



UNION OF COMOROS

October 2021

REQUEST FOR A STAFF-MONITORED PROGRAM — PRESS RELEASE; AND STAFF REPORT

In the context of the Request for a Staff-Monitored Program, the following documents have been released and are included in this package:

- **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's following discussions that ended on August 23, 2021, with the officials of the Union of Comoros on economic developments and policies underpinning the IMF Request for a Staff-Monitored Program. Based on information available at the time of these discussions, the staff report was completed on October 4, 2021.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**International Monetary Fund
Washington, D.C.**



IMF Management Approves a Staff Monitored Program for the Union of the Comoros

FOR IMMEDIATE RELEASE

- *The Staff-Monitored Program (SMP) will help to build a strong track record of policy and reform implementation, possibly paving the way for an IMF-supported program.*
- *The six-month SMP will support the government's program of reforms aimed at (i) supporting the recovery from the COVID-19 pandemic including by providing cash transfers to the poor; and (ii) enhancing prospects for inclusive growth by strengthening fiscal revenue, public financial management, and governance.*

Washington, DC – October 29, 2021: On September 29, 2021, the Management of the International Monetary Fund (IMF) approved a [Staff-Monitored Program](#) (SMP) for Comoros for the period July - December 2021.¹

Comoros has been significantly affected by the COVID-19 pandemic. The number of recorded casualties has remained comparatively low, but the pandemic has nevertheless disrupted economic activity and depressed growth.

The authorities' top priority since the pandemic hit has been to limit the impact on the health of the population and preserve macroeconomic and financial stability. This required financial support from the international community, including emergency financing under the [Rapid Credit Facility \(RCF\)](#) and [Rapid Financing Instrument](#) (RFI) [approved in April 2020](#). Comoros' participation in the debt service relief approved under the [Catastrophe Containment and Relief Trust](#) and the [G20 Debt Service Suspension Initiative](#) has provided additional resources to fight the pandemic and preserve debt sustainability.

The authorities are providing substantial fiscal support to the economy in 2021. Spending includes, among other things, substantial cash transfers to the poor, financed in part through the [IMF's allocation of Special Drawing Rights](#) (SDRs).

Comoros now has a window of opportunity to recover robustly from the pandemic while at the same time improving prospects for reaching higher and more inclusive growth over the medium term, all while preserving debt sustainability. The SMP aims to help the authorities establish a track record of policy implementation to pave the way to a potential arrangement under the Extended Credit Facility.

Key links:

[Union of the Comoros and IMF](#)

¹ SMPs are informal agreements between country national authorities and IMF staff to monitor the authorities' economic program. As such, they do not entail endorsement by the IMF Executive Board (with the exception of SMPs under the [Heavily Indebted Poor Countries](#) (HIPC) process). SMP staff reports are issued to the Board for information.



UNION OF THE COMOROS

REQUEST FOR A STAFF-MONITORED PROGRAM

October 4, 2021

EXECUTIVE SUMMARY

Background: Comoros is a small, fragile island state (population: 850,000) with persistently low and shock-prone growth. The last Article IV Consultation (completed in early 2020) assessed Comoros' fragility as arising from two vicious circles: economic fragility manifests in low fiscal revenue, insufficient government investment in human and physical capital, and pronounced vulnerability to shocks; while institutional fragility manifests in governance challenges, low government implementation capacity, and a weak judicial system. The circles feed into each other, undermining economic performance and stability. Overcoming fragility requires breaking both circles.

Impact of COVID: Following the damage wrought by Cyclone Kenneth in 2019, the COVID pandemic dealt Comoros another setback through two waves in 2020 and early 2021. Officially reported infections and casualties have remained low (4,035 infections, 147 deaths as of mid-August 2021), but the economy is estimated to have contracted by 0.5 percent of GDP in 2020 (against pre-COVID growth projections of 4.4 percent) due to pandemic-related disruptions and much lower visitor arrivals. The Fund provided emergency financial support under the RCF/RFI in 2020, as it had done after Cyclone Kenneth in 2019.

Short-term outlook: Growth prospects for 2021 remain muted, given slow progress in vaccinations. The possibility of a new wave of infections, including due to the Delta variant, is a significant risk. The World Bank (WB) intends to provide financing for vaccination needs over 2021-23.

Structural BoP needs and Fund support: Although official reserves are not currently low, Comoros has a protracted BoP problem due to a need to raise investment in human and physical capital to achieve higher and more inclusive growth, and ultimately convergence with more developed countries. Fiscal and associated BoP financing needs are expected to open up starting in 2022 owing in part to difficulties in SOEs and debt service obligations from recent non-concessional borrowing. Comoros could thus benefit from a potential ECF arrangement that could start in 2022 to move to a higher growth path and help fill associated financing gaps. In case of a third wave of COVID infections, financing needs could arise even earlier and exceed currently projected levels.

SMP objectives: The SMP aims to help the authorities establish a track record of policy implementation to pave the way to a potential ECF arrangement. Policies will aim to (i) contain and recover from the pandemic; and (ii) start implementing reforms to overcome fragility, boost inclusive growth, and limit risks, drawing on the medium-term strategy laid out in the 2019 Article IV consultation. In particular:

- To tackle economic fragility, the government's top priority will be to raise fiscal revenue to support investment in human and physical capital and enhance debt sustainability. The authorities will aim to enhance the quality of spending, improve public financial management, strengthen SOE oversight, and strengthen the financial sector to enable greater credit provision as well as limit fiscal risks. In time, the authorities will also seek to enhance resilience to natural disasters.
- To tackle institutional fragility, the authorities will aim to strengthen governance and reduce vulnerability to corruption, including by preparing for enhanced public reporting on all large public procurement projects (with the inclusion of beneficial ownership information) and creating an effective asset declaration framework for senior public officials.

SMP design: The SMP will cover the period July-December 2021, with test dates at end-September and end-December 2021. Conditionality will help the authorities achieve their short-term goals and initiate progress on the longer-term goals. Structural conditionality, which is parsimonious given the authorities' limited implementation capacity, focuses on the priority areas of governance, revenue mobilization, public financial management, and SOE reform.

Staff supports the request for an SMP. The authorities' policy plans and related commitments should help them establish a track record for a potential UCT-quality program that would allow the country to recover from the pandemic and steer it towards macroeconomic stability and sustainable growth.

Approved By
**Vivek Arora (AFR) and
 Andrea Schaechter
 (SPR)**

Discussions took place remotely during July 22- August 23, 2021. The IMF staff team included Mr. H. Weisfeld (head), Mr. G. Srour, Ms. L. Drissi Bourhanbour, Mr. B. Kett (all AFR), Mr. I. Ahamada (economist in the Resident Representative Office), and Mr. D. Blache (MCM). Staff from FAD, LEG, and AFRITAC South participated in several meetings. Mr. S. Gui-Diby (World Bank) accompanied the team. The mission discussed with Minister of Finance Chayhane, Central Bank Governor Imani, Secretary General of the Ministry of Finance Ahamada, and other senior officials. Ms. F. Aliu and Ms. D. Bieleu (both AFR) assisted in the preparation of this report.

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BACKGROUND

1. **Following Cyclone Kenneth of 2019, the COVID-19 pandemic dealt Comoros another setback**, adding to the challenges from the country's fragility and small size. While the number of reported infections and deaths remains low, the economy broadly stagnated in 2020. Given slow progress in vaccination, growth prospects for 2021 are muted.
2. **In response, the Fund and other partners have increased their support.** The Fund provided SDR 8.9 million (50 percent of quota) under the RCF/RFI in 2020, as well as SDR 2.4 million in CCRT grants for debt service relief between April 2020 and October 2021. The WB and the AfDB have also increased their assistance.
3. **The authorities are requesting a Staff-Monitored Program (SMP) as a step toward a potential financial arrangement.** An SMP would help the authorities re-establish a track record of policy implementation following the previous ECF-arrangement that led to the HIPC Completion Point in 2012.
4. **Program ownership appears strong, including at the highest level.** Staff understands that President Azali takes a strong interest in the program.

RECENT ECONOMIC DEVELOPMENTS

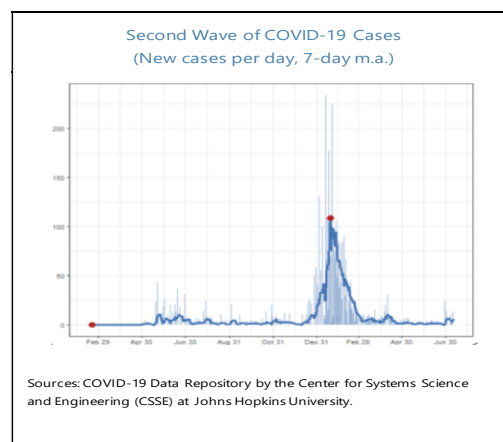
5. **The pandemic has hit Comoros in two waves. Thanks in part to containment measures, the number of reported casualties has remained low.** The authorities imposed social distancing measures, created COVID-19 health centers, and temporarily closed the airport. By mid-August 2021, they reported 4,035 infections and 147 deaths.

6. **The authorities have sought to lessen the pandemic's economic impact.**

- **Fiscal policy:** They reduced taxation of certain imports; subsidized the pay of some workers; and made some cash transfers to the poor.
- **Monetary and financial sector policies:** The authorities lowered reserve requirements to ease liquidity strains in certain banks and worked with banks to enable maturity extensions for hard-hit debtors. These measures expired at end-2020.

7. **The impact of the pandemic was nevertheless significant in 2020 (Tables 1-4B).**

- **The economy contracted by an estimated 0.5 percent in 2020.** Pandemic-related disruptions and a much-reduced number of visitors lowered demand for agricultural products



and hotel, restaurant, and transport services. In line with this, consumer prices fell in the second half of 2020.

- **However, thanks to higher external grants late in the year, the fiscal deficit after grants narrowed** (to a cash deficit of 0.8 percent of GDP, from 3.9 percent in 2019).
- **The current account balance strengthened**, lifting reserve coverage to comfortable levels (9 months of imports, with 6.8 months of imports considered adequate, see Country Report 20/198). Key contributors were cheaper oil imports and higher remittances inflows. The real effective exchange rate appreciated by 1.8 percent in 2020 and depreciated by 6 percent through July 2021, reflecting low inflation in Comoros and modest depreciation of the euro to which the Comorian franc is pegged.

8. The very limited available data suggest muted growth in 2021 so far. The economy likely had a slow start in January and February due to a second wave of infections, but it should have strengthened since, in line with anecdotal evidence of a partial recovery in visitor numbers. Preliminary data suggest that first quarter fiscal revenue was up somewhat from revenue in the same quarter of 2020, while the (annualized) fiscal deficit reached 4 percent of GDP at end-March. Inflation has remained low.

9. Pre-existing challenges have grown in the financial sector and in SOEs. Weaknesses in the banking system and its operating environment undermine asset quality and hinder credit provision. The authorities recently nationalized an ailing bank and have taken steps towards the restructuring and recapitalization of state-owned postal bank *SNPSF*. State-owned *Comoros Telecom* is losing market share and may require future restructuring, too.

10. The risk of external debt distress has risen to “high”, primarily reflecting higher debt service obligations (see the Debt Sustainability Analysis (DSA) accompanying this report). A key driving factor of debt service obligations is the recent contracting of a loan equivalent to 4.5 percent of GDP on non-concessional terms with a short maturity (the loan will be used to build a hotel, part of efforts to strengthen tourism). The pandemic-related economic weakening and the integration of *SNPSF* recapitalization into projections also contributed to higher debt burden indicators.

OUTLOOK AND RISKS

11. Comoros may be able to vaccinate about one third of the population in 2021 against COVID. So far, 7 percent of the population have been vaccinated, primarily using the Sinopharm vaccine. The authorities hope to vaccinate 35 percent of the population by the end of the year using further doses of the same vaccine already received. In addition, the authorities are exploring options for procuring additional vaccines, including from other manufacturers, but so far sources of additional vaccine supply remain uncertain. The WB is expected to provide financing for vaccinations in 2021-23. The emergence of the more transmissible Delta variant has added to risks to health, the recovery, and vaccination costs.

12. Baseline projections building on established policies anticipate muted growth in 2021 (Baseline Scenario Table 1).¹

- **Growth:** Growth would reach 1.5 percent, including because of a slow start in the first two months due to the second wave of infections and the likelihood that visitor numbers will remain below normal given slow vaccination.
- **Fiscal:** Spending would rise to 20.4 percent of GDP, resulting in a cash deficit and a domestic primary deficit of 4 percent of GDP, which would be financed in part by credit from the central bank.² The room for such credit has increased thanks to the SDR allocation (Box 1).
- **External:** Exports would begin to recover to pre-pandemic levels, although tourism would remain subdued notwithstanding indications of a stronger-than-expected return of the diaspora, while imports would pick up due to higher public spending and higher prices of imports of fuel products, food, and construction materials. Remittance inflows would decline from recent record levels. Reserves coverage would remain broadly unchanged in 2021 (projections incorporate the 2021 SDR allocation, Box 1) and gradually decline in future years.

13. Baseline projections further envisage that growth would recover towards its longer-term trend of 3½ percent per year, and that fiscal and corresponding external financing gaps would appear starting in 2022. Sluggish growth reflects a slow projected increase in tax revenue (by only 0.1 percent of GDP per year), resulting in low public investment. The emergence

Box 1. The 2021 SDR Allocation: Size, Institutional Arrangements, and Intended Use

Size of the allocation: The 2021 SDR allocation has raised Comoros' SDR holdings by US\$ 24 million (1.8 percent of GDP). The SDRs were provided to the central bank (BCC) as the government's fiscal agent.

Institutional arrangements for making the SDRs available to the fiscal authorities: As was done in the context of the 2009 SDR allocation, the BCC will open a corresponding credit line for the fiscal authorities, capped at US\$ 24 million. Any credit provided through this credit line will come on top of other BCC credit to the fiscal authorities, which is limited to 20 percent of the average fiscal revenue over the preceding three years.

Intended use of the SDRs: The fiscal authorities intend to draw on the credit line as needed in 2021 to help provide fiscal support, including by providing substantial transfers to the poor. Beyond this, the authorities intend to use the room for credit made possible by the SDR allocation as a fiscal buffer to draw on in case of temporary liquidity shortfalls or larger shocks.

¹ In this report, the notion of "established policies" that underlies the baseline scenario refers to policies already in place and the limited policy changes staff would expect the authorities to make in the absence of the policy efforts that underpin the proposed SMP.

² The domestic primary fiscal balance is defined as domestic revenues minus current primary expenditures and domestically financed capital expenditures, excluding the World Bank-financed spending to combat the COVID epidemic and the cost of restructuring postal bank SNPSF.

of the fiscal financing gap mainly reflects postal bank recapitalization and increased debt service obligations from non-concessional borrowing, in addition to pandemic impacts on growth and fiscal revenue. The fiscal gap translates into a BoP gap of the same size as the fiscal authorities cannot access the central bank's foreign reserves due to legal limits on borrowing from the central bank, *de facto* limits on borrowing from the small domestic banking system, and inability to issue government debt securities.

14. Risks to the outlook are unusually high (Annex I, Risk Assessment Matrix). A key risk is a potential third wave of COVID infections that would depress growth due to increased social distancing and reduced visitor numbers in an environment where the government's ability to provide additional fiscal support is limited. A global resurgence of the pandemic could also undermine Comoros' economic performance, including by depressing visitor arrivals. Further, social and political tensions could erupt and weigh on activity at any time, particularly if the population sees the government's response to the pandemic as insufficient. A new natural disaster, for example an eruption of the Karthala volcano or arrival of a hurricane, is another risk.

DISCUSSIONS ON A STAFF MONITORED PROGRAM

15. The SMP pursues three goals: (i) With regard to Fund relations, it aims to help the authorities establish a track record of policy implementation to pave the way to a potential ECF arrangement. With regard to economic policy making, it aims to help the authorities (ii) contain and recover from the pandemic; and (iii) start implementing reforms to overcome fragility with the goal of boosting inclusive growth and limiting risks.

16. Structural conditionality is parsimonious given the authorities' implementation capacity (below the sub-Saharan African average). There are six structural benchmarks focused on the priority areas of revenue mobilization, public financial management, SOE reform, and governance. Structural benchmarks are seen as ambitious but achievable. The set of quantitative targets resembles that of other SMPs.

17. Conditionality will help the authorities achieve their short-term goals and initiate steps toward the longer-term goals. The ceiling on the fiscal deficit enables fiscal support for the recovery, while a floor on social spending will ensure help for the poor. At the same time, a structural target on tax administration and an associated quantitative target on tax revenue will ensure steps towards the longer-term goal of raising revenue. Structural measures on public financial management, financial sector reform, and governance will ensure further progress on longer-term goals.

A. Containing and Recovering from the Pandemic

18. During 2021-22, while the impact of the pandemic and the risk of new pandemic waves persist, the authorities will need to provide fiscal support to the economy. In case of a new wave of infections, the authorities may reimpose social distancing measures. As risks recede,

the provision of fiscal support will lessen in priority relative to the need to limit debt accumulation, as will the need for social distancing. For a discussion of the planned fiscal path, see below (¶24).

B. Laying the Ground for Higher, More Inclusive and More Robust Growth

19. Transformative reforms will aim to address both the economic and institutional aspects of fragility, drawing on the strategy proposed in the 2019 Article IV consultation.

- To tackle economic fragility, the government's top priority will be to raise fiscal revenue to enable higher investment in human and physical capital and enhance debt sustainability. In addition, the authorities will aim to enhance the quality of spending, improve public financial management, and strengthen SOE oversight. Further, they will aim to strengthen the financial sector to enable greater credit provision and again limit risks. Finally, they will seek to enhance resilience to natural disasters.
- To tackle institutional fragility, the authorities will strengthen governance and reduce vulnerability to corruption, including by enhancing reporting on procurement and strengthening the asset declaration regime.

20. The resulting benefits include higher growth and lower risks than in the baseline, particularly over the medium and longer terms (Active Policy Scenario Tables 2-5B and DSA).³ Increased investment will move GDP growth onto a higher medium and long-term trend (4.2 percent per year). Fiscal and debt risks will be better contained due to faster growth, lower fiscal deficits, and reduced scope for surprises from SOEs and the financial sector. Stronger performance of FDI and exports will contribute to greater external stability.

Strengthening Fiscal Policies

Raising Fiscal Revenue

21. Fiscal revenue remains low due to a complicated tax system, *de jure* or *de facto* exemptions and administrative challenges.

- **Tax and customs exemptions:** Substantial *de jure* or *de facto* exemptions appear to persist.
- **Tax administration:** Implementation of personal income and property taxes remains very limited. Regarding corporate taxation, challenges in taxpayer registration keep the authorities from having full control of the taxpayer population. For example, the authorities are using the key SIGIT software only partially, and service provider "Vigor" is generating its own taxpayer identification numbers, creating potential for confusion. Further challenges relate to tax auditing and collection.

³ The "active policy scenario" incorporates the assumption that the authorities will strengthen their policies as envisaged under the SMP in 2021 and over the medium and longer terms. The scenario builds on the strategy for strengthening policies first proposed in the 2019 Article IV consultation (Country Report 20/198).

- **Customs administration:** Customs administration shows significant room for improvement as well, including on reform projects such as full computerization. In a positive development, the authorities report having recently (*de facto* if not yet *de jure*) transferred fuel products taxation from the national oil company SCH to Customs in line with Fund CD recommendations.

22. The authorities intend to strengthen tax and customs policy and administration, aiming to raise tax revenue by 0.2 percent of GDP in 2021 and 0.3 percent of GDP every year thereafter, as follows:

- **Tax and customs policy:** Removing exemptions, starting in October 2021 with the sales tax exemption for construction materials.
- **Tax administration:** Regarding taxation of corporates, the authorities intend to (i) strengthen the use of the SIGIT software; (ii) use transparent procedures to identify and register taxpayers, including by ending the use of VIGOR in taxpayer registration; (iii) strengthen the large and medium taxpayers units; and (iv) enhance efforts to recover unpaid taxes. The authorities commit to *raising the number of active taxpayers by 10 percent at the large and the medium taxpayer offices and send these taxpayers requests to file tax declarations (structural benchmark)*.
- **Customs administration:** (i) Strengthening risk management; (ii) developing information and control systems; and (iii) finalizing the framework for customs procedures.

23. Reaching the 2021 tax revenue targets will require focused effort in light of past difficulties in raising revenue and Comoros' vulnerability to shocks. The revenue outturn in the first quarter of 2021 was relatively strong (28.6 percent of targeted revenue), possibly due in part to one-off factors. Given the persistently low tax outturns of recent years, Comoros' vulnerability to shocks, and impossibility of adequately addressing the impact of shocks on revenue through program adjusters, the targeted increase of 0.2 percent of GDP in 2021 appears ambitious but attainable.

Adopting a Prudent Fiscal Stance

24. The authorities intend to adopt a fiscal anchor that balances raising investment in human and physical capital with strengthening debt sustainability.

- **During 2021-22, the authorities will provide substantial fiscal support:** The authorities will provide substantial cash transfers to the poor (1.1 percent of GDP in 2021) and aim to execute a substantial public investment program, pushing the overall fiscal deficit to around 4½ percent of GDP.
- **Over 2023-26, the authorities will balance higher spending with faster consolidation relative to the baseline,** gradually lowering the deficit to 1.3 per-cent of GDP. For this, they will split the gains in revenue relative to the baseline evenly between raising investment and accelerating fiscal consolidation.

- **Thereafter, the authorities will use all gains in revenue to raise spending.** This will support growth and allow all debt burden indicators to drop to, and remain below, high-risk thresholds.

25. The fiscal deficit of 2021, including fiscal measures to respond to the pandemic, will be financed in part through central bank credit, some of which will be provided based on the SDR allocation. Concretely, credit from the central bank will rise by US\$ 8 million above the limits that would apply otherwise. Most of this credit (US\$ 6 million) will be used for the aforementioned cash transfers.

26. Fiscal gaps and associated BoP gaps are projected to appear starting in 2022, even if they are smaller than under baseline projections. A potential ECF arrangement and the financing it would likely catalyze could help fill the gaps. Box 2 presents fiscal and external financing needs and sources.

Box 2. Fiscal and External Financing Needs and Sources over 2021-26

Comoros shows fiscal financing needs of 11.2 percent of GDP on average over 2021-26 (text table), while projected sources account for an average of 10.4 percent of GDP.

Fiscal Financing Needs and Sources, 2021-26 (in percent of GDP)

	2021	2022	2023	2024	2025	2026
Financing needs	13.1	13.8	11.6	9.9	9.4	9.4
Overall balance excluding grants	11.8	12.5	10.1	8.0	7.9	8.0
Amortization	0.6	0.7	1.0	1.9	1.5	1.4
Acquisition of assets	0.7	0.6	0.5	0.0	0.0	0.0
Financing sources	13.1	12.6	10.8	8.6	8.6	8.6
Foreign financing	10.7	12.5	10.8	8.7	8.6	8.6
Project grants	6.2	6.1	4.8	4.8	4.9	5.5
Project loans	2.8	4.8	4.8	2.7	2.5	1.9
Budget grants	1.3	1.6	1.2	1.2	1.2	1.2
Budget loans	0.3	0.0	0.0	0.0	0.0	0.0
Domestic financing	2.4	0.2	0.0	0.0	0.0	0.0
Fiscal Gap	0.0	1.1	0.8	1.3	0.8	0.8

Sources : Comorian authorities, and IMF staff projections

Projections for foreign financing are as follows:

- Project financing is expected to account for 8.6 percent of GDP on average, in line with historical experience on implementation capacity and availability of financing:

Project grants are expected to account for 5.4 percent of GDP on average. Already committed WB projects are an important contributor over the next few years, while other donors are expected to provide project grants also over the longer term.

- **Project loan disbursements** account for 3.2 percent of GDP on average. Disbursements of loans taken up in the past play a role for several years, while the WB is expected to contribute loans also over the longer term.
- Budget financing is projected to account for 1.3 percent of GDP on average.

Box 2. Fiscal and External Financing Needs and Sources over 2021-26 (concluded)

- **Budget grants** are projected to account for 1.3 percent of GDP, in line with historical experience. Over 2021-22, budget grants include already disbursed and announced grants from the AfDB and France. Over the medium term, budget grants are projected to also come from others, including friendly nations in the wider region.
- **Budget loans disbursements** only include a disbursement that already occurred in 2021, given uncertainty on the conditions under which international financial institutions may provide budget loans and whether Comoros will meet these conditions.

Domestic fiscal financing through an increase in net credit from the central bank is projected to provide 0.4 percent of GDP on average. This borrowing is projected to occur in 2021-22 only, including 0.6 percent of GDP in 2021 based on the SDR allocation. Room for domestic borrowing is tightly constrained due to legal limits on borrowing from the central bank, the small size of the domestic banking system, and inability to issue debt to the public.

Comparison of the financing needs and sources reveals an average fiscal financing gap of 0.8 percent of GDP. Given the domestic borrowing constraints, the fiscal gap translates to an external gap of the same size despite the fact that the central bank's foreign exchange reserves are presently not low (reserves presently stand at 9 months of imports and are projected to remain above the adequate level of 6.8 months of imports through 2024).

External Financing Needs and Sources, 2021 - 26
(in percent of GDP)

	2021	2022	2023	2024	2025	2026
Financing Needs	4.7	8.3	9.6	8.4	8.3	8.3
Current Account Deficit	4.1	7.6	8.6	6.5	6.8	6.9
Public Debt Amortization	0.6	0.7	1.0	1.9	1.5	1.4
Financing Sources	4.7	8.3	9.6	8.4	8.3	8.3
Capital Account	4.4	4.5	3.8	4.0	4.1	4.8
Financial Account (excl. amortization)	5.4	3.7	3.8	2.5	3.0	2.8
Of which: Public Debt (excl. amortization)	4.7	4.8	4.8	2.7	2.5	1.9
Change in reserves (+ = decrease)	-5.0	0.2	1.9	1.9	1.2	0.8
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0
Additional BoP Financing Needed to Close Fiscal Gap	0.0	1.1	0.8	1.3	0.8	0.8

Sources: Comorian authorities, and IMF staff projections.

Strengthening the Quality of Spending

27. There is room for strengthening the quality of spending. The authorities aim to do so by, among other things, strengthening SOE oversight (see below) as well as avoiding election-related hiring and eliminating "ghost workers".

Strengthening Public Financial Management and Oversight of SOEs

28. While the authorities have made some progress on budget realism, there remains significant room for improvement on public financial management.

- **Opaque relations with SOEs and limited SOE oversight:** For example, the Hydrocarbon Company (SCH) performs several quasi-fiscal tasks and is not asked to provide audited annual accounts.
- **Improved but still partial implementation of the Treasury Single Account (TSA):** While all transactions of the central government except those related to foreign-financed projects transit through the TSA already, transactions related to extra-budgetary entities and public administrative bodies remain outside the TSA.
- **Frequent use of payment procedures that were designed to be exceptional,** including payment before delivery of services.
- **Unknown stock of domestic arrears** due to weaknesses in cash management.
- **Limited fiscal reporting:** The authorities inform neither parliament nor the public about budget execution, which in part reflects weaknesses in fiscal accounting.

29. The authorities' reform intentions include the following:

- **Continuing progress towards budget realism:** Preparing a realistic supplementary budget for 2021, to be considered in the parliamentary session starting in October.
- **Strengthening SOE oversight:** Ensuring that SOEs comply with tax return filing requirements in the same way that is expected of privately-owned enterprises, and continuing to align the compensation of SOE senior staff with that of comparable civil servants (reform of the state-owned postal bank SNPSF is discussed in ¶ 30).
- **Improving the functioning of the TSA:** *Adopting a road map for extending the coverage of the Treasury Single Account (TSA) to all transactions relating extrabudgetary entities, public administrative bodies, and foreign-financed projects (structural benchmark).*
- **Addressing domestic arrears:** *Commissioning an audit of domestic arrears including cross-arrears with SOEs as a step towards preparing a strategy for clearing them (structural benchmark); and avoiding net accumulation of new arrears.*
- **Enhancing fiscal reporting, including by strengthening fiscal accounting:** Adopting the revised PFM Organic Law, Accounting and Fiscal Reporting Regulation, and budget and accounting manuals; creating a Treasury Accounting Agency; and implementing the SIMBA software.

Strengthening the Financial Sector

30. The banking sector faces challenges that result in weak credit provision and difficulties for policymaking:

- **Weaknesses in the banking system and its operating environment undermine asset quality and hinder the provision of credit.** Banks suffer from weak risk management, credit concentration, government arrears, and judicial system weaknesses that inhibit use of collateral. As a result, banks show weak asset quality, with recorded NPLs at 24 percent of loans at end-2020 according to preliminary data, provisioned at a rate of 71 percent. Two thirds of NPLs are due by the same 25 debtors. The latest NPL data may not yet reflect the full impact from the pandemic in light of maturity extensions for hard-hit sectors. Banks also show low solvency and profitability as well as little appetite for lending. Banks' average return on equity has been negative or null in three of the last five years.
- **The financial safety net remains underdeveloped, limiting policy options for dealing with problem banks.** Supervisory early intervention remains weak while deposit insurance and emergency central bank liquidity assistance remain to be created. Absent an operational bank resolution regime, the authorities' options in dealing with weak banks have been limited to forbearance or bailout.
- **A lack of financial infrastructure inhibits interbank lending and creates challenges for monetary policy and banking system stability.** Banks cannot easily borrow from other banks or the BCC as there is no organized market, no lending instrument, and no collateral (the government does not issue tradable debt). As a result, banks with liquidity tensions face challenges obtaining liquidity, which could invite bank runs; while banks with excess liquidity cannot reduce it, which lessens the transmission of monetary policy. Also, with open market operations difficult, the BCC is in practice left with uniform reserve requirements as its only monetary policy instrument and can thus address liquidity pressures at certain banks only by lowering these requirements. While not the case at present, this may at times clash with the need to reduce system-wide liquidity to contain inflation.
- **The planned restructuring of postal bank SNPSF is expected to result in large fiscal costs over 2021-23.** The authorities plan to separate the banking and postal functions and transfer impaired assets to an asset management entity. The authorities estimate restructuring and recapitalization costs at US\$ 26.9 million (2.1 percent of GDP), of which France is expected to provide US\$ 7.6 million through grants.

31. The authorities intend to do the following:

- **Closely monitor asset quality and provisioning at banks that extended loans to debtors hit by the pandemic.** The BCC expects to finalize in September 2021 a survey of the impacts on asset quality of the maturity extensions provided in 2020. A Commission on NPLs has been set up by the ministries of finance and justice and the central bank.

- **Strengthen the financial safety net**, including by accelerating transition to risk-based supervision and operationalizing the bank resolution and emergency liquidity assistance frameworks.
- **Strengthen financial infrastructure**, including by laying the foundations for a government securities market.
- **Restructure postal bank SNPSF with a view to minimizing fiscal risks.** The authorities commit to *passing a law or decree splitting SNPSF into postal and banking activities and providing the banking entity with: (i) strong governance in accordance with applicable international standards (ii) a viable business plan adopted in consultation with IMF staff, and (iii) managers experienced in banking and credit risk management (structural benchmark).*⁴

Strengthening Resilience to Natural Disasters

32. Comoros is vulnerable to natural disasters, a growing risk. Over time, the authorities intend to develop a natural disaster resilience strategy comprising three pillars: (i) enhancing structural resilience, which requires infrastructure and other investments; (ii) building financial resilience, which involves creating fiscal buffers; and (iii) boosting post-disaster resilience.

Strengthening Governance and Reducing Vulnerability to Corruption

33. Comoros suffers from longstanding macro-critical governance challenges. These manifest in five areas: rule of law, regulatory framework, fiscal transparency, anti-corruption efforts, and civil service management.

34. The authorities have made some efforts to strengthen governance in recent years:

- **Rule of law:** The authorities report ongoing efforts to strengthen the judicial system dealing with commercial issues, including by training judges with support from France and hiring additional judges. They report having reduced delays in court cases by half, pending further details on the time period and type of court cases.
- **Anti-corruption:** The recent adoption of a new penal code that criminalizes all the corruption offences identified in the United Nations Convention against Corruption is an important and positive development. Nevertheless, the anti-corruption law needs to be amended to establish an effective, operationally independent and autonomous anti-corruption agency.
- **Implementation of governance-related commitments in the April 2020 RCF/RFI request has been mixed:**

⁴ The hiring of experienced managers is needed before a banking license for the new postal bank can be requested. The bank regulator's decision on granting a license will take account of the hired managers' experience.

- The authorities had committed to reporting quarterly on the spending of IMF emergency financing. So far, the authorities have reported to staff in early 2021.
- The authorities had committed to commissioning an independent and robust third-party audit of the spending of IMF emergency financing by about mid-April 2021 and publishing its results. The audit is delayed but the authorities are committed to ensuring its preparation and the publication of its results in the coming months.
- The authorities had committed to publishing regularly documentation on large public procurement projects, together with ex-post validation of delivery along with the name of awarded companies and the name of their beneficial owner(s). In July 2021, the authorities published limited information on procurement made with the help of IMF emergency financing and related to addressing the impacts of the pandemic. The information includes a description of the goods and services that were the object of the project, the procurement procedure (direct contracting vs. call for tender), the amount of the project, and the name of the provider. It does not include beneficial ownership information. In discussions with staff, the authorities have reaffirmed their intention to publish comprehensive procurement information on all large procurement projects and have requested IMF capacity building on the concept of beneficial ownership and how they can best collect and publish such information.

35. The authorities intend to undertake the following actions:

- **Enhancing fiscal transparency, including delivering on their April 2020 commitment to regularly publish documentation on all large public procurement contracts.** In preparation for this, the authorities will lay the basis for publishing beneficial ownership information by *issuing a circular/guidance regarding the submission to a nominated procurement agency of documentation on all large public procurement contracts along with the names of awarded companies and the name(s) of their beneficial owner(s); and preparing a plan that sets out the steps and timeline for the publication of this documentation along with the names and beneficial ownership information of awarded companies on an easily accessible website (structural benchmark).*
- **Lowering corruption risks, including by creating a framework for asset declarations by senior public officials.** For this, the authorities will *submit to parliament amendments to the 2008 anti-corruption law that will: (i) enhance preventive measures including those related to conflicts of interest and the creation of an effective asset declaration system for senior public officials in line with international best practices aimed at the collection/verification of asset declarations, the imposition of sanctions for failure and false reporting, and the provision of access to the declarations, (ii) set out the legal framework for an operationally independent and autonomous public entity with powers to set up the country's anti-corruption policy priorities, to manage an effective asset declarations system, to maintain a public anti-corruption complaints platform, and to strengthen investigative capacity and powers (structural benchmark).*

36. Other actions to be taken under the SMP should also help strengthen governance and transparency, including those related to taxpayer registration, the Treasury Single Account, and arrears audit.

C. Other Issues

37. The authorities may wish to review their development plan, including by paring investment into physical capital back to more sustainable levels and considering cost effective options for strengthening education and health services provision for the entire population (Box 3).

38. The BCC is continuing efforts to implement the recommendations of the 2020 safeguards update. The 2020 update assessment recommended reforms to strengthen central bank autonomy, financial reporting, and auditing. The central bank has implemented five out of twelve recommendations, while six recommendations are past due, including in areas that the assessment identified as priority areas. Staff is continuing to engage with the authorities on implementation.

39. The authorities have made progress in strengthening AML/CFT implementation. For example, they included in the criminal law provisions related to AML/CFT and formally created a Financial Intelligence Unit. Comoros is scheduled to have its next mutual evaluation by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), of which Comoros is a member, in 2022. As concerns the economic citizen program, the authorities report that they are providing passport renewals but are no longer accepting new citizenship requests. In the past, the program had given rise to governance and money laundering risks that were not adequately mitigated in the absence of effective AML integrity measures.

40. Staff discussed with the authorities plans for strengthening economic data. Economic data have serious shortcomings in almost all sectors, hampering economic analysis and policy design. The authorities intend to strengthen hiring at the National Statistics Institute.

Box 3. The National Development Plan

The authorities presented the “Plan Comores Emergents” (PCE) to the donor community in 2019. The plan covers the period 2020-30 and identifies five sectors that in the authorities’ view may have growth potential: tourism and local crafts; the ‘blue’ economy (aquaculture, coastal tourism, marine biotechnologies, and marine energy); financial and logistics services; modern agriculture; and niche manufacturing.

The government has been prioritizing two projects, the construction of a large hospital and of a large hotel. The authorities took on the hotel project after the departure of a private investor who was said to have pursued the project. The hospital project reflects the authorities’ efforts to offer advanced treatments in Comoros, lessening the need for patients to seek care abroad. Both projects have been financed by non-concessional loans. These loans have placed the country at high risk of debt distress, and this despite the fact that the financing identified for the hospital so far appears insufficient to finish the project.

The authorities may wish to review the PCE with a view to bringing goals for income growth more in line with the reality of a post-COVID global economy. The plan aims at lifting per-capita income to US\$ 4,000 by 2030 (from US\$ 1,360 in 2019). Given low growth in 2020-21, reaching the goal would now require per capita growth of more than 12 percent per year.

In scaling up investment, the authorities should ensure sustainability. Three sources of sustainable financing are available:

- Concessional official financing: Well-conceived projects backed by solid feasibility studies will have the greatest chance of success in attracting concessional financing from development partners.
- Government financing: Increasing tax revenue as called for under the SMP will permit the government to increase investment spending in a sustainable manner.
- Private financing: Stimulating domestic investment and attracting foreign direct investment requires broad improvements in the business environment, including provision of high-quality infrastructure, good governance, and a well-functioning judicial system. Creating these conditions takes time but could generate significant returns.

Further, the authorities may wish to consider how they can best strengthen investment in human capital, including by developing cost-effective strategies for enhancing health care and education for the entire population. They may wish to consult with experienced partners such as the World Bank on this. Services at the hospital under construction will be fee-based and, in the absence of a national health insurance scheme, will thus likely be largely unavailable to the poor.

PROGRAM MODALITIES

- 41. The authorities' policy intentions are described in a Memorandum of Economic and Financial Policies (Appendix I),** together with lists of the structural and quantitative targets. An associated Technical Memorandum of Understanding provides definitions and detail on target specifications.
- 42. The SMP covers the period July-December 2021, with September and December test dates.** The six-month duration reflects (i) the successful implementation of an ECF-supported program in the past (2009-13), and (ii) the projected emergence of financing gaps already in 2022. If SMP implementation is slower than envisaged, given the time since previous program engagement, the authorities could request an extension to gain time for establishing the track record.
- 43. Staff will support the authorities' reform efforts by strengthening an already substantial capacity development (CD) program.** FAD and AFRITAC South will continue to assist the authorities on revenue mobilization and public financial management. LEG will provide technical assistance on governance (both as concerns amending the procurement legal framework for the collection and publication of beneficial ownership information and the creation of an asset declaration framework). MCM, in addition to advising on postal bank restructuring, will continue its CD program on strengthening risk-based banking sector supervision (led by AFRITAC South), operationalizing the bank restructuring and resolution regime, creating an emergency liquidity assistance framework, and creating a tradable government debt market. STA will continue to assist on national accounts and price statistics. Further, staff will coordinate with other CD providers and engage senior Comoros officials on CD issues to a greater degree than in the past.
- 44. Risks to the program are nevertheless high.** Shocks of various kinds could affect macroeconomic performance (¶ 14), while capacity constraints and persistent political tensions could undermine policy implementation, including in the key area of strengthening tax revenue.
- 45. Contingency planning is built into the program.** In case Q3 fiscal performance were to suggest that Q4 fiscal targets are at risk, the authorities will try to withhold Q4 allocations for non-priority spending. In case of a shock, the authorities could draw on the central bank credit made possible by the SDR allocation and/or, if the policy requirements for an RCF are met, request a disbursement of up to 50 percent of quota (0.9 percent of GDP).
- 46. Successful SMP implementation would allow the discussion of a potential ECF-arrangement in 2022.** Staff has developed quarterly projections (MEFP Table 2) to facilitate monitoring of policy implementation between the end of the SMP and Board consideration of the arrangement.

STAFF APPRAISAL

47. Comoros is a small and fragile country that has seen a significant adverse economic and humanitarian impact from the pandemic. Policy challenges have complicated the situation. In particular, the postal bank SNPSF has accumulated large losses over the years and now requires costly restructuring, while non-concessional borrowing has added substantial near-term debt service obligations.

48. The authorities are seeking an SMP as a bridge to a potential ECF arrangement that could help Comoros fill financing gaps and move to a higher growth path. The SMP encompasses policy commitments toward two overarching goals. The near-term goal is to contain and recover from the pandemic, primarily by providing fiscal support. The longer-term goal is to overcome fragility by addressing both its economic and institutional components, and steer Comoros onto a path of macroeconomic stability and higher sustainable growth. Staff supports the SMP request.

49. The authorities' fiscal revenue targets are ambitious but attainable with strong measures. Raising fiscal revenue may be the single most important reform as it will allow a much-needed increase of investment into human and physical capital. In the near term, the authorities intend to take both administrative and policy measures. This, together with relatively strong Q1 2021 outturns, suggests that the revenue targets for 2021 are within reach unless a shock undermines performance. Over the medium term, the authorities will need to take additional administrative and policy steps to raise revenue. They will need to build public support for revenue efforts by ensuring contributions are put to good use, including by enhancing the quality of spending and strengthening governance.

50. Staff supports the authorities' intention to enhance the quality of spending to make best use of scarce resources. A key element of these efforts will have to be reducing the need for spending that does not directly benefit the population. The authorities have committed to restructuring the postal bank to reduce related fiscal risks. It will be important to ensure the new bank adheres to this low-risk business model in future years. The authorities will also have to strengthen the management of other SOEs to minimize unnecessary drains on the budget. Continued efforts to eliminate absentee workers or workers without proper qualifications from the civil service payroll should also help increase the productivity of spending, as will efforts to extend the Treasury Single Account to extrabudgetary entities and foreign-financed projects. Further strengthening of public financial management will be needed in the coming years.

51. The planned fiscal policy stance strikes an appropriate balance between providing support in the short term and preserving sustainability over the medium and longer terms. In the near term (2021-22), the authorities aim to support the recovery through an expansionary fiscal stance, consisting in part of substantial cash transfers to the poor. Over the medium term, the authorities intend to consolidate by removing pandemic-related stimulus and raising revenue, allowing debt risks to recede. Over the longer term, the authorities will use increases in revenue to raise investment in human and physical capital, enabling higher sustainable growth.

52. Staff welcomes the authorities' plans to enhance the financial sector safety net and strengthen financial system infrastructure. The financial sector will benefit from efforts to lower the incidence of government arrears to suppliers under the SMP's commitment to avoid accumulating domestic arrears, as well as efforts to strengthen the judicial system to ensure that banks can realize pledged collateral. Staff welcomes ongoing efforts to enhance AML/CFT.

53. Staff welcomes the authorities' commitment to enhancing governance and reducing corruption risks. The authorities have already strengthened the criminal law by penalizing all forms of corruption featuring in the UN convention on corruption, and they are engaged in strengthening the judicial system by training and hiring more judges. Looking forward, the authorities intend to fully implement their April 2020 commitment on regular publication of comprehensive information on large procurement projects, including publication of information on beneficial owners. They will lay the basis for such reporting through a circular. Further, the authorities have committed to creating an effective framework for asset declarations by senior public officials. For this, they will amend the anti-corruption law. Other actions to be taken under the SMP should also help strengthen governance and transparency, for example those related to improved taxpayer registration. As in other reform areas, additional steps on strengthening governance will be needed in future years.

Table 1. Comoros: Selected Economic and Financial Indicators, 2018-26
(Baseline Scenario Based on Established Policies)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
		Est. ¹	RCF-RFI	Est. ¹	RCF-RFI	Proj. ¹			Proj. ¹		
(Annual percentage change, unless otherwise indicated)											
National income and prices											
Real GDP	3.6	1.8	-1.2	-0.5	3.1	1.5	3.6	3.4	3.5	3.8	3.8
GDP deflator	1.0	4.5	2.5	0.9	2.0	-1.0	1.4	1.3	1.5	1.7	2.0
Consumer price index (annual average)	1.7	3.7	3.0	0.8	2.1	-1.0	1.2	1.4	1.6	1.7	2.0
Money and credit											
Net foreign assets	4.2	2.1	-14.4	30.3	3.4	14.1	-1.2	-7.7	-8.6	-10.3	-13.4
Domestic credit	4.9	10.6	2.9	-8.7	1.0	14.5	3.0	-1.2	-1.9	1.0	3.2
Credit to the private sector	1.2	4.1	-1.7	-2.8	3.5	0.0	2.0	3.6	4.8	5.0	5.1
Broad money	8.5	5.9	0.3	11.5	4.4	14.1	0.8	-1.0	5.0	5.5	5.8
Velocity (GDP/end-year broad money)	3.5	3.6	3.6	3.2	3.6	2.8	2.9	3.1	3.1	3.1	3.1
External sector											
Exports, f.o.b.	4.2	-0.9	0.0	-46.7	5.3	22.9	35.7	4.1	4.1	4.6	5.4
Imports, f.o.b.	12.3	2.6	-0.2	-2.8	2.2	10.2	14.6	3.5	-1.9	6.3	6.1
Export volume	5.7	0.6	-0.1	-34.5	5.8	25.6	36.2	4.2	3.9	4.1	4.4
Import volume	12.2	-4.3	-0.3	6.9	6.2	-8.3	25.2	8.4	0.6	8.7	6.6
Terms of trade	-1.2	-3.7	2.4	-3.1	1.8	-12.3	7.4	3.7	2.4	2.2	1.3
(In percent of GDP, unless otherwise indicated)											
Investment and savings											
Gross fixed capital formation	15.8	15.6	15.8	15.6	15.8	16.2	17.4	16.9	15.5	15.4	15.5
Public	5.5	6.3	...	5.5	...	6.0	7.1	6.5	5.0	4.9	4.8
Private	10.3	9.3	...	10.1	...	10.2	10.3	10.4	10.5	10.6	10.7
Gross national savings	13.0	12.4	11.5	13.9	11.1	12.2	9.6	8.2	8.7	8.3	8.3
Public	0.8	-0.5	-3.1	1.1	-1.4	-1.1	-0.8	0.2	0.5	0.5	0.5
Private	12.2	12.9	14.5	12.8	12.5	13.3	10.5	8.0	8.3	7.9	7.8
External Savings	2.9	3.3	5.7	1.7	4.5	4.1	7.7	8.7	6.7	7.1	7.3
Total revenue and grants	17.8	15.8	19.4	18.3	18.4	16.4	16.7	15.1	15.1	15.3	16.0
Total revenue	11.2	9.6	7.2	9.3	9.3	8.8	9.0	9.1	9.2	9.3	9.3
Tax Revenue	8.3	6.8	6.0	7.7	7.8	7.8	8.0	8.1	8.0	8.1	8.2
Non-tax Revenue	2.9	2.8	1.3	1.6	1.4	1.0	1.0	1.0	1.1	1.1	1.1
Total grants	6.6	6.3	12.2	9.0	9.1	7.5	7.7	6.0	5.9	6.0	6.7
Total expenditure and net lending	19.2	20.2	23.2	19.3	21.2	20.4	21.5	19.6	17.9	17.8	17.9
Current expenditure	11.8	11.3	13.5	11.2	12.3	12.1	12.2	10.9	10.7	10.7	10.8
Capital expenditure	7.4	8.4	9.7	7.8	8.8	8.3	9.3	8.7	7.2	7.1	7.1
Domestic primary balance ²	-1.0	-2.9	-7.0	-1.9	-3.5	-3.2	-3.7	-2.4	-0.6	-0.4	-0.3
Overall balance (cash basis)	-1.2	-3.9	-3.8	-0.8	-2.7	-4.0	-4.7	-4.4	-2.8	-2.5	-1.8
Excluding grants	-7.8	-10.2	-16.0	-9.8	-11.9	-11.5	-12.5	-10.5	-8.7	-8.6	-8.5
Net Financing	1.3	3.7	3.8	0.9	2.7	4.0	3.8	3.2	0.6	0.6	-0.1
Foreign (Including IMF)	0.7	3.1	3.9	1.9	2.7	2.6	4.0	3.7	0.6	0.6	-0.1
Domestic	0.5	0.6	-0.1	-1.0	0.0	1.4	-0.2	-0.5	0.0	0.0	0.0
Of which : Net acquisition of assets	0.0	0.0	0.0	0.0	0.0	-0.7	-0.6	-0.5	0.0	0.0	1.0
Financing gap/errors and omissions ³ (+ = underfinancing)	-0.1	0.2	0.0	-0.1	0.0	0.0	0.9	1.3	2.2	1.9	1.9
External sector											
Exports of goods and services	12.6	12.0	11.2	7.3	11.9	8.9	10.9	10.9	11.0	11.0	11.1
Imports of goods and services	30.2	29.6	29.3	28.4	29.0	30.3	34.2	33.8	31.3	31.5	31.6
Current account balance	-2.9	-3.3	-5.7	-1.7	-4.5	-4.1	-7.7	-8.7	-6.7	-7.1	-7.3
Excl. official and private transfers	-17.0	-17.2	-17.8	-20.4	-16.8	-20.5	-22.5	-22.5	-20.3	-20.6	-20.8
Private remittances, net ⁴	12.6	12.1	9.0	15.3	10.7	13.3	11.6	11.6	11.6	11.6	11.6
Official grants and loans	7.8	8.6	17.0	10.3	12.4	10.7	12.5	10.8	8.6	8.6	8.6
Gross international reserves (end of period) ⁵											
In millions of U.S. dollars	198.4	200.2	182.2	292.2	185.3	348.4	350.6	321.6	285.8	252.8	219.6
In months of imports of goods & services	6.8	7.0	6.2	9.0	6.0	9.0	8.6	8.0	6.6	5.5	4.5
Exchange rate CF/US\$ (period average)	416.4	439.4	441.4	431.1	...	...	...	...	...	...	...
Memorandum items:											
Public external debt (in Percent of GDP) ⁶	16.4	19.9	29.7	21.2	32.3	25.8	29.2	33.1	34.5	35.5	35.1
GDP (nominal, in billions of CF)	491.0	522.0	527.9	524.2	555.3	527.0	553.5	579.9	608.8	642.5	679.9
GDP per capita (nominal, in US Dollars)	1,386	1,360	1,333	1,355	1,380	1,389	1,422	1,458	1,494	1,535	1,577

Sources: Comorian authorities; and IMF staff estimates and projections.

¹ From 2017, includes budgeted-for revenues and expenses related to fuel subsidies of SOEs.

² Domestic revenues minus current primary expenditures and domestically financed capital expenditures, excluding the World Bank-financed spending to combat the COVID epidemic and the cost of restructuring SNPSF.

³ For 2022-23, includes unmet financing needs for restructuring SNPSF

⁴ From 2015, net private official transfers include estimates made by the Central Bank of Comoros of debit items other than wire transfers.

⁵ From 2021, includes new SDR allocation of \$24 million.

⁶ Coverage of debt: The central government, the central bank and government-guaranteed debt. Definition of external debt is Residency-based.

Table 2. Comoros: Selected Economic and Financial Indicators, 2018-26
(Active Policy Scenario Based on Strengthened Policies under the SMP and Thereafter)

	2018	2019	2020		2021			2022	2023	2024	2025	2026
		Est. ¹	RCF-RFI	Est. ¹	RCF-RFI	Proj. ¹			Proj. ¹			
(Annual percentage change, unless otherwise indicated)												
National income and prices												
Real GDP	3.6	1.8	-1.2	-0.5	3.1	1.6	3.8	3.7	3.9	4.3	4.4	
GDP deflator	1.0	4.5	2.5	0.9	2.0	-0.9	1.4	1.4	1.5	1.7	2.0	
Consumer price index (annual average)	1.7	3.7	3.0	0.8	2.1	-1.0	1.2	1.4	1.6	1.7	2.0	
Money and credit												
Net foreign assets	4.2	2.1	-14.4	30.3	3.4	14.8	-0.3	-5.8	-5.0	-3.9	-3.9	
Domestic credit	4.9	10.6	2.9	-8.7	1.0	16.3	2.6	-0.9	-1.7	1.4	4.0	
Credit to the private sector	1.2	4.1	-1.7	-2.8	3.5	0.5	3.0	4.0	5.0	5.5	6.0	
Broad money	8.5	5.9	0.3	11.5	4.4	14.8	1.0	-0.7	5.4	6.1	6.5	
Velocity (GDP/end-year broad money)	3.5	3.6	3.6	3.2	3.6	2.8	2.9	3.1	3.1	3.1	3.1	
External sector												
Exports, f.o.b.	4.2	-0.9	0.0	-46.7	5.3	24.5	38.4	4.6	4.8	5.5	6.5	
Imports, f.o.b.	12.3	2.6	-0.2	-2.8	2.2	10.8	14.4	4.2	-1.3	7.4	7.6	
Export volume	5.7	0.6	-0.1	-34.5	5.8	27.2	39.0	4.7	4.5	4.9	5.5	
Import volume	12.2	-4.3	-0.3	6.9	6.2	-7.7	24.9	9.2	1.2	9.9	8.1	
Terms of trade	-1.2	-3.7	2.4	-3.1	1.8	-12.1	7.4	3.7	2.4	2.3	1.3	
(In percent of GDP, unless otherwise indicated)												
Investment and savings												
Gross fixed capital formation	15.8	15.6	15.8	15.6	15.8	16.2	17.3	16.9	15.4	15.6	15.9	
Public	5.5	6.3	...	5.5	...	6.0	7.0	6.5	5.0	5.0	5.2	
Private	10.3	9.3	...	10.0	...	10.2	10.3	10.4	10.5	10.6	10.7	
Gross national savings	13.0	12.3	11.5	13.9	11.1	12.1	9.7	8.3	9.0	8.8	9.0	
Public	0.8	-0.5	-3.1	1.1	-1.4	-1.4	-0.9	0.6	1.1	1.2	1.4	
Private	12.2	12.9	14.5	12.8	12.5	13.4	10.6	7.7	7.8	7.6	7.6	
Total revenue and grants	17.8	15.8	19.4	18.3	18.4	16.5	16.9	15.6	15.8	16.2	17.1	
Total revenue	11.2	9.6	7.2	9.3	9.3	8.9	9.2	9.5	9.8	10.1	10.4	
Tax Revenue	8.3	6.8	6.0	7.7	7.8	7.9	8.2	8.5	8.7	9.0	9.3	
Non-tax Revenue	2.9	2.8	1.3	1.6	1.4	1.0	1.0	1.0	1.1	1.1	1.1	
Total grants	6.6	6.3	12.2	9.0	9.1	7.5	7.7	6.0	6.0	6.1	6.7	
Total expenditure and net lending	19.2	20.2	23.2	19.3	21.2	20.7	21.7	19.6	17.8	18.0	18.4	
Current expenditure	11.8	11.3	13.5	11.2	12.3	12.4	12.4	10.9	10.6	10.8	11.0	
Capital expenditure	7.4	8.4	9.7	7.8	8.8	8.3	9.3	8.7	7.2	7.2	7.4	
Domestic primary balance ²	-1.0	-2.9	-7.0	-1.9	-3.5	-3.5	-3.8	-2.1	-0.1	-0.1	-0.2	
Overall balance (cash basis)	-1.2	-3.9	-3.8	-0.8	-2.7	-4.2	-4.8	-4.0	-2.1	-1.8	-1.3	
Excluding grants	-7.8	-10.2	-16.0	-9.8	-11.9	-11.8	-12.5	-10.1	-8.0	-7.9	-8.0	
Net Financing	1.3	3.7	3.8	0.9	2.7	4.2	3.7	3.2	0.8	1.0	0.5	
Foreign (Including IMF)	0.7	3.1	3.9	1.9	2.7	2.6	4.0	3.8	0.8	1.0	0.5	
Domestic	0.5	0.6	-0.1	-1.0	0.0	1.7	-0.4	-0.5	0.0	0.0	0.0	
Of which : Net acquisition of assets	0.0	0.0	0.0	0.0	0.0	-0.7	-0.6	-0.5	0.0	0.0	1.0	
Financing gap/errors and omissions ³ (+ = underfinancing)	-0.1	0.2	0.0	-0.1	0.0	0.0	1.1	0.8	1.3	0.8	0.8	
External sector												
Exports of goods and services	12.6	12.0	11.2	7.3	11.9	8.9	11.1	11.1	11.2	11.3	11.4	
Imports of goods and services	30.2	29.6	29.3	28.4	29.0	30.4	34.2	33.9	31.5	31.8	32.0	
Current account balance	-2.9	-3.3	-5.7	-1.7	-4.5	-4.1	-7.6	-8.6	-6.5	-6.8	-6.9	
Excl. official and private transfers	-17.0	-17.2	-17.8	-20.4	-16.8	-20.5	-22.3	-22.3	-20.0	-20.2	-20.4	
Private remittances, net ⁴	12.6	12.1	9.0	15.3	10.7	13.2	11.5	11.5	11.5	11.5	11.5	
Official grants and loans	7.8	8.6	17.0	10.3	12.4	10.7	12.4	10.8	8.6	8.6	8.6	
Gross international reserves (end of period) ⁵												
In millions of U.S. dollars	198.4	200.2	182.2	292.2	185.3	350.2	355.2	331.6	305.6	288.9	277.0	
In months of imports of goods & services	6.8	7.0	6.2	9.0	6.0	9.0	8.6	8.1	6.9	6.1	5.4	
Exchange rate CF/US\$ (period average)	416.4	439.4	441.4	431.1	...							
<i>Memorandum items:</i>												
Public external debt (in Percent of GDP) ⁶	16.4	19.9	29.7	21.2	32.3	25.7	29.1	31.8	31.9	31.6	30.7	
GDP (nominal, in billions of CF)	491.0	522.0	527.9	524.2	555.3	527.6	555.3	583.6	615.4	653.0	695.5	
GDP per capita (nominal, in US Dollars)	1,386	1,360	1,333	1,355	1,380	1,390	1,427	1,467	1,510	1,560	1,613	

Sources: Comorian authorities; and IMF staff estimates and projections.

¹ From 2017, includes budgeted-for revenues and expenses related to fuel subsidies of SOEs.

² Domestic revenues minus current primary expenditures and domestically financed capital expenditures, excluding the World Bank-financed spending to combat the COVID epidemic and the cost of restructuring SNPSF.

³ For 2022-23, includes unmet financing needs for restructuring SNPSF.

⁴ From 2015, net private official transfers include estimates made by the Central Bank of Comoros of debit items other than wire transfers.

⁵ From 2021, includes new SDR allocation of \$24 million.

⁶ Coverage of debt: The central government, the central bank and government-guaranteed debt. Definition of external debt is Residency-based.

Table 3A. Comoros: Consolidated Government Financial Operations, 2018-26
(Active Policy Scenario Based on Strengthened Policies under the SMP and Thereafter)
(In Millions of Comorian Francs)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
		Est ¹	RCF-RFI	Est ¹	RCF-RFI	Proj. ¹			Proj. ¹		
Total revenue and grants	87,492	82,714	102,614	95,753	102,209	86,856	93,881	90,805	96,953	105,813	119,281
Revenues	55,099	50,013	38,228	48,538	51,446	47,178	51,255	55,527	60,335	66,090	72,654
Tax revenues	40,617	35,563	31,625	40,411	43,519	41,926	45,802	49,795	53,384	58,766	64,877
Nontax revenues ²	14,482	14,449	6,604	8,127	7,927	5,252	5,453	5,733	6,952	7,325	7,777
External grants	32,393	32,701	64,386	47,215	50,763	39,678	42,626	35,278	36,618	39,722	46,627
Budgetary assistance	1,061	2,228	12,975	11,712	5,000	6,857	5,000	7,004	7,384	7,836	8,347
Projects (incl. techn. assist.)	31,332	30,473	51,411	35,503	45,763	32,821	33,995	28,274	29,233	31,886	38,281
Total expenditure and net lending	94,105	105,366	122,558	101,106	117,463	109,212	120,534	114,291	109,783	117,849	128,112
Current expenditure	58,177	58,931	71,218	58,892	68,580	65,540	69,067	63,379	65,476	70,677	76,491
Primary current expenditures	51,990	54,000	66,110	53,089	62,490	60,071	62,964	56,507	58,019	63,185	68,936
Wages and salaries	26,686	28,237	32,118	27,533	33,675	30,345	31,147	30,970	31,492	34,116	36,853
Goods and services	15,342	15,595	14,242	13,662	15,312	13,496	15,668	13,555	14,515	15,635	17,133
Transfers and pensions ²	9,962	10,168	19,750	11,894	13,503	16,230	16,150	11,981	12,012	13,434	14,950
Interest payments	468	1,085	1,209	1,281	1,977	1,249	1,978	2,537	2,886	2,641	2,496
Foreign-financed project maintenance	1,559	1,262	1,285	3,324	1,363	2,638	1,376	1,446	1,525	1,618	1,723
Technical assistance	4,160	2,584	2,613	1,198	2,749	1,583	2,749	2,889	3,046	3,233	3,336
Capital expenditure	36,559	43,891	51,341	40,741	48,883	43,672	51,467	50,912	44,307	47,171	51,620
Domestically financed investment	8,083	11,002	9,107	5,649	8,343	8,327	14,264	11,808	3,077	3,746	5,366
Foreign-financed investment	28,476	32,889	42,234	35,092	40,540	35,346	37,203	39,104	41,230	43,425	46,254
Domestic primary balance ³	-4,975	-14,990	-36,989	-10,200	-19,387	-18,260	-20,900	-11,985	-760	-841	-1,649
Overall balance (commitment basis)	-6,613	-22,652	-19,944	-5,354	-15,253	-22,357	-26,653	-23,486	-12,830	-12,036	-8,831
Change in net arrears	749	2,343	-163	1,400	0	0	0	0	0	0	0
Overall balance (cash basis)	-5,864	-20,309	-20,107	-3,954	-15,253	-22,357	-26,653	-23,486	-12,830	-12,036	-8,831
Financing	6,235	19,106	20,107	4,562	15,253	22,356	20,295	18,942	4,831	6,494	3,194
Foreign (net)	3,579	16,036	20,625	9,988	15,253	13,607	22,387	22,042	4,831	6,494	3,194
Drawings	6,048	11,954	25,220	6,592	18,183	16,714	26,481	27,860	16,568	16,390	13,140
Amortization	-1,837	-2,050	-2,858	-2,414	-2,929	-3,107	-4,094	-5,819	-11,737	-9,895	-9,945
Change in net arrears (principal)	-632	727	-1,737	507	0	0	0	0	0	0	0
Domestic (net)	2,656	3,070	-518	-5,426	0	8,750	-2,092	-3,100	0	0	0
Bank financing	2,656	3,070	-518	-5,257	0	12,554	1,008	0	0	0	0
Central bank	3,288	526	0	-6,197	0	13,691	1,008	0	0	0	0
Of which: IMF (net)	-1,326	6,894	6,367		740		-259	-3,783	-5,580	-2,888	-808
Commercial banks	-631	2,544	-518	940	0	-1,137	0	0	0	0	0
Net acquisition of assets		0.0		-169		-3,804	-3,100	-3,100	0	0	0
of which recapitalization of SNPSF				0		-3,100	-3,100	-3,100	0	0	0
Errors and omissions/Financing gap ⁴ (+ = underfinancing)	-371	1,203	0	-607	0	0	6,358	4,544	7,999	5,541	5,636
<i>Memorandum items:</i>											
GDP (nominal)	490,958	522,045	527,919	524,176	555,346	527,551	555,268	583,639	615,374	653,012	695,549
Wages in percentage of revenues	48.4	56.5	84.0	56.7	65.5	64.3	60.8	55.8	52.2	51.6	50.7

Sources: Comoros Ministry of Finance; and IMF staff estimates.

¹ From 2017, includes budgeted-for revenues and expenses related to fuel subsidies of SOEs.

² Including RAU ("Redevance Administrative Unique") from 2018.

³ Domestic revenues minus current primary expenditures and domestically financed capital expenditures, excluding the World Bank-financed spending to combat the COVID epidemic and the cost of restructuring SNPSF.

⁴ For 2022-23, includes unmet financing needs for restructuring SNPSF

Table 3B. Comoros: Consolidated Government Financial Operations, 2018-26
(Active Policy Scenario Based on Strengthened Policies under the SMP and Thereafter)
(in Percent of GDP)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
		Prel.	RCF-RFI	Est ¹	RCF-RFI	Proj. ¹			Proj. ¹		
Total revenue and grants	17.8	15.8	19.4	18.3	18.4	16.5	16.9	15.6	15.8	16.2	17.1
Revenues	11.2	9.6	7.2	9.3	9.3	8.9	9.2	9.5	9.8	10.1	10.4
Tax revenues	8.3	6.8	6.0	7.7	7.8	7.9	8.25	8.5	8.7	9.0	9.3
Nontax revenues ²	2.9	2.8	1.3	1.6	1.4	1.0	1.0	1.0	1.1	1.1	1.1
External grants	6.6	6.3	12.2	9.0	9.1	7.5	7.7	6.0	6.0	6.1	6.7
Budgetary assistance	0.2	0.4	2.5	2.2	0.9	1.3	1.6	1.2	1.2	1.2	1.2
Projects (incl. techn. assist.)	6.4	5.8	9.7	6.8	8.2	6.2	6.1	4.8	4.8	4.9	5.5
Total expenditure and net lending	19.2	20.2	23.2	19.3	21.2	20.7	21.7	19.6	17.8	18.0	18.4
Current expenditure	11.8	11.3	13.5	11.2	12.3	12.4	12.4	10.9	10.6	10.8	11.0
Primary current expenditures	10.6	10.3	12.5	10.1	11.3	11.4	11.3	9.7	9.4	9.7	9.9
Wages and salaries	5.4	5.4	6.1	5.3	6.1	5.8	5.6	5.3	5.1	5.2	5.3
Goods and services	3.1	3.0	2.7	2.6	2.8	2.6	2.8	2.3	2.4	2.4	2.5
Transfers and pensions ²	2.0	1.9	3.7	2.3	2.4	3.1	2.9	2.1	2.0	2.1	2.1
Interest payments	0.1	0.2	0.2	0.2	0.4	0.2	0.4	0.4	0.5	0.4	0.4
Foreign-financed project maintenance	0.3	0.2	0.2	0.6	0.2	0.5	0.2	0.2	0.2	0.2	0.2
Technical assistance	0.8	0.5	0.5	0.2	0.5	0.3	0.5	0.5	0.5	0.5	0.5
Capital expenditure	7.4	8.4	9.7	7.8	8.8	8.3	9.3	8.7	7.2	7.2	7.4
Domestically financed investment	1.6	2.1	1.7	1.1	1.5	1.6	2.6	2.0	0.5	0.6	0.8
Foreign-financed investment	5.8	6.3	8.0	6.7	7.3	6.7	6.7	6.7	6.7	6.7	6.7
Domestic primary balance ³	-1.0	-2.9	-7.0	-1.9	-3.5	-3.5	-3.8	-2.1	-0.1	-0.1	-0.2
Overall balance (commitment basis)	-1.3	-4.3	-3.8	-1.0	-2.7	-4.2	-4.8	-4.0	-2.1	-1.8	-1.3
Change in net arrears	0.2	0.4	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-1.2	-3.9	-3.8	-0.8	-2.7	-4.2	-4.8	-4.0	-2.1	-1.8	-1.3
Financing	1.3	3.7	3.8	0.9	2.7	4.2	3.7	3.2	0.8	1.0	0.5
Foreign (net)	0.7	3.1	3.9	1.9	2.7	2.6	4.0	3.8	0.8	1.0	0.5
Drawings,	1.2	2.3	4.8	1.3	3.3	3.2	4.8	4.8	2.7	2.5	1.9
Amortization	-0.4	-0.4	-0.5	-0.5	-0.5	-0.6	-0.7	-1.0	-1.9	-1.5	-1.4
Change in net arrears (principal)	-0.1	0.1	-0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	0.5	0.6	-0.1	-1.0	0.0	1.7	-0.4	-0.5	0.0	0.0	0.0
Bank financing	0.5	0.6	-0.1	-1.0	0.0	2.4	0.2	0.0	0.0	0.0	0.0
Central bank	0.7	0.1	0.0	-1.2	0.0	2.6	0.2	0.0	0.0	0.0	0.0
Of which: IMF (net)	-0.3	1.3	0.8	1.2	-0.2	0.1	0.0	-0.6	-0.9	-0.4	-0.1
Commercial banks	-0.1	0.5	-0.1	0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Net acquisition of assets	0.0	0.0	0.0	0.0	0.0	-0.7	-0.6	-0.5	0.0	0.0	0.0
of which recapitalization of SNPSF		0.0		0.0		-0.6	-0.6	-0.5	0.0	0.0	0.0
Errors and omissions/Financing gap ⁴ (+ = underfinancing)	-0.1	0.2	0.0	-0.1	0.0	0.0	1.1	0.8	1.3	0.8	0.8
<i>Memorandum items:</i>											
GDP (nominal, in millions Comorian francs)	490,958	522,045	527,919	524,176	555,346	527,551	555,268	583,639	615,374	653,012	695,549
Wages in percentage of revenues	48.4	56.5	84.0	56.7	65.5	64.3	60.8	55.8	52.2	51.6	50.7

Sources: Comoros Ministry of Finance; and IMF staff estimates.

¹ From 2017, includes budgeted-for revenues and expenses related to fuel subsidies of SOEs.

² Including RAU ("Redevance Administrative Unique") from 2018.

³ Domestic revenues minus current primary expenditures and domestically financed capital expenditures, excluding the World Bank-financed spending to combat the COVID epidemic and the cost of restructuring SNPSF.

⁴ For 2022-23, includes unmet financing needs for restructuring SNPSF

Table 4. Comoros: Monetary Survey, 2018- 26
(Active Policy Scenario Based on Strengthened Policies under the SMP and Thereafter)
(In Millions of Comorians Francs, Unless Otherwise Indicated)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			RCF-RFI		RCF-RFI	Proj.					
Net foreign assets	80,970	82,702	65,455	107,782	67,710	123,717	123,388	116,205	110,395	106,132	101,985
Central bank assets ¹	85,756	88,614	79,909	118,106	80,741	144,652	143,714	132,388	120,597	112,970	107,476
Central bank liabilities ¹	-9,718	-13,579	-18,256	-16,956	-17,293	-27,610	-27,351	-23,568	-17,988	-15,100	-14,292
Commercial banks assets	8,234	10,835	8,854	10,156	9,314	10,221	10,758	11,308	11,923	12,652	13,476
Commercial banks liabilities	-3,302	-3,168	-5,052	-3,523	-5,052	-3,546	-3,732	-3,923	-4,137	-4,390	-4,675
Net domestic assets	57,558	64,008	80,642	55,765	84,808	64,009	66,298	72,207	88,262	104,675	122,554
Domestic credit	89,600	99,087	98,608	90,450	99,577	105,195	107,972	107,040	105,244	106,712	110,928
Net credit to government	9,535	17,074	18,317	9,910	16,535	25,728	26,120	21,914	15,862	12,413	10,972
Of which: Treasury	15,297	21,781	24,079	20,346	22,297	33,583	34,388	30,605	25,025	22,137	21,329
Bank financing	9,535	17,074	18,317	9,910	16,535	25,728	26,120	21,914	15,862	12,413	10,972
Claims on government	16,626	25,665	25,407	29,284	23,625	34,648	34,389	30,606	25,025	22,138	21,329
Deposits of government	-7,090	-8,591	-7,090	-19,374	-7,090	-8,920	-8,269	-8,691	-9,164	-9,724	-10,358
Claims on public enterprises	2,017	768	2,037	1,484	2,047	2,891	3,043	3,199	3,373	3,579	3,812
Claims on other financial institutions	-108	-136	-108	-59	-108	-101	-101	-101	-101	-101	-101
Claims on private sector	78,123	81,336	78,362	79,072	81,102	79,468	81,852	85,126	89,382	94,298	99,956
Other items net	-32,041	-35,078	-16,037	-34,685	-12,829	-41,186	-41,674	-34,833	-16,982	-2,037	11,626
Broad money	138,528	146,711	146,097	163,547	152,519	187,727	189,686	188,412	198,657	210,807	224,539
Money	92,781	98,099	96,906	110,869	100,771	127,261	126,043	121,518	128,125	135,961	144,818
Currency in circulation	35,904	38,764	38,607	41,592	40,613	47,741	50,250	52,817	55,689	59,095	62,945
Demand deposits	56,877	59,335	58,299	69,277	60,159	79,519	75,793	68,700	72,436	76,866	81,873
Quasi-money	45,747	48,611	49,191	52,678	51,747	60,466	63,643	66,895	70,532	74,846	79,721
			<i>(in percent of beginning period broad money)</i>								
Net foreign assets	2.5	1.3	-7.5	17.1	1.5	9.7	-0.2	-3.8	-3.1	-2.1	-2.0
Net domestic assets	5.9	4.7	7.8	-5.6	2.9	5.0	1.2	3.1	8.5	8.3	8.5
Domestic credit	3.3	6.8	1.9	-5.9	0.7	9.0	1.5	-0.5	-1.0	0.7	2.0
Net credit to government	2.8	5.4	2.8	-4.9	-1.2	9.7	0.2	-2.2	-3.2	-1.7	-0.7
Credit to public enterprises	-0.2	-0.9	0.0	0.5	0.0	0.9	0.1	0.1	0.1	0.1	0.1
Credit to private sector	0.7	2.3	-0.9	-1.5	1.9	0.2	1.3	1.7	2.3	2.5	2.7
Other items (net)	2.6	-2.2	5.9	0.3	2.2	-4.0	-0.3	3.6	9.5	7.5	6.5
Broad money	8.5	5.9	0.3	11.5	4.4	14.8	1.0	-0.7	5.4	6.1	6.5
Money	5.4	3.8	-0.1	8.7	2.6	10.0	-0.6	-2.4	3.5	3.9	4.2
Quasi-money	3.1	2.1	0.4	2.8	1.7	4.8	1.7	1.7	1.9	2.2	2.3
Velocity (GDP/end-year broad money)	3.5	3.6	3.6	3.2	3.6	2.8	2.9	3.1	3.1	3.1	3.1
Credit to private sector (percent change)	1.2	4.1	-1.7	-2.8	3.5	0.5	3.0	4.0	5.0	5.5	6.0

Sources: Central Bank of Comoros; and IMF staff estimates and projections.

¹ From 2021, includes new SDR allocation of \$24 million.

Table 5A. Comoros: Balance of Payments, 2018-26
(Active Policy Scenario Based on Strengthened Policies under the SMP and Thereafter)
(In Millions of Comorian Francs, Unless Otherwise Indicated)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			RCF-RFI	Est.	RCF-RFI	Proj.			Proj.		
Current account	-13,995	-16,981	-30,968	-8,887	-25,928	-21,811	-42,229	-50,026	-39,974	-44,107	-48,132
Goods and services	-86,151	-92,123	-95,898	-110,603	-94,684	-113,481	-128,449	-133,436	-125,057	-134,063	-143,517
Trade balance	-85,009	-87,852	-90,500	-93,185	-91,887	-101,935	-113,786	-118,519	-115,938	-124,906	-134,551
Exports	17,986	17,831	18,598	9,502	19,587	11,832	16,376	17,124	17,938	18,921	20,157
Of which: Vanilla	4,521	3,092	4,005	1,951	4,007	2,188	2,735	2,718	2,703	2,708	2,739
Cloves	7,962	6,256	10,366	3,868	11,068	4,933	6,996	7,393	7,819	8,321	8,939
Ylang-ylang	3,175	5,387	1,736	1,926	1,816	2,736	4,254	4,495	4,754	5,059	5,435
Other	2,328	3,096	2,491	1,757	2,696	1,975	2,391	2,517	2,663	2,834	3,044
Imports (f.o.b.)	-102,995	-105,683	-109,098	-102,688	-111,474	-113,768	-130,162	-135,642	-133,875	-143,827	-154,708
of which oil	-25,985	-30,436	-15,184	-30,587	-16,169	-33,509	-36,299	-36,811	-37,703	-38,538	-39,579
Services (net)	-1,142	-4,271	-5,398	-17,417	-2,797	-11,546	-14,662	-14,918	-9,119	-9,158	-8,966
Receipts	44,069	44,672	40,365	28,869	46,570	35,277	45,027	47,422	50,770	54,675	59,185
Payments	-45,212	-48,943	-45,763	-46,287	-49,367	-46,822	-59,689	-62,340	-59,889	-63,833	-68,151
Income (net)	2,874	2,262	1,708	3,732	1,375	5,254	4,359	3,182	2,186	1,989	1,795
Of which: Interest on rescheduled obligations	-235	-1,040	-1,106	-1,079	-1,816	-903	-1,711	-2,270	-2,620	-2,375	-2,230
Current transfers (net)	69,282	72,881	63,221	97,983	67,380	86,416	81,861	80,229	82,897	87,968	93,590
Government	7,655	9,531	15,891	17,834	8,218	16,556	17,848	12,945	11,956	12,687	13,406
Of which: HIPC and MDRI assistance	0	0	0	0	0	0	0	0	0	0	0
Private ¹	61,627	63,349	47,330	80,149	59,162	69,861	64,013	67,283	70,942	75,281	80,185
Capital and financial account	29,975	50,763	24,875	46,766	25,865	48,358	41,291	38,700	28,182	36,480	42,638
Capital account	25,613	26,627	17,013	29,381	22,358	23,122	24,778	22,333	24,662	27,036	33,114
Capital transfers	25,613	26,627	17,013	29,381	22,358	23,122	24,778	22,333	24,662	27,036	33,114
Transfer of fixed assets	25,613	26,627	17,013	29,381	22,358	23,122	24,778	22,333	24,662	27,036	33,114
Financial account	4,363	24,136	7,862	17,385	3,508	25,235	16,513	16,367	3,520	9,445	9,524
Direct investment	2,363	1,616	211	210	555	1,319	1,388	2,335	3,385	4,571	5,912
Net portfolio and other investment	2,000	22,520	7,650	17,176	2,952	23,917	15,125	14,033	135	4,873	3,611
Government	4,407	25,124	22,362	15,424	15,253	31,347	22,387	22,042	4,831	6,494	3,194
Drawings	6,048	27,334	25,220	17,800	18,183	24,540	26,481	27,860	16,568	16,390	13,140
Amortization	-1,641	-2,209	-2,858	-2,376	-2,929	-3,107	-4,094	-5,819	-11,737	-9,895	-9,945
Private sector (net)	-2,408	-2,604	-14,712	1,751	-12,301	-7,430	-7,263	-8,009	-4,695	-1,621	417
Banks, net	-3,414	-2,735	-115	1,035	-460	-43	-351	-359	-402	-476	-538
Other	1,006	132	-14,597	716	-11,841	-7,388	-6,912	-7,650	-4,294	-1,145	955
Errors and omissions	-16,724	-31,704	0	-9,241	0	0	0	0	0	0	0
Overall balance	-743	2,079	-6,093	28,638	-63	26,547	-938	-11,326	-11,791	-7,627	-5,494
Financing	743	-2,079	6,093	-28,638	63	-26,547	938	11,326	11,791	7,627	5,494
NFA of central bank (increase -)	1,244	-2,858	7,012	-29,492	-832	-26,547	938	11,326	11,791	7,627	5,494
Foreign assets	1,244	-2,858	7,012	-29,492	-832	-26,547	938	11,326	11,791	7,627	5,494
Foreign liabilities	0	0	0	0	0	0	0	0	0	0	0
Of which: Net IMF Credit	1,326	6,894	4,073	6,367	-963	740	-259	-3,783	-5,580	-2,888	-808
Net change in arrears	-501	778	-1,900	854	0	0	0	0	0	0	0
Error/Financing gap	0	0	0	0	0	0	0	0	0	0	0
Additional BoP financing needed to close fiscal gap	...	...	...	...	0	0	6,358	4,544	7,999	5,541	5,636
<i>Memorandum items:</i>											
Current account (percentage of GDP)	-2.9	-3.3	-5.9	-1.7	-4.7	-4.1	-7.6	-8.6	-6.5	-6.8	-6.9
Excluding transfers	-17.0	-17.2	-17.8	-20.4	-16.8	-20.5	-22.3	-22.3	-20.0	-20.2	-20.4
Exports of goods and services (percentage of GDP)	12.6	12.0	11.2	7.3	11.9	8.9	11.1	11.1	11.2	11.3	-11.4
Imports of goods and services (percentage of GDP)	30.2	29.6	29.3	28.4	29.0	30.4	34.2	33.9	31.5	31.8	32.0
Gross international reserves (end of period) ²											
In millions of U.S. dollars	198.4	200.2	182.2	292.2	185.3	350.2	355.2	331.6	305.6	288.9	277.0
In months of imports of goods & services	6.8	7.0	6.2	9.0	6.0	9.0	8.6	8.1	6.9	6.1	5.4
Nominal GDP (CF millions)	490,958	522,045	527,919	524,176	555,346	527,551	555,268	583,639	615,374	653,012	695,549
Nominal GDP (millions of U.S. dollars)	1,179	1,188	1,196	1,216	1,271	1,281	1,363	1,453	1,551	1,664	1,786

Sources: Comorian authorities; and IMF staff estimates and projections.

¹ From 2015, net private official transfers include estimates made by the Central Bank of Comoros of debit items other than wire transfers.

² From 2021, includes new SDR allocation of \$24 million.

Table 5B. Comoros: Balance of Payments, 2018-26
(Active Policy Scenario Based on Strengthened Policies under the SMP and Thereafter)
(In Percent of GDP, Unless Otherwise Indicated)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Est.	Est.	RCF-RFI	Est.	RCF-RFI	Proj.			Proj.		
Current account	-2.9	-3.3	-5.9	-1.7	-4.7	-4.1	-7.6	-8.6	-6.5	-6.8	-6.9
Goods and services	-17.5	-17.6	-18.2	-21.1	-17.0	-21.5	-23.1	-22.9	-20.3	-20.5	-20.6
Trade balance	-17.3	-16.8	-17.1	-17.8	-16.5	-19.3	-20.5	-20.3	-18.8	-19.1	-19.3
Exports	3.7	3.4	3.5	1.8	3.5	2.2	2.9	2.9	2.9	2.9	2.9
Of which: Vanilla	0.9	0.6	0.8	0.4	0.7	0.4	0.5	0.5	0.4	0.4	0.4
Cloves	1.6	1.2	2.0	0.7	2.0	0.9	1.3	1.3	1.3	1.3	1.3
Ylang-ylang	0.6	1.0	0.3	0.4	0.3	0.5	0.8	0.8	0.8	0.8	0.8
Other	0.5	0.6	0.5	0.3	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Imports (f.o.b.)	-21.0	-20.2	-20.7	-19.6	-20.1	-21.6	-23.4	-23.2	-21.8	-22.0	-22.2
of which oil	-5.3	-5.8	-2.9	-5.8	-2.9	-6.4	-6.5	-6.3	-6.1	-5.9	-5.7
Services (net)	-0.2	-0.8	-1.0	-3.3	-0.5	-2.2	-2.6	-2.6	-1.5	-1.4	-1.3
Receipts	9.0	8.6	7.6	5.5	8.4	6.7	8.1	8.1	8.3	8.4	8.5
Payments	-9.2	-9.4	-8.7	-8.8	-8.9	-8.9	-10.7	-10.7	-9.7	-9.8	-9.8
Income (net)	0.6	0.4	0.3	0.7	0.2	1.0	0.8	0.5	0.4	0.3	0.3
Of which: Interest on rescheduled obligations	0.0	-0.2	-0.2	-0.2	-0.3	-0.2	-0.3	-0.4	-0.4	-0.4	-0.3
Current transfers (net)	14.1	14.0	12.0	18.7	12.1	16.4	14.7	13.7	13.5	13.5	13.5
Government	1.6	1.8	3.0	3.4	1.5	3.1	3.2	2.2	1.9	1.9	1.9
Of which: HIPC and MDRI assistance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0
Private ¹	12.6	12.1	9.0	15.3	10.7	13.2	11.5	11.5	11.5	11.5	11.5
Capital and financial account	6.1	9.7	4.7	8.9	4.7	9.2	7.4	6.6	4.6	5.6	6.1
Capital account	5.2	5.1	3.2	5.6	4.0	4.4	4.5	3.8	4.0	4.1	4.8
Capital transfers	5.2	5.1	3.2	5.6	4.0	4.4	4.5	3.8	4.0	4.1	4.8
Transfer of fixed assets	5.2	5.1	3.2	5.6	4.0	4.4	4.5	3.8	4.0	4.1	4.8
Financial account	0.9	4.6	1.5	3.3	0.6	4.8	3.0	2.8	0.6	1.4	1.4
Direct investment	0.5	0.3	0.0	0.0	0.1	0.3	0.3	0.4	0.6	0.7	0.9
Net portfolio and other investment	0.4	4.3	1.4	3.3	0.5	4.5	2.7	2.4	0.0	0.7	0.5
Government	0.9	4.8	4.2	2.9	2.7	5.9	4.0	3.8	0.8	1.0	0.5
Drawings	1.2	5.2	4.8	3.4	3.3	4.7	4.8	4.8	2.7	2.5	1.9
Amortization	-0.3	-0.4	-0.5	-0.5	-0.5	-0.6	-0.7	-1.0	-1.9	-1.5	-1.4
Private sector (net)	-0.5	-0.5	-2.8	0.3	-2.2	-1.4	-1.3	-1.4	-0.8	-0.2	0.1
Banks, net	-0.7	-0.5	0.0	0.2	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Other	0.2	0.0	-2.8	0.1	-2.1	-1.4	-1.2	-1.3	-0.7	-0.2	0.1
Errors and omissions	-3.4	-6.1	0.0	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.2	0.4	-1.2	5.5	0.0	5.0	-0.2	-1.9	-1.9	-1.2	-0.8
Financing	0.2	-0.4	1.2	-5.5	0.0	-5.0	0.2	1.9	1.9	1.2	0.8
NFA of central bank (increase -)	0.3	-0.5	1.3	-5.6	-0.1	-5.0	0.2	1.9	1.9	1.2	0.8
Foreign assets	0.3	-0.5	1.3	-5.6	-0.1	-5.0	0.2	1.9	1.9	1.2	0.8
Foreign liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Net IMF Credit	0.3	1.3	0.8	1.2	-0.2	0.1	0.0	-0.6	-0.9	-0.4	-0.1
Net change in arrears	-0.1	0.1	-0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Error/Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional BoP financing needed to close fiscal gap	...	...	...	...	0.0	0.0	1.1	0.8	1.3	0.8	0.8
<i>Memorandum items:</i>											
Current Account, excl. transfers (percentage of GDP)	-17.0	-17.2	-17.8	-20.4	-16.8	-20.5	-22.3	-22.3	-20.0	-20.2	-20.4
Exports of goods and services (percentage of GDP)	12.6	12.0	11.2	7.3	11.9	8.9	11.1	11.1	11.2	11.3	11.4
Imports of goods and services (percentage of GDP)	30.2	29.6	29.3	28.4	29.0	30.4	34.2	33.9	31.5	31.8	32.0
Gross international reserves (end of period) ²											
In millions of U.S. dollars	198.4	200.2	182.2	292.2	185.3	350.2	355.2	331.6	305.6	288.9	277.0
In months of imports of goods & services	6.8	7.0	6.2	9.0	6.0	9.0	8.6	8.1	6.9	6.1	5.4
Nominal GDP (CF millions)	490,958	522,045	527,919	524,176	555,346	527,551	555,268	583,639	615,374	653,012	695,549
Nominal GDP (millions of U.S. dollars)	1,179	1,188	1,196	1,216	1,271	1,281	1,363	1,453	1,551	1,664	1,786

Sources: Comorian authorities; and IMF staff estimates and projections.

¹ From 2015, net private official transfers include estimates made by the Central Bank of Comoros of debit items other than wire transfers.

² From 2021, includes new SDR allocation of \$24 million.

Annex I. Risk Assessment Matrix

Sources of Risk	Relative Likelihood	Time Horizon	Impact on Comoros	Policy Responses
Global Risks				
Global resurgence of the Covid-19 pandemic , which requires costly containment efforts.	Medium	ST, MT	High	Speed up vaccination as much as possible given vaccine supply constraints , preferably with vaccines shown to be highly effective. Use of social distancing as needed.
Uncontrolled Covid-19 local outbreaks and subpar/volatile growth . Local outbreak forces new lockdowns, while policy response to cushion the economic impact is constrained.	High	ST, MT	High	Speed up vaccination as much as possible given vaccine supply constraints , preferably with vaccines shown to be highly effective. Use of social distancing as needed.
Sharp rise in global risk premia exposes financial and fiscal vulnerabilities , leading to higher debt service and refinancing difficulties.	Medium	ST	Low	Strengthen debt sustainability by raising fiscal revenue and adopting a suitable fiscal anchor.
Domestic Risks				
Policy slippages . In particular, delayed structural reforms could undermine revenue mobilization, adding pressures on the public finances. The taking up of additional non-concessional debt could quickly undermine debt sustainability.	High	ST, MT	High	Implement macroeconomic policies and structural reforms as described in the SMP , particularly those related to raising fiscal revenue.
Widespread social discontent and political instability . Social and political tensions erupt as pandemic-related economic support is withdrawn and the opposition continues to reject the 2018 constitution.	High	ST, MT	High	Provide support to the most vulnerable, including those in the smaller islands, as described in the SMP. Enhance governance, transparency, and the rule of law.
Deterioration of SOEs' financial situation and ensuing migration of liabilities to the central government.	High	ST, MT	High	Improve supervision of SOEs as described in the SMP.
Natural disasters , for example eruption of the Karthala volcano, another hurricane, or drought.	Medium	ST, MT	High	Implement the adaptation strategy discussed in Country Report 20/198.

Appendix I. Letter of Intent

Moroni, Union of Comoros
September 29, 2021

Ms Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431

Madame Managing Director,

The Union of Comoros is a small country vulnerable to natural disasters and other shocks. We thank the International Monetary Fund (IMF) for its continued support in the form of policy advice, capacity building efforts, and financial assistance. We particularly appreciate the financial support provided under the Rapid Credit Facility and the Rapid Financing Instrument following Cyclone Kenneth in 2019 and again following the outbreak of the Coronavirus pandemic in 2020, as well as the ongoing debt service relief provided under the Catastrophe Containment and Relief Trust (CCRT).

The Comoros authorities aim to (i) help the economy contain and recover from the pandemic; and (ii) implement reforms to overcome fragility, boost inclusive growth, and limit risks. In this context, we would like to strengthen our collaboration with the IMF. Concretely, we would like to request that IMF staff monitor the implementation of our economic program covering the period July 21 – December 31, 2021 through a Staff Monitored Program (SMP). The SMP should allow us to establish a track record of policy implementation that could pave the way to a potential future request for a financial arrangement under the Extended Credit Facility (ECF).

We believe that the policies and measures presented in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate steps towards our goals. We will consult with IMF staff prior to any revisions to these policies. Further, we will provide IMF staff with the information required to monitor policy implementation on a timely basis. We agree with the publication by the Fund of this letter, the attached MEFP, Technical Memorandum of Understanding (TMU) and the related staff report.

Sincerely yours,

/s/

Kamaldini Souef

Minister of Finance and Budget

/s/

Younoussa Imani

Governor, Central Bank of Comoros

Attachments:

- I. Memorandum on Economic and Financial Policies (MEFP)
- II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

September 2021

This memorandum describes recent economic developments and the outlook as well as the government's objectives and economic policy plans over the coming years, including for the Staff Monitored Program (SMP) that will cover the period July-December 2021.

Recent Economic Developments and Outlook

1. **Following on Cyclone Kenneth of 2019, the Coronavirus pandemic has dealt Comoros another setback.** Growth was close to zero in 2020 and the public debt burden has risen. Vaccinations against the Coronavirus have started but so far, we have been able to obtain vaccines for only 35 percent of the population.
2. **Prospects for 2021 and the coming years are challenging.** The economy is projected to grow by only about 1½ percent in 2021, including because access to vaccines is expected to remain limited, and to grow by about 3½ - 4¼ percent per year over the medium term. The government intends to improve its policy implementation to enhance prospects as much as possible.

Government Objectives and Policies

A. Containing and Recovering from the Pandemic

3. **To save lives and contain and recover from the pandemic as quickly as possible, we will explore options for making additional vaccines available and accelerating their administration,** taking full advantage of WB financial support for vaccinations. We will consider social distancing measures should a new COVID wave occur.
4. **To further support the recovery, we will provide economic policy support in 2021 and 2022.** In particular, we envisage raising the fiscal deficit towards 4¼ - 4¾ percent of GDP in 2021 and 2022. As risks recede in line with progress in vaccinations, we will consider scaling back this support.
5. **For a discussion of the fiscal path and additional financial sector policies in the near and medium terms, see below.**

B. Laying the Ground for Higher, More Inclusive, and More Robust Growth

6. The government will lay the ground for higher, more inclusive, and more robust growth by strengthening human and physical capital and promoting good governance. We will undertake determined efforts to address our key challenges. These comprise economic challenges (notably tight constraints on fiscal resources and elevated vulnerability to shocks) and underlying institutional weaknesses (a limited implementation capacity of the civil service, a weak judicial system, and governance challenges). Comoros is also highly vulnerable to shocks, including notably to climate change and related natural disasters.

Strengthening Fiscal Policy

Raising Fiscal Revenue

7. Tax revenue in Comoros is the lowest among small island states world-wide. The government is committed to raising tax revenue over the coming years to enable higher public investment in human and physical capital.

- Tax administration measures will include: (i) strengthening the use of the SIGIT software; (ii) ensuring use of transparent procedures to identify and register taxpayers and stopping competing taxpayer registration by VIGOR by end-September 2021 at the latest; (iii) improving tax administration for large and medium taxpayers, including SOEs and those located outside the main island; and (iv) intensifying efforts to recover unpaid taxes.
- Customs administration measures will include: (i) completing the transfer of the management of fuel products taxes to customs; (ii) strengthening risk management; (iii) deploying an internal control system and developing a decision-making information system; and (iv) finalizing the draft framework instruction for customs procedures.
- We will also aim to strengthen tax and customs policies with help from our partners. This effort will start by assessing the revenue losses caused by existing de jure and de facto exemptions.

8. Concretely, we will aim to raise tax revenue by 0.2 percent of GDP in 2021 and 0.3 percent of GDP every year thereafter. A projected decline in non-tax revenue in 2021 due to difficulties at state-owned enterprises is nevertheless expected to lower overall revenue by almost 0.4 percent of GDP in 2021.

9. The authorities agree to related conditionality under the SMP:

- *Raising the number of active taxpayers by 5 percent (by end-September) and 10 percent (by end-December) at both the large taxpayer office (from 258 in May) and the medium taxpayer office (from 300 in May) and sending all these taxpayers requests to file tax declarations (structural benchmark, Table 1).*

- *Raising fiscal revenue on a quarterly basis in line with the annual objective (quantitative targets, Table 2).*

Adopting a Prudent Fiscal Policy Stance

10. The government is committed to implementing a prudent fiscal policy that limits the risk of debt distress, aiming to bring all debt burden indicators below their high-risk thresholds before the end of the 2020s.

- The government commits to limiting the uptake of new debt to levels consistent with this goal. We are aware that under prudent growth projections, this demands several years of fiscal consolidation from 2023 on.
- We acknowledge that the taking up of new non-concessional debt would quickly undermine debt sustainability. We therefore commit to *avoid taking up any non-concessional borrowing during the duration of the SMP (quantitative target, Table 2).*
- We presently intend to use about one third of the recent SDR allocation for fiscal spending in 2021, and to preserve the rest as a buffer that we can draw on in case of temporary liquidity shortfalls or larger shocks. Having this buffer lessens the need to build cash deposits for the time being.

11. In 2021, we will direct fiscal policy toward supporting the recovery from the pandemic. With revenue and grants projected at 16.5 percent of GDP, we intend to spend 20.7 percent of GDP, *of which at least 1.1 percent of GDP for cash transfers to the poor (quantitative targets, Table 2).* This will translate to an overall cash deficit of 4.2 percent of GDP and *a ceiling for the domestic primary fiscal deficit of 3.5 percent of GDP (quantitative targets, Table 2).*

Strengthening the Quality of Spending

12. We recognize that there is room for strengthening the quality of spending. We intend to limit unproductive spending where possible, including by strengthening oversight of state-owned enterprises (see below).

Strengthening Public Financial Management and Oversight of State-Owned Enterprises

13. The government is committed to strengthening public financial management (PFM) to enhance spending efficiency and transparency. Key measures include

- Adopting a supplementary budget for 2021 given that revenue and spending appears likely to deviate significantly from projections in the initial budget.
- *Adopting a road map for extending the coverage of the Treasury Single Account (TSA) to all transactions relating to extrabudgetary entities, public administrative bodies, and foreign-financed projects (structural benchmark for end-December, Table 1).*

- Limiting the use of exceptional payment procedures by strengthening commitment controls and cash management.
- Laying the basis for better fiscal reporting by revising the budget framework law of 2012, adopting the Accounting and Fiscal Reporting Regulation and budget and accounting manuals; creating a Treasury Accounting Agency; and fully implementing the SIMBA software.

14. Further, the authorities aim to clear domestic arrears and avoid accumulating external arrears.

- The government will *prepare terms of reference and launch a call for interest for an audit of domestic arrears including cross-arrears with SOEs (by end-September), and commission the audit (by end-December) as a step towards preparing a strategy for clearing them (structural benchmark, Table 1)*. The government also commits to *zero net accumulation of new domestic arrears (quantitative targets, Table 2)*. This target will be operationalized as ensuring that the net accumulation of arrears in 2021 must be no higher than the net accumulation of arrears in the first half of 2021 (KMF 625 million).
- The government commits to *avoiding accumulating external arrears (quantitative target, Table 2)*.

15. We will strengthen oversight of state-owned enterprises (SOEs). We intend to take the following initial steps: We will conclude performance contracts with major SOEs to ensure improved service provision quantity and quality, as well as define financial targets. Further, we intend to require SOEs to prepare certified annual balance sheets and profit and loss statements. We will seek adjustments in SOEs' staffing levels and compensation packages where needed to align them with compensation in the civil service. Additionally, we will end cross-arrears settlement between the State and the SOEs to enable greater transparency, starting with the state-owned oil company SCH.

Continuing Prudent Monetary Policies and Efforts to Strengthen the Financial Sector

16. The BCC will continue to implement prudent monetary policy. Monetary policy remains well-anchored by the cooperation agreement with France and the peg of the Comorian Franc to the Euro.

17. Our banking system is facing substantial challenges:

- **Weaknesses in the banking system and its environment hinder the provision of credit to the economy and undermine asset quality.** Banks suffer from weak underwriting and risk management processes, often significant credit risk concentration, recurring government arrears, and shortcomings in the judicial system that inhibit attaching collateral.
- **Against this background, the banking sector shows low profitability and solvency, and some banks have shown liquidity tensions.** Severe but plausible shocks to asset quality

would leave several institutions undercapitalized. In the wake of the pandemic, liquidity strains appeared in some banks.

- **The financial safety net is not yet fully developed, which has limited the government's choices in dealing with problem banks.** For example, an emergency central bank liquidity assistance facility remains to be created.
- **Further, a lack of financial infrastructure inhibits interbank lending.** Banks cannot borrow from, or lend to, other banks and the BCC as there is no organized market, no lending instrument, and no collateral (the government does not yet issue any bills or bonds).
- **Separately, the planned restructuring of Postal Bank SNPSF will result in large fiscal costs over 2021-23.** An external audit in July made a preliminary estimate of the recapitalization and restructuring needs at almost US\$ 26.9 million (2.1 percent of GDP).

18. The government intends to do the following:

- **Improve the operating environment for banks,** including by lowering the frequency of government arrears to suppliers and further strengthening the judicial system to ensure that banks can realize pledged collateral.
- **Strengthen the financial sector safety net,** including by creating a bank recovery and resolution framework (a law establishing such a framework was adopted in December 2020) and operationalizing the BCC's emergency liquidity assistance function.
- **Strengthen financial infrastructure** by establishing a government securities market.
- **Proceed with the restructuring of SNPSF.** We have commissioned an audit of the assets and liabilities of the banking and postal activities of SNPSF. We will adopt a restructuring strategy that minimizes fiscal risks. Concretely, we will *adopt a law/decreree splitting SNPSF into postal and banking activities; and submit to the Central Bank of Comoros (BCC) an application for approval of the new Postal Bank that enshrines the following: (i) strong governance in line with applicable international standards and the requirements of the BCC as the bank's regulator and supervisor, (ii) a viable business plan adopted in consultation with IMF staff, and (iii) profiles of future managers that ensure adequate management expertise and experience in banking and credit risk management (structural benchmark for end-December, Table1).*

Preserving External Stability

19. The government is committed to preserving external stability. Reserves coverage of imports, presently at a comfortable level (gross reserves of 9 months of imports at end-2020), is expected to decline gradually over the coming years. Recognizing the importance of preserving reserves at a level that can effectively cushion shocks, we agree to establish a *floor on net international reserves coverage at a level considered adequate (floor on net international reserves corresponding to gross reserves of 6.8 months of imports, Table 2).* We will also continue the dialogue with the IMF on any balance-of-payments difficulties and will avoid measures or policies

that would compound such difficulties. In this spirit, we will not impose new or intensify existing restrictions on the making of payments and transfers for international transactions, trade restrictions for balance-of-payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

Strengthening Resilience to Natural Disasters

20. We aim to enhance resilience to natural disasters and climate change more broadly.

In line with IMF staff recommendations, the government hopes to (i) strengthen efforts to enhance structural resilience through infrastructure and other investments; (ii) build financial resilience by creating fiscal buffers; and (iii) boost post-disaster (including social) resilience by contingency planning and investments to allow an effective disaster response. Implementation of pillar (i) will become increasingly possible as we succeed in our efforts to raise domestic revenue. However, Comoros will also need support from the international community to finance this investment.

Strengthening Governance and Reducing the Vulnerability to Corruption

21. The government will take measures to enhance governance and lower the vulnerability to corruption:

- **Rule of law:** Our judicial system struggles to ensure property rights and enforce contracts, which undermines private sector development. We will continue efforts to strengthen the system.
- **Fiscal transparency.** Measures discussed above on strengthening public financial management and enhancing oversight of SOEs will make an important contribution to strengthening governance, as will our efforts to enhance fiscal accounting and reporting. To strengthen fiscal transparency further, we intend to do the following:
 - Regularly publish comprehensive information on all large public procurement projects. We commit to laying the basis for such publications by *issuing a circular/guidance regarding the submission to a nominated procurement agency of documentation on all large public procurement contracts along with the names of awarded companies and the name(s) of their beneficial owner(s); and preparing a plan that sets out the steps and timeline for the publication of this documentation along with the names and beneficial ownership information of the awarded companies on an easily accessible website (structural benchmark for end-December, Table 1).*
 - In the coming months, commission and ensure the preparation of an independent and robust third-party audit of the spending of IMF emergency financing provided under the RCF/RFI of April 2020 and publish its results, following up on our earlier commitment to commission such an audit within about a year's time from April 2020.
- **Anti-corruption:** We will strengthen the asset declaration regime for high-level officials by *adopting in the Council of Ministers amendments to the 2008 anti-corruption law (N° 08-013/*

AU) that will: (i) enhance preventive measures including those related to conflicts of interest and the creation of an effective asset declaration system for senior public officials in line with international best practices aimed at the collection/verification of asset declarations, the imposition of sanctions for failure and false reporting, and the provision of access to the declarations, (ii) set out the legal framework for creating an operationally independent and autonomous public entity with powers to set up the country's anti-corruption policy priorities, manage an effective asset declarations system, maintain a public anti-corruption complaints platform; and ensuring investigative capacity and powers (structural benchmark, Table 1).

- **Management of the civil service:** Our civil service is facing capacity constraints, and we intend to take steps to strengthen it. We will continue our efforts to address absentee and “ghost workers” and recover wages that were paid to them. We are also exploring the option of strengthening hiring through the use of a competition/entrance exam in all parts of the civil service, as is already the case at the central bank; strengthening the training of civil servants by creating a school of national administration; and introducing performance management. We will avoid election-related hiring.

Other Issues

22. The Central Bank intends to implement key recommendations of the latest IMF safeguards assessment update. The 2020 update assessment found that internal audit operations are limited and financial reporting practices should be strengthened, including by adopting International Financial Reporting Standards. In addition, it would be desirable to amend the legal framework to enhance the central bank's autonomy.

23. The government will strengthen AML/CFT measures, in line with recommendations made by the Intergovernmental Action Group against Money Laundering in West Africa (GIABA), of which Comoros is a member. The authorities are committed to enhancing the capacity of the financial intelligence unit and strengthening its financial independence. In this context, the President has signed a decree specifying the unit's mission. Further, the National Assembly has adopted, and the President has promulgated, a revised penal code reflecting the amendments necessary to respond to GIABA's recommendations. However, provisions remain to be made for the asset freeze procedure. Next steps include the preparation of an AML/CFT action plan and preparations for the upcoming GIABA mutual evaluation in 2022.

24. The government recognizes that Comoros' economic data have serious shortcomings in almost all sectors that hamper economic analysis and policy formulation and implementation. The government is committed to ensuring that INSEED will have sufficient human and capital resources to collect timely price data and to continue its updating of the national accounts.

Program Monitoring

25. IMF staff will monitor the SMP using structural benchmarks (Table 1) and quantitative indicators (Table 2). The first review will be based on targets for September 30, 2021 and the second on targets for December 31, 2021.

Table 1. Comoros: SMP Structural Benchmarks for End-September and End-December 2021

Measure	Purpose	Implementation Date
<p>Raise the number of active taxpayers by 5 percent (by end-September) and 10 percent (by end-December) at both the large taxpayer office (from 258 in May) and the medium and small taxpayer office (from 300 in May) and sending all these taxpayers requests to file tax declarations.</p>	<p>Boost tax revenue to enable greater investment in human and physical capital and safeguard debt sustainability.</p>	<p>September 30 and December 31, 2021</p>
<p>Adopt a road map for extending the coverage of the Treasury Single Account (TSA) to all transactions relating extrabudgetary entities, public administrative bodies, and foreign-financed projects.</p>	<p>Enhance PFM by strengthening expenditure control and transparency.</p>	<p>December 31, 2021</p>
<p>Prepare terms of reference and launch a call for interest for an audit of domestic arrears including cross-arrears with SOEs (by end-September), and commission the audit (by end-December) as a step towards preparing a strategy for clearing them.</p>	<p>Enhance PFM by strengthening budget execution and transparency; improve business climate.</p>	<p>September 30 and December 31, 2021</p>
<p>Adopt a law/decree splitting SNPSF into postal and banking activities; and submit to the Central Bank of Comoros (BCC) an application for approval of the new Postal Bank that enshrines the following: (i) strong governance in line with applicable international standards and the requirements of the BCC as the bank's regulator and supervisor, (ii) a viable business plan adopted in consultation with IMF staff, and (iii) profiles of future managers that ensure adequate management expertise and experience in banking and credit risk management.</p>	<p>Enhance the management of SOEs and reduce unnecessary drains on the budget.</p>	<p>December 31, 2021</p>
<p>Issue a circular/guidance regarding the submission to a nominated procurement agency of documentation on all large public procurement contracts along with the names of awarded companies and the name(s) of their beneficial owner(s); and prepare a plan that sets out the steps and timeline for the publication of this documentation along with the names and beneficial ownership information of the assigned companies on an easily accessible website.</p>	<p>Improve good governance and safeguard public resources.</p>	<p>December 31, 2021</p>
<p>Adopt in the Council of Ministers amendments to the 2008 anti-corruption law (N° 08-013/ AU) that will: (i) enhance preventive measures including those related to conflicts of interest and the creation of an effective asset declaration system for senior public officials in line with international best practices aimed at the collection/verification of asset declarations, the imposition of sanctions for failure and false reporting, and the provision of access to the declarations, (ii) set out the legal framework for creating an operationally independent and autonomous public entity with powers to set up the country's anti-corruption policy priorities, manage an effective asset declarations system, maintain a public anti-corruption complaints platform; and ensuring investigative capacity and powers.</p>	<p>Operationalize asset declaration regime for senior officials to lower corruption risks.</p>	<p>December 31, 2021</p>

Table 2. Comoros: Indicators Targets Under Staff Monitored Program¹
(in millions of Comorian francs, Cumulative since end previous year, unless otherwise specified)

	2021				2022	
	End-September		End-December		End-March	End-June
	Target	Status	Target	Status	Proj.	Proj.
1. Floor on tax revenues	27,251.7	to assess	41,925.8	to assess	9,160.5	20,611.0
2. Ceiling on the primary domestic fiscal deficit	-17,090.9	to assess	-18,259.9	to assess	-7,785.8	-13,010.0
3. Floor on net international reserves (million KMF)	85,900.8	to assess	86,278.3	to assess	86,278.3	86,655.7
4. Ceiling on the accumulation of new domestic payments arrears, net ²	0.0	to assess	0.0	to assess	0.0	0.0
5. Floor on social cash transfers	3,000.0	to assess	5,800.0	to assess	1,275.0	2,550.0
6. Ceiling on new external arrears ²	0.0	to assess	0.0	to assess	0.0	0.0
7. Ceiling on new nonconcessional external debt contracted or guaranteed by the government ^{2,3}	0.0	to assess	0.0	to assess	0.0	0.0

¹Definitions of targets and adjustors are provided in the Technical Memorandum of Understanding (TMU).

²For 2021 targets, the ceiling applies cumulatively from July 2021

³On a contracting basis in accordance with the IMF's debt limit policy: <http://www.imf.org/external/np/pp/eng/2014/111414.pdf>

Attachment II. Technical Memorandum of Understanding

September 2021

This Technical Memorandum of Understanding (TMU) defines the concepts, adjustment mechanisms, and data reporting requirements relating to the structural and quantitative targets referred to in Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP).

A. Structural Benchmarks

1. The benchmark on raising the number of actively managed taxpayers and sending them requests to file tax declarations will be considered met under the following conditions:

- The number of active taxpayers managed at the *Direction des Grandes Entreprises* reaches 271 and these taxpayers have been sent requests to file tax declarations, both at end-September; and
- The number of active taxpayers managed at the *Direction des Grandes Entreprises* reaches 284 and these taxpayers have been sent requests to file tax declarations, both at end-December; and
- The number of active taxpayers managed at the *Direction des Moyennes et Petites Entreprises* reaches 315 and these taxpayers have been sent requests to file tax declarations, both at end-September; and
- The number of active taxpayers managed at the *Direction des Moyennes et Petites Entreprises* reaches 330 and these taxpayers have been sent requests to file tax declarations, both at end-December.

Active taxpayers are defined as taxpayers that exhibit economic activity.

2. The benchmark on improving the functioning of the Treasury Single Account (TSA) will be considered met if, by end-December, the authorities have shared with staff a plan setting out the difficulties of extending the coverage of the TSA to all transactions relating to extrabudgetary entities, public administrative bodies, and foreign-financed projects.

3. The structural benchmark on the audit of domestic debt will be considered met if

- By end-September, the authorities have prepared terms of reference and launched a call for interest for an audit of domestic arrears including cross-arrears with SOEs, and
- By end-December, have commissioned the audit from a well-established reputable firm. The audit will in particular validate outstanding invoices and establish the stock of outstanding arrears, including government arrears to SOEs, SOE arrears to the government, and arrears between SOEs.

4. The benchmark regarding the restructuring of SNPSF will be considered met if, by end-December, the authorities have

- Adopted a law or issued a decree splitting SNPSF into postal and banking activities; and
- Submitted to the Central Bank of Comoros (BCC) an application for approval of the new Postal Bank that enshrines the following for the new Postal Bank: (i) strong governance in line with applicable international standards and the requirements of the BCC as the bank's regulator and supervisor, (ii) a viable business plan adopted in consultation with IMF staff, and (iii) profiles of future managers that ensure adequate management expertise and experience in banking and credit risk management.
 - Governance will be considered strong and in accordance with applicable international standards if it meets the Basel Committee on Banking Supervision's Guidelines on Corporate Governance Principles for Banks of July 2015.
 - Managers will be considered experienced in banking and credit risk management if they meet the conditions imposed by the BCC on bank managers.

5. The benchmark relating to preparatory steps on reporting on public procurement will be considered met if, by end-December, the authorities have:

- Issued a circular/guidance regarding the submission to a nominated procurement agency of documentation on all large public procurement contracts along with the names of awarded companies and the name(s) of their beneficial owner(s); and
- Shared with Fund staff a plan that sets out the steps and timeline for the publication of this documentation along with the names and beneficial ownership information of awarded companies on an easily accessible website.

The required documentation will include signed public procurement contracts, identification of the mode of tender and selection criteria. Large public procurement projects are projects amounting to KMF 10 million or more.

B. Definitions and Computation Methods

6. For the purposes of this TMU, **external** and **domestic** are defined on a residency basis, and **the program exchange rate** is the average rate projected in 2021 as of end August, specifically 411.91 KMF per U.S. dollar, 491.97 KMF per euro, 591.38 KMF per SDR, and 549.22 KMF per AfDB Accounting Unit.

7. Unless indicated otherwise, the term **government** refers to the government of the Union of the Comoros. Local governments, the Central Bank of Comoros (BCC), and any public entity with independent legal status, including state-owned enterprises, are excluded from the definition of government.

8. Government **domestic revenue** comprises all tax and non-tax revenue of the government as reported in the table of government financial operations (TOFE) prepared by the Treasury in the Ministry of Finance, Budget and the Banking Sector. Revenue is assessed on a cash basis but includes imputed tax revenue on the salaries of civil servants and administrative housing as well as imputed tax revenue equivalent to the amounts withheld by SCH to provide fuel for the government's consumption and to recover the subsidy on the supply of fuel for SONELEC. To avoid measurement difficulties, total imputed tax revenue in 2021 is fixed at KMF 3,739 billion and 4,985 billion at end-September and end-December, respectively, the realizations in 2020. Revenue includes recovered tax arrears but excludes outstanding tax arrears. Proceeds from grants, loans, and asset sales do not count as revenue.

9. Government **domestically financed expenditure** comprises all government spending including spending financed by grants, budget support loans, non-concessional loans, and World Bank financing for strengthening the social safety net, but excludes expenditure financed by all other project-specific external grants or concessional loans (such as technical assistance, capital maintenance, vaccines, fund transfers or investments in fixed assets). Recapitalization and restructuring costs of state-owned enterprises, such as the SNPSF, are also excluded from expenditure and in the case of recapitalization costs are instead recorded as acquisition of assets under financing ("below the line"). Spending is assessed on a payment-order basis but includes also spending executed before payment authorization and not yet regularized.

10. The **domestic primary fiscal balance** is defined as domestic revenue less domestically financed expenditure, defined above, excluding interest payments.

11. Net international reserves (NIR) of the BCC is defined for program-monitoring purposes as short-term (i.e., original maturities of one year or less), tradable foreign assets of the BCC minus short-term external liabilities, and liabilities to the IMF. Foreign assets that are pledged or otherwise encumbered external assets, including assets used as collateral or guarantees for third-party liabilities, or not fully convertible, are excluded from the definition of NIR. Securities whose market value on the last day of the year differs by over 20 percent from their original nominal issue price will be assessed at their market value as reported by the BCC. Banks' deposits related to capital or licensing requirements, and banks' reserves denominated in foreign currency are excluded from the program definition of NIR. When calculating NIR, all values are to be converted to the actual mid-point market exchange rates prevailing at the test date.

12. Debt is defined as in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 15688 of the Executive Board (Dec. 5, 2014). "Debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual agreement 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."

13. A debt is considered **concessional** if it includes a grant element of at least 35 percent, and non-concessional otherwise. The grant element is the difference between the nominal value of the

debt and its net present value, expressed as a percentage of the nominal value. The net present value of the debt at the date on which it is contracted is calculated by discounting the future stream of debt service payments due using a 5 percent discount rate.

14. Domestic (external) payment arrears of the government are defined as any of the following: (i) invoices that a spending ministry has received from a resident (non-resident) supplier of goods and services and for which payment has not been made within 90 days from the date the payment order (*ordonnancement*) was cleared, unless it can be ascertained that the goods and services in question were not delivered; (ii) in the case of specific contracts between resident (non-resident) parties and the government, any obligations (including debt service) that have not been paid at the time stipulated in the contracts; (iii) tax credits confirmed by the proper authorities after review, and not paid within 90 days from the date when the payment order was issued; or (iv) wages and salaries and any payments to a government employee that were due to be paid in a given month but remained unpaid on the 30th day of the following month. Arrears exclude debt service that the creditor has forgiven or rescheduled to a later date.

15. Social cash transfers refer to cash transfers supporting vulnerable households that have a direct effect on reducing poverty, including those financed by international development partners.

C. Quantitative Targets and Adjusters

16. Unless stated otherwise, all quantitative targets (MEFP Table 2) will be assessed cumulatively from the beginning of the calendar year. In some cases, **adjusters** will account for unexpected developments in budget grants and loans (table below) and WB support for the project on strengthening the social safety net.

Projected budget support grants and loans*		
in millions KMF		
	Sept. 2021	Dec. 2021
Budget support grants		
World Bank	0	0
AfDB**	2,389	2,389
France	1,476	1,968
Saudi Arabia	0	2,500
Budget support loans		
AfDB**	1,730	1,730
*Cumulative from the beginning of the calendar year		
**Full amount of the financial support has already been disbursed		

17. The **floor on tax revenue** is the tax portion of government revenue described in paragraph 9, with the provision that imputed revenue in 2021 will be assumed to equal KMF 3,739 through end-September and KMF 4,985 million through end-December, equal to the outturn in 2020. Thus, the sought-after increase in revenue in 2021 (0.2 percent of GDP relative to 2020 outturns) will have to be realized entirely in the cash portion of revenue.

18. The **ceiling on the domestic primary fiscal deficit** (as defined in paragraph 11) will not be adjusted for unexpected changes in budget grants and loans. As a result, the authorities would not be able to raise spending by any excess in budget grants or loans over expectations, which is appropriate given the looming fiscal financing needs starting in 2022. Further, the authorities would not need to lower spending by any shortfall in budget grants or loans, which is appropriate given the need to support the recovery. The ceiling on the domestic primary fiscal deficit will be adjusted upward (i.e., less negative) by any amount of domestic revenue above expectations to ensure that any excess revenue is used to reduce financing needs. For reference, domestic revenue is projected to reach KMF 30,664 and 47,175 in September and December 2021, respectively.

19. The **floor on net international reserves of the BCC** (as defined in paragraph 12) will not be adjusted for unexpected changes in budget grants and loans either. As a result, the authorities would not need to add to reserves any excess in budget grants and loans, which is appropriate given that international reserves at the BCC comfortably exceed adequate levels and further reserves accumulation is not required. In case of a shortfall in budget grants or loans, the authorities would still be able to meet the unadjusted target unless there is a simultaneous shock that results in large reserve outflows, which would call for some policy adjustment.

20. The **ceilings on domestic (external) arrears** apply to the net accumulation of domestic (external) arrears in the second half of 2021. This accumulation will be assessed by subtracting clearance of arrears (incurred in 2021 or earlier) from gross accumulation of arrears, both in the second half of 2021.

- Domestic arrears accumulated in 2021 through end-June are estimated at KMF 1,779.3. (For reference, the clearance of domestic arrears outstanding prior to 2021 is estimated at KMF 1,154.6 million as of end-June 2021.)
- External arrears at end-June 2021 will be estimated as soon as possible. External arrears at end-May stood at USD 6 million.

21. The **floors on social cash transfers** (as defined in paragraph 15) will not be adjusted for unexpected changes in the WB grants for this project or budget support grants and loans. As a result, the authorities would not need to raise these transfers in case external support exceed expectations, which is appropriate given the looming fiscal financing needs starting in 2022. Further, the authorities would not be able to reduce these transfers in case external support falls short, which is appropriate given their key role in aiding the poor and supporting the recovery.

22. The **ceiling on the contracting or guaranteeing of new non-concessional debt by the government or the BCC** will be assessed continuously and excludes IMF credit. Normal short-term import and supplier credits (e.g., revolving credit lines) are also excluded, these being self-liquidating operations because the sales of imports are used to repay the debt. Debt being rescheduled or restructured is excluded from this ceiling to the extent that such non-concessional debt is used for debt management operations that improve the overall public debt profile. A debt is considered contracted on the signature date of the contract.

D. Reporting Requirements and Additional Information

23. The authorities will report to Fund staff the information and data in the form mutually agreed with the reporting agency and the frequency described in the table below. The authorities will transmit promptly to Fund staff any data revisions. The authorities undertake to consult Fund staff regarding any and all information or data not specifically addressed in this TMU but necessary for monitoring the program.

Periodic Data Required for the SMP			
Real Sector			
Agency	Data	Frequency	Deadline
INSEED	Consumer Price Index.	Monthly	1 month
INSEED	National accounts, including GDP deflator (historical data and projections).	Annually	9 months
INSEED/BCC	Economic bulletin / note, including data in Excel file.	Quarterly	3 months
SONELEC/INSEED/BCC	Electricity production and consumption.	Quarterly	1 mois
Monetary Sector			
Agency	Data	Frequency	Deadline
BCC	Monetary statistics, government net position, BCC accounts and consolidated accounts of other depository corporations, and reserve position.	Monthly	45 days
Fiscal Sector			
Agency	Data	Frequency	Deadline
CREF	Tofe (including a file detailing social spending: education, health, support for the most vulnerable)	Quarterly	2 months
Tresor	Treasury cash flows	Monthly	2 weeks
Debt Service	Monitoring of public debt (contracted debt, disbursed debt, interest payments, principal repayment) by external creditor and by domestic financial institution.	Quarterly	1 month
Debt Service	External debt arrears	Monthly	1 month

Debt Service	Debt arrears with domestic financial institutions.	Monthly	1 month
Debt Service	Debt bulletin	Quarterly	3 months
Customs	Imports in detail (volume, value and corresponding revenue for each tax and duty)	Monthly	1 month
Customs	Exports in detail (volume, value and corresponding revenue for each tax and duty)	Monthly	1 month
General Planning Commission (CGP)/CREF	Monitoring of projects by donor, specifying the terms of project financing (loans or grants) and their nature (investment or current expenditure)	Quarterly	45 days
External Sector			
Agency	Data	Frequency	Deadline
BCC	Imports including all petroleum products (volume, value)	Quarterly	2 months
BCC	Exports (volume, value)	Quarterly	2 months
BCC	Formal remittances	Quarterly	1 month
BCC	Informal remittances	Annually	4 months
BCC/ National Tourist Office	Number of visitors	Annually	3 months
BCC	Balance of payments	Annually	4 months
BCC/Banking supervision	Financial soundness indicators of the banking system	Quarterly	1 month
BCC/ Banking supervision	Monitoring reports of SNPSF, BDC and BFC	Quarterly	1 month



UNION OF THE COMOROS

REQUEST FOR A STAFF-MONITORED PROGRAM—DEBT SUSTAINABILITY ANALYSIS

October 4, 2021

Approved By
**Vivek Arora and
Andrea Schaechter
(IMF)**

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA).

Comoros Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	<i>High</i>
Overall risk of debt distress	<i>High</i>
Granularity in the risk rating	<i>Sustainable</i>
Application of judgement	<i>No</i>

Comoros' risk of external debt distress and overall risk of debt distress are high, a deterioration from the finding of moderate risk in the DSA prepared for the 2019 Article IV consultation.¹ The change mainly reflects higher debt service obligations. Three out of four external debt burden indicators breach their respective thresholds under the macroeconomic assumptions underlying the Staff-Monitored Program (SMP) request. The recent taking up of large non-concessional loan with a short maturity and the integration of expected postal bank recapitalization costs into underlying macroeconomic projections were key drivers of the deterioration, while a pandemic-related weakening in economic performance also pushed the debt burden higher. Mitigating risks to debt sustainability requires (i) making faster progress on domestic resource mobilization and accelerating GDP and exports growth; (ii) ensuring gradual but sustained fiscal consolidation over the medium term; and (iii) avoiding the contracting of further non-concessional borrowing.

¹ Comoros' debt carrying capacity is assessed as medium, given a Composite Indicator of 2.89 based on April 2021 WEO projections and the 2019 Country Policy and Institutional Assessment (CPIA) rating.

PUBLIC DEBT COVERAGE

1. **The coverage of external debt effectively comprises the entire public sector (Text Table 1).** It includes external debt of the central government, the central bank borrowing on behalf of the government (believed to be zero), and government-guaranteed debt of state-owned enterprises (SOEs, also believed to be zero).² Subnational government entities cannot take up external debt on their own, and SOEs cannot access the external debt market without a government guarantee. Information on domestic debt is limited to central government debt to domestic commercial banks (the government does not issue tradable debt securities). No information is available on domestic debt incurred by SOEs. The government intends to improve debt coverage through enhanced SOE oversight and improved financial reporting, which is supported under plans for SNPSF reforms.

Text Table 1. Comoros: Public Debt Coverage

Subsectors of the public sector	Sub-sectors covered
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)	
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	

Sources: Comorian authorities, and IMF staff

2. **Comoros faces substantial contingent liabilities**, estimated at 8.8 percent of GDP. As in the previous DSA, contingent liabilities not captured in government debt are set to 1.8 percent of GDP, the estimated level of domestic arrears that would remain after validation (the authorities intend to commission an audit of these arrears by end-September 2021, and staff will include the results in the next DSA).³ Contingent liabilities created by SOEs are set to the default level of 2 percent of GDP, and contingent liabilities from the financial system to the default of 5 percent of GDP (lower than in the previous DSA as the cost of recapitalizing postal bank SNPSF has been brought into the macroeconomic projections).⁴

² The recent SDR allocation is currently not part of the DSA. It is recorded on the central bank's balance sheet and placed at an account at the French Treasury.

³ These domestic arrears represent unpaid bills for goods and services, and are included as contingent liabilities as the figures are based on unaudited estimates from the national authorities. External debt arrears, in contrast, are included in the macroeconomic assumptions underlying the Staff-Monitored Program (SMP) request.

⁴ The contingent liability for SOEs (2 percent) is at the default level, and includes potential unknown domestic debt and other possible future restructuring costs.

Text Table 2. Comoros: Coverage of the Contingent Liabilities Stress Test

1	The country's coverage of public debt	The central government, 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	1.8	Reflects unaudited estimates of domestic arrears.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0	
4	PPP	35 percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		8.8	

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%.

Sources: Comorian authorities, and IMF staff

BACKGROUND

A. Recent Debt Developments

3. Comoros' public external debt burden has grown quickly in recent years mainly due to the taking up of loans related to large investment projects, some on non-concessional terms. External public debt reached 27.0 percent of GDP at end-2020 (from 18.6 percent of GDP at end-2018) and is expected to rise further to 28.9 percent of GDP at end-2021:

- In 2018, the authorities took up a loan of USD 29.5 million (2.5 percent of 2018 GDP) from a commercial bank (Eastern and Southern African Trade and Development Bank) to help finance the construction of an ambitious hospital project. The loan is repayable over 10 years and has no grant element.
- In 2019, the government took up a loan of USD 82 million (6.9 percent of 2019 GDP) from the Export-Import Bank of China to finance a modernization of equipment at Comoros Telecom. The loan is repayable over 25 years and has a grant element of 35.8 percent.
- In 2020, the authorities took up a loan of USD 54.9 million (4.5 percent of 2020 GDP) through a contract with a foreign construction company to finance the building of a hotel. The loan is repayable over 6½ years and has a grant element of 7 percent.⁵

Cyclone Kenneth in 2019 and the COVID-19 shock played a more limited role in pushing up the debt burden by weakening macroeconomic performance and giving rise to emergency borrowing from the IMF.

⁵ This loan breached a ceiling on non-concessional borrowing agreed with the World Bank (WB). Comoros has since agreed to remedial actions under the WB's Sustainable Development Finance Policy, including avoiding any further contracting of non-concessional debt.

Nominal Stock of External PPG Debt, 2018-20			
(millions of U.S Dollars; end-of-period)			
	2018	2019	2020
Total External Debt	186.8	235.0	275.0
Multilateral Creditors	27.0	23.3	37.3
IMF	14.3	11.0	19.7
IDA	12.7	12.3	17.6
Bilateral Creditors	118.0	154.9	178.4
Saudi Arabia	33.7	33.7	33.7
India	26.4	26.4	26.4
China	30.8	67.7	91.5
Kuwait	25.1	25.0	24.8
France	2.0	2.1	2.1
Regional Creditors	45.1	57.7	59.2
BADEA ¹	28.3	28.3	28.3
ISDB ²	7.8	7.7	7.9
IFAD ³	3.4	3.4	3.5
OPEC ⁴	3.0	2.9	2.9
ADF ⁵	2.5	2.5	2.6
TDB ⁶		12.9	13.9

1/ Arab Bank of Economic Development in Africa
2/ Islamic Development Bank Group
3/ International Fund for Agricultural Development
4/ Organization of Petroleum Exporting Countries
5/ African Development Fund
6/ Trade and Development Bank

Source: Comorian Authorities

4. Debt Structure. At end-2020, disbursed debt owed to official bilateral creditors accounted for 65 percent of public external debt, debt to multilateral creditors for 14 percent, and debt to regional lenders for 21 percent. The share of non-concessional debt stood at 13 percent of external debt at end-2020 and is expected to grow in the next few years as non-concessional loans are disbursed.

5. Domestic debt remains very small (0.9 percent of GDP at end-2020) in view of the small size of the domestic commercial banking system and lack of issuance of tradable debt securities by the government. The authorities hope to implement reforms that will allow them to issue debt securities in the future.

6. Comoros has benefitted from the Debt Service Suspension Initiative (DSSI). Debt service payments and arrears totaling an estimated USD 3.9 million (0.3 percent of GDP) were rescheduled/regularized in the context of the G20's Debt Service Suspension Initiative.⁶ Participating creditors include: the Compagnie Française d'Assurance pour le Commerce Extérieur; EXIMBANK India; the Kuwait Fund; and the Saudi Fund for Development.

⁶ Agreements under the DSSI have been incorporated into the macroeconomic assumptions underlying the Staff-Monitored Program (SMP) request.

7. However, Comoros continues to have small external debt arrears.⁷ The authorities report arrears of USD 4.7 million (0.4 percent of GDP) to the Arab Bank for Economic Development in Africa (BADEA), USD 0.8 million (0.1 percent of GDP) to EXIMBANK India and USD 0.5 million (0.04 percent of GDP) to the OPEC Fund for International Development at end-May 2021. The authorities remain in discussions with BADEA and EXIMBANK India on debt rescheduling. The authorities have not informed staff of their intentions regarding arrears to the OPEC Fund.

B. Macroeconomic Forecasts

8. The macroeconomic forecasts underpinning the present DSA have changed from those used in the previous DSA (Text Table 3). The previous DSA was prepared in the context of the 2019 Article IV consultation and built on baseline projections and their underlying assumption of “established policies”, as is required for Article IV consultations. In contrast, the present DSA accompanies a request for an IMF Staff-Monitored Program (SMP) and therefore builds on a scenario of improved policy implementation. Key improvements include quicker progress in fiscal revenue mobilization,⁸ higher rates of investment, and moderately higher long-term growth. At the same time, the current DSA also reflects events that were not anticipated during the preparation of the previous DSA, including the COVID pandemic and recent substantial non-concessional borrowing. Key assumptions are as follows:

- **Real sector:** Assuming Comoros will be able to vaccinate 35 percent of the population in 2021 and make further progress on vaccination in 2022, and incorporating the short-term fiscal expansion, growth is expected to reach 1.6 percent in 2021 and 3.8 percent in 2022. Thereafter, growth is expected to rise towards its long-term potential of 4.2 percent, with some variation around this potential in the next few years due to the hotel construction project. Staff have revised potential growth down by 0.3 percentage points (from 4.5 percent in an earlier iteration of the policy scenario) to reflect the likely impact of natural disasters, which are becoming more frequent due to climate change.
- **Fiscal sector:** For 2021-22, projections anticipate a fiscal expansion due to efforts to support the recovery and ongoing investment projects. This will be followed by fiscal consolidation during 2023-26 and a stable fiscal deficit (of 1.3 percent of GDP) thereafter. Consolidation will be achieved mainly through progress in revenue mobilization and by phasing out pandemic-related fiscal support. As a result, all debt burden indicators are projected to remain below, or fall below, their respective thresholds. Projections include a fiscal financing gap starting in 2022 that mainly reflects

⁷ These external arrears have been incorporated into the debt stock based on the macroeconomic assumptions underlying the Staff-Monitored Program (SMP) request. Projections of debt service payments to clear the arrears are also included in these assumptions on the basis of discussions with the authorities. The arrears represent < 1% of GDP and hence do not automatically trigger an in-debt distress rating.

⁸ The Staff-Monitored Program call for tax revenue gains by 0.2 percent of GDP in 2021 and 0.3 percent of GDP every year thereafter. These goals will be achieved thanks to both tax policy measures such as abolishing the sales tax exemption for construction materials (planned for October 2021) and tax and customs administration measures (such as the ongoing registration of additional taxpayers). The recent transfer of fuel products taxation from the state-owned oil company SCH to customs may also result in revenue gains.

insufficient funding for postal bank recapitalization, increased debt service obligations due to the non-concessional borrowing of recent years, and cautious assumptions on budget support.

- External sector: Exports are projected to recover to pre-pandemic levels over 2021-22 due to a strengthening of global demand, although tourism is likely to remain relatively subdued in 2021 despite indications of a stronger than expected return of the diaspora. Imports would recover as well and be spurred by substantial public spending. Remittance inflows are expected to return to pre-pandemic levels. With sustained import growth and increased interest payments following recently incurred non-concessional debt, the current account is projected to weaken gradually. Despite initially comfortable foreign exchange reserves coverage, the fiscal financing gap translates into an external financing gap of the same size as the government faces tight domestic and external borrowing constraints and thus requires support from the Fund and others to fill the fiscal gap.

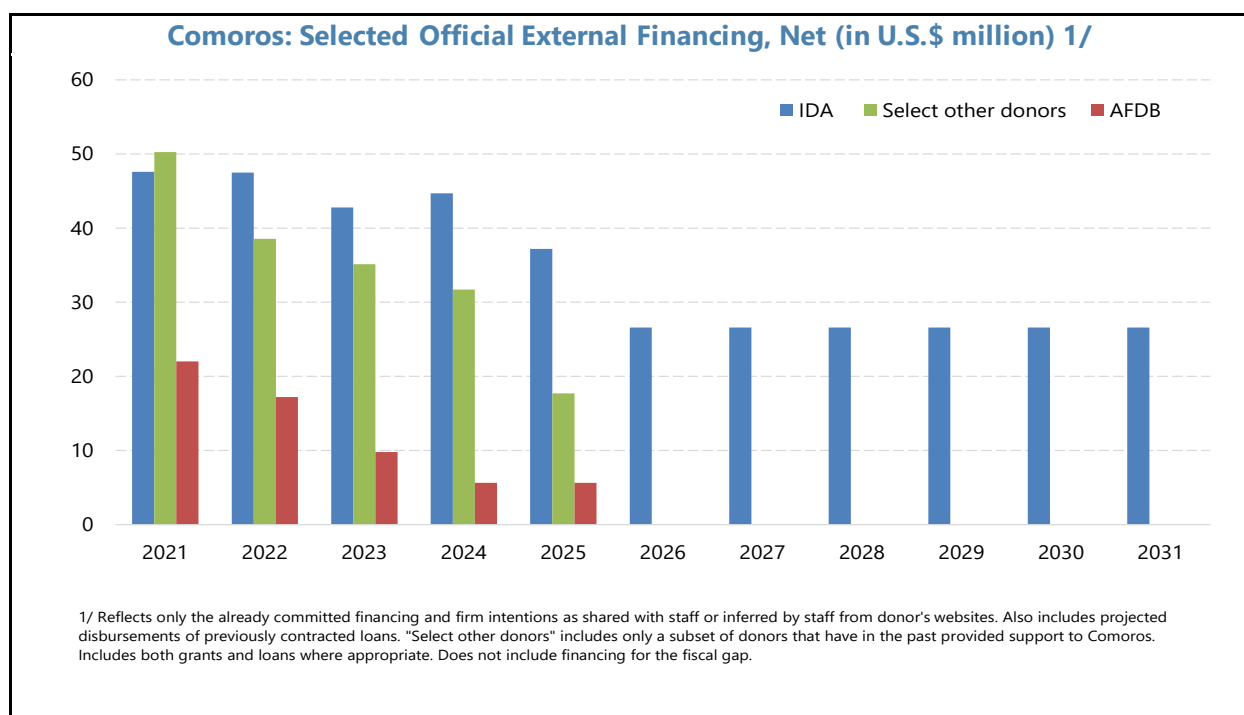
Text Table 3. Comoros: Macroeconomic Assumptions for DSA

	2019 Article IV DSA-Baseline			2021 SMP DSA - Policy Scenario		
	2019-2025	2029	2039	2020-2026	2030	2041
GDP Growth Rate (percent)	3.5	3.8	3.8	3.0	4.2	4.2
Inflation, end of period (percent)	2.2	2.0	2.0	1.2	2.0	2.0
Government Revenues and Grants (percent of GDP)	9.3	9.9	10.4	9.6	11.6	15.1
Overall Fiscal Balance (percent of GDP)	-2.3	-2.2	-2.4	-2.2	-1.4	-1.2
FDI (percent of GDP)	0.7	1.1	1.2	0.4	1.2	1.5
Current Account Deficit (Percent of GDP)	-4.2	-3.5	-3.0	-5.7	-7.3	-6.9
Export of Goods and Services (annual percentage growth)	5.1	6.0	6.3	6.1	7.4	7.8
Import of Goods and Services (annual percentage growth)	5.2	6.0	5.7	5.5	6.8	6.5
Investment (percent of GDP)	17.2	15.1	14.9	16.1	17.1	17.7
Net Current transfers (percent of GDP)	13.4	12.9	13.0	14.9	13.3	13.2

Source: IMF staff

- Domestic borrowing: Staff assumes an increase in net credit from the central bank of a cumulative 2.6 percent of GDP in 2021-22. No further domestic borrowing is envisaged thereafter given increased challenges in the domestic financial system. This contrasts with the previous DSA, which assumed limited, rather than zero, domestic borrowing over the medium and longer terms.
- External borrowing: Staff assumes that as yet undisbursed parts of already contracted loans will be disbursed over the coming years in line with the authorities' plans. The text figure below shows IFI and selected official donors' financing intentions (grants and loans) as communicated to staff (or, in the case of AfDB, as inferred by staff from the institution's website). IDA financing, including through investment projects, is projected at US\$ 48 million in 2021, and it is projected to decline to US\$ 27 million in 2026, and to remain stable during the period 2026-2041. For most donors, announcements only reach a few years into the future, and staff complements medium-and longer-term projections based on historical experience. Staff further assumes that a remaining fiscal gap will be filled with borrowing on close to concessional terms (ECF terms with a 34 percent grant element). This assumption reflects Comoros' commitment to avoid non-concessional borrowing going forward. The average external loan financing from 2021-2031 is US\$ 59 million (including the fiscal financing gap, which averages US\$ 15 million) as compared to US\$ 56 million from the previous DSA. The average grant element of new borrowing is 43.4 percent, slightly lower than the

46.1 percent of the previous DSA due to the take up of additional non-concessional loans (e.g., the hotel construction).



9. Realism tools do not flag any lack of realism of macroeconomic projections (Figures 3 and 4). The 3-year fiscal adjustment is smaller than in most historical Fund-supported programs. The difference between projected GDP growth in 2022 and growth that would be projected by standard fiscal-growth multipliers can be explained by the fact that the year 2022 should see an at least partial recovery from the pandemic. And the projected contribution of government investment/capital over the medium term is in line with historical experience.

C. Country Classification and Determination of Stress Test Scenarios

10. Comoros is assessed to have medium debt carrying capacity, unchanged from before (Text Table 4), with a Composite Indicator (CI) of 2.9 based on April 2021 WEO projections and the 2019 Country Policy and Institutional Assessment (CPIA) rating. The relevant thresholds indicating high risk are 40 percent for the PV of debt-to-GDP ratio, 180 percent for the PV of debt-to-exports ratio, 15 percent for the debt service-to-exports ratio, and 18 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly guaranteed external debt.

11. Standardized stress tests use default settings. Further, Comoros qualifies for the natural disaster stress test given that it is exposed and vulnerable to natural disaster shocks, such as the eruption of the Karthala volcano or hurricane landfall. Given that the average annual impact of natural disasters is already factored into GDP growth projections, the size of the shock is reduced to 9.7 percent of GDP (from the default value of 10 percent of GDP).

Text Table 4. Comoros: Calculation and Contribution of the CI Score Components

Debt Carrying Capacity		Medium		
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages	
Medium	Medium 2.89	Medium 2.84	Medium 2.97	

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

DEBT SUSTAINABILITY

A. External Debt Sustainability

12. Three out of four external debt burden indicators breach their respective thresholds under the macroeconomic assumptions underlying the SMP request (Figure 1). The debt-to-exports indicator crosses the threshold in 2021 and again during 2023-25; the debt service-to-exports indicator breaches during 2024-27; and the debt service-to-revenue indicator over 2024-25. The recent taking up of large non-concessional loan with a short maturity and the integration of expected postal bank recapitalization costs into underlying macroeconomic projections were key drivers of the deterioration, while a pandemic-related weakening in economic performance also pushed the debt burden higher.⁹ From a more structural perspective, the low level of fiscal revenue and the narrow base of exports are key risks for debt sustainability.

13. With this, staff assesses Comoros' risk of external debt distress as high, a deterioration from the finding of moderate risk in the DSA prepared for the 2019 Article IV consultation. Staff does not see country-specific elements that would suggest using judgment to change the mechanical "high risk" assessment resulting from threshold breaches in one direction or the other.

⁹ The authorities estimate the postal bank (SNPSF) recapitalization cost at US\$ 26.9 million. This is included in the fiscal framework underlying the SMP as a change in the net acquisition of assets.

14. Stress tests and alternative scenarios demonstrate Comoros' vulnerability to shocks. An exports shock constitutes the most extreme shock for the PV of debt-to-GDP, the PV of debt-to-exports, and the debt service-to-exports ratios, while a one-time depreciation is identified as the most extreme shock for the debt service-to-revenue ratio.

B. Total Public Debt Sustainability

15. Overall public debt is projected to remain well below its indicative benchmark under both the macroeconomic assumptions underlying the SMP request and stress tests (Figure 2), reflecting the only very limited domestic borrowing. The PV of total public debt-to-GDP ratio increases gradually but remains well below the benchmark. While an exports shock constitutes the most extreme shock for the PV of debt-to-GDP and PV of debt-to-revenue ratios, a depreciation is identified as the most extreme shock for the debt service-to-revenue ratio.

C. Risk Assessment and Vulnerabilities

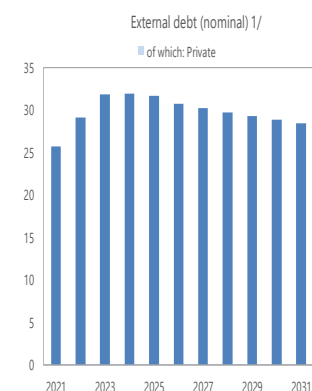
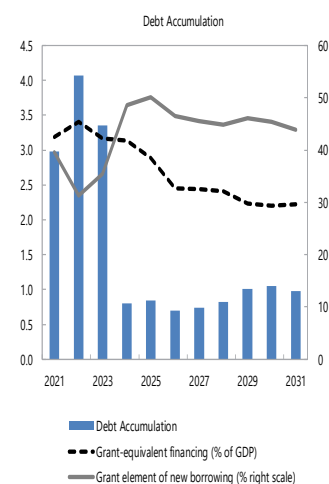
16. Comoros' risk of external debt distress and overall risk of debt distress are assessed as high. Staff assesses that debt remains sustainable given the only limited size and duration of the breaches. In particular, all debt burden indicators are projected to remain or fall below their respective thresholds during the ten-year projection horizon. Vulnerabilities to the DSA projections remain significant given the possibility of a more prolonged/intensified pandemic, social and political unrest, or further natural disasters.

17. Mitigating risks to public debt requires several policy actions: (i) making faster progress on domestic resource mobilization and accelerating GDP and exports growth; (ii) ensuring gradual but sustained fiscal consolidation over the medium term; and (iii) avoiding the contracting of any further non-concessional borrowing.

Table 1. Comoros: External Debt Sustainability Framework, 2018 – 2041
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	16.4	19.9	21.2	25.7	29.1	31.8	31.9	31.6	30.7	28.4	25.3	17.5	29.7
<i>of which: public and publicly guaranteed (PPG)</i>	16.4	19.9	21.2	25.7	29.1	31.8	31.9	31.6	30.7	28.4	25.3	17.5	29.7
Change in external debt	1.1	3.5	1.3	4.5	3.3	2.7	0.1	-0.3	-0.9	-0.4	-0.2		
Identified net debt-creating flows	1.0	2.8	1.2	3.6	6.4	7.2	4.8	4.8	4.8	5.2	4.6	1.6	5.2
Non-interest current account deficit	2.8	3.1	1.5	4.0	7.3	8.2	6.1	6.4	6.6	7.4	6.9	2.8	6.8
Deficit in balance of goods and services	17.5	17.6	21.1	21.5	23.1	22.9	20.3	20.5	20.6	21.0	20.0	18.9	21.3
Exports	12.6	12.0	7.3	8.9	11.1	11.1	11.2	11.3	11.4	12.0	13.6		
Imports	30.2	29.6	28.4	30.4	34.2	33.9	31.5	31.8	32.0	33.0	33.7		
Net current transfers (negative = inflow)	-14.1	-14.0	-18.7	-16.4	-14.7	-13.7	-13.5	-13.5	-13.5	-13.4	-13.3	-15.6	-13.9
<i>of which: official</i>	-1.6	-1.8	-3.4	-3.1	-3.2	-2.2	-1.9	-1.9	-1.9	-1.9	-1.7		
Other current account flows (negative = net inflow)	-0.6	-0.6	-0.9	-1.2	-1.1	-0.9	-0.8	-0.7	-0.6	-0.2	0.1	-0.5	-0.6
Net FDI (negative = inflow)	-0.5	-0.3	0.0	-0.3	-0.2	-0.4	-0.6	-0.7	-0.9	-1.3	-1.5	-0.7	-0.8
Endogenous debt dynamics 2/	-1.3	0.1	-0.2	-0.2	-0.6	-0.6	-0.7	-0.9	-1.0	-0.9	-0.8		
Contribution from nominal interest rate	0.0	0.2	0.2	0.2	0.3	0.4	0.4	0.4	0.3	0.2	0.2		
Contribution from real GDP growth	-0.5	-0.3	0.1	-0.3	-0.9	-1.0	-1.2	-1.3	-1.3	-1.1	-1.0		
Contribution from price and exchange rate changes	-0.8	0.2	-0.6	...	...	...	...	...	...	...	...
Residual 3/	0.0	0.7	0.1	1.0	-3.1	-4.4	-4.7	-5.1	-5.7	-5.6	-4.9	-2.4	-4.5
<i>of which: exceptional financing</i>	0.0	0.0	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	...	...	15.0	17.0	19.8	21.7	21.1	20.5	19.7	18.4	17.2		
PV of PPG external debt-to-exports ratio	...	...	204.2	190.7	179.3	196.6	189.1	181.7	172.9	153.9	125.8		
PPG debt service-to-exports ratio	2.9	5.2	9.6	8.5	9.5	12.6	21.0	16.7	15.4	10.6	10.5		
PPG debt service-to-revenue ratio	3.3	6.4	7.6	8.5	11.4	14.7	23.9	18.6	16.8	10.6	9.5		
Gross external financing need (Million of U.S. dollars)	31.7	40.0	26.0	57.3	110.4	133.3	122.0	126.1	134.1	178.8	306.7		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.6	1.8	-0.5	1.6	3.8	3.7	3.9	4.3	4.4	4.2	4.2	2.8	3.9
GDP deflator in US dollar terms (change in percent)	5.6	-1.0	2.9	3.7	2.5	2.9	2.8	2.8	2.8	2.0	2.0	0.4	2.5
Effective interest rate (percent) 4/	0.3	1.2	1.1	0.8	1.3	1.4	1.4	1.2	1.1	0.8	0.8	0.6	1.0
Growth of exports of G&S (US dollar terms, in percent)	16.1	-4.6	-37.4	28.5	31.8	6.7	7.8	8.3	8.6	7.5	7.8	2.5	11.7
Growth of imports of G&S (US dollar terms, in percent)	16.6	-1.1	-1.8	12.8	19.5	5.8	-0.9	8.3	8.2	6.7	6.5	2.9	8.0
Grant element of new public sector borrowing (in percent)	...	...	...	39.6	31.3	35.4	48.6	50.2	46.5	43.9	37.8	...	43.4
Government revenues (excluding grants, in percent of GDP)	11.2	9.6	9.3	8.9	9.2	9.5	9.8	10.1	10.4	11.9	15.1	11.0	10.4
Aid flows (in Million of US dollars) 5/	2.5	5.1	27.2	40.0	45.8	48.3	49.5	50.8	48.0	55.7	80.1		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.2	3.4	3.2	3.1	2.9	2.5	2.2	2.1	...	2.7
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	52.5	45.6	46.9	60.5	63.3	63.0	63.0	58.0	...	58.9
Nominal GDP (Million of US dollars)	1,179	1,188	1,216	1,281	1,363	1,453	1,551	1,664	1,786	2,423	4,458		
Nominal dollar GDP growth	9.5	0.8	2.4	5.3	6.4	6.6	6.7	7.3	7.3	6.3	6.3	3.3	6.5
Memorandum items:													
PV of external debt 7/	...	...	15.0	17.0	19.8	21.7	21.1	20.5	19.7	18.4	17.2		
In percent of exports	...	...	204.2	190.7	179.3	196.6	189.1	181.7	172.9	153.9	125.8		
Total external debt service-to-exports ratio	2.9	5.2	9.6	8.5	9.5	12.6	21.0	16.7	15.4	10.6	10.5		
PV of PPG external debt (in Million of US dollars)			181.8	218.1	270.2	316.0	327.6	340.7	352.4	446.5	765.0		
(PVt-PVt-1)/GDPt-1 (in percent)			3.0	4.1	3.4	0.8	0.8	0.7	1.0	1.0	1.0		
Non-interest current account deficit that stabilizes debt ratio	1.7	-0.4	0.2	-0.6	3.9	5.4	6.0	6.7	7.5	7.8	7.1		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No



Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - p(1+g) + \epsilon\alpha(1+r)] / (1+g+p+g)$ 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).

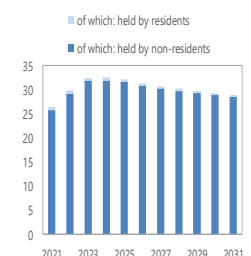
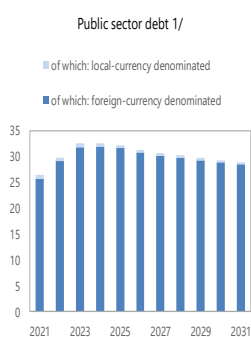
7/ Assumes that PV of private sector debt is equivalent to its face value.

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.

Table 2. Comoros: Public Sector Debt Sustainability Framework, 2018 – 2041
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	16.7	20.7	22.1	26.4	29.8	32.5	32.5	32.2	31.3	28.8	25.5	17.9	30.3
of which: external debt	16.4	19.9	21.2	25.7	29.1	31.8	31.9	31.6	30.7	28.4	25.3	17.5	29.7
Change in public sector debt	0.9	4.0	1.5	4.3	3.3	2.7	0.0	-0.3	-0.9	-0.4	-0.3	3.8	6.1
Identified debt-creating flows	7.7	9.1	5.7	9.6	9.6	7.3	5.0	4.7	4.8	5.2	5.7	4.5	7.4
Primary deficit	7.8	9.5	7.3	10.2	10.6	8.4	6.4	6.3	6.4	6.7	6.6	12.2	11.7
Revenue and grants	11.4	10.0	11.5	10.2	10.8	10.7	11.0	11.3	11.6	13.1	16.3	16.8	19.1
of which: grants	0.2	0.4	2.2	1.3	1.6	1.2	1.2	1.2	1.2	1.2	1.2		
Primary (noninterest) expenditure	19.2	19.5	18.8	20.5	21.4	19.1	17.4	17.6	18.1	19.8	22.9		
Automatic debt dynamics	-0.1	-0.4	-1.6	-0.6	-1.0	-1.1	-1.4	-1.6	-1.6	-1.5	-1.0	0.0	0.0
Contribution from interest rate/growth differential	-0.5	0.0	0.2	-0.6	-1.0	-1.1	-1.4	-1.6	-1.6	-1.5	-1.0		
of which: contribution from average real interest rate	0.0	0.3	0.1	-0.3	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3		
of which: contribution from real GDP growth	-0.6	-0.3	0.1	-0.3	-1.0	-1.1	-1.2	-1.3	-1.4	-1.2	-1.0		
Contribution from real exchange rate depreciation	0.5	-0.4	-1.8	...	...	...	...	...	...	...	...
Other identified debt-creating flows	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
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	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)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-6.8	-5.1	-4.3	-5.3	-6.2	-4.6	-5.0	-5.1	-5.8	-5.7	-5.9	-4.5	-5.5
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	15.0	17.8	20.4	22.3	21.6	21.0	20.2	18.8	17.3		
PV of public debt-to-revenue and grants ratio	...	...	130.2	173.7	188.9	207.8	196.5	185.3	173.5	143.4	106.4		
Debt service-to-revenue and grants ratio 3/	4.5	1.4	4.9	10.1	10.2	13.4	21.7	17.0	15.4	9.9	8.8		
Gross financing need 4/	8.3	9.6	7.8	11.3	11.7	9.9	8.8	8.2	8.2	8.0	8.1		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.6	1.8	-0.5	1.6	3.8	3.7	3.9	4.3	4.4	4.2	4.2	2.8	3.9
Average nominal interest rate on external debt (in percent)	0.3	1.3	1.1	0.8	1.3	1.4	1.4	1.2	1.1	0.8	0.8	0.7	1.0
Average real interest rate on domestic debt (in percent)	3.1	-1.4	4.1	8.0	5.6	5.5	5.4	5.2	4.9	4.9	-1.9	-0.3	5.4
Real exchange rate depreciation (in percent, + indicates depreciation)	3.1	-2.6	-8.9	...	...	...	...	...	...	...	...	0.5	...
Inflation rate (GDP deflator, in percent)	1.0	4.5	0.9	-0.9	1.4	1.4	1.5	1.7	2.0	2.0	2.0	1.7	1.6
Growth of real primary spending (deflated by GDP deflator, in percent)	7.8	3.3	-4.2	10.8	8.3	-7.0	-5.8	5.9	6.9	5.7	5.8	6.9	4.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	6.8	5.5	5.8	5.9	7.3	5.7	6.3	6.6	7.3	7.1	6.9	6.1	6.8
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?	No



Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, 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.

Figure 1. Comoros: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2021–2031

Figure 1. Comoros: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2021–2031



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	Yes	No
Commodity Prices ^{2/}	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.

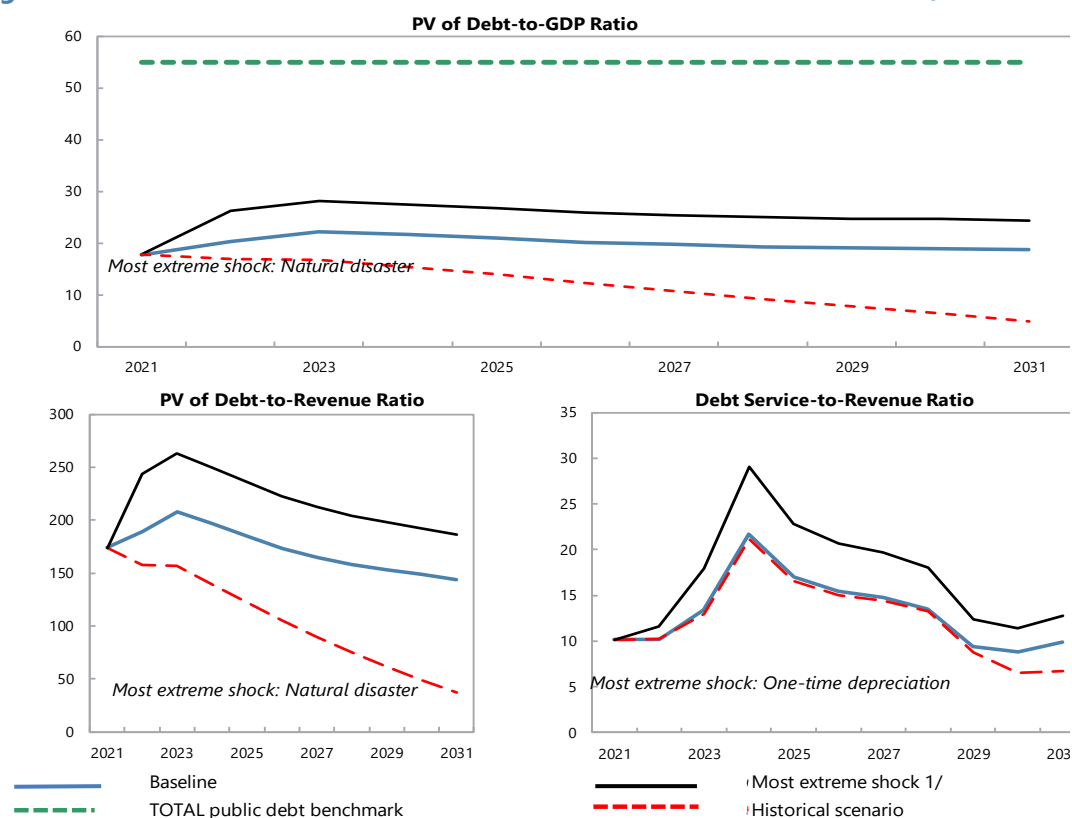
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	7	7

* 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 2031. 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.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Comoros: Indicators of Public Debt Under Alternative Scenarios, 2021–2031


Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

* 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 2031. 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.

Table 3. Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–2031

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to-GDP ratio											
Baseline	17	20	22	21	20	20	19	19	19	19	18
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	17	18	17	15	13	11	8	6	4	2	0
B. Bound Tests											
B1. Real GDP growth	17	21	24	23	22	21	21	20	20	20	20
B2. Primary balance	17	23	27	26	25	25	24	24	23	23	23
B3. Exports	17	22	28	27	26	25	25	24	24	24	23
B4. Other flows 3/	17	22	25	25	24	23	23	22	22	22	21
B5. Depreciation	17	25	22	22	21	20	20	19	19	19	19
B6. Combination of B1-B5	17	25	27	26	26	25	24	24	23	23	23
C. Tailored Tests											
C1. Combined contingent liabilities	17	25	27	26	25	24	24	23	23	23	23
C2. Natural disaster	17	26	28	27	26	25	25	25	24	24	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	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	191	179	197	189	182	173	168	163	160	157	154
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	191	159	153	134	114	93	73	53	34	18	3
B. Bound Tests											
B1. Real GDP growth	191	179	197	189	182	173	168	163	160	157	154
B2. Primary balance	191	203	244	235	226	216	209	203	199	195	189
B3. Exports	191	323	518	499	479	457	443	431	422	411	397
B4. Other flows 3/	191	196	230	221	212	202	196	191	187	183	177
B5. Depreciation	191	179	160	154	148	141	136	132	130	128	128
B6. Combination of B1-B5	191	300	222	352	339	323	313	304	298	290	282
C. Tailored Tests											
C1. Combined contingent liabilities	191	225	241	232	223	213	206	200	196	193	188
C2. Natural disaster	191	236	253	244	235	225	219	214	210	207	203
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	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	8	10	13	21	17	15	15	14	10	9	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	8	10	13	22	18	17	17	15	10	8	8
B. Bound Tests											
B1. Real GDP growth	8	10	13	21	17	15	15	14	10	9	11
B2. Primary balance	8	10	13	22	18	16	16	15	10	11	14
B3. Exports	8	15	27	46	37	34	33	31	22	23	29
B4. Other flows 3/	8	10	13	22	17	16	15	14	10	11	13
B5. Depreciation	8	10	13	20	16	15	15	13	9	9	8
B6. Combination of B1-B5	8	14	22	35	28	26	25	24	17	18	20
C. Tailored Tests											
C1. Combined contingent liabilities	8	10	13	22	17	16	16	15	10	10	11
C2. Natural disaster	8	10	14	22	18	17	16	15	11	10	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	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	8	11	15	24	19	17	16	15	10	9	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	8	12	15	25	20	18	18	16	11	8	8
B. Bound Tests											
B1. Real GDP growth	8	12	16	26	20	18	17	16	11	10	12
B2. Primary balance	8	11	15	25	19	18	17	15	11	11	14
B3. Exports	8	12	15	25	20	18	17	16	11	11	14
B4. Other flows 3/	8	11	15	25	19	17	17	15	11	11	13
B5. Depreciation	8	14	18	29	23	20	20	18	12	11	11
B6. Combination of B1-B5	8	12	17	27	21	19	18	17	12	13	13
C. Tailored Tests											
C1. Combined contingent liabilities	8	11	16	25	19	18	17	15	11	10	11
C2. Natural disaster	8	11	16	25	20	18	17	15	11	10	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	18	18	18	18	18	18	18	18	18	18	18

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 4. Comoros Sensitivity Analysis for Key Indicators of Public Debt, 2021–2031

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of Debt-to-GDP Ratio											
Baseline	18	20	22	22	21	20	20	19	19	19	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	18	17	17	15	14	12	11	9	8	6	5
B. Bound Tests											
B1. Real GDP growth	18	21	25	25	24	24	24	24	24	25	25
B2. Primary balance	18	23	28	27	26	25	25	24	24	23	23
B3. Exports	18	23	28	27	26	25	25	24	24	24	23
B4. Other flows 3/	18	22	26	25	24	24	23	23	22	22	22
B5. Depreciation	18	25	25	23	21	19	18	16	15	15	14
B6. Combination of B1-B5	18	22	25	21	21	20	19	19	19	19	19
C. Tailored Tests											
C1. Combined contingent liabilities	18	25	27	26	26	25	24	24	23	23	23
C2. Natural disaster	18	26	28	27	27	26	25	25	25	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.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	174	189	208	196	185	174	165	158	153	149	143
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	174	158	157	139	123	105	90	75	61	49	37
B. Bound Tests											
B1. Real GDP growth	174	198	230	221	213	204	198	194	192	191	188
B2. Primary balance	174	214	257	244	230	216	205	197	190	184	176
B3. Exports	174	211	260	246	232	218	207	199	192	185	176
B4. Other flows 3/	174	206	242	229	216	202	193	185	178	172	164
B5. Depreciation	174	231	235	208	185	164	148	135	125	116	107
B6. Combination of B1-B5	174	209	229	194	183	172	163	156	151	147	142
C. Tailored Tests											
C1. Combined contingent liabilities	174	236	254	240	227	213	202	194	187	182	175
C2. Natural disaster	174	243	263	249	236	222	212	204	198	192	186
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	10	10	13	22	17	15	15	14	9	9	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	10	10	13	21	17	15	14	13	9	7	7
B. Bound Tests											
B1. Real GDP growth	10	11	14	23	18	17	16	15	10	10	11
B2. Primary balance	10	10	14	23	18	16	15	14	10	10	13
B3. Exports	10	10	14	23	18	16	15	14	10	10	13
B4. Other flows 3/	10	10	14	22	18	16	15	14	10	10	12
B5. Depreciation	10	12	18	29	23	21	20	18	12	11	13
B6. Combination of B1-B5	10	10	13	22	17	15	15	13	9	9	10
C. Tailored Tests											
C1. Combined contingent liabilities	10	10	14	22	18	16	15	14	10	9	10
C2. Natural disaster	10	10	15	23	18	16	16	14	10	10	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.

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.

Figure 3. Comoros: Drivers of Debt Dynamics

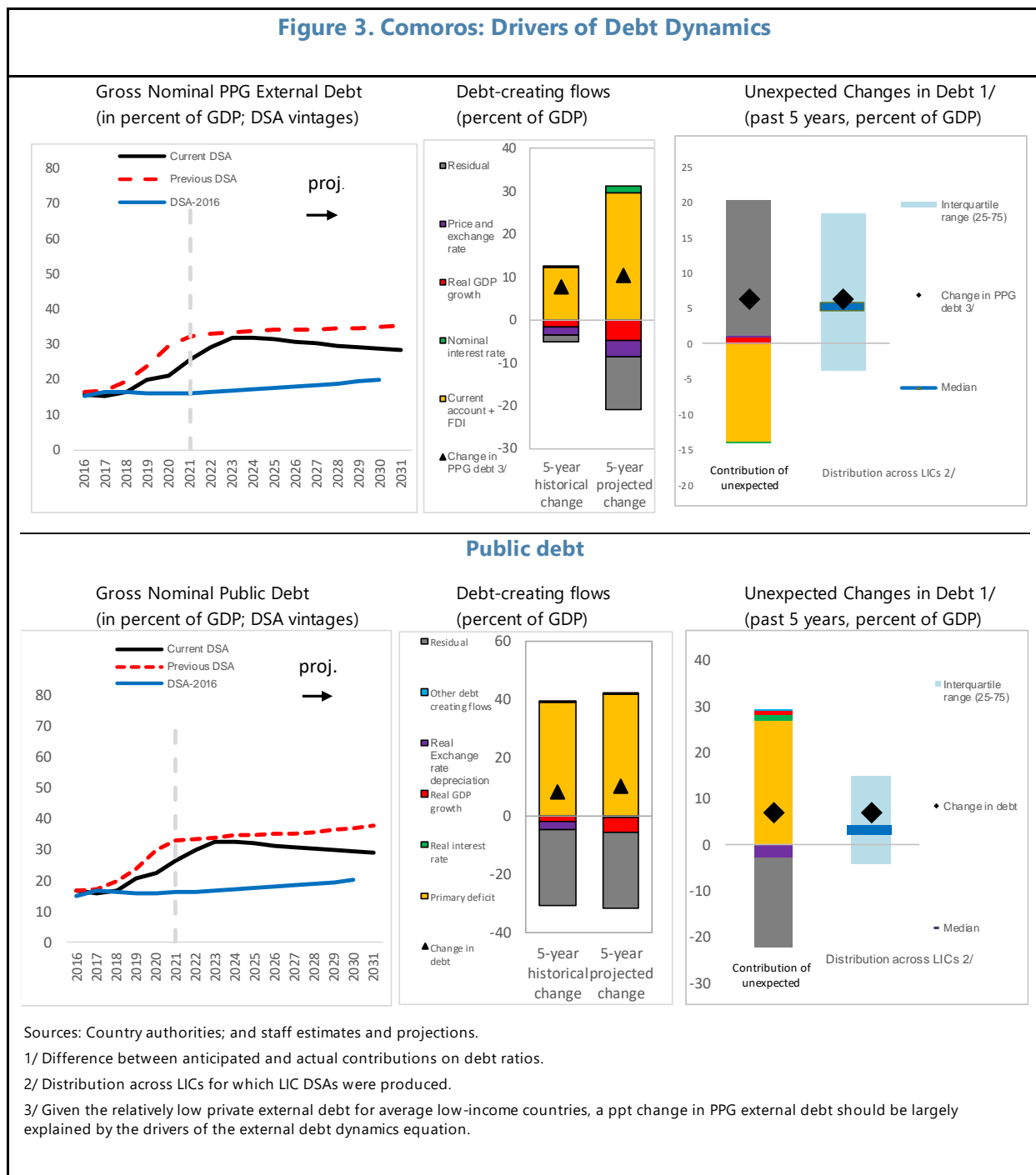
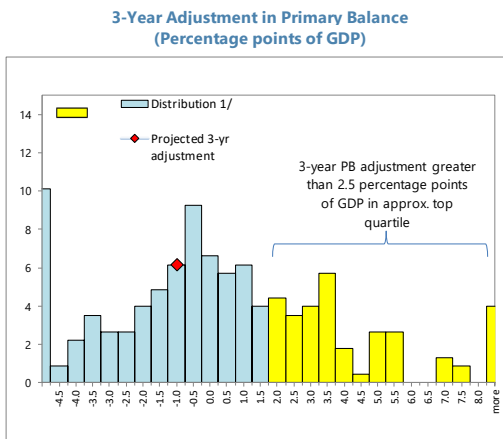
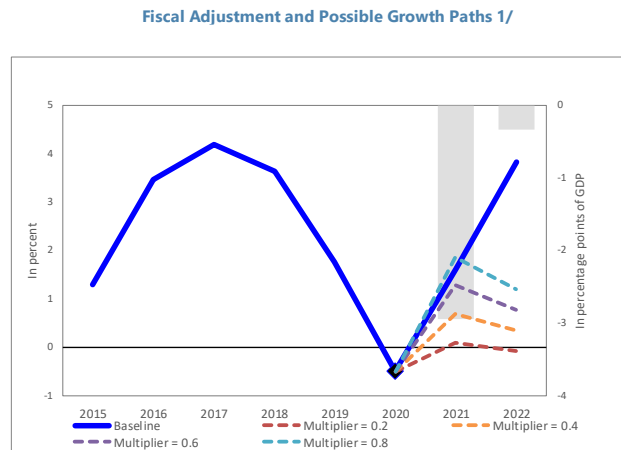


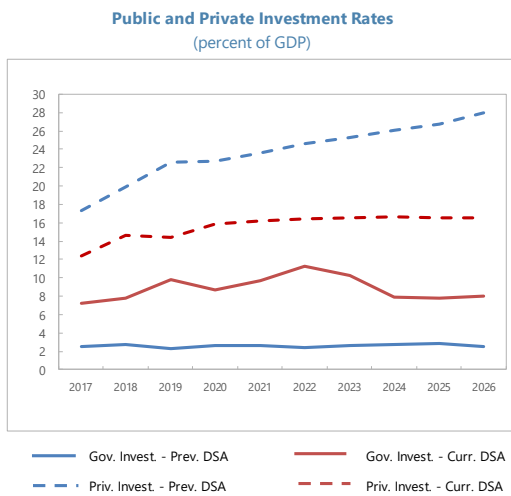
Figure 4. Comoros: Realism Tools



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.



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).



Sources: Country authorities; and staff estimates and projections.

The significant difference between 'Prev. DSA' and 'Curr. DSA' lines in the 'Public and Private Investment Rates' chart is predominantly due to a calculation error in the previous DSA. Specifically, foreign financed public investment was erroneously included in private investment rather than public investment, hence artificially inflating the former and deflating the latter. The sum of private and public investment in the two DSA versions is broadly similar.

