Cape Verde and the IMF

Press Release:
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June 19, 2009

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Cape Verde: Letter of Intent and Technical Memorandum of Understanding

May 29, 2009

LETTER OF INTENT

May 29, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington DC 20431
USA

Dear Mr. Strauss-Kahn:

1. **The government of Cape Verde reaffirms its commitment to the policy priorities of the Policy Support Instrument (PSI) and formally requests a one-year extension of the PSI**. The current three-year PSI was approved by the IMF Executive Board in July 2006 and is due to expire in July 2009. Discussions for the 6th review of the PSI and for this request for the one-year extension were held in Praia during April 3−15, 2009. This Letter of Intent reviews implementation to date of the Cape Verde government's macroeconomic and structural program as set out in the December 2008 LOI and MEFP and presents the government's objectives and policy actions for the PSI extension period.

2. **The one year extension period will serve as a bridge for a new three-year PSI to start in 2010**. The government will use the extension period to take stock of the lessons learnt and conduct its own ex-post assessment of progress under the PSI. A continued commitment on the PSI objectives during the extension period will maintain a disciplined macroframework to anchor expectations of private sector and international donor partners. The ex-post assessment will form the basis to design the new three-year PSI drawing lessons from the first PSI and pave the way for enhanced ownership by the government of Cape Verde of the PSI under a new paradigm.

3. **Under the PSI, the government will regularly update the IMF on economic and policy developments and will provide the data needed for adequate monitoring of the program.** The seventh and eighth reviews under the PSI are scheduled to be completed by end-November 2009 and end-May 2010, respectively. During the period of the PSI, Cape Verde will consult with the IMF on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director of the IMF requests such a consultation. We authorize the IMF to publish this letter of intent and the staff report.

Recent developments and program performance

4. **Growth in 2008 is likely to meet the government's projections and inflation receded as a result of the exchange peg with the euro.** While the effects of the global crisis started to be felt in late 2008, growth during last year is estimated to be in line with trend growth of 6–7 percent supported by tourism, remittances, FDI and public works. Inflation declined to low single digit as a result of the decline in energy and food prices.

5. **The PSI targets and benchmarks set in the 5th review for end-December 2008 were broadly met.** All but one quantitative target were observed and the government has taken corrective actions for the nonobservance of the assessment criterion on net domestic assets of the Bank of Cape Verde (BCV).

- The targets for net foreign reserves of the central bank (BCV) and net domestic borrowing of the central government were met. On foreign reserves, the BCV successfully stemmed the reserve losses last summer and brought the reserve level above the program floor observed at end-December 2008. The net domestic borrowing ceiling of the government was also observed although the margin was not as wide as expected owing to shortfall in land sales.

- The ceiling on net domestic assets (NDA) of the BCV was exceeded because of unusual market condition during December 2008 which made the coordination between fiscal and monetary policy less effective, and pre-payment of domestic bonds maturing in 2010 by Treasury. Thus, we are requesting a waiver for the nonobservance of the assessment criterion. This temporary deviation from the program resulted from the benign early debt repayment, which is part of our debt management strategy of smoothing the maturity profile to minimize rollover difficulties. The Treasury has already replenished its deposits at the BCV, thereby bringing the NDA level in line with the program. Further corrective measures to avoid a repeat are described below (¶12 and 14).

6. **The implementation of structural measures continues steadily**. The statistics of state owned enterprises were compiled and a report on contingent liabilities will be submitted to the Council of Ministers by end-June; financial controllers will also be placed in line Ministries by end-June. The new Income Tax Codes will be submitted to Parliament in June. Difficulties in obtaining data from banks led to the delay in the preparation of the quarterly reports on interest-sensitivity of balance-of-payments flows. We expect to start preparing these reports quarterly by end-June 2009.

Macroeconomic objectives and policies

Macroeconomic objectives

7. **During the extension of the program, the PSI will continue to aim at maintaining appropriate level of foreign reserves and public debt stock to support the exchange rate peg.** Although imports are projected to increase, reserve levels will remain between 3½–4 months of imports and the domestic debt will remain below 20 percent of GDP. The PSI's measures and quantitative targets are set out in Tables 1 and 2.

8. **The government recognizes that Cape Verde's highly open economy will not be immune to the impact of a protracted global recession**.

- In particular, **real GDP growth** is expected to slow down in 2009–10 compared to 2009 budget forecast. While the moderation in growth is likely to stem from the projected global slowdown in tourism and FDI flows, offsetting fiscal policies will continue to sustain growth. The outlook is subject to large margins of error given the uncertainty about both the depth and duration of the global recession and the likely resilience of Cape Verde's economy to the global economic cycles which has shown to be the case in previous economic downturns.

- **Inflation** will continue to decline to low single digits consistent with the peg to the euro and the high pass-through of international prices in our open economy. We forecast CPI inflation to average about 3–4 percent in 2009-10.

Fiscal policy

9. **The government will adopt a countercyclical fiscal policy to offset the decline in private external flows while preserving debt sustainability and contributing for the stability of the macroeconomic environment.** First, the budget deficit is now projected to increase relative to the 2009 budget due to the deceleration of tax revenues resulting from the impact of lower growth. Beyond this we are also expanding the public investment program above what was envisaged in original 2009 budget as a discretionary measure and such spending will focus on those projects that partly uses domestic goods and services which will likely to be more effective in supporting domestic activity. We will also protect social spending in the budget as the global crisis is likely to hit hardest the poor and vulnerable segments of the population. The higher fiscal deficit from lower revenues and higher capital spending will be financed by additional concessional loans already secured with development partners. These external concessional funds will allow supporting economic activity while preserving foreign reserves and debt sustainability. As contingency measures, we stand ready to take offsetting adjustment in case of a more protracted global recession has even a larger impact on total revenues that we expect. We will explore efficiency gains from the current spending and second we would moderate that part of capital spending that have a high import content. In addition, we will also press ahead to enact the Tax Exemptions Code and the new Income Tax Code thereby repealing tax exemptions and expanding the tax base.

10. **On the structural front, we will continue to improve public financial management and debt management capacity to ensure continued low risk of debt distress.** We will do two exercises to ensure that our fiscal countercyclical program is consistent with debt sustainability. Both exercises are new structural PSI benchmarks under the PSI:

- We will conduct a new **mid-year fiscal review** that will include projections for end 2009, and justify that the external borrowing in the current year is consistent with debt sustainability. This exercise will draw on the DSA that we will conduct in early 2009 ahead of the preparation of the 2010 budget.

- We will present a new **Medium-Term Fiscal Framework (MTFF)**[1] for the period 2010–12 MTFF in the budget write-up (“Enquadramento”). This new MTFF will show the implied debt trajectory and demonstrate that the trajectory is consistent with debt sustainability. This exercise will also draw in our 2009 DSA.

11. We will develop and implement a medium-term debt strategy (MTDS). As we increasingly borrow in nonconcessional terms, and prepare to take risks in public-private partnerships in particular for the energy sector, our MTDS will help us to pursue the ideal composition of our debt portfolio, which makes the appropriate risk-cost trade-off. The MTDS will be developed with technical assistance from the Fund and the World Bank. To this end, we recently reinforced the staff of our Debt Management Unit as pointed out in our previous Letter of Intent. We will also continue to strengthen our debt statistics and the institutional framework for debt management, namely by implementing procedure manuals, strengthening the coordination between monetary and fiscal policies, etc, in line with the recent technical assistance received from the World Bank and the IMF. These actions will strengthen capacity for fiscal policy formulation and improve the internal procedures for debt management.

12. **The government is committed to strengthen the coordination of fiscal policy and monetary management to support the exchange rate peg.** The MTDS will take into account recommendations from the FSAP of using Treasury securities for monetary policy operations. Using Treasury securities currently not held by the BCV for monetary management will reduce the net credit to the central government at the BCV. Under the extended PSI, the Ministry of Finance will have monthly meetings with the BCV Board to monitor macroeconomic developments and if needed the Treasury will take policy actions to limit the burden of monetary management on the BCV. To lay the foundation for a strengthened coordination between the Treasury and the BCV, the BCV will prepare a short memorandum that will describe the key elements of this enhanced coordination of managing liquidity and articulation of the appropriate policy responses. This memorandum, which will be a new structural benchmark under the extended PSI program, will be discussed by the PSI monitoring committee by end-July 2009 and sent to the Minister of Finance and Governor of BCV for approval by end-August 2009. These actions will enhance coordination between the Treasury and the BCV in controlling systemic liquidity and avoid the nonobservance of the NDA ceiling.

13. **The government is taking action to address contingent liabilities arising from state-owned enterprises (SOEs).** The statistics of state-owned enterprises compiled recently (a PSI benchmark) confirmed that immediate action is needed to limit fiscal risks from SOEs.

[1] As done in 2008, our 2009 MTFF will present the revenues, expenditure, domestic financing and external financing for 2010–12. In addition, the 2009 MTFF it will show the implied trajectory for the domestic debt and external debt.

These conclusions were presented to the Council of Ministers in a report on contingent liabilities (a PSI benchmark). The Council of Ministers decided to take a bold action to put both the electricity company Electra and the airline TACV on a viable restructuring plan. The government will continue to monitor state-owned enterprises, widen the coverage of SOEs statistics and its timeliness, and update the risk assessment continuously. To avoid the emergence of fiscal risks, the government will enact Law of State Enterprises and Public Managers. These measures aim to improve the control and monitor of the sector, by establishing a set of rules and procedures which will serve as a framework for the regulation of sector, permitting a re-structuring of the public enterprises in order to become an instrument for economic policies. Moreover, they will allow a change of paradigm in the management of the parastatals, to become result/objective oriented.

Monetary management and financial sector policies

14. **The BCV will continue to conduct monetary management passively consistent with the exchange rate peg and a largely open capital account.** Domestic interest rates will continue to be set in a timely manner to follow the euribor adjusted for country risk premium to smooth short term capital flows. This policy has served the economy well given the strong correlation of Cape Verde growth cycles and that of the Euro area, particularly Portugal. Looking ahead, given the expectations that the global recession will most likely be protracted and recovery is only expected by mid-2010, the ECB policy rate could decline further. As such there may be some scope for reducing our BCV policy rate marginally. The Treasury will actively assist the BCV to control systemic liquidity (¶12), and over time the BCV will focus on the short end of the yield curve and the Treasury will focus on the long-end of the yield curve. The legislation will be amended to address the tax wedge between the returns on Treasury and BCV securities. To facilitate secondary trading, each vintage of securities will have a uniform interest rate so that securities are fungible. Overall, as passive monetary management takes hold supported by fiscal policy, the BCV will increasingly focus on financial stability issues and ensure a enabling environment for the efficient functioning of money markets.

15. **The BCV will vigorously address the weaknesses identified in the FSAP report to strengthen the financial system.** Onshore banks' small capital buffers drove capital ratios temporarily below the 10 percent minimum during the fall 2008. The offshore banks are a source of reputational risk resulting from their size and the lighter regulation and supervision. To address these weaknesses we will implement two new PSI benchmarks:

- To end forbearance with the onshore sector, the BCV will promptly inform the Fund of the measures taken in the event that the capital ratio of any bank falls below the regulatory minimum. To this end, the BCV will strengthen its enforcement tools to keep banks capital ratios above the minimum ratio. This minimum level is now a new continuous quantitative indicative target in the PSI.

- The government will revisit its strategy regarding the offshore sector and present a Policy Strategy Memorandum to the Council of Ministers making a clear choice between strengthening the offshore sector substantially or winding it down. The Proposal will reassess whether the risks of the offshore sector are tolerable in light of the small benefits brought by the sector. The risks arise from the size of the offshore sector (a deposit base more than twice the country's GDP), the risk of contagion to the onshore sector, and of damage to Cape Verde's good reputation. The benefits of the offshore sector do not seem to be that substantial because the offshore sector creates little fiscal revenues and just a handful of jobs. The government recognizes that developing the sector as a long-term growth strategy requires complying with strong pre-conditions in terms of regulation and supervision especially in light of recent emphasis put by the international community on strengthening financial sector regulation in offshore financial centers. If the Council of Ministers decide to retain the offshore sector as a long-term development strategy, the government will in that case allow only offshore banks with clear ownership links with well-supervised banks in mature markets while enhancing BCV's supervision unit to strengthen capacity to monitor offshore banks.

16. **Finally, given the uncertain times in the global financial environment and the likelihood of a more protracted global recession, the government of Cape Verde is developing and putting in place a crisis response framework.** The government's efforts in this area will cover the needed legislative changes that would be required to execute such a crisis response system as promptly as possible when the need arises.

Sincerely yours,

/s/
Cristina Duarte
Minister of Finance

Table 1. Cape Verde: Quantitative Assessment Criteria and Indicative Targets for 2009 Under the PSI [1, 2]

	Stock 2007	Cumulative Flows from End-Dec, 2007 2008				Cumulative Flows from End-Dec, 2008 2009			
	Dec.	Dec.				March	June	Sep.	Dec.
	Actual	Assessment Criteria	Assessment Criteria with adjusters	Flow Est.	Stock Est.	Indicative Targets	Assessment Criteria	Indicative Targets	Assessment Criteria
Quantitative targets				(Billions of Cape Verde escudos)					
Ceiling on net domestic borrowing of the central government [3]	...	-1.7	0.0	-3.2	...	-0.1	1.4	1.7	2.0
Ceiling on net domestic assets of the central bank [4]	-3.6	-0.4	-0.6	-0.1	-3.7	-0.9	4.9	4.9	4.9
Ceiling on the accumulation of new domestic payment arrears by the central government	...	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0
				(Millions of U.S. dollars)					
Ceiling on the accumulation of new external payment arrears by the central government [5]	…	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0
Ceiling on the contracting or guaranteeing of non-concessional external debt with original maturity of more than one year by the central government [6]	...	90.0	90.0	78.4	...	8.8	22.5	28.8	35.0
Ceiling on the outstanding stock of nonconcessional external debt with a maturity of less than one one year by the central government [5,7]	…	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0
				(Millions of euros)					
Floor on net international reserves of the Bank of Cape Verde (BCV) [8]	250.0	10.0	11.5	19.5	269.5	13.1	-19.5	-19.5	-19.5
				(Percentage)					
Floor on the regulatory capital ratio of individual banks[9]		…	…	…	…	…	10.0 [9]	10.0 [9]	10.0 [9]
Memorandum item: **Program assumptions**				(Billions of Cape Verde escudos)					
Nonproject external financial assistance, including credit line (program assumption)	...	2.4	...	2.4	...	0.8	1.5	2.3	3.1
External debt service	...	2.6	...	2.4	...	0.5	1.4	2.1	2.8
Land sales	...	2.8	...	1.0	...	0.4	1.0	1.3	1.6
Clearance of end-2006 stock of domestic arrears	...	1.5	...	1.3	...	0.6	0.8	1.6	2.5

[1] Quantitative assessment criteria and benchmarks are described in the technical memorandum of understanding.

[2] For purposes of calculating program adjusters, foreign currency amounts will be converted at current exchange rates.

[3] Excluding borrowing for clearance of arrears and net late payments. The ceiling will be adjusted upward by the cumulative upward deviation in external debt service, and by the cumulative downward deviation in nonproject external financial assistance and land sales relative to program assumptions. The ceiling will be adjusted downward by the cumulative downward deviation in external debt service and by the cumulative upward deviation in land sales relative to program assumptions. The ceiling will be adjusted upward by the costs of restructuring state-owned enterprises up to a limit of CVE 1.5 billion.

[4] The ceiling will be adjusted upward by the cumulative upward deviation in external debt service and by the cumulative downward deviation in nonproject external financial assistance relative to program assumptions. The ceiling will be adjusted downward by the cumulative downward deviation in external debt service relative to program assumptions. The ceiling will be adjusted upward by the costs of restructuring state-owned enterprises up to a limit of CVE 1.5 billion.

[5] This assessment criterion is on a continuous basis.

[6] This assessment criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000), but also commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements, the Portuguese credit line, and borrowings from the Fund.

[7] The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt. Excluded from this performance criterion are rescheduling arrangements, the Portuguese credit line, borrowings from the Fund, and normal import-related credits.

[8] The floor on net international reserves of the Bank of Cape Verde will be adjusted downward by the cumulative upward deviation in external debt service, by the cumulative downward deviation in nonproject external financial assistance relative to program assumptions, and by the costs of restructuring state-owned enterprises up to a limit of 13.6 million euros. The floor will be adjusted upward by the cumulative downward deviation in external debt service relative to program assumptions. Additionally, in the case Cape Verde participates in any SDR allocation(s) between June 30, 2009 and the test date, this floor will be adjusted upwards by the equivalent of the amount of the cumulative additional SDR allocation(s) up to the test date measured at program exchange rates.

[9] The floor on banks' regulatory capital ratios is an indicative floor for all test dates. This indicative target is continuous.

Table 2. Cape Verde: Structural Benchmarks for 2008–09 [1]

Objectives	Structural Benchmark	Timing	Status
Strengthen tax base	Submit the draft individual and corporate income tax bills to the National Assembly.	End-Oct. 2008	Not Met. To be implemented in June
Promote financial stability	Prepare a quarterly report on developments on balance of payments flows, including an assessment of interest sensitivity of non-resident flows into the banking system.	End-Dec. 2008	Not Met. To be implemented in June
Strengthen public financial management	Place financial controllers in each line ministry to monitor the budget execution as specified in Regulatory Decree 2/2007 of 15 January.	End-Mar. 2009	Not Met. To be implemented in June
Strengthen debt management	Compile: • Other Economic Flows arising from the holding gains or losses for five state-owned enterprises (ASA, TACV, Enapor, Electra and IFH) relative to their 2007 results (holding gains and losses are defined in the IMF's Government Finance Statistics Manual 2001) (MEFP ¶9). • Consolidated balance-sheet of five state owned enterprises (ASA, TACV, Enapor, Electra and IFH) and detail their debt by maturity, currency, residency, and state guarantees (MEFP ¶9).	End-Mar. 2009	Met
Strengthen debt management	Submit to the Council of Ministers a report on contingent liabilities of the state assessing potential risks based on the 2007 or more recent data, including those risks arising from state-owned enterprises. (MEFP ¶9).	End-Mar. 2009	Not Met. To be implemented in June
	New structural benchmarks		
Strengthen debt management	Conduct a mid-year review of fiscal performance, including projections for end 2009, justifying that the envisaged borrowing is consistent with debt sustainability. (LOI ¶10)	End-August 2009	
Strengthen debt management	Include a medium-term fiscal framework (MTFF) for 2010-2012 in the 2010 budget's write up ("Enquadramento") describing the implied debt trajectory and justifying that the envisaged borrowing is consistent with debt sustainability. (LOI ¶10)	End-October 2009	
Strengthen fiscal-monetary policy coordination	BCV to prepare a short memorandum on strengthening monetary-fiscal policy coordination in managing liquidity to be discussed by PSI Monitoring Committee and endorsed by Ministry of Finance and BCV. (LOI ¶12)	End-August 2009	
Strengthen the financial sector	Inform the Fund of measures taken in the event that the capital ratio of one (or more) banks falls below 10 percent. (LOI ¶15)	Continuous effective June 2009	
Strengthen the financial sector	Present a Policy Strategy Memorandum to the Council of Ministers on the offshore sector. (LOI ¶15)	End-September 2009	

[1] Measures outstanding at the time of the 5th PSI review as per Letter of Intent (LOI) available in Country Report 08/248.

[2] The simplified MTFF specifies annual revenues, expenditures, domestic financing, external financing, and the implied trajectory for the domestic debt and external debt during the next three years.

ATTACHMENT I

TECHNICAL MEMORANDUM OF UNDERSTANDING

17. This memorandum sets out the understandings between the Cape Verdean authorities and the IMF staff regarding the definition of assessment criteria and indicative targets and reporting requirements for the seventh and eighth reviews under the Policy Support Instrument.

I. QUANTITATIVE ASSESSMENT CRITERIA AND INDICATIVE TARGETS

A. Net Domestic Borrowing Excluding for Clearance of Arrears and Net Late Payments

18. **Net domestic borrowing excluding for clearance of arrears and net late payments** is defined as the cumulative change since the start of the calendar year of the net credit to the central government from the banking and nonbanking sectors less (1) the cumulative clearance during the calendar year of the stock of arrears as of the end of the previous year and (2) the cumulative payments during the first three months of the calendar year of expenses authorized by the previous year's budget, plus the expenses accrued during the current year that will be paid during the first three months of the next calendar year as provisioned for in the budget law (late payments or *atrasados*).

- The ceiling will be adjusted upward by
  - i. the cumulative upward deviations in external debt service, by
  - ii. the cumulative downward deviations in nonproject external financial assistance and land sales relative to program assumptions, and by the costs of restructuring state-owned enterprises up to a limit of CVE 1.5 billion.
- The ceiling will be adjusted downward by
  - iii. the cumulative downward deviation in external debt service and by
  - iv. the cumulative upward deviation in land sales relative to program assumptions.

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

20. **Reporting requirements.** Data on the implementation of the budget compiled by the Ministry of Finance and Public Administration will be provided on a quarterly basis, to be submitted no later than five weeks after the end of each quarter, including (i) government domestic revenue by category; (ii) external budget support grants; (iii) government expenditure, including primary current expenditure, domestic and external interest payments, and capital expenditure, including domestically and budget support financed capital expenditure and estimates of externally project financed capital expenditure; (iv) the gross payment and gross accumulation of domestic accounts payable (*atrasados*); (v) the gross payment and gross accumulation of domestic payments arrears; (vi) external loan receipts and principal payments; (vii) external arrears payments and accumulation; (viii) bank and nonbank financing; (ix) privatization and land sale receipts; and (x) any other revenue, expenditure, or financing not included above.

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

B. Net Domestic Assets of the Central Bank

22. The ceiling on the cumulative change, from the beginning of calendar-year 2009, in net domestic assets of the BCV constitutes an assessment criterion. **Net domestic assets (NDA) of the BCV** are defined as reserve money minus net foreign assets of the BCV, evaluated at the current end-of-period exchange rates.

- The program ceilings for NDA will be adjusted upward by
    i. the cumulative upward deviations in external debt service, by
    ii. the cumulative downward deviations in nonproject external financial assistance relative to program assumptions, and by the costs of restructuring state-owned enterprises up to a limit of CVE 1.5 billion.
- The ceiling will be adjusted downward by the cumulative downward deviation in external debt service relative to program assumptions.

For purposes of calculating the adjusters, these flows will be valued at current exchange rates. Reserve money comprises bank reserves and deposits of the monetary institutions and private sector with the central bank, as well as cash in circulation.

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

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

24. Under the program, ceilings on medium- and long-term, as well as on short-term, nonconcessional external debt constitute assessment criteria. The ceiling on medium- and long-term nonconcessional external debt is on a quarterly basis while the one on short-term nonconcessional external debt is on a continuous basis. Nonconcessional external debt is defined as debt contracted or guaranteed by the central government with a grant element of less than 35 percent, calculated using currency-specific commercial interest reference rates (CIRRs) published by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Debt rescheduling and debt reorganization are excluded from the limits on nonconcessional external debt. The limits on new nonconcessional external debt contracted or guaranteed by the central government (excluding borrowing from the Fund) are specified in Table 1 of the Letter of Intent. The definition of short-term nonconcessional external debt excludes normal short-term (less than one year) import-related financing. The Portuguese government's precautionary credit line in support of the exchange rate peg is also excluded from the definition of nonconcessional external debt. The assessment criterion on medium- and long-term nonconcessional external indebtedness applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), 8/24/00) but also to commitments contracted or guaranteed for which value has not been received. With respect to the assessment criterion on short-term nonconcessional external indebtedness, the term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), 8/24/00).

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

D. Net International Reserves of the Central Bank

26. The floor on the cumulative change, from the beginning of calendar-year 2009, in net international reserves (NIR) of the BCV constitutes an assessment criterion under the program. **The NIR of the BCV** are defined as gross international reserves of the BCV net of its external reserve liabilities, calculated at the current exchange rates. Gross reserves of the BCV are those 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. External

liabilities of the BCV comprise liabilities to nonresidents contracted by the BCV with an original maturity of less than a year, any net off-balance-sheet position of the BCV (futures, forwards, swaps, or options) with either resident and nonresidents, any arrears on principal and interest to external creditors and suppliers, and purchases from the IMF.

- The program floors for the NIR will be adjusted downward by

    i. the cumulative upward deviations in external debt service, by

    ii. the cumulative downward deviations in nonproject external financial assistance relative to program assumptions, and by the costs of restructuring state owned enterprises up to a limit of € 13.6 million. For purposes of calculating the adjusters, these flows will be valued at current exchange rates.

- The floor will be adjusted upward by the cumulative downward deviation in external debt service relative to program assumptions. Additionally, in the case Cape Verde participates in any SDR allocation(s) between June 30, 2009 and the test date, this floor will be adjusted upwards by the equivalent of the amount of the cumulative additional SDR allocation(s) up to the test date measured at program exchange rates.

27. **Reporting requirements.** A table on the NIR prepared by the BCV will be transmitted on weekly basis, with a maximum delay of two weeks.

E. Nonaccumulation of New Domestic Payments Arrears

28. 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.

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

F. Nonaccumulation of External Payments Arrears

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

31. External arrears are defined as total external debt-service obligations of the government that have not been paid by the time they are due, except where agreements between the government and creditors explicitly provide for a grace period after such obligations falling due. External arrears exclude arrears on external debt, pending the conclusion of debt-rescheduling agreements.

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

II. Other Data Requirements

33. 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 five weeks after the end of each quarter.

34. The Statement of Other Economic Flows as defined in the IMF Manual GFSM2001 relative to holding gains/losses of the previous year with Enapor, Electra, ASA, TACV, 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).

35. The consolidated balance sheet of Electra, Enapor, ASA, TACV 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).

The table of Financial Soundness Indicators and the regulatory capital ratios of individual banks will be transmitted to the IMF on a monthly basis within six weeks after the end of each month. The nomination of individual banks is optional.