WTO in December 2007, and graduated from UN least-developed country (LDC) status in January 2008 (the second in sub-Saharan Africa after Botswana and the first graduation in more than a decade).

Policy implementation under the PSI is also strong. All PSI quantitative assessment criteria for end-December 2007 were met with wide margins. Revenues are ahead of the authorities' targets, and expenditures are as budgeted, which together have produced a

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the June 30, 2008 Executive Board discussion based on the staff report.

significant reduction in public debt. Official reserves are also building rapidly. Thus, domestic policies are strengthening the credibility of the exchange rate peg. Progress on structural measures in the program is steady, especially reforms related to public financial management, the tax system, the financial sector, and energy sector regulation.

On recent developments, economic growth is strong with moderate inflation. The real GDP growth rate peaked at 10.8 percent in 2006, boosted by tourism, telecommunications, and construction. Based on information from the National Statistical Institute (INE), GDP growth is estimated at about 7 percent in 2007 and, factoring in the effects of the global economic slowdown, growth should moderate only slightly to 6 ½ percent in 2008 as tourism and construction continue to expand. With the peg to the euro and the high openness allowing rapid import price pass-through, twelve-month inflation averaged about 3½ percent for December 2007–April 2008, broadly in line with inflation in the euro area. While food and energy prices have risen, this has not led to generalized inflation partly due to lack of a strong wage indexation.

Fiscal policy continues to support the peg. Prudent implementation of the 2008 budget will ensure that domestic debt will be further reduced to 16 percent of GDP by end-2008. Tax revenues are exceeding budget forecasts, reflecting not just economic growth but also improvements in tax administration; also, asset sales have surpassed expectations. These factors, together with continued expenditure restraint, have reduced the domestic debt-to-GDP ratio. The authorities' target for domestic debt, 20 percent of GDP, was reached in 2007, two years ahead of schedule.

The Bank of Cape Verde (BCV) continues to conduct monetary management appropriately. Given the peg and a largely open capital account, passive monetary management by the BCV has been setting the official policy rate consistent with its endogenous equilibrium level, which smoothes and sterilizes short-term capital flows. Reserves continue to accumulate, and while FDI-related imports have led to and financed a higher current account deficit, there are no signs of a more general increase in imports that would jeopardize the targeted increase in reserves. Excess liquidity has been contained by sterilization, by the new investment opportunities on the Stock Exchange following rapid development of the domestic equity market, and by growth in private sector credit. The buildup of government deposits at the BCV is also helping to sterilize external inflows. Thus, monetary management and fiscal prudence are both supporting the exchange rate peg and promoting external stability.

Structural reforms are being undertaken to foster competition and enhance private sector's role in the economy. Several state-owned enterprises were privatized; the government selected new management to prepare the national airline (TACV) for privatization; and the process of privatizing the ports operator (ENAPOR) is underway. Ahead of WTO accession, external tariffs were lowered. The Cape Verde Stock Exchange has been revitalized; its market capitalization is now 25 percent of GDP (from zero in 2005). Cape Verde has also made major strides in the last several years in achieving the key objectives set out in the first Poverty Reduction Strategy (PRSP) and in improving the well being of its citizens. The second PRSP submitted to the IMF Board in June 2008 sets out Cape Verde's medium-term goals and provides a comprehensive and integrated strategy for achieving those goals.

Executive Board Assessment

Executive Directors welcomed Cape Verde's impressive economic performance and policy implementation in recent years, reflected in the country's recent graduation from UN least-developed country status, accession to the WTO, and acceptance as a special partner in the EU. They commended the authorities for their prudent macroeconomic management and their commitment to the objectives of the PSI program. Directors welcomed the faster-than-expected reduction of domestic debt and buildup of official reserves. Prudent policies have catalyzed investment and export growth, especially in the tourism sector, contributing to robust growth and moderate inflation.

Directors agreed that Cape Verde's external stability appears to be well secured despite the recent increase in the current account deficit, as foreign direct investment is largely financing this deficit. They considered that the exchange rate peg has served the economy well, helping to achieve low inflation, and they took note of the staff assessment that the real effective exchange rate is broadly in line with fundamentals.

Looking ahead, Directors believed that continuing prudent fiscal policy will be critical to safeguarding the exchange rate peg and reducing Cape Verde's vulnerability to shocks. A medium-term fiscal strategy is needed to anchor expenditure and tax reform plans. Directors urged the authorities to publish a medium-term fiscal framework as part of the 2009 budget cycle. They noted that given the larger-than-expected reduction of domestic debt in 2007, the risk of debt distress remains low even with current plans to increase capital spending. At the same time, some Directors observed that the overall debt level, both domestic and external, remains relatively high, calling for continued prudence.

Directors considered that further strengthening the financial system will be important to safeguard its stability and enhance Cape Verde's growth prospects. They welcomed the measures being taken by the Central Bank of Cape Verde to strengthen financial sector regulation and supervision, including the recently published regulation that broadly aligns prudential requirements for both on- and offshore banks. At the same time, banks will need to broaden their source of funds to reduce their dependence on nonresident deposits. Directors looked forward to the forthcoming Financial Sector Assessment Program, which should strengthen the authorities' hand on these issues.

Directors noted that structural reforms are necessary to maintain external competitiveness and sustain high growth over the long term. They encouraged the authorities to move ahead with their structural reform agenda to diversify the economy and improve price flexibility. This will support private sector development and increase the economy's resilience to shocks. Directors welcomed the recent progress made on the regulatory framework for the energy sector, and urged the authorities to accelerate the implementation of their broader energy sector reform plan, especially in the area of the adjustment of energy prices.

Directors welcomed the new PRSP-II, as well as the progress that has been made in improving the well-being of Cape Verde's citizens. They encouraged the authorities to continue pursuing reforms consistent with the PRSP-II, and to improve further the assessments of the costs of the PRSP-II's expenditure plans. The identification of reliable and relevant poverty indicators, along with enhanced monitoring and evaluation of the PRSP-II's implementation, will help the authorities gauge the effectiveness of their efforts as they work to alleviate poverty and attain the Millennium Development Goals. It is expected that the next Article IV consultation with Cape Verde will be held within 24 months, subject to the provisions of the Executive Board decision on consultation cycles in program countries.

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