

Union of the Comoros: Second Review Under the Staff-Monitored Program

This paper on the Second Review Under the Staff Monitored Program for the Union of the Comoros was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on November 14, 2005. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Union of the Comoros or the Executive Board of the IMF.

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UNION OF THE COMOROS

Second Review Under the Staff-Monitored Program

Prepared by the African Department

(In consultation with other departments)

Approved by Thomas Krueger and Anthony Boote

November 14, 2005

- **A mission consisting of Mr. van den Boogaerde (head), Mr. Lopes, and Ms. Duggar (all AFR) visited Comoros during September 7-16, 2005.** The mission met with Mr. Mzé Chei Oubeidi, Minister of Finance and the Budget of the Union; Mr. Morton, Acting Governor of the Central Bank of the Comoros; the ministers of finance of the three island governments, and other ministers and senior officials. The mission was received by the presidents of the Union and of the three island governments and met with representatives of the private sector, labor unions, donors, and the media.
- **The Executive Board concluded the last Article IV consultation and was apprised on July 18, 2005 of progress under the staff-monitored program (SMP)** (Country Report No. 05/299). Executive Directors were encouraged by the consolidation of political stability, but disappointed at the lackluster performance of the economy. They expressed concern about the fiscal slippages of early 2005 and urged the authorities to implement the corrective actions necessary to observe the fiscal targets and ensure a satisfactory performance under the program. Directors also underscored the importance of faster progress on structural reforms.
- **The SMP was approved in early February 2005** (IMF Web, February 2, 2005). Program implementation through end-June was mixed. The pace of revenue collection fell sharply in the third quarter, the wage bill has not been sufficiently reined in, and structural reforms continued to lag, resulting in a significant risk that the end-September and end-December targets will not be met.
- **The recent completion of an interim-poverty reduction strategy paper (I-PRSP)** is a significant accomplishment in the fight against poverty, and international support is expected at a donors roundtable planned for December 2005.

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EXECUTIVE SUMMARY

Background

- The **political situation** continues to improve. The first constitutional presidential rotation is envisaged to take place in April 2006. However, **social tensions** have increased in the wake of protracted civil service wage arrears and the recent significant adjustment of oil prices.
- **General economic conditions** have remained lackluster in 2005, hampered by the sharp deterioration in terms of trade, as vanilla prices have remained depressed and oil import costs have more than doubled. Monetary policy has remained prudent and inflation subdued. The external current account is expected to worsen with the sharp deterioration of the trade deficit.

Performance under the staff-monitored program (SMP)

- **Fiscal performance** under the SMP improved in the second quarter of 2005, but **structural reform** has continued to lag. Fiscal consolidation is critical for the success of the SMP, and the government will need to address slippages related to excessive public spending, notably on the civil service wage bill, and domestic arrears accumulation.
- On the basis of preliminary information for the third quarter of 2005, there is a significant risk that some of the program's **end-September and end-December quantitative targets** will not be met. The pace of revenue collection fell sharply in the third quarter, and it will be difficult to rein in wages sufficiently to meet the end-year targets.
- **The authorities are making efforts** to adhere to the program's fiscal targets and to step up structural reform implementation. They have taken revenue-raising measures, contained wage costs, and agreed to visible progress with structural reforms before year-end.
- **The recent completion of the I-PRSP** is an important major landmark in the fight against poverty. The document draws on extensive consultations, sets out well-founded objectives and strategies, and is underpinned by a consistent and sound macroeconomic framework.

Forward looking issues

- The **2006 budget** aims at a prudent fiscal stance while increasing social expenditure. It preserves the consolidation effort envisaged in the 2005 program while making room to clear arrears and start implementing the I-PRSP.
- The forthcoming **donors roundtable** will be key to Comoros' economic and social adjustment prospects over the medium term and to jumpstart I-PRSP implementation.

I. RECENT POLITICAL DEVELOPMENTS

1. **After many years of political tensions, inter-island cooperation continues to improve.** The first presidential rotation under the new constitution is expected to take place in April 2006, as envisaged with the election of a new president from the island of Anjouan. Although disagreements remain between the Union and island governments on such major issues as internal security and judiciary organization, progress has been made on others, notably fiscal competencies and revenue sharing.

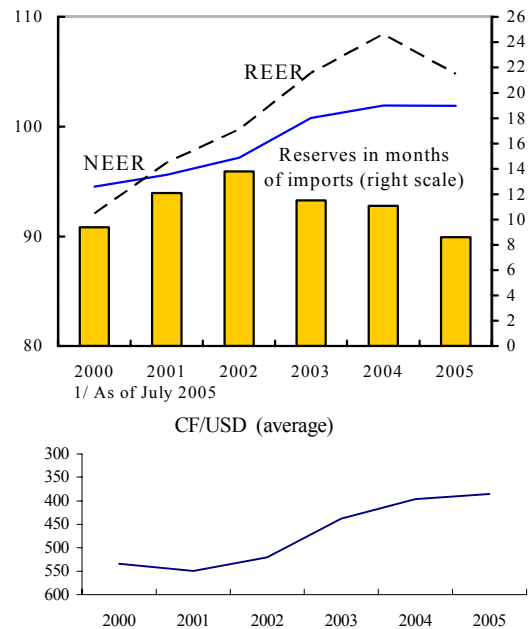
2. **Protracted civil service wage arrears and a sharp increase in oil prices have ignited social tensions.** Although fuel price increases were expected, since they last occurred in late 2004, their magnitude (40 percent for gasoline and 71 percent for diesel) hit a raw nerve with a population already buffeted by the collapse in vanilla prices and the accumulation of civil service payroll arrears. In response to widespread protests, the government rolled back the price increase on kerosene (heavily used by the poor) and lowered customs duties on a range of basic foodstuffs.

II. RECENT ECONOMIC AND SOCIAL DEVELOPMENTS

3. **General economic conditions remain lackluster in 2005** with the low vanilla prices and the uncertainty caused by the wage arrears dragging down economic activity. Year-on-year inflation was zero in August but is expected to pick up in the last quarter as a result of the fuel price hikes. In addition to such price stability, the modest appreciation of the U.S. dollar against the Euro (Figure 1), to which the Comorian franc (CF) is pegged, improved external competitiveness in the first half of the year in terms of the real effective exchange rate (REER). However, the authorities and the staff agreed on the need to accelerate structural reforms to strengthen competitiveness in view of the 17 percent appreciation of the REER over the past five years.¹

4. **The external current account deficit (excluding transfers) is expected to widen somewhat in 2005, compared with original projections, to 7.6 percent of GDP.** The widening reflects sluggish vanilla export volumes, depressed vanilla prices, and an oil-price-induced increase in imports (Figure 2).

Figure 1: Reserves and Effective Exchange Rates 1/ (1995=100)



¹ A more detailed analysis of Comoros' competitiveness is provided in the 2005 Article IV staff report (Country Report No. 05/299), paragraph 16 and Box 3.

Notwithstanding continued buoyancy in emigrant remittances in 2005, net foreign assets fell in the first half of year. Comoros is a HIPC eligible country and a debt sustainability assessment as of end-2004 showed a debt-to-exports ratio of around 400 percent (Country Report No. 05/299), which may well have been aggravated during 2005 by the worsening of vanilla exports.

5. The authorities are closely monitoring the crisis in the vanilla sector and its widespread social consequences.

With the collapse in world prices, the sector has incurred heavy losses during the past two years, and only top-quality vanilla is being exported. To give some relief to producers and prevent widespread defaults, bank and microcredit lenders have extended the repayment periods for past crop credits. To provide incentives for competitive production, the government set prices for the 2005 crop more differentiated on the basis of quality. Over the medium term, as highlighted in the I-PRSP, the vanilla sector will have to undergo a major restructuring, and donor support is expected to help with the reforms and with programs to diversify agricultural production and generate alternative sources of income in rural areas.

6. Social conditions remain characterized by widespread poverty and lack of opportunity. Many Comorians depend on remittances from relatives abroad and on civil service employment, which, though modestly remunerated, is the only source of income for many families. For this reason, the considerable delays (three-month average lag) in paying government salaries over the past two years have periodically forced many families to cut expenses or borrow. Further underscoring a deterioration in social conditions, government spending on health and education has not increased during 2005 as intended due to lack of resources.

7. Monetary developments in 2005 have been consistent with the sluggish economic conditions. During the first semester, broad money fell by about 4 percent (Figure 3), reflecting a fall in money demand in the form of time deposits that is indicative of household dissaving. Net claims on the government have increased slightly, but credit to the private sector has fallen as lenders have sought to limit their exposure to the troubled vanilla sector.

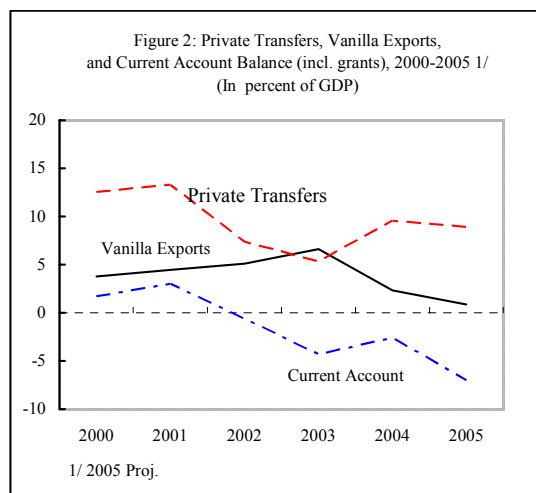
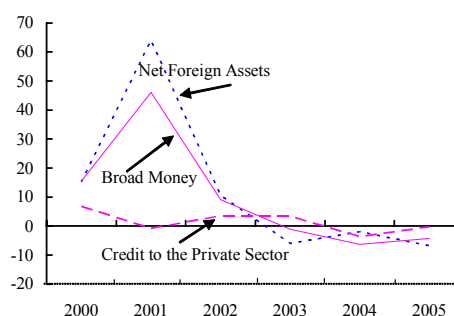
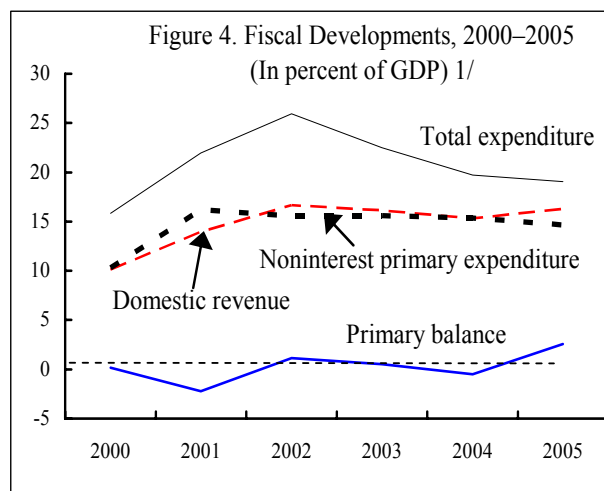


Figure 3. Percentage Change of Net Foreign Assets, Broad Money and Credit to the Private Sector, 2000-2005 1/



III. IMPLEMENTATION OF THE STAFF-MONITORED PROGRAM

8. **Comoros improved fiscal performance under the SMP in the second quarter, but missed 3 of the 8 quantitative targets for end-June** (Figure 4 and Table 7). Wage expenditures exceeded the program ceiling, as did domestic and external arrears to multilateral creditors, which recorded small net accumulations.² Efforts at improving revenue in the second quarter enabled the end-June revenue and the primary budget surplus targets to be met.



9. **Structural reform continued to lag** (Table 8). The new public procurement law was adopted with a delay on August 1. The harmonization of the budget nomenclature, scheduled for end-September, was completed, but its implementation through computerized monitoring of expenditure is awaiting donor financing. On the advice of the World Bank, the subcontracting of customs administration has been delayed until the conclusion of a broader customs reform program.³ Little progress has been made with the offsetting of cross debts between the government and public enterprises and with the privatizations of the companies envisaged by end-December (Comoros Telecom and SCH fuel importers and distributors). The authorities attributed such delays to the need to build a political consensus among the island governments and to delays in the provision of the necessary technical assistance. They were, however, confident that these reforms could be completed by year-end, as envisaged under the SMP.

10. **Despite measures introduced in July to contain the wage bill and improve tax recovery, there is a significant risk that Comoros will not meet its end-September quantitative performance targets.** In a renewed attempt to curb salary outlays, the government implemented a package of measures in July that included limiting most salary supplements and contractual hiring and purging the payroll of deceased and absentee staff (Box 1). These measures should lead to some savings, although not likely enough to meet the program ceiling. In addition, revenue collection fell in July and August, suggesting a

² Amounting to about US\$0.5 million, essentially to the African Development Bank and the Islamic Development Bank.

³ The World Bank technical assistance mission concluded that an overhaul of the customs procedures and reorganization of the staff would be needed before a privatization can be contemplated.

shortfall at end-September, in which case the primary surplus target would also likely be missed.⁴

11. **Underscoring its difficult cash situation, the treasury has obtained a new statutory advance from the central bank** (FC 1.5 billion; equivalent to 1 percent of GDP) and used it to reduce outstanding wage arrears beyond what the program called for. The staff queried whether this reduction would affect spending on health and education, but the authorities emphasized the need to maintain social peace and noted that a bilateral grant that had not been envisaged in the program could be made available for the purpose of paying the arrears. The staff cautioned on the need to carefully audit arrears, which could well be exaggerated in the current situation of uncertain retroactive claims.

Box 1. Comoros: Fiscal Measures Adopted in July 2005

Revenue measures

- Elimination of all discretionary customs exemptions;
- Cut in the customs duty on flour imports and elimination of the exemption for bakeries (to prevent existing abuses);
- Simplification of the customs duties and taxes for imports by air freight (by adding a flat 20 percent to the transaction value in lieu of actual freight costs to determine CIF valuation).

Measures to contain the wage bill

- Immediate freeze on new hirings and retrenchement of temporary personnel;
- Suspension of planned integrations of temporary personnel hired since September 2003 and of new staff;
- Requirement of prior approval by the Council of Ministers of new recruitments;
- Elimination from the civil service roster of all fired, deceased, and absentee personnel;
- Immediate application of all retirements scheduled for 2005;
- Elimination of some allowances;
- Computerization and better control of the civil service payment roster.

12. **The authorities are taking action to adhere to the program's fiscal targets.** On the revenue side, they have called on public utilities and parastatals to settle their taxes and dividends; increased taxes on tobacco, alcohol, and top-grade rice; and raised fuel

⁴ End-September data are not yet available.

prices.⁵ However, to soften the impact of the increase in fuel prices and in response to the social outcry, the authorities reduced tariffs on imported basic foodstuffs. In addition, the reduction in customs exemptions enacted in July has started to yield additional revenue. On the expenditure side, they will take further measures to reduce the wage bill, including possibly cuts in allowances for top level civil service wage earners, with a view to meeting the end-December primary surplus target and keeping the overall fiscal deficit (cash basis) to about 4 percent of GDP. The authorities indicated that they intend to regularize outstanding nonreschedulable external arrears before year-end.

13. **The authorities noted that financial intermediation and regulation were set to improve.** Several foreign banks are interested in establishing branches in the Comoros, and one new license was granted in 2005, broadening the competition in banking services. A donor-supported project is being put in place to improve the use of the financial system for handling emigrants' remittances. In 2006, the authorities plan to expand regulatory oversight over the two microfinance institutions and initiate the restructuring of the national development bank and the postal financial services company. The mission expressed concerns about the impact of banks' overexposure to the vanilla sector on prudential compliance. This was also a source of concern to the authorities, who assured the staff that they are closely monitoring the situation.

14. **The government indicated that it would step up reforms to establish a policy track record necessary to initiate discussions for an arrangement under the Poverty Reduction and Growth Facility (PRGF).** With the objective of meeting the end-December structural benchmarks, preparatory work for the settling of debts between the government and public enterprises is being accelerated, and a consultant has been hired to value the two companies slated for privatization. The staff emphasized that meeting the SMP's quantitative targets would be just as critical for establishing a track record.

15. **The authorities agreed that the 2006 budget would follow the SMP's goals of a prudent fiscal stance and higher social expenditure.** They discussed with the mission a draft budget that would preserve the consolidation effort envisaged in the 2005 program while making room for the clearance of arrears and for the increase in social expenditures necessary to start implementing the I-PRSP. Accordingly, the primary surplus is targeted at 2 percent of GDP (versus 1.8 percent of GDP for 2005), and 1.6 percent of GDP is being budgeted for the clearance of arrears. The authorities expressed their appreciation for the August 2005 FAD technical assistance mission on tax policy and its emphasis on starting to prepare Comoros for the revenue implications of the eventual implementation of the Community of East African States (COMESA) free trade area. They indicated that the key recommendations, notably reducing customs duties in favor of domestic taxes and adopting an ad valorem tax on petroleum products, would be incorporated into the 2006 Finance Law.

⁵ This increase applies to gasoline and diesel. The price of kerosene (cooking oil), which is widely used by the poor, remained unchanged.

16. **Full financing of the 2006 budget has not yet been identified.** At this stage, a gap equivalent to US\$6.4 million (1.6 percent of GDP) would have to be covered with external support, to be secured at the donors' roundtable. Domestic financing is to be limited to FC 400 million (0.3 percent of GDP) to safeguard the exchange arrangement.

IV. INTERIM POVERTY REDUCTION STRATEGY PAPER (I-PRSP)

17. **The government finalized its I-PRSP in the context of the preparations for the donors' roundtable.** The I-PRSP draws on widespread consultations and has seven priorities deemed to be key for achieving sustained and equitable economic growth. It is supported by a macroeconomic framework that, overall, is in line with the expressed objectives of reducing poverty and securing macroeconomic stability and with the government's medium-term program. Taking into account earlier joint comments by the mission team and the World Bank, the initial draft was supplemented with cost estimates for the envisaged social programs. The staff has suggested that the authorities explicitly indicate their top priorities among the many projects under consideration.

18. **Implementation of the I-PRSP is to start in 2006 with donor support.** The I-PRSP document will serve, among other things, as a policy tool for better coordinating donor assistance, which the authorities intend to request at the forthcoming donors' roundtable on the basis of the I-PRSP's objectives and cost estimates.

V. STAFF APPRAISAL

19. **Comoros has continued to consolidate national stability through the implementation of power-sharing arrangements.** Rotating the presidency in April 2006 is key to validating the new constitutional provisions, and President Azali's declaration that he would step down on schedule is a reassuring indication that the process is moving in the right direction.

20. **Economic conditions have been hampered in 2005 by the surge in oil prices and depressed vanilla prices,** which have lowered personal incomes and weakened economic activity. Despite the recent absence of inflation, competitiveness has weakened markedly over the last five years. Within the context of the fixed exchange rate regime, structural policy reforms are needed to relaunch the vanilla and tourism sectors, and to foster new exports in which Comoros has competitive potential (such as fisheries and high-value exotic agricultural products).

21. **Notwithstanding considerable efforts to overcome political division, progress under the SMP has remained uneven.** The government was only partially successful in bringing the SMP back on track at end-June. Nonetheless, it has taken strong actions to strengthen revenue collection and control public spending, an effort that is all the more noteworthy in view of the adverse political and external environments. The increase in fuel prices in September will ensure cost recovery and fiscal stability, as well as supplies for the domestic market. To stave off social unrest, it was accompanied by a lowering of customs

duties on essential foodstuffs, while increasing domestic taxes on luxury items to offset the loss of revenue.

22. **Comoros's excessively large civil service remains the major risk to program implementation and macroeconomic stability.** Despite the difficult measures taken by the government in July to contain wage costs, absent major retrenchments, the civil service will continue to constrain public finances and prevent the much-needed increase in social expenditures. The reduction in salary arrears beyond program objectives has resulted in bank financing above the SMP targets and a crowding out of social outlays and any further such operation should not be pursued until the earmarked donor financing has become available.

23. **Structural reform in Comoros has lagged in part because of a lack of external assistance and in part because the necessary domestic reform momentum has not been generated.** The delay in the customs reform reflects a deliberate reevaluation of priorities, taking into account World Bank technical assistance recommendations. Preparations for the privatizations have been slow because of political hesitation and the adverse economic conditions. The December deadline for the two privatizations is thus at risk, although the government has recently taken steps to prepare the companies for sale.

24. **Preliminary information for the third quarter of 2005 suggests that Comoros will not meet the end-September and end-December quantitative targets.** Revenue collection fell sharply in the third quarter and wages were not reined in sufficiently to meet the end-December targets. The authorities should strive to come as close as possible to the SMP objectives, thereby underscoring their commitment to macroeconomic stability.

25. **The completion of the I-PRSP is a major landmark in developing a broad-based strategy to fight poverty.** The document benefited from extensive consultations, sets out clear objectives, and is underpinned by an appropriate macroeconomic framework. Implementation of the I-PRSP should serve as a catalyst for civil society to participate in social development and for Comoros' foreign partners to assist with financial and technical support.

26. **The forthcoming donors roundtable—the first in almost a decade—will be important to Comoros's economic and social adjustment prospects over the medium term.** The country is in dire need of a major increase in foreign assistance to consolidate reforms, launch the I-PRSP, and make meaningful progress toward the Millennium Development Goals.

Table 1. Comores: Selected Economic and Financial Indicators, 2002-08

	2002	2003	2004	Prog. 2005	2006	Proj. 2007	2008
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
Real GDP	2.3	2.1	1.9	2.8	3.3	4.1	5.0
Real GDP per capita	0.2	0.0	-0.2	0.7	1.2	2.0	2.8
Nominal GDP (in millions of Comorian francs)	128,980	138,444	146,319	151,066	160,566	175,250	189,757
Nominal GDP (in millions of U.S. dollars)	247.5	316.4	369.8	392.1	411.0	449.0	486.5
Nominal GDP per capita (in U.S. dollars)	439.1	549.6	629.0	653.0	670.3	716.9	760.6
GDP deflator	4.2	5.1	3.7	0.4	2.9	4.8	3.2
Consumer price index (annual averages)	3.5	3.8	4.5	3.0	3.0	3.0	3.0
External sector							
Exports, f.o.b.	9.9	26.2	-41.9	-39.5	3.8	4.3	5.2
Imports, f.o.b.	-0.8	10.1	10.4	15.0	5.1	-1.7	9.6
Terms of trade	0.8	69.8	-32.7	-57.0	-1.2	10.6	0.4
Government budget							
Domestic revenue	27.3	3.8	0.5	9.8	6.0	14.7	8.9
Total expenditure and net lending	25.9	-6.9	-7.4	-0.2	12.7	17.9	7.4
Current expenditure	13.7	-5.8	-1.0	-0.5	5.8	11.2	8.9
Capital expenditure and net lending	41.4	-0.2	-16.8	0.8	36.9	36.3	3.9
Money and credit							
Net foreign assets	9.9	-4.8	-1.6	-13.1	...	...	...
Domestic credit	13.5	-3.3	-3.6	1.2	...	...	...
Credit to government	15.2	-49.1	35.3	0.0	...	...	...
Credit to the rest of the economy	12.3	10.7	-10.1	1.7	...	...	...
Broad money	-3.7	-1.1	-6.3	-4.1	...	...	...
Velocity (GDP/average broad money)	4.0	4.4	4.9	5.3	...	...	...
Interest rate (in percent, end of period)	6.1	6.1	6.1	6.1	...	...	...
	(In percent of GDP, unless otherwise indicated)						
Investment and savings							
Investment	12.2	11.6	10.2	10.1	11.5	13.7	14.0
Public	5.9	5.5	4.3	4.2	5.4	6.8	6.5
Private	6.4	6.1	5.9	5.9	6.1	7.0	7.5
Gross national savings	11.6	7.3	7.6	3.1	4.6	8.8	8.4
Public	2.1	2.0	2.7	5.2	4.7	5.3	5.2
Private	9.5	5.4	5.0	-2.1	-0.1	3.5	3.2
External current account (incl. official transfers)	-0.6	-4.3	-2.6	-7.0	-6.9	-5.0	-5.6
Government budget							
Domestic revenue	16.7	16.1	15.3	16.4	16.3	17.1	17.2
Total grants	4.2	2.3	2.7	3.1	3.3	3.3	3.1
Total expenditure	26.0	22.5	19.7	20.0	20.2	21.8	21.6
Current expenditure	18.7	16.4	15.4	15.1	14.8	15.1	15.1
Capital expenditure	5.9	5.5	4.3	4.9	5.4	6.8	6.5
Primary balance	1.1	0.5	-0.5	1.8	2.0	2.3	2.3
Overall balance (commitment basis, including grants)	-5.1	-4.1	-1.6	-0.5	-0.7	-1.5	-1.3
Overall balance (cash basis, including grants)	-4.3	-2.5	-0.3	-0.5	-2.2	-3.8	-2.4
External sector							
Exports, f.o.b.	15.8	18.2	16.1	14.3	14.2	13.9	13.7
Imports, c.i.f.	26.2	28.5	27.8	30.4	29.8	27.2	27.4
Current account balance (incl. official transfers)	-0.6	-4.3	-2.6	-7.0	-6.9	-5.0	-5.6
Current account balance (excl. official transfers)	-3.3	-5.4	-2.7	-7.6	-7.4	-5.5	-6.1
Outstanding external debt (in percent of exports of goods and nonfactor s)	542.7	454.5	490.1	530.3	501.4	471.1	452.9
Outstanding external debt (in percent of GDP)	85.7	82.9	79.0	76.0	71.4	65.4	62.2
Net present value (NPV) of external debt							
NPV of debt-to-GDP ratio	...	...	61.2	58.4	56.9	52.7	50.0
NPV of debt-to-exports ratio	...	...	406.3	389.4	382.9	364.8	349.8
External debt service							
In percent of exports of goods and nonfactor services	14.9	12.4	13.6	17.8	16.8	15.6	15.4
In percent of government revenue	14.1	14.0	14.3	15.6	14.7	12.6	12.3
Overall balance of payments (in millions of U.S. dollars)	6.8	-6.3	-4.3	-14.9	-16.2	-10.1	-2.4
External payments arrears (end of year; in millions of U.S. dollars)	65.4	85.1	88.5	89.9	0.0	0.0	0.0
Gross international reserves (end of period; in millions of U.S. dollars)	80.9	97.2	96.2	84.4	75.2	80.5	79.6
(equivalent months of imports, c.i.f.)	13.8	11.5	11.1	8.6	7.4	7.9	7.2
Exchange rate							
Comorian francs per U.S. dollar (period average)	521.1	437.6	395.7	385.3	...	...	...

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

Table 2: Comoros: Consolidated Government Financial Operations, 2004-06
(In millions de Comorian francs)

	2004	2005						2006 Proj.	
		Jan.-Mar.		Jan.-Jun.		Jan.-Sept.	Jan.-Dec.		
		Prog.	Actual	Prog.	Prelim.	Prog.	Prog.		
Total revenue and grants	26,434	8,138	5,535	12,051	13,071	22,400	29,496	31,358	
Revenues	22,445	7,427	4,641	10,155	10,932	19,082	24,756	26,131	
Tax revenues	19,407	6,416	3,498	8,768	7,728	16,466	21,385	20,683	
Nontax revenues	3,162	1,011	1,143	1,387	3,207	2,616	3,371	5,448	
External grants	3,989	711	894	1,896	2,138	3,318	4,740	5,227	
Budgetary assistance	153	0	894	0	177	0	0	0	
Projects (incl. techn.assist.)	3,836	711	894	1,896	1,961	3,318	4,740	5,227	
Total expenditure and net lending	28,848	6,714	5,811	12,431	13,385	22,128	30,236	32,436	
Current expenditure	22,547	5,598	4,827	10,085	11,169	16,921	22,796	23,737	
Primary current expenditures	20,659	5,092	4,766	9,411	9,859	15,276	20,368	21,145	
Wages and salaries	12,631	2,933	3,214	6,268	6,542	9,026	11,732	12,583	
Goods and services	6,038	1,572	1,075	2,433	2,463	4,650	6,288	6,044	
Transfers	1,989	587	309	710	854	1,600	2,348	2,518	
Interest payments	1,282	354	169	443	547	935	1,414	1,375	
External debt	1,187	327	138	384	481	845	1,306	1,280	
Domestic debt	95	27	31	60	66	90	108	95	
Technical assistance	606	152	60	231	763	710	1,014	1,217	
Capital expenditure	6,301	1,116	985	2,346	2,216	5,208	7,440	8,699	
Domestically financed investment	2,539	254	35	450	431	1,186	1,694	1,805	
Foreign-financed investment	3,762	862	950	1,897	1,785	4,022	5,746	6,894	
Primary balance	-753	2,081	9	295	643	2,620	2,694	3,181	
Overall balance (commitment basis)	-2,414	1,424	-276	-380	-314	272	-740	-1,078	
Excluding grants	-6,403	713	-1,170	-2,276	-2,452	-3,046	-5,480	-6,305	
Change in net arrears (+: accumulator)	1,862	14	-30	27	117	41	54	-2,500	
Interest on external debt	665	14	-113	27	34	41	54		
Domestic arrears 2/	1,197	0	83	0	83	0	0	-2,500	
Change in the accounts at the Treasury	125	0	2	0	-226	0	0	0	
Overall balance (cash basis)	-427	1,438	-304	-353	-423	312	-686	-3,578	
Excluding grants	-4,416	727	-1,198	-2,249	-2,561	-3,006	-5,426	-8,805	
Financing	829	-172	356	353	869	-12	119	1,031	
Foreign (net)	263	-172	-141	-143	49	-12	119	631	
Drawings, PIP (identified)	1,462	303	210	808	587	1,414	2,020	2,884	
Drawings, adjustment loans	0	0	0	0	0	0	0		
Amortization	-1,935	-549	-450	-1,098	-866	-1,646	-2,195	-2,253	
Arrears (principal)	735	74	100	147	328	221	294	0	
Domestic (net)	567	0	497	496	820	0	0	400	
Financing gap	-402	-1,265	-52	0	-446	-300	567	2,547	
Memorandum items:				(in percent of GDP)					
Domestic revenue	15.3	19.7	12.3	13.5	14.5	16.8	16.4	16.3	
Noninterest domestic primary expen	15.4	14.2	12.3	13.1	13.6	14.5	14.6	14.3	
Expenditure	19.7	17.8	15.4	16.5	17.7	19.5	20.0	20.2	
Primary balance	-0.5	5.5	0.0	0.4	0.9	2.3	1.8	2.0	
Overall balance (commitment basis)	-1.6	3.8	-0.7	-0.5	-0.4	0.2	-0.5	-0.7	
excluding grants	-4.4	1.9	-3.1	-3.0	-3.2	-2.7	-3.6	-3.9	
Overall balance (cash basis)	-0.3	3.8	-0.8	-0.5	-0.6	0.3	-0.5	-2.2	
excluding grants	-3.0	1.9	-3.2	-3.0	-3.4	-2.7	-3.6	-5.5	
Nominal GDP 1/	146,319	37,767	37,767	75,533	75,533	113,300	151,066	160,566	

Sources: Ministry of Finance; and IMF staff estimates.

1/ Quarterly GDP for 2005 is projected linearly on the basis of annual 2005 GDP.

Table 3. Fiscal Operations, Union and Island Governments, end-March and end-June 2005
(In million of Comorian francs, unless otherwise indicated)

	March 2005 (Prel.)					June 2005 (Prel.)					
	Consolidated	Union	Ngazidja	Anjouan	Mwali	Consolidated	Union	Ngazidja	Anjouan	Mwali	
Total revenue and grants, after transfers from federation account	5,535	3,801	727	818	188	13,070	8,388	2,086	2,060	535	
Revenue collected	4,641	3,732	210	684	15	10,932	8,619	385	1,827	101	
Taxes	3,498	2,688	197	603	11	7,728	5,657	301	1,683	87	
<i>Of which:</i> Taxes on income, profits, and capital gains	776	760	9	4	4	3,529	1,995	213	1,311	11	
<i>Of which:</i> Taxes on goods and services	969	493	174	295	7	886	350	88	372	76	
<i>Of which:</i> Taxes on international trade and transactions	1,715	1,411	--	303	--	3,207	3,207	--	--	--	
Nontax revenues	1,143	1,044	13	81	4	3,204	2,962	83	144	15	
Distribution of Revenue	4,641					10,932					
Revenue allocated to the Federation		2,012	--	352	4		-5,657	--	-947	-43	
Revenue allocated from the Federation		1,187	518	486	178		3,288	1,701	1,180	477	
Available revenue after Federation transfers	4,641	2,907	727	818	188	10,932	6,250	2,086	2,060	535	
External grants	894	894	--	--	--	2,138	2,138	--	--	--	
Budgetary assistance	894	894	--	--	--	177	177	--	--	--	
Project financing (incl. technical assistance)	894	894	--	--	--	1,961	1,961	--	--	--	
Total expenditures and net lending	5,811	3,457	910	1,145	299	13,385	7,907	2,388	2,519	571	
Current expenditures	4,827	2,488	910	1,130	299	11,169	5,737	2,388	2,476	568	
Primary current expenditures	4,598	2,258	910	1,130	299	9,859	4,427	2,388	2,476	568	
Salary, wages and pensions	3,214	1,133	880	936	266	6,542	2,087	1,928	2,072	455	
Goods and services	1,075	887	31	123	33	2,463	1,787	367	210	99	
Transfers and subsidies	309	238	--	71	--	854	553	93	194	14	
Interest on debt	169	169	--	--	--	547	547	--	--	--	
Domestic debt	31	31	--	--	--	66	66	--	--	--	
External debt	138	138	--	--	--	481	481	--	--	--	
Ext.-financed current expenditures (maintenance and t.a.)	60	60	--	--	--	763	763	--	--	--	
Capital expenditure	985	970	--	15	--	2,216	2,170	--	43	3	
Domestically financed	35	20	--	15	--	431	385	--	43	3	
Externally financed	950	950	--	--	--	1,785	1,785	--	--	--	
Net lending	--	--	--	--	--	--	--	--	--	--	
Primary balance	9	629	-183	-327	-111	642	1,438	-302	-459	-35	
Overall balance (commitment basis)											
Excluding grants	-1,170	-550	-183	-327	-111	-2,453	-1,657	-302	-459	-35	
Including grants	-276	344	-183	-327	-111	-315	481	-302	-459	-35	
Repayment of Arrears	1,699	1,142	434	112	10	3,392	2,454	717	148	73	
Domestic	1,582	1,026	434	112	10	3,276	2,338	717	148	73	
of which: salaries, wages, and pensions	950	462	434	54	--	--	--	--	--	--	
External	117	117	--	--	--	117	117	--	--	--	
Accumulation of Arrears	1,669	807	153	709	--	3,509	1,763	849	719	178	
Domestic	1,665	803	153	709	--	3,359	1,613	849	719	178	
of which: salaries, wages, and pensions	1,189	598	--	591	--	2,230	750	690	640	150	
External	4	4	--	--	--	150	150	--	--	--	
Mouvements comptes du Tresor	2	2	--	--	--	-226	-226	--	--	--	
Change in float (+, accumulation of payments due)	--	--	--	--	--	--	--	--	--	--	
Overall balance (cash basis)											
Excluding grants	-1,198	-883	-464	270	-121	-2,562	-2,574	-170	112	70	
Including grants	-304	11	-464	270	-121	-424	-436	-170	112	70	
Financing	356	356	--	--	--	868	868	--	--	--	
Domestic	497	497	--	--	--	819	819	--	--	--	
Bank	497	497	--	--	--	819	819	--	--	--	
Central bank	823	823	--	--	--	1,242	1,242	--	--	--	
Commercial Banks	-326	-326	--	--	--	-423	-423	--	--	--	
Non bank	--	--	--	--	--	--	--	--	--	--	
External	-141	-141	--	--	--	49	49	--	--	--	
Drawings	210	210	--	--	--	587	587	--	--	--	
Projects	210	210	--	--	--	587	587	--	--	--	
Program	--	--	--	--	--	--	--	--	--	--	
Amortization	-450	-450	--	--	--	-866	-866	--	--	--	
Arrears on principal	100	100	--	--	--	328	328	--	--	--	
Repayments	--	--	--	--	--	--	--	--	--	--	
Accumulation	100	100	--	--	--	328	328	--	--	--	
Errors and omissions / Financing gap	-52	-367	464	-270	121	-444	-432	170	-112	-70	
Memorandum Items:											
		(In percent of GDP)					(In percent of GDP)				
Domestic revenue	3.2	2.0	0.5	0.6	0.1	7.5	4.3	1.4	1.4	0.4	
Noninterest domestic primary expenditure	3.2	1.6	0.6	0.8	0.2	7.0	3.3	1.6	1.7	0.4	
Expenditure	4.0	2.4	0.6	0.8	0.2	9.1	5.4	1.6	1.7	0.4	
Primary balance	0.0	0.4	-0.1	-0.2	-0.1	0.4	1.0	-0.2	-0.3	0.0	
Overall balance (commitment basis)	-0.2	0.2	-0.1	-0.2	-0.1	-0.2	0.3	-0.2	-0.3	0.0	
excluding grants	-0.8	-0.4	-0.1	-0.2	-0.1	-1.7	-1.1	-0.2	-0.3	0.0	
Overall balance (cash basis)	-0.2	0.0	-0.3	0.2	-0.1	-0.3	-0.3	-0.1	0.1	0.0	
excluding grants	-0.8	-0.6	-0.3	0.2	-0.1	-1.8	-1.8	-0.1	0.1	0.0	

Sources: Ministry of Finance; and staff estimates and projections.

Table 4. Comoros: Monetary Survey, 2003-05

	2003	2004	Mar.	Jun.	Sep.	Dec.
			Prel.	Prel.	Proj.	Proj.
				2005		
(In millions of comorian francs)						
Monetary survey						
Net foreign assets	37,666	37,057	36,307	35,038	33,629	32,219
Net domestic assets	-5,923	-7,326	-7,814	-6,560	-5,135	-3,716
Domestic credit	13,118	12,641	13,195	13,332	13,896	12,794
Net credit to government	1,604	2,170	2,667	2,989	3,447	2,170
Claims on government	3,420	4,238	4,452	4,471	5,515	4,238
Deposits of government	-1,816	-2,068	-1,785	-1,482	-2,068	-2,068
Claims on public enterprises	70	167	99	108	148	142
Claims on other financial institutions	60	68	86	76	68	68
Claims on private sector	11,385	10,236	10,342	10,159	10,232	10,413
Other items' net	-19,041	-19,967	-21,009	-19,892	-19,030	-16,509
Broad money	31,743	29,730	28,493	28,478	28,495	28,503
Money	23,206	20,894	20,358	20,437	20,026	20,032
Currency in circulation	11,505	11,730	10,392	10,187	11,243	11,246
Demand deposits	11,701	9,164	9,967	10,250	8,783	8,786
Quasi money	8,537	8,836	8,134	8,041	8,469	8,471
Central bank						
Net foreign assets	37,715	37,420	35,981	35,172	33,993	32,582
Domestic credit	2,109	2,286	3,113	3,533	4,181	2,686
Net credit to government	1,994	2,188	3,011	3,430	4,082	2,588
Claims on government	3,120	3,457	4,072	4,171	5,352	3,858
Deposits of government	-1,126	-1,270	-1,061	-741	-1,270	-1,270
Claims on other financial institutions	50	50	50	50	50	50
Claims on private sector	65	48	52	53	48	48
Other items' net	-11,982	-12,212	-12,358	-12,194	-11,822	-8,909
Reserve money	27,842	27,494	26,736	26,511	26,352	26,359
Currency in circulation	11,505	11,730	10,392	10,187	11,243	11,246
Bank reserves	14,222	13,841	13,808	14,235	13,266	13,270
Cash holdings	66	120	111	195	115	115
Deposits	14,156	13,721	13,697	14,040	13,151	13,155
Deposits of other financial institutions	1,905	1,762	2,301	1,628	1,689	1,690
Deposits of public enterprises	211	160	235	461	154	154
Deposit money banks						
Net foreign assets	-49	-363	325	-134	-363	-363
Bank reserves	13,214	13,156	13,146	13,333	12,610	12,613
Cash holdings	66	120	111	196	115	115
Deposits at the central bank	13,148	13,036	13,035	13,137	12,495	12,498
Domestic credit	11,009	10,355	10,082	9,799	9,715	10,107
Net credit to government	-390	-18	-344	-441	-635	-418
Claims on government	300	781	380	300	163	380
Deposits of government	-690	-798	-724	-741	-798	-798
Claims on public enterprises	70	167	99	108	148	142
Claims on other financial institutions	10	18	36	26	18	18
Claims on private sector	11,319	10,187	10,290	10,106	10,183	10,365
Other items' net	-4,147	-5,308	-5,687	-5,168	-4,863	-5,254
Total deposits	20,027	17,840	17,866	17,830	17,098	17,103
Demand deposits	11,490	9,004	9,732	9,789	8,630	8,632
Term and savings deposits	8,537	8,836	8,134	8,041	8,469	8,471
(In percent of beginning-of-period money stock, unless otherwise indicated)						
Memorandum items:						
Net foreign assets	-6.0	-1.9	-2.5	-6.8	-11.5	-16.3
Domestic credit	-1.4	-1.5	1.9	2.3	4.2	0.5
Net credit to government	-4.8	1.8	1.7	2.8	4.3	0.0
Credit to public enterprises	-0.1	0.3	-0.2	-0.2	-0.1	-0.1
Credit to private sector	3.4	-3.6	0.4	-0.3	0.0	0.6
Broad money	-1.1	-6.3	-4.2	-4.2	-4.2	-4.1
Money	0.0	-7.3	-1.8	-1.5	-2.9	-2.9
Quasi money	-1.1	0.9	-2.4	-2.7	-1.2	-1.2
Velocity (GDP/average M2)	4.4	4.9	...	...	...	5.3
Credit to private sector (percentage change from previous year)	10.7	-10.1	1.0	-0.7	0.0	1.7

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

Table 5. Comoros: Balance of Payments, 2002-2008
(In millions of U.S. dollars, unless otherwise indicated)

	2002	2003	2004	Proj.			
				2005	2006	2007	2008
Current account	-1.6	-13.5	-9.5	-27.5	-28.4	-22.3	-27.4
Goods and services	-25.8	-32.5	-43.1	-63.1	-64.0	-59.6	-66.3
Trade balance	-21.4	-24.3	-46.5	-65.3	-67.9	-66.1	-73.0
Exports	19.3	29.0	18.7	11.6	11.9	12.4	13.0
Vanilla	12.7	20.9	8.6	3.3	3.4	3.5	3.7
Cloves	4.1	5.9	7.3	5.2	5.3	5.5	5.8
Ylang-ylang (perfume oil)	2.0	1.5	2.1	2.3	2.4	2.5	2.6
Other	0.6	0.8	0.7	0.7	0.8	0.8	0.9
Imports	-40.7	-53.3	-65.1	-76.9	-79.7	-78.5	-86.0
Net services	-4.4	-8.2	3.4	2.3	3.8	6.4	6.7
Services, receipts	19.8	28.7	41.0	44.6	46.7	49.9	53.8
<i>Of which:</i> travel	8.6	11.8	17.7	19.2	20.1	21.6	23.3
Services, payments	-24.2	-36.9	-37.5	-42.3	-42.9	-43.5	-47.2
Income (net)	-0.8	-1.3	-2.2	-1.7	-1.7	-1.3	-1.1
<i>Of which:</i> interest	-2.4	-3.0	-3.0	-2.3	-2.2	-2.1	-2.0
Current transfers (net)	25.0	20.3	35.8	37.3	37.3	38.6	40.0
Government	6.7	3.4	0.4	2.4	2.1	2.2	2.3
Private	18.3	16.9	35.4	34.9	35.2	36.4	37.8
Capital and financial account	8.4	7.2	5.2	12.5	12.2	12.3	25.0
Capital transfers	3.7	3.8	9.7	12.3	11.3	12.5	12.8
Financial account	13.4	8.8	2.1	0.2	0.9	-0.2	12.1
Direct investment	0.4	0.8	0.7	0.8	0.8	0.9	1.0
Other	13.0	8.0	1.5	-0.5	0.1	-1.1	11.1
Government	10.4	5.7	-1.2	-3.0	-0.3	-0.2	8.9
Drawings	13.5	9.5	3.7	4.8	7.4	7.4	17.2
Amortization	-3.1	-3.7	-4.9	-7.8	-7.7	-7.6	-8.3
Private sector (net)	2.5	2.3	2.7	2.4	0.4	-0.9	2.2
Banks, net	3.1	2.2	0.8	--	--	--	--
Other (incl. errors and omissions)	-8.7	-5.4	-6.7	--	--	--	--
Overall balance	6.8	-6.3	-4.3	-14.9	-16.2	-10.1	-2.4
Financing	-6.8	6.3	4.3	14.9	16.2	10.1	2.4
Net foreign assets (increase -)	-9.9	2.2	0.7	12.6	8.7	-5.2	0.9
Use of IMF credit (net)	-0.3	-0.4	-0.2	--	--	--	--
Others (net)	-9.6	2.5	0.9	12.6	8.7	-5.2	0.9
Net change in arrears	3.1	4.2	3.5	0.9	--	--	--
Arrears accumulation	--	--	4.0	--	--	--	--
Arrears repayments	--	--	-0.4	--	-89.3	--	--
Exceptional financing	--	--	--	--	89.3	--	--
Rescheduling of arrears	--	--	--	--	89.3	--	--
Financing gap	--	--	--	1.5	7.5	15.3	1.5
Memorandum items:							
Arrears (end of period)	65.4	85.1	88.5	89.9	--	--	--
External debt (end of period, incl. arrears and IMF)	231	295	296	296	293.7	293.7	302.8
Current account as percent of GDP							
Excluding transfers	-3.3	-5.4	-2.7	-7.6	-7.4	-5.5	-6.1
Including transfers	-0.6	-4.3	-2.6	-7.0	-6.9	-5.0	-5.6
Exports of goods and nonfactor services	39.1	57.7	59.6	56.2	58.6	62.3	66.8
Imports of goods and nonfactor services	64.9	90.2	102.7	119.2	122.6	121.9	133.2
Debt service ratio (percent of exports of goods and nonfactor services)	14.9	12.4	13.6	17.8	16.8	15.6	15.4
Debt service ratio (percent of exports of goods)	30.1	24.6	43.4	86.4	83.1	78.4	79.0
External debt (including arrears and IMF)(percent of GDP)	85.7	82.9	79.0	76.0	71.4	65.4	62.2
Exchange rate CF/U.S.\$ (period average)	521.1	437.6	395.7	385.3	390.6	390.3	390.0
Exchange rate CF/SDR (period average)	674.8	610.9	586.1	578.5	582.6	582.6	582.2
Gross foreign assets of central bank	80.9	97.2	96.2	84.4	75.2	80.5	79.6
In months of imports of goods and nonfactor services, c.i.f	13.8	11.5	11.1	8.6	7.4	7.9	7.2
Nominal GDP (In millions of Comorian francs)	128,980	138,444	146,319	151,066	160,566	175,250	189,757

Sources: Central Bank of Comoros and staff estimates.

Table 6 : Comoros: Millennium Development Goals

	1990	1995	2001	2002	Target 2015
<u>Goal 1. Eradicate extreme poverty and hunger</u>					
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.					
1. Population below 1 US\$ a day (percent)	...	...	...	...	...
2. Poverty gap ratio at 1 US\$ a day (percent)	...	...	...	...	...
3. Share of income or consumption held by poorest 20 percent (percent)	...	...	...	...	...
Target 2: Halve, between 1990 and 2015, the proportion of people suffering hunger.					
4. Prevalence of child malnutrition (percent of children under 5)	18.5	25.8	25.4	26	9.3
5. Population below minimum level of dietary energy consumption (percent)	...	...	...	...	...
<u>Goal 2. Achieve universal primary education</u>					
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling.					
6. Net primary enrollment ratio (percent of relevant age group)	...	52.0	54.7	...	100.0
7. Percentage of cohort reaching grade 5	45.5	...	...	...	100.0
8. Youth literacy rate (percent age 15-24)	56.7	57.7	58.8	59.0	...
<u>Goal 3. Promote gender equality and empower women</u>					
Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels of education by 2015.					
9. Ratio of girls to boys in primary and secondary education (percent)	71.0	81.3	82.4	...	100.0
10. Ratio of young literate females to males (percent ages 15-24)	77.8	78.5	79.4	79.5	100.0
11. Share of women employed in the nonagricultural sector (percent)	...	...	...	...	...
12. Proportion of seats held by women in the national parliament (percent)	...	...	...	...	...
<u>Goal 4. Reduce child mortality</u>					
Target 5: Reduce by two-thirds between 1990 and 2015, the under-5 mortality rate.					
13. Under 5 mortality rate (per 1,000)	120.0	100.0	82.0	79.0	40.0
14. Infant mortality rate (per 1,000 live births)	88.0	74.0	61.0	59.0	...
15. Immunization against measles (percent of children under 12 months)	87.0	69.0	70.0	71.0	...
<u>Goal 5. Improve maternal health</u>					
Target 6: Reduce by three fourths, between 1990 and 2015, the maternal mortality ratio.					
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	480.0	...	...
17. Proportion of births attended by skilled health personnel	...	51.6	61.8	...	...
<u>Goal 6. Combat HIV/AIDS, malaria, and other diseases</u>					
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS					
18. HIV prevalence among females (percent ages 15-24)	...	...	...	...	...
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	21.0	...	...	...
20. Number of children orphaned by HIV/AIDS	...	...	...	...	...
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases					
21. Prevalence of death associated with malaria	...	...	...	...	...
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...	...
23. Incidence of tuberculosis (per 100,000 people)	...	...	61.0	60.7	...
24. Tuberculosis cases detected under DOTS (percent)	...	60.0	43.0	...	...

Table 6: Comoros: Millennium Development Goals (continued)

	1990	1995	2001	2002	Target 2015
<u>Goal 7. Ensure environmental sustainability</u>					
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources.					
25. Forest area (percent of total land area)	5.4	...	3.6	...	...
26. Nationally protected areas (percent of total land area)	...	0.0	0.0	...	...
27. GDP per unit of energy use (PPP \$ per kg oil equivalent)	...	...	...	...	...
28. CO2 emissions (metric tons per capita)	0.2	0.1	0.1	...	...
29. Proportion of population using solid fuels	...	...	...	...	...
Target 10: Halve by 2015 proportion of people without access to safe drinking water.					
30. Access to improved water source (percent of population)	88.0	...	96.0	...	...
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers.					
31. Access to improved sanitation (percent of population)	98.0	...	98.0	...	...
32. Access to secure tenure (percent of population)	...	...	...	...	...
<u>Goal 8. Develop a Global Partnership for Development 1/</u>					
Target 16: Develop and implement strategies for productive work for youth.					
45. Unemployment rate of population ages 15-24 (total)	...	...	...	...	...
Female	...	...	...	...	...
Male	...	...	...	...	...
Target 17: Provide access to affordable essential drugs					
46. Proportion of population with access to affordable essential drugs	...	...	...	...	...
Target 18: Make available new technologies, especially information and communications.					
47. Fixed line and mobile telephones (per 1,000 people)	7.5	7.2	12.2	13.5	...
48. Personal computers (per 1,000 people)	0.1	0.3	5.5	5.5	...

Sources: World Bank; and IMF staff estimates.

1/ Targets 12-15 and indicators 33-44 are excluded because they cannot be measured on a country-specific basis. These are related to official development assistance, market access, and the HIPC initiative.

Table 7. Comoros: Quantitative Indicative Targets Under the Staff-Monitored Program, January-December 2005 1/
(In millions of Comorian francs, cumulative since the beginning of the year)

	2005				
	March	June	September	December	
	Indicative targets	Prel. targets (revised)	Indicative targets (revised)	Prel. targets (revised)	Indicative targets
Floor on the domestic primary balance	2,081	9	295	643	2,694
Floor on total domestic revenues	7,427	4,641	10,155	10,932	24,756
Ceiling on the wage bill	2,933	3,214	6,268	6,542	11,732
Ceiling on expenditures made by cash advances	200	128	425	285	900
Ceiling on the net accumulation of new domestic arrears	0	83	0	83	0
Ceiling on new nonconcessional external debt contracted or guaranteed by the State 2/	0	0	0	0	0
Ceiling on new short-term external debt contracted or guaranteed by the State 2/	0	0	0	0	0
Ceiling on accumulation of debt service arrears towards multilateral creditors	0	104	0	299	0

1/ The definitions of the indicative targets and the adjusters are provided in the technical memorandum of understanding (TMU).

2/ Excluding trade credits.

Table 8. Comoros: Structural Indicative Targets under the 2005 Staff-Monitored Program

Sector	Measure	Deadline	Progress
Fiscal	Transfer shared revenues to the special account with the central bank of the Comoros and strictly apply the revenue sharing mechanism based on the quotas.	Continuous	Implemented
Legal environment	Adoption by parliament of the final version of the organic law on the distribution of the competencies.	End-February 2005	Implemented
Fiscal	Amend prevailing laws and practices for tendering with a view to strengthening public procurement rules.	End-June 2005	Adopted on August 1, 2005
Fiscal	Preserve the single customs administration and subcontract customs services to a private provider, with performance requirements.	End-June 2005	At the request of the World Bank experts, subcontracting will be delayed until the reform program is fully implemented.
Fiscal	Harmonize all levels of budget nomenclature and introduce computerized system for real-time monitoring of the expenditures.	End-September 2005	The harmonization of the budget nomenclature was achieved. The computerized monitoring of expenditure is awaiting donor financing.
Fiscal	Offset the debts of the government and the public and parapublic enterprises and clear the balance.	End-December 2005	Preparatory work ongoing
Structural	Privatize the Comorian Hydrocarbons Company.	End-December 2005	Preparatory work ongoing
Structural	Privatize Comoros Telecom.	End-December 2006	Preparatory work ongoing

Comoros: Relations with the Fund

(As of September 30, 2005)

I. Membership Status: Joined 09/21/76; Article VIII

II. General Resources Account:	SDR Millions	% Quota
Quota	8.90	100.00
Fund holdings of currency	8.36	93.91
Reserve position in Fund	0.54	6.11

III. SDR Department:	SDR Millions	% Allocation
Net cumulative allocation	0.72	100.00
Holdings	0.00	0.34

IV. Outstanding Purchases and Loans: None	SDR Millions	% Quota
	0.00	0.00

V. Latest Financial Arrangements:

	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
<u>Type</u>				
SAF	06/21/91	06/20/94	3.15	2.25

VI. Projected Obligations to Fund (SDR millions; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal					
Charges/interest	0.00	0.02	0.02	0.02	0.02
Total	0.00	0.02	0.02	0.02	0.02

VII. Implementation of HIPC Initiative: Not applicable

VIII. Exchange Rate Arrangements

The currency of the Comoros is the Comorian franc, which is pegged to the Euro at €1 = CF 492. The Comoros has accepted the obligations of Article VIII, Sections 2(a), 3,

and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

IX. Article IV Consultation

The Comoros is on the standard 12-month cycle. The 2005 Article IV consultation was concluded on July 18, 2005 (Country Report No. 05/299).

X. Recent Technical Assistance

Department	Dates	Subject
MFD	July 2003	Mission to review the role of the central bank in banking supervision and to evaluate technical assistance needs
MFD	Sep.- Oct. 2003	Mission to review the envisaged resumption of activities by the Comoros Development Bank, the possible opening of a postal bank, and the supervision of microfinance institutions
MFD	Feb. 2004	AML/CFT
MFD	Feb. 2004	Internal audit
MFD	March 2004 / Oct. 2004 / March 2005	Bank supervision
FAD	Aug. 2005	Tax policy

XI. Resident Representative

A resident representative post established in September 1991 was closed in December 1995.

Comoros: Relations with the World Bank Group
(As of October 6, 2005)

1. The World Bank Executive Board has approved 19 IDA credits totaling US\$132.5 million to support Comoros since the World Bank became active in the country in 1976. The active portfolio consists of one project, which became effective on September 29, 2004. This community-based Social Services Project (SSP) seeks to maintain basic service delivery and addresses most urgent health and water sector needs. The SSP is a four-year operation in the amount of US\$13.3 million. The Bank presented a Transitional Support Strategy Update (TSSU) to the Board of Directors in March 2004. This Strategy Update for 18 to 24 months has two key objectives: (i) maintaining basic social services; and (ii) supporting the process of national reconciliation and facilitating the transition to a viable institutional structure.
2. Together with the IMF and the United Nations Development Program (UNDP), the World Bank assisted the government of Comoros in launching the Poverty Reduction Strategy Paper (PRSP) process in March 2002. A first draft of the interim PRSP was completed in July 2002 and validated by Comorian stakeholders in all three islands in May 2003. The process came to a virtual halt for months as the political environment remained uncertain. Positive developments in recent months, though, including the agreement on the repartition of competencies and the resumption of the SMP, have resulted in renewed momentum for the PRSP process. The Comorian have started to update the I-PRSP and a Joint Staff Assessment (JSA) of the IPRSP is to take place in FY06.
3. Since the signing of the national reconciliation agreement in December 2003, the Bank has worked in close collaboration with the Fund to support the transition in Comoros, focusing notably on improving the overall economic management and strengthening institutions responsible for revenue collection and budget execution. The Bank will continue to work closely together with the Fund in these areas.
4. The IFC does not have any activity in Comoros, and the country has not yet joined the MIGA. The Government of Comoros has recently requested technical advice from the IFC with respect to the envisaged privatization of the oil and telecom companies.

Active Portfolio in Comoros—IDA Lending Operations
As of September 30, 2005
(In millions of U.S. dollars)

Purpose	Approved	Committed	Disbursed
	(Fiscal year)	(Less cancellations)	
Number of closed credits (18)	119.1	106.1	109.2 ⁶
Active credits			
Services Support Project	FY2004	13.3	3.8
Total active		13.3	3.8

Source: World Bank.

⁶ Disbursed amount more than approved and committed amounts because of exchange rate depreciation of USD to SDR.

Comoros: IDA Loans and Debt Service CY 1997–CY 2005
(In millions of U.S. dollars)

	CY 97	CY 98	CY 99 ^{1/}	CY 00	CY 01	CY 02	CY 03	CY 04	CY 05
IDA net Disbursements	4.8	2.8	(0.5)	1.3	10.7	11.1	7.3	1.3	1.1
Gross Disbursements	5.2	3.1	0	2.1	11.5	12.1	8.6	3.2	2.5
Repayments	0.4	0.2	0.5	0.7	0.8	1.1	1.2	1.8	1.4
Interest payments	0.5	0.3	0.6	0.7	0.5	0.6	0.7	0.9	0.5

Source: World Bank Client Connection.

^{1/} Under IDA suspension of disbursements because of arrears.

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