Cape Verde: Selected Economic and Financial Indicators, 2007–11

	2007	2008	2009	2010	2011
			Estimates	Projections	
	(Annual percentage change)				
National accounts and prices					
Real GDP	8.6	6.2	3.6	5.4	5.9
Real GDP per capita	7.1	4.7	0.7	3.4	2.9
GDP deflator	1.4	2.5	4.2	3.7	3.2
Consumer price index (end of period)	3.4	6.7	-0.4	3.4	3.0
External sector					
Exports of goods and services	4.5	16.2	-13.2	6.8	12.4
Of which: tourism	23.0	7.9	-16.2	3.9	11.8
Imports of goods and services	17.8	6.3	-7.5	19.9	5.8
Exports of goods and services - Volume	13.3	4.8	-10.1	2.4	7.3
Imports of goods and services - Volume	18.2	2.7	-4.1	23.7	0.2
Real effective exchange rate (annual average)	2.6	4.3	0.4	…	...
Government finance					
Total revenue (excluding grants)	17.0	10.8	-9.4	6.6	11.4
Total expenditure	-0.7	13.1	9.3	34.4	-1.1
Noncapital expenditure	-0.4	3.0	9.1	7.9	10.8
Capital expenditure	-1.4	32.9	9.6	74.0	-12.2
Money and credit					
Net foreign assets	23.0	-6.4	-5.4	9.2	12.2
Net domestic assets	5.6	14.4	7.0	7.5	10.0
Of which: net claims on the central government	-61.6	31.4	-6.6	40.0	16.5
credit to the economy	25.5	24.9	11.5	10.8	12.1
Broad money (M2)	10.8	7.6	3.5	8.0	10.6
	(Percent of GDP, unless otherwise indicated)				
Saving-investment balance					
Gross capital formation	46.4	46.6	39.4	49.6	46.1
Government	11.4	13.9	14.1	22.6	18.3
Nongovernment	35.0	32.6	25.3	27.0	27.8
Gross national savings	32.3	33.8	29.6	31.5	29.3
Government	11.1	14.3	11.3	8.8	6.8
Nongovernment	21.2	19.5	18.4	22.7	22.5
External current account (including official current transfers)	-14.7	-12.8	-9.8	-18.1	-16.8
Overall balance of payments	6.6	1.7	-1.0	1.9	1.8
Government finance					
Total domestic revenue	27.6	28.1	23.6	23.1	23.6
Total external grants	5.2	5.5	5.4	7.1	5.0
Total expenditure	33.6	34.9	35.3	43.6	39.6
Overall balance before grants	-6.0	-6.8	-11.8	-20.5	-16.0
Overall balance (including grants)	-0.8	-1.3	-6.3	-13.5	-11.0
Primary basic balance [1]	6.1	5.8	1.2	1.8	0.4
External financing (net)	2.2	3.0	5.0	11.8	9.3
Domestic financing (net)	-0.8	-1.0	0.8	1.6	1.7
Public debt					
Total nominal government debt [2]	68.0	65.0	63.9	80.9	86.7
External government debt [3]	46.5	47.3	47.3	63.0	67.6
Domestic government debt, net of deposits	21.5	17.7	16.5	18.0	19.1
External current account (€ millions, including official transfers)	-143.1	-135.0	-111.8	-225.5	-227.9
Gross international reserves (€ millions, end of period)	259.5	280.0	275.3	298.4	322.8
Gross international reserves to reserve money	1.2	1.2	1.2	1.2	1.2
Gross international reserves (months of current imports of goods and services)	4.1	4.2	4.4	4.0	4.1
Memorandum items:					
Nominal GDP (billions of Cape Verde escudos)	107.3	116.7	126.0	137.2	149.2

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

[1] Excluding grants, interest payments, and foreign financed

[2] Net of central government deposits; including verified stock of domestic and external arrears.

[3] Excluding claims on the offshore Trust Fund.

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International Monetary Fund
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IMF Executive Board Approves a 15-Month Policy Support Instrument for Cape Verde

The Executive Board of the International Monetary Fund (IMF) approved on November 22, 2010 a 15-month Policy Support Instrument (PSI) for Cape Verde. The IMF's framework for PSIs is designed for low-income countries that may not need IMF financial assistance, but still seek IMF advice, monitoring, and endorsement of their policy frameworks. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners. (See Public Information Notice No. 05/145).

The PSI for Cape Verde aims to consolidate macroeconomic stability, and achieve sustained broad-based growth. The authorities' program will build on the macroeconomic success and structural reforms of the previous PSI supported program, and will help maintain macroeconomic discipline.

Following the Executive Board's discussion of Cape Verde, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"Cape Verde is rebounding from the global economic crisis, driven by a pickup in tourism and construction. Inflation is low and the real value of the escudo remains competitive. The authorities' strong record of policy implementation over the past several years succeeded in building fiscal and reserves buffers, which provided room for counter-cyclical macroeconomic policies to moderate the impact of the global slowdown.

"The policies supported by a new 15-month Policy Support Instrument will pursue national development objectives for increasing growth, diversifying the economy and making progress on social policies. Given these objectives, the authorities have implemented a temporary acceleration of the public investment program, which is mainly financed with concessional external resources. In order to rebuild fiscal buffers against future adverse external shocks, the authorities have committed to scale back foreign-financed spending from next year and to enhance debt management capacity. In response to weaker-than-expected revenue, they have also restrained non-priority spending while protecting social spending on vulnerable groups. These policies are welcome, as prudent fiscal management is crucial in supporting the exchange rate peg.

“Given the fragile global environment, the Bank of Cape Verde is appropriately focused on shoring up reserve accumulation by stabilizing inflows of emigrant deposits. Improving the monetary transmission mechanism will allow the authorities to better influence market interest rates, which should be brought in line with the Euribor over time to mitigate the risks of speculative inflows. The authorities’ intention of bringing all banks under a single banking law is welcome. Continued efforts to enhance banking supervision and to develop the government securities market, in line with FSAP recommendations, will help safeguard financial system soundness and enhance the transmission of monetary policy”, Mr. Portugal added.

ANNEX

Recent Economic Developments

Cape Verde weathered the crisis well. Growth slowed in 2009, but remained strong compared to global trends. The global slowdown had the largest impact on tourism, FDI flows, and private construction. The authorities used the policy space created by prudent fiscal policies in recent years and additional inexpensive external financing to accelerate the public investment program that was already in place. Inflation declined from 6.8 percent (annual average) in 2008 to 1 percent in 2009 and should remain around 2 percent in the medium term. There are signs of recovery in 2010; and the growth rate in 2010 should pick up as the public investment program and the global recovery favorably affects the construction, tourism, and transportation sectors. Growth should then gradually rise in the medium term.

The challenge for Cape Verde is to take advantage of the current window of highly concessional financing while ensuring debt sustainability. The pace of the investment program is expected to continue in 2011–12, but should return to more moderate levels after the completion of current large infrastructure projects. The investment program is intended to support long-term private growth based on services exports in line with the Cape Verde Poverty Reduction and Growth Strategy.

Program Summary

Cape Verde’s PSI will continue to build foreign reserves and keep the domestic debt stock low to support the exchange rate peg. In order to protect international reserves, net domestic borrowing will be contained. Fiscal policy will be orientated toward gradual exit from the current counter-cyclical fiscal measures. In 2010–11, fiscal policy will remain anchored on implementing the medium term public investment program and minimizing and prudently managing debt. As the pace of public investment slows, fiscal deficit is expected to decrease from 13.5 percent of GDP in 2010 to 7.7 percent in 2012. External borrowing will continue, mostly on concessional terms, and will be scaled back after the completion of the current large infrastructure projects. The government will continue to address contingent liabilities arising from state owned enterprises (SOEs). In accordance with its poverty reduction strategy, the government is committed to safeguarding priority spending. In this regard, the authorities will implement active policies aimed at supporting sustainable solutions to unemployment and at fostering the integration of the most vulnerable into the economic and social life of the country. The government will invest heavily in the provision of training that caters to current labor market needs, particularly among the youth. Skills development are also supported by investments on housing, health, water and sanitation, all of which conducive to a better and more productive life for Cape Verdeans.