



CABO VERDE

February 2026

2025 ARTICLE IV CONSULTATION, SEVENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND THIRD REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CABO VERDE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Cabo Verde, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during February 6, 2026, consideration of the staff report that concluded the Article IV consultation with Cabo Verde.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 6, 2026, following discussions that ended on November 4, 2025 with the officials of Cabo Verde on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 23, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Bank.
- A **Staff Supplement** updating information on recent developments.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Cabo Verde.

The documents listed below have been or will be separately released:

Selected Issues

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IMF Executive Board Concludes the 2025 Article IV Consultation, Seventh Review under the Extended Credit Facility Arrangement, and Third Review under the Resilience and Sustainability Facility Arrangement with Cabo Verde

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the 2025 Article IV consultation, the seventh Extended Credit Facility (ECF) arrangement review, and third Resilience and Sustainability Facility (RSF) arrangement review.
- Economic conditions remain favorable, with continued robust growth and macro-financial stability. Real GDP growth was 7.2 percent in 2024 and is estimated to have reached 5.2 percent in 2025, converging to potential growth over the medium term.
- Program performance remains strong. All end-June 2025 quantitative performance criteria (PCs), continuous PCs and Indicative Targets (ITs) were met, except the September 2025 IT on social spending. The structural reform agenda is advancing, with two out of the three Reform Measures for the third RSF arrangement review completed and amendments to the Banco de Cabo Verde Organic Law were passed, an important governance reform.

Washington, DC – February 6, 2026: The Executive Board of the IMF completed the 2025 Article IV consultation¹, the seventh review under the [Extended Credit Facility \(ECF\) arrangement](#) that was approved on June 15, 2022, and the third review under the [Resilience and Sustainability Facility \(RSF\) arrangement](#) that was approved on December 11, 2023. The authorities have consented to the publication of the Staff Report prepared for this consultation.² Access under the ECF arrangement is equal to 220 percent of quota (SDR 52.14 million, approximately US\$ 71.28 million) and access under the RSF arrangement is equal to 100 percent of quota (SDR 23.69 million, approximately US\$ 32.39 million). The completion of the seventh ECF arrangement review allows for the disbursement of SDR 2.37 million (approximately US\$ 3.25 million), while the completion of the third RSF arrangement review allows for the disbursement of up to SDR 5.264 million (approximately US\$ 7.23 million).

Cabo Verde's economy continues to perform well, underpinned by tourism, robust export performance and private consumption growth. Economic growth is estimated at 5.2 percent in

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. Staff hold separate annual discussions with the regional institutions responsible for common policies in four currency unions—the Euro Area, the Eastern Caribbean Currency Union, the Central African Economic and Monetary Union, and the West African Economic and Monetary Union. For each of the currency unions, staff teams visit the regional institutions responsible for common policies in the currency union, collect economic and financial information, and discuss with officials the currency union's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis of discussion by the Executive Board. Both staff's discussions with the regional institutions and the Board discussion of the annual staff report will be considered an integral part of the Article IV consultation with each member.

² Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the <https://www.imf.org/en/Countries/CPV> page.

2025, following 7.2 percent in 2024. Inflation remains stable around the 2 percent target, following 1.0 percent on average in 2024. The current account recorded a surplus in 2024 and is projected to post another surplus in 2025 due to resilient tourism revenues, robust remittances and continued weakness in capital goods imports. International reserves reached €1.06 billion in December 2025, comfortably above the target of 5.5 months. Monetary policy remains flexible to safeguard price stability and preserve external buffers. The financial system is liquid, profitable, and well capitalized. Fiscal performance remained strong in 2025 and met program targets, driven by strong revenue momentum and tight control of current spending, while the execution of capital spending remains low. The public debt-to-GDP ratio remains on a downward path.

Performance under the ECF arrangement continues to be strong. All end-June 2025 quantitative performance criteria (PCs), continuous PCs and Indicative Targets (ITs) were met, except the September 2025 IT on social spending. While no Structural Benchmarks (SBs) were due for this review, the structural reform agenda is progressing, including the passing of amendments to the Banco de Cabo Verde Organic Law, an important governance reform. Two out of the three Reform Measures (RMs) under the third RSF arrangement review were completed.

Cabo Verde's near-term economic outlook remains favorable but is exposed to external and fiscal risks. Growth is estimated to have reached 5.2 percent in 2025 and to converge to potential growth in the medium term, with inflation remaining around 2 percent. The primary surplus is projected at 1.3 percent of GDP in 2026 and to stabilize at around 1.2 percent of GDP over the medium term, supported by tax reforms that reduce tax expenditures and by rationalization of current spending. The current account surplus in 2025 is projected to move to a moderate deficit over 2026-30 from higher climate spending and increased imports due to robust domestic demand. Main risks stem from a global growth slowdown, trade tensions, financing pressures, and climate shocks. State-owned enterprises (SOEs) remain a significant fiscal risk and delays in SOE reforms and rising debt may impact fiscal stability. The high level of debt is a source of vulnerability, and concessional financing to limit debt servicing cost remains important. On the upside, stronger tourism growth could lead to higher overall economic activity.

Following the Executive Board discussion, Mr. Li, Deputy Managing Director and Acting Chair, issued the following statement:

“Economic activity in Cabo Verde remained strong in 2025, reflecting prudent macroeconomic management and continued reform momentum. While program performance remains strong and the outlook is positive, risks persist from external shocks, SOE related fiscal pressures, and the electoral cycle. Continued prudent macroeconomic policies and reforms to boost productivity, foster inclusive growth, and strengthen resilience are important safeguards.

“Fiscal policy is anchored in continued debt reduction. The authorities have delivered primary surpluses and maintained tight control over current spending while prioritizing growth-enhancing investment. Tax reforms, including VAT modernization and reduced exemptions, are necessary to broaden the revenue base and improve compliance. The government is committed to channeling any revenue overperformance or expenditure savings toward further strengthening the primary balance and accelerating the decline in the debt-to-GDP ratio. Measures to reduce fiscal risks from state-owned enterprises, particularly in the transport and energy sectors, are important.

“Monetary policy remains appropriately focused on safeguarding the exchange rate peg and supporting reserve accumulation. The Banco de Cabo Verde has maintained a positive interest rate differential relative to the ECB, which has helped to reverse capital outflows and bolster reserves. While inflation is stable, the central bank stands ready to respond to emerging price pressures and evolving capital flow dynamics. Efforts to enhance liquidity management and monetary policy transmission would support macroeconomic stability. Strengthening the communication framework, including through forward guidance, would help to better anchor expectations.

“Structural reforms are appropriately focused on improving the business environment, expanding social protection, and enhancing financial access. Under the RSF, Cabo Verde is integrating climate risks into fiscal planning, mobilizing climate finance, and implementing reforms in energy and water sectors. Progress on climate adaptation and green investment is essential to help Cabo Verde achieve its development and sustainability goals.”

Executive Board Assessment³

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the authorities’ prudent macroeconomic management, strong program performance, and continued reform momentum. Directors considered that, while the outlook is positive, risks are to the downside, particularly from external shocks and fiscal vulnerabilities. Accordingly, they underscored the importance of maintaining prudent macroeconomic policies and advancing reforms to boost productivity, foster inclusive growth, and strengthen resilience.

Directors welcomed the authorities’ prudent fiscal stance, underscoring the importance of fiscal consolidation to reduce debt, while safeguarding social and growth-enhancing spending. They advised continued commitment to saving any revenue overperformance or expenditure under-execution to accelerate debt reduction. Directors encouraged ongoing reforms to modernize the VAT and rationalize exemptions, strengthen revenue administration, contain current spending, and improve public investment management. Measures to reduce fiscal risks from state-owned enterprises, particularly in the transport and energy sectors, remain important.

Directors agreed that the monetary policy stance is appropriate to safeguard the exchange rate peg and support reserve accumulation. They welcomed the positive interest-rate differential relative to the ECB and urged continued vigilance to emerging price pressures. Strengthening the communication framework, including through forward guidance, would help to better anchor expectations.

Directors welcomed that the financial sector remained broadly stable and encouraged efforts to enhance supervision and macroprudential policy to safeguard financial stability. They encouraged measures to strengthen liquidity management and monetary policy transmission, restore reserve requirements, and advance Basel III reforms. They commended the authorities on the enactment of the amendments to the Banco de Cabo Verde Organic Law and called for further progress in strengthening the AML/CFT framework. Directors stressed

³ 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. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

the importance of close monitoring of non-performing loans and sovereign-bank nexus related risks.

Directors called for reforms to boost productivity, foster sustainable and inclusive growth, and strengthen resilience to shocks. They welcomed the focus on improving the business climate, expanding social protection, and enhancing financial access. Directors highlighted RSF-supported reforms, which aim to upgrade infrastructure, lower costs, and spur private investment in the energy and water sectors. Integrating climate risks into fiscal planning and mobilizing climate finance remain key.

It is expected that the next Article IV consultation with Cabo Verde will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Cabo Verde: Selected Economic Indicators

Population (millions, 2024):	0.5	Per capita GDP (\$, 2024):	5,329
Quota (current, millions SDR)	23.7	Literacy/poverty rate (2015):	98.0/35.0
Main products and exports:	Tourism		
Key export markets:	European Union		

	2024 Act.	2025 Act.	2026 (proj.)
Output			
Real GDP growth (%)	7.2	5.2	5.1
Employment			
Unemployment (%)	n.a.	n.a.	n.a.
Prices			
Inflation - average (in %)	1.1	2.2	2.0
Central government finances			
Revenue (% GDP)	25.0	26.5	26.2
Expenditure (% GDP)	26.1	27.7	27.2
Primary Balance (% GDP)	1.3	0.9	1.3
Fiscal balance (% GDP)	-1.1	-1.2	-0.9
Public debt (% GDP)	112.0	102.5	97.0
Money and Credit			
Broad money (% change)	7.7	9.8	7.9
Credit to private sector (% change)	6.4	6.8	6.3
3-month Treasury bill interest rate (%)	n.a.	n.a.	n.a.
Balance of payments			
Current account (% GDP)	3.9	3.1	-0.2
FDI (% GDP)	3.3	3.5	3.3
Reserves (in months of current imports)	6.2	6.9	7.1
External debt (% GDP)	76.4	68.2	63.2
Exchange rate			
REER (% change)	n.a.	n.a.	n.a.

Sources: Cabo Verdean authorities and IMF staff estimates.



CABO VERDE

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, SEVENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND THIRD REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT

December 23, 2025

EXECUTIVE SUMMARY

Context. The economy of Cabo Verde has been growing at a fast pace over the last four years. The authorities have maintained macroeconomic stability and advanced reforms, though climate risks, SOE pressures, and global uncertainties remain. Economic growth is projected at 5.2 percent in 2025, following 7.2 percent in 2024, both driven by strong tourism and resilient consumption spending. Inflation remains stable around the 2 percent target, following 1.0 percent on average in 2024. International reserves are adequate to protect the peg and in 2024 the current account balance recorded a surplus. Cabo Verde is nearing the end of its current political cycle, with legislative and presidential elections planned to take place in April and October 2026, respectively.

Program Implementation/Performance. ECF performance remains on track, and reforms under the RSF are progressing. All end-June 2025 quantitative performance criteria (PCs), and continuous PCs were met. Two Indicative Targets (ITs) for March 2025 were not met (on social spending and on net other liabilities due to the anticipation of the capitalization schedule from Q2 to Q1 of 2025); all end-June and September 2025 ITs were met, except the September IT on social spending. A review of the ITs for March 2025 was inadvertently omitted during the sixth Review. The omission did not affect the conclusion of the last review. The structural reform agenda is progressing, with the Structural Benchmarks (SBs) due at end-December appearing on track (none were due for this review). The Reform Measures (RMs) under the RSF are advancing, and two out of the three RMs for the third review were completed. Work on the BCV Organic Law reform is progressing.

Outlook and Risks. Cabo Verde's outlook is solid, with medium-term growth near 5 percent and inflation around 2 percent. The current account remains in surplus in 2025 before shifting to small deficits from 2026 on as investment rises, while reserves remain adequate. Main risks stem from external shocks, SOE reforms, and election pressures, but ECF and RSF reforms and diversification efforts provide safeguards. Program risks are moderate, with still significant but easing debt distress concerns. Strong implementation capacity will help adjust policies if shocks materialize.

Policy Recommendations. Policy discussions for the 2025 Article IV Consultation, Seventh ECF Review, and Third Review under the RSF centered on maintaining fiscal and debt sustainability, while creating room for higher investment, mitigating SOE-related fiscal risks, modernizing monetary policy while preserving the peg, and reinforcing financial stability through targeted measures. Discussions also focused on advancing broader structural reforms to strengthen human capital, competitiveness, diversification, and climate resilience vital to sustain potential growth consistent with PEDS II goals, so as to spur private sector-led growth, integrating climate considerations into macroeconomic policies, mobilizing climate finance to meet national commitments, attracting private investment to support the SDGs, deepening efforts to advance the climate agenda, and addressing the challenge population dynamics pose to the sustainability of INPS' defined benefit pension scheme, including through an improved asset allocation strategy.

Approved By
Costas Christou (AFR)
and Niamh Sheridan
(SPR)

The discussions took place in Praia, Cabo Verde during October 22–November 4, 2025. The team consisted of Martin Schindler (head), José Sulemane, Nombulelo Gumata, Daniel Cunha, and Fidel Barroeta (all AFR), Bruno Albuquerque (SPR), Rodrigo García-Verdú (Res. Rep.), and António de Andrade (Local Economist, Res. Rep. Office). André Roncaglia and Elsa Brito (OEDBR) also participated in the mission. The mission met with Prime Minister Ulisses Correia e Silva, Vice Prime Minister and Minister of Finance Olavo Correia, Central Bank Governor Oscar Santos, other government and central bank officials, representatives of the private sector, and development partners. Lester Magno (AFR) assisted in the preparation of this report.

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CONTEXT AND RECENT DEVELOPMENTS

Context

1. Cabo Verde's economy has grown strongly over the past three years, driven by tourism and resilient consumption. GDP rebounded post-pandemic, averaging about 9 percent annually during 2022-24, while inflation fell from 7.6 percent in late 2022 to near 1 percent in 2024, edging up slightly in 2025. Fiscal consolidation delivered primary surpluses, with debt high but declining. The current account turned to surplus in 2024 surplus on the back of strong exports and remittance flows but is expected to return to a moderate deficit as investment rises. Reserve accumulation has been robust, supporting a well-anchored exchange rate peg. The authorities have maintained macroeconomic stability and further advanced reforms, though climate risks, SOE pressures, and global uncertainties remain. They have also demonstrated strong commitment to implementing staff's recommendations from the previous Article IV consultations (Annex III).

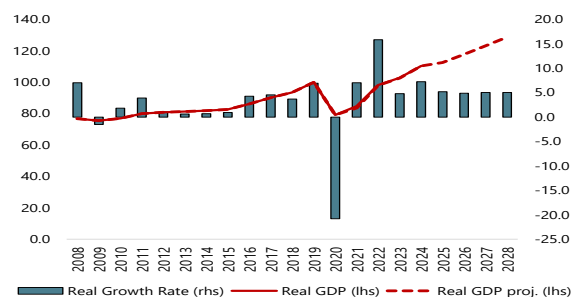
2. Cabo Verde is nearing the end of its current political cycle, with legislative and presidential elections to take place in April and October 2026, respectively. Recent municipal elections hint at headwinds for the ruling party, but despite potential political pressures, policies have so far remained anchored around improving debt sustainability, increased investment, and continued SOE reforms.

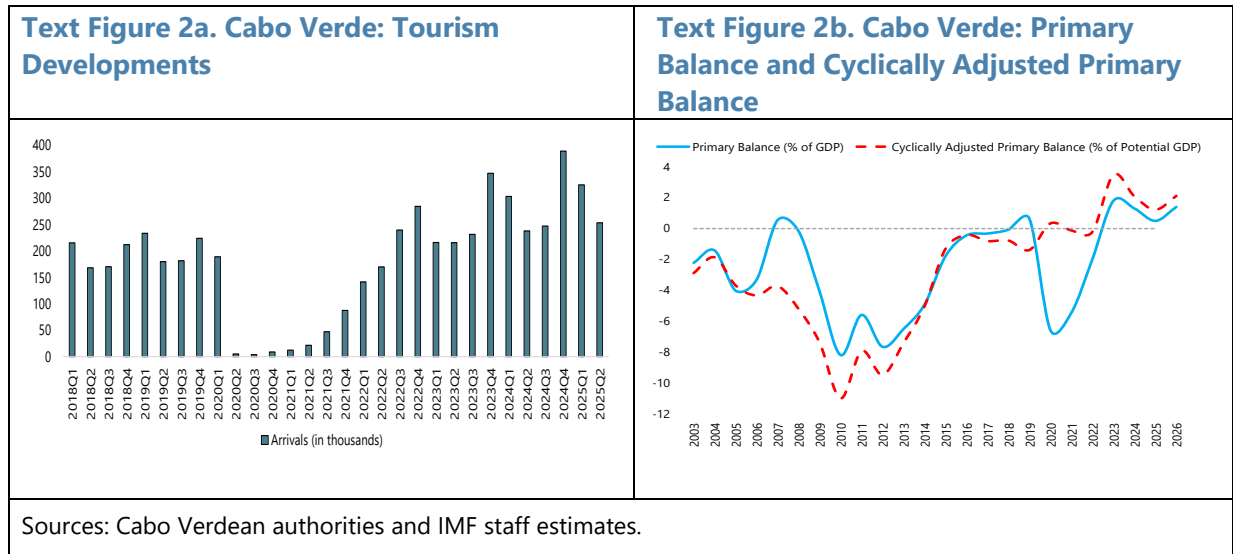
3. Program performance under the ECF has remained on track, along with substantial progress on reforms under the RSF. All performance criteria (PC) for end-June 2025, and continuous PCs were met. Two Indicative Targets (ITs) for March 2025 were not met (on social spending and on net other liabilities due to the anticipation of the capitalization schedule from Q2 to Q1 of 2025). All ITs for end-June and end-September 2025 were met, except the IT on social spending for end-September. The structural reform agenda is progressing, with the Structural Benchmarks (SBs) due at end-December appearing on track (none were due for this review), notably the 2026 draft Budget submitted to Parliament is in line with program parameters. The reform agenda under the RSF is progressing and two out of three Reform Measures (RMs) for the third review were completed.

Text Figure 1a. Cabo Verde: Contributions to Growth
(Quarterly, year-on-year percent change)



Text Figure 1b. Cabo Verde: Real Output and Growth Rates
(2019 Base = 100)





Recent Developments

4. Real GDP is projected at 5.2 percent in 2025, while inflation remains around 2 percent (Text Figure 1). The economy continued to grow robustly in 2025Q2 by 6.2 percent y-o-y, reflecting strong tourism growth, with air passenger arrivals surpassing levels recorded in previous years (Text Figure 2a), while net exports and private consumption more than offset a drag from investment. The final annual growth outcome is supported by a strong Q2/Q3 performance that in part reflects the changing tourism-related seasonality patterns in recent years. Inflation was around the 2 percent target, reaching 2.2 percent y-o-y and 2.1 percent on average in September 2025, driven by price dynamics in clothing and footwear, and alcoholic beverages and tobacco.

5. Budget execution through September indicates an overperformance against the 2025 fiscal objectives, driven by strong revenue momentum and tight control of current spending, while capital spending execution remained low. The 2025 primary balance as of end-September registered a surplus of 2.5 percent of GDP. Economic activity and policy measures linked to enhancing compliance and reducing tax expenditures supported an increase in tax revenues through end-July (16.8 percent y-o-y). Non-tax revenue is lower-than-projected mainly due to the rescheduling of the one-off airport concession fee to Q42025. Public investment grew 41.4 percent supported by road projects and the finalization of the Mindelo Cruise Terminal. However, the high growth rate in part reflected a base effect of particularly low investment spending execution in 2024; the budget execution rate is expected to increase moderately in 2025. Weaker-than-expected growth in the wage bill and social benefits helped contain primary expenditure growth (8.3 percent y-o-y).

Box 1. Cabo Verde's Reclassification as an Upper-Middle Income Country by the World Bank

1. Cabo Verde is now classified as an upper-middle income country. Coinciding with the country's 50th year of independence, the World Bank Group (WBG) reclassified the country from the lower-to the upper-middle income category according to its per-capita income level classification for FY2026.¹ Cabo Verde has thus joined a small group of sub-Saharan African (SSA) countries classified as upper-middle income, including Botswana, Equatorial Guinea, Gabon, Mauritius, and South Africa (with Seychelles the only high-income country in SSA). This milestone adds to the country's previous achievement of graduation from the United Nations' group of Least Developed Countries (LDC) in 2007, with Cabo Verde only the second LDC following Botswana's graduation in 1994.²

2. Cabo Verde's success stands out from both a time and cross-country perspective. An analysis of the WBG's classification history shows that only a handful of countries have managed to transition from low-income to upper-middle income country over the past four decades (Figures 1 and 2). Out of 50 countries whose income per capita in 1985 would have placed them in the low-income category, only five managed to transition by 2024 to upper-middle income—Cabo Verde, China, Equatorial Guinea, Indonesia, and Maldives—while only one managed to transition to high-income, Guyana.

Box 1. Figure 1. Cabo Verde: Countries Across World Bank Income Categories
(Number of countries in each category)

		2024			
		Low	Lower Middle	Upper Middle	High
1986	Low	21	23	5	1
	Lower middle	2	21	27	3
	Upper middle	0	0	8	21
	High	0	0	0	44

Source: IMF staff calculations based on data from the World Bank's Analytical Classification History and the World Development Indicators.

¹ <https://blogs.worldbank.org/en/opendata/understanding-country-income--world-bank-group-income-classifica>.

² Although Cabo Verde was already classified as lower-middle income country when the WBG's classification started in FY89 (using data from 1987), the time series for GNI per capita calculated using the Atlas method are available since 1982 and indicates that Cabo Verde's income per capita (Atlas method) corresponded to the low-income country category through 1986, having risen to lower-middle income country in 1987.

Box 1. Cabo Verde's Reclassification as an Upper-Middle Income Country by the World Bank (concluded)

		2024			
		Low	Lower Middle	Upper Middle	High
1986	Low	42.0	46.0	10.0	2.0
	Lower middle	3.8	39.6	50.9	5.7
	Upper middle	0.0	0.0	27.6	72.4
	High	0.0	0.0	0.0	100.0

Source: IMF staff calculations based on data from the World Bank's Analytical Classification History and the World Development Indicators.

¹To summarize the WBG's historical classification between 1986 and 2024 for all 176 countries for which data are available in both years, a transition matrix was estimated. The rows show the number (upper matrix) and fraction (lower matrix) of countries which started out in each category in 1986, while the columns show the number and fraction of countries which ended up in each category in 2024.

3. The reclassification does not affect Cabo Verde's continued eligibility for most concessional financing over the medium term. As a small developing island state, Cabo Verde's eligibility for concessional financing through the World Bank's IDA and the IMF's PRGT facilities is based not on its income per capita level but on its geography and population ("small economy terms"). Even if Cabo Verde were to grow in nominal terms at 7 percent annually (assuming a real GDP growth of 5.0 percent—close to potential growth—and an average inflation of 2.0 percent), it would still take more than a decade to reach the level of per-capita GNI of countries in the Caribbean which are currently transitioning from blended IDA to IBRD terms.

4. The transition is an important milestone in the country's development path, particularly given its initial conditions and endowments. Given the progress achieved over this half century, it can be overlooked that at the time of independence many considered Cabo Verde nonviable as a sovereign state. In fact, Cabo Verde has historically been affected by prolonged droughts and famines, had no natural resources and, after Mozambique, had the lowest level of income per capita among the group of Portuguese-speaking African countries that gained independence around the same time. Cabo Verde has successfully overcome many of these obstacles.

6. The current account in 2024 has turned out stronger than previously projected. At 3.9 percent of GDP, the positive 2024 current account balance represented the first surplus since the pandemic and the highest on record, driven by strong goods exports, a surge in tourism, robust remittances, and moderate import growth, in part related to the under execution of public investment. Growth in goods exports largely reflected the 2023 delay in renewing a European Union (EU) fish trade derogation, ultimately granted in May 2024 and allowing for a sharp expansion in fish exports during the remainder of 2024. The financial account shifted to a

deficit of 2.7 percent of GDP in 2024, on account of an increase in banks' net foreign assets in the context of negative interest rate differentials with the euro area; it was also affected by a base effect in 2023 related to the airport concession to Vinci Airports. Gross international reserves reached €736 million at end-2024, representing 6.2 months of prospective imports of goods and services, comfortably above the target of 5.5 months. Cabo Verde's external position in 2024 is assessed to be substantially stronger than implied by medium-term fundamentals and desirable policies (Annex IV).

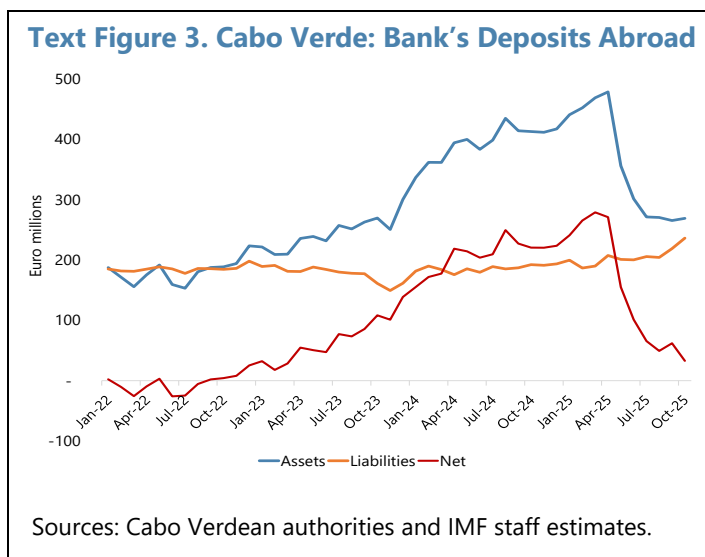
7. The positive momentum in the current account has continued into 2025. In 2025H1, the current account posted a surplus of 5.4 percent of GDP, driven by a combination of strong growth in tourism revenues (13 percent year-on-year), robust remittances, and a smaller deficit in the primary income balance related to the combination of lower interest payment on government debt and an increase in banking sector interest income, reflecting the growth in net foreign assets during 2024. Moreover, import growth was muted as capital goods imports continue to underperform expectations, with a decline of 3 percent year-on-year, mostly related to low government capital execution. The financial account posted a surplus of 7.0 percent of GDP in 2025H1, contrasting with a deficit in the same period in 2024, as banks started reducing considerably their net foreign asset positions in 2025Q2. Reserves reached €942 million in September 2025, equivalent to 7.0 months of prospective imports.

8. The BCV continued to tighten monetary policy to safeguard the peg, strengthen reserves, and align with ECB policies.

It raised the deposit rate to 2.25 percent in May 2025 but kept the policy rate unchanged at 2.50. Together with ECB policy actions, this has resulted in establishing a positive spread of 25 bps and 35 bps, respectively, versus ECB rates, a significant turnaround from the negative policy rate gap in 2024 (Text Figure 6). Reflecting these (relative) interest rate dynamics, banks'

foreign assets declined sharply by end-September 2025 to €115 million from €222 million at end-2024, a trend that seems to have continued in October (Text Figure 3). As of September 2025, M2 grew by 6.9 percent y-o-y, total deposits by 6.5 percent y-o-y, and credit to the private sector by 5.8 percent y-o-y. Despite higher policy rates, bank lending rates and credit growth have shown little response (SIP).

9. The financial sector remains stable, well-capitalized, profitable, and liquid, but NPLs remain high and require close monitoring given credit-at-risk dynamics. At end-September 2025, the capital adequacy ratio (CAR) of 23.7 percent far exceeded the

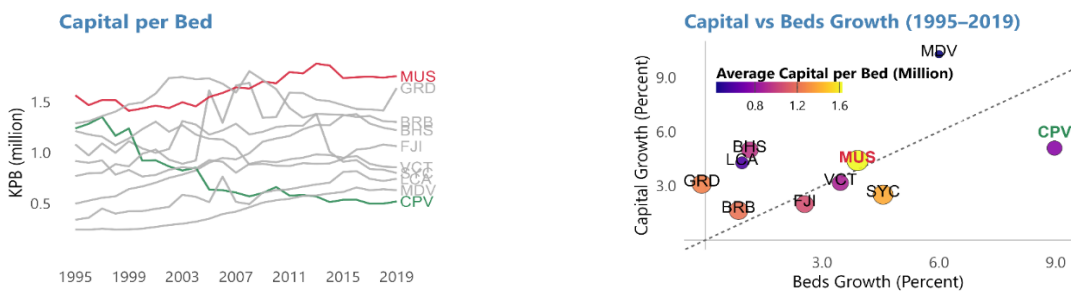


12 percent minimum and returns on equity and assets remained solid at 13.6 and 1.5 percent, respectively. NPLs stood at 7.7 percent of loans at end-September 2025, slightly below the levels at end-2024 helped by stronger firm performance and the restructuring of several state-guaranteed loans. Credit-at-risk declined markedly at end-June 2025, driven by write-offs by one of the large banks, but remains elevated by historical standards, signaling potential vulnerabilities ahead. Credit-at-risk dynamics are largely driven by high exposure to public enterprises and state-guaranteed loans—elevating risks in case of rising fiscal pressures—as well as bank lending being heavily concentrated in tourism, construction, and trade—elevating vulnerability to external shocks such as weaker tourism flows and global uncertainty.

Box 2. Scale vs. Quality—Why Beds × Quality (Not Beds Alone) Drives Growth in Tourism-Dependent Small States

1. Cabo Verde’s capital per bed (kpb) is low in cross-country comparison, whereas Mauritius stayed near the top. Decomposing kpb growth shows that bed expansion in Cabo Verde outpaced supporting capital, depressing kpb—evidence of quality dilution when scale surges are not matched by infrastructure and amenities.

Box 2. Figure 1. Cabo Verde: Capital Per Bed Levels and Growth in Tourism-Dependent Small States



Note: The stock of capital is drawn from the IMF’s Investment and Capital Stock Dataset and covers both public and private investment, while the stock of beds come from the UN Tourism Statistics.

2. In this analysis, a production technology is assumed that integrates hotel expansion with economy-wide infrastructure accumulation. Composite tourism capital is the product of scale and quality, $K^T \equiv B * kpb$, where B is the number of beds and output is given by $Y = A(K^T)^\alpha$. Accumulation separates planned allocation from dilution:

$$B_t = (1 - \delta_B)B_{t-1} + s_B i_t + \varepsilon_t^B, \quad kpb_t = (1 - \delta_K)kpb_{t-1} + (1 - s_B)i_t + \varepsilon_t^K - \varphi \varepsilon_t^B$$

where i_t is total investment, s_B the share directed to bed expansion, and φ the dilution elasticity. The elasticity proxies for the fact that, as accommodation expands, infrastructure and amenities such as electricity, airports, or water supply may run into capacity constraints. In operational terms, a higher φ implies that additional beds reduce per-bed quality more sharply, highlighting that scale-only growth delivers weak dividends unless matched by commensurate infrastructure.

Box 2. Scale vs. Quality—Why Beds × Quality (Not Beds Alone) Drives Growth in Tourism-Dependent Small States (concluded)

3. A calibrated exercise indicates that aligning supporting infrastructure with bed expansions can yield meaningful welfare improvements. Benchmarking Cabo Verde to Mauritius by lowering the dilution elasticity (φ) from 0.91 to 0.57 (estimated via local projections on a sample of countries with high capital-per-bed growth) shows that weaker dilution materially amplifies the gains from accommodation growth: the fall in capital per bed following a bed shock is nearly halved, output and consumption responses are markedly stronger, and long-run welfare rises by about two percent in consumption-equivalent terms. Welfare is evaluated as a consumption-equivalent measure over a 20-year horizon, comparing the consumption paths following a bed expansion under the two calibrations of φ in the DSGE model. In practice, a lower φ can be achieved when hotel expansion is matched by parallel investments in infrastructure—such as airports, energy, and water supply—or when a stronger business environment facilitates complementary private investment in supporting capital.¹

Box 2. Table 1. Cabo Verde: Welfare and Peak Response Metrics: Baseline vs. Low- φ (Percent)

Scenario	Peak Δk_{pb}	Peak ΔK^T	Peak ΔC	ΔC over 20 yrs
(i) Baseline ($\varphi = 0.91$)	-23.7	10.7	0.9	–
(ii) Low- φ counterfactual ($\varphi = 0.57$)	-14.9	20	5	2.1
Difference (ii – i)	+8.8	+9.3	+4.1	+2.1

¹ Staff discussions with local authorities and private sector representatives on Sal Island underscored the notion that sustaining successful expansion of the tourism sector hinges on providing adequate infrastructure such as housing and transport to attract and retain the required workforce.

OUTLOOK AND RISKS

10. Cabo Verde’s outlook is solid but faces risks. Growth is projected to reach 5.2 percent in 2025 and 5.1 percent in 2026, slightly above the estimated potential of 4.9 percent, with inflation remaining near 2 percent over the medium-term. After widening to 18 percent in 2020 due to the pandemic, staff project that the remaining negative output gap of 2.4 percent in 2025 will gradually close over the medium term (see Annex III of the Sixth ECF Review (SR 25/274) for the methodology). The current account is likely to post another surplus in 2025 due to resilient tourism revenues, robust remittances; continued weakness in capital goods imports; a smaller deficit in the primary income account reflecting lower interest payments on government debt; and higher interest income for banks in 2025H1. Further out, the current account would gradually return to deficits as capital expenditures on climate and infrastructure increase and the primary account deficit widens due to the reduction of banks’ net foreign assets. At the same time, the CA deficits are driven mainly by a decrease in private sector balances over the horizon. Current account deficits, however, are projected to be smaller than historical values and those at the time of the sixth ECF review due to an upward level shift in tourism receipts—consistent with recent data showing that tourism capacity has been increasing, and the number of low-cost airlines flying to Cabo Verde has

also increased considerably.¹ The financial account is expected to return to a surplus in 2025 and over the medium term, supported by robust FDI, and a gradual reduction in banks' net foreign assets. Reserves are expected to stabilize at 7.2 months of prospective imports, thus remaining at comfortable levels to support the exchange rate peg.

11. Cabo Verde's economy, although resilient, faces downside risks, but strong policies and program engagement provide important buffers. The economy remains highly vulnerable to external shocks in energy and food prices, tourism flows, global trade, and climate events, while fiscal risks stem from delayed SOE reforms, rising debt, and possible election-related pressures. The direct impact of recent U.S. tariff changes is likely limited, yet weaker global growth could weigh on fish exports, remittances, tourism, and external financing, while adverse oil/food shocks could raise inflation. If risks materialize, contingency plans include expanding social protection, reprioritizing spending while safeguarding investment, and advancing reforms to strengthen competitiveness and climate resilience. Ongoing ECF/RSF efforts to diversify the economy, build fiscal buffers, and mobilize climate finance—underpinned by a strong track record—offer safeguards. A climate-shock downside scenario (DSA, WB CCCR-based) implies a cumulative 5 percent GDP loss in 2030–2045, with debt ratios rising but remaining contained and sustainable. Near term, an adverse WEO-calibrated shock (2026–2027) would pressure the current account and reserves; automatic stabilizers would widen the deficit temporarily, with consolidation resuming as conditions improve, aided by prudent policies (monetary tightening to protect the peg and reserves, careful fiscal prioritization) and partner support. Upside risks include faster tourism, stronger remittances, resilient investment, and accelerated reforms.

Authorities' Views

12. The authorities agreed with staff's assessment of the recent economic developments, the outlook, and the balance of risks. They noted that Cabo Verde has remained resilient but that increased uncertainty, and tighter financial conditions may contribute to some headwinds on growth going forward. The authorities expect that the recent measures to increase public investment will provide an impetus to growth. They concurred with staff's risk assessment. The authorities underscored that the country is well-positioned to confront potential risks given strong fundamentals and available policy space and buffers.

¹ Tourism capacity can increase further if hotel expansion is accompanied by adequate infrastructure investments (Box 2). While hotel capacity is expanding on established tourist islands, additional investments are needed to foster diversification toward other islands.

Box 3. Illustrative Adverse Scenario

1. Cabo Verde’s external sector has been resilient, with reserves expected to remain adequate and no major financing issues under the baseline. However, adverse shocks could weaken the current account, reduce capital flows, and erode buffers, creating potential balance of payments needs.

2. Adverse scenario (Box Table 1). A simulated adverse external shock—combining lower tourism arrivals, higher global food and fuel prices, and tighter external financing conditions—would reduce real GDP growth by about 2 p.p. in 2026 and 1.6 p.p. in 2027 relative to baseline. Inflation would increase by up to 1.8 p.p., while weaker activity and higher borrowing costs would widen the fiscal deficit, pushing public debt more than 7 p.p. of GDP above baseline levels over 2026–27. The current account deficit would deteriorate by 2 p.p. of GDP in 2026, and reserve buffers would decline by roughly 1 month of imports, underscoring Cabo Verde’s exposure to external shocks and the importance of continued fiscal prudence, diversification, and resilience-building reforms.

3. Policies. In an adverse scenario, active policies should include temporary fiscal support to households and firms, readiness for targeted liquidity measures to preserve the peg and financial stability, and mobilization of external concessional financing to safeguard reserves, anchored in a credible medium-term consolidation path.

4. Implications. Reserves would fall to about 6 months of prospective imports at end-2027 but remain above the BCV’s 5.5-month target.

Box 3. Table 1. Cabo Verde: Impact of a Plausible External Shock

	2026		2027	
	Baseline	Adverse Δ	Baseline	Adverse Δ
Real GDP Growth (%)	5.1	-2.0	5.1	-1.6
Inflation (%)	2.0	1.8	2.0	1.0
Primary Balance (% GDP)	1.3	-0.6	1.2	-0.7
Overall Balance (% GDP)	-0.9	-0.5	-0.3	-0.8
Public Debt (% GDP)	97	7.6	91.3	7.8
Current Account (% GDP)	-0.2	-2.0	-1	-1.3
Gross international Reserves (million of Euros)	1029	-140.0	1111	-216.0
Gross International Reserves (months of impo	7.1	-1.0	7.2	-1.4

Source: Cabo Verdean authorities, and IMF staff calculations and projections.

PROGRAM PERFORMANCE

13. Performance under the ECF has remained on track, while RSF implementation is progressing, albeit at a slower-than-envisaged pace owing to capacity constraints.

- All **QPCs** for end-June 2025 were met, along with the continuous PCs. Two ITs for March 2025 were not met (on social spending and on net other liabilities due to the anticipation of the capitalization schedule from Q2 to Q1 of 2025). A review of the ITs for March 2025 was

inadvertently omitted during the sixth Review. The omission did not affect the conclusion of the last review. All ITs for end-June 2025 and end-September were met except the end-September social spending floor by a small shortfall due to a slower-than-projected growth rate of health and education expenditures.

- **SBs:** No SBs are due at this review, however, the upcoming SB (due end December) on submitting the budget to Parliament in line with program projections has been completed in October while the other upcoming SBs are advancing (for example, a majority of SOEs' audited 2023 financial statements have already been published). On monetary and financial sector reforms, the BCV is also working towards meeting the targets.
- **RMs** for this review under the RSF have progressed and two out of three were completed, despite capacity challenges. The authorities have developed a pipeline of appraised public capital projects (with FAD TA support) and hence completed RM4. They have also completed RM8, having developed climate vulnerability maps to inform land use planning regulation and construction code requirements. RM7 has not been completed in full, although work towards it has progressed substantially, including the expansion of the USR (Unique Social Registry) to 100 percent of poor and vulnerable households and the use of the climate maps developed under RM8 for identifying poor and vulnerable households in climate-vulnerable areas. MCM has continued to provide TA supporting the BCV in addressing barriers around mobilizing climate finance and strengthening the capacity of financial institutions to assess and manage climate-related financial risks (RM9). Completion of RM4 and progress on RM9 are important elements in helping develop a national climate-finance mobilization strategy. Following TA support for RM5 and RM6, the authorities are working on implementing the recommendations. More generally, the authorities' strong commitment notwithstanding, a broad set of RMs with complex cross-dependencies; bundling of several measures into single RMs; and the involvement of multiple ministries, agencies, SOEs, and partners has stretched the authorities' capacity more than expected and thus lengthened timelines.

POLICY DISCUSSIONS

Cabo Verde's priorities are to achieve a primary surplus, reduce debt, safeguard reserves, and advance SOE, business climate and climate-related reforms, while strengthening social protection and governance. Despite progress, remaining vulnerabilities and external risks highlight the need for continued Fund support. The ECF program ensures policy continuity through the election period, while the Article IV consultations focused on medium-term priorities, including fiscal policies, the monetary policy framework, and structural reforms for broad-based growth and diversification. Finally, the RSF focuses on reforms to integrate climate risks into fiscal planning and mobilize climate finance.

A. Strengthen Public Finances to Preserve Debt Sustainability

14. Staff project the 2025 primary balance at 0.9 percent of GDP, compared with 0.5 percent anticipated at the sixth review, while the 2026 budget is consistent with the fiscal path envisaged under the program. The upward revision for 2025 reflects lower nominal expenditures on

goods and services and capital, consistent with the current pace of budget execution. For 2026, the budget targets a primary surplus of 1.3 percent of GDP, in line with the program target (Text Table 1). The authorities should save any revenue overperformance or expenditure under-execution to strengthen the primary balance and accelerate debt reduction.

- **Tax revenue.** In 2025, revenue performance reflects gains from expanding the tax base through reduced tax expenditures and implementing revenue administration measures in voluntary compliance, more than offsetting the delayed implementation of the arrivals tax. While the measure has been legislated, its operationalization requires clearances from ICAO and the domestic civil aviation regulator expected to be completed in early 2026. Tax revenues in the 2026 budget are consistent with program projections and incorporate various tax policy measures (Text Table 2). The budget considers the reduced CIT exemption on large investment-related imports enacted in 2024,² with the underlying yields fully materializing in 2026; the VAT reform (Box 3) submitted to parliament alongside the 2026 budget; and the operationalization of the tax on arrivals. In 2027, revenues are projected to rise further, reflecting the full-year effect of the e-commerce VAT expansion and the application of the 15-percent global minimum tax to large multinationals (Box 4), partly offset by the reduction in the base CIT rate from 21 to 20 percent. The decline in the CIT base rate is not a tax-expenditure measure, as it applies in principle to all firms. However, it still entails a mechanical reduction in revenue, which, all else equal, lowers collections in the near term.
- **Non-tax revenue.** Staff's 2025 projections diverge from the budget owing to the exclusion of the 1.7 percent of GDP non-cash transfer from ASA, the state-owned air traffic control company, matched by an equivalent acquisition of airport infrastructure assets by the central government. In 2026, staff's revenue projections fall short of budget guideline assumptions, mainly reflecting lower property income following a reassessment of real estate asset values in line with sixth review projections.
- **Grants.** In 2026, grants are projected at 1.6 percent of GDP, above the sixth review projections but below the budgeted 1.8 percent of GDP as staff adopts more conservative assumptions on the materialization of new bilateral agreements and lower public investment execution.
- **Spending.** Current primary spending in 2025 is projected to rise by 1.8 percent of GDP relative to 2024 but remains 0.1 percent of GDP below the sixth review forecast, reflecting reduced goods and services expenditures (Text Table 3). Capital investment is expected to increase by 0.1 percent of GDP relative to 2024, though still 0.2 percent of GDP below the sixth review projection, due to the pace of investment execution. For 2026, staff's expenditure projections fall short of the budget, as staff adopts more conservative assumptions on earmarked revenues (grants and other revenues) that are linked to current spending. Notably, the 2026 budget envisages a structural consolidation of 1.7 percent of GDP relative to the 2025 budget (adjusted for non-cash

² Incentives under contractual conventions have been part of Cabo Verde's legislation for several years. Previous to the new law, these incentives were designed to exempt firms from several taxes, such as import duty, CIT, property tax and stamp duty, and are granted by the Council of Ministers on condition that the beneficiaries meet the requested conditions.

expenditures), offsetting the phase-out of the one-off airport concession fee expected to be paid in 2H2025.

- **Financing.** Financing needs in 2026 are projected to contract slightly to 1.2 percent of GDP, from 1.4 percent at the sixth review, due to the higher primary balance. Net external financing is expected to be -0.5 percent of GDP, while domestic financing is projected to increase to 1.7 percent of GDP in line with the budget.

Text Table 1. Cabo Verde: Revised 2025-26 Fiscal Framework

	2025						2026					
	Budget		6th Review-SR		Proj.		Budget		6th Review-SR		Proj.	
	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP
Revenue	90,584	30.5	79,069	26.1	79,296	26.5	91,511	28.1	80,161	24.7	84,218	26.2
Taxes	60,544	20.4	60,968	20.1	60,983	20.4	66,511	20.4	65,500	20.2	66,415	20.7
Grants	4,944	1.7	3,917	1.3	3,917	1.3	5,795	1.8	4,161	1.3	5,170	1.6
Other revenue	25,017	8.4	14,184	4.7	14,396	4.8	18,435	5.7	10,500	3.2	12,633	3.9
Expenditure	95,667	32.2	83,795	27.6	82,802	27.7	94,444	29.0	82,936	25.5	87,130	27.2
Expense 1/	80,998	27.3	75,648	24.9	75,297	25.1	85,476	26.2	73,925	22.7	79,238	24.7
Net acquisition of nonfinancial assets	14,668	4.9	8,147	2.7	7,505	2.5	8,968	2.8	9,011	2.8	7,892	2.5
Primary balance	1,092	0.4	1,512	0.5	2,732	0.9	4,032	1.3	3,511	1.1	4,075	1.3
Overall balance	-5,082	-1.7	-4,726	-1.6	-3,506	-1.2	-2,933	-0.9	-2,775	-0.9	-2,911	-0.9
Net other liabilities	-1,115	-0.4	-1,540	-0.5	-1,540	-0.5	-866	-0.3	-1,776	-0.5	-866	-0.3
o/w Onlending to SOEs for investment purpose	-696	-0.2	-696	-0.2	-998	-0.3	-442	-0.1	-442	-0.1	-442	-0.1
o/w Other onlending (net)	315	0.1	315	0.1	227	0.1	300	0.1	300	0.1	300	0.1
o/w Capitalization	-2,200	-0.7	-2,200	-0.7	-2,200	-0.7	-2,700	-0.8	-2,700	-0.8	-2,700	-0.8
o/w Drawdown of deposits	1,856	0.6	1,431	0.5	-215	-0.1	1,976	0.6	1,976	0.6	1,976	0.6
Financing needs	-6,197	-2.1	-6,267	-2.1	-5,046	-1.7	-3,799	-1.2	-4,541	-1.4	-3,777	-1.2
Financing	6,197	2.1	6,267	2.1	5,046	1.7	3,799	1.2	4,541	1.4	3,777	1.2
Domestic (net)	1,549	0.5	3,539	1.2	2,569	0.9	5,786	1.8	3,317	1.0	5,463	1.7
External (net)	4,648	1.6	2,728	0.9	2,477	0.8	-1,987	-0.6	1,234	0.4	-1,685	-0.5
Public debt (percent of GDP)	...	...	104.9	...	102.4	...	...	...	99.9	...	97.0	...
Memorandum items:												
Of which non-cash revenues 2/	4,911	1.7	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Of which non-cash expenditures 2/	4,911	1.7	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Nominal GDP	296,751		303,426		299,439		326,105		325,011		320,872	

Sources: Cabo Verdean authorities and IMF staff projections.

1/ Considering 2025 budget clause to adjust downwards of goods and services expenditures

2/ Program projections do not include non-cash transactions as per the TMU definitions

30.6

Text Table 2. Cabo Verde: Tax Revenue Projections 2024-27
(Percent of GDP)

Tax revenue to GDP ratio 2024	20.1
Tax policy measures 2025	0.4
Tax expenditures	0.2
ECOWAS implementation	0.1
Harmonize tobacco, alcohol, and fuel taxation	0.1
Revenue administration measures 2025	0.2
enhancement of compliance system	0.2
Tax revenue to GDP ratio 2025	20.4
Tax policy measures 2026	0.3
Tax expenditures	0.1
Item by item revision of domestic and import VAT exemptions	0.01
Reduction of CIT exemption on import component of new investments	0.1
E-commerce VAT expansion	0.1
Other minor measures (Implementation of ECOWAS tariffs and incentive revisions)	-0.1
Other measures	0.2
Tax on arrivals	0.2
Tax revenue to GDP ratio 2026	20.7
Tax policy measures 2027	0.3
Tax expenditures	0.4
Full year impact of e-commerce expansion	0.1
Global Minimum Tax on large multinationals (revenue ≥ €750m) pay at least 15 percent effective CIT in every country	0.3
Other measures	-0.1
Reduction of CIT base rate from 21 to 20 percent	-0.1
Tax revenue to GDP ratio 2027	21.0

Sources: Cabo Verdean authorities and IMF staff estimates.

Box 4. VAT Reform

1. With support from FAD, the authorities submitted to Parliament in October a draft law that modernizes Cabo Verde's VAT system, aligning it with international best practices and embedding stronger compliance controls. It mandates e-invoicing with QR codes and unique document identifiers, requires certification of accounting and invoicing software, and enforces automated matching of credit and debit notes. It introduces a comprehensive voucher regime and new regularization rules for capital goods and immovable property, clarifies thresholds for simplified invoices in retail and small services, and operationalizes the 2024 e-commerce framework through a registry-based main regime and a fallback regime enforced via payment intermediaries, with entry into force on January 1, 2026.

2. The reform is expected to yield about 0.2 percent of GDP in the near term and deliver gains in neutrality, auditability, and administrative efficiency. The measure broadens the tax base by bringing cross-border digital sales into the tax net and enforcing payment-based collection through banks and other intermediaries when operators are not registered, supported by monthly data sharing and simplified declarations. Mandatory e-invoicing and certified software align the timing of declaration and deduction and strengthen refund integrity, while transitional provisions sequence implementation, including initial e-commerce operator lists within 90 days. The VAT reform removed exemptions on 14 goods, including various meats, blue-veined cheeses, and several non-food items, all with a near-zero revenue yield. The reform also introduced new exemptions, mainly in the health sector, but their fiscal impact is similarly negligible. Larger revenue gains would require a later rationalization of currently broad exemptions of goods and services, estimated at around 2 percent of GDP and outside the submitted bill.

Box 5. Implementation of the Minimum Global Tax in Cabo Verde

1. Pillar Two of the OECD and G20 Inclusive Framework on Base Erosion and Profit Shifting sets a jurisdictional minimum effective corporate income tax rate of 15 percent for large multinational enterprise groups and enforces it through top-up taxes on low-taxed profits. The regime applies to groups with consolidated revenues of at least €750 million and operates on a per-jurisdiction basis. When a subsidiary's effective tax rate falls below 15 percent, a top-up tax brings it to the minimum, reducing incentives for profit shifting and harmful tax competition.

2. For Cabo Verde, adopting a Qualified Domestic Minimum Top-up Tax (QDMTT) would enable the authorities to collect domestically any additional tax that would otherwise be paid abroad under the Income Inclusion Rule or the Undertaxed Payments Rule (Table 1). Introducing a QDMTT would help preserve revenue, reduce base-erosion risks, and remain compatible with transparent and better-targeted investment incentives, thereby strengthening the integrity and resilience of the corporate tax system. A full revenue assessment would need to incorporate the substance-based income exclusion (SBIE), which reduces the top-up tax by allowing carveouts for payroll and tangible assets.

Box 5. Implementation of the Minimum Global Tax in Cabo Verde (concluded)**Box 5. Table 1. Cabo Verde: Illustrative Revenue Impact of a Cabo Verde Subsidiary**

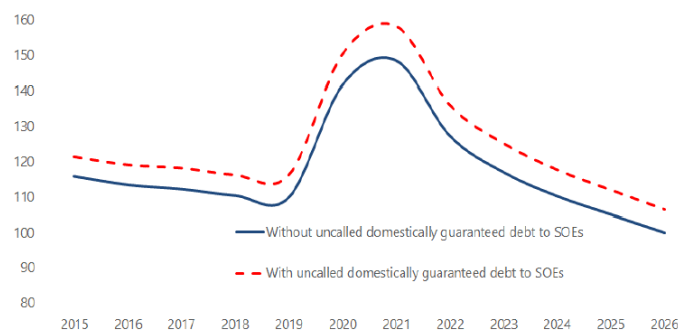
Metric	Without QDMTT	With QDMTT
Profit before tax (PBT)	€100 million	€100 million
Effective tax rate in Cabo Verde (after incentives)	5 Percent	5 Percent
CIT paid in Cabo Verde at 5 percent	€5 million	€5 million
Pillar Two minimum at 15 percent of PBT	0	€15 million
Top-up required	0	€10 million
Who collects the top-up	Parent/intermediate jurisdiction	Cabo Verde (QDMTT)
Total collected in Cabo Verde	€5 million	€15 million
Incremental Cabo Verde revenue	—	€10 million

Text Table 3. Cabo Verde: Revised 2025-26 Expenditures
(Percent of GDP)

	t=2025		t=2026	
	6th Review	Proj.	6th Review	Proj.
Primary Expenditures in $t-1$	23.4	23.7	25.6	25.5
Change in primary expenditures	2.2	1.8	-1.9	-0.6
Current	1.9	1.7	-2.1	-0.5
Wage Bill	1.6	1.6	0.3	0.3
Use of goods and services	0.6	0.4	-1.2	-0.4
Others	-0.3	-0.3	-1.2	-0.4
Net acquisition of non-financial assets	0.3	0.1	0.1	0.0
Primary Expenditures in t	25.6	25.5	23.7	25.0
Interest Bill in t	2.1	2.1	1.9	2.2
Total Expenditures in t	27.6	27.6	25.6	27.1

Sources: Cabo Verdean authorities and IMF staff estimates.

15. The debt-to-GDP ratio is projected to fall to 97 percent by end-2026, the lowest since 2014. The current Bank-Fund DSA maintains Cabo Verde at a high risk of overall debt distress and a moderate risk for external debt. Debt remains sustainable given a favorable debt profile supported by predominantly concessional borrowing. Nonetheless, the elevated vulnerability of domestic public debt as shown by both domestic public debt-to-GDP ratio and debt service-to-revenues ratio (including grants), including publicly guaranteed debt to

Text Figure 4. Cabo Verde: Public Debt, 2015–26
(Percent)

Source: Cabo Verdean authorities; and IMF staff estimates.

Note: External debt includes publicly-guaranteed SOE debt from 2015.

SOEs, underscores the importance of anchoring fiscal policy on a credible medium-term consolidation path and advancing SOE reforms to phase out recurrent capitalization and on-lending. The authorities aim to reduce debt to below 70 percent of GDP by 2034, which represents an appropriate medium-term fiscal anchor beyond the ECF period.

16. Medium-term fiscal policy is anchored on reducing debt, underpinned by ongoing revenue mobilization efforts and reforms to strengthen expenditure control and execution. Current primary spending is projected to gradually decline from 22.4 percent of GDP in 2027, stabilizing at around 21.8 percent of GDP from 2030 onward, as the wage bill grows more slowly than nominal GDP and converges to 10.1 percent of GDP. Strengthening project preparation and improving execution, monitoring, and evaluation remain critical to raise capital spending efficiency and ensure that scarce resources translate into growth-enhancing infrastructure. On the revenue side, tax collections are projected to increase by 0.3 percent of GDP in 2027, supported by measures to reduce exemptions related to the VAT reform and the implementation of Minimum Global Tax for large corporates, and by the establishment of a new tax authority and policy unit to strengthen compliance and advance digitalization. Tax revenues are projected to further increase by 0.5 percent of GDP in the medium term due to additional revisions of tax exemptions and digitalization gains. The structural primary balance is projected to average about 1.2 percent of GDP, in line with the sixth review, placing the debt-to-GDP ratio below 70 percent by 2032. The authorities are encouraged to channel any revenue overperformance or expenditure under execution toward strengthening the primary balance and advancing debt reduction, consistent with medium-term consolidation objectives.

Authorities' Views

17. The authorities remain committed to prudent fiscal policies anchored by the primary balance path, while scaling up public investment. They pointed to the current fiscal surplus

having contributed to creating a strong policy environment, in line with objectives under the ECF. Given the current economic performance and infrastructure needs, they stressed the importance of higher public investment, which the authorities are committed to executing to help bring the economy to potential. They are seeking to create fiscal space in the near-term by combating tax evasion and increasing spending efficiency, including reducing untargeted subsidies. They

Text Table 4. Cabo Verde: External Borrowing Program, 2025–26

PPG external debt contracted or guaranteed	2025		2026	
	Volume of new debt, USD million 1/	Present value of new debt, USD million 1/	Volume of new debt, USD million 1/	Present value of new debt, USD million 1/
Sources of debt financing	142.3	81.6	102.0	59.0
Concessional debt, of which 2/	142.3	81.6	102.0	59.0
Multilateral debt	90.4	48.9	70.9	37.3
Bilateral debt	51.9	32.8	31.1	21.7
Non-concessional debt, of which	0.0	0.0	0.0	0.0
Semi-concessional debt 3/				
Commercial terms 4/				
Uses of debt financing	142.3	81.6	102.0	59.0
Infrastructure	69.1	39.7	36.9	21.4
Budget financing	73.2	42.0	65.0	37.6

Sources: Cabo Verdean Authorities; IMF Staff calculations

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate. The 2024 QPC on the present value of new debt is set according to the latest DSA (SR No 24/9).

2/ Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be such established at a higher level. Some of the loans are packaged with grants, that the overall financing package meets the 35 percent concessionality threshold

3/ Debt with a positive grant element which does not meet the minimum grant element.

4/ Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

emphasized the availability of external concessional financing, and contingent financing in the case of shocks, including natural disasters.

Text Table 5. Cabo Verde: Sources of Financing for 2024–26
(Millions of CVE)

	2024		2025		2026	
	Millions of Escudos	Percent of GDP	Millions of Escudos	Percent of GDP	Millions of Escudos	Percent of GDP
Total financing needs	4,229	1.5	5,046	1.7	3,777	1.2
Financing sources	4,229	1.5	5,046	1.7	3,777	1.2
Domestic Financing (Net)--Issuance of treasury securities	3,029	1.1	2,569	0.9	5,463	1.7
External financing (Net)	1,200	0.4	2,477	0.8	(1,685)	(0.5)
Disbursements	12,790	4.6	13,583	4.5	9,567	3.0
<i>Of which budget support</i>	7,251	2.6	6,913	2.3	6,152	1.9
IMF	1,930	0.7	2,891	1.0	1,640	0.5
<i>Of which RSF</i>	712	0.3	1,389	0.5	1,025	0.3
World Bank	2,519	0.9	2,519	0.8	2,519	0.8
African Development Bank	2,802	1.0	1,503	0.5	3,633	1.1
<i>Program and project loans</i>	5,539	2.0	5,672	1.9	2,972	0.9
EU GLOBAL GATEWAY	0	0.0	0	0.0	380	0.1
AFD	584	0.2	0	0.0	0	0.0
JICA	559	0.2	1,447	0.5	248	0.1
OFID	357	0.1	0	0.0	0	0.0
World Bank	2,415	0.9	1,767	0.6	1,956	0.6
BADEA	706	0.3	400	0.1	0	0.0
Kuwait	2	0.0	1,779	0.6	312	0.1
Other	915	0.3	279	0.1	76	0.0
<i>Onlending loans</i>	465	0.2	13	0.0	998	0.3
Amortization	11,589	4.2	11,106	3.7	11,252	3.8

Sources: Cabo Verdean authorities and IMF staff projections.

B. Reduce Fiscal Risks from SOEs and Improve Their Financial Management

18. SOEs remain a key fiscal risk, with transparency gains improving information but not yet performance. Reforms are underway in several areas, including the unbundling of Electra in the energy sector and privatization and concessions in logistics, pharmaceuticals, and ports. However, persistent SOE losses remain, especially from the airline (TACV), straining finances, raising NPLs, and diverting resources from other areas (e.g., inter-island connectivity). In this context, publishing audited SOE accounts on time (December 2025 and June 2026 SBs) is essential.

19. Recent developments in Cabo Verde’s transport sector highlight both fiscal and governance challenges. To preserve domestic air connectivity after the exit of the inter-island operator, the government created a new state-owned airline, while TACV continues to operate domestically and internationally, incurring losses that could deepen under increasing competition from low-cost carriers—underscoring the need to reassess the economic viability of external route operations. At the same time, an arbitration panel ordered the government to pay CV Interllhas, the inter-island maritime transport concessionaire, €19 million for breaching its 2019 exclusivity contract, a ruling under appeal amid allegations of legal irregularities in the contract’s approval process. This controversy, coupled with criticism of CV Interllhas’ poor service, risks undermining public trust and complicating the broader privatization and concession agenda.

Authorities' Views

20. The authorities remain committed to accelerating reforms in this area, noting its criticality for fiscal and macro resilience. They presented the planned restructuring and privatization for the near future and plan to continue to monitor, assess, and package the reform process linked to the SOEs, while also cautioning about the complexity of the sectors involved and the social implications. They are highly concerned about the recent developments in the energy sector (Box 6), which will require increased investment in the grid, upgrades to the billing system, and additional lower-cost generation that will help reduce losses and blackouts. They pointed to the planned discussion on the issue of the appropriate tariff adjustments as per RM5. This would be accompanied by targeted social support programs for vulnerable parts of the population.

Box 6. Assessing the Unbundling of Electra: Reform Objectives and Key Risks

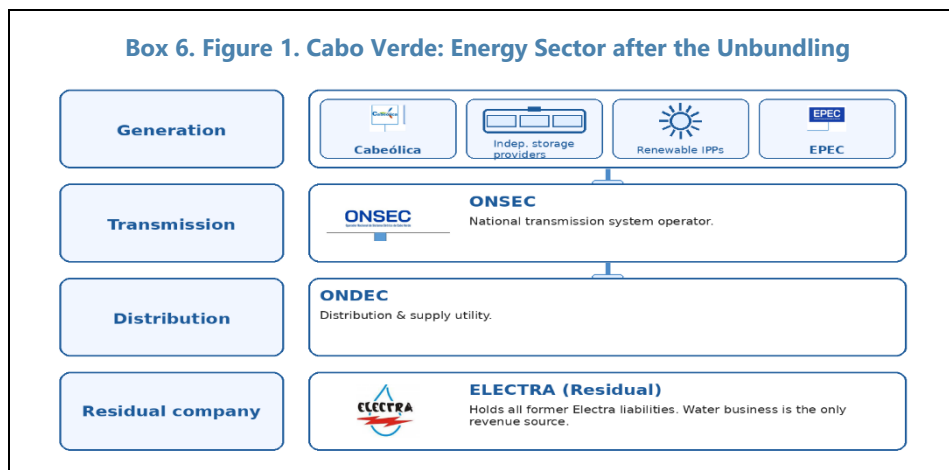
1. Electra has been unbundled *de jure* to open the electricity sector to private investment, improve efficiency, and strengthen financial sustainability. The authorities are restructuring the utility into three companies: EPEC for generation, ONDEC or EDEC for distribution, and ONSEC for transmission and dispatch. A residual Electra will retain water operations and assume all legacy liabilities. The legal carve-out was completed by mid-2024. However, *de facto* separation is still under way, as the four companies are not yet operating fully independently. ARME, the regulatory agency, is expected to review the tariff framework and oversee its implementation to ensure alignment with the new market structure.

2. The reform seeks to create clear institutional roles and sound financial separation to improve accountability and performance. The vertically integrated company is being divided into distinct businesses with specific mandates and separate accounts. ONSEC will operate as the transmission system operator and single buyer, responsible for procuring electricity through power purchase agreements. ARME will continue to regulate end-user tariffs. The residual Electra will focus on water services and manage its inherited liabilities, insulating the balance sheets of the new electricity companies from legacy liabilities.

3. The overarching objective is to build a financially sustainable, investment-ready, and more reliable electricity sector. Moving toward cost-reflective tariffs and enforcing hard budget constraints should reduce fiscal pressures by narrowing the subsidy gap and limiting the need for public transfers. Competitive and least-cost procurement, particularly in renewable energy, together with targeted grid upgrades, is expected to attract private capital. Clarified responsibilities, stronger regulation, improved data systems, and regular tariff reviews will help enhance reliability, increase efficiency, and reduce losses within a transparent and performance-based framework.

4. Effective risk management will be essential to preserve the reform's benefits. Transferring legacy debt to the water company could weaken its financial position and reappear as a fiscal risk if not properly managed. Data gaps and limited regulatory capacity may delay tariff implementation and increase the burden on small consumers if fixed charges rise. Unclear responsibility for grid investment between ONSEC, the government, and tariff-based financing could slow renewable integration and storage expansion. Persistent losses and weak collection rates, including from public entities, could undermine expected efficiency gains. Poorly designed power purchase agreements or a weak distribution concession could entrench high costs if competition remains limited or performance incentives are inadequate.

Box 6. Assessing the Unbundling of Electra: Reform Objectives and Key Risks (concluded)



Box 7. Assessing SOE Performance

1. The Government has been making some progress over the past two years in increasing transparency in the SOE Sector. The Ministry of Finance, through the State-Owned Enterprises Monitoring Unit (*Unidade de Acompanhamento do Setor Empresarial*, or UASE), has improved the compilation and availability of financial data for the SOE Sector. With initial support from the IMF and the World Bank, UASE produces quarterly and annual SOE reports and maintains a portal (SOE Manager) with updated financial data for most SOEs.

2. The reports could be enhanced to further improve the monitoring of SOE performance. The reports currently bundle all the SOEs into an aggregate measure, which can obscure the performance of individual SOEs given the differences across SOEs:

Aeroportos e Segurança Aérea (ASA) provides air traffic services, including air navigation services through the Oceanic Control Center on the island of Sal, and slot coordination in three of the four international airports. Importantly, however, it is also the vehicle through which the State collects the country's sole economic rent, namely, the flow of revenue created by the air traffic passing through the airspace controlled by the Sal Flight Information Region or FIR. Thus, the revenue collected by ASA from this rent is independent from ASA's or any other SOE's intrinsic performance.

NEWCO is not an SOE in a conventional sense, but rather a shell company used to settle the legacy liabilities of the SOE airline Transportes Aereos de Cabo Verde (Cabo Verde Airlines, TACV).

In addition to these two SOEs, the reports should remove from the aggregate any SOE which has benefited from a government recapitalization during the period considered. One recent example is Electra, which benefited from a recapitalization in June 2024 in the amount of US\$150 million, following the unbundling of this SOE into three new SOEs (EPEC, EDEC, and ONSEC).

Box 7. Assessing SOE Performance (concluded)

3. Assessment of SOE performance should correct for these aspects obscuring true performance of the SOE sector. The quarterly and annual SOE reports should produce aggregate measures of SOE performance (e.g., revenue, EBIDTA, net worth) with and without these firms (ASA and NEWCO always, and whichever firm benefited from recapitalization in the period under consideration). To illustrate how this makes a difference, the table below shows the two totals for the case of the balance sheet of the SOEs:

Box 7. Table 1. Cabo Verde: Equity Position of the SOE Sector

	3Q 2023			3Q 2024			Change 2023-24 (percent)		
	Assets	Liabilities	Net worth	Assets	Liabilities	Net worth	Assets	Liabilities	Net worth
ASA	20,081	7,602	12,480	20,897	6,568	14,328	4.1	-13.6	14.8
NEWCO	7,336	6,161	1,175	6,154	5,561	593	-16.1	-9.7	-49.5
Large SOEs with negative net worth or benefiting from recapitalization	36,978	61,080	-24,102	42,123	53,749	-11,626	13.9	-12.0	-51.8
Transportation									
TACV	1,014	13,048	-12,034	997	14,272	-13,275	-1.7	9.4	10.3
CVFF	1,367	2,435	-1,068	1,299	2,508	-1,209	-5.0	3.0	13.2
Water and sanitation									
AdS	4,423	6,892	-2,469	4,759	7,452	-2,693	7.6	8.1	9.1
AEB	3,570	5,012	-1,442	3,211	5,142	-1,931	-10.1	2.6	33.9
AdR	3,986	3,989	-3	4,017	4,020	-3	0.8	0.8	17.2
Energy									
ELECTRA	22,617	29,703	-7,086	18,631	14,113	4,518	-17.6	-52.5	-163.8
EPEC	0	0	0	4,531	1,717	2,814	n.a.	n.a.	n.a.
EDEC	0	0	0	2,965	2,797	167	n.a.	n.a.	n.a.
ONSEC	0	0	0	1,715	1,727	-12	n.a.	n.a.	n.a.
Other SOEs with negative net worth	523	428	95	788	1,119	-332	50.5	161.3	-449.4
Large SOEs with positive net worth	36,971	24,058	12,912	38,067	23,741	14,326	3.0	-1.3	11.0
CVT	17,271	9,824	7,447	17,723	9,452	8,271	2.6	-3.8	11.1
ENAPOR	6,326	3,384	2,942	6,817	3,688	3,129	7.8	9.0	6.4
IFH	13,373	10,850	2,523	13,527	10,601	2,926	1.1	-2.3	16.0
Other SOEs with positive net worth	33,417	23,380	10,038	31,429	21,777	9,652	-5.9	-6.9	-3.8
Total SOE sector	135,306	122,709	12,597	139,458	112,515	26,943	3.1	-8.3	113.9
SOE sector ex ASA, NEWCO and Energy Utilities	70,911	47,866	23,045	70,284	46,637	23,647	-0.9	-2.6	2.6

Source: Relatório Trimestral de Desempenho do Sector Público Empresarial de Cabo Verde. 3º Trimestre 2024. Unidade de Acompanhamento do Sector Empresarial do Estado (UASE). September 2025.

4. The monitoring of SOEs by UASE should focus on sectors with recurrent lossmaking SOEs. Three sectors exhibit recurring losses, namely in transport and water and electricity utilities. Thus, there could be gains in the internal organization of UASE by focusing its 's scarce resources on monitoring the performance of these three sectors.

5. Timely, transparent, and publicly available financial reporting is essential for monitoring SOE performance. Although UASE has expanded the publication of quarterly and annual reports, the information still arrives with long delays and some SOEs do not yet have audited financial statements. These gaps limit the authorities' ability to assess emerging risks, compare SOE performance across sectors, and evaluate the impact of policy measures. Strengthening the reporting framework, including by enforcing deadlines for the submission of financial statements and ensuring timely audits, would allow UASE to carry out its mandate more effectively and would reinforce the authorities' commitments on increasing SOEs' transparency.

C. Modernize the Monetary Policy Framework and Improve Resilience of the Financial System

21. Cabo Verde's financial sector remains broadly stable but is highly concentrated and exposed to sovereign-bank nexus risks (Box 8). Banks and the INPS hold 100 percent of government securities, with the share of banks at more than 50 percent. Seven banks hold assets worth 126.4 percent of GDP, dominated by two systemically important institutions. NPLs, though broadly aligned with regional peers, remain elevated at 7.6 percent on the back of a strong growth performance and SOE restructuring—requiring continued close monitoring, particularly in

the transport and construction sectors. Risks are compounded by heavy reliance on INPS deposits and significant exposure to sovereign debt; stress tests show resilience to basic shocks but highlight vulnerabilities to concentration and credit-at-risk. To address these challenges, a 2025 macroprudential TA mission recommended strengthening BCV's legal and institutional framework for financial stability, adopting forward-looking systemic risk assessments, advancing key Basel III elements, and introducing tools such as the Capital and Countercyclical Buffers, loan-to-value limits, and a more robust liquidity coverage framework, alongside updated prudential provisioning in line with IMF guidance.

Box 8. The Sovereign-Bank Nexus in Cabo Verde

1. The sovereign-bank nexus refers to the mutually reinforcing risks between sovereign states and domestic banks, where sovereign stress weakens bank balance sheets and bank distress raises fiscal vulnerabilities. This nexus has significant implications for financial stability and economic growth, hence the need to emphasize its impact on fiscal sustainability, monetary policy, and systemic risk. The sovereign-bank nexus in Cabo Verde although comparable to the Sub-Saharan African average, is higher compared to other tourism-dependent small states and LICs.

2. The banking-sovereign relationship in Cabo Verde is shaped by the involvement of state-owned enterprises (SOEs). Bank claims on SOEs often carry a central government guarantee, which means that problems in the SOE sector can have both financial and fiscal spillovers. Nonetheless, public sector credit does not

pose a particularly high credit risk to the banking sector (Table 1). The contribution of the public sector to total non-performing loans has constantly been below 1 percent, except

for the recent temporary high of 6 percent in 2024 associated with an SOE in the transport sector. That said, risks remain given banks' continued contingent exposures to SOEs and the elevated sovereign debt levels, which could amplify vulnerabilities if fiscal or quasi-fiscal pressures intensify, which warrants close monitoring.

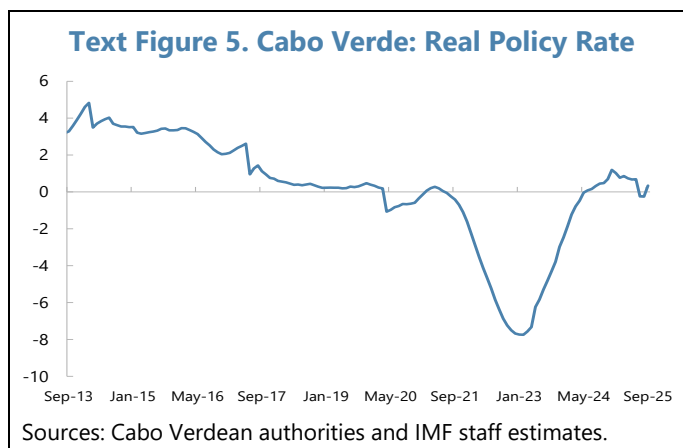
3. The social security fund (INPS) is a systemic depositor in the banking system. Emigrant and INPS deposits account for 44 percent of total deposits in the banking system and credit to the private sector accounts for 72 percent of total bank credit. Furthermore, the INPS and banks hold 100 percent of government securities. While the proportion of general government deposits, credit to central government and public non-financial corporations increased post-COVID, at 21 percent of GDP in 2024 it remains far below private sector credit, which has remained broadly stable at around 52 percent of GDP. Even though there is no strong evidence of crowding out, it is worth noting that the composition of lending has shifted towards the public sector, with public sector credit in 2024 accounting for 26 percent of total credit, compared to 20 percent in 2015. This warrants close continued monitoring.

4. Stress tests and all risk-based capital ratios remain well above minimum regulatory requirements, indicating that banks remained well capitalized. While banks have shown resilience to moderate shocks, their significant exposure to sovereign debt and state-linked firms remains a vulnerability. The involvement of SOEs and the INPS further complicates this relationship, highlighting the need for close monitoring and prudent management.

Box 8. Table 1. Cabo Verde: Sectoral Distribution of Non-performing Loans

	Resident private sector	Public administration	Other residents	Non-residents
2021	94.8	0.0	1.0	4.2
2022	95.5	0.4	1.0	3.1
2023	92.7	1.9	1.0	4.5
2024	89.5	6.0	0.9	3.6
Jun-25	94.6	0.8	0.9	3.7

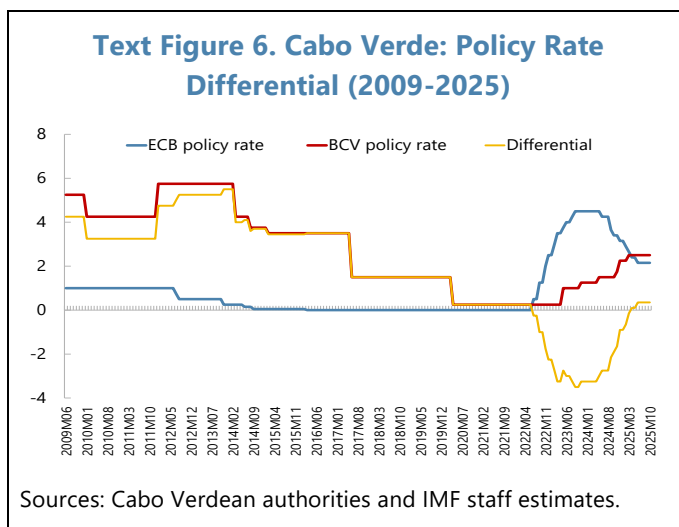
22. The monetary policy stance is broadly appropriate, supporting reserve accumulation and contributing to the stability of the exchange rate peg. Recent BCV actions, in combination with those by the ECB, have generated a positive interest rate differential. Although modest by historical standards, the current interest rate differential has helped reverse banks' capital outflows, supported reserve accumulation, and contributed to maintaining the stability of the exchange rate peg. However, the BCV should remain nimble vis-à-vis price pressures to safeguard price stability, as the real ex-post policy rate is low by historical standards (Text Figure 5), while continuing to monitor capital flows to preserve external buffers. Even under the peg, monetary policy should retain some flexibility to respond if inflation accelerates or capital inflows reverse their course.



23. Reserve requirements are a possible tool for managing excess liquidity to ensure financial stability and increase policy effectiveness. Excess liquidity is driven by reduced reserve requirements, pandemic-era injections, and the positive interest rate differential in favor of the BCV while weak credit demand has pushed banks to invest abroad. Gradually restoring reserve requirements toward pre-pandemic levels, alongside shifting INPS assets abroad in coordination with the BCV, would strengthen financial stability, bolster reserves, and improve policy transmission at a reduced cost to economic activity (Annex VIII). Enhanced open-market operations and sterilization measures are also needed to manage liquidity more effectively.

24. Liquidity management operations should be strengthened. Given the weak transmission of monetary policy through the interest rate channel, BCV efforts should also focus on strengthening liquidity management operations to address excess liquidity and develop money and interbank markets. Macroprudential measures should complement monetary policy to address structural rigidities, strengthen policy transmission, and safeguard financial and macroeconomic stability. Finally, the BCV should continue to further refine its communication strategy, including by adopting forward guidance as part of its regular toolkit, thereby providing clearer signals of the policy stance and helping to anchor bank expectations. Such forward guidance should clarify the conditions under which further tightening may be warranted, based on BCV's assessment of inflationary pressures and capital flows that could threaten reserve accumulation and the stability of the peg.

25. Advancing financial inclusion requires leveraging digital finance to broaden access to affordable and reliable financial services. Expanding mobile payments, fintech solutions, and digital banking can help reduce transaction costs, overcome geographic barriers across the islands, and deepen financial inclusion. Regulatory frameworks and consumer protection standards should be strengthened to safeguard users against cyber threats, fraud, and over-indebtedness.



26. Banking supervision and macroprudential policy should be strengthened to safeguard financial stability and support monetary policy. Although the financial system remains resilient, further monetary tightening—if required—could heighten borrower stress and weaken credit quality, potentially increasing non-performing loans. Policy must therefore be carefully calibrated and supported by stronger supervision and macroprudential measures to facilitate the conduct of monetary policy, while maintaining institutional soundness and system-wide stability. While the Financial Sector Stability Review (FSSR) highlights the need to reinforce Cabo Verde’s core supervisory and regulatory framework, immediate priority should be given to enhancing risk-based oversight, improving data reliability, and ensuring the availability of effective crisis-management tools, with more structural reforms postponed until capacity allows (Annex VI).

27. The BCV is advancing implementation of the recommendations of the 2022 Safeguards Assessment. Amendments to its Organic Law—strengthening autonomy, transparency, and governance—are awaiting final parliamentary approval (and subsequent enactment) following the first two readings in May and December 2025, respectively. This reform is essential to strengthening the BCV’s governance structure, transparency and accountability mechanisms, and autonomy, given that the BCV has de facto autonomy but not full legal autonomy—implementation of the Organic Law Amendments would thus represent an important achievement. The authorities remain committed to implementing the outstanding recommendations of the Safeguards Assessment.

28. Cabo Verde has taken steps to strengthen its AML/CFT framework but progress since 2019 has remained limited. Following the 2023 approval of the ENCAVE strategy, key initiatives include draft amendments to the AML law approved in principle in February 2025, work on a legal framework for transparency of Beneficial Ownership, and the creation of a dedicated AML/CFT supervisory unit within BCV in April 2025. The draft law extends AML/CFT oversight to Designated Non-Financial Businesses and Professions (DNFBPs). To be effective, the draft law will now require implementing regulations to ensure effective supervision and to ensure the BCV expands AML/CFT oversight to Virtual Asset Service Providers.

Authorities' Views

29. The authorities reiterated their commitment to strengthening monetary policy transmission and normalizing policy. They noted that uncertainty has weakened transmission, but active liquidity management is gradually influencing market rates. Efforts are underway to reduce structural excess liquidity while maintaining adequate levels. In case inflation rises above the target, they remain ready to safeguard stability. The exchange rate framework was deemed appropriate, with a focus on rebuilding reserves while considering sterilization costs. They also reaffirmed their commitment to strengthening the AML/CFT framework and technical compliance, as well as to completing the BCV Organic Law reform.

D. Reforms for Broad-Based Growth and Increased Climate Resilience

30. Structural reforms are essential to strengthen resilience, enhance competitiveness, and diversify Cabo Verde's tourism-dependent economy. On the fiscal side, improving tax compliance, reducing exemptions, and curbing primary spending through wage bill discipline and procurement reforms will strengthen sustainability. Under PEDS II (2022–26), priorities include SME-friendly measures, private sector diversification, and lowering utility and transport costs, alongside investment in the blue and digital economies. To unlock inclusive growth, reforms should focus on improving the business climate (one-stop shops, streamlined permits, insolvency and competition enforcement), expanding SME access to finance (credit guarantees, collateral registries, capital markets), advancing labor market reforms (vocational training, digital skills, youth employment), and ensuring Special Economic Zones (SEZs) like the ZEEMSV (São Vicente Special Maritime Zone) operate with transparent governance, competitive regimes, and strong domestic linkages. In addition, enhancing inter-island connectivity would support tourism diversification, raise growth, and reduce vulnerabilities to tourism concentration.

31. Strengthening social protection remains a government priority, with expanded cash transfers funded by the Social Protection Fund and broader coverage of vulnerable households through the Cadastro Social Único. While these measures help mitigate climate impacts and support the poorest, challenges persist, including high youth unemployment, informality, and pension sustainability pressures. Staff highlights the need to balance efficiency and sustainability, focusing on three priorities: improving CSU targeting and coverage; advancing pension reforms, including extending coverage to informal workers; and promoting labor market policies that foster vocational alignment, increased youth and female participation, and greater formalization.

32. Given Cabo Verde's vulnerability to climate shocks, the RSF arrangement supports reforms to integrate climate risks into fiscal planning, advance tariff cost-recovery, and mobilize climate finance. Climate events such as droughts and extreme weather events can lower economic activity in the short run and negatively affect tourism, the main source of Cabo Verde's revenues, over the medium term. Progress on the climate front includes utility tariff adjustments, a climate budget-tagging system, and an operational National Climate Fund, though capacity, social and political constraints persist. Building resilience will require phasing in cost-reflective tariffs with

targeted transfers, integrating climate projects into public investment, developing bankable green pipelines, strengthening institutional coordination, and moving forward with the SOE reform agenda.

33. Progress on RMs in support of the climate change agenda has been slower than originally envisaged, with capacity constraints creating some implementation challenges.

However, the authorities have been making efforts to advance further. Thus, regarding follow-up on the implementation of RMs under previous reviews:

- **RM1:** The Head of the National Secretariat for Climate Action took fundamental steps in climate governance and transparency with the preparation of its first Biennial Transparency Report and the new generation of Nationally Determined Contributions (NDC 3.0), as well as with the approval of the Basic Climate Law.
- **RM2:** In September 2025, as part of the 2026 State Budget submitted by the Government to the National Assembly, the Coordinating Commission on Budget Risks Management submitted its Fiscal Risk Statement (FRS) for Cabo Verde's State Budget 2026. The FRS reflects an evolving risk landscape, incorporating post-2025 developments and heightened global uncertainties, and placing new emphasis on demographic pressures and aging
- **RM3:** The Public-Private Partnership Manual published by the Ministry of Finance in July 2024 introduced the requirement of prior identification and assessment of climate risks in PPP projects for mitigation and monitoring purposes and to reduce the country's budgetary risks arising from climate risks.

RMs for the current review:

- **RM4:** FAD has provided TA on the pipeline of public capital projects presented by the authorities. The RM has been completed.
- **RM7:** The USR has been expanded to cover 100 percent of poor and vulnerable households, as well as incorporated the climate maps developed under RM8 to identify households living in areas vulnerable to climate change, but inclusion in the USR has not yet been offered to 100 percent of the households in climate-vulnerable areas. This RM has not been completed.
- **RM8:** The National Institute of Territorial Management (INGT) has finalized disaster risk and vulnerability maps to assess regional exposure of populations, infrastructure, and businesses, while land use planning and construction codes integrate these risks into urban and rural development, which is part of the RM, going forward it is expected strong implementation, as part of the operational elements. This RM has been completed.

RMs due for upcoming reviews:

- **RM5:** Findings from FAD CD in December 2024 identified missing information for calculating the cost-recovery tariff at required disaggregation levels, including separate accounting data for electricity generation, electricity distribution, water desalination, and on subsidies provided to Electra. The RM is expected to be completed by the specified target date.
- **RM6:** FAD delivered TA in March 2025 on water subsidy reform. Unlike electricity, multiple utility SOEs across islands with different models complicate the cost-recovery tariff calculation, requiring additional data collection and adjustments. During the sixth ECF review, the scope of RM6 was narrowed to what is feasible given the specificities of Cabo Verde, including a focus on Santiago Island where most of the losses are accrued. The RM is expected to be completed by the specified target date.
- **RM9:** Supported by MCM TA, the BCV is working on the recommendations to advance the implementation of this RM which, given the importance of the climate-information architecture, would contribute to mobilizing climate finance. RM9 is expected to be completed by the specified target date.

Authorities' Views

34. The authorities reaffirmed their commitment to advancing a transformational reform agenda focused on climate adaptation and mitigation, aiming to attract private and concessional financing to boost growth, inclusiveness, and resilience. They stressed the importance of poverty reduction and human capital investment within this agenda and confirmed their intention to implement reforms under the RSF. Recognizing the need to strengthen resilience to natural disasters, they agreed to better integrate climate and disaster considerations into PFM and PIM systems, enhance intergovernmental coordination, and close the climate investment gap with greater participation of the private sector. Progress in disaster risk management was noted, alongside the need to expand financing tools and align efforts with the NDC roadmap.

PROGRAM ISSUES AND RISKS

35. Financing assurances. The Fund-supported program remains fully financed for the next 12 months, with good prospects thereafter. Lower net external financing relative to the sixth review reflects a slower-than-projected execution of investment projects, offset by domestic financing supported by strong financial positions of key domestic government debt holders. Additional support in 2025–26 comes from the World Bank, AfDB, and other partners, broadly in line with the sixth review. In January 2025, Portugal expanded its debt-for-climate swap with Cabo Verde from US\$13 million to US\$45 million through 2030, channeling debt service to a new Climate and Environmental Fund once operational rules are finalized.

36. Cabo Verde's capacity to repay the Fund is adequate but subject to risks (Table 8). The stock of credit outstanding to the Fund as a share of GDP based on existing and prospective

drawings rises to the 75th percentile of past UCT arrangements for PRGT countries (Figure 1, Annex II), with a peak in 2026 at around 3.7 percent of GDP, and subsequently remaining above the interquartile range until 2032. However, debt service to the Fund as a share of exports and as a share of revenues both stay within the interquartile range and are also below the median for the comparator group until 2032. Fund credit outstanding peaks in 2026 at 390 percent of quota, 12.3 percent of gross international reserves, and 9.0 percent of exports. Annual repayments to the Fund would peak in 2029 at 1.1 percent of exports, 1.4 percent of reserves, and 9.3 percent of PPG external debt service. Downside risks to capacity to repay include the high risk of overall debt distress, the possible materialization of SOE risks that could reduce debt service capacity, and spillovers from global shocks. Risks are mitigated by the authorities' strong track record of servicing their debt obligations to the Fund, adequate reserve coverage, and the ongoing debt reduction under the program.

Text Table 6. Cabo Verde: External Financing Gap 2020-26
(Millions of Euros, unless otherwise specified)

	2020	2021	2022	2023	2024	2025	2026
Current account balance	-246	-210	-76	-64	99	105	21
Balance of goods and services	-579	-602	-744	-824	-782	-828	-965
Exports of goods	113	151	269	238	303	304	309
Imports of goods	692	753	1013	1062	1085	1131	1274
Exports of services	258	245	543	658	768	858	899
Imports of services	192	194	236	257	275	300	328
Balance on primary income	-36	-24	-27	-29	-43	-37	-54
Balance on secondary income	303	364	388	389	431	413	469
Financing							
Capital account	22	23	21	17	23	36	32
Financial account, net 1/	-7	169	67	90	-69	62	17
Direct investment, net	55	78	99	139	82	95	96
Portfolio investment, net	0	-1	0	0	0	0	0
Other investment, net	-61	92	-32	-50	-152	-33	-79
Net acquisition of financial assets	12	66	45	91	123	-2	42
Net incurrence of liabilities	-49	158	13	42	-28	-35	-37
Monetary Authority	-1	1	0	0	0	0	0
Central Government	-30	93	31	-14	-7	-4	-34
Disbursements 1/	10	133	69	81	98	97	68
Amortization	-41	-39	-38	-95	-105	-101	-102
Exceptional financing	0	0	0	0	0	0	0
Commercial Banks	4	39	20	-6	-6	-2	0
Non-bank flows	-21	24	-38	62	-16	-29	-3
Errors and omissions 2/	25	29	-2	-17	-19	0	0
Overall balance	-206	10	9	27	33	203	70
Financing	206	-10	-24	-46	-44	-216	-76
Change in reserves (-: =increase, excl. ECF and RSF)	75	-10	-24	-46	-44	-216	-76
Loans (Multilaterals excl. IMF)	131	0	0	0	0	0	0
Financing gap	0	0	-14	-19	-11	-14	-6
Use of ECF	0	0	14	19	11	14	6
Residual Gap	0	0	0	0	0	0	0
Memorandum Items:							
Targeted reserves path as months of prospective imports	7.4	5.7	5.7	6.0	6.2	7.2	7.2
Use of Fund credit: RSF	0	0	0	0	6	13	9

Source: Cabo Verdean authorities and IMF staff estimates.

1/ Includes reserves and exceptional financing.

2/ Including banks' delays on trade credits reporting.

37. Risks to the program are assessed as moderate. A global growth slowdown, an intensification of global conflicts, trade tensions, and tighter financial conditions may threaten program performance. High debt distress remains a concern, particularly if SOE-related guaranteed debt were to migrate to the government. Should risks materialize, the authorities' strong track record of program implementation and cooperation with the Fund would support needed policy adjustments.

38. Data provision and capacity development (CD). Data has some shortcomings that somewhat hamper surveillance, namely issues related to outdated national accounts base year and CPI weights, external sector statistics granularity, and inconsistencies between the BOP and the IIP. The CD strategy aligns with the policy frameworks under the ECF and RSF arrangements, including strengthening the capabilities required to advance RSF priorities. IMF CD support has aided past reforms, with good progress. Priorities include revenue mobilization, public finance, central banking, financial stability, and macro statistics.

39. Use of RSF resources. RSF disbursements would increase external financing by about CVE 1.5 billion in 2025 (0.5 percent of GDP). RSF support substitutes for more expensive domestic financing with cumulative estimated savings in debt service equivalent to 0.4 percent of GDP until 2029. These savings will help build buffers and make Cabo Verde more resilient to climate-related shocks.² They will also create fiscal space, including to support critical climate-related public investment.

STAFF APPRAISAL

40. Cabo Verde's outlook is strong but exposed to external and fiscal risks. Growth is projected at 5.2 percent in 2025 and reach potential growth in the medium term, with inflation near 2 percent. The fiscal position is strong. Cabo Verde's external position in 2024 is assessed to be substantially stronger than implied by medium-term fundamentals and desirable policies. The current account surplus in 2025 will move to a moderate deficit over 2026–30 from higher climate spending and increased imports due to robust domestic demand. Reserves are projected at adequate levels. Main risks stem from a global growth slowdown, trade tensions, financing pressures, and climate shocks, while adequate reserves and contingency plans support resilience. Tourism offers upside potential.

41. Fiscal policy stance over the short and medium term is appropriate given high level of debt, and the authorities should remain focused on debt reduction while safeguarding social and growth-enhancing spending. The primary surplus is projected at 1.3 percent of GDP in 2026 and to stabilize at around 1.2 percent of GDP over the medium term, supported by tax reforms that reduce tax expenditures and by rationalization of current spending. The authorities should gradually reduce the stock of tax exemptions, contain goods and services outlays, and limit wage bill growth below nominal GDP to create space for needed investment and accelerate

² An MoU between the MoF and BCV details the institutional onlending arrangements.

debt reduction. Under this consolidation path, the debt-to-GDP ratio is projected to decline to about 97 percent by end-2026 and to below 70 percent of GDP by 2032.

42. The monetary policy stance remains appropriate to safeguard the exchange rate peg and support reserve accumulation. The policy rate differential has turned positive, banks' foreign deposits have declined, and reserves remain adequate and have increased further. Maintaining a policy interest rate gap vis-à-vis the ECB and gradually bringing it closer to pre-pandemic levels would be recommended. The BCV should remain vigilant to emerging price pressures to safeguard price stability, while closely monitoring capital flows to preserve external buffers. Strengthening its communication framework, including through the use of forward guidance, would help provide clearer signals of the policy stance and better anchor expectations. Forward guidance should also outline the conditions under which further tightening may be warranted, reflecting the BCV's assessment of inflation dynamics and capital flow developments that could pose risks to reserve accumulation and the stability of the exchange rate peg.

43. The financial sector remains broadly stable but is highly concentrated. While banks are broadly resilient, further tightening could heighten credit risk, requiring stronger supervision and macroprudential measures, given the weak policy transmission. Staff recommends restoring reserve requirements gradually, improving liquidity management, and advancing Basel III reforms. Introducing countercyclical buffers, loan-to-value limits, and updated provisioning, alongside close monitoring of NPLs and sovereign exposures, is essential to safeguard stability.

44. Reform priorities center on boosting productivity, fostering sustainable and inclusive growth, and strengthening resilience to climate shocks. Under PEDS II, efforts focus on improving financial access and the business environment. RSF-supported reforms target energy and water sectors to upgrade infrastructure, lower costs, and spur private investment, while social policies aim to reduce poverty and protect vulnerable groups.

45. SOEs remain a significant fiscal risk despite improved transparency. Persistent losses—especially in transport—strain public finances and raise NPLs, while governance challenges persist. Staff recommends enforcing hard budget constraints, timely publication of audited accounts, and accelerating reforms, including cost-reflective tariffs. Stronger monitoring of loss-making sectors and improved regulatory capacity are essential to reduce fiscal pressures and attract private investment.

46. Data Provision and Capacity Development. Data are broadly adequate for surveillance, but shortcomings—stemming from outdated national accounts and CPI weights, limited external sector detail, and BOP-IIP inconsistencies—constrain analysis. Capacity development is well aligned to address these gaps.

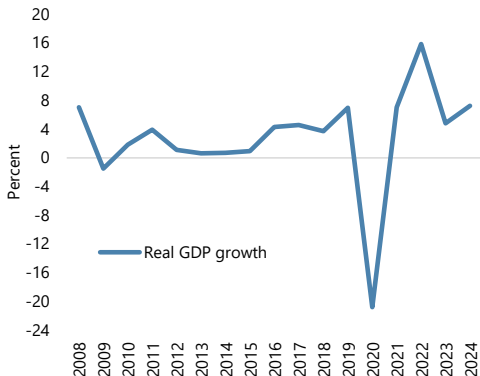
47. Program performance under the ECF has been strong. All QPCs, as well as continuous PCs for end-June 2025 were met. Two ITs for March 2025 were not met (on social spending and on net other liabilities). All ITs for end-June 2025 and end-September 2025 were met, with the exception of the social spending IT for end-September. No SBs were programmed for this review,

given ongoing work on a strong structural reform agenda in upcoming reviews. The authorities are also advancing their ambitious reform program under the RSF, with two RMs (RM4 and RM8, with associated disbursements of SDR 2.632 million each) for the third RSF review completed. Enactment of the amendments to the BCV Organic Law will be essential.

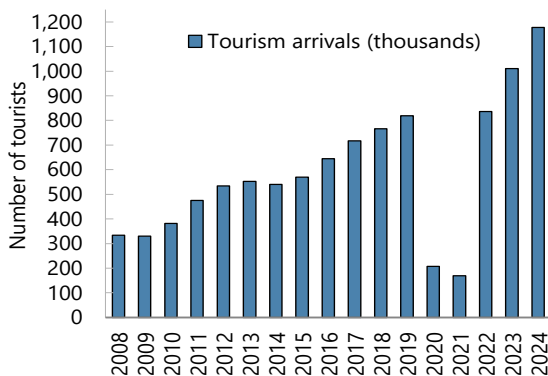
48. Staff supports the completion of the seventh review under the ECF arrangement, as well as the completion of the third and fourth reviews under the RSF arrangement. The next Article IV consultation is expected to be held on the 24-month cycle in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Figure 1. Cabo Verde: Recent Economic Developments

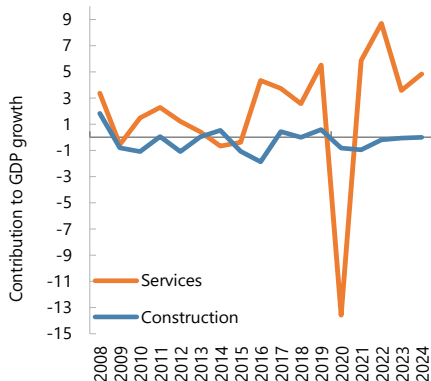
Economic growth has remained strong in 2024 ...



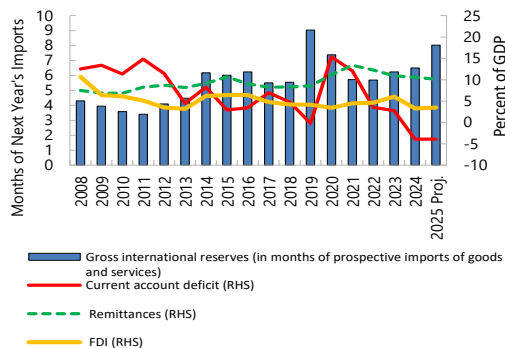
...reflecting record tourism arrivals...



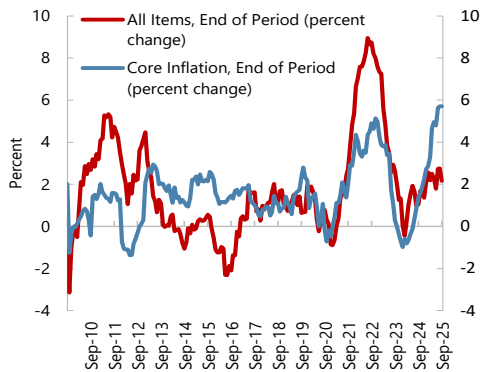
...and a continued recovery in the Services sector.



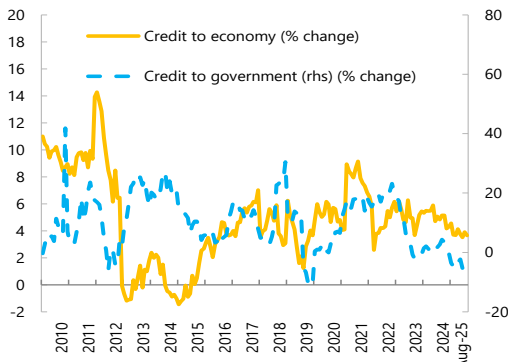
FDI, tourism and remittances helped support reserves despite bank outflows.



Headline inflation remains low, but has been edging up recently.



Credit to the government held steady reflecting strong fiscal performance.

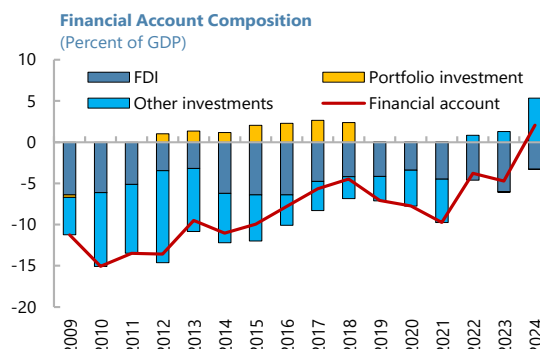
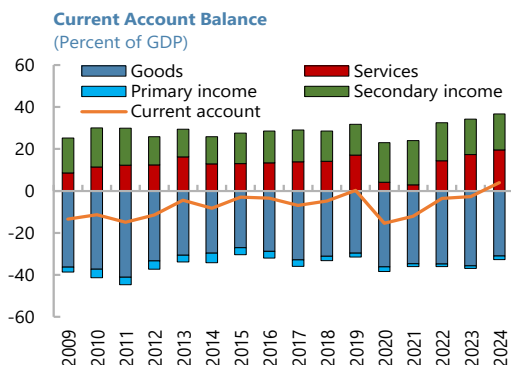


Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 2. Cabo Verde: External Sector Developments

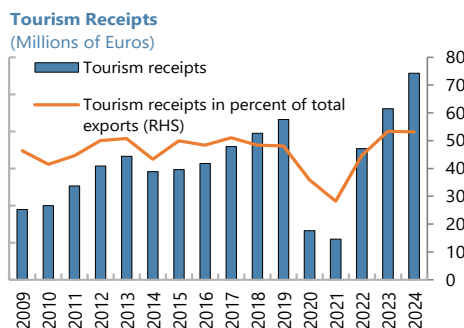
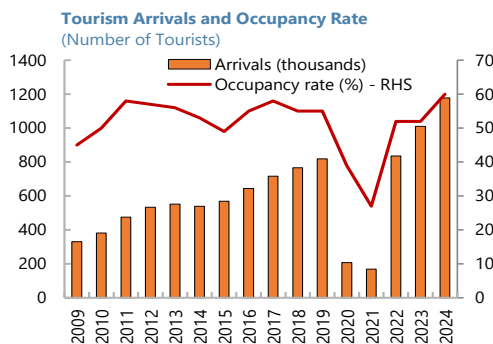
Strong tourism revenues and weaker capital goods imports led to a current account surplus in 2024.

The financial account turned positive in 2024 due to strong banks' deposit outflows.



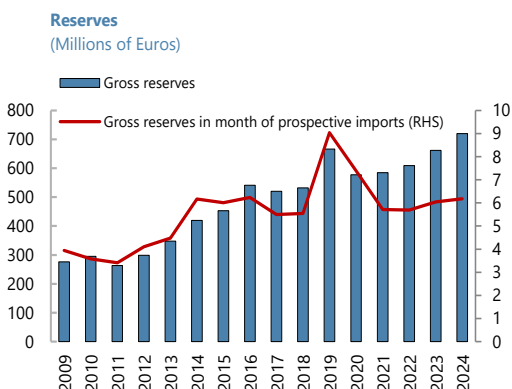
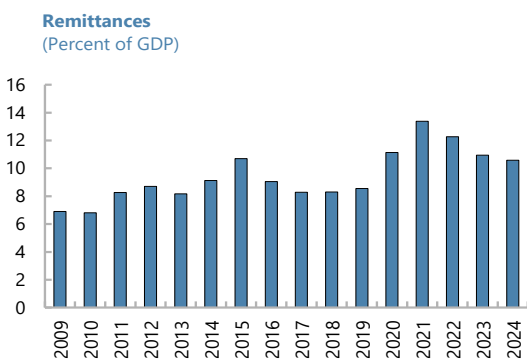
Tourism arrivals reached record levels in 2024...

... resulting in a steady increase in tourism receipts.



Remittances stabilized in 2024, remaining an important source of foreign currency...

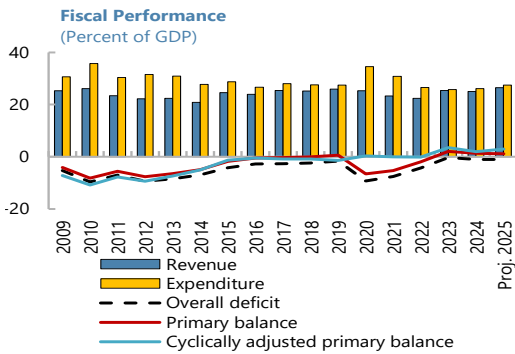
... supporting the country's reserve position.



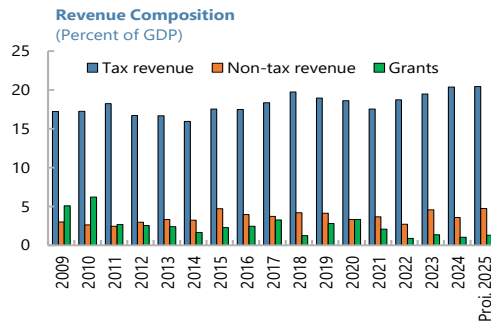
Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 3. Cabo Verde: Fiscal Sector Developments

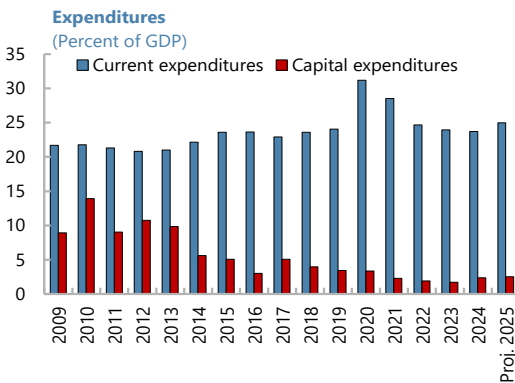
Fiscal performance in 2025 is projected to be consistent with the program path ...



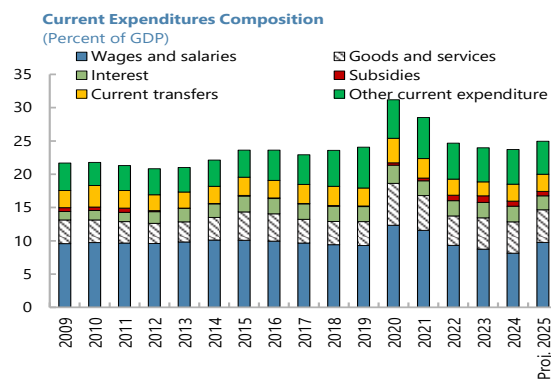
...with the tax-to-GDP ratio recording an all-time high in 2024 and 2025.



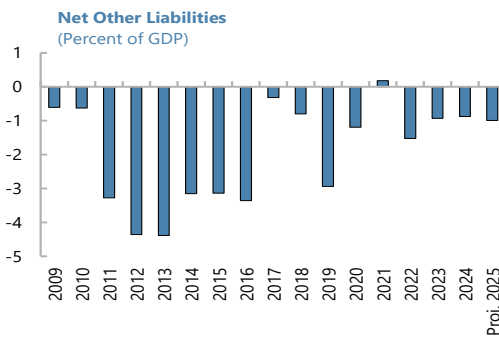
Expenditures are projected to increase due to higher capital spending...



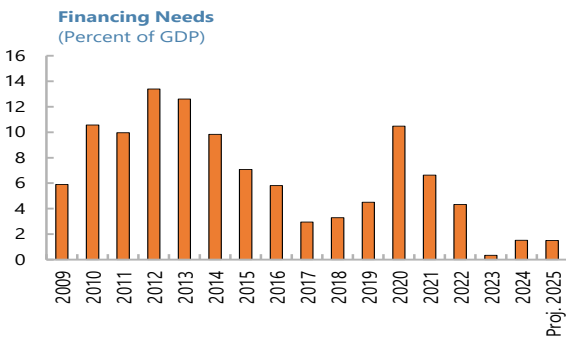
... and current expenditure growth related to the expansion of good and services and wages.



Net other liabilities are projected to be stable in 2025 constraining government support to SOEs...



...and financing needs are also projected to be stable

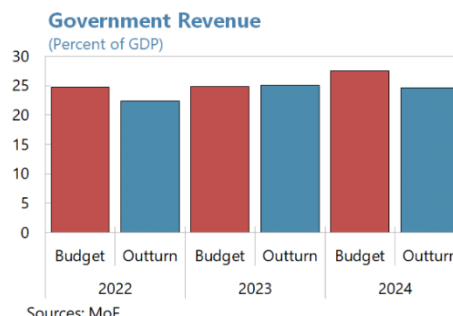
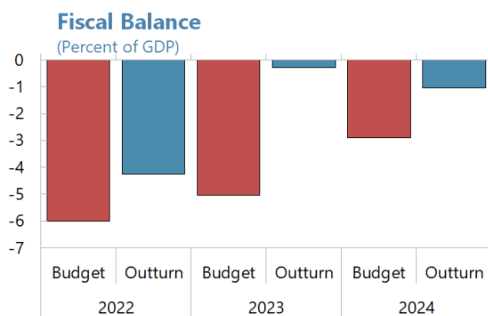


Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 4. Cabo Verde: Budget Credibility

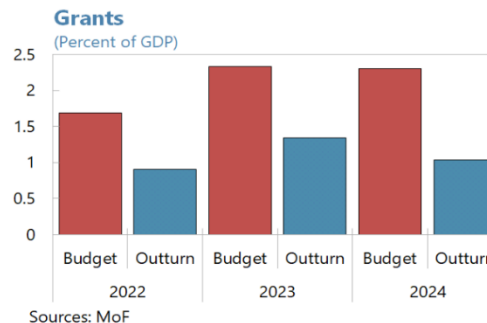
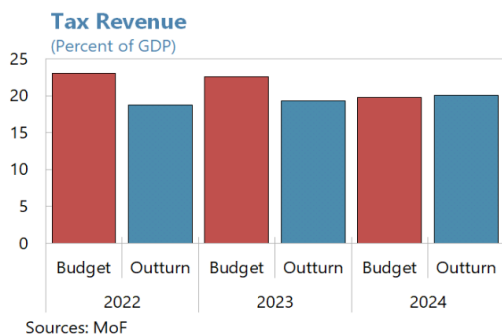
Fiscal deficits have been significantly smaller than anticipated in the budget during 2022-24...

...while revenues fell slightly short of budget projections...



...with tax revenue falling somewhat below budget projections with the exception of 2024...

...and grants consistently underperforming.



On the flip side, current expenditures steadily recorded a budget execution rate of around 90 percent...

...while capital spending shortfalls were a key driver behind the better-than-expected fiscal deficit performance

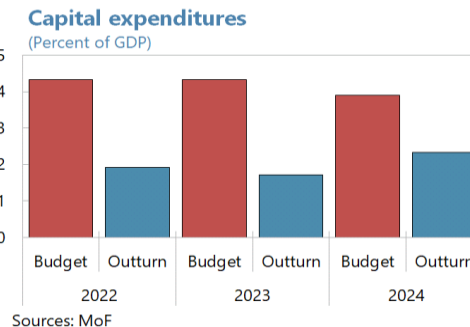
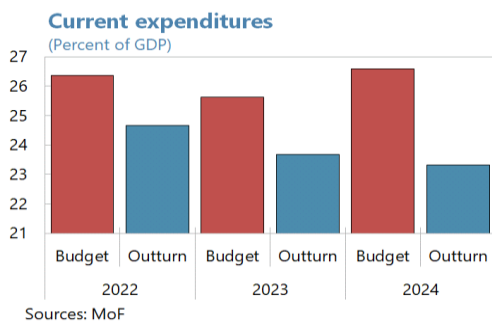
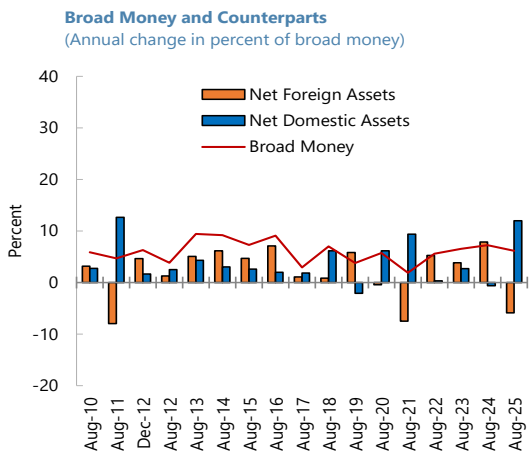
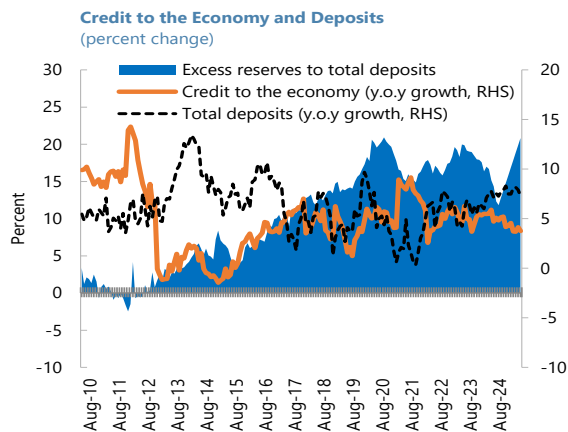


Figure 5. Cabo Verde: Monetary and Financial Sector Developments

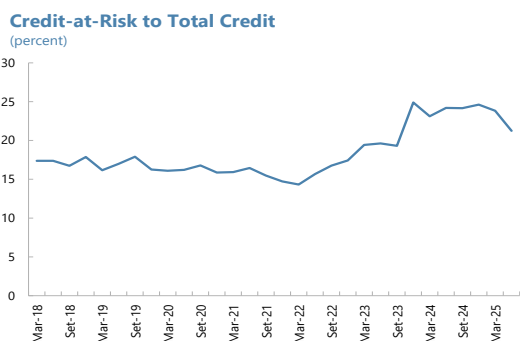
At end April 2025 broad money increased due to the increase of net foreign assets...



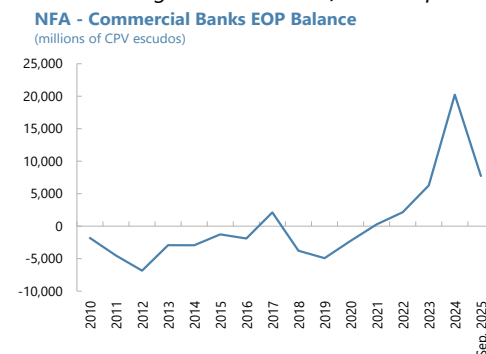
...credit to the economy increased despite the gradual phasing out of the COVID-19 relief measures.



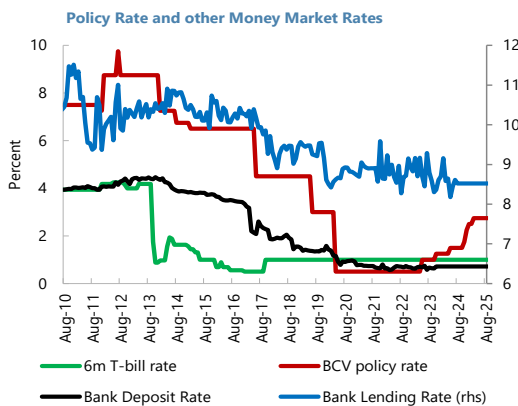
Credit-at-Risk increased up to end-2024, but recently is decreasing.



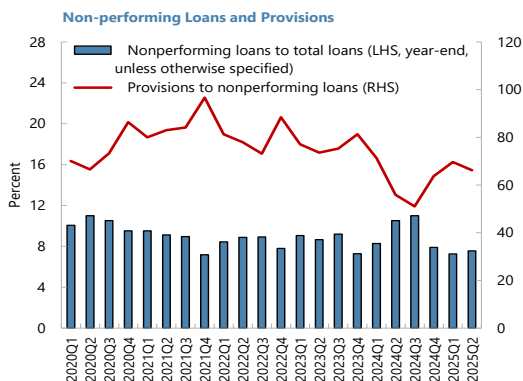
Meanwhile, the closure of the interest rate differential in 2025 is leading to a decrease of bank deposits abroad



The central bank has closed the interest differential with the ECB rates.



Nonperforming loans have been quite stable since end-2024, with a concentration in the transport, real estate and tourism sectors.

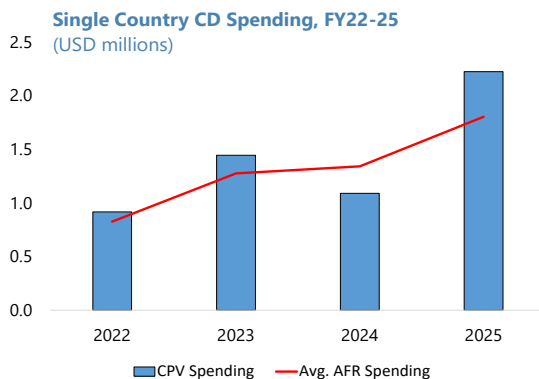


Sources: Cabo Verdean authorities; and IMF staff estimates.

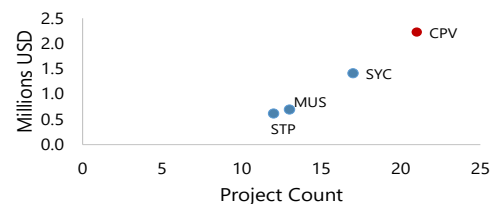
Figure 6. Cabo Verde: Capacity Development Overview

CD spending in CPV is broadly in line with the AFR average, but projected to rise....

...with CPV already a heavy CD user compared to SDS peers...



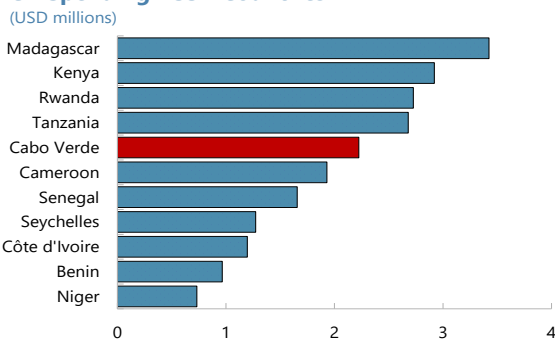
CD Spending and Project Count in Tourist-Dependent Small States, FY25



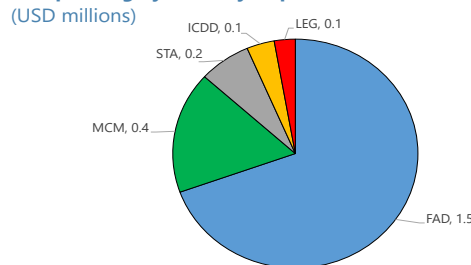
...while CD spending is in line with other RSF countries.

FAD has conducted most of the CD delivery...

CD Spending - SSA Countries



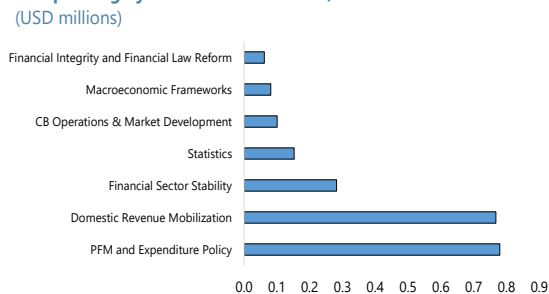
CD Spending by Delivery Department, FY25



...under core spending and revenue work streams.

Fund CD is supporting key program objectives in 2024

CD Spending by Portfolio Workstream, FY25



Source: IMF staff calculations based on CDMAP data.

Notes: Years denote fiscal years. Data for FY22 to FY24 is actual data, data for FY25 is based on planned activities in CDMAP as of October 2024. Only projects in the stages "Approval", "Execution" and "Complete" are included. Average spending includes all single country spending in AFR divided by 45.

Table 1. Cabo Verde: Selected Economic Indicators, 2021–30

	2021	2022	2023	2024	2025		2026	2027	2028	2029	2030
		Act.	Act.	Act.	SR ECF 6th review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percent change)											
National accounts and prices 1/											
Real GDP	7.0	15.8	4.8	7.2	5.2	5.2	5.1	5.1	5.1	5.1	5.1
GDP deflator	1.1	6.3	3.3	2.1	2.2	2.5	2.1	2.4	2.3	2.2	2.2
Consumer price index (annual average)	1.9	7.9	3.7	1.1	1.5	2.2	2.0	2.0	2.0	2.0	2.0
Consumer price index (end of period)	5.4	7.6	1.3	1.4	2.0	2.3	2.0	2.0	2.0	2.0	2.0
External sector											
Exports of goods and services	6.4	105.2	10.3	19.5	2.6	8.2	4.0	4.5	4.5	4.5	4.5
Of which: tourism	-16.4	225.5	31.6	19.1	5.0	12.3	5.0	5.0	5.0	5.0	5.0
Imports of goods and services	7.0	32.0	5.6	3.1	10.4	5.2	13.3	7.3	7.1	6.7	6.7
(Change in percent of broad money, 12 months earlier)											
Money and credit											
Net foreign assets	1.4	1.3	2.4	9.0	2.9	4.6	2.9	2.7	2.4	2.5	1.6
Net domestic assets	1.6	4.5	3.9	-1.3	4.8	5.2	5.0	5.2	4.3	3.5	3.7
Net claims on the central government	2.4	3.1	0.1	-1.9	0.2	0.8	1.2	1.5	1.0	1.1	0.7
Credit to the economy	4.2	3.9	1.1	3.6	4.5	4.4	3.7	3.6	3.2	2.4	3.3
Broad money (M2)	3.0	5.8	6.3	7.7	7.7	9.8	7.9	7.9	6.7	6.1	5.4
(Percent of GDP, unless otherwise indicated)											
Savings and investment											
Domestic savings	17.6	19.2	16.1	26.4	20.8	24.6	20.3	19.5	18.4	18.1	17.6
Government	-5.2	0.8	1.2	1.5	1.3	1.6	1.3	1.8	2.2	2.7	3.1
Private	22.8	18.4	14.9	24.9	19.5	23.0	19.0	17.7	16.2	15.4	14.6
National investment	26.2	25.7	23.4	22.5	22.1	21.5	20.5	20.5	20.3	20.2	20.1
Government	2.3	1.9	1.7	2.4	2.7	2.5	2.5	3.0	3.3	3.8	4.2
Private	23.9	23.8	21.7	20.1	19.4	19.0	18.0	17.5	17.0	16.4	15.9
Savings-investment balance	-8.5	-6.6	-7.3	3.9	-1.3	3.1	-0.2	-1.0	-1.8	-2.1	-2.5
Government	-7.4	-1.1	-0.5	-0.9	-1.4	-0.9	-1.2	-1.2	-1.1	-1.1	-1.1
Private	-1.1	-5.4	-6.8	4.8	0.1	4.0	1.0	0.2	-0.8	-1.0	-1.4
External sector											
External current account (including official transfers)	-12.1	-3.5	-2.7	3.9	-1.3	3.1	-0.2	-1.0	-1.8	-2.1	-2.5
External current account (excluding official transfers)	-14.5	-4.9	-4.4	1.8	-2.5	1.8	-1.4	-2.2	-2.9	-3.1	-3.5
Overall balance of payments	0.6	1.1	2.0	2.0	1.1	7.7	3.2	2.6	2.2	2.2	1.4
Gross international reserves (months of prospective imports of goods and services)	5.7	5.7	6.0	6.2	5.6	6.9	7.1	7.2	7.2	7.2	7.2
Government finance											
Revenue	23.3	22.3	25.4	25.0	26.1	26.5	26.2	26.6	26.6	26.9	27.1
Tax and nontax revenue	21.2	21.4	24.1	24.0	24.8	25.2	24.6	24.9	25.0	25.3	25.5
Grants	2.1	0.9	1.4	1.1	1.3	1.3	1.6	1.6	1.6	1.6	1.6
Expenditure	30.8	26.6	25.7	26.1	27.6	27.7	27.2	26.9	26.8	27.2	27.4
Primary balance	-5.3	-2.0	2.0	1.3	0.5	0.9	1.3	1.2	1.2	1.2	1.1
Overall balance (incl. grants)	-7.5	-4.3	-0.3	-1.1	-1.6	-1.2	-0.9	-0.3	-0.2	-0.2	-0.2
Net other liabilities (incl. onlending)	0.9	-0.1	-0.1	-0.5	-0.5	-0.5	-0.3	-0.5	-0.4	-0.4	-0.4
Total financing (incl. onlending and capitalization)	6.6	4.3	0.3	1.5	2.1	1.7	1.2	0.8	0.6	3.2	4.2
Net domestic credit	1.6	2.4	0.2	1.1	1.2	1.3	2.1	2.6	1.9	1.9	1.3
Net external financing	5.0	2.0	0.2	0.4	0.9	0.4	-1.0	-1.9	-1.2	-1.2	-0.7
Public debt stock and service 2/											
Total nominal government debt	148.5	127.2	117.3	112.0	104.9	102.5	97.0	91.2	85.9	80.9	76.2
External government debt	105.8	88.3	76.4	76.4	71.2	68.2	63.2	57.4	52.6	48.2	44.6
Domestic government debt	42.6	39.0	40.9	35.7	33.7	34.2	33.8	33.9	33.3	32.8	31.7
External debt service (percent of exports of goods and services)	17.6	14.2	12.5	11.6	10.8	10.3	9.9	9.9	9.5	9.3	8.9
Present value of PPG external debt											
Percent of GDP (risk threshold: 55%)	..	57.2	53.5	52.7	47.3	46.3	47.3	42.6	38.8	35.8	32.9
Percent of exports (risk threshold: 240%)	..	197.4	123.9	123.9	110.9	116.1	110.9	102.7	96.4	91.4	86.3
Present value of total debt											
Percent of GDP (benchmark: 70%)	..	104.3	97.3	97.3	86.8	86.8	86.8	82.7	78.6	74.5	70.7
Memorandum items:											
Public debt with domestically guaranteed debt to SOEs 3/	158.2	136.0	125.6	119.3	111.9	109.2	103.3	97.1	91.3	86.0	81.0
Nominal GDP (billions of Cabo Verde escudos)	191.3	235.6	255.0	277.8	303.4	299.4	320.9	345.0	370.8	398.1	427.3
Gross international reserves (€ millions, end of period)	595	626	686	736	759	936	1029	1111	1184	1264	1320.6

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/€.

2/ The public debt perimeter is defined according to the program covering the central government and external guarantees to SOEs

3/ In line with the DSA perimeter covering the central government and external and domestic guarantees to SOEs

Table 2. Cabo Verde: Balance of Payments, 2021–30
(Millions of Euros; unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
					SR ECF 6th review						
	Act.	Act.	Act.		Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Current account	-210	-76	-64	99	-35	85	-5	-31	-62	-76	-97
Trade balance	-602	-744	-824	-782	-892	-821	-985	-1071	-1163	-1254	-1347
Exports, f.o.b.	151	269	238	303	308	301	307	318	329	342	355
Imports, f.o.b.	753	1013	1062	1085	1200	1122	1291	1389	1492	1596	1702
Consumer goods	285	353	369	396	428	413	479	510	544	574	610
Intermediate goods	169	194	191	188	216	193	220	238	256	284	308
Capital goods	86	75	130	106	121	108	119	134	147	158	169
Others (including fuel)	213	391	372	395	435	408	474	507	545	581	615
Fuel	86	167	133	128	138	130	149	165	180	194	209
Services (net)	51	307	401	492	487	549	570	592	617	642	664
Receipt	245	543	658	768	791	858	899	942	988	1034	1083
Of which: tourism	112	363	478	569	598	639	671	705	741	777	816
Payment	194	236	257	275	303	309	329	350	371	392	420
Primary Income (net)	-24	-27	-29	-43	-50	-56	-59	-61	-60	-65	-65
Of which: interest on public debt	-30	-77	-17	-19	-16	-18	-18	-17	-18	-19	-17
Secondary Income (net)	364	388	389	431	420	413	469	509	545	601	652
General Government	41	28	38	53	35	36	37	37	37	37	37
Other Sectors	324	360	351	379	384	377	432	472	508	564	615
Of which: remittances	232	262	253	267	282	274	288	302	317	333	350
Capital account	23	21	17	23	36	36	32	17	18	19	21
Of which: Grants	7	9	9	12	25	24	21	5	7	8	10
Financial account 1/	169	67	90	-69	3	74	39	96	118	137	132
Foreign direct investment	78	99	139	82	81	95	96	97	98	99	100
Portfolio investment	-1	0	0	0	0	0	0	0	0	0	0
Other investment	92	-32	-50	-152	-79	-21	-57	0	20	38	32
Net acquisition of financial assets	66	45	91	123	45	-30	-6	-60	-62	-83	-39
Net incurrence of liabilities	158	13	42	-28	-33	-51	-63	-61	-42	-45	-7
Monetary authority	1	0	0	0	0	0	0	0	0	0	0
Central government	93	31	-14	-7	-2	-4	-59	-59	-41	-44	-25
Disbursements	133	69	81	98	100	97	43	49	65	64	86
Amortization	-39	-38	-95	-105	-103	-101	-102	-108	-107	-109	-111
Exceptional financing 2/	0	0	0	0	0	0	0	0	0	0	0
Commercial banks	39	20	-6	-6	-2	-2	0	0	0	0	19
Non-bank flows	24	-38	62	-16	-29	-46	-5	-2	-1	-1	-1
Errors and omissions 3/	29	-2	-17	-19	0	0	0	0	0	0	0
Overall balance	10	9	27	33	4	195	66	82	74	80	56
Memorandum items:											
Use of Fund credit: ECF	0	14	19	11	14	11	8	0	0	0	0
Use of Fund credit: RSF	0	0	0	6	13	3	19	0	0	0	0
Change in reserves incl. ECF and RSF (-:=accumulation)	-10	-24	-46	-51	-31	-209	-93	-82	-74	-80	-56
Current account (incl. official transfers, percent of GDP)	-12.1	-3.5	-2.7	3.9	-1.3	3.1	-0.2	-1.0	-1.8	-2.1	-2.5
Current account (excl. official transfers, percent of GDP)	-14.5	-4.9	-4.4	1.8	-2.5	1.8	-1.4	-2.2	-2.9	-3.1	-3.5
Overall balance (percent of GDP)	0.6	1.1	2.0	2.0	1.1	7.7	3.2	2.6	2.2	2.2	1.4
Gross international reserves	595	626	686	736	759	936	1029	1111	1,184	1264	1321
Months of next year's imports of goods and services	5.7	5.7	6.0	6.2	5.6	6.9	7.1	7.2	7.2	7.2	7.2
Gross international reserves excl. RSF	595	626	686	730	739	926	1019	1101	1175	1255	1283
Months of next year's imports of goods and services	5.7	5.7	6.0	6.1	5.4	6.9	7.0	7.1	7.1	7.1	6.9
External public debt	2172	2259	2224	2269	2329	2002	1961	1918	1892	1863	1852
External aid (grants and loans, percent of GDP)	10.4	5.0	5.5	6.5	5.8	5.8	3.5	2.9	3.2	3.0	3.4
Nominal GDP	1735	2137	2312	2519	2752	2716	2910	3129	3363	3611	3875

Sources: Bank of Cabo Verde; and IMF staff estimates and projections.

1/ Excluding international reserves and exceptional financing.

2/ Debt service suspension under the G-20 Initiative.

3/ Including banks' delays on trade credit reporting.

Table 3a. Cabo Verde: Statement of Operations of the Central Government, 2024–30¹
(Millions of CVE)

	2024		2025		2026	2027	2028	2029	2030
	Act.	5th review	Proj.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	69,525	82,554	79,296	90,584	84,218	91,648	98,563	107,228	115,917
Tax	56,639	60,549	60,983	60,544	66,415	72,503	77,990	85,138	92,208
Grants	2,926	4,917	3,917	4,944	5,170	5,560	5,974	6,415	6,885
Other revenue	9,960	17,088	14,396	25,017	12,633	13,585	14,598	15,675	16,824
Expenditure 2/	72,486	87,807	82,802	95,667	87,130	92,652	99,286	108,143	116,876
Expense	65,888	78,050	75,297	80,998	79,238	82,301	87,050	93,038	98,956
Net acquisition of nonfinancial assets	6,598	9,757	7,505	14,668	7,892	10,351	12,236	15,105	17,919
Primary balance	3,626	1,104	2,732	1,092	4,075	4,129	4,448	4,660	4,841
Overall balance	-2,962	-5,253	-3,506	-5,082	-2,911	-1,004	-723	-915	-958
Net other liabilities	-1,267	-1,540	-1,540	-1,115	-866	-1,600	-1,600	-1,600	-1,600
Onlending to SOEs for investment purpose 3/	-13	-998	-998	-998	-442	0	0	0	0
Other onlending (net)	452	227	227	302	300	0	0	0	0
Capitalization	-2,869	-2,200	-2,200	-2,200	-2,700	-1,600	-1,600	-1,600	-1,600
Other	1,163	1,431	1,431	1,781	0	0	0	0	0
Financing needs	4,229	6,794	5,046	6,198	3,777	2,604	2,323	2,515	2,558
Total financing	4,229	6,794	5,046		3,777	2,604	2,323	2,515	2,558
Net domestic financing	3,029	1,493	3,924		6,862	9,077	6,890	7,416	5,365
Net external financing	1,200	5,300	1,123		-3,085	-6,473	-4,567	-4,901	-2,807
Unidentified Financing (Financing Gap)	0	0	0						
Net errors and omissions (+ overfinancing)	0	0	0		0	0	0	0	0
Memorandum items:									
Counterfactual overall balance without RSF 4/	-3,092	-5,834	-3,826		-3,221	-1,302	-1,009	-1,190	-1,221
Cumulative estimated RSF savings from substituting more expensive domestic financing 4/	130	776	451		760	1,058	1,344	1,619	1,882
Social Spending	18,852	19,963	20,322		21,776	23,417	25,163	27,019	0
Total Public Investment	6,736	11,226	8,974		8,805	10,351	12,236	15,105	17,919
of which: public investment done by SOEs	13	998	998		442	0	0	0	0

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

1/ Includes budgetary central government (BCG) and extra budgetary central government (ECG), but excludes social security funds.

2/ Higher expenditures on compensation of employees and on goods and services for 2020 partly reflect the broadening of the fiscal coverage.

3/ On lend to SOEs for public investment execution.

4/ Assuming a nominal interest rate differential of 4 percent and average term to maturity differential of 13 years between RSF and domestic financing.

Table 3b. Cabo Verde: Statement of Operations of the Central Government, 2024–30¹
(Percentage of GDP)

	2024		2025		2026	2027	2028	2029	2030
	Act.	5th review	Proj.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	25.0	27.7	26.5	30.5	26.2	26.6	26.6	26.9	27.1
Taxes	20.4	20.3	20.4	20.4	20.7	21.0	21.0	21.4	21.6
Grants	1.1	1.7	1.3	1.7	1.6	1.6	1.6	1.6	1.6
Other revenue	3.6	5.7	4.8	8.4	3.9	3.9	3.9	3.9	3.9
Expenditure 2/	26.1	29.5	27.7	32.2	27.2	26.9	26.8	27.2	27.4
Expense	23.7	26.2	25.1	27.3	24.7	23.9	23.5	23.4	23.2
Net acquisition of nonfinancial assets	2.4	3.3	2.5	4.9	2.5	3.0	3.3	3.8	4.2
Primary balance	1.3	0.4	0.9	0.4	1.3	1.2	1.2	1.2	1.1
Overall balance	-1.1	-1.8	-1.2	-1.7	-0.9	-0.3	-0.2	-0.2	-0.2
Net other liabilities	-0.5	-0.5	-0.5	-0.4	-0.3	-0.5	-0.4	-0.4	-0.4
Onlending to SOEs for investment purpose 3/	0.0	-0.3	-0.3	-0.3	-0.1	0.0	0.0	0.0	0.0
Other onlending (net)	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Capitalization	-1.0	-0.7	-0.7	-0.7	-0.8	-0.5	-0.4	-0.4	-0.4
Other	0.4	0.5	0.5	0.6	0.0	0.0	0.0	0.0	0.0
Financing Needs	1.5	2.3	1.7	2.1	1.2	0.8	0.6	0.6	0.6
					-0.2	0.4	0.7	1.0	1.0
Debt-to-GDP (Fifth review)	112.0	107.1	102.5	80.9	97.0	91.2	85.9	80.9	76.2
Change in debt-to-GDP	-5.3	-4.7	-9.6		-5.5	-5.8	-5.3	-5.0	-4.7
of which: contribution from primary deficit	-1.3	-0.4	-0.9		-1.3	-1.2	-1.2	-1.2	-1.1
of which: contribution from real GDP growth	-8.5	-5.4	-5.0		-4.4	-4.1	-3.9	-3.7	-3.5
of which: contribution from average real interest rate	0.1	0.7	-0.2		0.0	0.0	0.9	0.9	0.6
of which: contribution from other debt creation flows 1/	4.4	0.3	-3.5		0.2	-0.5	-1.1	-1.1	-0.7
Social Spending	6.8	6.7	6.8		6.8	6.8	6.8	6.8	0.0
Total Public Investment	2.4	3.8	3.0		2.7	3.0	3.3	3.8	4.2
Of which: public investment done by SOEs	0.0	0.3	0.3		0.1	0.0	0.0	0.0	0.0
GDP at current market prices (billions of CVEsc)	277.8	297.6	299.4	296.8	320.9	345.0	370.8	398.1	427.3

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

1/ Includes net other liabilities, fx depreciation, and other debt-creating flows

2/ Higher expenditures on compensation of employees and on goods and services for 2020 partly reflect the broadening of the fiscal coverage.

3/ On lend to SOEs for public investment execution.

Table 4. Cabo Verde: Monetary Survey, 2022–30
(Percentage of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030		
			SR ECF 6th								
		Act.	Act.	review	YTD	Proj.	Proj.	Proj.	Proj.		
Central Bank											
Net foreign assets	61,810	66,503	70,057	80,513	104,601	91,768	102,006	111,028	119,162	127,991	134,172
Of which: <i>Foreign assets</i>	69,036	75,592	81,496	89,601	103,905	103,207	113,444	122,466	130,601	139,430	145,611
<i>Foreign liabilities</i>	-7,227	-9,089	-11,439	-9,089	1,066	-11,439	-11,439	-11,439	-11,439	-11,439	-11,439
Net domestic assets	11,111	11,909	14,394	10,508	-6,595	978	-1,950	-3,090	-4,018	-5,880	-5,474
Net domestic credit	143	592	-7,789	-809		-10,078	-13,006	-14,146	-15,074	-16,936	-16,530
Government (net)	-9,140	-6,916	-8,550	-6,916	-9,092	-8,550	-8,550	-8,550	-8,550	-8,550	-8,550
Other public non-financial corporations (net)	0	0	0	0		0	0	0	0	0	0
Other depository corporations (net)	7,635	5,730	-956	4,311	-4,888	-3,254	-6,191	-7,340	-8,276	-10,147	-9,749
Others	1,648	1,779	1,717	1,797	6,539	1,726	1,735	1,743	1,752	1,761	1,769
Other items (net)	10,968	11,317	22,182	11,317		11,056	11,056	11,056	11,056	11,056	11,056
Reserve money (RM, M0)	72,921	78,412	84,450	91,020	98,006	92,746	100,055	107,937	115,144	122,111	128,698
Currency in circulation	15,181	16,080	17,229	17,519	20,830	17,843	19,249	20,765	22,152	23,492	24,759
Bank reserves	57,739	62,333	56,095	73,501	77,177	74,903	80,806	87,172	92,992	98,619	103,939
Other depository corporations											
Net foreign assets	4,654	5,355	23,353	22,412	12,666	13,412	11,323	10,485	10,136	10,194	10,147
Reserves	56,033	61,517	55,461	73,501	74,674	74,903	80,806	87,172	92,992	98,619	103,939
Net domestic assets	205,136	218,095	216,851	242,262	259,339	256,288	279,632	303,391	324,697	344,898	364,101
Net domestic credit	239,620	251,084	255,206	287,431	213,267	301,647	329,200	357,557	383,889	409,582	434,787
Government (net)	51,413	49,003	46,000	48,477	55,491	48,146	51,758	56,502	60,164	111,447	111,937
Other public non-financial corporations (net)	6,857	6,933	6,590	7,179	5,043	7,926	8,610	9,339	10,061	16,800.3	16,743.2
Private sector (net)	134,831	137,133	146,261	158,305	149,278	163,058	177,130	192,130	206,982	345,636	344,460
Other items (net)	-34,483	-32,989	-38,356	-45,169	-28,602	-45,359	-49,567	-54,166	-59,192	-64,684	-70,685
Deposits	209,791	223,450	240,204	264,674	272,005	269,700	290,955	313,876	334,833	355,092	374,248
Deposit corporations survey											
Net foreign assets	66,464	71,858	93,410	102,925	117,267	105,179	113,329	121,513	129,298	138,184	144,319
Foreign assets	106,995	113,542	134,891	141,856		146,461	155,339	163,821	171,675	180,604	187,978
Of which: gross international reserves	69,036	75,592	81,496	89,601	103,905	103,207	113,444	122,466	130,601	139,430	145,611
Foreign liabilities	-40,531	-41,684	-41,481	-38,932		-41,282	-42,010	-42,308	-42,377	-42,420	-43,659
Net domestic assets	158,826	167,559	164,538	174,989	143,779	178,003	192,171	208,054	222,273	234,658	248,637
Net domestic credit	185,609	187,933	191,818	204,874	180,598	205,282	219,451	235,334	249,553	261,938	270,917
Net claims on general government (net)	42,273	42,087	37,451	41,560	25,573	39,596	43,209	47,952	51,615	55,554	52,051
Credit to the economy	143,336	145,846	154,367	163,313	155,026	165,687	176,242	187,382	197,938	206,384	218,866
o/w Credit to Private Sector	136,470	138,905	147,772	156,127	150,124	157,756	167,627	178,038	187,872	195,672	207,364
o/w Credit to Public Non-financial Corporations	6,857	6,933	6,590	7,179	4,901	7,926	8,610	9,339	10,061	10,706	11,496
Other items (net)	-26,782	-23,931	-27,280	-29,885	-36,819	-27,280	-27,280	-27,280	-27,280	-27,280	-22,280
Broad money (M2)	225,290	239,417	257,948	277,914	261,046	283,182	305,500	329,567	351,571	372,843	392,956
Narrow money (M1)	120,589	131,606	142,600	152,768	131,062	155,664	167,932	181,161	193,257	204,950	216,006
Currency outside banks	12,241	12,414	13,330	13,240	13,790	13,482	14,545	15,690	16,738	17,751	18,708
Demand deposits	108,349	119,192	129,270	139,528	117,272	142,182	153,387	165,471	176,519	187,199	197,298
Quasi-money	98,824	100,938	108,342	117,168	123,489	119,389	128,798	138,945	148,221	157,190	165,669
Foreign currency deposits	5,877	6,873	6,319	7,978	6,496	8,129	8,770	9,461	10,093	10,703	11,281
Year on Year Growth											
					(Percent)						
Net foreign assets	4.3	8.1	30.0	7.8	19.7	12.6	7.7	7.2	6.4	6.9	4.4
Net domestic assets	6.5	5.5	-1.8	7.6	2.4	8.2	8.0	8.3	6.8	5.6	6.0
Net domestic credit	8.6	1.3	2.1	6.4	2.4	7.0	6.9	7.2	6.0	5.0	3.4
Net claims on government	17.7	-0.4	-11.0	1.7	-4.1	5.7	9.1	11.0	7.6	7.6	-6.3
Credit to the economy	6.2	1.8	5.8	7.7	4.8	7.3	6.4	6.3	5.6	4.3	6.0
o/w Credit to Private Sector	5.6	1.8	6.4	7.1	5.8	6.8	6.3	6.2	5.5	4.2	6.0
o/w Credit to Public Non-financial corporations	18.6	1.1	-5.0	22.3	-18.3	20.3	8.6	8.5	7.7	6.4	7.4
Broad money (M2)	5.8	6.3	7.7	7.7	6.9	9.8	7.9	7.9	6.7	6.1	5.4
Reserve money (RM, M0)	9.0	7.5	7.7	7.7	35.2	9.8	7.9	7.9	6.7	6.1	5.4
Memorandum items:											
Emigrant deposits/total deposits (percent)	26.5	25.2	24.0	25.0	23.9	17.5	17.5	17.5	17.5	17.5	17.5
Excess reserves/total deposits (percent)	17.5	18.4	13.4	17.8	18.7	17.8	17.8	17.8	17.8	17.8	17.8
Money multiplier (M2/M0)	3.1	3.1	3.1	3.1	2.7	3.1	3.1	3.1	3.1	3.1	3.1
Money velocity (Nominal GDP/M2)	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.1	1.1	1.1
Broad money (M2 in percent of GDP)	95.6	93.9	92.9	91.6	87.2	94.6	95.2	95.5	94.8	93.7	92.0
Sources: Bank of Cabo Verde; and IMF staff estimates and projections.											

Table 5. Cabo Verde: Financial Soundness Indicators of the Banking Sector, 2020–25Q3
(End-year; percent unless otherwise indicated)

	2020Q4	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2	2025Q3
Capital adequacy																	
Regulatory capital to risk-weighted assets	19.4	21.4	22.0	21.4	21.9	22.2	22.7	21.4	21.8	23.8	23.6	22.5	22.5	23.9	24.1	23.8	23.7
Regulatory Tier 1 capital to risk-weighted assets	19.8	21.1	21.6	21.1	21.5	22.6	23.2	22.1	22.5	24.4	24.2	23.3	23.3	24.8	25.0	24.8	24.6
Asset quality 1/																	
Nonperforming loans to total loans	9.5	8.1	8.2	8.8	8.9	7.8	9.1	8.7	9.2	7.3	8.3	10.5	11.0	7.9	7.3	7.6	7.71
Nonperforming loans net of provisions to capital	7.1	1.6	7.4	9.4	11.6	3.9	8.6	10.8	9.3	6.5	11.2	22.6	26.3	13.1	9.8	11.7	
Provisions to nonperforming loans	86.4	95.5	81.3	77.9	73.2	88.4	77.1	73.5	75.3	81.3	71.3	55.9	51.1	63.7	69.6	66.2	64.62
Earnings and profitability																	
Return on assets	1.3	1.4	0.4	0.8	1.3	1.5	0.4	0.9	1.3	1.8	0.5	0.9	1.4	2.0	0.5	1.0	1.47
Return on equity	15.4	14.9	4.4	8.7	13.6	16.0	4.4	9.2	13.6	18.0	4.6	9.3	13.4	18.5	4.4	9.2	13.6
Interest margin to gross income	85.7	80.8	83.9	82.0	78.6	80.0	83.6	82.7	83.5	79.7	84.1	82.5	82.2	81.4	85.3	81.5	81.2
Noninterest expenses to gross income	48.9	46.0	46.5	45.6	44.2	46.2	45.7	45.4	46.2	44.8	44.4	44.2	44.7	44.3	45.4	44.4	44.6
Liquidity 2/																	
Liquid assets to total assets	25.1	24.3	24.1	22.8	23.2	24.6	24.8	25.2	25.7	25.0	25.6	24.7	25.2	25.9	27.7	27.5	26.9
Liquid assets to short-term liabilities	29.9	30.5	30.1	28.5	29.1	31.5	31.6	32.3	32.8	32.7	33.8	31.9	32.5	33.3	35.4	34.8	33.8
Additional indicators																	
Government deposits over total deposits	19.6	16.0	15.7	15.8	17.1	17.0	17.3	17.6	17.6	17.9	17.0	17.3	17.8	17.2	17.7	17.3	
Demand deposits over total deposits	51.1	51.8	52.6	51.8	52.9	53.3	53.8	54.3	54.1	53.4	54.4	53.8	53.6	54.5	55.6	54.6	
Total credit over total deposits	54.7	56.9	55.5	56.3	56.1	57.4	56.7	56.9	56.3	57.5	57.0	56.8	56.4	56.4	54.8	55.0	54.8
Personnel cost over cost of operations	58.0	58.0	58.0	57.4	56.5	55.6	58.1	57.5	56.5	55.4	58.7	57.5	57.2	56.2	58.7	58.2	

Source: Bank of Cabo Verde.

1/ Based on IAS/IFRS definition.

2/ Liquid assets include cash in vault and marketable securities. Short-term liabilities include demand deposits.

**Table 6. Cabo Verde: Proposed Quantitative Performance Criteria and Indicative Targets Under the ECF,
March 2025-September 2026¹**

(Millions of CVE, unless otherwise indicated)

	2025									2026			
	end-March			end-June			end-September			end-December	end-March	end-June	end-September
	Indicative Targets (IT)	Actual	Status	Performance Criteria (PC)	Actual	Status	Indicative Targets (IT)	Actual	Status	Performance Criteria (PC)	Indicative Targets (IT)	Performance Criteria (PC)	Indicative Targets (IT)
Quantitative performance criteria													
Primary balance, floor ²	7	3882	met	529	4280	met	998	7585	met	1512	527	1229	2317
Tax revenue, floor	14808	15247	met	21339	31448	met	40239	48881	met	60968	9825	22925	43230
Net other liabilities, floor ³	-139	-639	not met	-1911	-1680	met	-2317	-2006	met	-2896	-1080	-1783	-2161
Net domestic financing, ceiling	96	-1416	met	2336	358	met	2831	-937	met	3539	1327	2189	2653
Nonaccumulation of domestic arrears ⁴	0	0	met	0	0	met	0	0	met	0	0	0	0
Non-accumulation of external payment arrears ⁴	0	0	met	0	0	met	0	0	met	0	0	0	0
PV of new external debt, ceiling (in millions of US Dollars)	19	10	met	29	24	met	54	34	met	82	38	39	52
Nominal level of new nonconcessional external debt of central government, ceiling ⁴	0	0	met	0	0	met	0	0	met	0	0	0	0
Gross international reserves (in millions of euros), floor ²	659	760	met	753	878	met	761	942	met	759	777	785	792
Indicative Targets													
Social spending, floor	4941	3823	not met	6957	8315	met	13119	12662	not met	19877	5469	7701	14521
Non-quantitative continuous PCs													
Non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions													
Non-introduction or modification of multiple currency practices													
Non-imposition or intensification of import restrictions for balance of payments reasons													
Non-conclusion of bilateral payments agreements that are inconsistent with Article VIII													
<i>Memorandum items:</i>													
Net onlending	-139	-111		-1141	-100		-865	-23		-696	-720	-943	-577
Capitalization	0	-750		-770	-1580		-1452	-1983		-2200	-360	-840	-1584
Program assumptions													
Project and budget support grants	1077	1181		1371	1895		2585	2105		3917	624	1456	2746
External debt service	0	2456		4586	5939		8648	7336		13103	2044	4769	8993
Sales of assets	118	15		236	16		445	24		675	118	276	521
Project and budget support loans	3840	2254		4568	5156		8614	7353		13051	1958	4568	8614

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

¹ Foreign currency amounts will be converted at current exchange rates.

² The ceiling or floor will be adjusted as specified in the TMU.

³ Until december 2023, Net other liabilities includes net onlending, capitalization, use of deposits, privatization. From June 2024 onwards, the definition was narrowed down to SOEs support focusing on net onlending to SOEs and capitalization

⁴ Continuous. Contracted disbursements derived from the additional loan under a contract originally signed in 2013 with the Kuwait Fund, related to ongoing healthcare sector projects to support the construction of two hospitals and the establishment of the first blood testing laboratory in Cabo Verde, are excluded from the definition of non-concessional external debt

Table 7a. Cabo Verde: Structural Benchmarks Under the ECF, 2022-24

Actions	Target date	Objective	Status
Fiscal reforms			
1) Invoice electronically at least 50 percent of tax payers for VAT	End-December 2022	Improve revenue collection	Met
2) Submit to parliament the budget for 2023 that is in line with commitments under the program.	End December 2022	Support fiscal and debt sustainability	Met
3) Compile and publish historical series of government financial statistics for general government.	End-March 2023	Improve fiscal transparency	Met
4) Publish annual budget execution reports for the general government.	End-September 2023	Improve fiscal transparency	Met
5) Construct a Compliance Risk Management system to allow for the optimization of tax revenue collection by end-December 2023.	End-December 2023	Support fiscal and debt sustainability	Met
6) Submit to parliament the budget for 2024 that is in line with the primary balance commitment under the program.	End-December 2023	Support fiscal and debt sustainability	Met
7) Develop and publish an action plan to reduce tax expenditures by 1 percent of GDP and include published estimates of annual tax expenditures in the budget to improve transparency	End-September 2024	Support fiscal and debt sustainability	Met
8) Implement the action plan to reduce tax expenditures in the 2025 budget	End-December 2024	Support fiscal and debt sustainability	Met
9) Broadening the coverage of fiscal risk analysis and reporting to include PPPs	End-September 2024	Support fiscal and debt sustainability	Met
10) Adopt a budget for fiscal year 2025 that is in line with the program parameters	End-December 2024	Support fiscal and debt sustainability	Met
SOEs reforms			
11) Conduct quarterly analysis of fiscal risk assessment using the IMF SOEs health check tool.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
12) Introduce a quarterly monitoring report on SOEs budget execution.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
13) Improve the annual SOEs report to include comparison of execution to initial budget projection, evaluation of performance against medium term plan, data on government relations (transfers and liabilities).	End-July 2023	Improve fiscal reporting and reduce fiscal risks	Met
14) Based on the July 2023 structural benchmark, publish in the annual report on public companies the targets agreed between the Ministry of Finance and Business Development and the six largest public companies, on improving financial performance and reducing the need for central government support.	End-June 2024	Improve fiscal reporting and reduce fiscal risks	Met
Monetary policy reforms			
15) Preannounce a schedule for TIM and TRM auctions.	End-June 2022	Support the development of the money market	Met
16) Introduce composite indicators of economic activity.	End-June 2023	Support monetary policy analysis	Met
Financial sector reforms			
17) Submit draft amendments to the BCV Law, in line with IMF recommendations, to the Ministry of Finance with a view to (i) establishing an independent oversight process that is separate from executive management, (ii) strengthening the BCV's personal and financial autonomy, and (iii) enhancing transparency and accountability mechanisms	End-December 2022	Strengthen BCV institutional framework	Met
18) Carry out a comprehensive study of loan losses and provisions at the expiration of the credit moratorium.	End-December 2022	Strengthen financial stability	Met
19) Develop a common framework for the resolution of crisis related NPLs.	End-December 2022	Strengthen financial stability	Met
20) Increase the frequency of stress testing to twice per year (June 2023 and December 2023) to ensure the effectiveness of the supervisory process and revamp the stress testing methodology to include detailed banking data and cyber security risk assessment.	End-December 2023	Strengthen financial stability	Met
21) Submit the draft amendments to the BCV Law, in line with IMF recommendations, to parliament with a view to (i) establish an independent oversight process that is separate from executive management, (ii) strengthen the BCV's personal and financial autonomy, and (iii) enhance transparency and accountability mechanisms	End-July 2024	Strengthen BCV institutional framework	Not Met; implemented with a delay in September

Table 7b. Cabo Verde: Structural Benchmarks Under the ECF, 2025-26

Table 7b.Cabo Verde: Reforms Targets for 2025-26 under the ECF			
Actions	Target date	Objective	Status
Fiscal reforms			
1) Submit to parliament the budget for 2026 that is in line with commitments under the program.	End December 2025	Support fiscal and debt sustainability	Met
2) Manual Data Exchange between DNRE and RNI: Implement a manual exchange of databases agreed in all phases of the MoU – civil identification of citizens and companies, real properties and vehicles.	End December 2025	Enhance tax compliance and collection	
3) Manual Data Exchange between DNRE and INPS: Implement a manual exchange of taxpayer databases and periodic filing of returns containing information on salaries and taxes paid to DNRE and INPS.	End December 2025	Enhance tax compliance and collection	
4) Submit to parliament a revised Public Procurement Code with the aim of minimizing the share of direct awards (Ministry of Finance).	End-December 2025	Improve fiscal transparency	
5) Implement the electronic public procurement system (e-GP) to cover the entire life cycle of public procurement, integrating data on sanctions, awards and execution (Ministry of Finance and ARAP).	End-December 2025	Improve fiscal transparency	
6) Automated Data Exchange between DNRE and INPS: Transition to an automated exchange of taxpayer databases and periodic filing of returns containing information on salaries and taxes paid to DNRE and INPS.	End September 2026	Enhance tax compliance and collection	
SOEs reforms			
7) Publish the annual report and audited financial statements of all State-Owned Enterprises (SOEs) up to and including calendar year 2023 through the SOE Manager portal of the SOE Sector Monitoring Unit (UASE) of the Ministry of Finance.	End-December 2025	Improve fiscal reporting and reduce fiscal risks	
8) Publish the annual report and audited financial statements of all State-Owned Enterprises (SOEs) up to and including calendar year 2025 through the SOE Manager portal of the SOE Sector Monitoring Unit (UASE) of the Ministry of Finance.	End June 2026	Improve fiscal reporting and reduce fiscal risks	
Monetary policy and financial sector reforms			
9) Improve the methodology for compiling monetary statistics through the development of a new series of working files (DEE).	End-December 2025	Support monetary policy analysis and quality of monetary statistics	
10) Effective activation of the new platform of the Credit Registry Center (CRC)-DEE.	End-March 2026	Support monetary policy analysis and quality of monetary statistics	
11) Reconciliation between the monetary statistics published by the Bank of Cabo Verde (BCV) and the International Monetary Fund (IMF) (DEE).	End-June 2026	Support monetary policy analysis and quality of monetary statistics	
12) Publish the monetary statistics based on 11) above on the BCV website (DEE).	End-September 2026	Support monetary policy analysis and quality of monetary statistics	
13) Ongoing development of the integrated database of the Department of Economic Statistics (DEE).	End-October 2026	Support monetary policy analysis and quality of monetary statistics	
14) Develop and publish a macroprudential policy framework, comprising at least two additional macroprudential instruments along with their respective methodologies for systemic risk assessment. The development of this framework is contingent on the operationalization and the timely provision of data from the CRC, a critical source of granular and reliable data to support robust systemic risk assessment methodologies (MacroPrudential Unit).	End-September 2026	Support monetary policy analysis and macroprudential framework	

Table 8. Cabo Verde: Indicators of Capacity to Repay the Fund, 2025-44

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
Fund obligations based on existing credit (millions of SDRs)																				
Principal	2.4	4.7	5.9	8.6	11.0	10.0	9.0	7.9	5.2	3.0	2.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.5
Charges and interest	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9
Total	3.5	5.8	6.9	9.6	12.1	11.1	10.1	8.9	6.2	4.0	3.1	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.4
Fund obligations based on existing and prospective credit (millions of SDRs)																				
Principal	2.4	4.7	5.9	8.6	11.0	10.0	9.5	9.3	6.6	4.4	3.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.1
o/w PRGT	2.4	4.7	5.9	8.6	11.0	10.0	9.5	9.3	6.6	4.1	2.8	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w RST	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.7	1.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.1
Charges and interest	1.1	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.2	1.2	1.1	1.1	1.0	1.0
o/w PRGT	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
o/w RST	0.2	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.2	0.2	0.1	0.1
Total	3.5	6.0	7.3	10.0	12.5	11.4	10.9	10.7	8.0	5.8	4.8	3.8	3.7	3.7	3.6	3.5	3.5	3.4	3.4	3.1
Total obligations based on existing and prospective credit																				
Millions of SDRs	3.5	6.0	7.3	10.0	12.5	11.4	10.9	10.7	8.0	5.8	4.8	3.8	3.7	3.7	3.6	3.5	3.5	3.4	3.4	3.1
o/w PRGT	3.3	5.6	6.7	9.4	11.9	10.9	10.4	10.2	7.5	5.0	3.6	1.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
o/w RST	0.2	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.8	1.2	2.0	2.8	2.8	2.7	2.7	2.6	2.6	2.5	2.2
Millions of U.S. dollars	4.7	8.2	10.0	13.8	17.2	15.8	15.0	14.8	11.1	8.0	6.7	5.2	5.1	5.0	5.0	4.9	4.8	4.7	4.7	4.2
o/w PRGT	4.5	7.7	9.3	13.0	16.5	15.1	14.3	14.1	10.3	6.9	5.0	2.5	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
o/w RST	0.2	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	1.1	1.6	2.7	3.9	3.8	3.8	3.7	3.6	3.5	3.5	3.0
Percent of exports of goods and services	0.4	0.6	0.7	0.9	1.1	0.9	0.9	0.8	0.6	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2
Percent of debt service	2.7	4.3	5.6	7.7	9.3	8.3	7.5	6.8	5.4	3.8	3.1	2.4	2.5	2.4	2.3	2.2	2.1	2.1	2.0	1.8
Percent of quota	14.8	25.3	30.7	42.1	52.5	48.2	45.9	45.2	33.8	24.4	20.4	15.9	15.6	15.4	15.2	15.0	14.7	14.5	14.3	13.0
Percent of gross international reserves	0.5	0.8	0.9	1.2	1.4	1.2	1.0	0.9	0.6	0.4	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Percent of GDP	0.2	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Outstanding Fund credit																				
Millions of SDRs	74.3	92.4	86.6	78.0	67.0	56.9	47.4	38.1	31.5	27.2	23.7	21.3	19.0	16.6	14.2	11.9	9.5	7.1	4.7	2.6
o/w PRGT	66.4	68.7	62.9	54.3	43.3	33.2	23.7	14.4	7.8	3.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w RST	7.9	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.4	22.8	21.3	19.0	16.6	14.2	11.9	9.5	7.1	4.7	2.6
Millions of U.S. dollars	100.3	126.9	119.1	107.6	92.5	78.6	65.5	52.7	43.6	37.5	32.8	29.5	26.2	22.9	19.6	16.4	13.1	9.8	6.5	3.6
o/w PRGT	89.6	94.4	86.5	74.9	59.7	45.9	32.8	20.0	10.8	5.1	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w RST	10.7	32.5	32.6	32.7	32.7	32.7	32.7	32.7	32.7	32.4	31.5	29.5	26.2	22.9	19.6	16.4	13.1	9.8	6.5	3.6
Percent of exports of goods and services	7.7	9.0	8.1	7.0	5.8	4.7	3.7	2.9	2.3	1.8	1.5	1.3	1.1	0.9	0.8	0.6	0.5	0.3	0.2	0.2
Percent of debt service	56.5	65.8	66.3	60.3	50.1	41.4	32.7	24.2	21.4	17.7	15.2	13.7	12.6	10.9	9.1	7.2	5.8	4.4	2.8	1.5
Percent of quota	313.3	390.0	365.2	329.1	282.5	240.2	200.2	161.0	133.1	114.6	100.1	90.0	80.0	70.0	60.0	50.0	40.0	30.0	20.0	11
Percent of gross international reserves	10.7	12.3	10.7	9.1	7.3	6.0	4.5	3.1	2.2	1.7	1.3	1.1	0.9	0.7	0.5	0.4	0.3	0.2	0.1	0.1
Percent of GDP	3.3	3.7	3.3	2.8	2.2	1.7	1.4	1.0	0.8	0.6	0.5	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.0
Net Use of Fund Credit (millions of SDRs)																				
Disbursements	19.5	20.5	-2.4	-2.4	-2.4	-10.0	-9.5	-9.3	-6.6	-4.4	-3.4	-2.4	-2.4	-2.4	-2.4	-2.4	2.4	-2.4	-2.4	-2.1
Repayments	21.9	22.91	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	2.4	2.4	2.4	2.4	2.4	10.0	9.5	9.3	6.6	4.4	3.4	2.4	2.4	2.4	2.4	2.4	-2.4	2.4	2.4	2.1
Memorandum items:																				
Exports of goods and services (millions of U.S. dollars)	1308.7	1407.0	1466.8	1529.7	1596.9	1669.4	1753.2	1841.5	1934.2	2031.8	2135.0	2243.5	2357.2	2475.8	2600.4	2731.5	2869.2	3014.2	3166.8	1781.6
Debt service (millions of U.S. dollars)	177.7	193.0	179.6	178.4	184.7	190.1	200.2	217.3	203.5	212.0	216.2	215.1	207.9	210.0	215.6	226.3	227.3	224.8	235.2	235.2
Quota (millions of SDRs)	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7
Gross international reserves	936.0	1028.8	1110.7	1184.4	1264.5	1320.6	1456.0	1720.9	1951.8	2185.1	2456.2	2655.4	2821.3	3231.7	3780.5	4416.3	5028.1	5535.4	5843.6	2921.2
GDP (millions of U.S. dollars)	3067.4	3396.3	3642.7	3907.5	4191.5	4498.8	4829.6	5183.9	5564.0	5973.3	6412.8	6884.4	7390.7	7923.0	8490.8	9100.0	9752.5	10453.3	11207.0	11761.1

Sources: IMF Staff estimates and projections.

Table 9. Cabo Verde: Schedule of Reviews Under the ECF, 2022-26

Date Available	Amount (SDR millions)	% of Quota	Conditions Necessary for Disbursement
15-Jun-22	11.26	47.5	Executive Board approval of ECF
15-Oct-22	11.26	47.5	Observance of end-June 2022 performance criteria and completion of the first review under the arrangement
15-Mar-23	4.50	19.0	Observance of end-Dec 2022 performance criteria and completion of the second review under the arrangement
15-Oct-23	4.50	19.0	Observance of end-June 2023 performance criteria and completion of the third review under the arrangement
15-Mar-24	4.50	19.0	Observance of end-December 2023 performance criteria and completion of the fourth review under the arrangement
15-Oct-24	4.50	19.0	Observance of end-June 2024 performance criteria and completion of the fifth review under the arrangement
15-Mar-25	4.51	19.0	Observance of end-December 2024 performance criteria and completion of the sixth review under the arrangement
15-Oct-25	2.37	10.0	Observance of end-June 2025 performance criteria and completion of the seventh review under the arrangement
15-Mar-26	2.37	10.0	Observance of end-December 2025 performance criteria and completion of the eighth review under the arrangement
15-Oct-26	2.37	10.0	Observance of end-June 2026 performance criteria and completion of the ninth review under the arrangement
Total	52.14	220.0	

Source: IMF staff estimates.

Note: Quota is SDR 23.70 million.

Table 10. Cabo Verde: Access and Phasing Under the RSF Arrangement, 2024-26

Available date	SDR million	Percent of Quota	Total Disbursements	Conditions for disbursement
15-Mar-24	2.632	11.11	5.264	Reform measure 1 implementation review
15-Mar-24	2.632	11.11		Reform measure 3 implementation review
2-Dec-24	2.632	11.11	2.632	Reform measure 2 implementation review
15-Oct-25	2.632	11.11	7.896	Reform measure 7 implementation review
15-Oct-25	2.632	11.11		Reform measure 8 implementation review
15-Oct-25	2.632	11.11		Reform measure 4 implementation review
15-Mar-26	2.632	11.11	5.276	Reform measure 5 implementation review
15-Mar-26	2.644	11.16		Reform measure 6 implementation review
15-Oct-26	2.632	11.11	2.632	Reform measure 9 implementation review
Total access	23.7	100.0		

Source: IMF staff estimates.

Note: Quota is SDR 23.7 million.

Table 11. Cabo Verde: RSF Reform Measures Matrix

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
National coordination and management of climate change is under the MAE that is not able to ensure cross sector coordination	<ul style="list-style-type: none"> ▪ RM1. Government will establish a council/body for coordinating climate change policy planning and strategy, and DRM under the Heads of Government, with a clear tasks, responsibilities and procedures, including mechanisms for (i) holding entities accountable for consistency across sectoral plans in line with the national development strategy (PEDS II) and international commitments (NDC), and (ii) providing strategic oversight of DRM defined in the TORs, with implementation reflected in the protocols of regular meetings. The MAE serves as secretariate. 	Climate Policy Diagnostic (CPD)	None needed	Completed. The Cabinet approved on May 7 the Resolution n° 38/2024, which was published in the Official Gazette on May 10, 2024, I Série N° 42-1106I (https://kiosk.incv.cv/1.142.5747/)	LuxDev provided TA on the climate governance function and associated legal amendments	End-April 2024; 4 th ECF Review	<i>Fiscal and external sustainability</i> - Better informed and coordinated policy decisions will improve budget management, reduce costs, improve impact, and maximize multi-pronged BOP risk reduction through the implementation of other RMs. - By embedding resilience in planning/ budgeting, thereby reducing post-disaster costs.

Table 11. Cabo Verde: RSF Reform Measures Matrix (continued)

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
Natural disaster and climate related risk not adequately featured in fiscal planning	<ul style="list-style-type: none"> ▪ RM2. To improve fiscal risk management, the Ministry of Finance will conduct and publish in the annual Fiscal Risk Statement quantitative analysis of the fiscal risks generated by climate change. 	C-PIMA; CPD	IMF CD from FAD was delivered in July 2024 to support changes.	Completed. The Fiscal Risk Statement was published alongside the draft 2025 budget sent to parliament.	World Bank has prior actions and triggers in the latest DPF supporting a stronger PIM framework and aligned with the C-PIMA recommendations	End-Sept. 2024; 5 th ECF Review	<p><i>Improved fiscal and external sustainability.</i></p> <ul style="list-style-type: none"> - Improves fiscal risk management. - Enables better informed policies that reduce fiscal and financial-sector costs when climate risks materialize and lower external financing needs while supporting investor confidence. - Reduces import demand for reconstruction and facilitates a quick recovery of growth and net exports.

Table 11. Cabo Verde: RSF Reform Measures Matrix (continued)

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
Investments do not reflect needed physical resilience to Climate Change	RM3. The Ministry of Finance will enact amendments to the PPP legal framework to ensure climate requirements are reflected in PPP agreements and the Ministry of Finance will publish a manual integrating these requirements throughout the PPP capital project lifecycle, from project identification to contract management stages.	C-PIMA	FAD/LEG CD in March to support the authorities on the amendments of the PPP legislation and the Manual.	Completed. Changes were approved by Cabinet in April and published in the Official Gazette on May 8, 2024 (Decreto-lei 21/2024, I Série nº 40-1012 (https://kiosk.incv.cv/1.140.5737/))		End-April 2024; 4 th ECF Review	<i>Improves fiscal and external resilience.</i> - Reduces government contingent liabilities and the subsequent need for external financing. - Improves investor confidence reduces uncertainty, contributing to attracting external capital inflows and official financing.
	RM4. To scale up and systematize climate finance the Ministry of Finance will (i) adopt a national climate finance mobilization strategy that comprehensively identifies the financing instruments to unlock climate finance sources; and (ii) develop and publish a pipeline of appraised public capital projects, including climate-related projects, as part of the budget process.	C-PIMA	Luxembourg and follow up support from FADM2 in 2025	Completed. The climate finance strategy is largely complete and was presented at COP29. Work on the pipeline of projects was completed in October 2025.	LuxDev is providing TA to formulate a climate finance strategy	End-October 2025; 7 th ECF Review	- Reduces reconstruction needs and associated import demand after shocks. - Helps improve public investment efficiency and alignment with government objectives.

Table 11. Cabo Verde: RSF Reform Measures Matrix (continued)

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
	<ul style="list-style-type: none"> ▪ RM9. The BCV will develop a climate information architecture for banks, consisting of 1) the adoption of a climate change adaptation and mitigation taxonomy, and 2) the publication of climate risk and opportunities and disclosure guidelines, so that banks are expected to submit their internal roadmaps within six months from the effective date of application of the guideline, followed by progress reports every six months. 		MCM delivered r an in-person TA mission in October 2025.	In progress. MCM has liaised with the external consultancy hired by the BCV to ensure coordination; MCM has delivered virtual CD and also delivered an in-person TA in October 2025.	TBC	End-April 2026; 9 th ECF Review	<i>Financial sector resilience</i> - Reduces financial sector losses when climate risks materialize, thereby lowering potential bank recapitalization needs.

Table 11. Cabo Verde: RSF Reform Measures Matrix (continued)

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
Inefficiency and financial vulnerability of electricity company pose fiscal risks and hinder the transition to a more resilient and reliable electricity supply	RM5. To support energy transition plans, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of electricity (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting electricity tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments. (Ministry of Industry, Trade and Energy and MoF)	CPD ¹	FADEP supported the analytical study of tariffs and their distributional impact in December 2024.	On track. Cooperation with international partners on tariffs is advanced (e.g., calculating cost recover rates). Ongoing work by LuxDev will be incorporated in FAD TA. Authorities are preparing the business plans for each of the new business units (EPEC and EDEC). It will be important for these to include the information needed for assessing cost recovery tariffs.	WB energy projects are providing support on unbundling the energy SOE. LuxDev is also supporting work on tariff reforms.	End-December 2025; 8 th ECF Review	<i>BOP resilience to shocks.</i> - Reduces LT reliance on fossil fuel imports whose prices are volatile. <i>Increased productivity, growth, investment, net exports</i> owing to increased and reliable access to electricity. <i>Fiscal and external sustainability</i> - Market pricing of electricity reduces fiscal pressures and the need for external financing.

Table 11. Cabo Verde: RSF Reform Measures Matrix (continued)

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
<p>Access to water resources and fiscal sustainability are vulnerable to long-run climate impacts due to lack of investment</p>	<p>RM6. To support reform initiatives, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of water (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting water tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments, and/or by financing infrastructure investment transparently from the budget, with a view to ensure sustainability of the water sector in the Santiago Island. (National Water and sanitation Agency (ANAS) and MoF)</p>	CPD	FAD support for tariff review and the distributional impact in March 2025.	<p>Authorities are setting out the investment plans needed for the water sector.</p> <p>Cooperation with international partners on tariffs is advanced (e.g., calculating cost recover rates).</p> <p>The scope of what is possible by the test date is narrowed to Santiago Island (which is where most of the losses are accrued) due to the diversity of water business and management models across islands.</p>	LuxDev is supporting work on tariff reforms.	End-December 2025; 8 th ECF Review	<p><i>Fiscal and external sustainability and resilience</i></p> <p>- Reduces fiscal costs from covering water sector losses and promotes debt sustainability.</p>

Table 11. Cabo Verde: RSF Reform Measures Matrix (concluded)

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
Social safety nets do not properly account for climate related economic vulnerabilities	RM7. The Unique Social Registry (USR) will be expanded to provide the basis for a social support system that can efficiently mitigate the implications of climate transition and climate hazard events. To this end, the Ministry of Family and Social Inclusion and the MoF will expand coverage of the USR to 100 percent of poor and vulnerable households (including from rural areas) as identified based on the latest household budget survey, and offer inclusion in the USR to 100 percent of the households in climate vulnerable areas.	CPD		Not completed. The USR has been expanded and covers 100 percent of poor and vulnerable households. Work on offering inclusion to households in climate-vulnerable areas using the vulnerability maps from INGT under RM8, is underway. URS web page: www.csu.cv	WB	End-October 2025; 7 th ECF Review	<i>Improves households' economic resilience.</i> - Improves the economy's resilience to weather-related shocks. - Improves food security. - Reduces economic uncertainty in vulnerable areas.
Economic activity overly vulnerable to climate and weather related shocks amid inadequate resilience and disaster risk management policy frameworks	RM8. INGT or new unit/council for CC management and DRM will develop and disseminate natural disaster risk and vulnerability maps, including information on how and where climate hazards might affect the areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses. The land use planning regulation and construction code requirements will be amended to consider disaster risks and vulnerabilities for urban and rural development planning and for designing and constructing infrastructure and buildings.			Completed. The authorities used their own resources to work on this RM. INGC completed the work on defining the natural disaster and vulnerability maps, which also support RM7.		End-October 2025; 7 th ECF Review	<i>BOP and fiscal resilience to shocks and increased economic growth.</i> - Reduces the need for frequent reconstruction and associated imports, fiscal costs, and external loans/debt service. - Supports food security and improves the economy's resilience to weather-related shocks.

Table 12. Cabo Verde: RSF Reform Areas/Priorities and Reform Measures, 2023-2026

3 rd Review ECF	4 th Review ECF	5 th Review ECF	6 th Review ECF	7 th Review ECF	8 th Review ECF	9 th Review ECF
Dec-23	Jun-24	Dec-24	Jul-25	Dec-25	Jun-26	Dec-26
RSF Approval	1 st RSF Review	2 nd RSF Review		3 rd RSF Review	4 th RSF Review	5 th RSF Review
<p>Reform Area 1: Strengthen governance of climate change policy</p>	<p>RM1. Government will establish a council/body for coordinating climate change policy planning and strategy, and DRM under the Heads of Government, with a clear tasks, responsibilities and procedures, including mechanisms for (i) holding entities accountable for consistency across sectoral plans in line with the national development strategy (PEDS II) and international commitments (NDC), and (ii) providing strategic oversight of DRM defined in the TORs, with implementation reflected in the protocols of regular meetings. The MAE serves as secretariate.</p>					
<p>Reform Area 2: Improve Fiscal and Physical Resilience to Climate Change</p>	<p>RM3. The Ministry of Finance will enact amendments to the PPP legal framework to ensure climate requirements are reflected in PPP agreements and the Ministry of Finance will publish a manual integrating these requirements throughout the PPP capital project lifecycle, from project identification to contract management stages.</p>	<p>RM2. To improve fiscal risk management, the Ministry of Finance will conduct and publish in the annual Fiscal Risk Statement quantitative analysis of the fiscal risks generated by climate change.</p>		<p>RM4. To scale up and systematize climate finance the Ministry of Finance will (i) adopt a national climate finance mobilization strategy that comprehensively identifies the financing instruments to unlock climate finance sources; and (ii) develop and publish a pipeline of appraised public capital projects, including climate-related projects, as part of the budget process.</p>		

Table 12. Cabo Verde: RSF Reform Areas/Priorities and Reform Measures, 2023-2026 (continued)

3 rd Review ECF	4 th Review ECF	5 th Review ECF	6 th Review ECF	7 th Review ECF	8 th Review ECF	9 th Review ECF
Dec-23	Jun-24	Dec-24	Jul-25	Dec-25	Jun-26	Dec-26
RSF Approval	1 st RSF Review	2 nd RSF Review		3 rd RSF Review	4 th RSF Review	5 th RSF Review
<p>Reform Area 3: Strengthening mitigation and resilience through energy efficiency and transition</p>					<p>RM5. To support energy transition plans, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of electricity (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting electricity tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments. (Ministry of Industry, Trade and Energy and MoF)</p>	

3rd Review ECF	4th Review ECF	5th Review ECF	6th Review ECF	7th Review ECF	8th Review ECF	9th Review ECF
Dec-23	Jun-24	Dec-24	Jul-25	Dec-25	Jun-26	Dec-26
RSF Approval	1st RSF Review	2nd RSF Review		3rd RSF Review	4th RSF Review	5th RSF Review
Reform Area 4: Promoting adaptation by ensuring ecological and economic sustainability of water resources and planning for long-run climate impacts				RM8 INGT or new unit/council for CC management and DRM will develop and disseminate natural disaster risk and vulnerability maps, including information on how and where climate hazards might affect the areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses. The land use planning regulation and construction code requirements will be amended to consider disaster risks and vulnerabilities for urban and rural development planning and for designing and constructing infrastructure and buildings	RM6 To support reform initiatives, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of water (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting water tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments, and/or by financing infrastructure investment transparently from the budget, with a view to ensure sustainability of the water sector in Santiago Island. (National Water and sanitation Agency (ANAS) and MoF)	
				RM7. The Unique Social Registry (USR) will be expanded to provide the basis for a social support system that can efficiently mitigate the implications of climate transition and climate hazard events. To this end, the Ministry of Family and Social Inclusion and the MoF will expand coverage of the USR to 100 percent of poor and vulnerable households (including from rural areas) as identified based on the latest household budget survey, and offer inclusion in the USR to 100 percent of the households in climate vulnerable areas		

Table 12. Cabo Verde: RSF Reform Areas/Priorities and Reform Measures, 2023-2026 (concluded)						
3rd Review ECF	4th Review ECF	5th Review ECF	6th Review ECF	7th Review ECF	8th Review ECF	9th Review ECF
Dec-23	Jun-24	Dec-24	Jul-25	Dec-25	Jun-26	Dec-26
RSF Approval	1st RSF Review	2nd RSF Review		3rd RSF Review	4th RSF Review	6th RSF Review
Reform Area 5: Financial sector resilience to climate change						RM9. The BCV will develop a climate information architecture for banks, consisting of 1) the adoption of a climate change adaptation and mitigation taxonomy, and 2) the publication of climate risk and opportunities and disclosure guidelines, so that banks are expected to submit their internal roadmaps within six months from the effective date of application of the guideline, followed by progress reports every six months.

Annex I.

Risks	Likelihood	Impact	Policy Response
Conjunctural risks			
Geopolitical Tensions	High Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	High The economy would be hit by disruptions in the supply chain; terms of trade and the tourism sector deteriorate resulting in BoP problems and lower FDI; increased inflation leading to food insecurity and poverty.	Undertake structural reforms to build resilience of the domestic economy and to diversify CPV's trade basket and trading partners. Create fiscal space through spending review and domestic tax mobilization for new policies to mitigate supply shocks. Enhance inter-island connectivity to boost growth and reduce vulnerabilities from tourism concentration in the two main islands (Annex XI)
Escalating Trade Measures and Prolonged Uncertainty	High Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge—especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	High Lower growth of trading partners, trade, FDI and remittances inflows would lower CPV's exports and growth.	Strengthen and diversify trade channels/markets. Strengthen the business environment to attract investment to increase value added of exports

Risks	Likelihood	Impact	Policy Response
Commodity price volatility	High Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	High Worsening of the current account, generating balance of payments problems. Commodity prices increase, especially in oil and food, joint with supply disruptions, leads to a higher inflation, and impacts vulnerable consumers.	Build external buffers and resilience to shocks. Diversification of energy usage (renewable energies transition) to mitigate impact of oil price shocks. Further strengthen social safety nets for government's targeted support to vulnerable groups and mitigate risks of food insecurity.
Decline in International Aid	High A further sharp reduction in international financial assistance, including development aid and humanitarian support, could severely affect low-income and fragile countries. Such an additional aid withdrawal would strain public finances, worsen current accounts, increase debt vulnerabilities, and lead to a further deterioration in living conditions and food security	Medium Cuts in official development assistance pose external risks, though with limited fiscal impact as grants are earmarked.	Adjust fiscal spending. Broaden sources of fiscal financing to replace any financing subject to declines in official development assistance while maintaining targeted fiscal support for the vulnerable households. Reforms to improve competitiveness and economic resilience.
Structural Risks			
Cyberthreats	High Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	Medium Uncertainty due to insufficient information.	Strengthen international and regional cooperation on cyber threat issues. Develop government contingency and continuity plans and encourage businesses to do the same.
Climate change	Medium Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Medium/High Prolonged drought or other climate-related shocks would undermine agricultural production with negative impact on GDP growth and inflation, as well as damages to lives and livelihoods.	Build resilience to weather-related shocks and accelerate growth-enhancing reforms, as well as climate adaptation measures. Prioritize public investments projects resilient to climate change, improve risk management and building codes.

Risks	Likelihood	Impact	Policy Response
Domestic			
Faltering fiscal consolidation efforts	Medium/High Less ambitious and slower fiscal consolidation efforts and delayed SOEs reforms as the economy returns to normal.	High Delayed fiscal consolidation efforts and SOEs reforms would undermine macroeconomic stability and hinder the medium-term fiscal and debt sustainability trajectory.	Unwind temporary measures, advance revenue-enhancing reforms, improve capital expenditure management, reduce fiscal risks, notably linked to SOEs, and contain non-priority spending.
Delays in implementing measures to increase productivity and restructure SOEs	Medium Delays in structural reforms implementation, particularly in the public enterprises sector.	Medium Delays in advancing the structural reform agenda would hinder competitiveness, potential GDP growth and employment.	Follow through with SOEs reform plans and accelerate other structural reforms as soon as possible, to improve the business environment, reduce the State's role in productive activities and enhance growth potential. Improve authorities' communication strategy and engagement with different stakeholders.

Annex II. Debt Decomposition and Capacity to Repay

Annex II. Table 1. Cabo Verde: Decomposition of Public Debt and Debt Service by Creditor, 2024-26¹

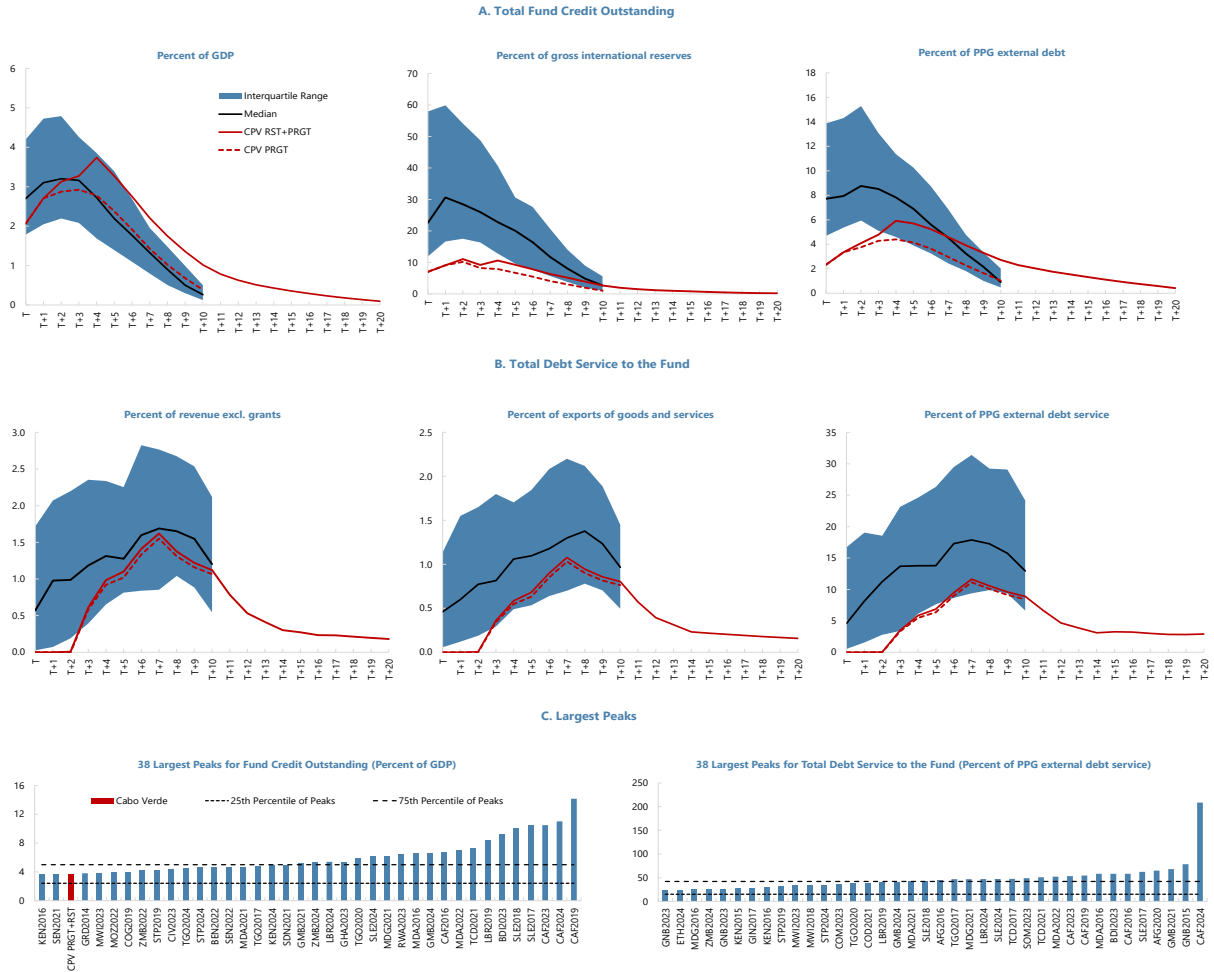
	Debt Stock (end of period)			Debt Service					
	2024			2024	2025	2026	2024	2025	2026
	(In US\$)	(Percent total debt)		(Percent GDP)	(In US\$)			(Percent GDP)	
Total	3158.8	100.0	119.3	270.6	268.5	263.3	10.3	9.2	8.4
External	2022.6	64.0	76.4	117.5	117.5	120.0	4.5	4.0	3.8
Multilateral creditors ²	1248.3	39.5	47.3	56.3	56.3	61.5	2.1	1.9	2.0
IMF	119.5	3.8	4.5	0.0	0.0	3.2	0.0	0.0	0.1
World Bank	625.3	19.8	23.7	16.4	16.4	16.7	0.6	0.6	0.5
African Development Bank Fund	272.3	8.6	10.3	24.0	24.0	25.4	0.9	0.8	0.8
European Investment Bank(incl.EEC)	41.3	1.3	1.6	4.0	4.0	3.9	0.2	0.1	0.1
Other Multilaterals	189.9	6.0	7.2	11.9	11.9	11.2	0.5	0.4	0.4
BADEA	38.3	1.2	1.5	3.7	3.7	3.1	0.1	0.1	0.1
CEDEAO	12.1	0.4	0.5	1.3	1.3	1.3	0.0	0.0	0.0
FAD	92.4	2.9	3.5	5.1	5.1	5.1	0.2	0.2	0.2
Bilateral Creditors	339.2	10.7	12.8	27.2	27.2	27.0	1.0	0.9	0.9
Paris Club	167.8	5.3	6.4	14.9	14.9	14.7	0.6	0.5	0.5
France	39.6	1.3	1.5	5.0	5.0	4.9	0.2	0.2	0.2
Japan	65.5	2.1	2.5	3.1	3.1	3.1	0.1	0.1	0.1
Other (Spa, Belg, Aus, Swed)	26.8	0.8	1.0	6.8	6.8	6.7	0.3	0.2	0.2
Non-Paris Club	186.0	5.9	7.0	12.4	12.4	14.2	0.5	0.4	0.5
Portugal	0.0	0.0	0.0	7.8	7.8	7.7	0.3	0.3	0.2
China	20.6	0.7	0.8	3.5	3.5	3.5	0.1	0.1	0.1
Kuwait	10.7	0.3	0.4	1.0	1.0	1.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0
Commercial creditors	414.3	13.1	15.7	31.1	31.1	30.0	1.2	1.1	1.0
BPI	69.7	2.2	2.6	2.9	2.9	2.9	0.1	0.1	0.1
Caixa Geral Déposito (CGD)	343.2	10.9	13.0	27.5	27.5	26.4	1.0	0.9	0.8
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	1133.6	35.9	42.7						
Uncalled domestic guarantees to loss-making SOEs and municipalities	191.8	6.1	7.3						
Domestic central government	941.8	29.8	35.7	153.1	151.0	143.3	5.8	5.1	4.6
T-Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

^{1/} As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

^{2/} Multilateral creditors² are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

Source: IMF staff estimates.

Annex II. Figure 1. Cabo Verde: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries (Percent of the Indicated Variable)



Notes:

- 1) T = date of arrangement approval. PPG = public and publicly guaranteed.
- 2) Red lines/bars indicate the CIR indicator for the arrangement of interest.
- 3) The median, interquartile range, and comparator bars reflect arrangements (including blends) approved for PRGT countries between 2014 and 2024.
- 4) The comparator group "All PRGT" excludes arrangements that never had a UCT between 2014 and 2024.
- 5) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
- 6) Comparator series is for PRGT arrangements only and runs up to T+10.
- 7) Debt service obligations to the Fund reflect prospective payments, including for the current year.
- 8) In the case of blends, the red lines/bars refer to PRGT+GRA. In the case of RST, the red lines/bars refer to PRGT+GRA-RST.
- 9) International reserves are proxxied by imputed reserves as measured by net foreign assets or by the currency union's total reserves for LICs that are part of currency unions.

Source: IMF staff calculations and estimates.

Annex III. Status of Key Recommendations from the 2023 Article IV

Recommendations	Current Status
Fiscal Policy and Debt Sustainability	
Fiscal consolidation to reduce public debt to 91.3 percent of GDP over the medium-term (by 2028)	<ul style="list-style-type: none"> The strong growth and fiscal performance in 2023 and 2024 have contributed to reducing the debt-to-GDP. The authorities have maintained a strong fiscal consolidation effort under the ongoing ECF program. The fiscal path is leading towards the medium-term goal on the debt-to-GDP ratio. Public debt is currently projected at 88.4 percent of GDP by 2028.
Tax revenue at 20.2 percent of GDP by 2028	<ul style="list-style-type: none"> Ongoing reforms aiming at reducing tax expenditures, reduction of customs exemptions, measures to improve the efficiency of VAT collections, and digitalization are contributing to increase the revenues to GDP ratio. As of end-2024, the tax-to-GDP ratio was 20.4 percent.
Expenditures to decline to 26.2 percent of GDP by 2028	<ul style="list-style-type: none"> Expenditures have been evolving as programmed, but with adjustments on wage and goods and services to account for background studies for public investment pipeline. Capital expenditures still need to improve to face the infrastructure challenges of Cabo Verde. As of end-2024, expenditures-to-GDP was 26.1 percent and is currently projected to close 2026 at 25.9 percent.
Monetary Policy	
Modernizing the monetary policy framework, improve liquidity management and strengthen monetary policy transmission mechanism	<ul style="list-style-type: none"> The BCV started to increase the policy rate to reduce the differential with the ECB rate—which is now positive—and introduction of forward guidance in the Monetary Policy Committee communiqué. Amendments to the Organic Law of BCV submitted to parliament, aiming at strengthening the decision-making structure, autonomy, accountability and transparency of the central bank, but still awaiting final approval by parliament. Finalized the work on introduction of a new composite economic indicator.
Financial Sector	
Reduce NPLs	<ul style="list-style-type: none"> From 8.3 percent at end-December 2023, NPLs declined to 7.9 percent at end-2024 notwithstanding an initial increase in 2024H1 reflecting issues from SOEs in the transport sector, real estate related to tourism, and construction and trade.
Increase the frequency of stress testing	<ul style="list-style-type: none"> BCV does two stress tests annually since 2023.

Recommendations	Current Status
Public Enterprises Reforms	
Plan to restructure nine SOEs in the period 2023-2026. Enhance fiscal reporting for the 6 largest SOEs (compiling financial information and performance)	<ul style="list-style-type: none"> • Launch of the SOE Manager platform. • Quarterly publication of fiscal risk analysis “health check” monitoring the performance of SOEs against their approved budgets. • New SOE law approved but still to be published. • Some progress in restructuring the SOE sector: i) divesting the SOE sector (government sold its share in one of the major commercial banks); ii) Concession of the traffic control company; iii) Launching of some privatization and concession processes (airport logistics, ports and pharmaceutical activities); and iv) unbundling of Electra (the electricity company).
Other Structural Reforms	
Structural reforms to improve competitiveness, further inclusive growth, and building resilience to climate shocks (SMEs, employment, vocational training)	<ul style="list-style-type: none"> • Support vulnerable households with increased targeted cash transfers through the Social Protection Fund, funded by tourism tax and non-earmarked revenues. The Unique social Registry covers 100 percent of poor and vulnerable households, including rural areas. • As per PEDS II, diversification efforts in the tourism sector (more integrated resorts) and promotion of alternative sectors (blue and digital economy). • Reforms towards addressing the energy-water nexus and create the environment for private sector participation.

Annex IV. External Sector Assessment

Overall Assessment: The external position of Cabo Verde in 2024 is assessed to be substantially stronger than implied by medium-term fundamentals and desirable policies, suggesting a notable undervaluation of the real effective exchange rate (REER). However, Cabo Verde maintains large external liabilities, leaving the external position highly vulnerable to shocks. The country's highly negative net international investment position (NIIP) remains a source of vulnerability, although risks are partially mitigated by the composition of external liabilities, which are predominantly FDI and long-term debt. At the same time, the NIIP has been gradually improving in recent years. Reserve adequacy is assessed as satisfactory under the IMF LIC/MIC framework, which estimates an optimal reserve level of 3.6 months of prospective imports of goods and services, compared with the actual reserve coverage of 6.2 months in 2024. Reserves are projected to increase over the medium term, stabilizing at 7.2 months of prospective imports, providing an additional buffer against external shocks.

Potential Policy Responses: Sustained medium-term fiscal consolidation and structural reforms are essential to support Cabo Verde's external position. Ongoing fiscal adjustment is expected to reduce external liabilities and enhance medium-term external sustainability by placing continued downward pressure on public debt. At the same time, sustained implementation of structural reforms is necessary to lower transaction costs, increase labor market flexibility, boost productivity, and foster private sector development. In particular, priority should be given to measures that can attract private investment to advance the climate agenda by increasing the resilience to climate shocks. Maintaining robust reserve buffers remains critical to safeguarding the exchange rate peg and mitigate external vulnerabilities, particularly in the context of a highly uncertain global outlook.

Foreign Assets and Liabilities: Position and Trajectory

Background. Cabo Verde's NIIP improved to -123 percent of GDP in 2024, from -137 percent of GDP at end-2023, reflecting the large current account surplus and possible valuation changes. Gross external liabilities declined to 194 percent of GDP (a 13 percentage-point reduction relative to 2023), while gross external assets were broadly unchanged at 71 percent of GDP. The reduction in external liabilities as a percentage of GDP was partly driven by a decrease in other investment, specifically long-term liabilities from the general government due to the under-execution of public investment projects. In turn, the increase in gross external assets reflected deposit outflows from domestic banks, in a context of the large negative interest rate differential relative to the euro area that persisted during most of 2024.

Assessment. Although the large negative NIIP as a percentage of GDP remains a source of vulnerability to external shocks, it is expected to continue declining over the medium term, supported by strong GDP growth, favorable growth-interest rate differentials, and smaller current account deficits relative to historical norms. In addition, risks are attenuated by the fact that a large fraction of external liabilities are FDI liabilities.

[Assessment year] (% GDP)	NIIP: -123	Gross Assets: 71	Debt Assets: 8	Gross Liab.: 194	Debt Liab.: 3
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Current Account

Background. The current account (CA) balance posted a large surplus of 3.9 percent of GDP in 2024 (deficit of 2.5 percent of GDP in 2023), an all-time high, and the first surplus since the pandemic. This performance was driven by a temporary surge in exports of goods, strong tourism, robust remittances, and moderate growth in goods imports, related to the under execution of public investment. This surplus contrasts with an annual average deficit of 6.7 percent of GDP over the previous five years. From a savings–investment perspective, the 2024 CA surplus reflects a sharp improvement in the private balance, as private saving rose on the back of strong tourism revenues, remittances, and export-sector income, while private investment remained weak. In turn, the public balance declined modestly, reflecting a stronger increase in investment relative to savings. The positive momentum in the CA has continued in 2025H1, driven by strong growth in tourism revenues, robust remittances, and a smaller deficit in the primary income balance. The CA is projected to post another surplus in 2025 due to substantially strong tourism revenues, continued weakness in capital goods imports, and a smaller deficit in the primary income account related to an increase in interest income for the banking sector (reflecting the increase in deposits abroad during 2024). Further out, the CA is projected to gradually return to deficits—although smaller than historical averages—as capital expenditures on climate and infrastructure increase, and the primary account deficit widens due to the reduction of banks’ deposits abroad.

Assessment. The EBA-lite methodology is based on the CA model from a panel regression that generates an estimated “norm” consistent with medium-term fundamentals and desirable policies. The cyclically adjusted CA balance is estimated at 4.1 percent of GDP in 2024, while the multilaterally consistent cyclically adjusted CA norm is -7.8 percent of GDP (Table 1). This leads to a CA gap of 11.8 percent of GDP. However, the CA model does not fully capture Cabo Verde’s need to save externally to guard against its vulnerability to external shocks, including natural disasters. In fact, the alternative REER model—a panel regression of the REER that generates the estimated norm consistent with medium-term fundamentals and desirable policies—implies a CA gap of -0.8 percent of GDP.

Annex IV. Table 1. Cabo Verde. EBA-lite Model Results, 2024

	CA model 1/ (in percent of GDP)	REER model 1/ (in percent of GDP)
CA-Actual	3.9	
Cyclical contributions (from model) (-)	-0.2	
Adjusted CA	4.1	
CA Norm (from model) 2/	-7.8	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	-7.8	
CA Gap	11.8	-0.8
o/w Relative policy gap	0.7	
Elasticity	-0.3	
REER Gap (in percent)	-38.2	2.7
1/ Based on the EBA-lite 3.0 methodology		
2/ Cyclically adjusted, including multilateral consistency adjustments.		

Real Exchange Rate

Background. Cabo Verde's REER has been relatively stable over recent years: the REER recorded an average annual appreciation of 0.2 percent over 2019-2023. In 2024, the REER depreciated by 1.6 percent, directionally consistent with the euro area, but of a larger magnitude. The larger REER depreciation seems to have been driven by external factors related to more unfavorable terms of trade, i.e., global price increases of commodities relevant to Cabo Verde's imports.

Assessment. Using the estimated CA elasticities from the CA model implies an undervaluation of the REER of 38.2 percent (Table 1). By contrast, the REER model indicates an overvaluation of 2.7 percent. *This indicates the complexity of evaluating competitiveness in a small, open economy.*

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital and financial accounts recorded a large deficit of 1.8 percent of GDP in 2024, compared to a surplus of 4.6 percent of GDP in 2023. The deficit was driven exclusively by the financial account (-2.7 percent of GDP), on account of the increase in banks' net foreign assets, in the context of unfavorable interest rate differentials with the euro area.

Assessment. After the temporary surge in net financial outflows in 2024, the capital and financial account are expected to return to net positive inflows in 2025 and over the outer years as FDI continues to remain robust and banks' net foreign assets gradually decline in response to the normalization of monetary policy.

FX Intervention and Reserves Level

Background. Gross international reserves (GIR) stood at €736 million at end-2024, an increase of €51 million relative to 2023. The stock of reserves in 2024 is equivalent to 6.2 months of prospective imports of goods and services. GIR are projected to increase steadily over the medium term, stabilizing at around 7.2 months of prospective imports.

Assessment. The Fund's LIC/MIC framework indicates that the optimal level of reserves for Cabo Verde is approximately 3.6 months of prospective imports of goods and services, suggesting that reserve adequacy is currently satisfactory. However, given the structural vulnerabilities of a small island economy, including limited export diversification and exposure to exogenous shocks amid heightened global uncertainty, a higher level of reserves is warranted. In line with this, staff projections anticipate reserves reaching around 7.2 months of prospective imports of goods and services over the medium term.

Annex V. Data Adequacy Assessment

1. Cabo Verde: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	C	C	C	B	C	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	C	C	B	B		
Granularity 3/	B		C	C	B		
Consistency			C	C		C	
Frequency and Timeliness	C	B	B	B	B		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. Data collection and dissemination have shortcomings, they can somewhat hamper surveillance. Data are generally shared with the country team in a timely manner, though gaps in coverage and granularity persist. National accounts rebasing is long overdue, and CPI weights and basket are outdated. GFS covers only the budgetary central government and extrabudgetary entities, but has limited information on the local government, social security funds and public corporations. Reconciliation of the above and below-the-line transactions remains challenging. Debt transparency has improved, but more detailed arrears and external debt data would strengthen fiscal analysis. External sector statistics would benefit from improved granularity and better consistency between the balance of payments (BoP) and the international investment position (IIP), as well as the accuracy of estimates for direct investment and deposits of Other Sectors (including other financial corporations, nonfinancial corporations, and households) with nonresidents.</p>							
<p>Changes since the last Article IV consultation. Staff did not observe any notable data-related developments.</p>							
<p>Corrective actions and capacity development priorities. The Fund has supported Cabo Verde with TA to improve national accounts, price, fiscal, monetary, and external sector statistics. While progress has been made, key challenges remain. The GDP base year and CPI weights still rely on 2015 data, with ongoing efforts to update them. Priorities include completing the rebasing, expanding GFS coverage, enhancing monetary and BoP statistics, and ensuring greater data consistency for surveillance.</p>							
<p>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff do not use any data and/or estimates in the staff report in lieu of official statistics</p>							
<p>Other data gaps. Outdated household and firm surveys and delayed labor force data limiting analysis of poverty, inequality, and jobs. External statistics also lack detail on income, remittances, and services trade. Addressing these requires better national accounts, labor data, SOE coverage, and more transparent dissemination. Such improvements would strengthen fiscal risk monitoring, debt analysis, and IMF surveillance while aligning with global standards.</p>							

2. Cabo Verde: Data Standards Initiatives

Cabo Verde participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since January 2020.

3. Cabo Verde: Table of Common Indicators Required for Surveillance

As of [Date]

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Cabo Verde ⁸	Expected Timeliness ^{6,7}	Cabo Verde ⁸
Exchange Rates	10-Nov-25	10-Nov-25	D	D	D	M	...	40D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	30-Sep-25	31-Oct-25	M	M	M	M	1M	35D
Reserve/Base Money	30-Sep-25	31-Oct-25	M	M	M	M	2M	40D
Broad Money	30-Sep-25	31-Oct-25	M	M	M	M	1Q	40D
Central Bank Balance Sheet	30-Sep-25	31-Oct-25	M	M	M	M	2M	40D
Consolidated Balance Sheet of the Banking System	30-Sep-25	31-Oct-25	M	M	M	M	1Q	40D
Interest Rates ²	30-Sep-25	31-Oct-25	M	M	M	M	...	40D
Consumer Price Index	30-Sep-25	21-Oct-25	M	M	M	M	2M	15D
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴					A	A	3Q	65D
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	30-Sep-25	14-Nov-25	M	M	Q	A	1Q	65D
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	30-Sep-25	14-Nov-25	M	M	Q	A	2Q	65D
External Current Account Balance	30-Jun-25	30-Sep-25	Q	Q	Q	Q	1Q	65D
Exports and Imports of Goods and Services	30-Jun-25	30-Sep-25	Q	Q	M	Q	12W	90D
GDP/GNP	30-Jun-25	30-Sep-25	Q	Q	Q	A	1Q	7M
Gross External Debt	30-Sep-25	14-Nov-25	M	M	Q	Q	2Q	65D
International Investment Position	30-Jun-2025	30-Sep-25	Q	Q	A	Q	3Q	70D

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 Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

Annex VI. Status of Main Recommendations of the 2021 FSSR

FSSR Mission Key Recommendations and Priorities	Priority ¹	Timeframe ²	Remarks/Status
Financial Stability and Macprudential Framework and Policy			
1. Develop governance structure, framework and objectives with explicit mandates for financial stability and macroprudential, reform National Financial Stability Committee (NFSC).	H	MT	Not implemented. The National Financial Stability Committee was established to address financial stability issues, including matters related to bank resolution and crisis management. In this context, the BCV considers that the recommendation to review the Committee's mandate and competencies should be maintained.
2. Develop and publish a macroprudential policy framework, intermediate targets, and a strategy document with appropriate methodologies to evaluate systemic risks.	H	MT	Not implemented, but initiated. The BCV has prepared a roadmap to guide the implementation of a macroprudential supervision framework.
3. Develop macroprudential policy analytical tools, and models that can quantify the impact of measures help calibrate the policy tools and fully map policy instruments.	H	MT	Not implemented, but initiated. The BCV has prepared a roadmap to guide the implementation of a macroprudential supervision framework.
4. Improve data gaps, including through quantitative and qualitative surveys of the real sector, and strengthen the stress-testing framework for macroprudential purposes.	MH	MT	Not implemented, but initiated. Regulations on the preparation of stress tests are already in place, and some banks are already conducting these exercises and submitting them to the BCV. However, there remains a need to further develop structured data, particularly with respect to the real estate sector. Regarding data on banks' exposure to the real estate sector, the new Credit Registry (CRC) will allow for more comprehensive information. In addition, cooperation with the National Statistics Institute (INE) in this area could be strengthened.
5. Develop a systemic risk dashboard on key financial sector risks, and introduce visualization techniques such as composite indicators of stress, heatmaps and cobwebs.	M	LT	Not implemented.

FSSR Mission Key Recommendations and Priorities	Priority ¹	Timeframe ²	Remarks/Status
6. Expand the systemic risk dashboard to evaluate the systemic risk outlook towards D-SIBs and include metrics on the strength of nonfinancial sector balance sheets.	M	LT	Not implemented. Expanding the systemic risk dashboard to cover non-bank intermediation is assessed as a low priority, given the sector's limited size (about 5 percent of GDP, compared to 127 percent for banks). Nevertheless, monitoring interlinkages remains important, as the pension fund's sizable deposits in banks constitute a relevant exposure channel for D-SIBs. Data gaps persist, and bringing the pension fund under BCV supervision or formalizing information-sharing through an MoU with the Government would support the gradual inclusion of cross-sector exposures in the dashboard.
Financial Supervision and Regulations (Banks and Non-banks)			
1. The risk-based supervision framework in place, enhancements to bank risk-ratings and the development of a supervisory information system is needed with restoring the examination frequency linked to risk profile. Implementation support ongoing from Banco Central do Brazil.	H	MT	Not implemented. Implementation of risk-based supervision remains a top priority, with focus on developing a supervisory information system, improving bank risk ratings, and restoring examinations based on risk profiles. The Central Bank of Brazil is supporting the BCV in this process. The BCV aims to further strengthen capacity in this area.
2. Develop supervisory processes and guidelines to support implementation of Basel Standards, including Pillar 2 and reconcile loan loss provisioning approaches for financial and regulatory reporting.	H	MT	Not implemented. Implementation of Basel standards would benefit from clearer supervisory guidelines applying proportionality and stronger links to risk-based supervision (RBS), alongside reconciliation of loan loss provisioning approaches for regulatory and financial reporting in the short term. Over the medium to long term, priorities should shift toward strengthening supervisory capacity to implement Pillar 2 requirements, including the Internal Capital Adequacy Assessment Process (ICAAP), the Supervisory Review Process (SRP), and the use of capital add-ons.

FSSR Mission Key Recommendations and Priorities	Priority ¹	Timeframe ²	Remarks/Status
3. Develop BCV-driven assumptions and scenarios to assist in harmonizing bottom-up and top-down methodologies for stress tests.	MH	MT	Not implemented. Developing BCV-driven assumptions and scenarios to harmonize bottom-up and top-down stress tests should be sequenced with supervisory capacity. Consistent with MCM advice, this work is best placed in the longer term under Pillar 2 and, if capacity allows, aligned with macroprudential policy. BCV agrees with this approach.
4. Review the scope of operating licenses for nonbanking activity, and develop framework, methodology and guidelines to enhance supervision of Non-Bank Financial Institutions (NBFIs).	MH	LT	Not implemented. Assessing the size and scope of the NBFIs sector is a prerequisite for reviewing licensing requirements. While the sector appears to be of limited systemic importance, continued monitoring of trends is warranted given global developments in bank-like non-bank activities.
5. Strengthen supervision of consolidated and cross-border Foreign Banking Organizations (FBO) entities and seek MOUs with home supervisors to enhance information sharing and cooperation.	M	LT	Not implemented. As host supervisor, BCV's role in consolidated and cross-border supervision of FBOs is inherently limited, with responsibility for parent entities resting with home authorities. In this context, enhanced cooperation and information sharing through MOUs with home supervisors remains the most effective tool for monitoring group-wide risks.
Financial Crisis Management—Early Intervention, Resolution, and Safety Nets			
1. Strengthen the bank resolution capacity, including resolution toolkits and guidance on systemic resolution planning and funding under the FIAL.	H	MT	Not implemented, but initiated. MCM TA was done in March 2024 for review and operationalization of the resolution framework. Significant work remains for full implementation.

FSSR Mission Key Recommendations and Priorities	Priority¹	Timeframe²	Remarks/Status
2. Formulate a BCV financial crisis management plan and procedures, including operationalization of Financial Stability Committee (FSC) and periodic simulation testing.	H	MT	Not implemented.
3. Develop policies and procedures to fully operationalize Deposit Guarantee Fund (DGF) based on the existing strategy and consistent with IADI Core Principles (post DFG Law).	H	LT	Not implemented
4. Revise the methodology, tools, and procedures to evaluate unsafe and unsound practices and strengthen financial contingency planning in NBFIs.	M	LT	Not implemented
Emergency Liquidity, Collateral and Government Securities Market			
1. Develop policies and procedures to operationalize Emergency Liquidity Assistance (ELA).	H	ST	Partially implemented. MCM TA was done to support BCV preparing ELA framework.
2. Strengthen the collateral framework and develop credit assessment system.	H	MT	Partially implemented. MCM TA in Nov 2024 on collateral framework and lender of last resort framework.
3. Develop secondary markets for government securities in order to move towards better market determined prices and a reliable benchmark yield curve.	H	LT	Not implemented, but initiated. The Securities Market Agency (Agência Geral de Mercado de Valores Mobiliários-AGMVM) has prepared a roadmap to strengthen the secondary market for debt securities; however, further engagement by the Treasury Directorate (DGT) is required to move the project forward.
Financial Market Infrastructure (FMI)			
1. Improve governance and functioning of the National Payment Committee and its related working groups to enhance monitoring and oversight of FMIs.	H	MT	Partially implemented. AFW2 TA on April 2024 to review RTGS System and FMI. Systems in compliance with the rules and procedures under the national legislation. TA suggests strengthening the RTGS legal certainty, governance level, and have a comprehensive framework for all RTGS risks (the management of risks is split into multiple documents).
2. Enhance understanding and oversight of non-bank payment service providers, including remittances, to improve oversight and financial inclusion.	M	LT	Not implemented.

FSSR Mission Key Recommendations and Priorities	Priority ¹	Timeframe ²	Remarks/Status
Financial Inclusion and Digital Finance			
1. Review and strengthen the regulatory framework on FinTech to address KYC, consumer protection, AML-CFT and data protection issues.	H	MT	Not implemented, but initiated. The Payments Regime is currently being revised in collaboration with the World Bank; the proposed reforms were presented publicly in September 2025 (see https://www.bcv.cv/pt/O%20Banco/Sala%20de%20Imprensa/Arquivo/Paginas/Revis%C3%A3o.aspx)
2. Strengthen supervisory capacity to understand FinTech products, developments and to monitor their implications. Strengthen MSMEs credit assessment capacity.	H	MT	Not implemented
3. Strengthen oversight to ensure that regulated entities implement effective cyber-security (prevention, detection) and recovery processes.	H	MT	Not implemented
4. Develop framework to coordinate actions between MOF and BCV on collateral execution process, insolvency regimes and financial reporting.	M	LT	Not implemented
Financial Sector Statistics			
1. Implement and validate reports on FSIs for deposit-takers (DTs) based on FSI Guide 2019 standards and start dissemination.	H	ST	Not implemented, but initiated. Structural Benchmarks introduced under the current ECF to tackle statistical issues: compilation, reconciliation BCV and IMF/STA publications, and develop an integrated database
2. Implement methodology for Monetary and Financial Sector Statistics (MFS) and establish mechanisms to ensure consistency between national publications and reporting of MFS to the IMF, including development of an integrated database.	H	ST	Not implemented, but initiated. Structural Benchmarks introduced under the current ECF to tackle statistical issues: compilation, reconciliation BCV and IMF/STA publications, and develop an integrated database
3. Improve Balance Sheet Approach (BSA) analysis based on BSA matrices, ensure MFS is consistent with IIP and government finance statistics to support BSA analysis.	H	MT	Not implemented.
¹ Priority: High (H); Medium High (MH); Medium (M); Low (L). ² Time Frame: Immediate (IM), less than six months; Short-Term (ST), with results around 12 months; Medium-Term (MT), with results around 24 months; Long-Term (LT), with results around 36 months.			

Annex VII. RSF-supported Reforms and Prospective BOP Risk Reduction

1. Staff assesses that strengthening the Cabo Verde’s prospective balance of payments stability requires fiscal, financial, and structural policies – including macro-structural reforms in selected specific economic sectors. Reform areas covered by the RSF include: (i) Governance of climate change policy; (ii) Fiscal and Physical Resilience to Climate Change; (iii) Energy and electricity sector reforms; (iv) Adaptation-related reforms on water management and land use planning for long-run climate impacts; and (v) Financial sector resilience to climate change. All proposed reforms are key to managing the impact of climate change on longer-term balance of payments stability.

2. For each of these reform areas, the table below shows an assessment of the current policies/institutions (left column) and desired long-term policy outcomes (third column). RSF-supported reform areas (both RMs and commitments in the MEFP), represented by the green arrow, are targeted at helping the country achieve these outcomes. To fully achieve the policy outcomes, additional reforms will be necessary. Some of the possible additional reforms, drawn from available diagnostics, are reported in the blue arrow. These are reforms that may be supported by ECF arrangement, development partners, or carried forward independently by the authorities—in synergy with and building off the momentum of the RSF; however, they do not necessarily represent authorities’ commitments. Some of these additional reforms may be already underway, highlighting the complementarity of the RSF with efforts from country authorities and other development partners.

3. The relative length of the green arrow compared to the “full set” of reforms provides a proxy of the progress expected to be possible directly through RSF-supported reforms. This reflects the authorities’ ambition (cognizant of their capacity) under the RSF arrangement as well as limits to the Fund’s expertise in certain areas. For example, the Fund’s expertise in areas such as agriculture and other sectoral investments is limited, and development partners are better placed to provide this support.

Current Status	Figure 1. Main Reforms: RSF-supported (green) and Beyond RSF Horizon or Supported by Other Partners (blue)	Desired LT Policy Outcome	Prospective BoP Risk Reduction
<p>Lack of institutional framework for climate and DRM policy design, coordination, and implementation.</p>	<p style="text-align: center;">Strengthening governance of climate change policy</p> <div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto 10px auto;"> Feasible in next 18 months (RSF duration) </div> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto 10px auto;"> Ongoing or Future Reforms by Development Partners/Authorities or Future RSF (as appropriate) </div> </div> <ul style="list-style-type: none"> • Establish policy council to oversee climate policy planning and DRM and hold relevant entities accountable for implementation. 	<p>Strengthening capacity to achieve national climate policy objectives.</p>	<p>Better informed and coordinated policy decisions will improve budget management, reduce costs, improve impact, and maximize multi-pronged BOP risk reduction through the implementation of other RMs.</p> <p>Reduced post-disaster costs.</p>

Current Status	Figure 1. Main Reforms: RSF-supported (green) and Beyond RSF Horizon or Supported by Other Partners (blue)	Desired LT Policy Outcome	Prospective BoP Risk Reduction
<p>Broad-based need to integrate climate resilience into all aspects of policymaking, including PFM, PIM, budgeting, sectoral strategies, and oversight of SOEs and PPPs.</p>	<p style="text-align: center;">Improve Fiscal and Physical Resilience to Climate Change</p> <div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> Feasible in next 18 months (RSF duration) </div> <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div style="width: 45%;"> <ul style="list-style-type: none"> • Annual climate fiscal risk statement. • National climate finance strategy and pipeline of projects. • Climate risks in PPP framework. </div> <div style="width: 45%;"> <ul style="list-style-type: none"> • Guidelines on assessing climate risks for the investment plans and sectoral strategies. • Climate risk assessment for project appraisal and approval. • Climate-informed audits and maintenance of infrastructure. • Develop a PIM legal framework, including climate aspects. </div> </div> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> Ongoing or Future Reforms by Development Partners/Authorities or Future RSF (as appropriate) </div> </div>	<p>Enhanced economic and physical resilience to climate developments.</p>	<p><i>Improves fiscal risk management.</i></p> <p>Enables better informed policies that reduce fiscal and financial-sector costs when climate risks materialize and lower external financing needs while supporting investor confidence.</p> <p>Reduces import demand for reconstruction and facilitates a quick recovery of growth and net exports.</p>

Current Status	Figure 1. Main Reforms: RSF-supported (green) and Beyond RSF Horizon or Supported by Other Partners (blue)	Desired LT Policy Outcome	Prospective BoP Risk Reduction
<p>Gaps in the legal and policy framework to support the energy transition.</p>	<p style="text-align: center;">Strengthening mitigation and resilience through energy efficiency and transition</p> <div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto 10px auto;"> Feasible in next 18 months (RSF duration) </div> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid black; padding: 5px; width: 60%; text-align: left;"> <ul style="list-style-type: none"> • Set electricity tariff at cost-recovery level. • Conduct distributional impact assessment. </div> <div style="border: 1px solid black; padding: 5px; width: 60%; text-align: left;"> <ul style="list-style-type: none"> • Update electricity master plan. • Enhance financial stability, transparency, and competition in electricity sector. • Invest in renewable energy infrastructure. • Strengthen legal framework for carbon markets. </div> </div> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 10px auto 0 auto;"> Ongoing or Future Reforms by Development Partners/Authorities or Future RSF (as appropriate) </div> </div>	<p>Support transition to low carbon energy supply.</p>	<p><i>Reduces LT reliance on fossil fuel imports whose prices are volatile.</i></p> <p>Increased productivity, growth, investment, net exports owing to increased and reliable access to electricity.</p> <p>Market pricing of electricity reduces fiscal pressures and the need for external financing.</p>

Current Status	Figure 1. Main Reforms: RSF-supported (green) and Beyond RSF Horizon or Supported by Other Partners (blue)	Desired LT Policy Outcome	Prospective BoP Risk Reduction
<p>Gaps in the legal and policy framework to support the energy transition.</p>	<p style="text-align: center;">Strengthening mitigation and resilience through energy efficiency and transition</p> <div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto 10px auto;"> Feasible in next 18 months (RSF duration) </div> <ul style="list-style-type: none"> • Set electricity tariff at cost-recovery level. • Conduct distributional impact assessment. <ul style="list-style-type: none"> • Update electricity master plan. • Enhance financial stability, transparency, and competition in electricity sector. • Invest in renewable energy infrastructure. • Strengthen legal framework for carbon markets. <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 10px auto;"> Ongoing or Future Reforms by Development Partners/Authorities or Future RSF (as appropriate) </div> </div>	<p>Support transition to low carbon energy supply.</p>	<p><i>Reduces LT reliance on fossil fuel imports whose prices are volatile.</i></p> <p>Increased productivity, growth, investment, net exports owing to increased and reliable access to electricity.</p> <p>Market pricing of electricity reduces fiscal pressures and the need for external financing.</p>

Current Status	Figure 1. Main Reforms: RSF-supported (green) and Beyond RSF Horizon or Supported by Other Partners (blue)	Desired LT Policy Outcome	Prospective BoP Risk Reduction
<p>Lack of frameworks, capacity, and incentives for sustainable water practices</p> <p>Scope to strengthen DRM</p>	<p align="center">Promoting adaptation by ensuring ecological and economic sustainability of water resources and planning for long-run climate impacts</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <p align="center">Feasible in next 18 months (RSF duration)</p> </div> <ul style="list-style-type: none"> • Set water tariff at cost-recovery level. • Expand coverage of social safety net. • Natural disaster risk and vulnerability maps; incorporate related risks into urban and rural development planning. <ul style="list-style-type: none"> • Invest in low-carbon desalination and wastewater reuse. • Economically and ecologically efficient water management. <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p align="center">Ongoing or Future Reforms by Development Partners/Authorities or Future RSF (as appropriate)</p> </div>	<p>Sustainable water practices and improved disaster response.</p>	<p><i>Reduces fiscal costs from covering water sector losses and promotes debt sustainability.</i></p> <p>Improves the economy's resilience to weather-related shocks. Improves food security. Reduces economic uncertainty in vulnerable areas.</p> <p>Reduces the need for frequent reconstruction and associated imports, fiscal costs, and external loans/debt service.</p>

Current Status	Figure 1. Main Reforms: RSF-supported (green) and Beyond RSF Horizon or Supported by Other Partners (blue)	Desired LT Policy Outcome	Prospective BoP Risk Reduction
<p>High exposure of banking sector to transition risks</p> <p>Need for climate finance to support resilience-building.</p>	<p style="text-align: center;">Financial sector's resilience to climate change</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px; width: fit-content;"> Feasible in next 18 months (RSF duration) </div> <ul style="list-style-type: none"> • Develop a climate information architecture for banks, including taxonomies. • Adopt a national climate finance strategy and pipeline of climate-appraised capital investment projects. <ul style="list-style-type: none"> • Deploy stress tests and risk management frameworks. <div style="border: 1px solid black; padding: 5px; margin-top: 10px; width: fit-content; margin-left: auto; margin-right: auto;"> Ongoing or Future Reforms by Development Partners/Authorities or Future RSF (as appropriate) </div>	<p>Climate resilient financial sector and increased climate financing.</p>	<p>Reduces financial sector losses when climate risks materialize, thereby lowering potential bank recapitalization needs.</p>

Annex VIII. Social Spending and Social Protection in Cabo Verde: Institutions, Programs and Progress¹

A. Introduction

4. Cabo Verde, an archipelago nation off the West African coast, faces significant structural challenges such as an arid climate, limited natural resources, and a heavy reliance on tourism. Despite these obstacles, the country has made substantial progress in developing a relatively robust social welfare and protection system. This Annex emphasizes the need for ongoing efforts to strengthen institutional frameworks, adapt to new vulnerabilities, and eradicate extreme poverty.

B. Context

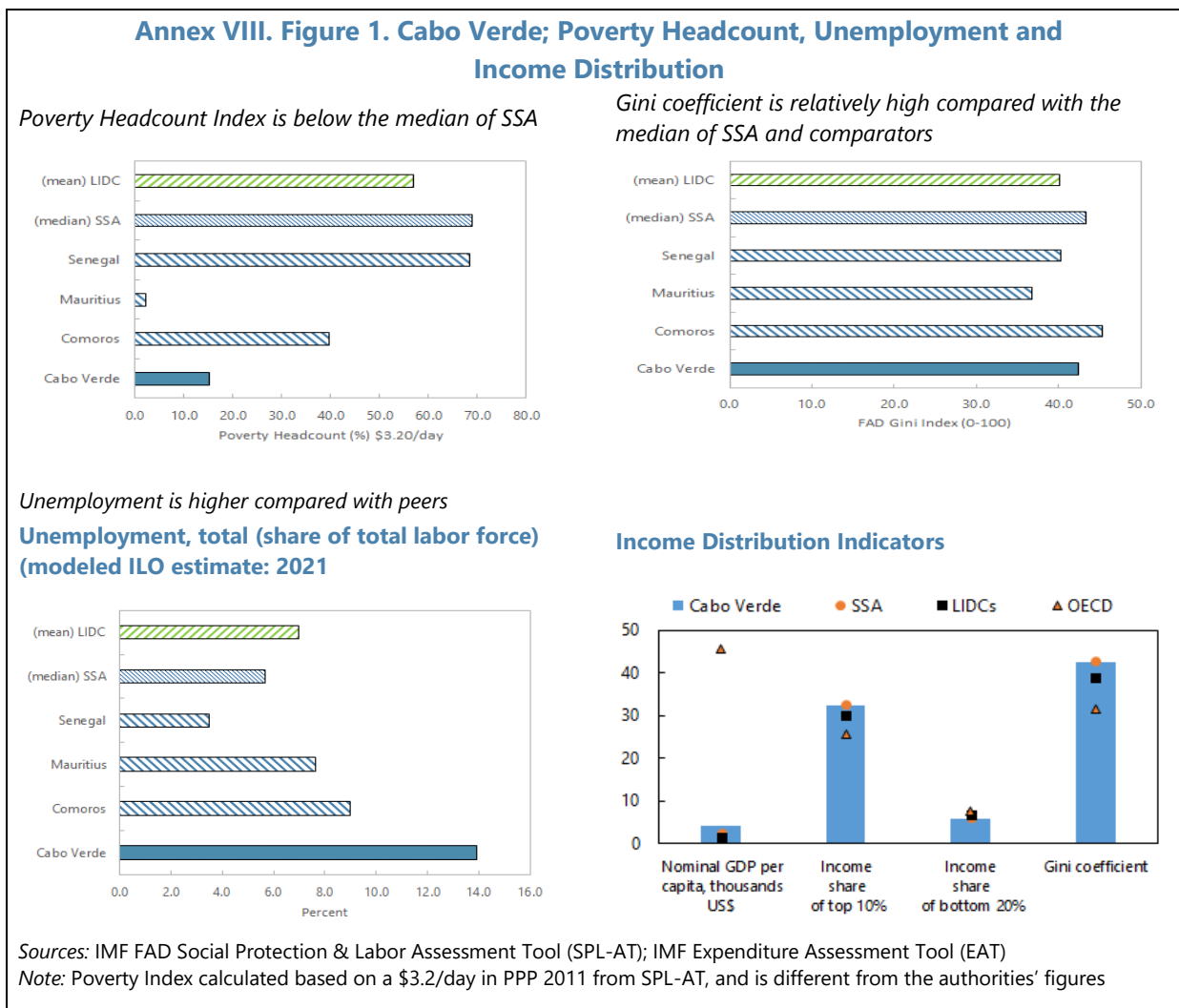
5. While average poverty declined in Cabo Verde between 2015 and 2023, inequality, the urban-rural divide, and unemployment remain high. The poverty rate decreased from 35.5 percent in 2015 to 24.75 percent in 2023,² compared to the sub-Saharan African (SSA) median of 37 percent. Rural Absolute Poverty, which stood at 48.87 percent in 2015, also declined, but at 35.23 percent in 2023 rural Cabo Verde remains much more prone to poverty than its urban counterpart. Extreme Poverty in Cabo Verde fell from 4.56 percent in 2015 to 2.28 percent in 2023, a significant reduction attributed to greater investment in social protection policies.

6. The Gini coefficient in 2015 was 42.38, just shy of the SSA median, indicating high income inequality. The income share of the top 10 percent corresponds to 32 percent, while that of the bottom 20 percent corresponds to around 5 percent (Figures 1).

7. Cabo Verde's unemployment in 2021, at 14 percent, was high compared to the regional and comparators (Figure 1). Unemployment is particularly severe among youth, estimated by ILO at around 28 percent. In addition, informal employment as a percentage of total employment is estimated by ILO as being relatively high and around the levels of the comparators, at around 64 percent on average in 2015, with almost 96 percent in Agriculture and 58 percent outside of Agriculture. By comparison, the informality rate in SSA is 86.5 percent, with over 90 percent in Agriculture and 72 percent for non-Agriculture. At the global level the figures are 60, 90 and 50 percent, respectively.

¹ This annex was prepared by José Sulemane.

² The poverty estimates use \$2.15 2017 PPP per day. See INE, (2024). Resultados da Estimativa de Pobreza SWIFT-2023. Comunicado de Imprensa, Outubro 2024.



Box 1. Cabo Verde: Basic Terminology

- **Social Spending** includes education, health, social protection, housing, technical training, employment.
- **Social Spending (Indicative Target under the ECF)**, is a subset of the previous definition, where wages and salaries are excluded.
- **Social Protection** comprises social insurance and social assistance (e.g., sickness and incapacity, social exclusion, elderly, housing and so on).
- **Social Insurance** for protecting households from shocks that can affect their incomes and welfare and are typically financed by contributions and payroll taxes.
- **Social Assistance** for protecting households from poverty and vulnerability and is financed by the central government revenue. The terms social assistance and social safety net are used interchangeably.
- The CPV Budget has two items under the current expenditures that can be overlapping with the above general definitions, namely **Social Security** (*Segurança Social* under the Wage Bill) and **Social Benefits** (*Benefícios Sociais*, covering pensions, survival pensions, pensions of the non-contributory system and other items).

C. Social Protection System

8. Cabo Verde's social protection system is comprehensive and includes both contributory and non-contributory schemes:

- **Contributory Social Insurance/Mandatory Social Protection:** Managed by the National Institute of Social Security (INPS), this includes pensions, health insurance, and family allowances for formal sector employees. Under this system, the number of beneficiaries represents around 55 percent of the population, and the active insured represent 62.6 percent of the employed population.

Annex VIII. Text Table 1. Cabo Verde: INPS Beneficiaries (2022-2024)

Item	Number of Beneficiaries			Shares (%)			Growth (%)	
	2022	2023	2024	2022	2023	2024	2023	2024
Active insured persons	115235	119275	124601	42.3	42.5	43.2	3.5	4.5
INPS pensioners	9473	9957	10660	3.5	3.5	3.7	5.1	7.1
Public service pensioners	8703	9631	9215	3.2	3.4	3.2	10.7	-4.3
Registered family members	131618	134920	136949	48.4	48.1	47.5	2.5	1.5
Convention scheme	7107	6958	6808	2.6	2.5	2.4	-2.1	-2.2
Total	272136	280741	288233	100.0	100.0	100.0	3.2	2.7

Sources: Cabo Verdean authorities; and IMF staff estimates.

- **Non-Contributory Social Assistance/Safety Net programs:** Administered by the National Centre of Social Pensions (CNPS) and the Ministry of Family, Inclusion and Social Development (MFIDS), this provides cash transfers and social pensions to vulnerable populations. **Key Programs and Initiatives (non-contributory).**

9. **Complementing the contributory system is the non-contributory scheme, often referred to as social assistance or safety nets, which is crucial for reaching the most vulnerable populations.** A cornerstone of this system is the Single Social Registry (CSU), managed by the Ministry of Family, Inclusion and Social Development. The CSU represents a significant institutional achievement, acting as a unified management tool for identifying, registering, and targeting beneficiaries across various social benefits. It is envisioned as the "single gateway" to all social benefits, streamlining administration and enhancing the efficiency of resource allocation. Under the non-contributory system, the key programs are the following:

- **Social Pension (Pensão social):** Provides income security for the elderly, disabled, and children with disabilities in poor families. In 2020, the number of social pension recipients reached 22,866, compared to 26,306 in 2024. In 2023-2024, the annual spending on this item was 17 million Euros, equivalent to an average monthly stipend of 54.5 Euros per person.
- **Social Inclusion Income (Rendimento Social de Inclusão (RSI)):** A cash transfer program aimed at poverty alleviation, providing financial support and access to productive assets. As of 2023, over 2,157 households benefited from RSI, and extended support to 9,219 households in

2024. In the period 2023-2024, the government spent an average of 3.4 million Euros per year, about 50 euros monthly per household.

- **Productive Inclusion Programs (Inclusão Produtiva (IP)):** Combines cash transfers with training and asset provision. As of 2023, 1,627 households benefitted from IP and in 2024 1,135 households benefitted from this program. Under this program predominantly women have improved their living conditions. This program costs around 11 million Euros/year, about 657 euros monthly per household.

10. A key instrument under the social safety net is the Unique Social Registry (Cadastro Social Único (CSU)). Officially established in 2018, this is a centralized database collecting socioeconomic information from households, facilitating better targeting of social programs. As of mid-2025, CSU registered 91,127

households, about 59 percent of all households, representing 327,557 individuals, or about 62.4 percent of the total population. This registry categorizes households into four income groups, facilitating more effective program targeting. A crucial management tool, the CSU is fully in place and aims to be the single gateway for all social benefits, supporting better targeting of assistance. At this moment, around 16 social programs use the CSU to determine the potential beneficiaries. The CSU is adjusted/updated every two years to account for the dynamics in society. Despite this progress, structural vulnerabilities persist, particularly in rural areas, among youth, and informal workers. In this context, targeting accuracy needs improvement—risks of both exclusion in remote areas and inclusion among non-poor households.

Annex VIII. Text Table 2. Cabo Verde: CSU: Updated/Actualized Registry

Group	Households	Population	Remarks
1	20,751	107,696	Extreme Poor
2	18,550	75,524	Moderate Poor
3	13,941	41,103	Vulnerable Poor
4	13,200	23,744	Non-Poor
Total	66,442	248,067	

Sources: Cabo Verdean authorities; and IMF staff estimates

D. Coverage, Reach, Challenges and Budgetary Allocations and Funding

11. In 2024, Cabo Verde spent 4.3 percent of its GDP on social assistance/protection programs, reaching approximately 12 percent of the population. If social protection via the contributory system is added, then approximately 67 percent of the population received some type of social protection benefits. Hence, the importance of an appropriate targeting to avoid leakages and have a cost-effective social protection system.

12. Structural constraints continue to limit the efficiency and equity of Cabo Verde's social protection architecture. Persistently high informality reduces the contributory base and restricts enrollment in social insurance schemes, limiting automatic stabilizer functions and increasing reliance on non-contributory transfers. Interoperability gaps between administrative registries (CSU, INPS, education, health, civil identification) constrain data exchange and delay dynamic recertification, weakening precision targeting and program coordination. Rural and multi-island geography introduces logistical frictions, raising administrative costs and contributing to lower

uptake among remote households. In addition, benefit adequacy has eroded in real terms, as transfer values have not systematically adjusted to inflation or island-specific food-price differentials, reducing poverty-exit probability. Finally, the system remains partially dependent on external project financing, increasing exposure to aid volatility and underscoring the need for a more sustainable, domestically financed medium-term framework to protect program continuity and scale-up capacity, particularly in the context of climate and price shocks.

13. Besides the social protection system, other public resources are used for the benefit of society. A look at the budget gives an additional idea of resources into the overall social spending, such as education and health. In 2023, Cabo Verde's state budget was approximately 78 billion CVE (€700 million). Social welfare programs received significant allocations, including increased funding for the "Fundo Mais," which supports the RSI program. Additionally, a portion of the tourism tax was earmarked for social protection initiatives. International partners, such as the World Bank and IMF, have provided financial and technical assistance to bolster social protection efforts, including a \$10 million loan from the World Bank to support emergency cash transfers during the COVID-19 crisis.

14. Total social spending in Cabo Verde represents around 13 percent of the GDP. Given the amount of resources allocated and used under this item, it is important to analyze the coverage, the adequacy of social assistance, the benefit incidence (targeting), and the beneficiary incidence of the different programs, so that the impact on poverty reduction is more effective and sustainable, and finally the cost effectiveness of the social assistance programs.

	2015	2020	2021	2022	2023	2024	2025 Budget
In Million CVE							
Social Spending [functional classification in the budget]	19177.6	28851.1	31635.6	28479.2	29128.7	31069.8	36630.4
Education	8942.7	11471.1	11050.4	11000.1	10733.3	10942.3	12862.4
Health	4046.9	7413.8	8123.6	7161.3	6619.2	7975.4	10799.9
Social Protection	6187.9	9966.1	12461.6	10317.8	11776.3	12152.1	12968.0
Organic classification:	11840.9	21301.0	22019.2	20662.6	20087.7	21933.3	26952.2
Ministry of Education	7837.5	11116.3	10544.7	10618.7	10518.6	10515.3	12399.3
Ministry of Health	4003.4	7097.5	7780.1	6807.6	6216.8	7563.8	10379.5
Ministry of Family, Inclusion and Social Development (MFIDS)		3087.2	3694.3	3236.3	3352.4	3854.2	4173.4
Social Spending (IT under the ECF classification)				15306.0	15837.0	17957.0	19877.0
Total Budget (Expenditure)	50190.6	61153.5	59858.5	61910.4	65670.7	72486.5	83795.0
% of GDP							
Social Spending [functional classification in the budget]	11.0	16.3	16.5	12.1	11.3	11.0	12.1
Education	5.1	6.5	5.8	4.7	4.2	3.9	4.2
Health	2.3	4.2	4.2	3.0	2.6	2.8	3.6
Social Protection	3.6	5.6	6.5	4.4	4.6	4.3	4.3
Organic classification:	6.8	12.0	11.5	8.8	7.8	7.8	8.9
Ministry of Education	4.5	6.3	5.5	4.5	4.1	3.7	4.1
Ministry of Health	2.3	4.0	4.1	2.9	2.4	2.7	3.4
Ministry of Family, Inclusion and Social Development (MFIDS)	0.0	1.7	1.9	1.4	1.3	1.4	1.4
Social Spending (IT under the ECF classification)	0.0	0.0	0.0	6.5	6.1	6.4	6.6
Total Budget (Expenditure)	28.9	34.6	31.3	26.3	25.4	25.7	27.6
Sources: Cabo Verdean authorities; and IMF staff estimates							

E. Areas for Improvement, Reform Options and Policy Priorities

15. Looking ahead, a set of policy and institutional reforms could enhance the efficiency, adequacy, and resilience of Cabo Verde’s social protection architecture. Strengthening CSU interoperability with health, education, tax, and labor registries, combined with more frequent recertification, would improve targeting accuracy and reduce exclusion errors. On the benefit side, gradual and fiscally neutral adjustments to social pensions and RSI would help restore adequacy in line with inflation and local price dynamics, supporting poverty-exit pathways without compromising fiscal sustainability. System rationalization—through consolidation of overlapping programs and harmonization of eligibility rules—would streamline administration and lower leakages. To strengthen responsiveness to shocks, the establishment of a dedicated contingency financing window capable of scaling up transfers during climate or economic crises would enhance household resilience. Expanding productive inclusion programs linked to skills development and microenterprise support could facilitate transitions from assistance to employment and income generation. Finally, embedding stronger monitoring and evaluation indicators, including graduation rates, labor market outcomes and food-security metrics, would enable more evidence-based program steering and medium-term impact assessment.

F. Conclusion

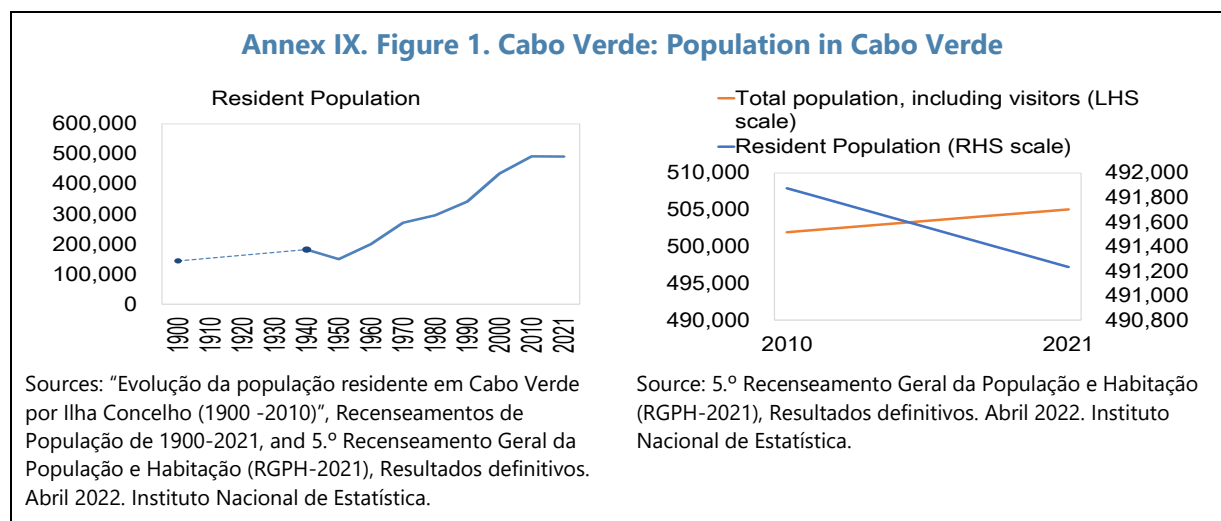
16. Cabo Verde’s social protection system is solid and continues evolving, but achieving the goal of eliminating extreme poverty by 2026 requires overcoming fragmentation, improving adequacy, and enhancing resilience to shocks. Deepening CSU integration, securing sustainable financing mechanisms, and scaling productive inclusion reforms will strengthen poverty reduction outcomes and support a more equitable and resilient growth model. While challenges persist, the country's forward-looking strategies and strong partnerships suggest a path towards a more inclusive, equitable, and resilient future.

Annex IX. Social Security and Population Dynamics¹

Cabo Verde's population decline over the past decade and a half—driven by declining fertility and emigration—poses a significant challenge to the sustainability of the Instituto Nacional de Previdência Social (INPS)'s defined-benefit pension scheme, aggravated by low rates of return on most assets, the expansion of benefits, and the rapid growth in expenditures. To address this challenge, a series of policy measures should be adopted, including updating the latest actuarial assessment of the INPS's solvency; designing a cost-containment strategy; and implementing a shift in INPS's financial assets to match the maturity profile of its liabilities, beginning with a gradual reallocation away from bank deposits with low or negative effective real rates of return. A parametric reform to increase gradually the retirement age may also be needed.

Unfavorable Population Dynamics

1. Cabo Verde's resident population has fallen over the past decade and a half, the first time since the 1940s. While Cabo Verde has historically been a country of emigrants, the country's natural population growth has been sufficiently high to offset the negative contribution from net migration, except for the period between 1940 and 1950. Nevertheless, between 2010 and 2021, the resident population declined slightly (Figure 1).

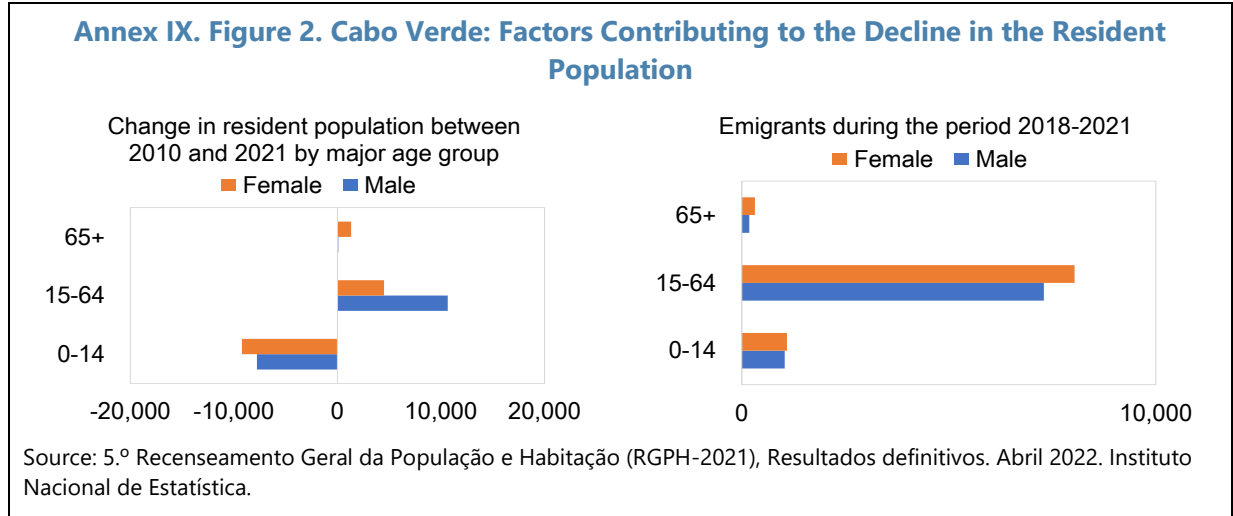


2. The decline in the resident population resulted from both emigration and declining fertility. According to the 2021 Census, nearly 18,000 people emigrated over the previous five years, of which about 62 percent had Portugal as a destination country.² The pattern of decline of the resident population by age groups from the 2021 Census shows that part of the decline between 2010 and 2021 was also due to the fall in fertility, since the decline was greatest among

¹ This annex was prepared by Rodrigo Gracia-Verdu.

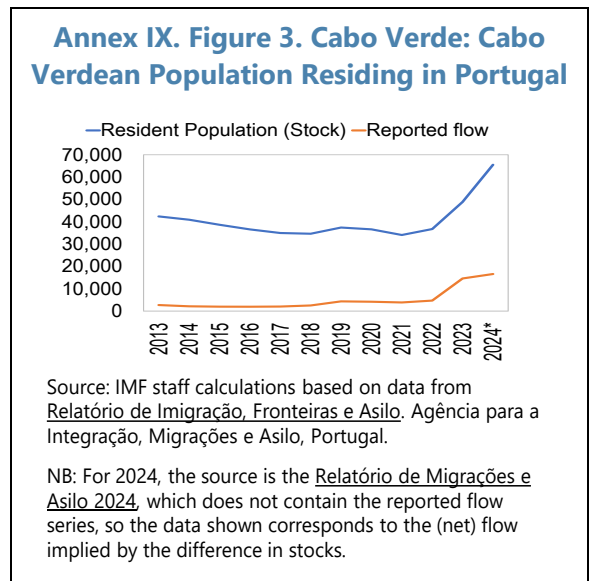
² While Cabo Verde has a large diaspora that could potentially return to the country, it is not clear it will do so in large numbers before Cabo Verde develops good health care options comparable to the ones they have access to in their host countries or countries in which they now have second nationality.

younger generations, while older generations increased despite larger emigration numbers among older age groups (Figure 2.³ This pattern threatens the sustainability of the Instituto Nacional de Previdência Social (INPS), Cabo Verde’s contributory social security system, which has a pay-as-you-go or defined benefit pension scheme.⁴



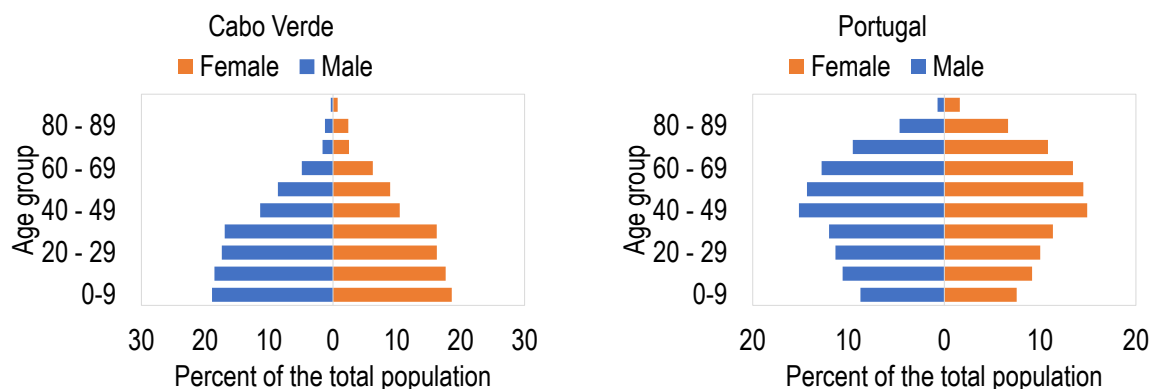
3. The contribution of emigration to the population decline is likely to have accelerated since 2021. While national data are not immediately available for all countries, administrative data from Portugal indicate that Cabo Verdean emigration to Portugal has accelerated recently (Figure 3).

4. Portugal’s rapidly aging population will continue to support a strong demand for Cabo Verdean workers. Notwithstanding the strong post-pandemic economy recovery in Cabo Verde, the rapidly aging population in Portugal (Figure 4) and the still large differential in terms of wage and income levels (adjusted for purchasing power parity) will remain strong pull factors.



³ The decline in fertility is confirmed by the latest data from administrative records, which shows a decline in the crude birth rate of 34 percent between 2016 and 2023, from 20.2 live births per 1,000 inhabitants to 13.3. See *Estatísticas Vitais 2023. Nascimentos, Óbitos e Casamentos*. Instituto Nacional de Estatística, September 2025.

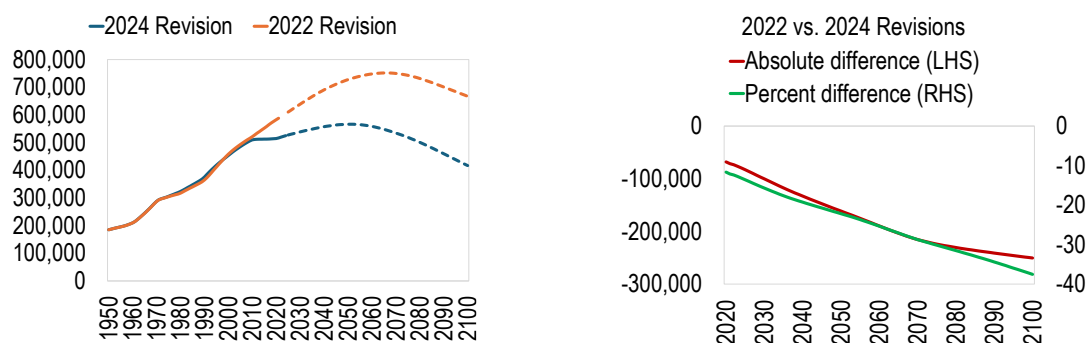
⁴ The retirement age is 65 years for men and 60 years for women, with a minimum of 15 years of contributions. For more details of the parameters of the pension scheme, see ISSA Country Profiles: Cabo Verde, July 1, 2022, The International Social Security Association (ISSA).

Annex IX. Figure 4. Cabo Verde: Population Pyramids in Cabo Verde and Portugal in 2021

Source: 5.º Recenseamento Geral da População e Habitação (RGPH-2021), Resultados definitivos. Abril de 2022. Instituto Nacional de Estatística de Cabo Verde.

Source: XVI Recenseamento Geral da População, VI Recenseamento Geral da Habitação, Censos 2021 - Resultados definitivos. Instituto Nacional de Estatística de Portugal.

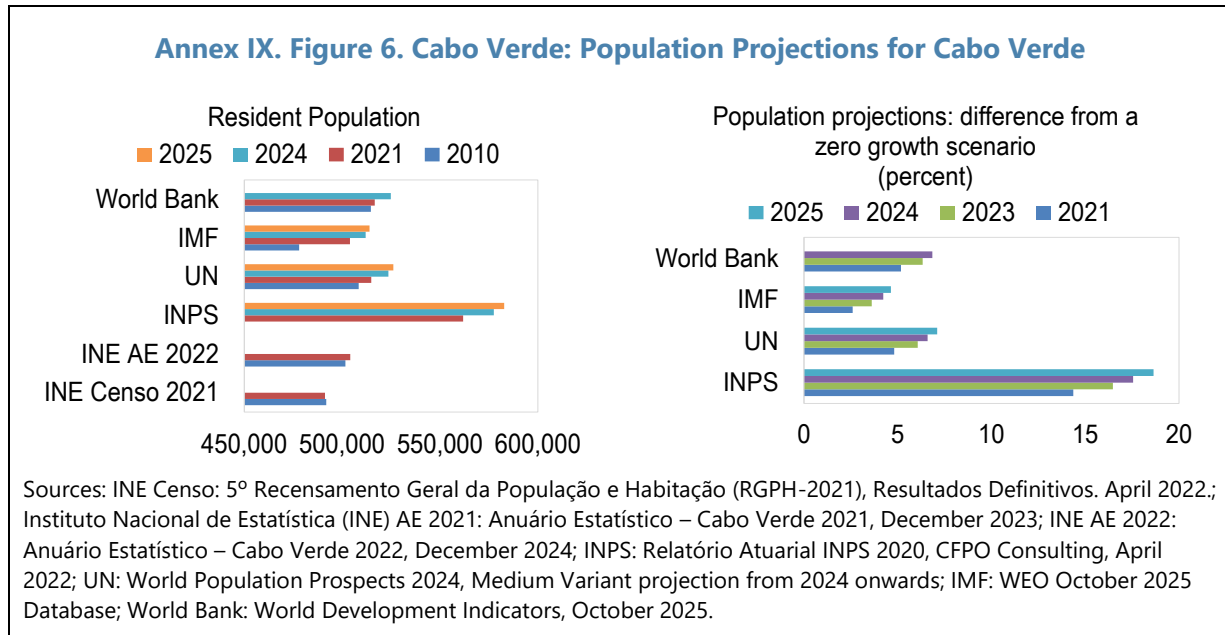
5. Population projections, both domestic and international, have yet to be fully updated to reflect reality. The United Nations (UN) Population Division only recently adjusted its population projections to reflect the decline in the resident population registered between 2010 and 2021. In fact, the UN adjusted its population projections significantly only in May 2025, following the publication of its World Population Projections 2024 Revision (Figure 5). Furthermore, most institutions may not have fully incorporated the effects of emigration in their official projections, suggesting that the demographic challenges may currently be underestimated.

Annex IX. Figure 5. Cabo Verde: Population Projections for Cabo Verde from by Revision of the UN's World Population Prospects

Source: United Nations, Department of Economic and Social Affairs, Population Division. World Population Prospects 2024 and 2022, Online Edition.

6. Following the publication of the 2021 Census, population projections are yet to be updated, most notably by INPS itself. As Figure 6 shows, most institutions, including the National Statistics Institute's Annual Statistical Yearbook for 2022 (published at end-2024) do not incorporate the decline in the resident population registered between 2010 and 2021, and all are

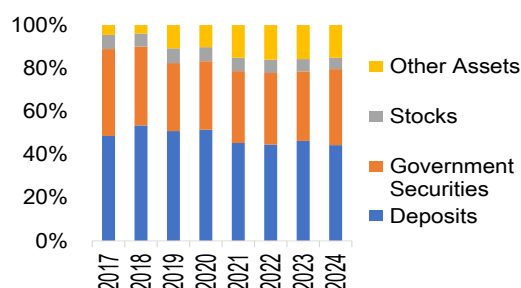
still projecting significant population growth. As can be seen, the largest deviation is for INPS’s latest actuarial study, which was done in April 2022.



INPS’s Asset Allocation Not Aligned with Needs

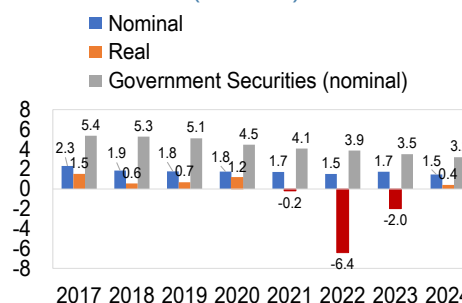
7. INPS has nearly half of its assets allocated to bank deposits with low or negative effective real rates of return. This allocation has barely changed over the past decade, even though the increase in inflation in 2021-2023 led to negative effective real (ex-post) rates of return, with a particularly large loss in 2022 and an average of -0.53 percent over 2017-2024 (Figure 8). Even excluding years with negative real returns, the average real ex-post rate of return equaled only 0.98 percent. In fact, INPS would have been better off investing in government securities, of which bills could have provided the short-term liquidity it needs, all while obtaining a significant higher rate of return than bank deposits (gray bars in Figure 8). Successfully implementing deposit auctions could improve transparency in the allocation across banks and marginally improve the rates of return, but would not significantly increase the effective rate of return given the constraints on banks’ profitability.

Annex IX. Figure 7. Cabo Verde: INPS: Financial Assets by Major Asset Class
(Percent of total assets)



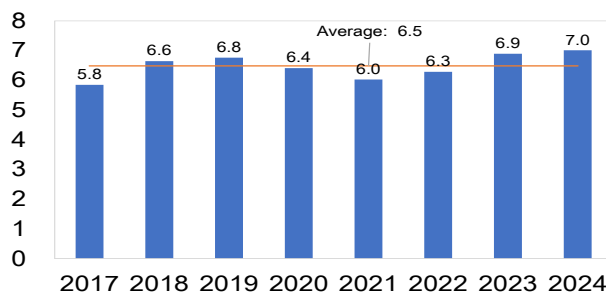
Source: IMF staff calculations based on data from Relatórios e Contas do Instituto Nacional de Previdência Social (INPS), 2017-2024.

Annex IX. Figure 8. Cabo Verde: Effective Rates of Return on Demand and Time Deposits
(Percent)



8. The high share of INPS assets allocated to bank deposits is not justified by its short-term liquidity needs. Bank deposits averaged 6.5 times the amount of annual expenditures by INPS, including all benefits paid (illness and maternity, pensions, family benefits, and unemployment subsidy) and all non-financial operational costs (Figure 9). Even after the COVID-19 pandemic, when medical expenditures presumably increased significantly, the ratio of deposits to total expenditures did not decrease significantly, reinforcing the conclusion that there is excess liquidity. For a relatively young population such as Cabo Verde's, with an average age of 30 years in 2021, allocating such high share of assets to cash-equivalent and fixed income instruments (nearly 80 percent of total assets) is a poor match for the maturity profile of INPS's obligations in terms of risk-return tradeoffs.

Annex IX. Figure 9. Cabo Verde: INPS: Ratio of Bank Deposits to Total Benefits and Operating Non-Financial Costs



Source: IMF staff calculations based on data from Relatórios e Contas do Instituto Nacional de Previdência Social (INPS), 2017-2024.

9. Except for Banco Comercial do Atlântico, all commercial banks in Cabo Verde have a high dependency on INPS deposits. The excess amount of INPS deposits contributes to the excess liquidity in the banking system (Table 1), which weakens the monetary policy transmission mechanism (see Annex VII). Given the high single-depositor exposure to INPS of all banks except

for Banco Comercial do Atlântico, any reallocation of assets away from deposits needs to be done gradually and in close coordination with the Banco de Cabo Verde (BCV) to prevent creating a liquidity crunch. Coordination with the BCV is also important to avoid compromising its international reserves accumulation targets. Given that Cabo Verde has a very large negative net international investment position (about –134 percent of GDP at end-2023), having INPS accumulate foreign assets gradually and in close coordination with the BCV would in fact strengthen Cabo Verde’s external balance and improve its economy’s resiliency to shocks.

Annex IX. Table 1. Cabo Verde: INPS Deposits as a Share of Total Bank Deposits by Bank at end-2024

(Percent of Total Deposits)

	Term Deposits	Demand Deposits	Total Deposits
Ecobank	72.7	21.3	42.9
Banco Angolano de Investimentos (BAICV)	36.1	22.7	28.6
Caixa Economica de Cabo Verde (CECV)	21.7	29.8	26.1
Banco Caboverdiano de Negócios (BCN)	18.6	26.1	21.7
International Investment Bank (IIB)	49.5	3.2	19.9
Banco Interatlântico (BIA)	32.8	3.8	14.4
Banco Comercial do Atlântico (BCA)	0.0	1.5	0.8
Total	19.6	15.9	17.5

Source: IMF staff calculations based on data from Relatórios e Contas do Instituto Nacional de Previdência Social (INPS), 2017-2024, and Relatórios e Contas of BIA, BAICV, IIB, BCN, BCA, CECV, and Ecobank.

10. The gradual reallocation of assets away from bank deposits with low real rates of return to external assets could have three major benefits. Gradually shifting INPS assets from bank deposits to investment abroad could improve real rates of returns, increase the diversification of INPS’ asset portfolio, and reduce risk. As a side benefit, it would help reduce systemic liquidity in the banking system and strengthen the credit channel of the monetary policy transmission mechanism. It is rare in economics to find that a single policy can yield three simultaneous benefits.

The Rapid Growth in INPS’s Expenditures Also Poses a Challenge to its Solvency

11. INPS’s expenditures are growing rapidly and could double in nominal terms in less than six years if unchecked. In addition to the challenges posed by the decline in population and by the high share of assets allocated to bank deposits with low or negative real rates of return, INPS has experienced a rapid growth in its expenditures. The annual growth rate of 12 percent between 2023 and 2024 (Table 2) implies that, if left unchecked, expenditures would double in nominal terms in less than six years.

Annex IX. Table 2. Cabo Verde: INPS Expenditures by Major Category of Benefits

	2023	2024	2023/24 change (Percent)
Illness and Maternity	3,638,726	3,972,822	9.2
Pensions	3,240,518	3,611,456	11.4
Family Benefits	627,289	804,313	28.2
Unemployment Subsidy	61,707	71,684	16.2
Total	7,568,240	8,460,275	11.8

Source: Relatório e Contas do Instituto Nacional de Previdência Social (INPS) 2024.

12. INPS should design and implement a cost-control strategy, which should begin with a halt to the creation of new benefits, particularly those not related to INPS’s core mandate, which is to “protect in unemployment, illness, disability, old-age, orphanhood, and in all situations of lack of, or reduction in, means of subsistence or the capacity to work”.

Policy Recommendations

13. INPS’s latest actuarial study should be updated with realistic population projections. The solvency of INPS defined-benefit pension scheme is more precarious than previously assessed because the latest INPS actuarial study is based on very high population growth projections. This study should be updated using realistic population projections that incorporate not only the definitive results of the 2021 Census, but also the latest data on emigration from administrative records.

14. Cost containment and strategic asset reallocation should be the first lines of reform. INPS should design and implement a cost control strategy and avoid introducing new benefits. It should also gradually reallocate its assets away from low real rate of return instruments, beginning with bank deposits. This shift should be done gradually and in close coordination with the BCV to avoid creating a liquidity crunch and to prevent compromising the BCV’s international reserves accumulation target. If the above measures prove insufficient, a parametric reform that gradually increases the retirement age should be considered, in line with the increases in life expectancy.

15. INPS needs to redesign its asset management strategy with the support of competent external financial advisors. The excess holding of INPS assets in the form of bank deposits with low or negative real rates of return is not the only area in which INPS needs to improve its asset allocation. For example, INPS currently has no unit or staff dedicated to managing its equity investments and thus has no benchmarks to hold management of these investments accountable for their performance. More generally, INPS needs to avail itself of competent external financial advisors. One option is the World Bank Treasury’s Reserve Advisory and Management Partnership (RAMP), which recently partnered with the BCV to support its management of international reserves.

16. When considering options for shoring up the solvency of INPS's defined-benefit pension scheme, raising contributions should be the last option. One problem with the labor market in Cabo Verde is the high proportion of informal employment in total employment: almost half of all jobs are informal. According to the ILO definition and INE estimates, in 2024 a total of around 95,000 workers were informal (47% of total employment). Thus, increasing the contributions would create an incentive for workers to remain in the informal sector. The Government should avoid raising contribution rates for employers or employees, particularly given that the current contribution rate is already high (a combined 24.5 percent). Raising it further would harm employment creation and formalization.

Appendix I. Letter of Intent

Praia

December 18, 2025

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Madame Managing Director:

1. The IMF's support through the Extended Credit Facility (ECF) and Resilience and Sustainability (RSF) arrangements has been essential in managing the Balance of Payments (BoP), fiscal consolidation, maintaining reserves, and fostering resilient growth amid global challenges. With the IMF's support, Cabo Verde is progressing in pursuing its economic program, in line with the Sustainable Development Strategy 2022–2026 (PEDS II), emphasizing recovery, the strengthening of buffers and resilience, and addressing climate challenges.

2. Our program performance under the ECF arrangement has been strong. All quantitative performance criteria (QPCs) for end-June 2025, as well as all continuous PCs, were met. While two Indicative Targets (ITs) for March 2025 were not met (on social spending and on net other liabilities due to the anticipation of the capitalization schedule from Q2 to Q1 of 2025), all ITs for end-June 2025 and end-September 2025 were met, except the one on social spending for end-September. While no Structural Benchmarks (SBs) were due for this review, we remain firmly committed to further advancing our structural reform, including the completion of the Banco de Cabo Verde Organic Law reform. The Reform Measures (RMs) under the RSF are progressing and two out of the three RMs for this review were completed. Bearing in mind the achievements to date, we are requesting a disbursement equivalent to SDR 2.37 million under the ECF (or 10 percent of quota) and SDR 5.264 million under the RSF (or 22.22 percent of quota).

3. Climate change threatens the Cabo Verde's economic prospects, as recurring droughts and floods disrupt rainfed agriculture and tourism, undermining stability and growth potential. We are committed to tackling these challenges and strengthening resilience, but sustained external financing—particularly through the RSF—remains essential to implement key reforms and climate-related investments. We have completed RM4 and RM8 due for the current review. Regarding the remaining RMs: (i) we are working on implementing the IMF's TA recommendations towards completion of RM5 and RM6 by end-December 2025; (ii) MCM has provided TA in regards to RM9 to support the BCV in addressing barriers around mobilizing

climate finance and strengthening the capacity of financial institutions to assess and manage climate-related financial risks. RSF funding will reinforce our efforts to address climate challenges and build economic and social resilience. It will specifically back reforms designed to provide the government with modern systems to coordinate, monitor, and manage climate-related risks more effectively.

4. The attached MEFP, supplementing the June 24, 2025, memorandum, outlines recent developments, policies for 2025–26, and criteria, targets, and benchmarks for the arrangement. Disbursements depend on meeting these benchmarks (Tables 1 and 2). The policies aim to strengthen the macroeconomic framework, attract development partner financing enhance governance, and protect vulnerable populations amid food and energy crises.

5. The government commits to providing the IMF with information on implementation of the agreed measures and execution of the program, as defined in the attached TMU. We will maintain close dialogue with the IMF and consult with IMF staff on any revisions to MEFP commitments as well as provide updates on our progress. In addition, the government authorizes the IMF to publish this letter and its attachments, as well as the staff report, once the review has been approved by the IMF Executive Board. We will also post these documents, including their Portuguese versions, on the Government’s official webpage.

Sincerely,

_____/s/_____
Olavo Correia
Vice-Prime-Minister and Minister of Finance

_____/s/_____
Óscar Santos
Governor of the Banco de Cabo Verde

Attachments:

- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies for 2025–26

This memorandum outlines recent economic trends, the medium-term outlook, and program goals. Key objectives include: (i) improving public finances to boost investment, lower debt, and enhance social inclusion; (ii) mitigating fiscal risks from public enterprises; (iii) modernizing monetary policy and strengthening the financial system; and (iv) fostering growth and resilience to climate shocks.

BACKGROUND, RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

1. Cabo Verde’s strong 2024 economic growth has continued into 2025. We have maintained macroeconomic stability and advanced reforms, though climate risks, SOE pressures, and global uncertainties remain. Economic growth is projected at 5.2 percent in 2025, following 7.2 percent in 2024, both driven by strong tourism. Inflation remains stable but edged up above 2 percent as of September 2025, following 1.0 percent on average in 2024. International reserves were adequate to protect the peg in 2024; the current account balance recorded a surplus in 2024 and has continued to do so in 2025.

2. Budget execution through end-July indicates an overperformance against the 2025 fiscal objectives, driven by strong revenue momentum and tight control of current spending, while capital spending execution remains low. The 2025 primary balance is projected at 0.9 percent of GDP, an improvement relative to expectations at the sixth review (0.5 percent of GDP). Economic activity and policy measures linked to enhancing compliance and reducing tax expenditures supported an increase in tax revenues through end-July (15 percent y-o-y). Non-tax revenue is lower-than-projected mainly due to the rescheduling of the one-off airport concession fee to 2025H2. Public investment grew 51.2 percent supported by road projects and the finalization of Mindelo’s Cruise Terminal. The sharp increase also reflects a favorable base effect, as the 2024 execution rate was well below historical averages. Weaker-than-expected growth in the wage bill and social benefits helped contain the primary expenditure growth rate (8.3 percent y-o-y). As a result, the 2025 primary balance as of end-July registered a surplus of 1.8 percent of GDP.

3. The public debt-to-GDP ratio has continued to decline. Debt-to-GDP decreased from 117 percent of GDP in 2023 to 112 percent at the end of 2024, around pre-pandemic levels, mainly reflecting the strong growth and fiscal performance in 2024. The current Bank-Fund DSA maintains Cabo Verde at a high risk of overall debt distress and a moderate risk for external debt. Debt remains sustainable given a favorable debt profile supported by predominantly concessional borrowing. Nonetheless, elevated domestic debt vulnerabilities, including publicly guaranteed debt to SOEs, underscore the importance of anchoring fiscal policy on a credible

medium-term consolidation path and advancing SOE reforms to phase out recurrent capitalization. Our aim is to reduce debt to below 70 percent of GDP by 2034, which represents an appropriate medium-term fiscal anchor over the medium to long term.

4. Monetary policy continued to be relatively tight to safeguard the peg, strengthen reserves, and align with ECB policies. The BCV raised the deposit rate to 2.25 percent in May 2025 but kept the policy rate unchanged at 2.50. Together with ECB policy actions, this has resulted in establishing a positive spread of 25 bps and 35 bps, respectively, versus ECB rates, a significant turnaround from the negative policy rate gap in 2024. In part reflecting these relative interest rate dynamics, banks' foreign assets declined sharply by end-September 2025 to €115 million from €222 million at end-2024, a trend that continued in October. As of September 2025, M2 grew by 6.9 percent y-o-y, total deposits by 6.5 percent y-o-y, and credit to the private sector by 5.8 percent y-o-y. Despite higher policy rates, bank lending rates and credit growth have shown limited response. We will continue to monitor market and data developments and adjust policy decisions accordingly. The banking sector remains stable, well-capitalized, and profitable, though NPLs at 7.7 percent at end-September 2025 remain elevated and warrant close monitoring. The CAR stood at 23.7 percent at end-September 2025, with solid returns on equity (13.6 percent) and assets (1.5 percent). Risks stem mainly from high exposure to SOEs and concentrated lending in tourism, construction, and trade, leaving banks vulnerable to fiscal and external shocks.

5. Cabo Verde's economic outlook remains solid, although risks remain tilted to the downside. Growth is projected at around 5 percent in 2025–26 and inflation near 2 percent, while the output gap closes gradually. The current account is expected to stay in surplus in 2025, supported by resilient tourism, remittances, and subdued imports, before returning to moderate deficits as investment and imports rise. Tourism prospects are buoyed by expanding capacity and more low-cost carriers serving Cabo Verde. We expect reserves to remain at comfortable levels of about 7.2 months of imports, supported by strong FDI inflows. However, predominantly downside risks reflect exposure to external, climate, and fiscal shocks, including delays in SOE reforms and pre-election spending pressures. We plan to mitigate risks through expanding social protection, prudent fiscal management, and climate-resilient investments, backed by ongoing ECF and RSF reforms. Even under adverse climate or external shocks, debt remains sustainable, while strong policies and partner support continue to safeguard macroeconomic stability.

REFORMS UNDER THE ECF-SUPPORTED PROGRAM AND THE RSF

A. Strengthening Public Finances to Preserve Public Debt Sustainability

6. Fiscal policy remains anchored by a primary balance path consistent with reducing the public debt-to-GDP ratio. Key reforms include strengthening the fiscal framework and the SOE

sector. The primary fiscal balance will continue to improve to a surplus of 1.3 percent of GDP by 2026. The overall deficit will shrink from 1.1 in 2024 to 0.9 percent of GDP by the end of the program, moving to a deficit of 0.2 percent of GDP by 2028. Public debt is projected to drop from 112 percent of GDP in 2024 to 85.9 percent by 2028.

7. Fiscal performance in 2025 has remained robust. The primary balance in 2025 is projected at 0.9 percent of GDP, an improvement relative to the sixth review (0.5 percent of GDP). Primary spending in 2025 is projected to be 0.3 percent of GDP above the sixth review projections, reflecting lower nominal GDP and same nominal expenditures. Capital expenditures are projected to rise in 2025, as are current expenditures reflecting the legislated wage increase for public servants (following a 5-year nominal freeze) and higher spending on goods and services tied to public investment background studies.

8. Financing needs in 2026 are projected to contract at the margin to 1.2 percent of GDP due to the higher primary balance. Net external financing is expected to be -0.5 percent of GDP, while domestic financing is projected to increase to 1.7 percent of GDP in line with the budget.

9. The 2026 budget was submitted to parliament in October and is in line with the ECF-supported program (SB for end-December 2025). Tax revenue in the budget is aligned with program estimates, reflecting tax policy measures to reduce tax expenditures, including related to VAT code reform. The phasing out of the 2025 second tranche of the one-off airport concession fee will require structural expenditure consolidation. We are committed to restrict goods and services expenditures to meet the program primary balance of 1.3 percent of GDP and smooth the current expenditure path between 2025 and 2026. Accordingly, we are targeting a primary balance of CVE 4,075 million for 2026.

10. We are implementing measures to boost domestic revenue, supported by IMF TA. Higher 2025 tax revenue as a share of GDP relative to the sixth review reflects stronger tax arrears collection, tax compliance measures, and digital reform implemented by DNRE. The 2025 tax collection is supported by the reduction of tax expenditures from cutting customs exemptions related to the ECOWAS implementation (WTO-compliant) and harmonization of tobacco, alcohol, and fuel taxes. We submitted to parliament a reform of the VAT code with the 2026 budget submission. A reduced CIT exemption on large investment imports and the VAT 2025 reform are expected to further expand the tax base in 2026.

11. Medium-term fiscal policy is anchored around reducing debt, underpinned by ongoing revenue mobilization efforts and reforms to strengthen expenditure control and execution. Current primary spending is projected to gradually decline from 22.4 percent of GDP in 2027, stabilizing at around 21.9 percent of GDP from 2030 onward, as the wage bill grows more slowly than nominal GDP and converges to 10.1 percent of GDP. Strengthening project preparation and improving execution, monitoring, and evaluation remain critical to raise capital spending efficiency and ensure that scarce resources translate into growth-enhancing

infrastructure. On the revenue side, tax collections are projected to increase by 0.3 percent of GDP in 2027, supported by measures to reduce exemptions related to the VAT reform and the implementation of Minimum Global Tax for large corporates, and by the establishment of a new tax authority, to strengthen compliance and advance digitalization, and policy unit. Tax revenues are projected to further increase by 0.5 percent of GDP in the medium term due to additional revisions of tax exemptions and digitalization gains. The structural primary balance is projected to average about 1.2 percent of GDP, in line with the sixth review, placing the debt-to-GDP ratio below 70 percent by 2034. We will channel any revenue overperformance or expenditure under execution toward strengthening the primary balance and advancing debt reduction, consistent with medium-term consolidation objectives.

12. The Government is committed to enhancing public investment efficiency to support growth. Following IMF TA recommendations, improvements will include: (i) redefining thresholds to focus on key projects, (ii) implementing a pre-screening system for all project ideas, (iii) using multi-criteria analysis for prioritization, and (iv) adopting a pre-implementation checklist.

13. We are taking steps to ease Cabo Verde’s debt burden, including finalizing a memorandum with Portugal on debt-for-climate swaps. Updated debt legislation aligns with the 2018 review, supported by internal debt sustainability analysis (DSA). Additionally, a revised guarantees law establishes a fund, financed by beneficiaries, to mitigate noncompliance risks.

B. Reduce Fiscal Risks from SOEs and Improve Their Financial Management

14. SOEs continue to pose significant fiscal risks. While transparency has improved, operational performance remains weak. The unbundling of Electra marks progress in energy sector reform, but continued losses—especially from the national airline—pressure public finances, contribute to higher NPLs, and limit resources for improving inter-island connectivity. In the meantime, we have created a company for domestic flights. We will publish the audited financial statements of all SOEs (SBs for 2025–26), a crucial next step in SOE reform. Ongoing privatizations and concessions in logistics, pharmaceuticals, and ports are important steps, and we are working to build a comprehensive strategy to ensure sustainable inter-island transport and address TACV’s financial challenges.

C. Modernize the Monetary Policy Framework and Improve Resilience of the Financial System

15. The monetary policy framework remains focused on safeguarding the peg, backed by strong external buffers. The authorities will continue to pursue a prudent monetary policy to safeguard price stability and support the exchange rate peg. Recent BCV actions, aligned with ECB developments, have strengthened the interest rate differential, helped reverse

capital outflows, and bolstered reserves. Going forward, the BCV will remain vigilant regarding inflation risks, enhance liquidity management, and further develop money and interbank markets. Monetary policy will retain flexibility to respond to changing conditions, while ongoing efforts to enhance the macroprudential framework will further support financial stability. The BCV will continue to use its communication strategy, including through forward guidance, to clarify its policy stance and anchor expectations.

16. Monetary policy should carefully weigh financial stability considerations. Although the banking system remains resilient, additional tightening could heighten pressure on borrowers, affecting credit quality and potentially increasing NPLs. Policy adjustments should therefore be gradual and well-calibrated, supported by stronger banking supervision and macroprudential measures to safeguard institutional health and overall financial stability.

17. Cabo Verde's financial system remains stable but is highly concentrated and exposed to sovereign-bank linkages. Banks and the INPS hold the majority of government securities, with banks' share exceeding half. Total banks' assets are equivalent to 126 percent of GDP and are dominated by two large systemically important institutions. Although NPLs have eased to 7.7 percent at end-September 2025 amid stronger growth and SOE restructuring, they remain elevated, especially in transport and construction. Dependence on INPS deposits and sovereign exposure heightens vulnerabilities, despite overall resilience to moderate shocks. To mitigate risks, the authorities are taking steps to operationalize key recommendations from the IMF macroprudential technical assistance received in 2025, including efforts to strengthen BCV's financial stability framework, enhance forward-looking risk assessments, and advance preparatory work toward the adoption of Basel III elements and other macroprudential tools, such as loan-to-value limits and enhanced liquidity and provisioning standards.

18. Managing excess liquidity remains key to strengthening monetary policy effectiveness and financial stability. Excess liquidity, a structural issue—stemming from lower reserve requirements, pandemic-era measures, and subdued credit demand—have driven banks to invest abroad. We plan to gradually restore reserve requirements, coordinate with the INPS on asset placements. We will continue to monitor excess liquidity levels and take measures to improve monetary policy transmission, at minimal cost to the economy. In parallel, efforts are under way to refine economic monitoring and strengthen liquidity analysis.

19. Advancing financial inclusion in Cabo Verde requires leveraging digital finance to broaden access to affordable and reliable financial services. Expanding mobile payments, fintech solutions, and digital banking can help reduce transaction costs, overcome geographic barriers across the islands, and deepen financial inclusion. Therefore, in collaboration with the World Bank the regulatory frameworks for payments services is currently under review and BCV is developing an instant transfer system that aims to contribute to the improvement and growing innovation of the areas of payments and greater financial inclusion.

20. The BCV is advancing follow-up actions to the 2022 safeguards assessment.

Amendments to its Organic Law—strengthening autonomy, transparency, and governance—are awaiting final parliamentary approval following their initial endorsement in May 2025. The competent authorities remain strongly committed to the proposed reform. The proposed Organic Law amendments are essential to strengthening the BCV’s governance structure. We consider this law macro-critical and central to the current program, aligned with the Safeguards Assessment and building on earlier Structural Benchmarks (SBs). The BCV remains committed to implementing the outstanding safeguards.

21. Cabo Verde has taken steps to strengthen its AML/CFT framework, in line with the National Strategy (ENCAVE).

Following the 2023 approval of the ENCAVE strategy, key initiatives include draft amendments to the AML law approved in principle in February 2025, work on a legal framework for Ultimate Beneficial Ownership, and the creation of a dedicated AML/CFT unit within BCV in April 2025. The draft law extends oversight to Designated Non-Financial Businesses and Professions (DNFBPs), requiring implementing regulations to ensure effective supervision, while BCV must also expand oversight of Virtual Asset Service Providers. Furthermore, regarding the financial system, the BCV, as the supervisory and regulatory authority, continues its prevention efforts, having initiated the process of sectoral risk assessment.

22. We are improving the accuracy of monetary and financial sector statistics. We have been working towards the alignment of BCV’s published data with IMF standards, using the 2016 IMF Monetary and Financial Statistics Manual. In this context, improving methodologies and working files as well as moving towards an integrated database system are key activities within BCV in the near future, reflected in the SBs under the program. Ongoing improvements will include better credit data by economic activity, using INE’s classification.

D. Broad Structural Reforms: Supporting Private Sector-Led Growth and Resilience to Shocks

23. Structural reforms remain central to strengthening resilience, competitiveness, and economic diversification beyond tourism. Fiscal priorities focus on improving tax compliance, rationalizing exemptions, and containing spending through wage bill and procurement reforms to ensure fiscal sustainability. Under PEDS II (2022–26), efforts aim to promote private-sector development, reduce utility and transport costs, and foster investment in the blue and digital economies. Reforms will also target a better business environment, broader SME access to finance, and labor market modernization, while ensuring transparent and competitive governance of Special Economic Zones such as the ZEEMSV. Enhancing inter-island connectivity will further support tourism diversification and reduce related vulnerabilities.

24. Legal procedures for businesses will be streamlined by reducing waiting times and improving connections with judicial processes. Our focus will be on land titling, as unclear ownership delays investment. We will digitalize information for easier access, helping resolve disputes more quickly.

25. Strengthening social protection remains a key priority. The government is expanding cash transfers through the Social Protection Fund and extending coverage of vulnerable households via the Cadastro Social Único (CSU). These actions help cushion climate shocks and support the poorest, but challenges persist—especially high youth unemployment, informality, and pension pressures. We note the need to improve CSU targeting, advance pension reform to include informal workers, and implement labor policies that boost skills, youth and female employment, and formalization.

E. Policies and Measures to Address Climate Change Challenges

26. Achieving sustainable development demands tackling climate change, resource constraints, and reliance on imported energy—factors that hinder growth and emission reduction efforts. In collaboration with partners and under our Nationally Determined Contribution (NDC), we are committed to reducing greenhouse gas emissions by 18 percent by 2030 and achieving carbon neutrality by 2050. These efforts focus on expanding renewable energy, improving access to essential services, and promoting climate-resilient investments. The RSF supports these objectives and aligns with the PEDS II strategy by strengthening climate governance, resilience, energy and water efficiency, and financial sector adaptation (Table 3).

27. We have implemented two RMs due under the 3rd Review of the RSF with capacity constraints creating some implementation challenges.

- **RM4:** FAD provided important TA to support the pipeline of public capital projects. As a consequence, the RM was completed in October 2025.
- **RM5:** Findings from FAD CD in December 2024 identified missing information for calculating the cost-recovery tariff at required disaggregation levels, including separate accounting data for electricity generation, electricity distribution, water desalination, and on subsidies provided to Electra. We expect its completion in in the specified target date.
- **RM6:** FAD has delivered TA in March 2025 on water subsidy reform. Unlike electricity, multiple utility SOEs exist across islands with different models complicate the cost-recovery tariff calculation, requiring additional data collection. With the narrowing of the scope of this RM as a result of the FAD TA recommendation and to focus on the Santiago Island, which is where most of the losses are accrued, we expect its completion in in the specified target date.

- **RM7:** The USR was expanded to 100 percent of poor and vulnerable households, and we are working on the final inclusion of households living in areas vulnerable to climate change. In this context, the RM was not completed.
- **RM8:** The National Institute of Territorial Management (INGT) has completed the process of defining natural disaster risk and vulnerability maps, showing regional exposures to climate hazards to assess risks and vulnerabilities of the population, infrastructure assets, and businesses. The land use planning and construction codes integrate disaster risks and vulnerabilities in urban and rural development. This RM has been completed.
- **RM9:** The BCV hired a consultant to help develop the architecture and the taxonomy, a publication of climate risk and opportunities, and disclosure guidelines to help banks submit their internal roadmaps. Supported by MCM TA, the BCV is working on the recommendations to advance the implementation of this RM which, given the importance of the climate-information architecture, would contribute to mobilizing climate finance. RM9 is expected to be completed by the specified target date.

F. Financing and Program Monitoring

28. The program will be closely monitored through the proposed quantitative performance criteria, indicative targets, and structural benchmarks (Table 1 and 2). The Technical Memorandum of Understanding (TMU) describes the definitions, as well as data provision requirements. The eighth and ninth program reviews are scheduled to be completed by March 2026, and October 2026 (based on end-December 2025, and end-June 2026 test date, respectively). The program will continue with monitoring by the IMF Executive Board on a semi-annual basis. Under the RSF, monitoring will be done by means of the reform measures. RM5, RM6, RM7, and RM9 will be completed and reviewed in the next reviews under the RSF arrangement. These are detailed in Table 3 of the MEFP.

Table 1. Cabo Verde: Quantitative Performance Criteria Under the ECF, December 2024-September 2026¹
(Millions of Escudos, unless otherwise indicated)

	2025									2026			
	end-March			end-June			end-September			end-December	end-March	end-June	end-September
	Indicative Targets (IT)	Actual	Status	Performance Criteria (PC)	Actual	Status	Indicative Targets (IT)	Actual	Status	Performance Criteria (PC)	Indicative Targets (IT)	Performance Criteria (PC)	Indicative Targets (IT)
Quantitative performance criteria													
Primary balance, floor ²	7	3882	met	529	4280	met	998	7585	met	1512	527	1229	2317
Tax revenue, floor	14808	15247	met	21339	31448	met	40239	48881	met	60968	9825	22925	43230
Net other liabilities, floor ³	-139	-639	not met	-1911	-1680	met	-2317	-2006	met	-2896	-1080	-1783	-2161
Net domestic financing, ceiling	96	-1416	met	2336	358	met	2831	-937	met	3539	1327	2189	2653
Nonaccumulation of domestic arrears ⁴	0	0	met	0	0	met	0	0	met	0	0	0	0
Non-accumulation of external payment arrears ⁴	0	0	met	0	0	met	0	0	met	0	0	0	0
PV of new external debt, ceiling (in millions of US Dollars)	19	10	met	29	24	met	54	34	met	82	38	39	52
Nominal level of new nonconcessional external debt of central government, ceiling ⁴	0	0	met	0	0	met	0	0	met	0	0	0	0
Gross international reserves (in millions of euros), floor ²	659	760	met	753	878	met	761	942	met	759	777	785	792
Indicative Targets													
Social spending, floor	4941	3823	not met	6957	8315	met	13119	12662	not met	19877	5469	7701	14521
Non-quantitative continuous PCs													
Non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions													
Non-introduction or modification of multiple currency practices													
Non-imposition or intensification of import restrictions for balance of payments reasons													
Non-conclusion of bilateral payments agreements that are inconsistent with Article VIII													
<i>Memorandum items:</i>													
Net onlending	-139	-111		-1141	-100		-865	-23		-696	-720	-943	-577
Capitalization	0	-750		-770	-1580		-1452	-1983		-2200	-360	-840	-1584
Program assumptions													
Project and budget support grants	1077	1181		1371	1895		2585	2105		3917	624	1456	2746
External debt service	0	2456		4586	5939		8648	7336		13103	2044	4769	8993
Sales of assets	118	15		236	16		445	24		675	118	276	521
Project and budget support loans	3840	2254		4568	5156		8614	7353		13051	1958	4568	8614

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

¹ Foreign currency amounts will be converted at current exchange rates.

² The ceiling or floor will be adjusted as specified in the TMU.

³ Until december 2023, Net other liabilities includes net onlending, capitalization, use of deposits, privatization. From June 2024 onwards, the definition was narrowed down to SOEs support focusing on net onlending to SOEs and capitalization

⁴ Continuous. Contracted disbursements derived from the additional loan under a contract originally signed in 2013 with the Kuwait Fund, related to ongoing healthcare sector projects to support the construction of two hospitals and the establishment of the first blood testing laboratory in Cabo Verde, are excluded from the definition of non-concessional external debt

Table 2a. Cabo Verde: Structural Benchmarks for 2022-24 Under the ECF

Actions	Target date	Objective	Status
Fiscal reforms			
1) Invoice electronically at least 50 percent of tax payers for VAT	End-December 2022	Improve revenue collection	Met
2) Submit to parliament the budget for 2023 that is in line with commitments under the program.	End December 2022	Support fiscal and debt sustainability	Met
3) Compile and publish historical series of government financial statistics for general government.	End-March 2023	Improve fiscal transparency	Met
4) Publish annual budget execution reports for the general government.	End-September 2023	Improve fiscal transparency	Met
5) Construct a Compliance Risk Management system to allow for the optimization of tax revenue collection by end-December 2023.	End-December 2023	Support fiscal and debt sustainability	Met
6) Submit to parliament the budget for 2024 that is in line with the primary balance commitment under the program.	End-December 2023	Support fiscal and debt sustainability	Met
7) Develop and publish an action plan to reduce tax expenditures by 1 percent of GDP and include published estimates of annual tax expenditures in the budget to improve transparency	End-September 2024	Support fiscal and debt sustainability	Met
8) Implement the action plan to reduce tax expenditures in the 2025 budget	End-December 2024	Support fiscal and debt sustainability	Met
9) Broadening the coverage of fiscal risk analysis and reporting to include PPPs	End-September 2024	Support fiscal and debt sustainability	Met
10) Adopt a budget for fiscal year 2025 that is in line with the program parameters	End-December 2024	Support fiscal and debt sustainability	Met
SOEs reforms			
11) Conduct quarterly analysis of fiscal risk assessment using the IMF SOEs health check tool.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
12) Introduce a quarterly monitoring report on SOEs budget execution.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
13) Improve the annual SOEs report to include comparison of execution to initial budget projection, evaluation of performance against medium term plan, data on government relations (transfers and liabilities).	End-July 2023	Improve fiscal reporting and reduce fiscal risks	Met
14) Based on the July 2023 structural benchmark, publish in the annual report on public companies the targets agreed between the Ministry of Finance and Business Development and the six largest public companies, on improving financial performance and reducing the need for central government support.	End-June 2024	Improve fiscal reporting and reduce fiscal risks	Met
Monetary policy reforms			
15) Preannounce a schedule for TIM and TRM auctions.	End-June 2022	Support the development of the money market	Met
16) Introduce composite indicators of economic activity.	End-June 2023	Support monetary policy analysis	Met
Financial sector reforms			
17) Submit draft amendments to the BCV Law, in line with IMF recommendations, to the Ministry of Finance with a view to (i) establishing an independent oversight process that is separate from executive management, (ii) strengthening the BCV's personal and financial autonomy, and (iii) enhancing transparency and accountability mechanisms	End-December 2022	Strengthen BCV institutional framework	Met
18) Carry out a comprehensive study of loan losses and provisions at the expiration of the credit moratorium.	End-December 2022	Strengthen financial stability	Met
19) Develop a common framework for the resolution of crisis related NPLs.	End-December 2022	Strengthen financial stability	Met
20) Increase the frequency of stress testing to twice per year (June 2023 and December 2023) to ensure the effectiveness of the supervisory process and revamp the stress testing methodology to include detailed banking data and cyber security risk assessment.	End-December 2023	Strengthen financial stability	Met
21) Submit the draft amendments to the BCV Law, in line with IMF recommendations, to parliament with a view to (i) establish an independent oversight process that is separate from executive management, (ii) strengthen the BCV's personal and financial autonomy, and (iii) enhance transparency and accountability mechanisms	End-July 2024	Strengthen BCV institutional framework	Not Met; implemented with a delay in September

Table 2b. Cabo Verde: Structural Benchmarks for 2025-26 Under the ECF

Actions	Target date	Objective	Status
Fiscal reforms			
1) Submit to parliament the budget for 2026 that is in line with commitments under the program.	End December 2025	Support fiscal and debt sustainability	Met
2) Manual Data Exchange between DNRE and RNI: Implement a manual exchange of databases agreed in all phases of the MoU – civil identification of citizens and companies, real properties and vehicles.	End December 2025	Enhance tax compliance and collection	
3) Manual Data Exchange between DNRE and INPS: Implement a manual exchange of taxpayer databases and periodic filing of returns containing information on salaries and taxes paid to DNRE and INPS.	End December 2025	Enhance tax compliance and collection	
4) Submit to parliament a revised Public Procurement Code with the aim of minimizing the share of direct awards (Ministry of Finance).	End-December 2025	Improve fiscal transparency	
5) Implement the electronic public procurement system (e-GP) to cover the entire life cycle of public procurement, integrating data on sanctions, awards and execution (Ministry of Finance and ARAP).	End-December 2025	Improve fiscal transparency	
6) Automated Data Exchange between DNRE and INPS: Transition to an automated exchange of taxpayer databases and periodic filing of returns containing information on salaries and taxes paid to DNRE and INPS.	End September 2026	Enhance tax compliance and collection	
SOEs reforms			
7) Publish the annual report and audited financial statements of all State-Owned Enterprises (SOEs) up to and including calendar year 2023 through the SOE Manager portal of the SOE Sector Monitoring Unit (UASE) of the Ministry of Finance	End-December 2025	Improve fiscal reporting and reduce fiscal risks	
8) Publish the annual report and audited financial statements of all State-Owned Enterprises (SOEs) up to and including calendar year 2025 through the SOE Manager portal of the SOE Sector Monitoring Unit (UASE) of the Ministry of Finance.	End June 2026	Improve fiscal reporting and reduce fiscal risks	
Monetary policy and financial sector reforms			
9) Improve the methodology for compiling monetary statistics through the development of a new series of working files (DEE)	End-December 2025	Support monetary policy analysis and quality of monetary statistics	
10) Effective activation of the new platform of the Credit Registry Center (CRC)-DEE.	End-March 2026	Support monetary policy analysis and quality of monetary statistics	
11) Reconciliation between the monetary statistics published by the Bank of Cabo Verde (BCV) and the International Monetary Fund (IMF) (DEE).	End-June 2026	Support monetary policy analysis and quality of monetary statistics	
12) Publish the monetary statistics based on 11) above on the BCV website (DEE).	End-September 2026	Support monetary policy analysis and quality of monetary statistics	
13) Ongoing development of the integrated database of the Department of Economic Statistics (DEE).	End-October 2026	Support monetary policy analysis and quality of monetary statistics	
14) Develop and publish a macroprudential policy framework, comprising at least two additional macroprudential instruments along with their respective methodologies for systemic risk assessment. The development of this framework is contingent on the operationalization and the timely provision of data from the CRC, a critical source of granular and reliable data to support robust systemic risk assessment methodologies (MacroPrudential Unit).	End-September 2026	Support monetary policy analysis and macroprudential framework	

Table 3. Cabo Verde: RSF Reform Measures Matrix

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
National coordination and management of climate change is under the MAE that is not able to ensure cross sector coordination	<ul style="list-style-type: none"> ▪ RM1. Government will establish a council/body for coordinating climate change policy planning and strategy, and DRM under the Heads of Government, with a clear tasks, responsibilities and procedures, including mechanisms for (i) holding entities accountable for consistency across sectoral plans in line with the national development strategy (PEDS II) and international commitments (NDC), and (ii) providing strategic oversight of DRM defined in the TORs, with implementation reflected in the protocols of regular meetings. The MAE serves as secretariate. 	Climate Policy Diagnostic (CPD)	None needed	Completed. The Cabinet approved on May 7 the Resolution n° 38/2024, which was published in the Official Gazette on May 10, 2024, I Série N° 42-1106I (https://kiosk.incv.cv/1.142.5747/)	LuxDev provided TA on the climate governance function and associated legal amendments	End-April 2024; 4 th ECF Review	<i>Fiscal and external sustainability</i> - Better informed and coordinated policy decisions will improve budget management, reduce costs, improve impact, and maximize multi-pronged BOP risk reduction through the implementation of other RMs. - By embedding resilience in planning/ budgeting, thereby reducing post-disaster costs.

Table 3. Cabo Verde: RSF Reform Measures Matrix (continued)

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
Natural disaster and climate related risk not adequately featured in fiscal planning	<ul style="list-style-type: none"> ▪ RM2. To improve fiscal risk management, the Ministry of Finance will conduct and publish in the annual Fiscal Risk Statement quantitative analysis of the fiscal risks generated by climate change. 	C-PIMA; CPD	IMF CD from FAD was delivered in July 2024 to support changes.	Completed. The Fiscal Risk Statement was published alongside the draft 2025 budget sent to parliament.	World Bank has prior actions and triggers in the latest DPF supporting a stronger PIM framework and aligned with the C-PIMA recommendations	End-Sept. 2024; 5 th ECF Review	<p><i>Improved fiscal and external sustainability.</i></p> <ul style="list-style-type: none"> - Improves fiscal risk management. - Enables better informed policies that reduce fiscal and financial-sector costs when climate risks materialize and lower external financing needs while supporting investor confidence. - Reduces import demand for reconstruction and facilitates a quick recovery of growth and net exports.

Table 3. Cabo Verde: RSF Reform Measures Matrix (continued)

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
Investments do not reflect needed physical resilience to Climate Change	RM3. The Ministry of Finance will enact amendments to the PPP legal framework to ensure climate requirements are reflected in PPP agreements and the Ministry of Finance will publish a manual integrating these requirements throughout the PPP capital project lifecycle, from project identification to contract management stages.	C-PIMA	FAD/LEG CD in March to support the authorities on the amendments of the PPP legislation and the Manual.	Completed. Changes were approved by Cabinet in April and published in the Official Gazette on May 8, 2024 (Decreto-lei 21/2024, I Série nº 40-1012 (https://kiosk.incv.cv/1.140.5737/))		End-April 2024; 4 th ECF Review	<i>Improves fiscal and external resilience.</i> - Reduces government contingent liabilities and the subsequent need for external financing. - Improves investor confidence reduces uncertainty, contributing to attracting external capital inflows and official financing.
	RM4. To scale up and systematize climate finance the Ministry of Finance will (i) adopt a national climate finance mobilization strategy that comprehensively identifies the financing instruments to unlock climate finance sources; and (ii) develop and publish a pipeline of appraised public capital projects, including climate-related projects, as part of the budget process.	C-PIMA	Luxembourg and follow up support from FADM2 in 2025	Completed. The climate finance strategy is largely complete and was presented at COP29. Work on the pipeline of projects was completed in October 2025.	LuxDev is providing TA to formulate a climate finance strategy	End-October 2025; 7 th ECF Review	- Reduces reconstruction needs and associated import demand aftershocks. - Helps improve public investment efficiency and alignment with government objectives.

Table 3. Cabo Verde: RSF Reform Measures Matrix (continued)

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
	<ul style="list-style-type: none"> ▪ RM9. The BCV will develop a climate information architecture for banks, consisting of 1) the adoption of a climate change adaptation and mitigation taxonomy, and 2) the publication of climate risk and opportunities and disclosure guidelines, so that banks are expected to submit their internal roadmaps within six months from the effective date of application of the guideline, followed by progress reports every six months. 		MCM delivered r an in-person TA mission in October 2025.	In progress. MCM has liaised with the external consultancy hired by the BCV to ensure coordination; MCM has delivered virtual CD and also delivered an in-person TA in October 2025.	TBC	End-April 2026; 9 th ECF Review	<i>Financial sector resilience</i> - Reduces financial sector losses when climate risks materialize, thereby lowering potential bank recapitalization needs.

Table 3. Cabo Verde: RSF Reform Measures Matrix (continued)

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
Inefficiency and financial vulnerability of electricity company pose fiscal risks and hinder the transition to a more resilient and reliable electricity supply	RM5. To support energy transition plans, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of electricity (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting electricity tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments. (Ministry of Industry, Trade and Energy and MoF)	CPD ⁶	FADEP supported the analytical study of tariffs and their distributional impact in December 2024.	On track. Cooperation with international partners on tariffs is advanced (e.g., calculating cost recover rates). Ongoing work by LuxDev will be incorporated in FAD TA. Authorities are preparing the business plans for each of the new business units (EPEC and EDEC). It will be important for these to include the information needed for assessing cost recovery tariffs.	WB energy projects are providing support on unbundling the energy SOE. LuxDev is also supporting work on tariff reforms.	End-December 2025; 8 th ECF Review	<i>BOP resilience to shocks.</i> - Reduces LT reliance on fossil fuel imports whose prices are volatile. <i>Increased productivity, growth, investment, net exports</i> owing to increased and reliable access to electricity. <i>Fiscal and external sustainability</i> - Market pricing of electricity reduces fiscal pressures and the need for external financing.

Table 3. Cabo Verde: RSF Reform Measures Matrix (continued)

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
Access to water resources and fiscal sustainability are vulnerable to long-run climate impacts due to lack of investment	RM6. To support reform initiatives, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of water (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting water tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments, and/or by financing infrastructure investment transparently from the budget, with a view to ensure sustainability of the water sector in the Santiago Island. (National Water and sanitation Agency (ANAS) and MoF)	CPD	FAD support for tariff review and the distributional impact in March 2025.	<p>Authorities are setting out the investment plans needed for the water sector.</p> <p>Cooperation with international partners on tariffs is advanced (e.g., calculating cost recover rates).</p> <p>The scope of what is possible by the test date is narrowed to Santiago Island (which is where most of the losses are accrued) due to the diversity of water business and management models across islands.</p>	LuxDev is supporting work on tariff reforms.	End-December 2025; 8 th ECF Review	<p><i>Fiscal and external sustainability and resilience</i></p> <p>- Reduces fiscal costs from covering water sector losses and promotes debt sustainability.</p>

Table 3. Cabo Verde: RSF Reform Measures Matrix (concluded)

Key Challenge	Reform Measure	Diagnostic Reference	IMF CD Input	Status	Development Partner Role	Timing	Prospective BoP Risk Reduction
Social safety nets do not properly account for climate related economic vulnerabilities	RM7. The Unique Social Registry (USR) will be expanded to provide the basis for a social support system that can efficiently mitigate the implications of climate transition and climate hazard events. To this end, the Ministry of Family and Social Inclusion and the MoF will expand coverage of the USR to 100 percent of poor and vulnerable households (including from rural areas) as identified based on the latest household budget survey, and offer inclusion in the USR to 100 percent of the households in climate vulnerable areas.	CPD		Not completed. The USR has been expanded and covers 100 percent of poor and vulnerable households. Work on offering inclusion to households in climate-vulnerable areas using the vulnerability maps from INGT under RM8 is underway. URS web page: www.csu.cv	WB	End-October 2025; 7 th ECF Review	<i>Improves households' economic resilience.</i> - Improves the economy's resilience to weather-related shocks. - Improves food security. - Reduces economic uncertainty in vulnerable areas.
Economic activity overly vulnerable to climate and weather related shocks amid inadequate resilience and disaster risk management policy frameworks	RM8. INGT or new unit/council for CC management and DRM will develop and disseminate natural disaster risk and vulnerability maps, including information on how and where climate hazards might affect the areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses. The land use planning regulation and construction code requirements will be amended to consider disaster risks and vulnerabilities for urban and rural development planning and for designing and constructing infrastructure and buildings.			Completed. The authorities used their own resources to work on this RM. INGC completed the work on defining the natural disaster and vulnerability maps, which also supported RM7.		End-October 2025; 7 th ECF Review	<i>BOP and fiscal resilience to shocks and increased economic growth.</i> - Reduces the need for frequent reconstruction and associated imports, fiscal costs, and external loans/debt service. - Supports food security and improves the economy's resilience to weather-related shocks.

Attachment II. Technical Memorandum of Understanding

This memorandum sets out the understandings between the Cabo Verdean authorities and the IMF staff regarding the definitions of variables included in the quantitative targets and continuous targets set out in the Memorandum of Economic and Financial Policies (MEFP), the key assumptions, and the reporting requirement of the Government and the Central Bank of Cabo Verde for the three-year Extended Credit Facility (ECF).

PROGRAM EXCHANGE RATES

1. Program exchange rates are used for formulating and monitoring quantitative performance criteria. All assets and liabilities denominated in U.S. dollars (USD) will be converted into escudos at a program exchange rate of CVE 98.8 per one USD. Assets and liabilities denominated in SDRs and in foreign currencies not in USD will be converted into USD at the exchange rates reported in Table 1:

Currency	Program Exchange Rates
Escudos/US Dollars	98.8
Escudos/Euros	110.3
US Dollar / U.K. pound	1.34
US Dollar/Euro	1.11
US Dollar/ Japanese yen	0.01
SDR/US Dollar	0.72

Source: WEO April period average exchange rates

QUANTITATIVE AND CONTINUOUS TARGETS

A. Floor on the Primary Balance of the Central Government

2. The central government includes all units of budgetary central government and extrabudgetary entities. It does not include local government (municipalities), social security funds and public corporations.

3. The central government primary balance is defined as total tax and non-tax revenues and grants minus primary expenditure and covers non-interest government activities as specified in the budget. The central government primary balance will be measured as cumulative flow over the calendar year.

- Revenues are recorded when the funds are transferred to a government revenue account. Tax revenues are recorded as net of tax refunds.
- Central government primary expenditure is recorded on a cash basis and covers recurrent expenditures and capital expenditure.

4. **The floor of the primary balance will be adjusted upward** (downward) by the surplus (shortfall) in disbursements of the grants to the baseline projection.

Table 2. Cabo Verde: Grants Projected Under the Program (GIR)

Date	Grants projected under the program, cumulative from the beginning of the year (in million CV Escudos)
30-Jun-25	2,154
31-Dec-25	3,917
30-Jun-26	2,081

Source: Cabo Verdean Authorities; IMF Staff estimates

5. **For program monitoring, data will be provided to the Fund by the Directorate National of Planning (DNP) of the Ministry of Finance** monthly with a lag of no more than six weeks from the end of-period.

B. Cumulative Floor on Central Government Tax Revenue

6. **Tax revenues refer to revenues from tax collection. It excludes all revenues from asset sales, grants, and non-tax revenues.** To gauge the impact of tax policy reforms and improvements in tax administration, the program will have a floor on central government tax revenues. The revenue target is calculated as the cumulative flow from the beginning of the calendar year.

7. **For program monitoring, data will be provided to the Fund by the DNP of the Ministry of Finance** monthly with a lag of no more than six weeks from the end of-period.

C. Floor on Net Other Liabilities

8. **Net Other Liabilities is defined as the sum of loans to state-owned enterprises (SOEs) and municipalities (onlending) and capitalization.** The floor of central government net other liabilities will be measured as cumulative over the calendar year. Onlending is defined as domestic and external loans contracted by the central government from another institution and then onlending the proceeds to SOEs. Net onlending is reflected with an inverted sign in total Net Other Liabilities and defined as disbursement of these loans minus repayment of previous loans by SOEs to the central government. Capitalization is reflected with an inverted sign in total Net Other Liabilities and defined as capital injection or equity participation made by the central government

into corporations when some financial support is provided to capitalize or recapitalize these corporations.

D. Ceiling on Net Domestic Financing of the Central Government

9. Net domestic financing (NDF) of the central government is defined as the sum of (i) the net position (difference between the government's claims and debt) vis-à-vis the central bank and commercial banks and (ii) financing of the government through the issuance (net of redemptions) of securities to individuals or legal entities outside the banking system. NDF at end-December 2023, end-June 2024, and end-December 2024 (PCs) must be equal to or less than the amounts indicated in Table 1 (of QPCs) attached to the MEFP.

10. External budgetary assistance is defined as budget loans, grants and non-earmarked debt relief operations (excluding project-related loans and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives). It would include budget support loans from the IMF, World Bank, AfDB, European Union and others.

11. The NDF ceiling of the government will be adjusted downward (upward) if net external budgetary assistance exceeds (or falls short) of the program projections in Table 3 of external budget assistance:

Date	Budget support loans and Grants (in million CV Escudos)
30-Jun-25	6,012
31-Dec-25	9,965
30-Jun-26	5,058

Source: Cabo Verdean Authorities; IMF Staff estimates

- If, at the end of a quarter, external budgetary assistance exceeds the program projections (cumulative since January 1 of the same year), the ceiling of NDF will be adjusted downward.
- If at the end of a quarter, external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be upward while respecting the limits established by the Budget law (including any waivers).

12. The NDF ceiling of the government will be adjusted upward (downward) by the shortfall (surplus) in privatization proceeds relative to program projections.

13. For program monitoring, data will be provided to the Fund by the DNP of the Ministry of Finance quarterly with a lag of no more than six weeks from the end of-period.

Table 4. Cabo Verde: Privatization Income Projected Under the Program

Date	Privatization income projected under the program, cumulative from the beginning of the year
30-Jun-25	0
31-Dec-25	0
30-Jun-26	0

Sources: Cabo Verdean authorities and IMF staff estimates.

14. Reporting requirements. For program monitoring, data will be provided to the Fund by the DNP of the Ministry of Finance and BCV (for the net position of the government to the banking system) monthly with a lag of no more than six weeks from the end of-period.

E. Non-Accumulation of Domestic Payments Arrears

15. As part of the program, the government will not accumulate any new domestic payments 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 either specified by the budget law or 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.

16. Reporting requirements. The DNP of the Ministry of Finance 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 six weeks after the end of the quarter.

F. Ceiling on the PV of New External Concessional Debt of the Central Government

17. Under the program a ceiling applies to the PV of new external debt, contracted or guaranteed by the public sector with original maturities of one year or more. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies to this ceiling, in case deviations from the performance criterion on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or

debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

18. External public debt (long-term, medium-term, and short-term) is defined as debt to nonresidents contracted or guaranteed by the central government. The external public debt comprises the external debt of the central government and the external debt of the official sector entities and SOEs guaranteed by the central government.

19. The definition of debt is set out in Point 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 16919-(20/103), adopted October 28, 2020.

(a) The term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- (i) Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
- (ii) Suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- (iii) Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

20. Under the program, ceilings on medium and long-term, as well as on short-term, concessional external debt constitute quantitative targets. The coverage of the ceiling on concessional external debt includes budget loans, projects and program loans, and on-lending loans to SOEs in line with the fiscal program. For program purpose, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.¹ For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). Debt rescheduling, and debt reorganization are excluded from the limits on concessional external debt. New concessional external debt excludes normal short-term (less than one year) import-related financing.

21. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 2.699 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -168 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -80 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is 100 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added. Given the anticipated global transition away from LIBOR, this TMU can be updated to reflect the relevant benchmark replacements (U.S. Secured Overnight Financing Rate (SOFR); U.K. Sterling Overnight Index Average (SONIA); EURIBOR; and Tokyo Overnight Average Rate (TONAR)) prior to the complete phase out, once operationally feasible.

22. Reporting requirements. The government of Cabo Verde will consult with Fund staff before assuming any liabilities in circumstances where they are uncertain whether the instrument in question falls under the quantitative target. Details of all new external debt (including government guarantees), indicating terms of debt and creditors, will be provided on a quarterly basis within six weeks of the end of each quarter.

¹ The calculation of concessionality takes into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

G. Non-concessional External Debt Contracted or Guaranteed by the Central Government

23. Under the program, ceilings on medium- and long-term, as well as on short-term, non-concessional external debt constitute quantitative targets. The zero ceiling on non-concessional external debt is on a continuous basis. For program purpose, a debt is non-concessional if it includes a grant element of less than 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.¹ For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). Debt rescheduling, and debt reorganization are excluded from the limits on non-concessional external debt. The quantitative target on new non-concessional external debt contracted or guaranteed by the central government, excluding borrowing from the Fund. Non-concessional external debt excludes normal short-term (less than one year) import-related financing. The Portuguese government's precautionary credit line (the "Portuguese credit line") in support of the exchange rate peg is also excluded from the definition of non-concessional external debt. Contracted disbursements derived from the additional loan under a contract originally signed in 2013 with the Kuwait Fund, related to ongoing healthcare sector projects to support the construction of two hospitals and the establishment of the first blood testing laboratory in Cabo Verde, are also excluded from the definition of non-concessional external debt. The loan qualifies under the Debt Limits Policy as an exceptional from for non-concessional borrowing on the basis that these healthcare infrastructure projects are integral to the authorities' development program and that concessional financing is not available for these projects. The macroeconomic impact, including on public debt sustainability, is negligible.

24. Reporting requirements. The government of Cabo Verde will consult with Fund staff before assuming any liabilities in circumstances where they are uncertain whether the instrument in question falls under the quantitative targets. Details of all new external debt (including government guarantees), indicating terms of debt and creditors, will be provided on a quarterly basis within six weeks of the end of each quarter.

H. Gross International Reserves of the Central Bank

25. The floor on the stock of gross international reserves (GIR) of the BCV constitutes a quantitative target under the program. The GIR of the BCV are defined as gross international reserves of the BCV which include assets that are readily available (i.e., liquid and marketable and free of any pledges or encumbrances), 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. The program floors for the GIR will be adjusted downward by:

- The cumulative upward deviations in external debt service relative to program assumptions.
- The cumulative downward deviations in external financial assistance, and project and budget loans relative to program assumptions. For purposes of calculating the adjusters, these flows will be valued at current exchange rates.

26. Reporting requirements. A table on the GIR prepared by the BCV will be transmitted on a monthly basis, with a maximum delay of four weeks.

Table 5. Cabo Verde: External Debt Service Projected Under the Program (GIR)

Date	External debt service projected under the program, cumulative from the beginning of the year (in million CV Escudos)
30-Jun-25	5,856
31-Dec-25	13,066
30-Jun-26	6,837

Source: Cabo Verdean Authorities; IMF Staff estimates

Table 6. Cabo Verde: External Financial Assistance and Project and Budget Loans Projected Under the Program

Date	External financial assistance and project and budget loans projected under the program, cumulative from the beginning of the year (in million CV Escudos)
30-Jun-25	19,667
31-Dec-25	18,042
30-Jun-26	7,798

I. Non-Accumulation of External Payments Arrears

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

28. External payments arrears for program monitoring purposes are defined as the amount of external debt service due and not paid within the contractually agreed period, subject to any applicable grace period, including contractual and late interests. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is sought are excluded from this definition.

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

J. Memorandum Item: Floor on Central Government Social Spending

30. The indicative floor on social spending of the central government will apply only to expenditures incurred by the central government on the following plans and programs that are intended to have a positive impact on education, health, and social protection, excluding the wages and salaries component.

31. For program monitoring, the data will be measured as cumulative over the fiscal year and it will be reported by the DNP on a quarterly basis, with a lag of no more than six weeks from the end-of-period.

K. RSF Reform Measures

32. Cost recovery tariff under RM 5 and 6 should reflect the capital cost of infrastructure and the operational cost. Infrastructure cost will cover the investment as needed during the transition, as well as the maintenance and replacement based on the useful life of such infrastructure. The operational cost will reflect the current and target energy mix.

33. Climate vulnerability information under RM8 will cover: (i) maps on vulnerability to sea-level rise projection based on identified climate scenarios with full coverage of territory; (ii) climate vulnerability maps for the seven (seven out of 22) most populated and/or most climate vulnerable municipalities; and (iii) maps including information on the occurrence of past climate hazards with additional information on the expected implications of climate change as implied by the identified climate scenarios. These maps will be made available online. The requirements for using information from vulnerability maps in land use and construction planning should be reflected in the National Regulations for Territory Management and Urban Planning (Decree-Law 61/2018) or the related regulations, and the Technical Building Code (Order 4/2012).

OTHER DATA REQUIREMENTS AND THE ASSESSMENT OF THE ACHIEVEMENT OF REFORM TARGETS

- 34. 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 five weeks after the end of each quarter. A preliminary quarterly balance of payments, compiled by the BCV, will be forwarded within six weeks after the end of each quarter.
- 35. The Statement of Other Economic Flows as defined in the IMF Manual GFSM2001 or GFSM2014** relative to holding gains/losses of the previous year with ASA, Electra, EMPROFAC, ENAPOR, and IFH will be transmitted on an annual basis within three months after the end of the following year (15 months after the closing date).
- 36. The consolidated balance sheet of ASA, Electra, EMPROFAC, ENAPOR, and IFH** relative to the previous year will be transmitted on an annual basis within three months after the end of the following year (15 months after the closing date).
- 37. Pre-announce a schedule for TIM and TRM auctions reform target.** This reform target will be assessed as achieved when the pre-announcements are posted on the central bank website.
- 38. Introduce a composite indicator of economic activity reform target.** This reform target will be assessed as achieved when the central bank has released the composite indicator.
- 39. Carry out a comprehensive study of loan losses and provisions at the expiration of the credit moratorium.** This reform target will be assessed as achieved when the study is completed and released.
- 40. Develop a common framework for the resolution of the crisis related NPLs.** This reform target will be assessed as achieved when the common framework is complete and released. The common framework is being developed jointly by the BCV and the World Bank.
- 41. Construct a Compliance Risk Management (CRM) system to allow for the optimization of tax revenue collection.** This reform target will be assessed as achieved when the MOF provides staff with a copy of methodology.
- 42. Increase the frequency of stress testing to twice per year:** This reform target will be assessed as achieved when the central bank provides the findings of the second annual stress test.
- 43. Develop and publish an action plan to reduce tax expenditures.** This reform target will be assessed as achieved when the MOF provides staff a copy of the approved action plan.

44. Implement the action plan on tax expenditures in the 2026 budget. This reform target will be assessed as achieved when the MOF provides staff a copy of the approved 2026 budget with the specification of the actions and impacts.

45. Publish in the SOE report measurable metrics between the MOF and the 6 largest SOEs on financial performance. This reform target will be assessed as achieved when the report is published in the MOF webpage.



CABO VERDE

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, SEVENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND THIRD REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

December 23, 2025

Approved By
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Prepared by the Staff of the International Monetary Fund and the International Development Association

Cabo Verde: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Moderate
Overall risk of debt distress	High
Granularity in the risk rating	Limited space to absorb shocks
Application of judgement	No

Cabo Verde's external debt remains sustainable but vulnerable. The risk of external debt distress continues to be moderate, consistent with the last joint WB/IMF Debt Sustainability Analysis (DSA) of February 2025, while the overall risk of debt distress is assessed as high. The vulnerability of domestic public debt as shown by elevated both domestic public debt-to-GDP ratio and debt service-to-revenues ratio (including grants) is high. Coverage of the public sector includes the stock of uncalled domestically guaranteed debt to loss-making SOEs and municipalities. The detailed risk rating for external debt distress shows limited room to absorb shocks. The present value (PV) of public and publicly guaranteed (PPG) external debt-to-GDP is below the threshold over the forecast horizon and breaches the threshold under the export stress test in line with the debt path of the last DSA. Liquidity indicators (debt service to revenue and to export ratios) continue to be below their respective thresholds under the baseline, mainly due to the significantly concessional characteristics of Cabo Verde's external debt. The PV of total public debt-to-GDP is projected to breach the threshold during 2025–2029 under the baseline scenario in line with the last DSA and breaches the threshold under the stress tests over the forecast period¹.

¹ Cabo Verde' debt carrying capacity is assessed as strong, given a Composite Indicator of 3.30 based on October 2025 WEO projections and the 2024 Country Policy and Institutional Assessment (CPIA).

The external and overall debt outlook is assessed to be sustainable, contingent on sustained growth close to potential, fiscal consolidation in line with the ECF-supported program, and progress on structural reforms, particularly strengthening SOE performance to mitigate fiscal risks and enhance the business climate. Maintaining this outlook will also require adherence to prudent borrowing policies with a focus on concessional financing. Given Cabo Verde's vulnerability to external shocks, further export and output diversification will be critical to safeguard long-term debt sustainability.

PUBLIC DEBT COVERAGE

1. The debt coverage in this DSA comprises debt owed by the central government and certain government guarantees. Coverage of the public sector has been expanded to include the stock of uncalled domestically guaranteed debt to loss-making SOEs (7.1 percent of GDP at end-2024)² and municipalities (0.1 percent of GDP at end-2024). The stock of government guarantees on SOEs' external borrowing is also included in the baseline stock of debt (0.7 percent of GDP at end-2024). Consistent with the fiscal accounts, social security funds and local governments are excluded from the DSA. The coverage of extra budgetary funds (EBFs) is focused on government support to State-Owned Enterprises (SOEs) through on-lending and capitalization. The authorities have undertaken important efforts to widen the coverage and reporting of public sector debt, including through support from the World Bank.³ External debt is defined on a residency basis.

2. The contingent liability default stress test is modified from the last DSA reflecting the inclusion of domestically guaranteed debt of SOEs in the DSA perimeter. The default shock of 0 percent of GDP for the components of general government not captured in the baseline stock of debt is kept at the default level consistent with the size of publicly guaranteed domestic debt of local governments. The social security fund (INPS) financial position is strong, and fiscal risk is minimal, as a result the contingent liability stress test is not adjusted for its exclusion. The default shock of 2 percent of GDP for SOEs' debt is adjusted after the incorporation of domestically guaranteed debt to SOEs in the DSA perimeter. In line with the tailored shock used in the last DSA, the stock of debt of loss-making SOEs is adjusted downwards by the stock of domestically guaranteed debt to SOEs (and on-lending from the central government). This yields a tailored contingent liability shock of 10.5 percent of GDP. The

² In line with Appendix 3 of the LIC-DSA guidelines, guaranteed debt to the national air traffic control company (Aerportos e Segurança Aérea, ASA), equivalent to 0.43 percent of GDP at end-2024, has been excluded from DSA perimeter as the company is not considered a source of fiscal risk to the central government. This assessment is based on the company's strong balance sheet, high cash generation, and steady cash flows (and its role as a net contributor to the central government budget). The company also publishes comprehensive annual reports, with the latest being 2024 (available on the UASE website). The expansion of the perimeter was done from 2015 onwards.

³ Efforts to expand debt coverage have been supported by the World Bank through the Performance and Policy Actions under the Sustainable Development Financing Policy (SDPF). Specifically, the coverage of the quarterly public debt bulletin has been broadened to include debt of SOEs, the social pension fund, and guaranteed debt from municipalities.

default shock of 1.2 percent of GDP is kept for public-private partnerships (PPPs). Finally, Cabo Verde's financial sector appears sound and the default minimum value of 5 percent of GDP for the financial market shock appears appropriate.

3. Strengthening SOE risk assessment and advancing fiscal transparency mark

important progress. The authorities have intensified reforms to strengthen SOE oversight and fiscal transparency. Since 2024, the Unidade de Acompanhamento do Sector Empresarial do Estado (UASE) has institutionalized quarterly financial reporting across 22 SOEs, enabling systematic assessment of liquidity, profitability, and fiscal transfer needs. Key reforms include: (i) implementation of the IMF's SOE Health Check Tool, strengthening UASE's analytical capacity to assess SOE-related fiscal risks (latest report Q2-2024); (ii) provision of consolidated data on financial transactions between the government and SOEs to enhance transparency and fiscal risk monitoring; (iii) improvements to annual reporting on contingent liabilities and SOE performance; (iv) adoption and publication of a comprehensive SOE ownership policy; (v) ongoing revision of the State Enterprise Sector Law, currently under discussion at the National Assembly, to clarify the guarantees framework, strengthen performance contracts, and codify governance standards; and (vi) creation of PARPÚBLICA and IMOPÚBLICA to manage the state's corporate investments and immovable assets, respectively. While institutional capacity to implement and enforce these reforms remains moderate, it is strengthening, as evidenced by the regularization of reporting, improved data availability, and increasing use of analytical tools to inform fiscal risk management.

Table 1. Cabo Verde: Coverage of Public-Sector Debt and Design of Contingent Liability Stress

Subsectors of the public sector	Check box
1 Central government	X
2 State and local government	
3 Other elements in the general government	
4 o/w: Social security fund	
5 o/w: Extra budgetary funds (EBFs)	X
6 Guarantees (to other entities in the public and private sector, including to SOEs)	X
7 Central bank (borrowed on behalf of the government)	X
8 Non-guaranteed SOE debt	

Public debt coverage and the magnitude of the contingent liability tailored stress test

B. Please customize elements of the contingent liability tailored test, as applicable.

1 The country's coverage of public debt	The central government plus extra budgetary funds, central bank, government-guaranteed debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	0	
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	10.5	
4 PPP	35 percent of PPP stock	1.2	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
Total (2+3+4+5) (in percent of GDP)		16.7	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND

A. Evolution and Composition of Public Debt

4. Before the pandemic, Cabo Verde’s strong growth was fueled by tourism and supported by structural reforms. Between 2016 and 2019, growth averaged 5 percent per year, supported by favorable global conditions coupled with important structural reforms, mainly impacting on the SOE sector. After a period of debt financed countercyclical fiscal policy in the wake of the Global Financial Crisis, public debt decreased from its peak of 121 percent of GDP in 2015 to 115.7 percent in 2019.

5. The COVID-19 pandemic led to a sharp rise in external and overall public debt.

Total public sector debt reached 158.2 percent of GDP (149 percent excluding SOE domestic guarantees) at end-2021 (Text Figure 1). The increase in the debt ratio was due to the large output contraction of 20.8 percent and a higher public sector overall deficit of 9.3 percent of GDP in 2020, which was financed mainly with increased external concessional borrowing, largely from multilateral institutions to mitigate the impact of the economic shock particularly on vulnerable groups.

Text Table 1. Cabo Verde: External Debt Profile by Type of Creditors, 2024

	Percent of GDP	Percent of external debt	Average maturity (in years)	Average interest rate
Multilateral	47.5	62.1	18.3	0.94%
Bilateral	13.2	17.3	10.7	0.87%
Commercial	15.7	20.5	10.4	1.59%
Total external debt	76.4	100.0	15.4	1.06%

Source: Cabo Verdean authorities and IMF staff estimates.

6. Robust growth and fiscal tightening have driven a steady decline in the debt-to-GDP ratio in recent years. Growth reached 15.8 percent in 2022, 4.8 percent in 2023, and 7.2 percent in 2024. The primary balance improved from a deficit of 5.4 percent of GDP in 2021 to a surplus of 1.3 percent in 2024, supported by spending restraint and higher tax revenues. As a result, the debt-to-GDP ratio declined to 119.7 percent at [end-2024?] (112 percent excluding domestic guarantees to loss-making SOEs).

7. As of end-2024, public external debt represented 76.4 percent of GDP and remains highly concessional. External debt held by SOEs accounts for 0.7 percent of GDP. Multilateral institutions are the main creditors of Cabo Verde (Text Table 1). The International Monetary Fund, World Bank, and the African Development Bank account for about 62 percent of external public debt. Bilateral creditors account for about 17.3 percent of external public debt, of which Portugal is the largest creditor. Debt servicing costs are moderate with an average interest rate of about 1.06 percent and average maturity of about 15.3 years. The exchange rate risk is low due to the exchange rate peg to the Euro. The external assessment suggests an undervaluation of the exchange rate and international reserves level is adequate. Commercial creditors hold 18.3 percent of external public debt. The Portuguese Caixa Geral de Depósitos (CGD) accounts

for 82.8 percent of total commercial loans, provided under favorable terms with an average maturity of 10.3 years and average interest rate of 1.6 percent.

8. Domestic public debt, which stood at 42.9 percent of GDP at end-2024, is mostly held by the banking sector in the form of medium- and long-term Treasury securities. At end-2024, central government domestic debt (excluding guarantees to SOE debt) accounted for 35.7 percent of GDP (Text Figure 1). Treasury bonds accounted for 95.9 percent. Commercial banks hold 61.9 percent of domestic government securities and non-banks hold 38.1 percent, most of which is with the national social security fund. Access to domestic debt is supported by excess liquidity in the banking system and interest rates on domestic debt remain moderate. The reliance on domestic debt has been largely steady over the last decade around 30 percent of total public debt.

9. Publicly guaranteed debt stood at 8.5 percent of GDP at end-2024 (Text Table 2). State guarantees are used mainly for SOEs' domestic debt. For 2024, the stock of publicly guaranteed domestic debt consists primarily of liabilities of ELECTRA, Águas de Santiago, TACV, Prog. Start-up/Ecosistema, NEWCO and ICV and AEB to the domestic banking system; and borrowing by a few municipalities. EDEC, TACV, AEM, and ELECTRA were the recipients of the largest guarantees in 2024. External debt guarantees are 0.7 percent of GDP. State guarantees account for 6.1 percent of total debt (Text Figure 1).

Text Table 2. Cabo Verde: Publicly-Guaranteed Debt, 2019–2023

	2020			2021			2022			2023			2024		
	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt	CVE million	Percent of GDP	Percent of debt
External Debt (A)	1,655	0.9	100.0	2,243	1.2	100.0	2,121	0.9	100.0	1,916	0.8	100.0	1,913	0.7	100.0
contracted by SOEs	1,655	0.9	100.0	2,243	1.2	100.0	2,121	0.9	100.0	1,916	0.8	100.0	1,913	0.7	100.0
contracted by private entities	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Domestic Debt (B)	15,618	8.8	100.0	22,157	11.6	100.0	24,528	10.4	100.0	23,405	9.2	100.0	21,707	7.8	100.0
contracted by local governments	356	0.2	2.3	382	0.2	1.7	440	0.2	1.8	440	0.2	1.9	375	0.1	1.7
contracted by SOEs 1/	14,972	8.5	95.9	18,175	9.5	82.0	20,144	8.5	82.1	20,789	8.2	88.8	19,761	7.1	91.0
contracted by private entities	290	0.2	1.9	3,601	1.9	16.3	3,944	1.7	16.1	2,176	0.9	9.3	1,571	0.6	7.2
Total Publicly-Guaranteed Debt (A+B)	17,273	9.8		24,401	12.8		26,649	11.3		25,321	9.9		23,620	8.5	

Source: Cabo Verdean authorities and IMF staff calculations.

1/ It does not include ASA due to its structural profit-making financial position

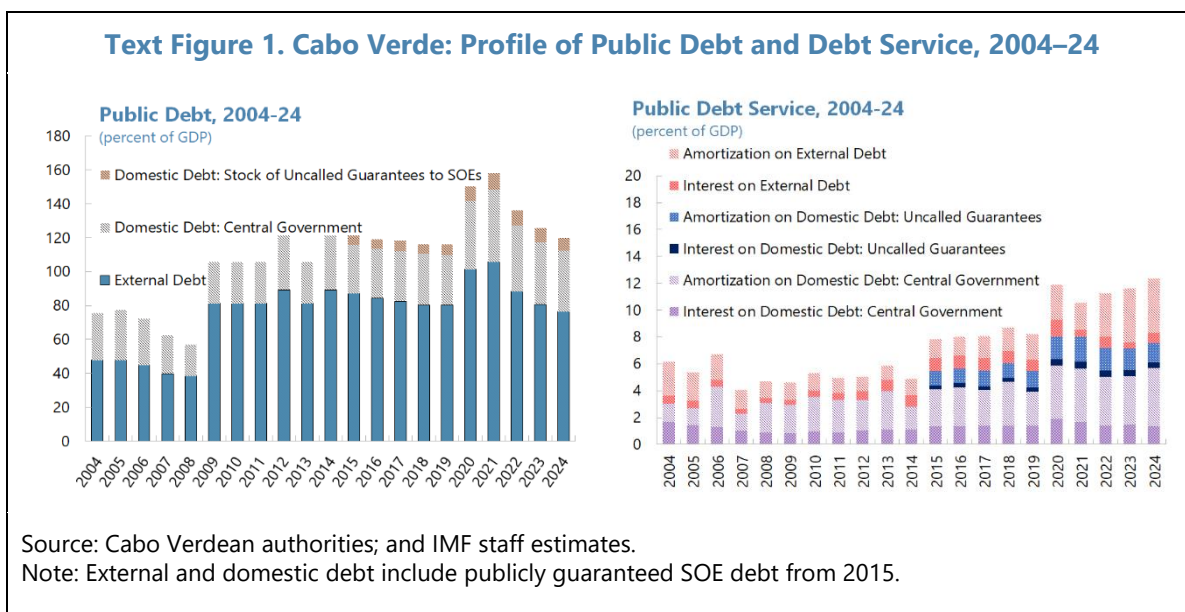
10. The cost of the central government's domestic debt service continues to be moderate, while the debt service of domestic guarantees to SOEs is relatively expensive.

The cost of servicing central government domestic debt amounted to 5.6 percent of GDP in 2024, with relatively low refinancing risk given an average maturity of 6 years and an average interest rate of 3.5 percent. In contrast, servicing domestic guarantees to SOEs, which represent about 17 percent of central government domestic debt, reached 2 percent of GDP. Although not an immediate cash obligation unless called, SOE-related guarantees carry shorter maturities of 4.7 years and higher interest rates of 5.7 percent, making this portion of debt more costly and riskier to refinance.

11. Debt service on external public debt is moderate. The ratio to exports declined from 12.7 percent in 2023 to 10.9 percent in 2024, reflecting strong tourism-driven export performance, and is projected to fall further as the economy converges to potential and

tourism capacity expands. The ratio to revenue also eased to 19.4 percent in 2024 from 20.5 percent in 2023 and is expected to average about 14 percent over 2026–31, supported by higher revenues and lower gross financing needs. Including SOE-related domestic guarantees, total public debt service absorbed about 45 percent of central government revenue and grants in 2024 but is projected to decline steadily from 2029 onward. Importantly, the portion linked to guarantees does not affect central government cash flows unless called.

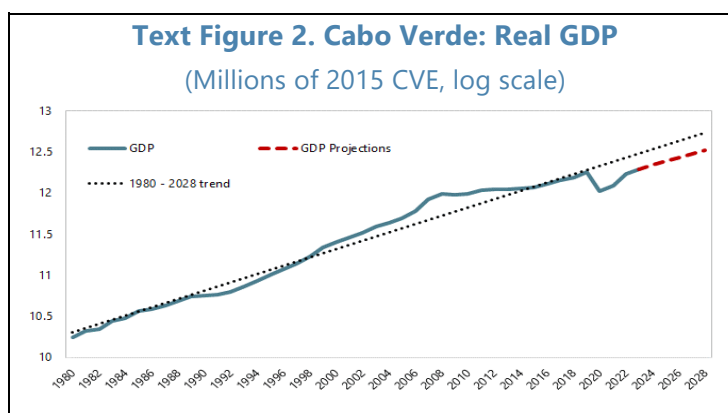
12. Historical private external debt derived from international investment position (IIP) data indicates a stock of about 13.3 percent of GDP at end-2024, marking a significant decline from its peak of 20.7 percent in 2020. This downward trend reflects a broad-based reduction in external borrowing across both bank and non-bank sectors.



B. Outlook and Key Macroeconomic Assumptions

13. The macroeconomic assumptions remain broadly consistent with the last DSA. GDP growth is projected to reach 5.2 percent in 2025, converging to potential growth of around 4.9 percent over the medium term, while inflation is expected to settle at 2 percent. Risks stem from adverse terms of trade, as Cabo Verde remains highly exposed to swings in international oil and food prices, with imports covering about 80 percent of consumption.

14. Medium- and long-term growth is expected to benefit from



structural reforms focused on public sector efficiency, a stronger business environment, and greater access to finance. The authorities are advancing the five-year development strategy (PEDS II), aligned with Cabo Verde Ambition 2030, with priorities including completing SOE reforms and privatization, promoting diversification through the blue economy, reducing informality, and expanding finance for SMEs. These efforts are supported by technical assistance and project financing from the World Bank and the ongoing ECF program. The key macroeconomic assumptions are:

- *Real GDP growth.* Cabo Verde's real GDP expanded by 7.2 percent in 2024. Growth is projected to reach 5.2 percent in 2025 reflecting strong performance – driven by tourism – during the first half of the year and gradually converge to long-term growth (supported by key structural reforms described above).

Text Table 3. Cabo Verde: Assumptions for Key Economic Indicators, 2022–43

	2022	2023	2024	2025	2026	2027	2028 - 32	2033 - 43
		Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP growth								
Current DSA	15.8	4.8	7.2	5.2	4.9	5.1	5.1	5.0
February 2025 DSA	15.8	5.5	6.0	5.0	4.9	4.9	4.8	4.8
January 2024 DSA	17.1	4.4	4.5	4.6	4.6	4.7	4.5	4.5
June 2023 DSA	17.7	4.4	4.5	4.6	4.6	4.7	4.5	4.5
2022 ECF Request	4.0	4.8	5.7	5.5	5.0	4.5	4.5	4.5
GDP Deflator								
Current DSA	6.3	3.3	1.6	2.5	2.1	2.4	2.2	2.2
February 2025 DSA	6.3	3.8	1.6	2.0	2.1	2.2	2.0	2.1
January 2024 DSA	7.7	4.3	2.1	2.0	2.0	2.0	2.0	2.0
June 2023 DSA	6.4	4.5	2.0	2.0	2.0	2.0	2.0	2.0
2022 ECF Request	4.5	2.6	2.0	2.0	2.0	2.0	2.0	2.0
Fiscal balance (including grants)								
Current DSA	-4.3	-0.3	-1.1	-1.2	-0.9	-0.3	-0.2	-1.3
February 2025 DSA	-4.3	-0.3	-2.4	-1.8	-0.9	-0.1	-0.3	0.1
January 2024 DSA	-4.3	-3.4	-3.4	-2.1	-1.2	-0.4	-0.9	-1.5
June 2023 DSA	-4.2	-4.4	-3.2	-2.4	-2.4	-0.6	-0.7	-2.1
2022 ECF Request	-6.3	-5.6	-4.0	-2.1	-0.9	-0.8	-1.4	-2.9
Overall financing needs (including onlending)								
Current DSA	-4.3	-0.3	-1.5	-1.7	-1.2	-0.8	-0.6	-1.3
February 2025 DSA	-4.3	-0.3	-2.6	-2.3	-1.5	-0.6	-0.7	0.1
January 2024 DSA	-4.3	-4.0	-3.6	-2.3	-1.3	-0.4	-0.9	-1.5
June 2023 DSA	-4.2	-3.7	-4.0	-2.4	-2.4	-0.6	-0.7	-2.1
2022 ECF Request	-7.0	-6.2	-4.2	-2.3	-1.1	-0.8	-1.4	-2.9
Current account balance (including grants)								
Current DSA	-3.5	-2.7	3.9	3.9	0.7	-0.7	-2.4	-4.3
February 2025 DSA	-3.5	-2.2	-0.3	-2.2	-2.4	-2.5	-2.4	-0.2
January 2024 DSA	-3.7	-5.9	-6.1	-6.3	-5.8	-5.4	-3.7	-1.5
June 2023 DSA	-3.6	-5.6	-4.6	-4.4	-4.4	-3.7	-3.2	-1.9
2022 ECF Request	-14.1	-6.2	-5.9	-4.7	-4.6	-4.2	-3.6	-3.2
Total Debt/GDP Ratio 1/								
Current DSA	136.0	125.6	119.3	109.2	103.3	97.1	81.2	54.0
February 2025 DSA	135.5	124.7	119.5	114.2	108.7	102.7	87.5	55.5
January 2024 DSA	135.8	128.2	123.5	117.9	111.7	105.3	88.1	61.1
June 2023 DSA	129.9	121.1	117.0	112.7	108.5	102.5	86.0	61.8
2022 ECF Request	154.6	148.1	139.8	130.7	122.4	115.4	98.8	76.6
Cv\$/USD exchange rate (e-o-y)								
Current DSA	104.1	101.1	105.2	94.5	94.6	94.8	95.0	95.0
February 2025 DSA	104.1	101.1	102.2	102.1	102.2	102.2	102.2	102.2
January 2024 DSA	104.1	99.7	99.4	99.0	99.1	99.9	99.9	99.9
June 2023 DSA	104.1	104.3	104.7	105.1	105.5	106.4	107.5	107.5
2022 ECF Request	98.5	96.9	95.8	95.0	94.5	94.2	94.2	94.2

Sources: Cabo Verdean authorities; and IMF staff estimates and projections.
1/ Including the stock of uncalled domestic guarantees to SOEs

- *Tourism services.* The framework assumes continued expansion of the sector, underpinned by rising hotel capacity from new investments, diversification of source markets, and steady FDI inflows. The UK, Portugal, Germany, and Belgium remain the main origins of tourist arrivals, with potential for further market diversification. Sustained growth in tourism is expected to translate into higher service exports and stronger tax revenues, thereby supporting fiscal consolidation and improving debt sustainability over time.
- *Inflation.* Inflation reached 1.5 percent in 2024, while the GDP deflator increased by 1.6 percent, both moderating from 1.3 and 3.3 percent in 2023 as global fuel and commodity prices eased. Looking ahead, inflation is projected to close at 2 percent in 2025, while the GDP deflator is expected to rise to 2.5 percent. This reflects gains in the terms of trade, supported by strong tourism receipts and the continued moderation of international commodity prices, which together should help stabilize domestic price dynamics while strengthening external balances.
- *Public sector deficit.* The framework emphasizes revenue-driven fiscal consolidation, complemented by a gradual reduction in the primary expenditure-to-GDP ratio while balancing climate priorities and essential reforms. Capital spending is expected to rise moderately, while the wage bill and goods and services spending will grow below nominal GDP after the 2025 adjustment, partly offsetting earlier nominal freezes. The fiscal deficit, which widened from 0.3 percent of GDP in 2023 to 1.1 percent in 2024 with the phasing out of the 2023 one-off airport concession fee, is projected to converge to balance over the medium term, supported by stronger revenue mobilization and spending restraint. Key measures include a review of tax expenditures expected to generate up to 1 percent of GDP over 2025–29, safeguards to protect vulnerable groups, and SOE reforms aimed at reducing capitalization needs and on-lending. Together, these efforts are expected to lower net financing requirements to 0.8 percent of GDP by 2027.
- *Current account deficit.* Over the medium term, the current account deficit is expected to widen, reaching 0.7 percent of GDP in 2027. The baseline projects a surplus of 3.9 percent in 2025 and 0.7 percent in 2026, reflecting a normalization in exports, tourism, and remittances. Between 2028 and 2032, the deficit is projected to average around 2.4 percent of GDP. Relative to the last DSA, the outlook points to a somewhat larger deficit, explained by higher imports associated with climate-related reforms and investment in low-carbon technologies. At the same time, medium-term FDI is expected to strengthen, supported by continued expansion of the tourism sector and the reform momentum catalyzed by RSF resources, which should help finance the higher import needs and mitigate external vulnerabilities.
- *Use of RSF resources and climate related risks.* RSF disbursements are projected to increase external financing by about CVE 1.4 billion in 2025 and CVE 1.1 billion in 2026. These resources substitute more expensive domestic borrowing, strengthen reserve buffers, and support climate-related investments and reforms while also helping catalyze additional financing for mitigation and adaptation strategies. The public investment path, however, remains constrained by the need to place debt on a firm downward trajectory and falls short of the Nationally

Determined Contribution (NDC) estimate of financing needs, which amounts to about 6.1 percent of GDP annually through 2030. The macro-framework assumes that productivity-enhancing and climate-related reforms will help lift potential growth.

- *Alternative scenario incorporating climate shocks.* Natural disasters and climate change represent major risks to Cabo Verde's outlook, particularly because of their direct impact on tourism and broader economic activity. To capture these vulnerabilities, an alternative downside scenario is constructed using the World Bank CCDD model calibrated to Cabo Verde, which assumes a cumulative climate-related five-percent decline in GDP between 2030 and 2045 (Text Table 4). Under this scenario, fiscal balances deteriorate relative to the baseline, reflecting weaker revenues and higher investment needs to address climate shocks. The external position also worsens, as increased imports of capital goods required for reconstruction and adaptation more than offset the dampening effect of lower domestic demand on imports. The combined impact raises external and overall debt ratios, but the deterioration is contained and does not alter the overall risk assessment of debt sustainability (Figures 6 and 7).

Text Table 4. Cabo Verde: Baseline and Alternative Scenario Comparison, 2030–45

	Mean 2030 - 45 Proj.
Real GDP growth	
Baseline (a)	5.0
Alternative scenario (b)	4.6
Δ (a) - (b)	0.4
GDP Deflator	
Baseline (a)	2.2
Alternative scenario (b)	2.2
Δ (a) - (b)	0.0
Fiscal balance (including grants)	
Baseline (a)	-0.7
Alternative scenario (b)	-1.9
Δ (a) - (b)	1.2
Overall financing needs (including onlending)	
Baseline (a)	-0.9
Alternative scenario (b)	-2.1
Δ (a) - (b)	1.2
Current account balance (including grants)	
Baseline (a)	-4.0
Alternative scenario (b)	-7.1
Δ (a) - (b)	3.1
Total Debt/GDP Ratio 1/	
Baseline (a)	58.8
Alternative scenario (b)	68.7
Δ (a) - (b)	-9.9
Cv\$/USD exchange rate (e-o-y)	
Baseline (a)	102.0
Alternative scenario (b)	102.0
Δ (a) - (b)	0.0

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

1/ Including the stock of uncalled domestic guarantees to SOEs

15. The DSA assumes a financing mix consistent with a prudent borrowing strategy, emphasizing external financing on concessional terms, with the share of domestic debt averaging about 40 percent. Financing for the 2025 budget comes from domestic lending and concessional and semi-concessional loans, mainly from multilateral institutions including the World Bank, African Development Bank, other bilateral partners. Multilateral and bilateral funding for budget support around US\$70 million, about 2.3 percent of GDP is expected to be provided during 2025. The DSA is premised on continued concessional external support in the short and medium term but assumes a very gradual move toward lower concessional resources in the long term, including semi-concessional loans (with a grant element of less than 35 percent) and limited non-concessional borrowing, consistent with Cabo Verde's middle-income status. The domestic debt profile assumes bond issuance with maturity of at least four years, in line with the profile of domestic debt portfolio at end-2024. The average interest rate is set to 3 percent for T-bills, and 4 and 5 percent for short-term and medium- to longer-term bonds, respectively. These projections are subject to risks associated with a tightening of monetary policy to contain capital outflows that could affect the entire yield curve.

16. The vulnerability of domestic public debt as shown by elevated both domestic public debt-to-GDP ratio and debt service-to-revenues ratio (including grants) is elevated. Text Figure 2 presents the tool used to assess the realism of domestic debt projections, as described below.

- **Domestic debt to GDP ratio.** The domestic debt-to-GDP ratio shows a significant decline from around 40.5 percent in 2025 to 31.8 percent by 2035. By end-2034, the domestic debt-to-GDP ratio, excluding the stock of uncalled guarantees to SOEs, is projected to be slightly above the level in peers at around 25 percent of GDP.
- **Domestic debt service to revenues (including grants).** The debt service-to-revenue ratio is projected to peak at about 32 percent in 2030. Thereafter, the burden is expected to ease, with domestic debt service declining gradually to 27 percent of revenues by 2035, reflecting improved fiscal balances and a more favorable debt profile.
- **Net domestic debt issuance.** Following a sharp increase in net domestic debt issuance in 2020 due to heightened financing needs related to the pandemic, the issuance ratios move towards zero in 2023–2026 and turn positive from 2026–2035, converging to the pre-pandemic norm around 2 percent of GDP.
- **Borrowing assumptions.** The majority (98 percent) of new domestic debt issuance is expected to be medium- to long-term (MLT), with favorable terms, including a low average real interest rate of 1.9 percent and a 6-year average maturity. Short-term debt accounts for only 2 percent, with a negative real interest rate of -0.1 percent, showing a preference for longer-term, more sustainable financing. It is important to note that additional debt service does not impact central government cash flows. Furthermore, the domestic market has sufficient depth, supported by banking sector liquidity and INPS's pension fund capacity, to absorb any potential guarantee calls as key marginal buyers.

17. Tools for assessing the realism of the baseline scenario flag some deviation from historical experience, which are explained below.

- **Fiscal adjustment.** The realism tools indicate that the fiscal adjustment path is feasible and achievable through a combination of measures including strengthening of domestic revenue mobilization, and expenditure restraint supported by average growth near potential. Revenue gains of close to 1 percent of GDP in the medium-term stem from identification and implementation by authorities of some policy measures. In that regard the authorities increased the rate of the tourist tax, implemented the 5 percent duty on previously exempted imports and continued to advance revenue mobilization efforts including (i) electronic invoicing; (ii) digitalization of customs import-declaration and risk-scoring systems; and (iii) stricter enforcement of VAT collection on cross-border e-commerce transactions. On the expenditure side, the Medium-Term Fiscal Framework limits wage-bill growth to nominal GDP from 2025 onward, while transfers to SOEs are projected to decline by about 0.5 percent of GDP by 2027 following the ELECTRA unbundling and reduced support to TACV. Overall, these measures support an improvement in the primary balance of around 1 percent of GDP over 2025–27, sufficient to offset rising interest costs and place the overall deficit on a declining path. The adjustment will be supported by steady growth at about the historical average. The DSA’s realism tools do not signal any other signs of over-optimism in terms of large changes to investment or contributions to growth compared to previous DSAs (Figure 4). Tools for assessing the realism of the baseline scenario do not flag significant and systematic deviations from historical experience.
- **Drivers of debt dynamics (Figure 3).** The contributions of past and projected debt-creating flows to PPG external and overall debt dynamics differ. Interest rates are expected to contribute positively to PPG external debt accumulation, consistent with, but slightly less so than, historical experience, while Current Account developments and FDI flows are projected to exert downward pressure on debt accumulation to a larger extent than the historical experience. This is justified by the continued growth in tourism, and hence service exports, as well as the impact of remittances. For total public debt, the projected contribution of real GDP growth to public debt reduction is higher compared to the historical five-year change, reflecting a gradual return to potential growth. Continued fiscal efforts and restructuring of SOEs will improve the contribution of the primary deficit to public debt accumulation relative to what the past five years would suggest. Unexpected changes in the primary deficit, current account/prices, and exchange rates were the main drivers of past forecast errors of debt dynamics.
- **Consistency between fiscal adjustment and growth (Figure 4).** The projected growth path for 2024 and 2025 is consistent with lower-end multiplier-based projections range due to the large import content of investment and consumption. The realism of the expected adjustment is predicated on the authorities’ commitment to further fiscal consolidation and restructuring of SOEs. It is also underpinned by a steady increase in economic activity following the return to pre-pandemic growth levels, on account of strong activity in the tourism and transportation sectors. Moreover, an additional growth impetus is expected from structural reforms under the strategic plan for sustainable development (PEDS II).

- **Consistency between public investment and growth (Figure 4).** The realism tool shows that, like historical figures, the contribution of public investment to real GDP growth remains marginal across the last and current DSA, mainly reflecting a low multiplier for public investment in line with the substantial import content of capital spending. However, despite low short-term multipliers, scaling up efficient public investment is still needed to raise potential growth. Public investment is expected to average about 3.5 percent of GDP in the medium term.

C. Country Classification and Determination of Stress Test Scenarios

18. Cabo Verde's debt-carrying capacity is assessed as "strong" as in the February 2025 (Text Table 4). The debt-carrying capacity is determined by the composite indicator (CI) combining the World Bank Country Policy and Institutional Assessment (CPIA), external conditions captured by world economic growth and country-specific factors. The methodology is based on the data from the October 2025 World Economic Outlook (WEO) vintage and the 2024 CPIA, the CI score for Cabo Verde stands at 3.3, which is slightly above the last DSA and the threshold of 3.05 applicable for a "strong" rating. The CI score reflects positive contributions from the CPIA (46 percent), international reserves (33 percent), world growth (12 percent), remittances (6 percent) and country's real growth rate (4 percent) that are all broadly in line with the last DSA. Debt burden thresholds associated with the strong debt carrying capacity under the framework are summarized in Text Table 5.

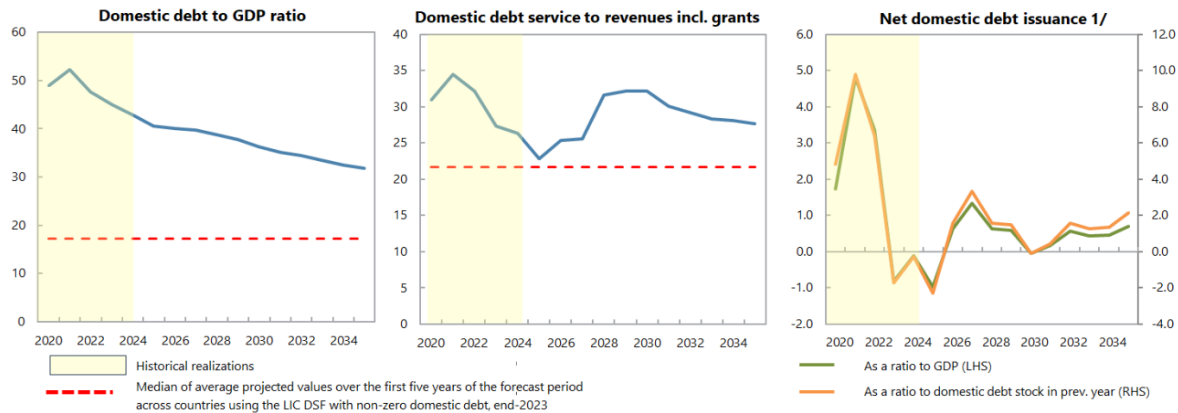
Table 4. Cabo Verde: CI Score Summary Table

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.4	3.9	1.5	45%
Real growth rate (in percent)	2.7	5.2	0.1	4%
Import coverage of reserves (in percent)	4.1	51.8	2.1	63%
Import coverage of reserves^2 (in percent)	-4.0	26.8	-1.1	-32%
Remittances (in percent)	2.0	11.6	0.2	7%
World economic growth (in percent)	13.5	3.0	0.4	12%
CI Score			3.3	100%
CI rating			Strong	

Text Table 5. Cabo Verde: Debt Thresholds Under Strong Debt-Carrying Capacity

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

Text Figure 2. Cabo Verde: Indicators of Domestic Public Debt, 2020-2034



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	98%
Short-term	2%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	1.3%
Avg. maturity (incl. grace period)	6
Avg. grace period	0
Domestic short-term debt	
Avg. real interest rate	-0.3%

Sources: Country authorities; and staff estimates and projections.

¹ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excluded short-term debt that was issued and matured within the calendar year.

DEBT SUSTAINABILITY ANALYSIS

19. The debt sustainability analysis relies, in addition to the baseline projections, on the six standardized stress tests. None of the tailored stress tests is triggered for Cabo Verde.

A. External Public Debt

20. Under the baseline scenario, the PV of PPG external debt-to-GDP ratio remains below its threshold throughout the projection period (Figure 1, Tables 2 and 4). This is mainly driven by robust growth and is broadly in line with the February 2025 DSA. The risk of external debt is assessed as moderate, as was the case in the last DSA. The other external debt burden indicators remain comfortably below their prescribed thresholds under the baseline scenario throughout the DSA horizon. The PV of PPG external debt ratios to GDP and exports are expected to steadily decrease over time. Both debt service-to-exports and debt service-to-revenue ratios display similar patterns, decreasing continuously through the projection period.

21. The PV of PPG external debt-to-GDP ratio, however, breaches its threshold for an extended period under the stress test scenarios (Figure 1, Tables 2 and 4). Under the most extreme shock, currency depreciation, the PV of PPG external debt-to-GDP ratio rises to about

67 percent in 2027 before gradually decreasing to the threshold of 50 percent of GDP up to 2030. The threshold is also breached under two of the remaining six standardized bound tests, albeit to different extents with the breach being more protracted under the export bound test.

22. The PV of PPG external debt-to-exports ratio and debt service to export ratio exceeds the respective thresholds from 2025–35 under the export stress test. The projected trajectories of PPG external debt burden indicators appear vulnerable to export shock, highlighting the potential adverse impact of Cabo Verde’s exposure to adverse shocks due to the high concentration of economic and export activity in the tourism sector.

23. Cabo Verde is at moderate risk of external debt distress and has limited space to absorb shock (Figure 5). Cabo Verde’s baseline debt burden indicators are below their respective thresholds, but the PV of the debt to GDP ratio is close enough to its respective threshold in the short- and medium-term. The stress test scenarios, particularly to exports push three of the indicators protractedly above their respective thresholds (Table 4). As a result, Cabo Verde has limited space to absorb shocks.

B. Total Public Debt

24. The PV of total public debt-to-GDP ratio exceeds the 70 percent benchmark through 2029 under the baseline scenario (Figure 2, Tables 3 and 5) giving rise to a mechanical high-risk signal. The prescribed benchmark is also breached under each of the six standardized bound tests, tailored combined contingent liability test, and natural disaster shock, with growth shock being the most severe with the threshold being breached throughout the projection period. Furthermore, the debt outlook, as shown by the other public DSA indicators, is particularly vulnerable to export and customized climate shocks (detailed in Text Table 4).

C. Risk Ratings and Vulnerabilities

25. Cabo Verde’s overall public debt is sustainable but remains at high risk of debt distress. The present value of public debt to GDP remains above its threshold under the baseline scenario through 2030, suggesting a high risk of debt distress. Debt service is projected to average about 43 percent of revenue over the next five years, which represents a moderately large share of future fiscal revenues. The additional debt service from uncalled domestic guarantees to SOEs does not impact central government cash flows. Furthermore, the domestic market has sufficient depth, supported by banking sector liquidity and INPS’s pension fund capacity, to absorb any potential guarantee calls as key marginal buyers. Stress tests indicate that Cabo Verde is most vulnerable to a growth shock. Under these shocks, public debt would remain above the threshold for a prolonged period. The risk of debt distress is partly mitigated by support from Portugal, the main bilateral creditor. In December 2024, the authorities and Portugal established the Climate and Environmental Fund through a debt-for-financing swap of debt service falling due through 2030 (EUR 42.5 million), potentially extendable to the total outstanding debt. The fund, however, is not yet operational.

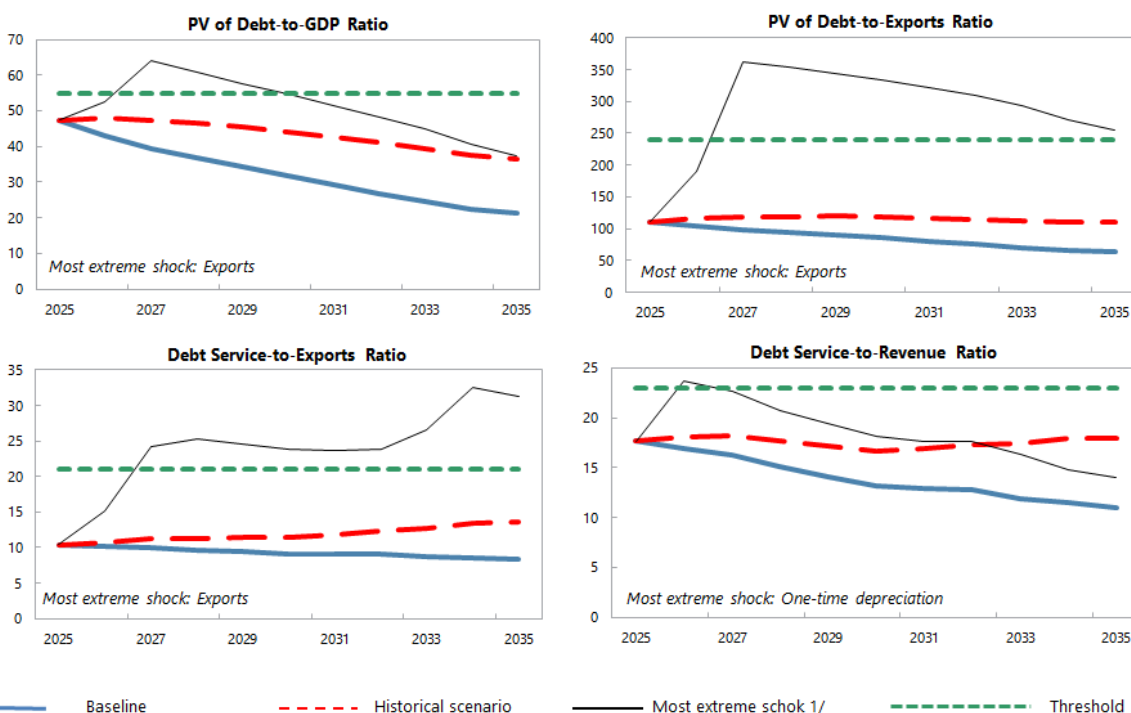
26. Uncertainty over the global economic outlook suggests the need for a prudent approach that emphasizes macroeconomic stability, particularly fiscal discipline. High debt levels reduce the space for public expenditures in support of a robust and inclusive economic recovery. The authorities should prioritize efforts to mobilize additional revenues and continue the strategy of only incurring concessional borrowing.

27. There are significant risks to the assessment. The outlook depends primarily on a broadly stable global environment that continues to support a vibrant tourism sector. However, higher fuel and commodity prices and a weaker than expected economic outlook in key markets could reduce the rate of economic growth. In the long-term, climate change risks could impact the economy – notably through the tourism sector, which is centered around coastal regions.¹² Medium to long-term debt sustainability would be supported by focused implementation of growth-enhancing structural reforms, particularly actions to reduce fiscal risk from SOEs and address critical infrastructure gaps. Measures to develop the government securities market and lower the costs of domestic borrowing will also be crucial going forward.

D. Authorities' Views

28. Our fiscal program aims for sustained consolidation to reduce debt, improve fiscal health, and lower debt distress risks. Key reforms include strengthening the fiscal framework and SOE sector. The primary fiscal balance will continue to improve to a surplus of 1.3 percent by 2026. The overall deficit will shrink from 1.2 in 2025 to 0.2 percent by 2028. Revenue growth will come from broadening the tax base, digitalization, tourism, and imports.

Figure 1. Cabo Verde: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2025–35



Customization of Default Settings		
	Size	Interactions
Standardized Tests	Yes	
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

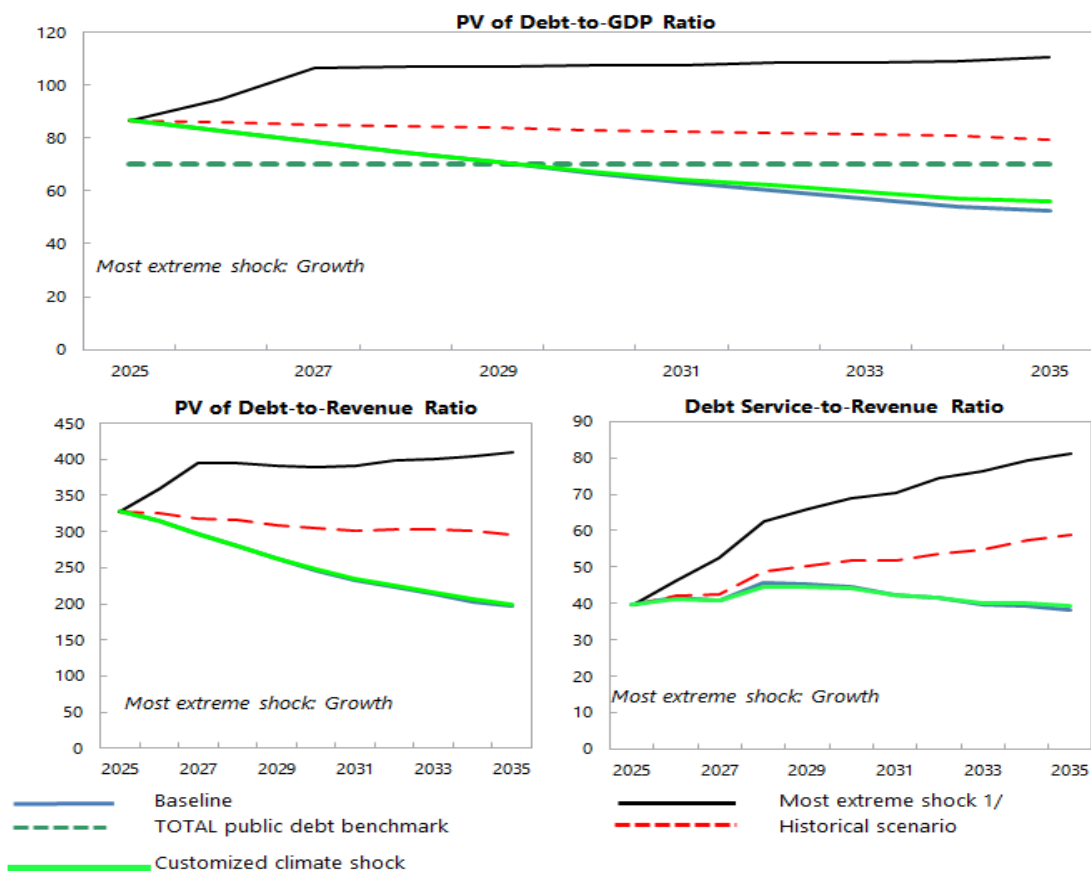
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	6	6

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Cabo Verde: Indicators of Public Debt Under Alternative Scenarios, 2025–35



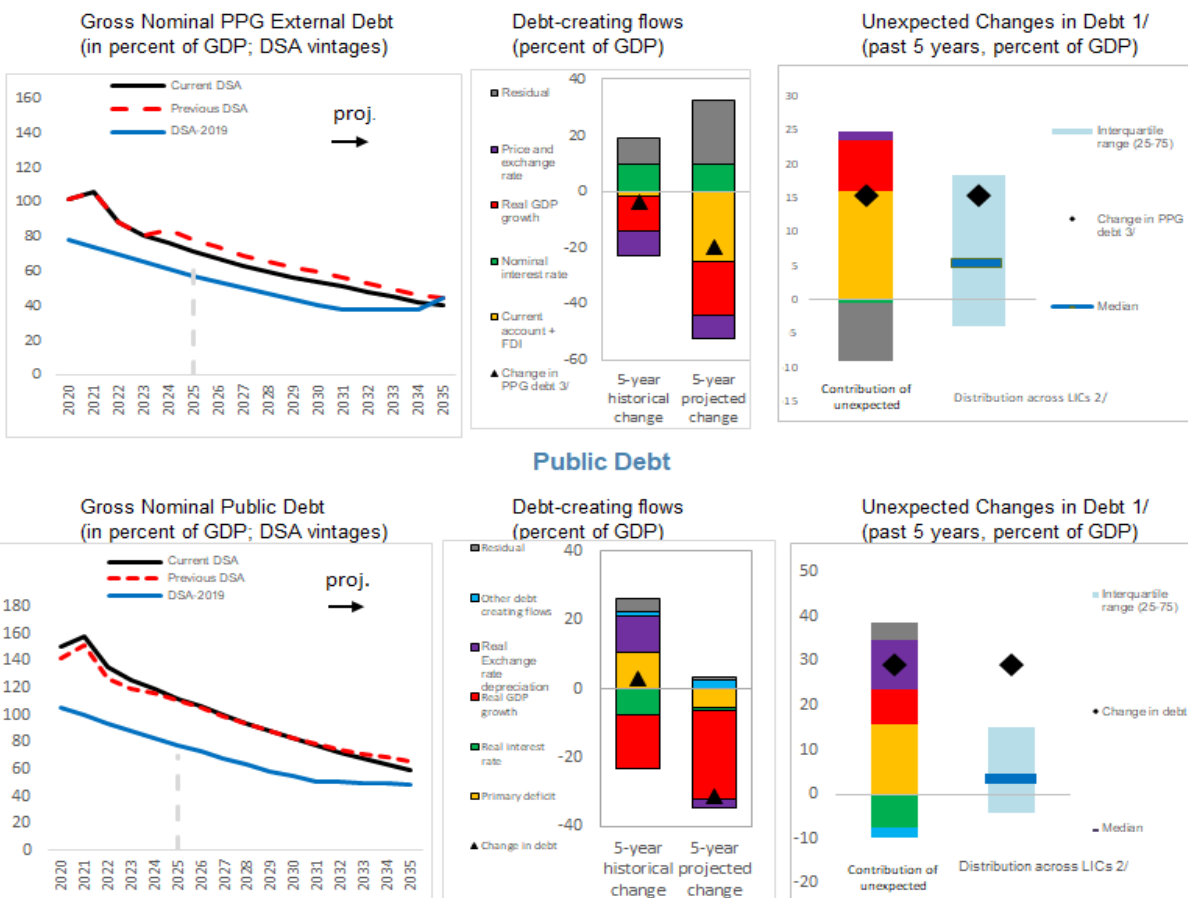
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	20%	20%
Domestic medium and long-term	75%	75%
Domestic short-term	2%	5%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.3%	1.3%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-0.3%	-0.3%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Cabo Verde: Drivers of Debt Dynamics – Baseline Scenario



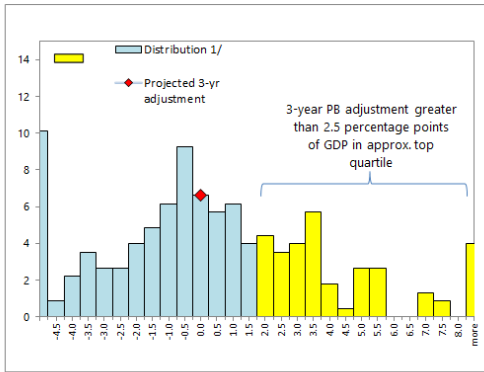
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

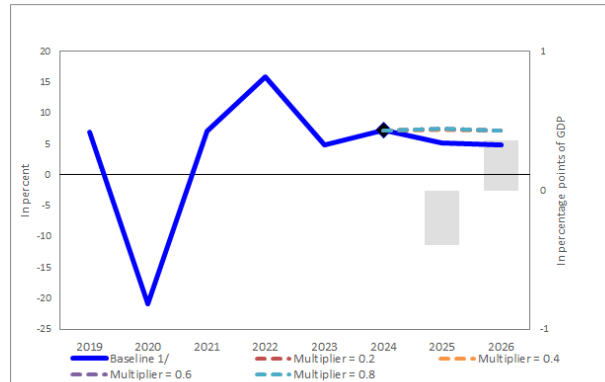
Figure 4. Cabo Verde: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



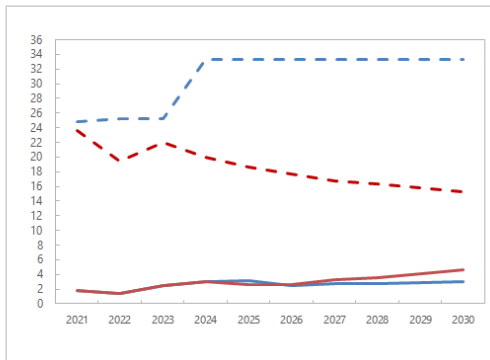
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths



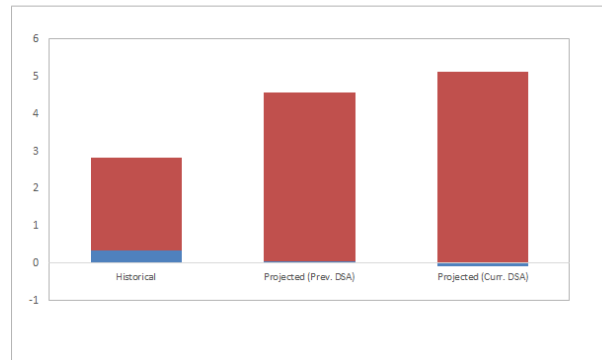
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(Percent of GDP)



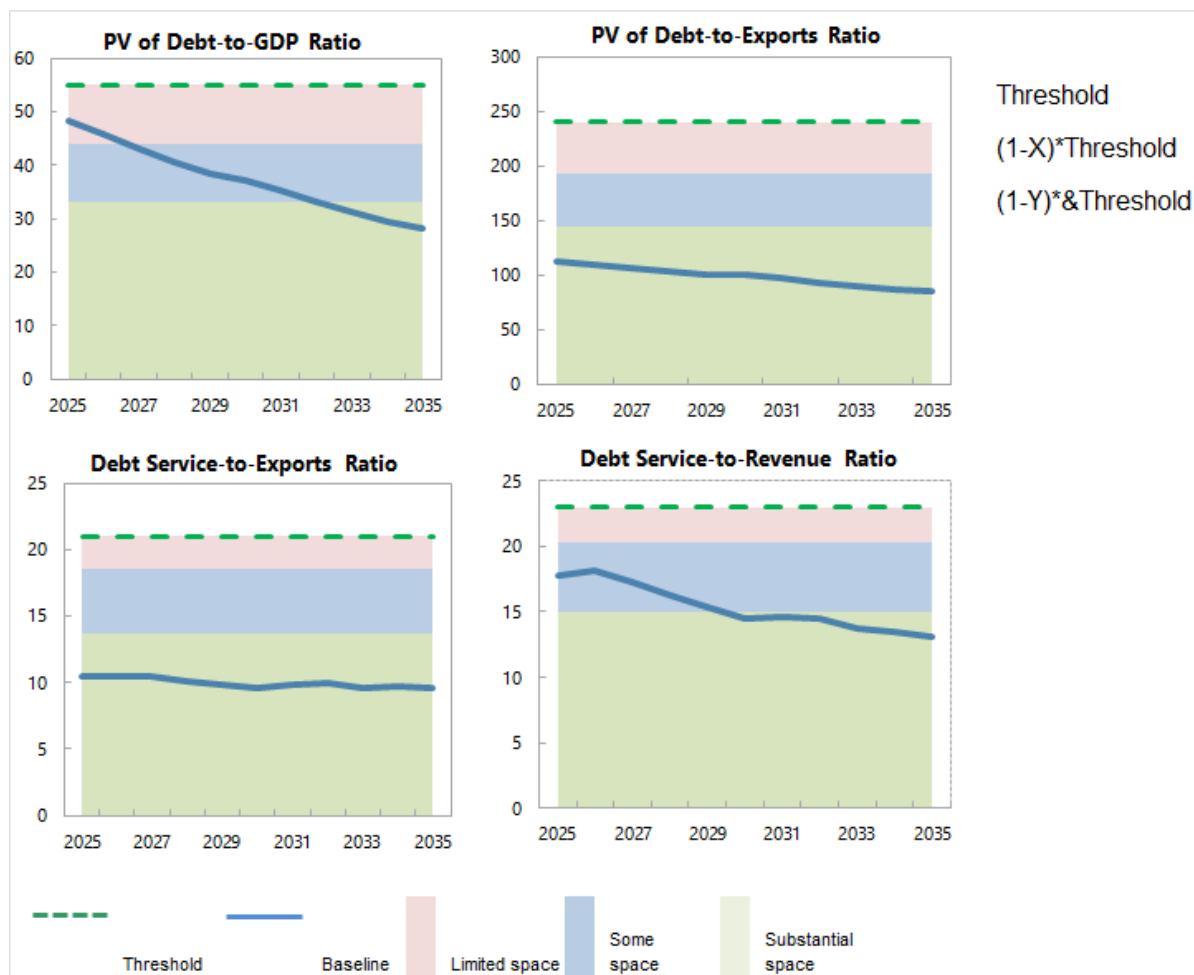
— Gov. Invest. - Prev. DSA — Gov. Invest. - Curr. DSA
 - - - Priv. Invest. - Prev. DSA - - - Priv. Invest. - Curr. DSA

Contribution to Real GDP growth
(Percent of GDP)



■ Contribution of other factors
 ■ Contribution of government capital

Figure 5. Cabo Verde: Qualification of the Moderate Category, 2024–34^{1/}



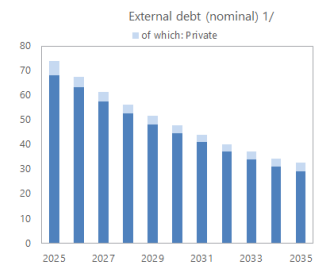
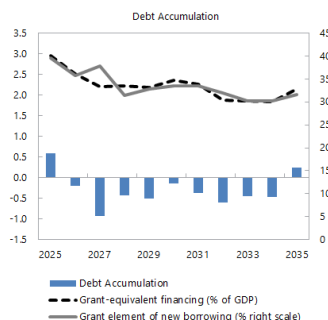
Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Table 2. Cabo Verde: External Debt Sustainability Framework, Baseline Scenario, 2024–45
(Percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2024 9/	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
External debt (nominal) 1/	89.6	73.9	67.4	61.3	56.3	51.6	47.8	32.8	24.4	102.4	49.7
of which: public and publicly guaranteed (PPG)	76.4	68.2	63.2	57.4	52.6	48.2	44.6	29.2	16.3	88.1	46.1
Change in external debt	-6.7	-15.8	-6.5	-6.1	-5.0	-4.7	-3.8	-1.5	-3.0	-3.0	-3.9
Identified net debt-creating flows	-15.1	-10.8	-6.4	-5.3	-4.0	-3.3	-2.5	-1.8	-3.1	-3.0	-3.9
Non-interest current account deficit	-6.5	-5.2	-1.8	-0.9	0.0	0.4	0.9	0.6	-1.1	2.7	-0.3
Deficit in balance of goods and services	11.5	10.0	14.3	15.3	16.3	17.0	17.6	14.1	0.0	19.2	15.2
Exports	42.5	42.7	41.4	40.3	39.1	38.1	37.1	33.3	0.0		
Imports	54.0	52.7	55.7	55.6	55.4	55.0	54.7	47.4	0.0		
Net current transfers (negative = inflow)	-17.1	-15.2	-16.1	-16.3	-16.2	-16.6	-16.8	-13.6	0.0	-16.6	-15.6
of which: official	-2.1	-1.3	-1.3	-1.2	-1.1	-1.0	-1.0	-0.7	0.0		
Other current account flows (negative = net inflow)	-0.8	0.0	0.1	0.1	0.0	0.0	0.1	0.1	-1.1	0.1	0.0
Net FDI (negative = inflow)	-3.3	-3.5	-3.3	-3.1	-2.9	-2.7	-2.6	-2.2	-1.7	-4.8	-2.7
Endogenous debt dynamics 2/	-5.4	-2.1	-1.3	-1.3	-1.1	-0.9	-0.8	-0.3	-0.2		
Contribution from nominal interest rate	2.6	2.0	1.9	1.9	1.8	1.8	1.6	1.4	1.1		
Contribution from real GDP growth	-6.4	-4.1	-3.3	-3.2	-2.9	-2.7	-2.4	-1.6	-1.3		
Contribution from price and exchange rate changes	-1.5	...	...	...	...	...	...	...	...
Residual 3/	8.5	-5.0	-0.1	-0.8	-1.1	-1.4	-1.3	0.3	0.1	2.8	-1.3
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	52.7	47.3	42.6	38.8	35.8	32.9	30.5	20.1	15.8		
PV of PPG external debt-to-exports ratio	123.9	110.9	102.7	96.4	91.4	86.3	82.2	60.4	55.8		
PPG debt service-to-exports ratio	10.9	10.4	10.1	10.1	9.6	9.4	9.1	8.2	5.4		
PPG debt service-to-revenue ratio	19.4	17.69	17.0	16.2	15.1	14.1	13.2	10.8	6.1		
Gross external financing need (Million of U.S. dollars)	213.9	266.1	391.1	458.4	521.4	568.5	627.5	847.3	1162.1		
Key macroeconomic assumptions											
Real GDP growth (in percent)	7.2	5.2	4.9	5.1	5.1	5.1	5.1	5.1	4.9	3.5	5.1
GDP deflator in US dollar terms (change in percent)	1.6	7.0	5.5	2.1	2.1	2.1	2.2	2.2	2.2	0.1	2.9
Effective interest rate (percent) 4/	2.9	2.5	2.9	3.0	3.2	3.3	3.4	4.3	4.1	2.1	3.4
Growth of exports of G&S (US dollar terms, in percent)	19.6	13.0	7.5	4.2	4.3	4.4	4.5	5.1	...	8.7	5.7
Growth of imports of G&S (US dollar terms, in percent)	3.2	9.8	17.0	7.1	6.9	6.6	6.7	4.6	...	3.0	6.9
Grant element of new public sector borrowing (in percent)	...	39.6	35.8	37.9	31.4	32.8	33.5	31.7	29.0	...	33.5
Government revenues (excluding grants, in percent of GDP)	24.0	25.2	24.6	24.9	25.0	25.3	25.5	25.2	25.1	22.5	25.2
Aid flows (in Million of US dollars) 5/	154.2	113.9	82.4	91.8	90.4	99.0	132.9	204.5	330.2	...	...
Grant-equivalent financing (in percent of GDP) 6/	...	2.9	2.5	2.2	2.2	2.2	2.4	2.2	2.0	...	2.2
Grant-equivalent financing (in percent of external financing) 6/	...	54.1	60.7	69.4	62.6	64.8	61.6	57.3	59.1	...	62.6
Nominal GDP (Million of US dollars)	2,726	3,067	3,396	3,643	3,908	4,191	4,499	6,413	11,149		
Nominal dollar GDP growth	9.0	12.5	10.7	7.3	7.3	7.3	7.3	7.4	0.0	3.5	8.1
Memorandum items:											
PV of external debt 7/	65.9	53.0	46.8	42.7	39.4	36.3	33.7	23.8	20.2		
in percent of exports	155.2	124.1	112.9	106.1	100.8	95.3	90.8	71.4	...		
Total external debt service-to-exports ratio	40.4	39.7	39.1	40.1	40.5	40.8	41.1	43.4	...		
PV of PPG external debt (in Million of US dollars)	1435.3	1451.2	1445.2	1413.6	1398.2	1378.0	1371.9	1290.3	1352.9		
(PVT-PVT-1)/GDPt-1 (in percent)	0.6	-0.2	-0.9	-0.4	-0.5	-0.1	0.2	-4.6			
Non-interest current account deficit that stabilizes debt ratio	0.2	10.6	4.7	5.2	5.0	5.0	4.7	2.1	1.8		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes



Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $(r - g - p(1+g) + \epsilon\alpha(1+r)/(1+g+p+gp))$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate; p = growth rate of GDP deflator in U.S. dollar terms; ϵ = nominal appreciation of the local currency, and α = share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

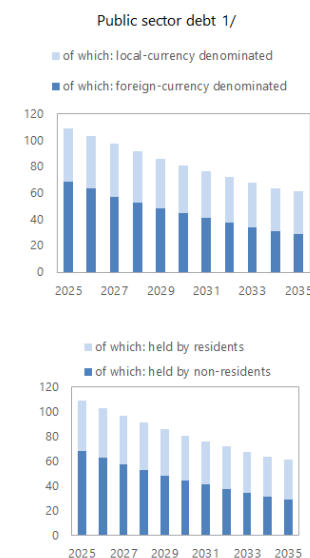
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

9/ The 2024 residual is largely accounted for by the exchange rate valuation effect, reflecting both the divergence between end-year and average exchange rates and the depreciation of the local currency against the external debt currency basket.

Table 3. Cabo Verde: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022–45
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
Public sector debt 1/	136.0	125.6	119.3	109.2	103.3	97.1	91.3	86.0	81.0	61.5	46.2	129.0	82.6
of which: external debt	88.3	80.6	76.4	68.2	63.2	57.4	52.6	48.2	44.6	29.2	16.3	88.1	46.1
Change in public sector debt	-22.2	-10.3	-6.3	-10.1	-5.9	-6.2	-5.7	-5.3	-5.0	-2.3	-2.3	0.1	-4.5
Identified debt-creating flows	-19.0	-11.9	-5.5	-6.6	-5.7	-5.9	-5.4	-5.1	-4.9	-1.7	-1.4	1.2	-0.9
Primary deficit	2.0	-2.0	-1.3	-0.9	-1.3	-1.2	-1.2	-1.2	-1.1	0.8	0.3	24.6	26.7
Revenue and grants	22.3	25.4	25.0	26.5	26.2	26.6	26.6	26.9	27.1	26.7	26.5	25.9	25.8
of which: grants	0.9	1.4	1.1	1.3	1.6	1.6	1.6	1.6	1.6	1.4	1.4		
Primary (noninterest) expenditure	24.3	23.4	23.7	25.6	25.0	25.4	25.4	25.8	26.0	27.5	26.8		
Automatic debt dynamics	-21.2	-9.9	-4.7	-6.2	-4.7	-5.2	-4.7	-4.4	-4.1	-2.5	-1.7		
Contribution from interest rate/growth differential	-27.7	-7.9	-8.4	-6.2	-4.7	-5.2	-4.7	-4.4	-4.1	-2.5	-1.7		
of which: contribution from average real interest rate	-6.1	-1.7	0.1	-0.3	0.4	-0.2	0.0	0.0	0.0	0.6	2.3		
of which: contribution from real GDP growth	-21.6	-6.2	-8.5	-5.9	-5.1	-5.0	-4.7	-4.4	-4.1	-3.1	-2.3		
Contribution from real exchange rate depreciation	6.5	-2.0	3.7	...	...	...	...	...	...	...	...
Other identified debt-creating flows	0.2	0.1	0.5	0.5	0.3	0.5	0.4	0.4	0.4	0.0	0.0	1.1	0.3
Privatization receipts (negative)	0.0	0.0	-0.4	-0.5	-0.6	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.2	0.1	0.9	1.0	0.9	0.5	0.4	0.4	0.4	0.0	0.0		
Residual	-3.2	1.6	-0.8	-3.5	-0.2	-0.3	-0.3	-0.2	-0.2	-0.7	-0.9	1.2	-0.8
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	97.3	86.8	82.7	78.6	74.5	70.7	66.9	52.4	42.0		
PV of public debt-to-revenue and grants ratio	...	...	388.8	327.6	315.2	295.8	280.4	262.6	246.6	196.5	168.5		
Debt service-to-revenue and grants ratio 3/	50.5	46.7	45.0	39.7	41.7	40.9	45.9	45.5	44.7	38.3	30.2		
Gross financing need 4/	13.9	10.3	10.8	10.1	9.9	10.1	11.4	11.4	11.3	11.0	8.2		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	15.8	4.8	7.2	5.2	4.9	5.1	5.1	5.1	5.1	5.1	4.9	3.5	5.1
Average nominal interest rate on external debt (in percent)	0.9	1.3	1.1	1.1	1.0	1.0	1.0	1.1	1.0	1.3	1.5	1.1	1.1
Average real interest rate on domestic debt (in percent)	-1.8	0.6	2.7	1.6	2.2	0.5	0.8	1.0	1.1	0.6	8.1	3.0	1.1
Real exchange rate depreciation (in percent, + indicates depreciation)	7.5	-2.5	5.0	...	...	...	...	...	...	...	...	2.4	...
Inflation rate (GDP deflator, in percent)	6.3	3.3	1.6	2.5	2.1	2.4	2.3	2.2	2.2	2.2	-4.7	2.0	2.2
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.4	0.8	8.7	13.4	2.5	6.7	5.1	6.6	6.0	11.7	4.9	2.3	6.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	24.2	8.3	5.0	9.2	4.6	5.0	4.5	4.2	3.9	3.2	2.6	12.5	4.4
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes



Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus extra budgetary funds, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (-): a primary surplus, which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 4. Cabo Verde: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt 2025–35
(Percent)

	2025	2026	2027	2028	Projections 1/					2034	2035
					2029	2030	2031	2032	2033		
PV of debt-to-GDP ratio											
Baseline	48	43	39	36	33	31	28	26	23	21	20
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	48	48	47	47	45	44	42	40	37	34	31
B. Bound Tests											
B1. Real GDP growth	48	47	48	45	41	38	35	32	29	27	25
B2. Primary balance	48	43	40	38	35	33	30	28	26	24	23
B3. Exports	48	52	64	60	56	53	50	47	44	39	36
B4. Other flows 3/	48	45	43	40	37	35	32	29	27	25	23
B5. Depreciation	48	59	50	46	42	39	35	32	29	27	25
B6. Combination of B1-B5	48	52	53	49	45	43	39	36	33	30	28
C. Tailored Tests											
C1. Combined contingent liabilities	48	45	41	39	36	34	32	30	28	26	25
C2. Natural disaster	48	45	41	38	36	33	31	29	27	25	24
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	111	103	96	91	86	82	77	72	67	62	60
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	111	116	118	119	118	118	115	111	106	100	93
B. Bound Tests											
B1. Real GDP growth	111	103	96	91	86	82	77	72	67	62	60
B2. Primary balance	111	104	100	96	91	88	83	79	74	70	68
B3. Exports	111	188	358	347	335	325	313	300	284	263	248
B4. Other flows 3/	111	108	108	103	97	93	88	83	78	72	69
B5. Depreciation	111	103	89	84	79	75	70	64	60	56	54
B6. Combination of B1-B5	111	142	115	160	152	146	139	131	122	114	108
C. Tailored Tests											
C1. Combined contingent liabilities	111	108	103	99	94	91	87	83	79	75	73
C2. Natural disaster	111	109	104	99	95	91	87	82	78	74	73
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	10	10	10	10	9	9	9	9	9	9	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	10	11	11	11	11	11	12	12	13	13	13
B. Bound Tests											
B1. Real GDP growth	10	10	10	10	9	9	9	9	9	9	8
B2. Primary balance	10	10	10	10	9	9	9	9	9	9	9
B3. Exports	10	15	24	25	25	24	24	24	26	32	30
B4. Other flows 3/	10	10	10	10	10	9	9	9	9	10	9
B5. Depreciation	10	10	10	9	9	9	9	9	8	8	8
B6. Combination of B1-B5	10	12	15	15	14	14	14	14	15	15	14
C. Tailored Tests											
C1. Combined contingent liabilities	10	10	10	10	10	9	9	9	9	9	8
C2. Natural disaster	10	10	10	10	10	9	10	10	9	9	9
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	18	17	16	15	14	13	13	13	12	11	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	18	18	18	18	17	17	17	17	18	18	18
B. Bound Tests											
B1. Real GDP growth	18	19	20	19	18	16	16	16	15	14	13
B2. Primary balance	18	17	16	15	14	13	13	13	12	12	11
B3. Exports	18	17	17	17	16	15	15	15	16	19	18
B4. Other flows 3/	18	17	16	15	14	14	13	13	13	13	12
B5. Depreciation	18	24	23	21	19	18	18	17	16	15	14
B6. Combination of B1-B5	18	18	19	18	17	16	15	15	16	16	15
C. Tailored Tests											
C1. Combined contingent liabilities	18	17	16	15	14	13	13	13	12	12	11
C2. Natural disaster	18	17	16	15	14	13	13	13	12	12	11
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 5. Cabo Verde: Sensitivity Analysis for Key Indicators of Public Debt, 2025–35
(Percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to-GDP Ratio											
Baseline	87	82	78	74	70	66	62	59	56	53	52
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	87	86	84	84	83	82	82	81	81	80	79
A2. Alternative Scenario :[Customize, enter title]	87	83	79	75	71	68	64	62	60	57	56
B. Bound Tests											
B1. Real GDP growth	87	95	106	106	106	106	106	107	107	108	109
B2. Primary balance	87	87	88	83	78	74	70	67	63	60	58
B3. Exports	87	92	103	98	93	89	84	81	77	72	68
B4. Other flows 3/	87	85	83	78	74	70	67	63	60	57	55
B5. Depreciation	87	101	96	91	86	81	77	73	69	66	64
B6. Combination of B1-B5	87	92	92	88	86	84	82	80	78	76	75
C. Tailored Tests											
C1. Combined contingent liabilities	87	98	93	88	83	79	75	71	67	64	62
C2. Natural disaster	87	93	89	84	80	76	72	69	66	63	61
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	328	314	294	278	259	243	230	221	211	201	194
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	328	325	317	313	306	301	298	301	299	298	293
A2. Alternative Scenario :[Customize, enter title]	40	41	40	44	43	42	41	40	38	38	37
B. Bound Tests											
B1. Real GDP growth	328	358	392	392	387	385	386	393	396	399	405
B2. Primary balance	328	333	330	312	291	274	259	249	237	226	218
B3. Exports	328	350	387	368	346	327	311	301	287	269	255
B4. Other flows 3/	328	323	311	295	275	259	245	236	225	213	205
B5. Depreciation	328	386	361	341	318	299	282	272	260	248	239
B6. Combination of B1-B5	328	348	344	329	317	307	299	296	290	284	281
C. Tailored Tests											
C1. Combined contingent liabilities	328	373	350	331	309	290	275	264	252	240	232
C2. Natural disaster	328	355	334	317	297	281	267	258	247	237	230
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	40	42	40	45	44	43	40	39	38	37	36
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	40	42	42	48	49	50	50	51	52	55	56
A2. Alternative Scenario :[Customize, enter title]	40	41	40	44	43	42	41	40	38	38	37
B. Bound Tests											
B1. Real GDP growth	40	46	52	61	64	66	67	71	73	76	78
B2. Primary balance	40	42	44	52	51	50	47	47	44	43	42
B3. Exports	40	42	41	47	46	45	42	41	41	45	43
B4. Other flows 3/	40	42	41	45	44	43	41	40	38	39	38
B5. Depreciation	40	45	48	53	53	52	50	51	49	49	49
B6. Combination of B1-B5	40	44	45	52	53	53	53	54	54	56	56
C. Tailored Tests											
C1. Combined contingent liabilities	40	42	52	55	55	54	52	52	46	45	44
C2. Natural disaster	40	42	48	52	52	51	49	49	45	44	43
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by the Staff Representative on Cabo Verde February 6, 2026

1. This statement is intended to update Executive Directors on macroeconomic and policy developments in Cabo Verde since the issuance of the staff report for the 2025 Article IV Consultation, Seventh Review Under the Extended Credit Facility Arrangement, and Third Review Under the Resilience and Sustainability Facility Arrangement (EBS/25/135). The new information does not alter the thrust of the staff appraisal or the recommendations set out in the staff report.

Macroeconomic Developments

2. **Macroeconomic data have remained broadly in line with staff estimates.** Real GDP growth reached 7.3 percent y-o-y in 2025Q3, driven on the supply side by services and manufacturing and on the demand side by investment and private consumption. The strong 2025Q3 outturn raises upside risks to staff's 2025 growth projection. Inflation, averaging 2.3 percent in 2025 (compared to 2.2 percent in the staff report), remains stable and in line with expectations. However, a slight uptick towards the end of 2025 to 3.3 percent y-o-y in December 2025 warrants close monitoring of continued inflation dynamics.

3. **The current account posted a deficit of 4.1 percent of GDP in 2025Q3**, consistent with staff projections of a moderation in the surplus in 2025H2, from a 5.7 percent surplus in 2025H1. The 2025Q3 deficit was driven by a strong pickup in imports of goods, more than offsetting growth in tourism revenues and remittances. Reserves reached €976 million in November 2025, equivalent to 7.2 months of prospective imports and comfortably above program targets.

4. **Monetary Survey:** As of November 2025, M2 grew by 5.5 percent y-o-y, total deposits by 5.1 percent y-o-y, and credit to the private sector by 5.4 percent y-o-y, broadly in line with, though slightly below, the projections in the staff report.

Ongoing Structural Reforms

5. **Structural reforms have continued to progress on various fronts.** The publication of annual reports and audited financial statements up to and including CY2023 (an end-December structural benchmark (SB)) has progressed, with all SOEs in compliance except for Cabo Verde Airlines (TACV), the SOE airline serving non-domestic routes. The authorities have also advanced tax collections reform, in particular regarding data exchange between the tax unit and INPS respectively RNI, and in the area of procurement (all SBs for the next review).

6. **Central Bank (BCV) Organic Law:** Following parliamentary approval on December 19, 2025, the new BCV Organic Law was promulgated by the President and published in the Official Gazette on January 26, 2026, entering into force on January 27, 2026. This represents an important governance reform that addresses a key recommendation of the July 2022 Safeguards Assessment.

**Statement by Mr. André Roncaglia, Mr. Pedro Miranda, and Ms. Elsa Delgado de Brito on
Cabo Verde
January 14, 2026**

On behalf of our Cabo Verdean authorities, we thank Mr. Schindler and his team for the insightful report. The authorities appreciate the constructive policy dialogue and engagement with staff. Since the completion of the previous review, Cabo Verde's economic environment has remained robust, despite the uncertain external environment for developing economies. The recent reclassification of Cabo Verde as an upper-middle income country by the World Bank is a testament to the strength of the country's institutions. The authorities remain firmly committed to the objectives of the ECF- and RSF-supported programs and to advancing their reform agenda.

Recent economic developments and outlook

Despite global uncertainties, the authorities have maintained macroeconomic stability. Cabo Verde's economy continues to grow, with real GDP projected at 5.2 percent in 2025, driven by strong tourism and resilient consumption. Inflation remains stable around the 2 percent target. International reserves are adequate, and the current account balance recorded a surplus in 2024 and 2025. Fiscal performance has been strong, with a primary surplus and declining debt-to-GDP ratio. The banking system remains well-capitalized and profitable, though non-performing loans require close monitoring.

The economic outlook remains positive, but downside risks persist. The authorities broadly share staff's outlook for the Cabo Verdean economy. Growth is expected to remain near 5 percent over the medium term, with inflation anchored around 2 percent. The current account is projected to return to moderate deficits as investment rises, but reserves are expected to remain adequate. Risks to the outlook are tilted to the downside, including shocks to commodity prices, global trade, and climate events, but strong policy frameworks and buffers provide important safeguards.

Program performance

Performance under the Extended Credit Facility (ECF) has remained solid. Amid a challenging global environment, program performance at end-June 2025 was strong and supportive of program objectives. All quantitative performance criteria (QPCs) and continuous PCs were met. While two indicative targets for March 2025 were not met (on social spending and net other liabilities), all end-June and September 2025 ITs were met, except for a small shortfall in the September IT on social spending due to slower-than-projected growth of health and education expenditures.

Structural benchmarks and reform measures under the Resilience and Sustainability Facility (RSF) are advancing despite challenges including reform complexity and capacity constraints. Progress on the structural reform agenda continues, with upcoming benchmarks on track or completed, including the submission to Parliament of the 2026 draft budget in line with program parameters. Cabo Verde has also made progress in advancing climate reforms under the RSF, successfully completing two out of three reform measures for the third review, including the development of a pipeline of appraised public capital projects and the implementation of disaster risk mapping. While RM7 has not been completed in full, substantial progress has been made, including the use of the climate maps developed under RM8 to identify poor and vulnerable households in climate-vulnerable areas. Reforms under the RSF have benefited from critical technical assistance from the Fund and have continued to advance, despite challenges including capacity constraints and the complexity of several of the reforms, which feature cross-dependencies between RMs, bundling of measures into single RMs, and the involvement of multiple stakeholders. The authorities remain committed to the implementation of the reform measures under the RSF.

Fiscal and debt policies

In order to ensure fiscal sustainability, the authorities are expanding the tax base through tax policy and administration measures and prioritizing spending efficiency. Cabo Verde achieved a primary surplus of 0.9 percent of GDP in 2025, surpassing earlier fiscal targets, with the 2026 budget targeting a surplus of 1.3 percent of GDP. The strong revenue performance was driven by tax policy, strengthened compliance measures, and ongoing digitalization initiatives. The 2026 budget submitted to Parliament incorporates significant tax policy reforms such as VAT modernization and reduced corporate income tax exemptions. The government maintained disciplined current spending, with wage bill growth kept below nominal GDP and rationalization of expenditures on goods and services.

The authorities are committed to scaling up public investment while strengthening fiscal risk management, particularly regarding SOEs. While capital spending budget execution has improved, the authorities are cognizant of the need for higher public investment. The authorities are committed to strengthening state-owned enterprise (SOE) governance, while also enhancing oversight of SOE financial operations and reporting. Transparency has been improved through the publication of audited SOE financial statements and more comprehensive quarterly and annual reports. Additionally, ongoing structural reforms have advanced SOE restructuring, privatization efforts, and the quality of fiscal risk analysis.

Prudent debt management and prioritizing concessional financing are key to maintaining debt sustainability. The public debt-to-GDP ratio is projected to decline well below the pre-pandemic level by end-2026. The authorities are finalizing a debt-for-climate swap agreement with Portugal, redirecting debt service payments toward climate investment projects. Updated debt legislation and a revised guarantees law are being implemented to mitigate risks. Medium-term fiscal policy is anchored on reducing debt, underpinned by ongoing revenue mobilization and expenditure reforms. The authorities aim to reduce the debt-to-GDP ratio to below 70 percent by 2034, channeling any revenue overperformance or expenditure savings toward debt reduction.

Monetary and financial policies

Monetary policy remains anchored by the exchange rate peg and the financial sector is sound. To preserve the exchange rate peg, Banco de Cabo Verde (BCV) is maintaining a positive interest rate differential with the ECB while holding adequate international reserves. The financial sector is solid, but the authorities are vigilant to risks from SOE exposures and concentrated lending. The authorities are committed to strengthening monetary policy transmission, managing excess liquidity, and advancing financial sector reforms, including the implementation of Basel III elements and enhanced supervision. Cabo Verde has continued to improve the AML/CFT framework, including by advancing legal reforms for beneficial ownership transparency. Efforts to advance financial inclusion and digital finance are ongoing, supported by regulatory reforms under discussion and collaboration with the World Bank.

Growth and climate resilience reforms

Cabo Verde's development strategy involves a broad structural reform agenda to increase resilience, competitiveness, and diversification. Cabo Verde has advanced its development agenda by implementing the Sustainable Development Strategic Plan 2022-2026 (PEDS II) reforms focused on supporting SMEs, boosting private sector growth, and reducing utility costs. Other priorities include enhancing inter-island connectivity and investing in the blue and digital economies. Social protection is being expanded, with a focus on improving targeting and coverage. Additionally, the business environment has been enhanced through digitalization initiatives and the streamlining of legal procedures.

Climate resilience is a central pillar of the reform agenda. The RSF supports Cabo Verde's climate adaptation and transition by strengthening climate governance, boosting physical resilience, improving energy efficiency, promoting sustainable water management, and enhancing the financial sector's ability to withstand climate-related risks. Efforts to unbundle the energy sector and reform tariffs are underway to attract private investment and reduce reliance on fossil fuel imports. The authorities are committed to achieving their national climate commitments (NDC) targets and building resilience to climate shocks.

Concluding remarks

Cabo Verde continues to benefit from its close engagement with the Fund. While recognizing implementation challenges, the authorities have taken decisive steps to maintain program momentum. The authorities view the ECF- and RSF-supported programs as essential to navigate current challenges and strengthen resilience. They greatly appreciate the support of Executive Directors in advancing these objectives and look forward to continued close engagement with the Fund.