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Union of the Comoros: Assessment of Performance Under the Program Supported by the Emergency Post-Conflict Assistance and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Supplement, Informational Annex; Staff Statement, Press Release on the Executive Board Discussion; and Statement by the Executive Director of Comoros

In the context of the Assessment of Performance Under the Program Supported by Emergency Post-Conflict Assistance and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- The staff report for the Assessment of Performance Under the Program Supported by Emergency Post-Conflict Assistance and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility prepared by a staff team of the IMF, following discussions that ended on July 17, 2009 with the officials of Zambia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 28, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Staff Supplement issued on August 31, 2009.
- A Staff Statement issued on September 16, 2009.
- A Press Release summarizing the views of the Executive Board as expressed during its September 21, 2009 discussion of the staff report that completed the review.
- A Statement by the Executive Director for the Union of Comoros issued on September 21, 2009

The document[s] listed below will be separately released.

Letter of Intent sent to the IMF by the authorities of Zambia*
Memorandum of Economic and Financial Policies by the authorities of Zambia*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

Assessment of Performance Under the Program Supported by Emergency Post-Conflict Assistance and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department (in consultation with other departments)

Approved by Roger Nord and Dominique Desruelle

August 28, 2009

Discussions. Performance under the Emergency Post-Conflict Assistance (EPCA) program and the authorities' request for a new three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) were discussed in the Union of the Comoros during June 9–23 and July 14–17, 2009. The staff team met with finance ministers Soilihi (outgoing) and Dhoinine (new), Central Bank governor Abdoulbastoi, and representatives from the private sector and civil society, the international community, and the media. The team was received by HEM. Ahmed A. M. Sambi, the President of the Union, and the three island Governors. The staff comprised Messrs. Matungulu (head), Baldini, and Benicio (all AFR), and Mr. Dicks-Mireaux (SPR). It was assisted by Mr. van den Boogaerde, the Resident Representative; and worked closely with parallel teams from the World Bank and IFC, African Development Bank, and the European Commission.

PRGF Arrangement. The authorities are requesting a three-year PRGF arrangement (2009–12) in the amount of 152.5 percent of quota (SDR 13.57 million or about US$20.90 million), including 12.5 percent of quota for an early EPCA repurchase.

Last Executive Board discussion on the Comoros: December 15, 2008: conclusion of the 2008 Article IV consultation, and approval of EPCA and ESF-RAC loans for a total amount of SDR 3.3 million (37.5 percent of quota).

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EXECUTIVE SUMMARY

- **Political conditions have improved markedly since the eviction of secessionist president Bakar and the election in June 2008 of a pro-Union president on the island of Anjouan**. Another milestone was achieved in May 2009 when a constitutional amendment enhancing central government authority over budget and economic management was successfully approved through a fair and open national referendum.

- **Overall performance under the EPCA-supported program has been broadly satisfactory.** Nearly all EPCA performance indicators for end-March 2009 were observed. Revenue collection was stronger than anticipated. On the spending side, recent measures to improve expenditure management are gradually restoring order in spending operations, although continued difficulties have been experienced in managing the wage bill. All but one of the structural indicators were met.

- **The authorities have adopted a medium-term economic program to rekindle growth and better combat poverty, in support of which they are requesting IMF support under the PRGF**. Key program reforms are geared to: (i) accelerate recent progress in fiscal consolidation and restore external viability; (ii) promote financial sector soundness; (iii) strengthen institutions and governance; and (iv) improve the investment climate. These policies draw on the authorities' Interim Poverty Reduction Strategy; the final PRSP is expected to be completed before end-2009.

- **Pending comprehensive debt relief under the HIPC and MDRI, Comoros' external debt remains unsustainable.** The authorities have reached agreement with creditors to defer repayment of arrears and debt service obligations falling due in 2009. Most importantly, however, they look forward to a comprehensive resolution of the debt situation within the HIPC/MDRI process.

- **Main risks to the program relate to continued global economic uncertainty, with a consequent weakening of aid and FDI prospects, and to political tensions between the Union and islands authorities over power-sharing issues**. These risks are being addressed through determined actions to enhance inter-island cooperation, and to improve economic competitiveness.

- **Staff supports the authorities' request for IMF assistance under the PRGF** in the amount of 152.5 percent of quota (SDR 13.57 million or about US$20.90 million).

I. Background

1. **Political conditions have improved markedly since the eviction of secessionist president Bakar and the election in June 2008 of a pro-Union president on the island of Anjouan**. Another milestone was achieved in May 2009 when a constitutional amendment enhancing central government authority over budget and economic management was successfully approved through a fair and open national referendum. These developments bode well for reform going forward. However, tensions between the Union and islands authorities remain, fueled by the latter's reluctance to cede more power to the central government.

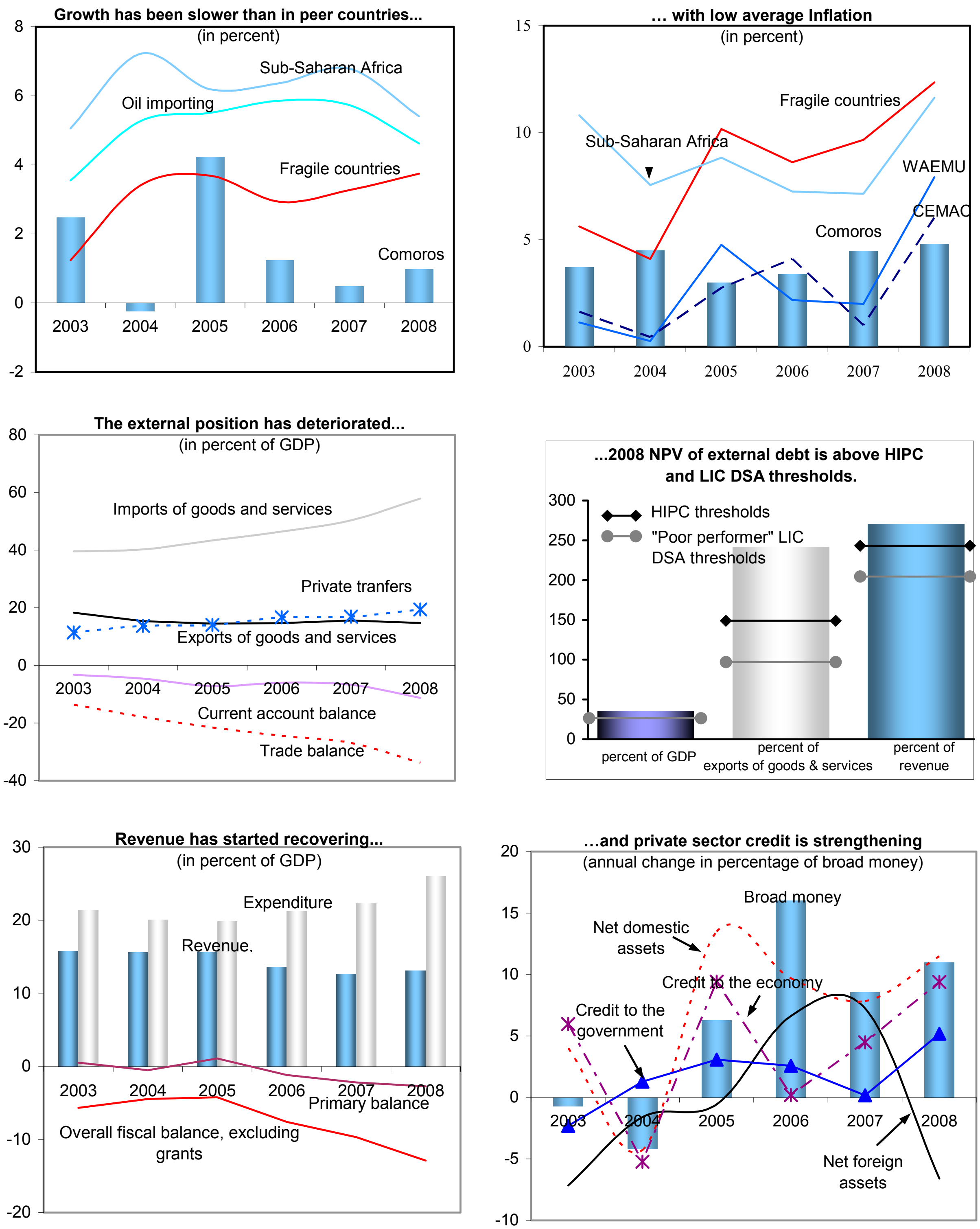
2. **Economic activity has yet to recover from a long period of political instability (Figure 1)**. In 2008, real GDP growth increased modestly to 1 percent, underpinned by activity in subsistence agriculture, donor-funded public works, and private sector construction; and at end-year inflation rose to 7.4 percent. Despite strong worker remittances inflows, high prices for energy and food imports, as well as the release of pent-up import demand at the end of the Anjouan crisis, pushed the external current account deficit to 11.3 percent of GDP in 2008. Economic activity has been subdued in 2009, and real GDP growth is unlikely to exceed 1 percent this year, notwithstanding a marked improvement in the terms of trade. Constraining factors include a difficult external environment, resulting in lower-than-anticipated spending for public works and the postponement of key private sector infrastructure projects in tourism.

3. **Fiscal measures implemented since 2008 are strengthening the fiscal position**. Underpinning the performance are reforms to improve revenue collection, better control spending, and, more generally, enhance the efficiency of budget management; although continued difficulties in managing the wage bill have been experienced. The primary fiscal deficit is projected to decline to 1.6 percent of GDP in 2009 (2.7 percent in 2008).

4. **Monetary policy has remained supportive.** In 2008, credit growth to the private sector was strong and is projected to increase by 10 percent in 2009, in part reflecting trade-related activity. Also, the opening of two new banking institutions in the country is expected to enhance financial intermediation and support private sector activity.

5. **Pending comprehensive debt relief under the HIPC and MDRI, Comoros' external debt, including sizable arrears, remains unsustainable.** The ratio of NPV of government debt-to-exports of goods and services is projected at the equivalent of 230 percent at end-2009. However, the government has reached agreement with creditors to defer repayment of arrears at end-December 2008 (excluding past frozen debt of the postal system to France) amounting to US$13.95 million and debt service obligations falling due in the 2009, equivalent to US$1.8 million.

Figure 1. The Comoros: Recent Economic Developments, 2003–2008



Sources: Comorian authorities; and IMF staff estimates.

II. Performance Under the EPCA

6. **Despite challenging domestic and external circumstances, overall performance under the EPCA-supported program has been broadly satisfactory. Nearly all EPCA performance indicators for end-March 2009 were observed** (Text Tables 1 and 2). Revenue collection was stronger than anticipated, the upshot of continuing efforts, including enhanced computerization, to improve customs and tax administration. On the spending side, recent measures to improve expenditure management, especially the introduction of a new treasury committee, appear to be restoring order in spending operations, notwithstanding continuing difficulties in managing the wage bill. As a result, the end-March 2009 target for the primary domestic budget balance (0.6 percent of GDP) was met; and the target for net domestic credit to the government was observed with a substantial margin (0.5 percent of GDP). Nevertheless, given the lack of domestic bridge resources to address short-term treasury financing needs, repayment of US$0.575 million in first-quarter debt service to the World Bank was effected with a slight delay. All structural indicators were met but one, as progress on the computerization of wage payment operations continued to be slow in the main island of Ngazidja.

Text Table 1. The Comoros: Quantitative Indicators Under the EPCA[1]

December 2008 - March 2009
(In millions of Comorian Francs)

	2008			2009		
	December [2]			March [2]		
	Prog.	Prel.		Prog.	Prel.	
Indicators						
1. Ceiling on net credit to government (NCG) [3]	1,546	2,015	not met	-171	-1,066	met
2. Ceiling on the net accumulation of domestic arrears [4]	304	77	met	0	-335	met
3. Ceiling on new nonconcessional external debt contracted or guaranteed by the state [5]	0	0	met	0	0	met
4. Ceiling on new short-term external debt contracted or guaranteed by the state [5]	0	0	met	0	0	met
5. Ceiling on accumulation of external debt service arrears	572	3,246	not met	0	-802	met
6. Floor on the domestic primary balance	-4,803	-4,869	not met	1,062	1,122	met
7. Floor on total domestic revenues	22,301	23,379	met	6,441	6,588	met

[1] Definitions of quantitative indicators and adjusters are provided in the Technical Memorandum of Understanding (TMU).
[2] Cumulative from January 1, 2008 for end-December 2008, and from January 1, 2009 for end-March 2009.
[3] NCG is based on end-December of previous year in the monetary survey, and includes IMF assistance.
[4] As of December 31, 2008, the accumulation of payments due (change in float) was CF 1705 mn.
[5] Excluding trade credits.

Text Table 2. The Comoros: Structural Indicators Under the 2008–09 EPCA

Structural Indicators	Status
1. Submission of consolidated accounts to all Ministries of Finance and to Fund staff on a quarterly basis. (January 1st, 2009)	Done.
2. Holding of monthly meetings of the Budgetary Committee. (Continuous).	Done.
3. Maintaining the automatic fuel price adjustment mechanism. (Continuous).	Committee instituted; no price adjustments made so far in view of low world oil prices.
4. Computerization of civil servant payment roster and staffing of the unit responsible for monitoring and controlling wage payments. (December 1st, 2008).	Partially done by the Union and two of the three islands governments; delayed implementation in the main island of Ngazidja and now underway.

III. Policy priorities and Macroeconomic Framework under the PRGF

7. **The medium-term reform agenda promotes sustained strong growth to achieve deeper gains in poverty alleviation and faster progress toward the Millennium Development Goals (MDGs).** In support of these goals the authorities' program and related conditionality are designed with a view to (i) consolidate the fiscal position and achieve sustainability through a strengthening of the domestic primary balance together with debt relief in the context of the HIPC/MDRI initiatives; and (ii) deepen the structural reform agenda to address core economic distortions in order to provide the basis for stronger economic growth (MEFP, Tables 1 and 2). Specifically, the medium-term reform program will be geared to:

- Accelerating recent progress in fiscal consolidation and restoring external viability;
- Promoting financial sector soundness;
- Strengthening institutions and improving governance; and
- Improving the investment climate.

8. **The proposed PRGF arrangement supports a policy agenda anchored in Comoros' I-PRSP[1], which was submitted to the consideration of the IMF and World Bank Boards in May 2006 (Box 1).** The I-PRSP identifies seven strategic pillars and encompasses 35 priority programs with a total estimated cost of about US$400 million, most of which are for energy and infrastructure improvements. Given severe capacity and financing constraints, the PRGF-supported program draws on a conservative medium-term fiscal scenario that projects donor support of US$ 61.2 million (10.8 percent of GDP) per annum. The program will, however, accommodate additional aid flows that may become available.

[1] Country Report No. 06/191. Staff will ensure at the time of the first review that the PRGF-supported program is consistent with the final PRSP. Pending the latter's completion before end-December 2009, the authorities are preparing a PRSP Preparation Status Report that will be issued prior to Board consideration of their request for a new PRGF arrangement.

Box 1. The Comoros: I-PRSP, Poverty and the MDGs

Poverty remains pervasive in Comoros, with 37 percent of households–or about 45 percent of the population–living below the poverty line (estimated at about US$700 income per capita per year). The incidence of poverty varies across islands and is generally higher in rural areas. Comparison of 1995 and 2004 data shows that the overall situation seems to have improved (from 47 to 37 percent poverty incidence), albeit inequalities in per capita expenditures increased substantially, mostly due to variances in inflows of remittances from the Diaspora.

To address the poverty challenges, Comoros' I-PRSP centers around three main objectives: (i) sustained economic growth; (ii) improved human capital development; and (iii) improved governance and political stability. The I-PRSP sets seven core strategic axes: generate conditions for sustainable development; boost the private sector by focusing on growth sectors; strengthen governance, justice, and security; improve the health status of the population; promote education and professional training to improve human capital; promote a healthy environment and sustainable development; and strengthen security and efforts to combat terrorism.

Achieving the PRSP objectives will require unwavering efforts to improve public financial management as well as inroads in inter-island cooperation. It will also require higher international financial aid in the form of immediate support to finance pressing social services, public investment and technical assistance needs, but also in the form of comprehensive debt relief.

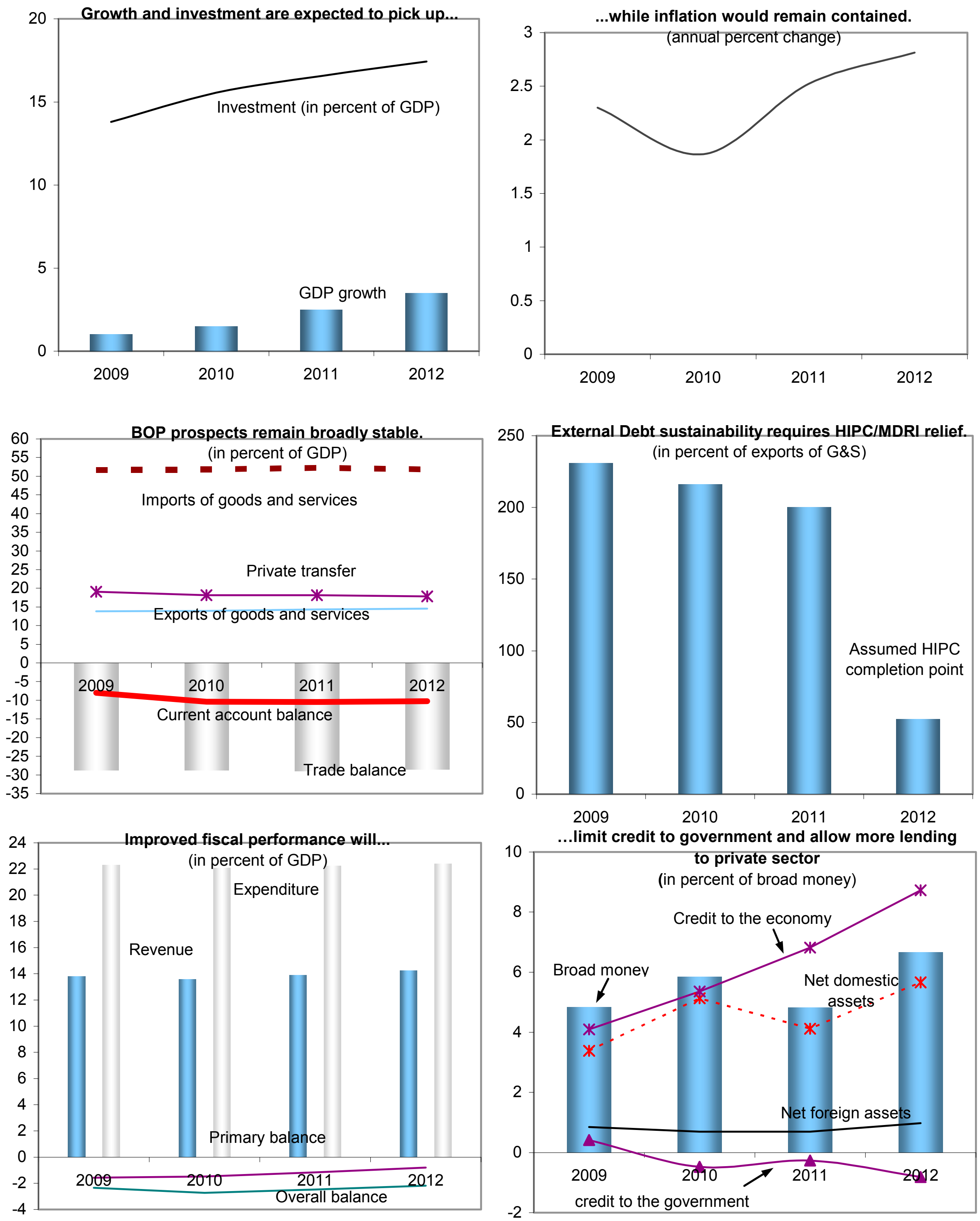
There has been good progress on several of the MDGs, namely: achieving universal education, promoting gender equality and empowering women, and reducing child mortality. One of the most challenging targets—especially in the wake of the food price crisis—will be to halve the proportion of people who suffer from hunger.

A. Promoting Growth in a Low Inflationary Environment

9. **The key macroeconomic objectives under the PRGF for 2009–12 are to** (i) raise real GDP growth to 3–4 percent by program end, (ii) limit annual inflation to around 3 percent, and (iii) contain the external current account deficit below 10½ percent of GDP by 2012 (Figure 3).

10. **Within the medium-term framework spelled out above, real GDP growth is projected to double to 1½ percent in 2010 (0.8 percent in 2009)**. The modest recovery is to be driven by accelerated (donor-funded) public works and increased FDI in tourism—as currently suspended projects are resumed. Other contributing factors would include the gradual improvement in world economic conditions and in the investment climate. Following a partial rebound in 2009 on the back of falling import prices, the terms of trade would decline modestly with a firming of import prices as the global economy recovers. Nevertheless, import growth would remain relatively strong, spurred by remittances and higher FDI.

Figure 2. The Comoros: Medium -Term Framework, 2009–2012 (proj.)



Sources: Comorian authorities; and IMF staff estimates.

B. Strengthening Fiscal Policy and Achieving External Sector Sustainability

11. **Sustained fiscal consolidation will require implementing strong measures to boost revenue collection and improve the composition of expenditure (Box 2 and MEFP, ¶ 14-26).** The fiscal strategy under the new PRGF arrangement will aim to make space for priority sectors under the I-PRSP, begin reducing domestic payments arrears, and prevent further deterioration of debt sustainability. The revenue-to-GDP ratio is targeted to rise by 1.2 percentage-points to 14.3 percent of GDP by 2012, and current primary expenditure will modestly decline as the wage bill and outlays on goods and services are gradually contained; this will allow an increase in transfers to selected medical and education institutions and in growth-supporting capital spending; as well as a narrowing of the domestic primary budget deficit to 0.8 percent of GDP (Table 2B). As a result, each category of expenditure will, on average, be 0.3 percentage-of-GDP higher during the program period compared to their level of the preceding two years.

Box 2. Fiscal Measures Under the PRGF-Supported Program

Authorities are committed to implement an ambitious fiscal strategy based on the following measures (MEFP ¶14-26):

Revenue

- Establishment of a unified tax administration for the three islands, organized along functional lines, with a strong headquarters operating center
- Posting of island tax offices (*centre des impôts*) reporting to the (Union) General Directorate of Taxes (DGI)
- Strengthening of tax audits through the introduction of issues oriented audits and intensification of intelligence and exchange of information between the tax and customs administrations
- Simplification and better enforcement of taxpayer registration procedures
- Increase in the LTU's operating budget
- Improvement of tax arrears collection management
- Elimination of ad hoc customs and tax exemptions
- Completion and early implementation of a comprehensive revenue-mobilization strategy
- Establishing a resident tax advisor

Spending

Achieving the targeted budget consolidation gains would notably require:

- Adoption of the organic staffing frameworks for the island ministries before end-March 2010; initiation of a comprehensive civil service reform aimed at increasing the effectiveness of public administration while reducing staffing and the wage bill to levels compatible with medium-term budget viability (MEFP, ¶ 27)
- Freezing civil service recruitments
- Full computerization of the civil service payment roster
- Reducing wage payments gradually to 7.9 percent of GDP by 2012 (8.7 percent and 8.4 percent in 2009 and 2010, respectively)
- PEM reforms, following completion of a comprehensive PEM reform strategy

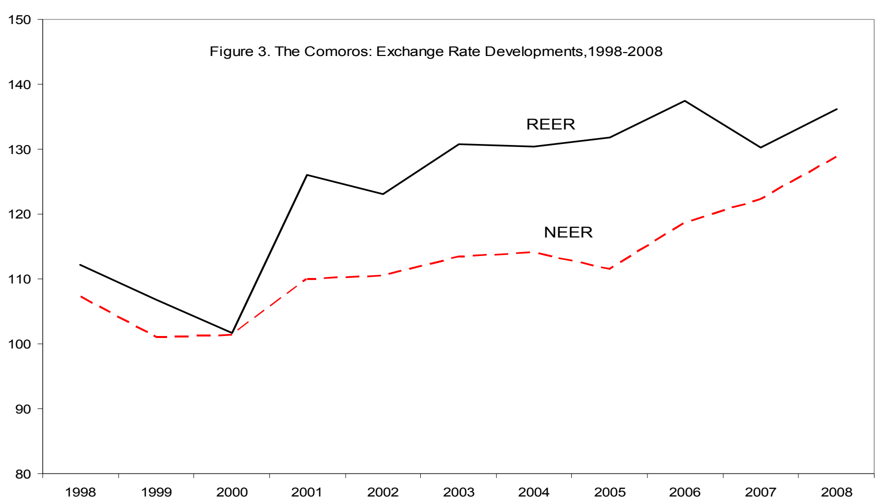
Domestic arrears

- Clearance of domestic arrears outstanding at end-June 2009, based on the recommendations of an audit and arrears-clearance strategy to be completed by end-October 2009 (structural benchmark under the program)
- Net arrears reduction of 0.7 percent of GDP in 2009.

12. **HIPC and MDRI debt relief is crucial to securing medium-term external sustainability** (2009 DSA Update)[2]**.** The approval of the proposed PRGF arrangement would set the stage for Comoros reaching the HIPC decision point in mid-2010; and achieving the HIPC completion point and MDRI debt relief by 2012. Under this scenario, with net PRGF access assumed at 140 percent of quota and 35 percent of the net loan disbursed in 2009, the country's NPV of debt-to-exports ratio would fall from 260.4 percent in 2009 to 71.1 percent in 2013. At which point, the debt service ratio would be reduced to 2.4 percent, from a projected 13.6 percent in 2009. Ahead of a possible HIPC decision point, the government has reached understandings with its creditors, except major multilaterals, on (i) deferring US$13.95 million of the stock of external payments arrears outstanding at end-2008, and (ii) deferment of debt service obligations falling due in 2009; until the HIPC decision point. At which time the authorities would seek debt relief on these amounts as part of a comprehensive resolution of the country's debt situation within the HIPC/MDRI process. To prevent further deterioration of debt sustainability, Comoros will continue relying mostly on grants.

C. Monetary and Financial Sector Priorities

13. **Monetary and exchange rate policy will continue to be governed by the exchange rate peg under the Franc Zone arrangement**. This has provided the country's main anchor of price stability. While Comoros has experienced moderate real effective exchange rate (REER) appreciation in recent years, mostly underpinned by a strengthening of the euro vis-à-vis the U.S. dollar, a recent assessment of external competitiveness established that the country's REER was broadly in line with economic fundamentals[3].



[2] A staff mission on a preliminary HIPC Decision Point document could be fielded in late 2009 with a possible Board presentation in late February/early March 2010, subject to adequate overall performance under the proposed new PRGF arrangement.

[3] See "Union of the Comoros: 2008 Article IV Discussions Selected Issues and Statistical Appendix", IMF Country Report No. 09/46.

14. **Promoting the entry of new banking institutions to enhance financial sector intermediation and strengthening supervision will be high priorities.** Until recently, the financial sector comprised only one foreign-owned commercial bank, a development bank, a postal savings bank, and two networks of Micro Finance Institutions (MFIs). In the last two years, the Central Bank of Comoros (BCC) has granted licenses for the opening of two new foreign commercial banks, including one branch of Tanzania's EXIM Bank; parallel to this, the MFIs continue to grow. These developments are bringing about much needed expansion of financial intermediation. Against this background, to strengthen financial sector supervision, including for MFIs, the IMF working with the Banque de France is providing technical assistance. In addition, the BCC is finalizing a memorandum of understanding with the Central Bank of Tanzania, which will provide for the latter's participation in regular oversight activities of the EXIM Bank.

D. Strengthening Institutions and Improving Governance

15. **Strengthening public financial management constitutes a central part of the authorities' program.** In the recent past, lack of cooperation between the Union and island authorities had prevented information sharing and policy coordination, undermined budget execution, expenditure management, and tax administration, and posed governance problems. To build institutional capacity and improve efficiency, the authorities have moved to centralize selected government functions, and to establish inter-government committees and administrative units charged with compiling and disseminating financial information and coordinating policies. Supported by development partners, measures will also be implemented to improve public budgeting, accounting, and procurement procedures (MEFP, ¶ 20-23).

- **Building institutional capacity.** Budgetary management is being strengthened through the unit established to consolidate monthly fiscal data from the Union and island governments. The authorities have also set up a weekly cash-flow management committee chaired by the Union Ministry of Finance.

- **Improving operations and transparency of public administration.** The High Authority for the Public Administration will play a key role including: (i) preparing the institutional and legal framework for public administration reforms, (ii) coordinating all the public entities, and (iii) supervising the Union-wide application of the administrative and financial management procedures (MEFP, ¶ 27).

- **Providing better statistics.** A donor supported comprehensive review, most notably for fiscal and balance of payment statistics, will serve as a basis for setting up a medium-term action plan (MEFP, ¶38).

E. Improving the Investment Climate

16. **Removing impediments to trade and creating conditions for export and economic diversification are critical for accelerating private sector development and putting the economy on a path of sustained strong growth.** Improvements in the investment climate will be needed to attract FDI, and encourage a shift in the use of large remittances from consumption to growth-oriented investment. Key issues to be addressed include streamlining the trade regime and enhancing competition.

- **Streamlining the trade regime.** After eliminating all export taxes, the authorities recently reduced the average weighted import tariff to less than 20 percent, as part of Comoros' obligations under COMESA (MEFP, ¶ 36).

- **Enhancing competition.** The authorities' medium-term action plan focuses on the restructuring and possible divestment of public enterprises; opening the ownership of the state-owned telecommunications (Comores Telecom), hydrocarbons (SCH), and electricity (MA-MWE) companies to the private sector, with IFC/World Bank and the African Development Bank's support. The government also intends to improve business licensing practices and investors' protection, and to reform the judiciary (MEFP, ¶ 34-35).

IV. Donor Support, Technical Assistance, Access, and Program Monitoring

17. **The new PRGF arrangement is part of a broad-based donor reengagement effort for Comoros**. Most development partners have either completed or initiated preparations for financial and technical assistance frameworks for the country, as summarized below (Text Table 3).

Text Table 3. The Comoros: Technical Assistance Provision

Area	Provider
PFM, institution building, civil service reform and computarization of payrol system	European Union (EU), World Bank (WB), and African Development Bank (AfDB)
Central Banking Supervision	International Monetary Fund (IMF)
Statistics	IMF, WB, AfDB
Revenue Administration, and Tax Policy	IMF, AfDB
Customs administration	COMESA, AfDB
Agriculture	WB[1]
Trade	United Nations Development Programme (UNDP)
Transports, Governance	EU, WB
External Debt	AfDB
Privatization of SOEs	International Finance Corporation (IFC), AfDB
Institutional Support to Private Sector	AfDB
Improving Access to Drinking Water	AfDB
PRSP	WB, UNDP

Notes

[1] Includes financing to foster agricultural sector supply in response to higher international prices.

[2] The EU has allocated euro 45 mn for the period 2008-13 under the 10th European Development Fund.

18. **Comoros' financing requirements for 2009–12 are projected at CF 40.4 billion (annual average of 5 percent of GDP), including CF 12.2 billion (US$34.2 million or 6.5 percent of GDP) for 2009 (Text Table 4)**. Full coverage of the 2009 fiscal financing gap will be secured with:

- Budget support from traditional donors, including the World Bank, AfDB, and the European Commission
- Assistance from Gulf region bilaterals and other partners
- Deferment of debt service arrears at end-2008 and current obligations falling due in 2009, except with respect to major multilateral creditors, until the HIPC decision point. The authorities have finalized related understandings with concerned creditors.

Should mobilized budget support exceed program target for 2009 by the equivalent of at least US$6.5 million (MEFP, ¶ 19), the government intends to settle two months of salary arrears, for December 2008 and January 2009. The financing requirements (line IV of Text Table 4) for 2010-12 averages 3.6 percent of GDP per year, excluding repayment of deferred 2008-09 debt service obligations that are planned to be either canceled or rescheduled on concessional terms under the HIPC process. Comoros would likely be able to mobilize these amounts on highly concessional terms, as reform momentum picks up and more donors extend much needed additional support to the country. If such financing couldn't be secured on favorable terms, a tighter fiscal consolidation path would be needed.

Text Table 4. The Comoros: Strategy for filling the Financing Gap, 2009 – 2012

	2009			2010	2011	2012
	CF billions	US$ million	pct of GDP	pct of GDP		
I. Gross Financing requirements before external debt deferment, budget support and EPCA repurchase [1]	6.0	16.4	3.2	3.8	3.5	3.4
IIa. External debt arrears at end-2008 and 2009 debt service to be cleared	5.7	16.1	3.0	…	…	…
IIb. Repayment of deffered end-2008 debt arrears and 2009 debt service	…	…	… .	2.9	…	…
III. EPCA repurchase [2]	0.6	1.7	0.3	…	…	…
IV. Total Financing requirements before budget support (I. + II. + III.)	12.3	34.2	6.5	6.7	3.5	3.4
V. Identified financing sources	4.2	11.9	2.2	1.6	1.2	1.2
AfDB	0.5	1.5	0.3	0.5	0.2	0.2
France	0.6	1.8	0.3	0.3	0.2	0.2
World Bank	0.7	2.0	0.4	0.2	0.2	0.2
European Union	1.1	3.1	0.6	0.6	0.6	0.6
Gulf partners/Arab League	1.3	3.5	0.7	…	…	…
VI. Financing requirements before arrears and debt service clearance/payment (IV.-V.)	8.0	22.3	4.3	5.1	2.3	2.2
VII. Deferment of end-2008 external debt arrears and 2009 debt service payments [3]	5.7	16.0	3.0	…	…	…
VIII. Financing gap (VI.-VII.) (+ = financing needs)	2.3	6.3	1.2	5.1	2.3	2.2
IX. PRGF disbursement [2]	2.3	6.3	1.2	0.9	0.8	0.8

Source: IMF staff estimates and projections.

[1] Gross financing requirements for 2009 excludes clearance of debt service arrears accumulated before 2009.

[2] Assuming a new PRGF in an amount of SDR 13.57 million (152.5 percent of quota) and repurchase of EPCA credit of SDR 1.1 million (12.5 percent of quota).

[3] Deferment of end-2008 arrears and 2009 debt service due, excluding major multilateral creditors.

19. **The proposed PRGF access level is equivalent to 152.5 percent of quota (SDR 13.57 million or about US$20.90 million), including 12.5 percent for immediate repurchase of EPCA**. Comoros faces a protracted balance of payments problem beyond the impact of the current world economic crisis, and the proposed level of access is justified on the basis of a weakening external position, with the external current account deficit increasing to an annual average of 9.7 percent of GDP in 2008/09 and 10 ½ percent of GDP in 2010, respectively; from 6.7 percent of GDP in 2007. This is primarily the upshot of persistently weak export prices for vanilla, clove, and ylang-ylang, the country's main foreign exchange earners. As a result, the external current account deficit remains well above levels of two years ago despite the recent decline in oil and food prices. Given the large financing needs facing Comoros, the Fund's relatively strong financial involvement would provide adequate catalytic signal for the large efforts expected from other external partners. As is the case for currency union countries, it is difficult to disentangle the external financing gap and the fiscal financing gap for the country, a member of the Franc Zone, since any Fund financing of the former contributes to fill the latter by the same amount. Upon Board approval, in addition to the 12.5 percent of quota to repurchase the amount outstanding under EPCA, a purchase of 35 percent of quota would be available, for a total purchase of 47.5 percent of quota (1.5 percent of GDP) for 2009; this would contribute to covering fiscal financing requirements amounting to CFs 12.3 billion (6.5 percent of GDP) for the year. The balance would be made available in equal tranches of SDR 1.557 million, on satisfactory conclusion of the six PRGF reviews (Table 6). Purchases under the new PRGF would raise credit outstanding to the Fund to 177.5 percent of quota (from 37.5 percent in December 2008).

20. **Monitoring**. To strengthen the likelihood of the program's success, two prior actions have been implemented as indicated in Table 2 of the MEFP. The program includes quantitative performance criteria for end-June (for 2010 onward) and end-December, and indicative targets for March and September (MEFP, Table 1).

21. **The prior actions and proposed structural measures focus on public finance management and key sectors critical to improved growth performance**. In particular, to advance fiscal consolidation, program conditionality calls for the preparation and early implementation of comprehensive strategies to enhance revenue mobilization and improve expenditure management; and for the full computerization of wage payment systems. Inadequate control over the wage has considerably weakened Comoros' budgetary situation in the last years. The structural reform agenda also seeks to enhance the efficiency of public utilities, essential for sustained strong growth and for lessening potential subsidy pressures on the budget (MEFP, Table 2).

22. **Safeguard assessment.** An updated safeguards assessment will be completed before the first review in the first half of 2010 under the proposed PRGF arrangement and, as necessary, appropriate benchmarks stemming from the assessment would be incorporated into the program in due course.

V. Program Risks

23. **Comoros' track record under the EPCA and the strong commitment of the authorities to the program provide a reasonable basis for successful program implementation.** Nonetheless, substantial risks remain; these include possible political tensions in the aftermath of the May 17, 2009 constitutional amendment, which could affect implementation of shared responsibilities between the Union and islands. Also, weak administrative, institutional and data capacity may continue to add challenges to economic analysis, policy formation, implementation and program monitoring. Other potential risks are external shocks, such as a further worsening of the terms of trade or a decline in remittances, and a persistent global economic downturn which may delay the inflows of capital and FDIs to the country. To mitigate these risks, envisaged reforms to public finance management, in particular inter-island coordination, and measures to strengthen competitiveness should be implemented expeditiously.

24. **The risk to Fund resources is considered manageable for Comoros.** As noted in paragraph 12 above, Fund disbursements under the proposed PRGF would raise the NPV of debt-to-exports ratio to 260.4 percent in 2009. The ratio is projected to decline to 71.1 percent in 2013 if the HIPC completion point is achieved in 2012; at which point, the debt service ratio would be reduced to 2.4 percent, from a projected 13.6 percent in 2009. Over the program period (2009–12), debt service to the Fund would average 0.7 percent of exports of goods and services (Table 7). On this basis, Comoros' capacity to repay the Fund appears sound.

VI. Staff Appraisal

25. **The Union of the Comoros has made progress on both the political and economic front**. The May 17, 2009 constitutional amendment has helped enhance national cohesion over budget and economic management without fundamentally damaging the national reconciliation process. In addition, although finances are tight, and the political situation still challenging, the authorities have shown under the EPCA a willingness to impose greater fiscal discipline and pursue economic reforms. Commitment to such measures is also reflected in the prompt implementation of the prior actions under the new PRGF.

26. **Against a backdrop of a difficult domestic and international context, performance under the EPCA-supported program has been generally satisfactory.** Having inherited a difficult position, the new government's efforts during October 2008-March 2009 to bolster public finances and strengthen interisland cooperation have been commendable. Capacity constraints and the need to secure support from all three islands have slowed some structural reforms, but a positive momentum has been maintained.

27. **Implementation of the proposed medium-term economic and financial framework would provide the stability necessary to accelerate growth and poverty reduction.** Raising revenues and curbing wages through civil service reform will provide room for greater social spending and promote sustainability. However, higher donor support will be essential as the financial situation remains tight, and currently available resources are well below those needed

to reach the MDGs. Securing debt sustainability will require relief under the enhanced HIPC initiative and MDRI.

28. **The authorities' policy agenda appropriately emphasizes strengthening institutions, building capacity, and improving governance, and is consistent with the I-PRSP.** Addressing widespread administrative weaknesses and adhering to the interisland revenue sharing mechanism, are essential to the more effective use and monitoring of limited public resources and to improving governance. Staff welcomes the BCC's moves to strengthen its independence, and encourages it to implement the recommendations of the forthcoming updated safeguards assessment.

29. **Adherence to the proposed fiscal targets will be of paramount importance.** Staff urges the authorities to maintain fiscal discipline so that the 2009-10 primary balance targets can be met, and to avoid any new accumulation of domestic or external arrears.

30. **The exchange rate peg under the Franc Zone arrangement will continue to provide an important anchor of stability.** Against this background, the recent entry of new financial institutions, setting the stage for enhanced growth-supporting financial intermediation over the medium term, is a welcome development. The authorities are encouraged to closely adhere to their financial sector supervision agenda. At the same time, the sustained real exchange rate appreciation underscores the need for steadfast implementation of structural reforms to contain ensuing competitiveness losses.

31. **Developing the private sector is key to raising growth and to providing income and employment**. The I-PRSP's emphasis on the private sector is welcome, as are commitments to improve the investment climate, liberalize the trade regime, and preserve the integrity of the financial sector. Thus, envisaged reform of the public enterprise monopolies and measures to ensure greater private sector competition need to be pursued in earnest to achieve the desired private sector development, and to improve efficiency and service provision.

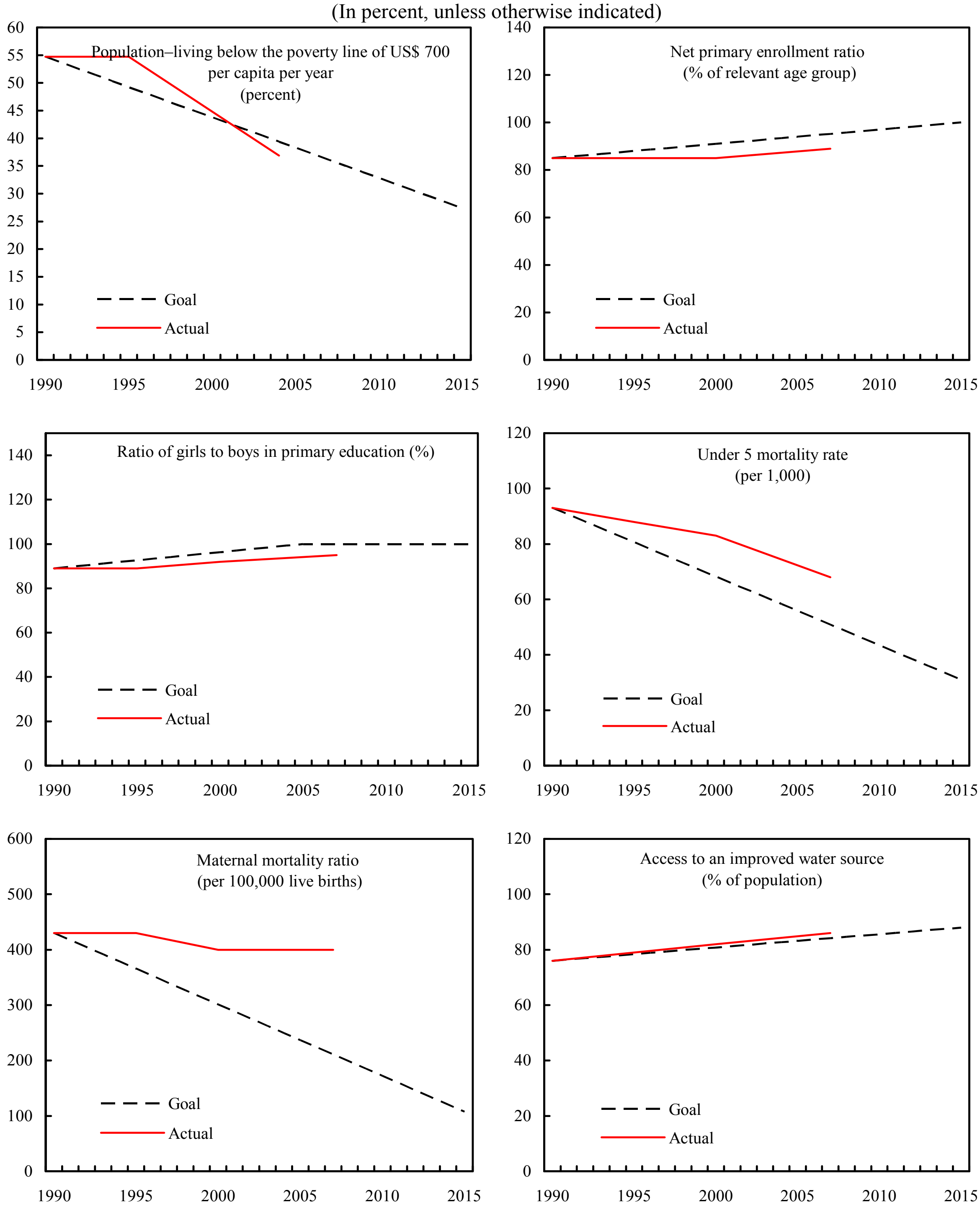
32. **Sustained interisland cooperation is critical for the successful implementation of the program**. A key risk is that such cooperation breaks down over power-sharing issues, preventing achievement of the fiscal objectives and disrupting the policy reform program. Widespread capacity constraints and weak institutions also represent a significant risk to program implementation.

33. **Strong and coordinated efforts by development partners are key to the programs' success**. Comoros' external public debt is unsustainable and cooperation of donors and creditors in arrears clearance, debt relief, and program and project financing is critical for implementing reforms and closing the financing gaps in 2009 and beyond. Donor financing should be highly concessional, preferably in the form of grants.

34. **Based on the Comoros' overall satisfactory track record and the strength of the program, including the prior actions taken, the staff supports the authorities' request for a new three-year PRGF arrangement.**

Figure 4. The Comoros: Progress Toward Selected Millennium Development Goals, 1990-2015 [1, 2, 3]

(In percent, unless otherwise indicated)



Sources: World Bank, http://www.developmentgoals.org; and United Nations, http://unstats.un.org.

[1] Progress is measured compared to a linear projection between the 1990 level and the end year goal.

[2] Actual data for 1990 is assumed to be equal to 1995 level, due to lack of data.

[3] The last assessment of income poverty was made in 2004.

Table 1. The Comoros: Selected Economic and Financial Indicators, 2007–12

	2007	2008	2009	2010	2011	2012
		Prel.	Prog.		Prog.	
(Annual percentage change, unless otherwise indicated)						
National income and prices						
Real GDP	0.5	1.0	1.0	1.5	2.5	3.5
GDP deflator	5.2	5.5	4.7	4.3	2.3	3.1
Consumer price index (annual averages)	4.5	4.8	4.9	2.1	2.2	2.7
Consumer price index (end period)	2.2	7.4	2.3	1.9	2.5	2.8
Money and credit						
Net foreign assets	7.3	-6.7	1.0	0.9	0.9	1.3
Domestic credit	11.8	41.7	7.9	8.5	11.1	12.7
Credit to government	2.3	78.5	3.9	-4.5	-2.8	-9.2
Broad money	8.6	11.0	4.8	5.8	4.8	6.7
Velocity (GDP/end-year broad money)	3.8	3.8	3.7	3.7	3.7	3.7
External sector						
Exports, f.o.b.	21.4	-55.5	79.3	0.6	1.2	3.1
Imports, f.o.b.	17.7	24.7	-5.4	5.9	5.5	5.6
Export volume	30.1	-35.5	67.3	0.6	1.1	2.7
Import volume	-19.0	6.4	52.9	-0.5	2.9	6.0
Terms of trade	-20.4	-39.4	38.5	-6.0	-2.4	0.7
(Percent of GDP, unless otherwise indicated)						
Investment and savings						
Investment	11.2	14.3	13.8	15.6	16.6	17.4
Public	6.1	9.3	6.1	7.0	7.4	7.8
Private	5.0	5.0	7.7	8.6	9.1	9.6
Gross national savings	4.5	3.0	5.8	5.1	6.1	7.2
Public	1.4	1.0	1.2	0.0	0.6	1.2
Private	3.1	2.0	4.6	5.1	5.5	6.0
Government budget						
Domestic Revenue	12.7	13.1	13.8	13.6	13.9	14.3
Total grants	7.6	10.4	6.9	6.1	6.3	6.5
Total expenditure	22.3	26.0	22.3	22.1	22.3	22.4
Current expenditure	16.2	16.8	16.3	15.1	14.8	14.6
Domestic primary balance	-2.2	-2.7	-1.6	-1.5	-1.2	-0.8
Change in arrears	-1.4	0.2	-0.7	-0.3	-0.4	-0.5
External interest	-3.2	0.1	0.0	0.0	0.0	0.0
Domestic	1.8	0.0	-0.7	-0.3	-0.4	-0.5
Overall balance (cash basis)	-3.4	-2.3	-2.3	-2.7	-2.5	-2.2
Excluding grants	-11.0	-12.7	-9.2	-8.8	-8.7	-8.6
Financing	3.3	2.4	-3.8	-3.9	-1.0	-1.2
Foreign (net)	2.9	1.2	-3.5	-3.8	-1.0	-1.0
Domestic (net)	0.3	1.1	-0.3	-0.1	-0.1	-0.2
Financing gap [1]	0.1	0.0	6.2	6.7	3.5	3.4
External sector [2]						
Exports of goods and services	14.8	14.0	13.9	14.0	14.2	14.4
Imports of goods and services	41.6	47.7	42.6	42.7	43.2	42.9
Current account balance	-6.7	-11.3	-8.0	-10.4	-10.4	-10.3
Excl. official and private transfers	-26.5	-33.5	-29.1	-29.1	-29.1	-28.7
External debt (end of year), in percent of GDP [1]	57.6	54.2	48.4	44.5	41.3	37.3
Of which: arrears	3.2	1.7	0.0	0.0	0.0	0.0
NPV In percent of GDP[3]	36.8	35.5	31.9	30.2	28.7	26.5
NPV of external debt (end-year) in percent of exports of goods & services[3]	249	254	230	216	202	183
External debt service (in percent of exports of goods and services)	11.4	12.3	10.4	10.7	10.6	11.1
Overall balance of payments (in millions of U.S. dollars)	-6.2	-10.0	-15.9	-16.9	-20.7	-20.0
Official grants and loans (percent of GDP)	8.3	11.1	7.1	6.3	6.5	6.7
Gross international reserves (end of period)						
In millions of U.S. dollars	118.1	109.4	111.9	112.0	112.8	113.6
In months of imports of goods & services	7.3	5.2	6.1	5.7	5.4	5.1
Real effective exchange rate (2000=100)	129	135	...	...	...	...
Exchange rate CF/US$ (period average)	358.9	334.5	...	...	...	...
Memorandum items:						
GDP (nominal, in bilions of CF)	167.1	178.0	188.2	199.2	208.9	222.8

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

[1] Errors and omissions for 2007. The program financing gap for 2009-12 could be covered as expelled out in the Text Table 4.

[2] Balance of payments revised in accordance with new official historical data.

[3] NPV of external debt 2009 - 2012, different than those in the LIC-DSA which takes into account the PRGF purchase of 152.5 percent of quota.

Table 2.A The Comoros: Consolidated Government Financial Operations, 2007–12

(Millions of Comorian francs, cumulative, unless otherwise indicated)

	2007	2008	2009	2010	2011	2012
		Prel.	Prog.		Prog.	
Total revenue and grants	33,945	41,965	38,902	39,181	42,132	46,144
Revenues	21,160	23,379	25,975	27,103	29,053	31,748
Tax revenues	16,678	18,288	22,000	23,514	25,291	27,735
Direct and indirect taxes	10,706	9,119	15,587	16,614	17,968	20,257
Taxes on international trade and transactions	5,972	9,169	6,381	6,866	7,286	7,436
Nontax revenues	4,482	5,091	3,975	3,589	3,762	4,013
External grants	12,785	18,586	12,927	12,078	13,079	14,396
Budgetary assistance	2,122	2,857	1,892	0	0	0
Projects (incl. techn.assist.)	9,285	15,729	11,035	12,078	13,079	14,396
Total expenditure and net lending	37,314	46,338	42,018	43,987	46,473	49,885
Current expenditure	27,040	29,855	30,595	30,033	30,976	32,436
Primary current expenditures	23,596	26,490	27,523	28,118	28,990	30,352
Wages and salaries	15,052	15,690	16,378	16,760	17,084	17,653
Goods and services	5,327	8,122	7,756	7,573	7,521	8,022
Transfers and Ppnsions	3,217	2,678	3,389	3,785	4,385	4,677
Interest payments	820	1,273	1,105	857	840	825
External debt	653	888	719	662	636	610
Domestic debt	168	386	386	195	204	214
Foreign-financed project assistance	1,390	945	1,721	790	854	939
Technical assistance	1,234	1,147	246	269	291	320
Capital expenditure	10,274	16,483	11,424	13,954	15,498	17,449
Domestically financed investment	1,227	1,758	1,422	1,938	2,502	3,171
Foreign-financed investment	7,669	14,725	9,465	11,439	12,374	13,606
Counterpart funds-financed	1,378	0	536	577	621	672
Domestic primary balance	-3,662	-4,869	-2,970	-2,953	-2,439	-1,776
Overall balance (commitment basis)	-3,369	-4,373	-3,116	-4,806	-4,341	-3,741
Excluding grants	-16,153	-22,959	-16,043	-16,885	-17,420	-18,137
Change in net arrears	-2,289	309	-1,300	-638	-835	-1,114
Interest on external debt	-5,317	232	0	0	0	0
Domestic arrears	3,029	77	-1,300	-638	-835	-1,114
Change in Float (+ = accumulation of payments due)	…	0	0	0	0	0
Overall balance (cash basis)	-5,657	-4,064	-4,416	-5,444	-5,176	-4,855
Excluding grants	-18,442	-22,650	-17,343	-17,522	-18,255	-19,251
Errors and omissions (+ = underfinancing)	213	-169	0	0	0	0
Financing	5,444	4,233	-7,247	-7,836	-2,187	-2,640
Foreign (net)	4,867	2,218	-6,670	-7,590	-2,042	-2,173
Drawings, PIP (identified)	1,009	1,088	397	420	440	470
Amortization	-2,169	-2,164	-1,983	-2,299	-2,483	-2,643
Exceptional financing (arrears and deferred debt restructuring)	12,190	0	0	0	0	0
Debt service payments under discussion (principal and interest)	0	280	0	0	0	0
Deferral of stock of end-2008 arrears (principal and interest)	0	0	-5,084	0	0	0
Change in net arrears (principal)	-6,162	3,015	0	0	0	0
Repayment of deferred arrears and debt service	0	0	0	-5,711	0	0
Domestic (net)	577	2,015	-577	-246	-145	-467
Bank financing	101	1,320	-577	-246	-145	-467
Central bank	-10	1,320	-284	145	246	-76
Of which: IMF	0	1,826	0	0	0	-304
Of which: Advances	-10	-506	-284	145	246	228
Commercial banks	111	0	-293	-391	-391	-391
Nonbank financing	476	695	0	0	0	0
Financing gap (+ = underfinancing)[1]	0	0	11,663	13,281	7,364	7,495
Excluding external debt arrears and current maturities under discussion	…	…	5,952	7,569	…	…
Memorandum items:						
GDP (nominal)	167,126	178,038	188,249	199,247	208,868	222,786

Sources: Ministry of Finance; and IMF staff estimates.

[1] The program financing gap for 2009-12 could be covered as expelled out in the Text Table 4.

Table 2.B The Comoros: Consolidated Government Financial Operations, 2007–12
(Percent of GDP, cumulative, unless otherwise indicated)

	2007	2008	2009	2010	2011	2012
		Prel.	Prog.		Prog.	
Total revenue and grants	20.3	23.6	20.7	19.7	20.2	20.7
Revenues	12.7	13.1	13.8	13.6	13.9	14.3
Tax revenues	10.0	10.3	11.7	11.8	12.1	12.4
Direct and indirect taxes	6.4	5.1	8.3	8.3	8.6	9.1
Taxes on international trade and transactions	3.6	5.2	3.4	3.4	3.5	3.3
Nontax revenues	2.7	2.9	2.1	1.8	1.8	1.8
External grants	7.6	10.4	6.9	6.1	6.3	6.5
Budgetary assistance	1.3	1.6	1.0	0.0	0.0	0.0
Projects (incl. techn.assist.)	5.6	8.8	5.9	6.1	6.3	6.5
Total expenditure and net lending	22.3	26.0	22.3	22.1	22.3	22.4
Current expenditure	16.2	16.8	16.3	15.1	14.8	14.6
Primary current expenditures	14.1	14.9	14.6	14.1	13.9	13.6
Wages and salaries	9.0	8.8	8.7	8.4	8.2	7.9
Goods and services	3.2	4.6	4.1	3.8	3.6	3.6
Transfers and pensions	1.9	1.5	1.8	1.9	2.1	2.1
Interest payments	0.5	0.7	0.6	0.4	0.4	0.4
External debt	0.4	0.5	0.4	0.3	0.3	0.3
Domestic debt	0.1	0.2	0.2	0.1	0.1	0.1
Foreign-financed project assistance	0.8	0.5	0.9	0.4	0.4	0.4
Technical assistance	0.7	0.6	0.1	0.1	0.1	0.1
Capital expenditure	6.1	9.3	6.1	7.0	7.4	7.8
Domestically financed investment	0.7	1.0	0.8	1.0	1.2	1.4
Foreign-financed investment	4.6	8.3	5.0	5.7	5.9	6.1
Counterpart funds-financed	0.8	0.0	0.3	0.3	0.3	0.3
Domestic primary balance	-2.2	-2.7	-1.6	-1.5	-1.2	-0.8
Overall balance (commitment basis)	-2.0	-2.5	-1.7	-2.4	-2.1	-1.7
Excluding grants	-9.7	-12.9	-8.5	-8.5	-8.3	-8.1
Change in net arrears	-1.4	0.2	-0.7	-0.3	-0.4	-0.5
Interest on external debt	-3.2	0.1	0.0	0.0	0.0	0.0
Domestic arrears	1.8	0.0	-0.7	-0.3	-0.4	-0.5
Change in Float (+ = accumulation of payments due)	…	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-3.4	-2.3	-2.3	-2.7	-2.5	-2.2
Excluding grants	-11.0	-12.7	-9.2	-8.8	-8.7	-8.6
Errors and omissions	0.1	-0.1	0.0	0.0	0.0	0.0
Financing	3.3	2.4	-3.8	-3.9	-1.0	-1.2
Foreign (net)	2.9	1.2	-3.5	-3.8	-1.0	-1.0
Drawings, PIP (identified)	0.6	0.6	0.2	0.2	0.2	0.2
Amortization	-1.3	-1.2	-1.1	-1.2	-1.2	-1.2
Exceptional financing (arrears and deferred debt restructuring)	7.3	0.0	0.0	0.0	0.0	0.0
Debt service payments under discussion	0.0	0.2	0.0	0.0	0.0	0.0
Deferral of stock of end-2008 arrears (principal and interest)		0.0	-2.7	...	...	...
Change in net arrears and past debt service in discussion (principal) [1]	-3.7	1.7	0.0	0.0	0.0	0.0
Repayment of deferred arrears and debt service	0.0	0.0	0.0	-2.9	0.0	0.0
Domestic (net)	0.3	1.1	-0.3	-0.1	-0.1	-0.2
Bank financing	0.1	0.7	-0.3	-0.1	-0.1	-0.2
Central bank	0.0	0.7	-0.2	0.1	0.1	0.0
Of which: IMF	0.0	1.0	0.0	0.0	0.0	-0.1
Of which: Advances	0.0	-0.3	-0.2	0.1	0.1	0.1
Commercial banks	0.1	0.0	-0.2	-0.2	-0.2	-0.2
Nonbank financing	0.3	0.4	0.0	0.0	0.0	0.0
Financing gap [1] (+ = underfinancing)	0.0	0.0	6.2	6.7	3.5	3.4
Excluding external debt arrears and current maturities under discussion	0.0	0.0	3.2	0.0	0.0	0.0
Memorandum items:						
GDP (nominal)	167,126	178,038	188,249	199,247	208,868	222,786

Sources: Ministry of Finance; and IMF staff estimates.

[1] The program financing gap for 2009-12 could be covered as expelled out in the Text Table 4.

Table 2.C The Comoros: Consolidated Government Financial Operations, 2008–10
(Millions of Comorian francs, cumulative, unless otherwise indicated)

	2008 Prel.	2009 Mar Prog.	2009 Mar Prel.	2009 Jun Proj.	2009 Sep Prog.	2009 Dec Prog.	2010 Mar. Prog.	2010 Jun. Prog.
Total revenue and grants	41,965	9,474	11,338	20,522	28,888	38,902	8,462	18,260
Revenues	23,379	6,441	6,588	12,715	18,124	25,975	5,232	11,801
Tax revenues	18,288	5,300	5,136	9,891	14,895	22,000	4,568	9,815
Direct and indirect taxes	9,119	2,889	2,397	6,046	8,508	15,587	3,477	7,471
Taxes on international trade and transactions	9,169	2,411	2,740	3,829	6,366	6,381	1,084	2,330
Nontax revenues	5,091	1,142	1,451	2,824	3,229	3,975	664	1,985
External grants	18,586	3,033	4,750	7,807	10,764	12,927	3,229	6,459
Budgetary assistance	2,857	0	1,892	1,892	1,892	1,892	0	0
Projects (incl. techn.assist.)	15,729	2,932	2,858	5,716	8,574	11,035	3,124	6,249
Total expenditure and net lending	46,338	8,766	8,801	17,816	30,345	42,018	10,329	21,003
Current expenditure	29,855	5,744	6,284	12,012	21,371	30,595	6,736	13,816
Primary current expenditures	26,490	5,276	5,434	10,556	19,092	27,523	6,169	12,866
Wages and salaries	15,690	4,219	4,209	8,367	12,244	16,378	4,185	8,129
Goods and services	8,122	883	1,053	1,689	5,264	7,756	1,578	3,615
Transfers and pensions	2,678	174	173	500	1,583	3,389	406	1,122
Interest payments	1,273	220	360	473	804	1,105	302	420
External debt	888	172	277	351	622	719	253	323
Domestic debt	386	47	82	122	183	386	49	97
Foreign-financed project assistance	945	86	430	860	1,291	1,721	197	395
Technical assistance	1,147	162	61	123	184	246	67	134
Capital expenditure	16,483	3,021	2,517	5,804	8,973	11,424	3,594	7,187
Domestically financed investment	1,758	103	32	605	1,175	1,422	484	969
Foreign-financed investment	14,725	2,784	2,485	4,931	7,396	9,465	2,965	5,930
Counterpart funds-financed	0	134	0	268	402	536	144	289
Domestic primary balance	-4,869	1,062	1,122	1,555	-2,143	-2,970	-1,421	-2,035
Overall balance (commitment basis)	-4,373	709	2,537	2,706	-1,457	-3,116	-1,867	-2,743
Excluding grants	-22,959	-2,324	-2,214	-5,100	-12,220	-16,043	-5,097	-9,202
Change in net arrears	309	0	-489	-252	-780	-1,300	-159	-319
Interest on external debt	232	0	-154	-244	0	0	0	0
Domestic arrears	77	0	-335	-8	-780	-1,300	-159	-319
Change in Float (+ = accumulation of payments due)	0		1,510	0	0	0	0	0
Overall balance (cash basis)	-4,064	709	2,048	2,454	-2,237	-4,416	-2,027	-3,062
Excluding grants	-22,650	-2,324	-2,703	-5,352	-13,000	-17,343	-5,256	-9,521
Errors and omissions (+ = underfinancing)	-169	0	-11	0	0	0	0	0
Financing	4,233	-709	-2,037	-2,353	-7,222	-7,247	677	1,104
Foreign (net)	2,218	-538	-971	-1,250	-6,259	-6,670	738	1,228
Drawings, PIP (identified)	1,088	101	118	198	298	397	105	210
Amortization	-2,164	-564	-556	-887	-1,473	-1,983	633	1,018
Exceptional financing (arrears and deferred debt restructuring)	0	0	0	0	0	0	0	0
Debt service payments under discussion (principal and interest)	280	0	115	212	0	0	0	0
Deferral of stock of end-2008 arrears (principal and interest)	0	0	0	0	-5,084	-5,084	0	0
Change in net arrears (principal)	3,014.6	-75	-648	-774	0	0		
Repayment of deferred arrears and debt service	0.0	0	0	0	0	0		
Domestic (net)	2,015	-171	-1,066	-1,103	-963	-577	-62	-123
Bank financing	1,320	-111	-1,066	-810	-670	-577	-62	-123
Central bank	1,320	-111	-843	-664	-450	-284	36	72
Of which: IMF	1,826	0	0	0	0	0	0	0
Of which: Advances	-506	-111	-843	-664	-450	-284	36	72
Commercial banks	0	-59	-223	-147	-220	-293	-98	-195
Nonbank financing	695	0	0	0	0	0	0	0
Financing gap [1] (+ = underfinancing)	0	0	0	-101	9,459	11,663	1,350	1,958
Excluding external debt arrears and current maturities under discussion	…	…	0	0	4,051	5,952	0	0
Memorandum items:								
GDP (nominal)	178,038	192,824	188,249	188,249	188,249	188,249	199,247	199,247

Sources: Ministry of Finance; and IMF staff estimates.

[1] The program financing gap for 2009-12 could be covered as expelled out in the Text Table 4. --

Table 3. The Comoros: Monetary Survey, 2007–12
(Millions of Comorian francs)

	2007	2008	2009	2010	2011	2012
		Est.	Prog.		Prog.	
Net foreign assets	43,533	40,595	41,013	41,372	41,752	42,313
Central bank Assets	39,863	39,862	40,073	40,209	40,394	40,673
Central bank Liabilities	-205	-1,989	-1,989	-1,989	-1,989	-1,989
Commercial Banks Assets	5,062	3,612	3,819	4,042	4,237	4,519
Commercial Banks Liabilities	-1,187	-890	-890	-890	-890	-890
Net domestic assets	3,787	8,894	10,562	13,216	15,472	18,724
Domestic credit	19,413	27,503	29,677	32,202	35,793	40,336
Net credit to government [1]	2,938	5,246	5,450	5,203	5,059	4,592
Of which: Treasury	6,797	8,812	8,235	7,989	7,844	7,378
Bank financing	2,938	5,246	5,450	5,203	5,059	4,592
Claims on government	6,753	9,223	8,646	8,400	8,255	7,788
Deposits of government	-3,815	-3,977	-3,197	-3,197	-3,197	-3,197
Claims on public enterprises	1,040	2,744	2,744	2,744	2,744	2,744
Claims on other financial institutions	153	53	53	53	53	53
Claims on private sector	15,282	19,460	21,483	24,255	27,990	33,000
Other items net	-18,457	-18,720	-19,115	-18,986	-20,320	-21,612
Broad money	44,489	49,378	51,575	54,588	57,224	61,037
Money	31,994	34,622	35,973	38,075	39,913	42,573
Currency in circulation	12,723	12,335	12,884	13,636	14,295	15,247
Demand deposits	19,271	22,287	23,279	24,639	25,829	27,550
Quasi-money	12,495	14,756	15,602	16,514	17,311	18,465
Memorandum items (change in percent of beginning period broad money):						
Net foreign assets	7.2	-6.6	0.8	0.7	0.7	1.0
Net domestic assets	7.8	11.5	3.4	5.1	4.1	5.7
Domestic credit	5.0	18.2	4.4	4.9	6.6	7.9
Net credit to government	0.2	5.2	0.4	-0.5	-0.3	-0.8
Credit to public enterprises	0.2	3.8	0.0	0.0	0.0	0.0
Credit to private sector	4.5	9.4	4.1	5.4	6.8	8.8
Other items (net)	-3.7	-0.6	-0.8	0.3	-2.4	-2.3
Broad money	8.6	11.0	4.4	5.8	4.8	6.7
Money	9.0	5.9	2.7	4.1	3.4	4.6
Quasi-money	-0.4	5.1	1.7	1.8	1.5	2.0
Velocity (GDP/end-year broad money)	3.8	3.8	3.7	3.7	3.7	3.7
Credit to private sector (percent change)	13.6	27.3	10.4	12.9	15.4	17.9

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

[1] Includes net credit to government entities other than public treasury.

Table 4. The Comoros: Balance of Payments, 2007–12

(Millions of Comorian francs, unless otherwise indicated)

	2007	2008	2009	2010	2011	2012
		Est.	Prog.			
Current account	-11,212	-20,067	-15,092	-20,773	-21,824	-22,855
Excluding official transfers	-15,946	-25,016	-18,951	-21,832	-22,969	-24,114
Goods and services	-44,932	-60,050	-54,055	-57,309	-60,566	-63,491
Trade balance	-41,540	-55,800	-50,936	-54,134	-57,269	-60,592
Exports (f.o.b.)	4,965	2,211	3,965	3,990	4,036	4,162
Of which: Vanilla	1,274	643	1,194	1,194	1,212	1,242
Cloves	2,866	679	1,855	1,855	1,855	1,920
Ylang-ylang	711	796	816	836	857	879
Other	114	93	99	104	111	121
Imports (f.o.b.)	-46,505	-58,011	-54,901	-58,124	-61,305	-64,755
Of which: Petroleum products	-10,649	-12,505	-8,395	-10,343	-11,074	-11,462
Services (net)	-3,392	-4,250	-3,118	-3,175	-3,296	-2,898
Receipts	19,707	22,643	22,147	23,871	25,593	28,006
Of which: travel	10,864	11,219	12,341	13,575	14,933	16,426
Payments	-23,099	-26,893	-25,265	-27,046	-28,889	-30,905
Income (net)	692	440	-805	-685	-319	-366
Credit	1,345	1,328	-87	-23	317	245
Debit	-653	-888	-719	-662	-636	-610
Current transfers (net)	33,028	39,543	39,768	37,221	39,061	41,001
Government	4,734	4,949	3,859	1,059	1,145	1,259
Private	28,293	34,594	35,909	36,163	37,916	39,742
Capital and financial account	2,886	13,677	8,937	13,340	14,645	15,639
Capital account	41,790	13,637	9,068	11,019	11,934	13,137
Capital transfers	41,790	13,637	9,068	11,019	11,934	13,137
Transfer of fixed assets	8,051	13,637	9,068	11,019	11,934	13,137
Liabilities cancellation	33,739	0	0	0	0	0
Financial account	-38,903	40	-132	2,320	2,711	2,502
Direct investment	2,704	2,526	3,219	3,326	4,066	4,085
Net portfolio and other investment	-41,607	-2,486	-3,351	-1,005	-1,355	-1,583
Government	-42,635	-1,076	-1,586	-1,879	-2,042	-2,173
Drawings	1,009	1,088	397	420	440	470
Amortization	-2,169	-2,164	-1,983	-2,299	-2,483	-2,643
MDRI & HIPC	0	0	0	0	0	0
Arrears clearance operations1	-41,475	0	0	0	0	0
Private sector (net)	1,028	-1,410	-1,765	874	687	591
Banks, net	-1,779	-1,153	207	223	195	282
Other	2,807	-257	-1,972	651	492	308
Errors and omissions	4,747	1,080	0	0	0	0
Overall balance	-3,579	-5,310	-6,155	-7,433	-7,179	-7,216
Financing	3,579	5,310	-5,507	-5,847	-185	-279
NFA of central bank (increase -)	-4,744	1,784.4	-210.7	-136.0	-184.7	-279.4
Foreign assets	-4,846	0	-211	-136	-185	-279
Foreign liabilities	102	1,784	0	0	0	0
of which: net IMF credit	0	1,826	0	0	0	-304
Net change in arrears	710	3,246	-5,297	0	0	0
Repayment of deferred arrears and debt service	0	0	0	-5,711	0	0
Exceptional financing1	7,614	280	0	0	0	0
Financing gap	0	0	11,663	13,281	7,364	7,495
Financing gap excluding net IMF	0	0	11,663	13,281	7,364	7,191
Memorandum items:						
Current account (percentage of GDP)	-6.7	-11.3	-8.0	-10.4	-10.4	-10.3
Excluding transfers	-26.5	-33.5	-29.1	-29.1	-29.1	-28.7
Exports of goods and services (percentage of GDP)	14.8	14.0	13.9	14.0	14.2	14.4
in percent change						
Imports of goods and services (percentage of GDP)	41.6	47.7	42.6	42.7	43.2	42.9
External public debt (millions of U.S. dollars)	285.0	260.2	254.3	247.2	240.8	231.8
Of which: arrears	2.1	8.9	0.0	0.0	0.0	0.0
In percent of GDP	57.6	54.2	48.4	44.5	41.3	37.3
Debt service ratio (percentage of exports of goods and services)	11.4	12.3	10.4	10.7	10.6	11.1
Gross international reserves (millions of U.S. dollars)	118.1	109.4	111.9	112.0	112.8	113.6
In months of imports of goods and services	7.3	5.2	6.1	5.7	5.4	5.1

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

[1] Reflects arrears clearance operations in 2007 with multilateral creditors, ongoing discussions with bilaterals and EPCA budget support grant in 2008.

Table 5. The Comoros: External Debt and Arrears, Official Creditors, 2008–09

	2008				2009
	Stocks		Flows		Flows
Creditors	Total Debt	*of which* *Arrears*	Debt service due	Change in arrears	Debt service due
	(Millions of U.S dollars)				
Total	260	23.3	9.1	4.3	7.3
Multilaterals	206	13.7	8.0	3.5	6.1
AfDB Group	34.4	1.4	2.0	2.0	1.4
BADEA	27.6	0.5	0.3	0.3	0.3
EIB	1.4	0.8	0.0	0.0	0.0
IDB	9.1	7.3	1.0	1.0	0.2
OPEC Fund	3.6	3.6	0.0	0.0	0.0
IFAD	8.1	0.2	0.4	0.2	0.4
IDA	121.2	0.0	4.2	0.0	3.8
ARAB MONETARY FUND	0.8	0.0	0.0	0.0	0.0
Bilaterals	54.0	9.6	1.1	0.8	1.2
UAE (Abu Dhabi)	1.3	1.3	0.0	0.0	0.0
France[1]	10.0	8.0	0.7	0.7	0.6
Kuwait Fund	27.5	0.0	0.3	0.0	0.3
Saudi Fund	14.3	0.2	0.0	0.0	0.2
Mauritius	1.0	0.2	0.1	0.1	0.1

Source: Comorian authorities. Data not reconciled with creditor statements.

[1] Includes "frozen" unpaid debts of the Postal Service System

Table 6. The Comoros: Schedule of Proposed PRGF Disbursements and Reviews, 2009–12

Date	Disbursements[1, 2] (Millions of SDRs)	Conditions
September 30, 2009[3]	4.2275	Executive Board approval
March 15, 2010[4]	1.5575	Completion of first review, based on observance of performance criteria through December 31, 2009
September 15, 2010	1.5575	Completion of second review, based on observance of performance criteria through June 30, 2010
March 15, 2011	1.5575	Completion of third review, based on observance of performance criteria through December 31, 2010
September 15, 2011	1.5575	Completion of fourth review, based on observance of performance criteria through June 30, 2011
March 15, 2012	1.5575	Completion of fifth review, based on observance of performance criteria through December 31, 2011
September 14, 2012	1.5575	Completion of sixth review, based on observance of performance criteria through June 30, 2012

[1] Based on access of 152.5 percent of quota (SDR 13.5725 million).

[2] Frontloaded phasing, based on considerable balance of payments needs in 2009 because of persistently weak exports and high external debt service obligations.

[3] Includes early repayment of the EPCA purchased in December 2008.

[4] Proposed discussion of preliminary HIPC Decision Point document programmed for January 2010 and HIPC Decision Point is expected to be reached at the time of the first review.

Table 7. The Comoros: Indicators of Capacity to Repay the Fund, 2008-2022

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
							Projections								
Fund obligations based on existing credit															
(in millions of SDRs)															
Principal	0.0	0.0	0.0	0.0	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.0	0.0	0.0	0.0
Charges and interest [1]	0.02	0.03	0.03	0.03	0.03	0.02	0.01	0.01	0.01	0.01	0.0	0.0	0.0	-	-
Fund obligations based on existing and prospective credit [2]															
(in millions of SDRs)															
Principal	0.0	1.1	0.0	0.0	0.0	0.0	0.5	1.44	2.07	2.69	3.16	2.72	1.71	1.09	0.47
Charges and interest	0.02	0.04	0.04	0.05	0.07	0.08	0.08	0.08	0.07	0.05	0.04	0.04	0.03	0.03	0.03
Total obligations based on existing and prospective credit [2]															
In millions of SDRs	0.02	1.15	0.04	0.05	0.07	0.08	0.5	1.5	2.1	2.7	3.2	2.8	1.7	1.1	0.5
In millions of CF	10.6	631.1	21.8	27.1	38.0	43.4	287.7	825.0	1161.5	1487.2	1736.9	1498.1	944.4	607.9	271.4
In percent of government revenue	0.05	2.43	0.08	0.09	0.12	0.12	0.8	2.0	2.6	3.1	3.4	2.7	1.6	0.9	0.4
In percent of exports of goods and services	0.04	2.42	0.08	0.09	0.12	0.13	0.8	2.0	2.7	3.1	3.4	2.7	1.6	1.0	0.4
In percent of debt service [3]	0.35	23.36	0.74	0.87	1.17	1.52	7.0	19.6	27.3	34.7	38.1	32.4	20.2	12.7	5.6
In percent of GDP	0.01	0.34	0.01	0.01	0.02	0.02	0.1	0.3	0.4	0.5	0.5	0.4	0.2	0.1	0.1
In percent of quota	0.22	12.87	0.45	0.56	0.79	0.90	6.0	17.1	24.0	30.8	36.0	31.0	19.6	12.6	5.6
Outstanding Fund credit [2]															
In millions of SDRs	3.34	6.46	9.57	12.68	15.79	15.79	15.34	13.90	11.83	9.14	5.98	3.26	1.55	0.46	-0.01
In millions of CF	1,765.3	3,559.3	5,213.6	6,881.1	8,569.1	8,569.1	8,324.8	7,543.2	6,419.7	4,959.6	3,244.4	1,768.1	839.9	248.3	-6.8
In percent of government revenue	7.6	13.7	19.2	23.7	27.0	24.5	22.1	18.4	14.6	10.5	6.4	3.2	1.4	0.4	0.0
In percent of exports of goods and services	7.1	13.6	18.7	23.2	26.6	24.7	22.2	18.6	14.7	10.5	6.4	3.2	1.4	0.4	0.0
In percent of debt service [2,3]	57.8	131.8	176.1	220.6	263.4	300.3	203.2	179.2	150.9	115.6	71.2	38.2	18.0	5.2	-0.1
In percent of GDP	1.0	1.9	2.6	3.3	3.8	3.6	3.2	2.7	2.2	1.6	1.0	0.5	0.2	0.1	0.0
In percent of quota	37.5	72.6	107.5	142.4	177.4	177.4	172.3	156.2	132.9	102.7	67.2	36.6	17.4	5.1	-0.1
Net use of Fund credit (millions of SDRs)	3.3	3.1	3.1	3.1	3.1	0.0	-0.5	-1.4	-2.1	-2.7	-3.2	-2.7	-1.7	-1.1	-0.5
Disbursements	3.3	4.2	3.1	3.1	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment and Repurchases	0.0	1.1	0.0	0.0	0.0	0.0	0.5	1.4	2.1	2.7	3.2	2.7	1.7	1.1	0.5
Memorandum items (millions of CF)															
Charges and interest, after assumed subsidies [3]	0.81	0.84	0.83	0.82	0.82	0.82									
Nominal GDP (in millions of CF)	178,038	188,249	199,247	208,868	222,786	239,256	257,469	277,224	296,962	318,106	340,755	365,017	391,006	418,846	448,668
Exports of goods and services (in millions of CF)	24,854	26,111	27,861	29,629	32,169	34,663	37,441	40,459	43,745	47,323	50,740	54,849	59,319	63,663	68,907
Government revenue (in millions of CF)	23,379	25,975	27,103	29,053	31,748	34,912	37,658	40,970	43,979	47,248	50,803	54,927	59,425	64,448	69,821
Debt service (in millions of CF) [2,3]	3,052	2,701	2,961	3,119	3,253	2,854	4,097	4,208	4,254	4,292	4,556	4,623	4,675	4,781	4,862
CF/SDR (period average)	529	551	545	543	543	543	543	543	543	543	543	543	543	543	543

Sources: IMF staff estimates and projections.

[1] No subsidization of EPCA credit is assumed.

[2] Assuming a new PRGF in an amount of SDR 13.57 million (152.5 percent of quota) in seven disbursements. The entire EPCA credit of SDR 1.1 million (12.5 percent of quota) is expected to be repurchased by the first PRGF disbursement.

[3] Total debt service includes IMF repurchases and repayments.

APPENDIX I. LETTER OF INTENT

UNION DES COMORES

August 11, 2009

Mr. Dominique Strauss Khan
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss Khan,

1. The Union of the Comoros views the support of its international partners as crucial to the success of its economic and social policies that underpin the resumption of growth and its strategy for reducing poverty. With the long process of national reconciliation now reaching an end, following the constitutional referendum in May which restored cohesion to the functioning of our institutions, the time has arrived to redouble our efforts to rehabilitate the economic environment, revitalize the economy, and reduce poverty.

2. Our strategy is aimed at promoting strong, sustainable, private-sector led economic growth that creates employment and income, as well as strengthening public finances, institutions, and governance within the context of a stable macroeconomic environment. To achieve this and meet the aspirations of all Comorians for peace and prosperity, the government intends to work with the IMF and the rest of the international community. The policies implemented under the Emergency Post-Conflict Assistance (EPCA) and those envisaged in our new three-year program (2009-12) outlined in the attached Memorandum of Economic and Financial Policies (MEFP) should help us achieve this goal. These courageous policies provide a sound basis for our request for support from the IMF under the Poverty Reduction and Growth Facility (PRGF).

3. We view a PRGF arrangement as crucial for anchoring our medium-term economic reform agenda, ensuring responsible management of public finances, and catalyzing donor support, which should allow the Comoros to access the benefits of the enhanced Heavily Indebted Poor Counties (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). To ensure the smooth implementation of the program supported by the PRGF, including coverage of our related balances of payments needs, the government of the Union of the Comoros requests assistance from the IMF under the PRGF arrangement in the amount of SDR 13.57 million or 152.5 percent of quota, to be disbursed over three years.

4. A critical factor underlying the reform agenda is our firm commitment at the Union and islands levels to fully implement the national revenue sharing agreement. We believe that strict adherence to this agreement and rigorous implementation of the policies set forth in the

MEFP will allow us to achieve the objectives of our program. The government will, nonetheless, take any further measures that may be necessary to meet the program objectives. We will consult with the Fund in advance on the adoption of these measures, and before any revision to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. In addition, we will supply such information as the IMF requests on policy implementation and achievement of program objectives.

5. In line with our commitment to transparency in government operations, we agree to the publication of the PRGF related documents, subsequent to endorsement of the proposed program by the IMF Executive Board.

Sincerely yours,

/s/
Ilkililou Dhoinine
Vice-President in charge of the
Ministry of Finance, Budget, and
Promotion of Women Entrepreneurship

/s/
Ahamadi Abdoulbastoi
Governor of the BCC

ATTACHMENT 1

UNION OF THE COMOROS

Memorandum of Economic and Financial Policies for 2009-10

I. INTRODUCTION

1. After the resolution of the Anjouan crisis last year and the recent amendment of the constitution that brings needed cohesion to government operations, the Union of the Comoros has finally emerged from over 10 years of chronic political instability, and can now focus on the challenges of its economic development. The country has limited natural resources, a small and fragmented domestic market, weak institutional capacity and a narrow export base, which make it particularly vulnerable to shocks. Almost half of the population lives below the poverty line, and there is limited access to clean water and electricity, and to essential services such as education and health care.

2. To put the economy back on the road to strong and sustainable growth and to reduce poverty more effectively, the government is determined to pursue sound economic and financial policies. With the assistance of IMF and World Bank staff, it has prepared a medium-term economic program for 2009–12 aimed at consolidating macroeconomic stability, strengthening institutions and governance, and improving the investment climate. The effective implementation of this program, which is based on the country's interim Poverty Reduction Strategy Paper (I-PRSP), will be supported by Fund resources under the Poverty Reduction and Growth Facility (PRGF), and it will enable the Comoros to benefit from debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI).

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM

A. Recent Economic Developments

3. Economic activity in the Comoros remains subdued. Over the past two years, it has been dominated by disturbances related to the crisis in Anjouan and the difficult international economic situation. The economy also suffered from a serious energy crisis and from limited private sector access to bank credit during the first half of 2008. These constraints caused a decline in activity in the main productive sectors, in particular the vanilla, transportation, and trade sectors. However, the decline was compensated for by strong production of foodstuffs stimulated by favorable rainfall and rising global food prices. The weakness of the economy was also mitigated by the relatively dynamic performance of the construction and public works sector, backed by donor support, financial inflows from migrants, and some foreign

investments in the tourism sector. As a result, real GDP growth is estimated at an average 1 percent in 2008/09, an increase of one-half percentage point over 2007. Inflation rose to 7.4 percent year-on-year in 2008, owing to the high cost of fuel and transportation, but it has fallen sharply and should drop to 2.3 percent in 2009, reflecting reduced pressures on oil and food prices.

4. In the fiscal area, government revenues have witnessed an upturn, reaching the equivalent of 13.5 percent of GDP as an annual average since 2008. At the same time personnel expenditures have been relatively better controlled, although they continue to weigh heavily on the government budget. In general, the preliminary results obtained with respect to fiscal consolidation reflect the impact of the gradual implementation of measures to strengthen revenue collection and improve expenditure management, including the establishment of a cash flow committee. Thus the deficit on the domestic primary budget balance should fall to 1.6 percent of GDP in 2009, compared to 2.7 percent in 2008. Government expenditures nonetheless remain well above the capacity for revenue collection, thus justifying the accumulation of new payment arrears through the first half of 2009.

5. In the external sector, the upturn in exports remains uncertain given the continued low world prices, although there has been a timely increase in vanilla exports in 2009. On the other hand, imports, including materials for the construction sector and used vehicles, supported by increased transfers of funds from emigrants (equivalent to 25 percent of GDP in 2008), remain robust and the oil bill is still high. Because of these developments, the external current account deficit (including budgetary support grants) climbs to the equivalent of 9.7 percent of GDP in 2008-09, compared to 6.7 percent of GDP in 2007. New external payment arrears have accumulated and government debt, expected to reach 230 percent of the net present value of goods exports at end-2009 according to forecasts, remains unsustainable. However, the government was able to reach agreements to defer settlement of external arrears amounting to $13.95 million until the HIPC decision point (mid 2010) as well as amounts due to creditors, except major multilateral, for servicing the external debt ($1.8 million) corresponding to the 2009 budget, while awaiting the comprehensive resolution of its external debt situation under the enhanced HIPC initiative.

6. Credit to the economy, including the microfinance sector loans, should increase by 10 percent in 2009, following a 27 percent increase last year. It is essentially allocated to the trade sector. Under these conditions, and in the context of an expanding national banking system, the money supply increased by 7.7 percent on average in 2008 and 2009, in parallel with a decline in net external assets. Foreign exchange reserves stand at the equivalent of 5-6 months of imports of non-factor goods and services.

B. Performance under the EPCA Program

7. Out of a total of 11 quantitative and structural indicators for program monitoring, seven had been met at end-2008. In particular, the quantitative indicator related to the

minimum level of revenue collection was met. However, because of pressures on expenditures for goods and services related to the military operation in Anjouan and the subsidies granted to the National Water and Electricity Company (MA-MWE) in response to the energy crisis, the program indicators related to external payment arrears, net present credit to the government, and the primary fiscal deficit as at December 31, 2008 could not be met. Three of the four structural indicators were met and the fourth was partially met. The computerization of the payroll was begun only by the executives of the Union, Anjouan, and Mohéli, while it was yet to be started in Ngazidja as at end-2008 (paragraph 8 below).

8. The results of the EPCA program were more satisfactory as at end-March 2009, reflecting the impact of efforts to enhance fiscal management that have been under way for several months. All seven quantitative performance indicators for this date were met, despite the still difficult economic situation. Implementation of the structural reforms was also satisfactory overall: only one of the program benchmarks for end-March was not fully met, owing to continued delays in the computerization of payroll operations, although work has begun to accomplish this on the Island of Ngazidja.

III. Medium-Term Macroeconomic Framework for Poverty Reduction

9. Reducing poverty and achieving the MDGs are among the government's key objectives. To this end, the government intends to implement the I-PRSP action plan for the medium term, focusing on five strategic areas: laying the ground for sustainable economic development; stimulating private sector activities; developing the agricultural sector; strengthening governance, the justice system, and security; and enhancing human capital. It has launched the consultation process that will lead to the elaboration of the full PSRP by end-2009. Pending the finalization of the PRSP, the economic program will build on the objectives of the I-PRSP, which focus on increasing budget allocations to the priority sectors, so as to boost sustainable renewed growth and improve the MDGS indicators.

10. The government's program for the next three years aims to restore macroeconomic stability, strengthening institutions and governance and improving the investment climate. Real GDP growth is projected to rise to about 3-4 percent per year by end-2012, underpinned by a pick-up in public and private investment, as both donor support rises and the investment climate improves. Tourism, agriculture, fishing, finance, infrastructure, and communication are expected to contribute positively to growth. Inflation will be contained at 3 percent in the context of our pegged exchange regime and a prudent wage policy. Exports of goods and services and private remittances should remain somewhat restrained because of the difficult international circumstances. However, increased support from partners will stimulate the growth of imports, the external current account deficit is projected to stabilize at around 10 percent of GDP by 2012, and international reserves levels will remain at slightly under 5 months of imports of goods and services.

11. The program aims to reduce by half the primary fiscal deficit by 2012, from a projected 1.6 percent of GDP in 2009, in order to provide more resources to meet debt service obligations; support higher social spending and investments, and to allow a gradual reduction in domestic payment arrears. In this framework, public investment and social outlays should increase by about 1.7 percentage points of GDP, financed through a gradual increase in domestic revenue, a modest reduction in the wage bill, and higher external assistance. To this end, the government will ensure that domestic revenue will increase to at least 14 percent of GDP in 2012, driven mainly by higher tax revenue, which is projected to average 12½ percent of GDP. On the expenditure side, the government's policy will aim to contain the wage bill through reform of the civil service and effective personnel management; it will also limit discretionary spending to the strict minimum in order to free the resources for spending on priority sectors that support growth.

12. We hope that support of the program under the IMF's PRGF will allow us to secure debt relief under the enhanced HIPC initiative and MDRI, which is critical for restoring debt sustainability. The medium-term program currently assumes that, following clearance of external payment arrears and rescheduling on concessional terms in 2010, the HIPC decision point can be reached by the second quarter of the same year, and that both the HIPC completion point and MDRI are secured by end-2012.

IV. Economic and Financial Policies for 2009-10

13. The objectives of our 2009-10 program are: to secure average real GDP growth of 1.5 percent, with a strong contribution from agriculture the public works construction sector as projects financed by external resources and migrants' remittances are implemented; an inflation rate of 3 percent; containing the current account deficit (including grants) to about 9½ percent of GDP, and maintain international reserves around 5-6 months of imports of goods and nonfactor services.

A. Government Finance

14. The government's economic program is aimed at reducing the domestic primary fiscal balance deficit from 2.7 percent of GDP in 2008 to 1.5 percent of GDP on average in 2009 and 2010. The overall budget deficit (cash basis, grants included) is expected to reach 2.3 percent and 2.7 percent of GDP in 2009 and 2010 respectively, compared to 2.3 percent of GDP in 2008. External debt service will amount to CF 8.002 billion (4.5 percent of GDP) in 2009, including CF 5.084 billion in arrears to be rescheduled under the enhanced HIPC initiative. In 2010, it is expected to fall to CF 2.307 billion (1.5 percent of GDP, excluding rescheduled arrears from 2009), covering obligations to the main multilateral creditors.

15. The budgetary framework of the program for fiscal year 2009 is reflected in a supplementary budget introduced by the government before IMF Board consideration of Comoros' PRGF request. It is fully financed with: (i) budgetary support from external

partners, and deferment of outstanding external arrears and of 2009 debt service due to creditors except major multilaterals; and (ii) net domestic financing (including reimbursement of credits from the central bank and the SNPSF). In addition to the IMF, external budget financing is expected particularly from partners in the Gulf region, the European Union, the World Bank, the African Development Bank, and France. If the government obtains external budget support beyond the programmed amounts, it will consult with the IMF on how to use it and will establish a new supplementary budget indicating how these resources will be allocated, giving priority to the settling of arrears to government suppliers and public service career agents. The fiscal financing requirements for 2010 are estimated at 6.7 percent of GDP, including 2.9 percent of GDP in external arrears to be rescheduled under the HIPC process. They are expected to be covered by development partners, including with interim HIPC assistance if the country reaches the HIPC decision point.

16. Sound implementation of the inter-island revenue sharing agreement and better expenditure management should result in a more predictable cash flow that will facilitate the timely payment of domestic obligations, and help avoid the accumulation of new domestic arrears. In this context the government will strengthen the consolidated tracking mechanisms for government financial operations and will ensure that meetings of the budget and cash flow committees are held on a regular basis.

17. Domestic revenues are expected to reach CF 25.975 billion (13.8 percent of GDP) in 2009 and CF 27.103 billion (13.6 percent of GDP) in 2010, compared to CF 23.379 billion (13.1 percent of GDP) in 2008. The 2009 figures show the effect of relatively weak economic activity in 2009, before the slow beginning of recovery in 2010. They also take into account exceptional revenues from the economic citizenship program (0.8 percent of GDP) and sales of the new biometric passports (0.3 percent of GDP), as well as the impact of the measures already taken to enhance revenue collection (paragraphs 24-26 below).

18. Total expenditures are expected to reach CF 42.018 billion or 22.3 percent of GDP in 2009 and CF 43.987 billion (22.1 percent of GDP) in 2010. The authorities are determined to limit primary spending to a level commensurate with available resources, in order to strengthen the fiscal position sufficiently to restore macroeconomic stability and redirect expenditures toward the priority sectors. Accordingly, domestic primary expenditure will be limited to 14.6 percent and 14.1 percent of GDP in 2009 and 2010, respectively. To this end, there will be a freeze on new hiring, the computerization of the civil service payment roster will be finalized, and organic frameworks for the Union and islands will be adopted. Moreover, thanks to improved supervision, largely resulting from the refocusing of the national political institutions after the constitutional referendum of May 17, 2009 and the establishment of a central database for public service personnel, the wage bill is expected to be better managed and limited to the equivalent of 8.7 percent and 8.4 percent of GDP in 2009 and 2010, respectively. Expenditure on goods and services will be more closely monitored, thanks to more rigorous cash management by the government. Nonessential

overseas missions will be frozen. In view of the tight fiscal constraints, while awaiting the implementation of infrastructure projects linked to the special economic citizenship program, domestically-financed investment expenditure will amount to 0.8 percent and 1 percent of GDP in 2009 and 2010, respectively.

19. The government is fully committed to finding a sustainable way to clear domestic arrears. With the assistance of the European Union, it is currently carrying out an audit of these arrears, including debt owed to private enterprises. On this basis, the government intends to approve by end-October 2009 a strategy for the orderly clearance of these domestic financial obligations. The recommendations of the strategy will be taken into account in the government budget beginning in fiscal year 2010. Efforts will be made in this context to mobilize external financing for clearing the arrears of civil servants' wages accumulated through June 30, 2009, ensuring equal treatment for the three islands and the Union. In the meanwhile, measures have been taken to: (i) settle two months of salary arrears for December 2008 and January 2009 if assistance from Gulf development partners amounts to the equivalent of at least US$10 million, and (ii) ensure henceforth that salaries are paid on a regular basis to avoid any accumulation of new salary arrears. Finally, the government plans to offset the cross-debts between the government and public enterprises by end-June 2010 and to clear the balance in 2011.

B. Strengthening Institutions and Public Expenditure Management

20. Our fiscal program can only be achieved through strict adherence to the revenue-sharing mechanism. To this end, the government intends to continue strengthening inter-entity cooperation and enhance the accountability of public financial management. It will henceforth ensure that the account statements from the Treasury to the BCC concerning the revenue-sharing mechanism are forwarded on monthly basis to the governors of the islands. In addition, to improve efficiency, we intend to centralize certain government functions, including revenue administration of large taxpayers, monitoring of budget execution, and economic statistics, in accordance with the revenue-sharing mechanism. This will be monitored by inter-government committees and administrative units charged with information compilation and dissemination and policy coordination. The Economic and Financial Reform Unit (Cellule des Reformes Economiques et Financières, CREF), charged with consolidating fiscal data from the Union and island governments, and the Budgetary Committee, made up of representatives from the Union and the three island executives, will continue to play a key role in monitoring the execution of the government budget. These two entities will work in close collaboration with the Cash Flow Committee established last June.

21. Further, the government has taken measures to ensure that all ministries meet their quarterly targets on spending commitments. These will be revised downward if actual revenue collections fall short of the initial projections. Measures have also been taken to ensure effective controls on amounts liquidated (*liquidation)*. Over time, the Budgetary Committee—including the Minister of Finance and representatives of the respective budget

directorates and treasuries of each entity—will monitor through detailed monthly status reports the expenditure chain from commitment (*engagement*) through the payment phase (*paiement*), and the outstanding balances (*restes a payer*). The outstanding balances will be monitored closely by including a breakdown by month showing the amounts falling due (staring in July 2009 for salaries, and by end-March 2010 for other spending categories). The treasury will give priority to those amounts that are first in the payment queue.

22. With the support of the development partners, including the World Bank, the IMF, and the European Union, the government conducted a preliminary evaluation of public expenditure management systems in 2009. The main recommendations stemming from the assessment are incorporated into the three-year program, particularly those concerning: (i) establishing a weekly cash flow committee; (ii) approving by end-October 2009 a strategy for clearing domestic payment arrears, following an audit; (iii) restoring in 2010 the normal expenditure process, in accordance with the Framework Law of 2005. With the assistance of the IMF, the World Bank, and the African Development Bank, the government will complete by end-December 2009 a strategy for reforming the public expenditure management systems and will ensure that it is implemented at the earliest possible date. The recommended measures are aimed at strengthening budget and accounting procedures, (computerization and training), internal and external controls, and government procurement rules and practices. Their implementation will help enhance the transparency of government actions and improve the investment climate.

23. Pursuant to the new law on the government's financial operations, the government will submit to the National Assembly, as an annex to the budget law, a performance report on outcomes and prospects. This law gives the parliament an opportunity to reinforce its control over budget execution.

C. Tax Reforms

24. To achieve its revenue collection targets, within the framework of the country's joining the COMESA free trade area, the government intends to work towards modernizing and improving the tax and customs administrations. It plans to: (i) enlarge the tax base using the database from the most recent taxpayer census, by imposing a real tax regime on persons formerly subject to the single professional tax (TPU) and opening local tax centers; (ii) simplify the tax and customs systems; (iii) consolidate tax audits through rigorous management of the single tax identification number; and (iv) limit tax and customs exemptions to those stipulated in the investment code. The government will conduct a comprehensive inventory and by end-September 2009 will eliminate ad hoc discriminatory tax advantages previously granted. It will also enhance its communication with taxpayers to foster taxpayer compliance and fiscal discipline. Other structural and organizational reforms include a revision of the customs code and use of the SYDONIA ++ system in all the main customs posts, under a project supported by the UNDP in partnership with COMESA.

25. Other measures to enhance revenue collection focus on restructuring the tax and customs authorities, which includes strengthening the hierarchical cohesion among the central and island authorities, in order to improve the efficiency of administration. The budget laws also aim at various modifications of tax policy, particularly expanding the tax base and replacing certain import duties with indirect taxes by extending the scope of application of excise duties, following the recommendation of various IMF technical assistance missions, in order to ensure the stability of the tax base after the Comoros joins COMESA. A program to enhance infrastructure and human capacities of the island tax and customs jurisdictions has been launched, which should help increase revenue collection, particularly from patents and local businesses.

26. Finally, to reinforce the effectiveness of tax administration, the government will enhance the instruments of the large taxpayer unit (LTU) which has become fully operational and in charge of management, audits, and collections for all big business taxes in the Union of the Comoros. It intends to: (i) establish in each island a regional branch of the LTU placed under the direct authority of the national LTU; (ii) strengthen relations between the LTU and the customs administration; and (iii) complete the computerization of the LTU and begin application of the AGIR software to secure revenue, by replacing the current software for managing cash operations. The government will request the assistance of its development partners to appoint a resident expert to support its efforts to modernize the tax and customs administrations.

D. Civil Service Reform

27. Reform of the public administration (initiated under the *Appui Pour une Administration Publique Performante* (APP) project funded by UNDP) is aimed primarily at enhancing control of the public sector wage bill and ensuring its budgetary viability. It includes: (i) completion of the computerization of the civil service payment roster by end-March 2010; (ii) adoption of organic frameworks which will help set the appropriate structure and optimal level of staffing for the civil service (iii) implementation of a computer-based and integrated payroll management system. To ensure the proper implementation of these reforms, the government established the High Authority for the Public Administration (HAPA), which began operations in 2007, and appointed its director. The authority's responsibilities include preparation of the institutional and legal framework for civil service reform, coordination of all public entities, and effective surveillance of the Union-wide application of the procedures for administrative and financial management of government personnel. The government will shortly submit for adoption by Parliament the organic frameworks for all the ministries, established on the basis of executive structures resulting from the last constitutional referendum. These organic frameworks are to be annexed to the budget law beginning with fiscal year 2010. The implementation will make it possible to reduce the civil service staffing level to about 9,000 agents, compared to the current level of about 10,600. With the support of its development partners, the government intends to

develop and implement the reinsertion and/or redeployment of laid-off personnel, and plans to seek from donors the financial means necessary for the success of this program.

E. Financial Sector and Monetary Policies

28. Monetary policy will be pursued within the framework of the Comoros' participation in the franc zone, an arrangement that has enabled the country to contain inflation and maintain a stable exchange rate and an adequate level of foreign reserves despite major fiscal imbalances. The government recognizes that the excess liquidity on the banking system and the relative weakness of demand for credit limit its monetary policy operations. Within these constraints, the central bank will continue to rely on the reserve requirement ratio as its main instrument for managing liquidity. This ratio has not changed since 2008, when it was reduced from 35 percent to 25 percent. To enhance the independence of the central bank (BCC) and allow it to better play its role in consolidating macroeconomic stability and effectively support the exchange rate regime, its statutes have been amended to bring them into line with international standards as recommended by the IMF. Over the medium term, the BCC intends to liberalize interest rates completely in an increasingly competitive environment.

29. The central bank will continue its efforts to enhance the effectiveness of the financial system and to strengthen bank supervision. To encourage competition, two new foreign commercial banks specializing in financing the productive sectors have opened their doors during the past two years (EMIX Bank of Tanzania and Banque Fédérale de Commerce). The BCC will endeavor to contain the potential risks that could arise with the entry of these new foreign banks by strengthening the modalities of cooperation with the banks' home country supervisors. A memorandum of understanding with home country supervisors of newly licenses foreign banks has been finalized. In keeping with the decree of July 2004 authorizing the BCC supervision of microfinance institutions (MFIs), it has reinforced the supervision program for these institutions, which have experienced a rapid growth in recent years.[1] By end-March 2010, the government intends to complete preparation of a strategy for refocusing the activities of the National Financial and Postal Services Company (SNPSF). The strategy is aimed primarily at limiting its activities to saving deposit taking and money transfers, as well as extending the new postal checking service to a larger public.

30. To combat money laundering and the financing of terrorism, a law was adopted in 2004 to implement the rules derived from the United Nations conventions and resolution and the 40 FATF recommendations. The government has updated the legislation and secured its

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[1] By the end of their first year of operations in 1997, the two MFIs networks had created 39 funds on the three islands, collected more than CF 360 million in deposits, and distributed CF 320 million in credits. At end-2008, deposits collected had increased to CF 10.4 billion, and distributed credits had reached CF 4.2 billion (22 percent of total credit to the private sector).

approval by Parliament. In addition, the government has terminated the operation of illegal offshore banking centers.

31. To provide reasonable assurance that the central bank's legal structure, its control, accounting, reporting and auditing systems are adequate to manage resources, including IMF disbursements, the government is participating in a Safeguards Assessment undertaken by the IMF. Considerable progress has been made by the BCC in implementing the principal recommendations of the 2007 Safeguards Assessment. A new evaluation is under way and should be completed before the first review in the first half of 2010 under the requested PRGF arrangement.

F. External Debt Relief and Management

32. The government is committed to enhance its efforts to regularize its relations with its external creditors. It intends to discharge is external debt service obligations within the deadlines and considerably improve its debt management capacity and organization. We have reached understandings with our creditors, except major multilaterals, on the arrears situation concerning the external debt as at end-December 2008, and have obtained an extension on the debt corresponding to fiscal year 2009 due to our creditors other than the main multilateral donors. Pending approval of our country's eligibility for debt relief at the decision point under the enhanced HIPC initiative, we are committed to honor in a timely manner all the obligations due to these creditors.

33. The government is very much aware of the need for prudent debt management. Any government or government-guaranteed external borrowing will be subject to prior approval by the Finance Minister of the Union, and the autonomous island governments may under no circumstances contract or guarantee external loans. Moreover, for the full duration of the three year program, the government will not contract or guarantee any nonconcessional or short-term external debt, as defined in the Technical Memorandum of Understanding (TMU). The government will also consult closely with the IMF staff for any external debt contracted or guaranteed on concessional terms in excess of US$20 million.

G. Enhancing the Investment Climate

34. With the support of the World Bank Group, the African Development Bank, and other donors, the government has resumed the program for restructuring and possible divestment of public enterprises. In this context, the boards of directors of these entities will be established by end-December 2009. After having introduced the regulatory framework to allow private participation in the telecommunications sector with the advice of the International Telecommunications Union, the government passed a law dismantling the state monopoly. To carry out the reform of public enterprises, it requested and obtained the assistance of the International Finance Corporation (IFC), which is slated by end-September to complete preparation of the reform strategies, including possible privatization and the

introduction of competition for the Comoros Hydrocarbons Corporation and the telecommunications company (Comores Telecom). The implementation of these strategies is begin on January 1, 2010. The government also requested technical support from the African Development Bank to prepare a similar strategy for the electricity utility, MAMWE. This strategy will be finalized by the end of 2009 and implementation will begin in the first quarter of 2010. The government also plans to allow private sector participation in the importation of rice. Finally, it reaffirms its commitment not to interfere in the price-setting and marketing mechanisms for export crops: vanilla, cloves and ylang-ylang. In general, the government will refrain from pursuing and pricing policies liable to hinder the production and supply of market goods and services.

35. Improvements in the investment climate is one of the main priorities of government action. It makes it possible to attract foreign investment and encourage a shift in the use of large remittances from consumption to growth-oriented investment. To support this, the government has passed a new Investment Code and developed a one-stop shop for investors. It has also defined the legal procedures facilitating recourse to the courts when necessary.

36. The government has begun an extensive program of external trade liberalization. High specific import duties on key commodities have been converted into domestic excise taxes, and ad valorem tariff rates reduced to a new maximum of 20 percent. Pursuing efforts aimed at simplifying and further reducing import duties, the government has fully subscribed to the commitments resulting from the Comoros' joining the regional free trade area (COMESA). These include eliminating exemptions and the forfeit regime for multiple cargo imported containers. Based on a diagnostic trade integration study, the government identified the sectors for greatest export potential and outlined constraints to trade development. The reforms needed to remove these obstacles constitute an essential component of our three-year program.

37. The government is committed to an extensive program to promote good governance, including public service reform, judicial reform and increased transparency. With technical assistance from the EU, it will review and reform, by end-June 2010, its public procurement procedures with a view to making them fully transparent and open to competition. Following the adoption by the National Assembly of the organic laws on the justice system, the Supreme Court, and the status of magistrates, the government will launch, starting in 2010, extensive reforms of the judiciary, and strengthen the powers of the courts as part of the interim PRSP action plan. The government has requested the support of its development partners, including from France and the UNDP, to help in the implementation of the action plan for justice aimed at improving the quality of the judicial system. With the support of the World Bank, the ADB, France, the EU, and several UN agencies, it also intends to develop a program to improve governance, which should be finalized by end-March 2010.

H. Statistics

38. The government is determined to continue its efforts to improve its database of socio-demographic and macroeconomic data needed to design and monitor is development policy . The government plans to submit a request to donors by end-March 2010 for technical assistance for a comprehensive review of the statistical apparatus, most notably for fiscal and balance of payment statistics. This review will serve as a basis for setting up a medium-term action and reform plan for the sector. With support from the World Bank the government will undertake to strengthen its statistical capacity, taking into account the governments decentralization. Efforts will be directed at the development of framework**s** for compiling, collecting, and disseminating data from the islands, regular data dissemination, and the training of statistical officers.

I. Program Monitoring

39. The first year of the program covers the twelve months from July 1, 2009 to June 30, 2010. It will be monitored using the quarterly quantitative benchmarks and structural benchmarks, as well as the semi-annual quantitative performance criteria presented in Tables 1 and 2. The latter also includes the prior actions for seeking approval for the PRGF arrangement. The definitions of quantitative performance criteria and benchmarks are provided in the attached TMU. We expect the first review to be completed by mid-March 2010 and the second review to be completed by mid-September 2010.To secure the participation of the Union and the three territorial entities in program implementation, the government will enhance the instruments of the four-party Budgetary Committee created to monitor the program, and will ensure that the it functions properly. The committee is made up of the Commissioners from the three islands and the Union or their deputies. On a technical level, the Treasurers-Paymasters General of each entity will take part in monitoring the operations of the special account (payments and appropriations), to ensure transparent management and mutual agreement with respect to redistribution among the entities.

Table 1. The Comoros: Quantitative Performance Criteria, Benchmarks and Indicative Targets Under the proposed PRGF [1]

July - June 2010

(In millions of Comorian francs, cumulative since end-December 2009, unless otherwise specified)

	2009 [2]			2010 [2]	
	Jun.	Sep.	Dec.	Mar.	Jun.
	Proj.	Indicative Target	PC	Indicative Target	PC
Performance Criteria					
1. Ceiling on net credit to government (NCG) [3]	-1,103	588	1,142	-391	753
2. Ceiling on the net accumulation of domestic payments arrears	-8	-780	-1,300	-159	-319
3. Ceiling on new nonconcessional external debt contracted or guaranteed by the government [4]	0	0	0	0	0
4. Ceiling on new short-term external debt contracted or guaranteed by the government [4]	0	0	0	0	0
5. Ceiling on accumulation of external debt service arrears	-1,018	0	0	0	0
Quantitative Benchmarks					
6. Floor on the domestic primary balance	1,555	-2,143	-2,970	-1,421	-2,035
7. Floor on total domestic revenues	12,715	18,124	25,975	5,232	11,801
8. Ceiling on expenditures by cash advances [5]		300	500	100	150

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

[2] 2009 cumulative from January 1, 2009. 2010 cumulative from January 1, 2010.

[3] NCG target is based on end-December 2008; unlike in the monetary survey it includes net PRGF purchases.

[4] Excluding trade credits.

[5] Cumulative from July 1, 2009 (for September and December 2009) and from January 1, 2010 (for March and June 2010).

Table 2. Comoros: Proposed Prior Actions, and Structural Benchmarks
Under the PRGF Arrangement, 2009–10

Measures	Macro-criticality justification	Date
Prior actions		
Agreements with relevant creditors on rescheduling of external payments arrears and deferment of 2009 debt payment to non-IMF/World Bank/AfDB creditors		
Formal government request for African Development Bank assistance in the reform of the electricity parastatal (MA-MWE)		
Structural benchmarks		
Maintaining a flexible petroleum price-fixing mechanism	Allowing reliable supply of petroleum products and limit subsidy pressures	Continuous
Completion of IFC-approved reform strategies for Comores Telecom and Societe Comorienne des Hydrocarbures	Improve provision of growth-supporting public utilities	September 30, 2009
Appointing the Permanent Secretary for the reform-monitoring committee (CREF)	Strengthen macroeconomic reform coordination	September 30, 2009
Government approval of a strategy for clearance of domestic payments arrears	Orderly clearance of past domestic obligations	October 31, 2009
Government approval of a comprehensive medium-term PEM reform strategy	Enhance expenditure allocation and productivity	December 31, 2009
Government approval of a medium-term strategy to improve revenue mobilization	Promote fiscal consolidation through stronger revenue mobilization	December 31, 2009
Government approval of the final PRSP		December 31, 2009
Full computerization of civil servant payment roster and adequate staffing of the unit monitoring wage payments.	Support fiscal consolidation by improving control of the wage bill	March 31, 2010
Submitting a draft law to parliament that sets the organic frameworks for the island ministries in line with the recommendations of the High Authority for the Public Administration (Haute Autorité de La Fonction Publique).	Rightsizing the civil service to achieve medium-term budget viability	March 31, 2010

ATTACHMENT 2

UNION OF THE COMOROS

Technical Memorandum of Understanding

Moroni, August 11, 2009

40. This technical memorandum of understanding (TMU) defines the quantitative and structural performance criteria and benchmarks to monitor the implementation of the program supported by the three-year arrangement under the Poverty Reduction and Growth Facility. It also describes the reporting requirements under that program.

I. DEFINITION

41. Unless otherwise specified below, “the government” is meant to include the government of the Union of the Comoros and the governments of the three autonomous islands. Local Governments, the central bank, or any government-owned entity with separate legal personality are excluded from the definition of government. The units covered under this definition of government are consolidated for the needs of the program.

II. QUANTITATIVE PERFORMANCE CRITERIA

42. Quantitative performance criteria are proposed for December 31, 2009 and June 30, 2010 with respect to change in net domestic credit to the government (NCG) and net accumulation of domestic payment arrears of government; with benchmarks for September 30, 2009 and March 31, 2010. The following performance criteria are proposed for monitoring on a continuous basis: (i) the external debt service payments arrears of the government; (ii) the contracting or guaranteeing of new non concessional external debt by the government; and (iii) the contracting or guaranteeing of new short-term external debt.

A. Change in Net Domestic Credit to the Government

Definitions

43. Net domestic credit to the government is defined as overall net credit extended to the government from domestic bank and non-bank sources. Net bank credit to the government reflects the net debit position of the government vis-à-vis the central bank, commercial banks and the National Postal and Financial Services Company (SNPSF), as well as microfinance institutions. It is the difference between the government’s gross indebtedness to the banking system and its claims on the banking system. These government claims include all deposits at the central bank and commercial banks, as well as Treasury cash holdings. The government’s debt to the banking system includes central bank credit (statutory advances as well as any long-term credit, and IMF net credit) and commercial bank credit, as well as net deposits at

the SNPSF. Domestic non-bank credit to the government includes changes in the stock of Treasury bills placed in the domestic market, and privatization receipts, as well as any other domestic financial debt of the government held outside the banking sector, other than arrears, that may arise.

44. The change in net domestic credit to the government as of the date for the quantitative performance criterion or benchmark is defined as the difference between the stock on the date indicated and the stock on December 31, 2008 for 2009, and for 2010 the difference between the stock on the date indicated and the stock on December 31, 2009.

Performance criteria

45. The amounts set in Table 1 of the MEFP on Net Credit to Government for December 31, 2009 and June 30, 2010 are ceilings and constitute performance criteria. The amounts set in the above table for September 30, 2009 and March 31, 2010 are ceilings and constitute indicative targets.

Reporting requirements

46. The BCC will report the provisional data on the net bank credit to the government to Fund staff on a monthly basis, with a lag of no more than 45 days after the end of each observation period. Final data will be reported with a maximum lag of two months. The Ministry of finance will report on a monthly basis, any financing from non-bank sources.

B. Domestic Payment Arrears

Definition

47. New domestic payments arrears of the government are defined as any of the following: i) Any bill that has been received by the spending ministry from a supplier of goods and services, delivered and verified and for which, payment has not been made within 90 days after the date the payment order (*ordonnancement*) was cleared; (ii) in the case of specific contracts between the suppliers and the government, any bill received and not paid on the due date stipulated in the contracts; (iii) tax credits confirmed by the proper authorities after review, and not paid within 60 days from the date when the payment order was issued; (iv) wages and salaries and any payment to a government employee that were due to be paid in a given month but remained unpaid on the 15th day of the following month.

Performance criteria

48. Under the program, the government will not accumulate any new net domestic payments arrears. The amounts set in Table 1 of the MEFP on Net Accumulation of Domestic Arrears for December 31, 2009 and June 30, 2010 are ceilings and constitute

performance criteria. The amounts set in the above table for September 30, 2009 and March 31, 2010 are ceilings and constitute quantitative benchmarks.

Adjuster

49. If external budget support is less that expected, the floor on the reduction of domestic payment arrears will be lowered by the full amount of the shortfall. In the case of surplus in external budget support, the floor on the net reduction of domestic arrears will be raised by the full amount of the surplus. Cumulative from July 1, 2009, the program assumes external budget support of CF 4,6 billion by end-September 2009, CF 6 billion by end-December 2009, CF 1.4 billion by end-March 2010 and CF 2 billion by end-June 2010.

Reporting requirements

50. The authorities will report to Fund staff any accumulation of domestic payments arrears as defined above as soon as incurred as well as the status of outstanding balances (*restes à payer*) of the treasury.

C. External Payments Arrears

Definition

51. External payments arrears are defined as the sum of payments due but unpaid on outstanding external debt (for a definition of external debt, see ¶16) that has been contracted or guaranteed by the government, with the exception of external payment arrears arising from government debt being renegotiated with creditors including Paris Club creditors.

Performance criterion

52. Under the program, the government will not accumulate any external payments arrears with respect to public debt, except for payments related to renegotiations with creditors, including the Paris Club. This performance criterion will be monitored on a continuous basis.

Reporting requirements

53. The government will report to Fund staff any accumulation of external payments arrears as soon as the due date has been missed. It will provide each month with a maximum lag of 15 days, a table showing external debt service due (after rescheduling) and paid.

D. Ceiling on the Contracting or Guaranteeing of New Non concessional External Debt and Short-Term Debt by the Government

Definition

54. These performance criteria apply not only to debt as defined in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 6230-(79/140), last amended by Executive Board Decision No. 12274-(00/85), adopted August 24, 2000, but also to commitments contracted or guaranteed by the government for which value has not been received.

55. Short-term debt refers to external debt with a contractual maturity of less than one year. The external debt refers to debt owed to non-resident.

56. The definition of debt—as specified in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt—reads as follows: "(a) For the purposes of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, including: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in point 9(a), arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

57. Any external debt of which the present value, calculated with the reference interest rates mentioned hereafter, is superior to 50 percent of the nominal value (grant element of less than 50 percent) is considered nonconcessional, with the exception of IMF lending under

the Poverty Reduction and Growth Facility, which is considered concessional even if it does not meet the 35 percent grant element threshold. For debt with a maturity of more than 15 years, the ten-year reference market interest rate, published by the OECD, is used to calculate the grant element. The six-month reference market rate is used for debt with shorter maturities.

58. For the purposes of this performance criterion, government is understood to include the government (as defined in ¶2 above), as well as local administrations, public institutions of an industrial and commercial nature (EPIC), public administrative institutions (EPA), public enterprises, and government-owned or controlled independent companies (i.e. public enterprises with financial autonomy of which the government holds at least 50 percent of the capital).

Performance criterion

59. The government as defined in ¶19 will not contract or guarantee nonconcessional nor short-term external debt as defined above. These performance criteria are monitored on a continuous basis. It does not apply to: debt rescheduling and restructuring operations. In addition, import-related credit and pre-export financing secured on export contracts of less than one year maturity, are excluded from the performance criteria on short-term debt.

Reporting requirements

60. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government.

III. Quantitative Benchmarks

A. Domestic Primary Balance

Definition

61. The consolidated domestic primary fiscal balance (payments order basis) is calculated as total government revenue (defined below), excluding foreign grants, less expenditure, excluding interest payments, and foreign-financed technical assistance and investment expenditure.

Quantitative Benchmarks

62. The benchmarks for the floor on the domestic primary fiscal balance, cumulative from the beginning of the 2009 calendar year, are set at CF -2,14 billion for September 30, 2009, CF -2.97 billion for December 31, 2009. Cumulative from the beginning of the 2010 calendar year, they are set at CF -1.42 billion for March 31, 2010, and CF - 2.04 billion for June 30, 2010.

Reporting requirements

During the program period, data on the domestic primary fiscal balance (payment order basis) will be forwarded monthly by the Ministry of Finance and the Budget of the Union government within 30 days following the end of each month.

B. Government Revenue

Definition

63. Government revenue is defined as reported in the consolidated government financial operations table (TOFE), and includes all tax and non-tax receipts and excludes external grants.

Quantitative Benchmarks

64. The floor on government revenue, cumulative from the beginning of the 2009 calendar year, is set at CF 18.12 billion for September 30, 2009 and CF 25.98 billion for December 31, 2009. Cumulative from the beginning of the 2010 calendar year, it is set at CF 5.23 billion for March 31, 2010 and CF 11.80 billion for June 30, 2010. These amounts are considered benchmarks under the program, for the respective dates.

Reporting requirements

65. The Ministry of Finance will report to Fund staff preliminary revenue data monthly, with a lag of no more than 45 days, on the basis of actual collections as recorded in treasury accounts. Final data will be provided once the final treasury accounts are available, but not later than two months after the reporting of preliminary data.

C. Expenditures Made by Cash Advances

Definition

66. Expenditures made by cash advances include all expenditures paid without prior commitment order.

Quantitative Benchmarks

67. Responsibility for achieving the ceiling on expenditures outside of normal procedures rests with both the Union government and island authorities. The ceiling on expenditures made outside of normal procedures, cumulative from July 1, 2009 is set at CF 300 million at September 30, 2009; CF 500 million at December 31, 2009; and cumulative from January 1, 2010 is set at CF 100 million at end-March 2010; and CF 150 million at end-June 2010.

Reporting requirements

68. Data on expenditures made outside of normal procedures will be forwarded monthly by the Ministry of Finance of the Union government within 30 days following the end of each month.

IV. Additional Information for Program Monitoring

69. The authorities will report to Fund staff the following information and data according to the schedule provided, either directly (e-mail or facsimile) or by airmail. Barring any agreement to the contrary, the data will take the form mutually agreed by the authorities and the IMF. The fiscal data, monetary data, external debt data, the consumer price index, and any information on important legislative and/or other developments will be provided not later than 45 days after the date to which they pertain.

Monthly

The monetary survey, and the monthly balance sheets of the BCC and commercial banks;

Classification of commercial bank loans by economic sector;

Interest rates;

TOFE data on a cash and payments order basis, the related detailed tables on revenue and a table showing the link between the payments order and cash basis for expenditures;

External public debt operations (debt contracted and publicly guaranteed, settlement of external payments arrears, and debt service paid, broken down between interest and principal);

Consumer price index; and

Imports and exports, production of electricity, tourist arrivals, and any other indicators of economic activity that may be available on a monthly basis.

Quarterly

Production of major products (vanilla, cloves, ylang-ylang)

Annually

- National accounts data
- Balance of payments

70. Moreover, information on important measures adopted by the government in the economic and social areas that would have an impact on program developments, changes in legislation, and any other pertinent legislation will be reported to Fund staff on a timely basis.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

UNION OF THE COMOROS

Joint IMF/World Bank Debt Sustainability Analysis 2009

Prepared by the staffs of the International Monetary Fund and
the International Development Association

Approved by Roger Nord and Dominique Desruelle (IMF) and
Carlos Braga and Sudhir Shetty (IDA)

August 28, 2009

Comoros is in debt distress. *The low-income country debt sustainability analysis (LIC DSA) shows that Comoros remains in debt distress under the baseline. For illustrative purposes, the alternative scenario assumes a hypothetical access to HIPC/MDRI debt relief within the next 3 years. Under such circumstances, debt becomes manageable*[5]

[5] This is an update of the December 2008 DSA prepared for Comoros using the debt sustainability framework for low-income countries developed jointly by the IMF and the World Bank. The 2008 DSA was prepared at the time of the last IMF Article IV consultation with Comoros (Country Report No. 09/42). The 2009 DSA is based on external and public debt data from the Comorian authorities, and on IMF and World Bank staff estimates; it was produced jointly by Fund and Bank staffs following "Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries (LICs)," October 06, 2008 – http://www-int.imf.org/depts/pdr/Debt/Debt-Sustainability/Low-Income-Country-DSA/SM08317andCorr1.pdf and http://siteresources.worldbank.org/INTDEBTDEPT/PolicyPapers/21952151/39748MainExt.pdf

1. **Macroeconomic assumptions underlying this LIC-DSA update are broadly unchanged from those in the December 2008**. The update assumes a somewhat stronger export performance, a more modest rate of increase in remittances, and a slower rate of improvement in the domestic primary balance.

2. **The main results of the updated DSA are similar to those of the end-2008 exercise**. The analysis shows in particular that Comoros remains in debt distress, as evidenced by recurrent arrears accumulation and prolonged breaches of the NPV of debt and debt service thresholds. As in the previous DSA, under the baseline scenario the NPV of external debt-to-exports ratio is above country-specific indicative thresholds for most of 2009–24.

3. **An alternative scenario that assumes HIPC/ MDRI debt relief points to a significant improvement of the debt outlook.** The debt dynamics under the HIPC/ MDRI debt relief scenario would be sustainable under a variety of stress tests. Under the most extreme test[6], the PV of debt-to-GDP, debt-to-exports, and debt-to-revenues ratios are breached, but the trajectories revert to below the thresholds much faster compared to the baseline without debt relief. After the shock, the NPV of debt would decline to 59 percent of exports after 2029; and the debt service ratios would remain below relevant thresholds throughout the horizon.

4. **The public DSA does not change the above assessment.** However, under the alternative scenario, higher revenues and spending restraint will permit achievement of a small primary fiscal surplus, anchoring fiscal consolidation and permitting a gradual reduction of domestic arrears. Both the NPV and debt service ratios recede faster towards the end of the projection period than at the beginning, reflecting the combined impact of primary budget surpluses in the later years as well as repayment of the bulk of principal obligations becoming due to larger creditors (IDA and AfDB).

5. **The debt dynamics are vulnerable to lower real GDP growth and lower export growth.** Figures 4 shows that even under a HIPC/MDRI scenario, the continuation of the historical growth trend (average annual GDP growth of 2 percent versus an average of close to 4 percent projected for the next two decades) would result in a steady convergence of debt indicators back to current levels. These vulnerabilities underscore the importance of export diversification and continued reform efforts.

[6] One standard deviation shock to the historical average of net transfers and net FDIs (i.e. net non-debt creating flows).

Appendix II Box 1. Macroeconomic Assumptions

Real GDP growth: GDP growth in 2009 is projected to stagnate at 1 percent, with a sustained recovery projected to start in 2010 from a growth rate of 1.5 percent, accelerating gradually to a peak of 4 percent in 2013. For the period of 2014–28, real GDP growth rate averages 4 percent, close to the rate registered in 2005 following the previous secessionist crisis. Growth during the recovery phase through 2012 would be underpinned by a good agricultural supply response to higher food prices, renewed consumer and investor confidence and enhanced political stability; stable terms of trade; and new FDI-led investments, especially in tourism and public infrastructure. Longer-term growth would be driven by enhanced investment in key sectors and by structural reforms under the PRGF aimed at enhancing competitiveness.

Inflation: end-2009 inflation is projected to decline to 2.3 percent from a high 7.4 percent in 2008, as pressures on oil and food prices recede. In the absence of significant second round effects, inflation will settle at about 3 percent over the longer-term horizon.

Real exchange rate and terms of trade: After a modest appreciation in 2008-2009, the real effective exchange rate is projected to be broadly stable throughout the remainder of the projection period; the terms of trade are expected to recover from the 2008 deterioration, and are projected to remain broadly stable thereafter.

Remittances: remittances, on average, are projected to converge to the historical norm of 14.5 percent of GDP during 2013-2029 from 19 percent of GDP in 2009, following an unusually strong growth in 2008.

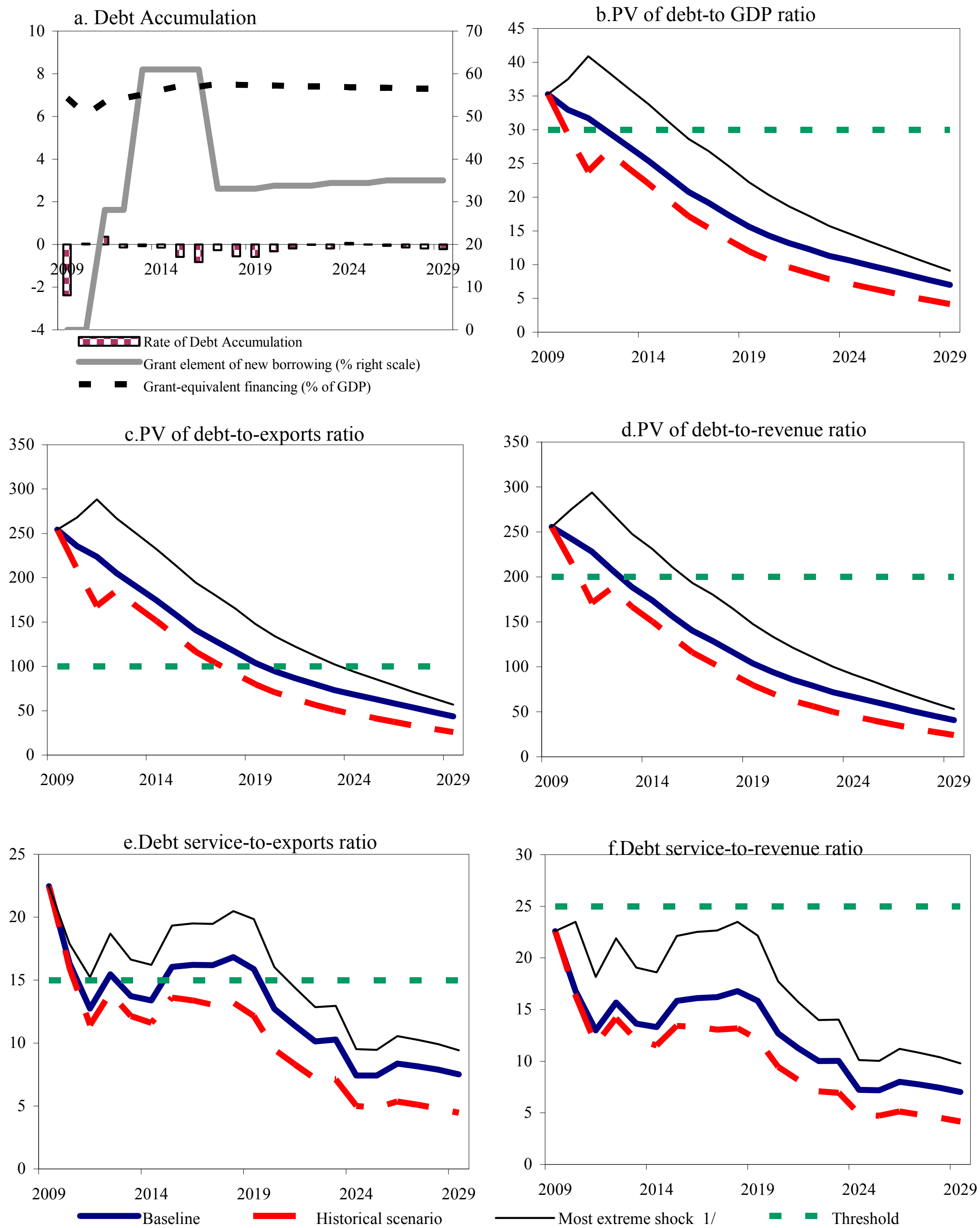
Current account balance: The current account deficit (including official transfers) is projected to narrow from 11.3 percent of GDP in 2008 to 8 percent in 2009 as the terms of trade improve slightly. For the next seven year (2010-2016), the current account balance would average about 10 percent of GDP due mainly to strong import growth (especially for investment) outpacing exports, before improving to an average of about 6 percent over the reminder of the projection period. Service export is expected to pick up steadily at an annual average of 10 percent, in response to improved hotel infrastructure when the Galawa and other tourism resorts are completed, compared with 5 percent during 1998–2007.

Government balance: The primary balance (total revenue and grants less non-interest expenditure) is projected to improve -1.6 percent of GDP in 2009 from a deficit of 2.7 percent in 2008, and to gradually move into surplus beginning in 2016, as revenue collection improves and more efforts are made to maintain spending under control.

External assistance, scaling up and concessionality: The framework assumes that up to 2012 external assistance will be mostly in the form of grants, averaging about 7 percent of GDP. Over the long-term (2012–29) further assistance will be available, in adequate terms, including from IDA and AfDB.

Domestic borrowing: The scenario assumes no new medium to long-term domestic borrowing beyond Central Bank's short-term cash advances to the treasury.

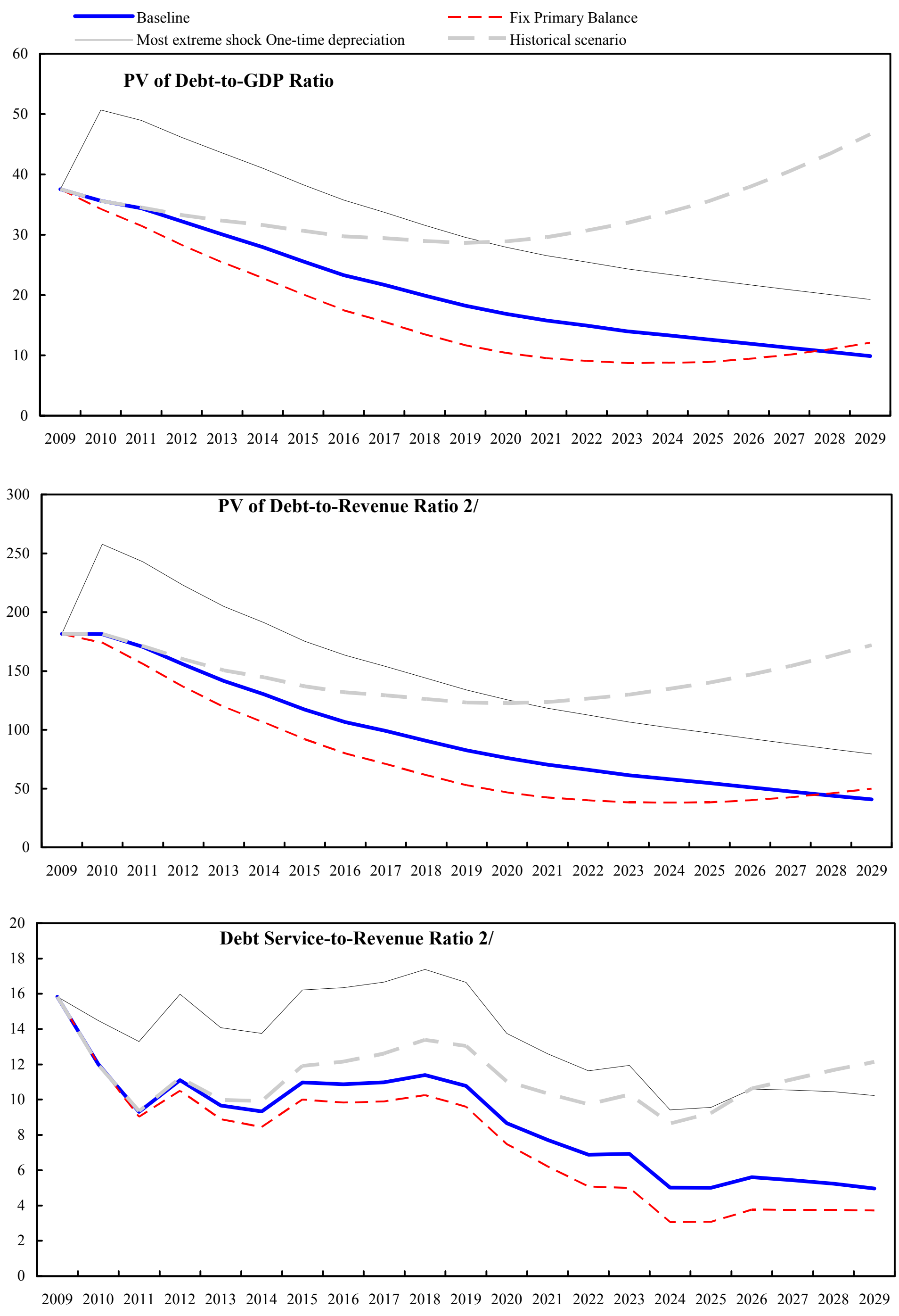
Appendix II Figure 1. Comoros: Indicators of Public and Publicly Guaranteed External Debt, Baseline with PRGF only (152.5 percent of quota) Scenario, 2009-2029 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows shock; in d. to a Non-debt flows shock; in e. to a Exports shock and in picture f. to a One-time depreciation shock

Appendix II Figure 2. Comoros: Indicators of Public Debt, Baseline with PRGF only (152.5 percent of quota) Scenario, 2009-2029 1/

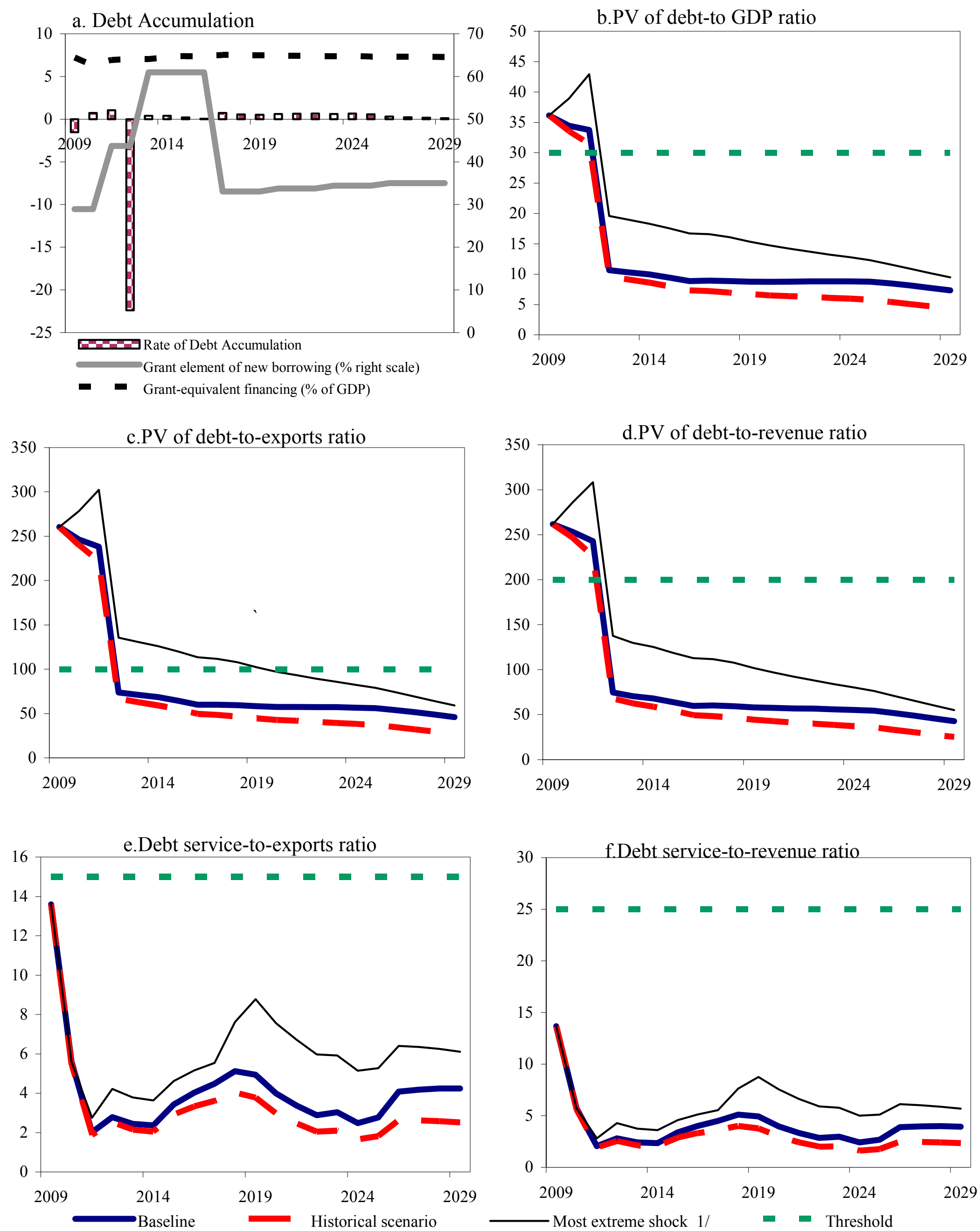


Sources: Country authorities; and Fund staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019.

2/ Revenues are defined inclusive of grants.

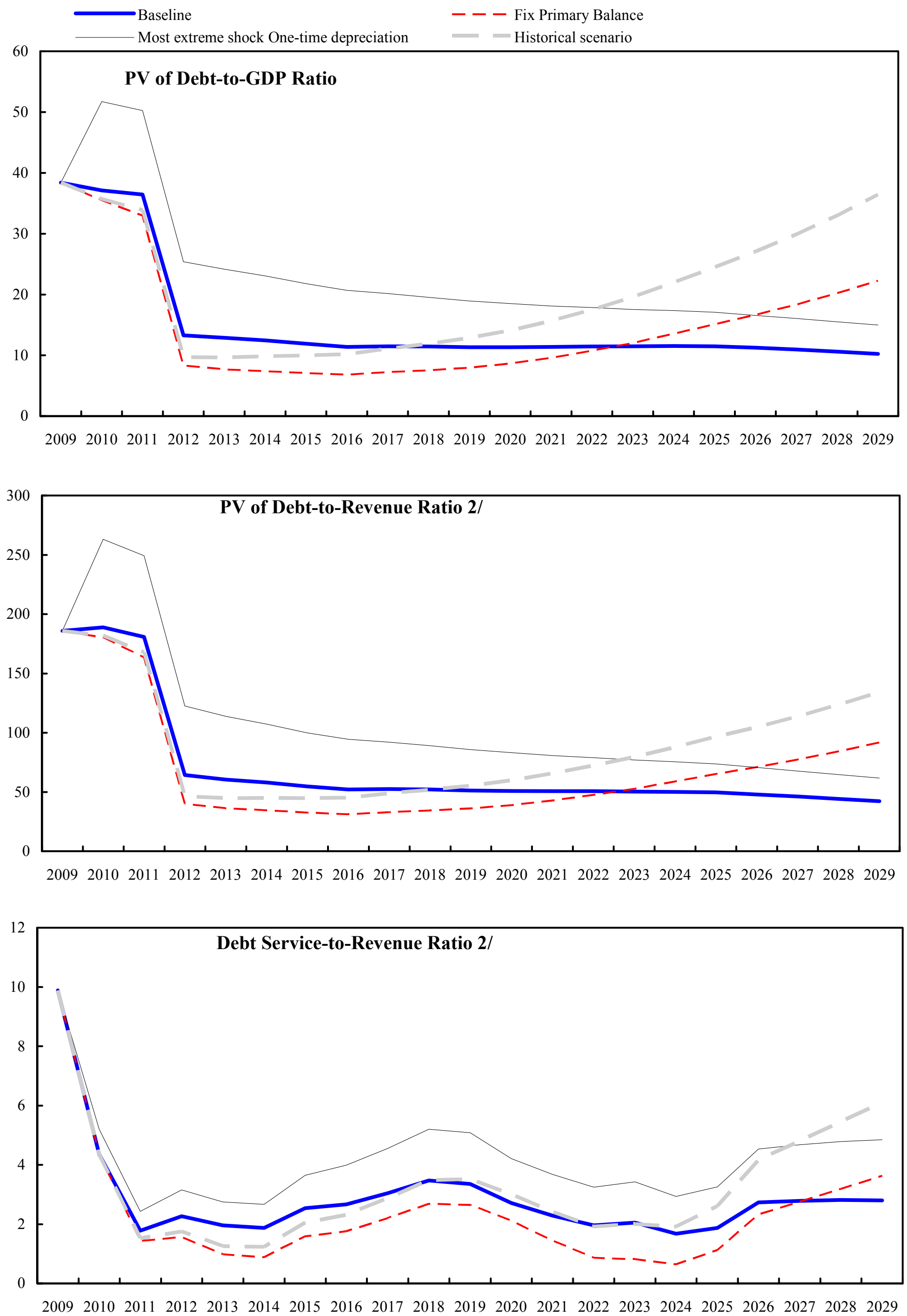
Appendix II Figure 3. Comoros: Indicators of Public and Publicly Guaranteed External Debt under the Alternative PRGF (152.5 percent of quota) and HIPC/MDRI Scenarios, 2009-2029 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows shock; in d. to a Non-debt flows shock; in e. to a Non-debt flows shock and in picture f. to a Non-debt flows shock

Appendix II Figure 4. Comoros: Indicators of Public Debt Under the Alternative PRGF (152.5 percent of quota) and HIPC/MDR Scenarios, 2009-2029 1/



Sources: Country authorities; and Fund staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2019.
2/ Revenues are defined inclusive of grants.

Appendix II Table 1a.: External Debt Sustainability Framework, Baseline with PRGF only (152.5 percent of quota) Scenario, 2006-2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 0	Standard Deviation	Projections									
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2029	2015-2029 Average
External debt (nominal) 1/	**69.8**	**57.6**	**54.3**			**48.5**	**45.7**	**43.8**	**41.0**	**37.5**	**34.1**		**20.4**	**9.6**	
o/w public and publicly guaranteed (PPG)	69.8	57.6	54.3			48.5	45.7	43.8	41.0	37.5	34.1		20.4	9.6	
Change in external debt	-1.4	-12.2	-3.3			-5.7	-2.9	-1.9	-2.8	-3.5	-3.3		-2.2	-0.8	
Identified net debt-creating flows	3.1	-4.2	2.6			5.9	8.1	7.4	7.0	6.8	7.1		6.3	5.6	
Non-interest current account deficit	**5.5**	**6.3**	**10.7**	**3.5**	**4.3**	**6.1**	**9.3**	**9.8**	**9.5**	**10.2**	**10.3**		**8.4**	**5.9**	7.7
Deficit in balance of goods and services	24.4	26.9	33.7			28.7	28.8	29.0	28.5	28.7	27.8		23.2	16.9	
Exports	14.2	14.8	14.0			13.9	14.0	14.2	14.4	14.5	14.5		15.0	16.0	
Imports	38.6	41.6	47.7			42.6	42.7	43.2	42.9	43.2	42.4		38.2	32.9	
Net current transfers (negative = inflow)	-18.3	-19.8	-22.2	-16.3	3.2	-21.1	-18.7	-18.7	-18.4	-18.0	-17.2		-14.6	-11.0	-13.5
o/w official	-1.6	-2.8	-2.8			-2.0	-0.5	-0.5	-0.6	-0.6	-0.6		-0.6	-0.6	
Other current account flows (negative = net inflow)	-0.7	-0.8	-0.8			-1.5	-0.8	-0.5	-0.6	-0.5	-0.4		-0.2	0.1	
Net FDI (negative = inflow)	**-0.2**	**-1.6**	**-1.4**	**-0.5**	**0.5**	**-1.7**	**-1.7**	**-1.9**	**-1.8**	**-2.5**	**-2.4**		**-1.7**	**-0.4**	-1.3
Endogenous debt dynamics 2/	**-2.2**	**-8.9**	**-6.7**			**1.5**	**0.4**	**-0.5**	**-0.7**	**-0.8**	**-0.8**		**-0.3**	**0.0**	
Contribution from nominal interest rate	0.6	0.4	0.5			2.1	1.1	0.6	0.8	0.7	0.6		0.5	0.4	
Contribution from real GDP growth	-0.8	-0.3	-0.5			-0.6	-0.7	-1.1	-1.4	-1.5	-1.4		-0.8	-0.4	
Contribution from price and exchange rate changes	-1.9	-9.0	-6.7			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-4.5**	**-8.0**	**-5.9**			**-11.6**	**-10.9**	**-9.3**	**-9.8**	**-10.4**	**-10.5**		**-8.5**	**-6.4**	
o/w exceptional financing	0.0	-4.6	-0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	36.7			35.2	33.0	31.7	29.6	27.5	25.4		15.6	7.0	
In percent of exports	...	...	262.9			254.1	235.7	223.6	205.1	189.9	174.8		104.1	43.7	
PV of PPG external debt	**...**	**...**	**36.7**			**35.2**	**33.0**	**31.7**	**29.6**	**27.5**	**25.4**		**15.6**	**7.0**	
In percent of exports	**...**	**...**	**262.9**			**254.1**	**235.7**	**223.6**	**205.1**	**189.9**	**174.8**		**104.1**	**43.7**	
In percent of government revenues	**...**	**...**	**279.5**			**255.4**	**242.3**	**228.1**	**207.8**	**188.5**	**173.8**		**104.0**	**40.7**	
Debt service-to-exports ratio (in percent)	**13.1**	**11.4**	**12.8**			**22.5**	**16.3**	**12.7**	**15.5**	**13.7**	**13.4**		**15.9**	**7.5**	
PPG debt service-to-exports ratio (in percent)	**13.1**	**11.4**	**12.8**			**22.5**	**16.3**	**12.7**	**15.5**	**13.7**	**13.4**		**15.9**	**7.5**	
PPG debt service-to-revenue ratio (in percent)	**13.7**	**13.3**	**13.6**			**22.6**	**16.8**	**13.0**	**15.7**	**13.6**	**13.3**		**15.8**	**7.0**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.0	0.1			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Non-interest current account deficit that stabilizes debt ratio	6.9	18.5	14.0			11.8	12.2	11.7	12.3	13.7	13.6		10.5	6.7	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.2	0.5	1.0	2.0	1.5	1.0	1.5	2.5	3.5	4.0	4.0	2.8	4.0	4.0	4.0
GDP deflator in US dollar terms (change in percent)	2.8	14.8	13.2	7.7	9.8	-3.6	5.5	2.5	3.1	3.3	3.5	2.4	3.0	3.0	3.0
Effective interest rate (percent) 5/	0.9	0.6	1.0	1.0	0.2	3.8	2.4	1.4	1.9	1.8	1.8	2.2	2.4	4.3	3.0
Growth of exports of G&S (US dollar terms, in percent)	3.6	20.0	8.1	12.5	13.9	-3.3	7.9	6.6	8.6	7.8	8.0	5.9	8.1	7.8	7.8
Growth of imports of G&S (US dollar terms, in percent)	12.4	24.5	30.9	13.1	14.6	-13.1	7.4	6.1	6.1	7.9	5.7	3.4	5.1	6.0	5.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	0.0	0.0	28.1	28.1	61.0	61.0	29.7	33.1	35.0	37.7
Government revenues (excluding grants, in percent of GDP)	13.6	12.7	13.1			13.8	13.6	13.9	14.3	14.6	14.6		15.0	17.2	15.7
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.1			0.0	0.0	0.0	0.0	0.0	0.1		0.1	0.1	
o/w Grants	0.0	0.0	0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			6.9	6.1	6.7	6.9	7.0	7.2		7.5	7.3	7.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			84.7	87.7	86.1	87.2	96.8	96.8		90.3	94.5	92.7
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.4	0.5	0.5			0.5	0.6	0.6	0.6	0.7	0.7		1.0	2.0	
Nominal dollar GDP growth	4.1	15.4	14.3			-2.6	7.0	5.1	6.7	7.4	7.6	5.2	7.1	7.1	7.2
PV of PPG external debt (in Billions of US dollars)			0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.2	0.1	
(PVt-PVt-1)/GDPt-1 (in percent)						-2.4	0.0	0.4	-0.1	-0.1	-0.1	-0.4	-0.6	-0.2	-0.3

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
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/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ 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).

Appendix II Table 1b.Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

										Projections											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio																					
Baseline	35	33	32	30	28	25	23	21	19	17	**16**	14	13	12	11	11	10	9	8	8	7
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	35	29	24	27	24	22	20	17	15	14	**12**	11	10	9	8	7	7	6	5	5	4
A2. New public sector loans on less favorable terms in 2009-2029 2	35	34	33	32	30	28	26	24	22	21	**19**	18	17	16	15	15	14	14	13	12	12
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	35	33	33	31	28	26	24	21	20	18	**16**	15	14	13	12	11	10	9	9	8	7
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	35	34	34	32	30	27	25	23	21	19	**17**	16	14	13	12	12	11	10	9	8	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	35	35	36	33	31	29	26	23	22	20	**18**	16	15	14	13	12	11	10	10	9	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	35	37	41	39	36	34	31	29	27	25	**22**	20	19	17	16	15	13	12	11	10	9
B5. Combination of B1-B4 using one-half standard deviation shocks	35	38	41	39	36	34	31	29	27	24	**22**	20	19	17	16	15	13	12	11	10	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	35	46	44	41	38	36	32	29	27	24	**22**	20	18	17	16	15	14	13	12	11	10
PV of debt-to-exports ratio																					
Baseline	254	236	224	205	190	175	158	141	129	116	**104**	94	87	80	73	68	63	58	53	49	44
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	254	209	168	185	168	151	134	117	104	91	**80**	70	63	57	51	46	42	37	33	30	26
A2. New public sector loans on less favorable terms in 2009-2029 2	254	241	236	223	208	194	178	161	148	138	**127**	118	112	106	100	96	92	87	82	78	73
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	254	236	224	205	190	175	158	141	129	117	**104**	94	87	80	73	68	63	59	54	49	44
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	254	264	282	260	241	223	202	182	166	151	**135**	123	113	104	95	88	81	75	68	62	55
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	254	236	224	205	190	175	158	141	129	117	**104**	94	87	80	73	68	63	59	54	49	44
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	254	268	288	267	250	232	214	194	180	165	**148**	134	123	112	102	94	86	79	71	64	57
B5. Combination of B1-B4 using one-half standard deviation shocks	254	269	288	267	249	232	213	193	179	164	**147**	133	121	111	101	93	86	78	71	64	57
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	254	236	224	205	190	175	158	141	129	117	**104**	94	87	80	73	68	63	59	54	49	44
PV of debt-to-revenue ratio																					
Baseline	255	242	228	208	188	174	156	140	129	116	**104**	94	86	79	72	67	61	56	51	46	41
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	255	215	171	188	167	150	132	116	104	91	**80**	70	62	56	50	45	40	36	32	28	24
A2. New public sector loans on less favorable terms in 2009-2029 2	255	248	241	226	207	193	176	160	148	138	**127**	118	111	105	98	93	89	83	78	73	68
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	255	245	235	214	194	179	161	145	133	120	**107**	97	88	81	74	69	63	58	52	47	42
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	255	248	243	222	202	187	169	153	141	128	**114**	103	94	86	78	72	67	61	55	49	44
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	255	261	257	234	212	196	176	158	145	131	**117**	106	97	89	81	75	69	63	57	51	46
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	255	275	294	270	248	231	211	193	180	165	**148**	134	121	111	100	91	84	75	67	60	53
B5. Combination of B1-B4 using one-half standard deviation shocks	255	278	295	272	249	232	211	193	180	164	**147**	133	121	110	100	91	84	75	68	60	53
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	255	339	319	291	264	243	218	196	180	163	**145**	132	120	110	100	93	86	78	71	64	57

Appendix II Table 1b.Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)

(In percent)

										Debt service-to-exports ratio											
Baseline	22	16	13	15	14	13	16	16	16	17	**16**	13	11	10	10	7	7	8	8	8	8
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	22	16	11	14	12	12	14	13	13	13	**12**	9	8	7	7	5	5	5	5	5	4
A2. New public sector loans on less favorable terms in 2009-2029 2	22	16	13	16	14	14	16	17	16	16	**16**	13	12	11	11	8	8	9	9	9	9
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	22	16	13	15	14	13	16	16	16	17	**16**	13	11	10	10	7	7	8	8	8	8
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	22	18	15	19	17	16	19	19	19	20	**20**	16	14	13	13	10	9	11	10	10	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	22	16	13	15	14	13	16	16	16	17	**16**	13	11	10	10	7	7	8	8	8	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	22	16	13	17	15	15	17	17	17	19	**20**	16	15	13	13	10	10	11	10	10	9
B5. Combination of B1-B4 using one-half standard deviation shocks	22	17	14	17	15	15	18	18	18	20	**20**	16	15	13	13	10	10	11	10	10	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	22	16	13	15	14	13	16	16	16	17	**16**	13	11	10	10	7	7	8	8	8	8
										Debt service-to-revenue ratio											
Baseline	23	17	13	16	14	13	16	16	16	17	**16**	13	11	10	10	7	7	8	8	7	7
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	23	16	12	14	12	12	13	13	13	13	**12**	9	8	7	7	5	5	5	5	5	4
A2. New public sector loans on less favorable terms in 2009-2029 2	23	17	13	16	14	14	16	17	16	16	**16**	13	11	11	11	8	8	9	9	8	8
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	23	17	13	16	14	14	16	17	17	17	**16**	13	12	10	10	7	7	8	8	8	7
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	23	17	13	16	14	14	16	16	16	17	**17**	14	12	11	11	8	8	9	8	8	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	23	18	15	18	15	15	18	18	18	19	**18**	14	13	11	11	8	8	9	9	8	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	23	17	14	17	15	15	17	17	17	19	**20**	16	15	13	13	10	10	10	10	9	9
B5. Combination of B1-B4 using one-half standard deviation shocks	23	17	14	18	15	15	17	18	18	20	**20**	16	15	13	13	10	10	10	10	9	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	23	23	18	22	19	19	22	23	23	23	**22**	18	16	14	14	10	10	11	11	10	10
Memorandum item:																					
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	38	38	38	38	38	38	38	38	38	38	**38**	38	38	38	38	38	38	38	38	38	38

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Appendix II Table 2a. The Comoros: External Debt Sustainability Framework, Under the Alternative PRGF (152.5 percent of quota) and HIPC/MDRI Scenario, 2006-2029 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Average 0	Standard Deviation	Projections									
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2029	2015-2029 Average
External debt (nominal) 1/	**69.8**	**57.6**	**54.3**			**48.5**	**45.7**	**43.8**	**21.0**	**19.8**	**18.7**		**15.0**	**10.7**	
o/w public and publicly guaranteed (PPG)	69.8	57.6	54.3			48.5	45.7	43.8	21.0	19.8	18.7		15.0	10.7	
Change in external debt	-1.4	-12.2	-3.3			-5.7	-2.9	-1.9	-22.8	-1.2	-1.1		-0.5	-0.6	
Identified net debt-creating flows	3.1	-4.2	2.6			5.8	8.1	7.4	7.0	7.6	7.8		6.6	5.5	
Non-interest current account deficit	**5.5**	**6.3**	**10.7**	**3.5**	**4.3**	**7.3**	**10.8**	**11.4**	**11.3**	**10.8**	**10.9**		**8.8**	**6.2**	8.0
Deficit in balance of goods and services	24.4	26.9	33.7			28.7	28.8	29.0	28.5	28.7	27.8		23.2	16.9	
Exports	14.2	14.8	14.0			13.9	14.0	14.2	14.4	14.5	14.5		15.0	16.0	
Imports	38.6	41.6	47.7			42.6	42.7	43.2	42.9	43.2	42.4		38.2	32.9	
Net current transfers (negative = inflow)	-18.3	-19.8	-22.2	-16.3	3.2	-21.1	-18.7	-18.7	-18.4	-18.0	-17.2		-14.6	-11.0	-13.5
o/w official	-1.6	-2.8	-2.8			-2.0	-0.5	-0.5	-0.6	-0.6	-0.6		-0.6	-0.6	
Other current account flows (negative = net inflow)	-0.7	-0.8	-0.8			-0.3	0.7	1.1	1.2	0.1	0.2		0.2	0.4	
Net FDI (negative = inflow)	**-0.2**	**-1.6**	**-1.4**	**-0.5**	**0.5**	**-1.7**	**-1.7**	**-1.9**	**-1.8**	**-2.5**	**-2.4**		**-1.7**	**-0.4**	-1.3
Endogenous debt dynamics 2/	**-2.2**	**-8.9**	**-6.7**			**0.2**	**-1.1**	**-2.0**	**-2.5**	**-0.8**	**-0.7**		**-0.5**	**-0.3**	
Contribution from nominal interest rate	0.6	0.4	0.5			0.8	-0.4	-0.9	-1.1	0.0	0.0		0.1	0.1	
Contribution from real GDP growth	-0.8	-0.3	-0.5			-0.6	-0.7	-1.1	-1.4	-0.8	-0.7		-0.6	-0.4	
Contribution from price and exchange rate changes	-1.9	-9.0	-6.7			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-4.5**	**-8.0**	**-5.9**			**-11.5**	**-11.0**	**-9.3**	**-29.8**	**-8.8**	**-8.9**		**-7.1**	**-6.2**	
o/w exceptional financing	0.0	-4.6	-0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	36.7			36.1	34.4	33.8	10.7	10.3	9.9		8.7	7.3	
In percent of exports	...	...	262.9			260.4	246.2	238.0	73.8	71.1	68.4		58.2	45.9	
PV of PPG external debt	**...**	**...**	**36.7**			**36.1**	**34.4**	**33.8**	**10.7**	**10.3**	**9.9**		**8.7**	**7.3**	
In percent of exports	**...**	**...**	**262.9**			**260.4**	**246.2**	**238.0**	**73.8**	**71.1**	**68.4**		**58.2**	**45.9**	
In percent of government revenues	**...**	**...**	**279.5**			**261.8**	**253.1**	**242.7**	**74.8**	**70.6**	**68.0**		**58.1**	**42.7**	
Debt service-to-exports ratio (in percent)	**13.1**	**11.4**	**12.8**			**13.6**	**5.6**	**2.0**	**2.8**	**2.4**	**2.4**		**4.9**	**4.2**	
PPG debt service-to-exports ratio (in percent)	**13.1**	**11.4**	**12.8**			**13.6**	**5.6**	**2.0**	**2.8**	**2.4**	**2.4**		**4.9**	**4.2**	
PPG debt service-to-revenue ratio (in percent)	**13.7**	**13.3**	**13.6**			**13.7**	**5.7**	**2.1**	**2.8**	**2.4**	**2.3**		**4.9**	**3.9**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.0	0.1			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Non-interest current account deficit that stabilizes debt ratio	6.9	18.5	14.0			13.0	13.7	13.3	34.1	12.0	12.0		9.3	6.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.2	0.5	1.0	2.0	1.5	1.0	1.5	2.5	3.5	4.0	4.0	2.8	4.0	4.0	4.0
GDP deflator in US dollar terms (change in percent)	2.8	14.8	13.2	7.7	9.8	-3.6	5.5	2.5	3.1	3.3	3.5	2.4	3.0	3.0	3.0
Effective interest rate (percent) 5/	0.9	0.6	1.0	1.0	0.2	1.4	-0.8	-2.1	-2.6	0.1	0.1	-0.7	0.5	1.3	0.8
Growth of exports of G&S (US dollar terms, in percent)	3.6	20.0	8.1	12.5	13.9	-3.3	7.9	6.6	8.6	7.8	8.0	5.9	8.1	7.8	7.8
Growth of imports of G&S (US dollar terms, in percent)	12.4	24.5	30.9	13.1	14.6	-13.1	7.4	6.1	6.1	7.9	5.7	3.4	5.1	6.0	5.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	28.9	28.9	43.7	43.7	61.0	61.0	44.5	33.1	35.0	37.7
Government revenues (excluding grants, in percent of GDP)	13.6	12.7	13.1			13.8	13.6	13.9	14.3	14.6	14.6		15.0	17.2	15.7
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.1			0.0	0.0	0.0	0.0	0.0	0.1		0.1	0.1	
o/w Grants	0.0	0.0	0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			7.2	6.3	6.9	7.1	7.0	7.2		7.5	7.3	7.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			89.1	91.3	89.1	89.9	96.8	96.8		90.3	94.5	92.7
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.4	0.5	0.5			0.5	0.6	0.6	0.6	0.7	0.7		1.0	2.0	
Nominal dollar GDP growth	4.1	15.4	14.3			-2.6	7.0	5.1	6.7	7.4	7.6	**5.2**	7.1	7.1	7.2
PV of PPG external debt (in Billions of US dollars)			0.2			0.2	0.2	0.2	0.1	0.1	0.1		0.1	0.1	
(PVt-PVt-1)/GDPt-1 (in percent)						-1.5	0.7	1.0	-22.4	0.4	0.4	-3.6	0.5	0.1	0.4

Source: Staff simulations.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

8/ 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).

Appendix II Table 2b.Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

				Projections																	
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio																					
Baseline	36	34	34	11	10	10	9	9	9	9	**9**	9	9	9	9	9	9	8	8	8	7
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	36	34	31	10	9	9	8	7	7	7	**7**	7	6	6	6	6	6	5	5	5	4
A2. New public sector loans on less favorable terms in 2009-2029 2	36	35	34	11	11	11	11	10	10	11	**11**	11	11	11	12	12	12	12	11	11	11
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	36	35	35	11	11	10	10	9	9	9	**9**	9	9	9	9	9	9	9	8	8	8
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	36	35	36	13	12	12	11	11	11	11	**10**	10	10	10	10	10	10	9	9	8	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	36	37	38	12	12	11	11	10	10	10	**10**	10	10	10	10	10	10	10	9	9	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	36	39	43	20	19	18	18	17	17	16	**15**	15	14	14	13	13	12	12	11	10	9
B5. Combination of B1-B4 using one-half standard deviation shocks	36	39	43	19	18	18	17	16	16	16	**15**	14	14	14	13	13	12	12	11	10	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	36	48	47	15	14	14	13	12	12	12	**12**	12	12	12	12	12	12	12	11	11	10
PV of debt-to-exports ratio																					
Baseline	260	246	238	74	71	68	65	60	60	59	**58**	58	58	57	57	57	56	54	51	49	46
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	260	240	222	67	63	59	55	50	48	47	**45**	43	42	41	39	38	37	35	32	30	27
A2. New public sector loans on less favorable terms in 2009-2029 2	260	247	242	80	78	76	73	70	69	71	**71**	72	74	74	75	76	76	74	73	70	68
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	260	246	238	74	71	68	65	60	60	59	**58**	58	58	57	57	57	56	54	51	49	46
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	260	275	299	104	100	97	91	86	85	84	**81**	79	78	77	76	74	73	69	66	62	58
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	260	246	238	74	71	68	65	60	60	59	**58**	58	58	57	57	57	56	54	51	49	46
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	260	278	302	136	131	126	120	113	111	108	**102**	97	93	89	86	82	79	74	69	64	59
B5. Combination of B1-B4 using one-half standard deviation shocks	260	279	303	131	127	122	116	110	108	105	**99**	95	91	88	85	81	78	74	69	64	59
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	260	246	238	74	71	68	65	60	60	59	**58**	58	58	57	57	57	56	54	51	49	46
PV of debt-to-revenue ratio																					
Baseline	262	253	243	75	71	68	64	60	60	59	**58**	57	57	57	56	55	54	52	49	46	43
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	262	247	226	68	62	59	54	49	48	47	**44**	43	41	40	39	37	36	33	30	28	25
A2. New public sector loans on less favorable terms in 2009-2029 2	262	254	247	81	78	76	73	69	70	71	**71**	72	73	73	74	74	74	71	69	66	63
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	262	256	250	77	73	70	66	62	62	61	**60**	59	59	58	58	57	56	53	50	47	44
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	262	259	258	89	84	81	76	72	72	71	**68**	67	65	64	62	61	60	56	53	49	46
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	262	272	273	84	79	77	72	67	68	67	**65**	65	64	64	63	62	61	58	55	52	48
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	262	286	308	137	130	125	118	113	112	108	**102**	97	92	88	84	80	76	71	65	60	55
B5. Combination of B1-B4 using one-half standard deviation shocks	262	289	311	134	126	122	115	109	108	105	**99**	95	91	87	83	80	76	71	66	60	55
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	262	354	339	104	99	95	89	83	84	83	**81**	80	80	79	78	77	76	72	68	64	60

Appendix II Table 2b.Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)

(In percent)

Debt service-to-exports ratio

Baseline	14	6	2	3	2	2	3	4	4	5	**5**	4	3	3	3	2	3	4	4	4	4
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	14	5	2	3	2	2	3	3	4	4	**4**	3	2	2	2	2	2	3	3	3	3
A2. New public sector loans on less favorable terms in 2009-2029 2	14	6	2	3	3	3	4	5	5	5	**5**	5	4	4	4	3	4	5	5	5	5
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	14	6	2	3	2	2	3	4	4	5	**5**	4	3	3	3	2	3	4	4	4	4
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	14	6	3	4	3	3	4	5	6	7	**7**	6	5	4	4	4	4	5	6	6	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	14	6	2	3	2	2	3	4	4	5	**5**	4	3	3	3	2	3	4	4	4	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	14	6	3	4	4	4	5	5	6	8	**9**	8	7	6	6	5	5	6	6	6	6
B5. Combination of B1-B4 using one-half standard deviation shocks	14	6	3	4	4	4	5	5	6	7	**9**	7	6	6	6	5	5	6	6	6	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	14	6	2	3	2	2	3	4	4	5	**5**	4	3	3	3	2	3	4	4	4	4

Debt service-to-revenue ratio

Baseline	14	6	2	3	2	2	3	4	4	5	**5**	4	3	3	3	2	3	4	4	4	4
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	14	6	2	3	2	2	3	3	4	4	**4**	3	2	2	2	2	2	3	2	2	2
A2. New public sector loans on less favorable terms in 2009-2029 2	14	6	2	3	3	3	4	5	5	5	**5**	5	4	4	4	3	4	5	5	5	5
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	14	6	2	3	2	2	3	4	5	5	**5**	4	3	3	3	2	3	4	4	4	4
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	14	6	2	3	3	3	4	4	5	6	**6**	5	4	4	4	3	3	4	4	4	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	14	6	2	3	3	3	4	5	5	6	**6**	4	4	3	3	3	3	4	4	4	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	14	6	3	4	4	4	5	5	6	8	**9**	8	7	6	6	5	5	6	6	6	6
B5. Combination of B1-B4 using one-half standard deviation shocks	14	6	3	4	4	4	5	5	6	8	**9**	7	6	6	6	5	5	6	6	6	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	14	8	3	4	3	3	5	6	6	7	**7**	6	5	4	4	3	4	5	6	6	6
Memorandum item:																					
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	38	38	38	38	38	38	38	38	38	38	**38**	38	38	38	38	38	38	38	38	38	38

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

Performance Under the Emergency Post-Conflict Assistance and Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Informational Annex

Prepared by the African Department

August 28, 2009

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II. Joint World Bank-IMF Work Program, 2009–10 4

III. Relations with the African Development Bank Group 5

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I. COMOROS: RELATIONS WITH THE FUND

(As of July 31, 2009)

I. Membership Status: Joined September 21, 1976; Article VIII

II. General Resources Account:	**SDR Millions**	**% Quota**
Quota	8.90	100.00
Fund holdings of currency	9.47	106.41
Reserve position in Fund	0.54	6.11

III. SDR Department:	**SDR Millions**	**% Allocation**
Net cumulative allocation	0.72	100.00
Holdings	0.01	1.65

IV. Outstanding Purchases and Loans:	**SDR Millions**	**% Allocation**
ESF RAC Loan	2.23	25.00
Post-Conflict Emergency Assistance	1.11	12.50

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
SAF	Jun. 21, 1991	Jun. 20, 1994	3.15	2.25

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

	Forthcoming				
	2009	2010	2011	2012	2013
Principal	0.00	0.00	0.00	0.56	0.56
Charges/interest	0.01	0.03	0.03	0.03	0.02
Total	0.01	0.03	0.03	0.58	0.58

VII. Implementation of HIPC Initiative: Not applicable

VIII. Summary of Safeguards Assessment. An update of the August 2007 safeguards assessment of the Banque Centrale des Comores (BCC) is in progress. BCC had begun taking steps to strengthen its safeguards framework and its financial statements were subject to an external audit. The main remaining vulnerabilities concern the quality of the external audit mechanism, the absence of a recognized accounting framework, and no publication of audited financial statements. The assessment recommended measures to alleviate these weaknesses.

IX. Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable.

X. 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.

XI. Article IV Consultation: The 2008 Article IV consultation was concluded on December 15, 2008 (Country Report No. 09/42). Executive Directors noted that the return to political stability is allowing the authorities to address deep-rooted macroeconomic distortions and structural rigidities. Directors welcomed the authorities' intention to implement a broad-ranging macroeconomic and structural reform program aimed at achieving fiscal sustainability, while improving the investment climate and strengthening institutions and governance. Directors recognized that Comoros' fiscal prospects remain difficult as illustrated by sizeable financing requirements for 2009 and beyond and by unsustainable public debt levels. It is proposed that the next Article IV consultation with Comoros take place within 24 months subject to the provisions of the decision on consultation cycles in program countries.

XII. Recent Technical Assistance

Department	Dates	Subject
MFD	Jul. 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	Mar. & Oct. 2004/ Mar. & Dec. 2005	Bank supervision
MFD	Apr. 2006	Multi-topic TA assessment
FAD	Aug. 2005	Tax policy
FAD	Jan. – Feb. 2006	Tax administration
STA	Sep. 2005	Government finance statistics
FAD	Feb. 2006	Tax policy
STA	Dec. 2008	Monetary and financial statistics
FAD	Mar. 2009	Public Expenditure management

XIII. Resident Representative: None. A resident representative post established in September 1991 was closed in December 1995.

II. COMOROS—JOINT WORLD BANK-IMF WORK PROGRAM, 2009–10

Title	Products	Provisional timing of mission	Expected delivery date
A. Mutual information on relevant work programs			
Bank work program in next 12 months	1. Preparation of the Economic Governance Technical Assistance Project	Oct.2009	December 2009
	2. Preparation of DPO	Identification mission June 2009; appraisal mission October 2009	December 2009
	3. Update of Interim Strategy Note	October 2009	December 2009
IMF work program in next 12 months	1. Staff report and other documents on authorities PRGF request	June-July, 2009	September 2009: Board meeting
	2. HIPC Decision Point and First PRGF review	March 2010	May 2010 : Board meeting
	3. Second PRGF review	August 2010	October 2010 : Board meeting
B. Requests for work program inputs			
Fund request to Bank	1. Note on Bank's budget support under the PRGF program		October 2009
	2. Note on Bank's assistance in the area of PFM reforms		October 2009
	3. Update on Bank's support in formulation and implementation of the full-PRSP		October 2009
	4. Note on Bank's overall assistance strategy under IDA 15		December 2009
Bank request to Fund	1. Sharing macro-framework updates		Continuous
C. Agreement on joint products and missions			
Joint products in next 12 months	1. Preliminary HIPC DSA document		February 2010
	2. HIPC Decision Point DSA		May 2010
	3. JSAN on final PRSP		May 2010

III. COMOROS: RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP

Background

1. Due to arrears accumulation, Comoros was under sanctions with the Bank Group during 1993-2009. In June 2007, the Bank started its re-engagement in the country after the Board's approval of the Country Dialogue Note. Comoros was defined as a post-conflict country based on the following criteria: (i) progress in restoring peace despite the on-going political situation involving Anjouan; (ii) improved governance (progress in revenue sharing agreement, adoption of a consolidated budget, measures to improve transparency in public finance management and civil service reforms); and (iii) progress in the resettlement of displaced population. This facilitated the Board's approval in December 2007 of the arrears clearance operation through the Post-Conflict Country Facility (PCCF) mechanism.

Arrears clearance operation

2. As of October 31, 2007 the arrears with the Bank Group had reached UA 21.94 million, comprising UA 12.48 million owed to ADB and UA 9.47 million owed to ADF. According to the Bank's plan, the financing of arrears was through a tripartite burden sharing whereby the country, the PCCF and the donors share the burden on a case-by-case basis. The share and contribution of the three partners in the financing of the arrears was as follows:

	Share	Contribution (US$ million)
PCCF contribution	69.3%	23.70
Donors contribution	29.3%	10.16
Comoros contribution	1.0%	0.34
Total	100%	34.20

3. The Bank's reengagement plan involved the following activities: (i) lifting of sanctions in December 2007; (ii) resumption of Bank operations- preparation of an interim strategy; and (iii) positive net transfer in favor of Comoros through ADF-XI to support the country's poverty reduction efforts.

4. Comoros has been current on its debt service obligations to the Bank since February 2009.

Strategy and instruments for cooperation with Comoros

5. There is currently no valid Country Strategy Paper (CSP) for Comoros. However, in December 2008, the Bank granted an emergency food crisis grant to Comoros, in an amount equivalent to UA 1.5 million, which was disbursed in early 2009.

6. On July 15, 2009, the Bank's Board approved a budget support operations under an Interim Country Strategy Paper (I-CSP) for 2009-10, in an amount equivalent to UA 2 million to be disbursed in two tranches of UA 1 million respectively in 2009 and 2010. The Board also approved an ISP grant of UA 5.26 million. Both grants were signed on July 22, 2009. Under the

I-CSP, the Bank will contribute to : (i) improving economic management through support for institutional capacity building; and (ii) creating a better environment through improved water supply and sanitation.

7. A full-fledged CSP will be prepared in 2010 and will contain in-depth analysis of the issue of sustainable growth for Comoros, based on the economic and sector studies and analyses to be carried out during the interim period. The Bank's operations will fall under two pillars: (i) strengthening institutions and the macroeconomic framework, and (ii) improving water supply and sanitation. The basic package available for the 2009-2010 period stands at UA 15 million, comprising the normal performance-based ADF XI allocation (UA 5 million) and the FSF Enhanced Support (UA 10 million). Comoros will also benefit from several other Bank facilities, such as resources of the FSF Targeted Support Window for capacity building.

IV. COMOROS: STATISTICAL ISSUES

Comoros—Statistical Issues Appendix As of July 29, 2009
I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. The statistical database has deficiencies in all sectors largely due to inadequate staffing and funding, as well as lack of integration of island-based data.
National accounts. Shortcomings in national accounts compilation undermine accuracy and reliability of the data and impart a high degree of uncertainty to economic analysis. The absence of basic source data requires estimates of GDP to be prepared with outdated benchmarks and rely on crude assumptions and extrapolations. Due to lack of funding and staffing, there have been no survey-based national accounts since 1995, when one was prepared with UNDP assistance, and to date there has been no survey at all on manufacturing. In 2004, with the support of donors, a new population census and surveys on subsistence agriculture and households were completed; unfortunately, these surveys have neither been fully processed nor updated. A July 2006 AFR mission helped the authorities improve GDP estimates for 2001–05. **Consumer prices**. The accuracy and reliability of the consumer price index (CPI), represents another key source of uncertainty. Expenditure weights are based on a survey from the late 1980s and sub-indices are compiled irregularly across the islands. Most price data are collected only for the country's capital. CPI compilation is largely conducted by one person.
Government finance statistics. In August/September 2005 STA mission found that the public chart of accounts did not accurately record the execution of the budget and that a standardized presentation on outstanding public debt is not compiled. Classification of budgetary data is often not consistent over time or across the islands. In particular, problems arise in data on domestic arrears, external debt, and external support including its investment spending components, complicating fiscal analysis.
Monetary and financial statistics. The Central Bank of Comoros (BCC) produces adequate monetary statistics on its own accounts, for the commercial banks and the development bank active in the country, for the deposits collected by the postal administration, and for two microfinance networks. The Franc Zone arrangement has established accounting and prudential standards that prevent data disruptions. A major shortcoming is the absence of data on the large amount of Euro cash in circulation, handicapping surveillance. In June 2009 the BCC started reporting monetary and financial statistics to the IMF using Standardized Report Forms (SRFs). The current presentation and content of monetary statistics accords largely with the methodology in the IMF's *Monetary and Financial Statistics Manual*.

External sector statistics. The BCC compiles balance of payments statistics along the lines of the methods recommended in IMF's *Balance of Payments Manual*, 5th edition. Nevertheless, despite technical assistance and some improvements over the past few years, shortcomings in coverage and compilation continue to affect accuracy and reliability and impart uncertainty to economic analysis. A single BCC economist is responsible for compiling balance of payments statistics, precluding desirable improvements needed in coverage and data validation, particularly for trade, nonregistered trade, services, and foreign direct investment. Accuracy of trade data is less than required due to incomplete data transmission from the Customs authorities.
Income distribution data and social indicators. Some progress was made with collecting income-distribution statistics and social welfare indicators when the I-PRSP was being prepared in 2003–04. Since then, coverage has remained limited hampering the monitoring of progress towards the MDGs.

II. Data Standards and Quality	
Comoros does not participate in the General Data Dissemination System (GDDS).	No data ROSC is available.

Technical Assistance Missions in Statistics (1986–present)

Subject	Staff Member	Date
Monetary and Financial Statistics	P. Papadacci	November–December 2008
Government finance statistics	G. Rousselot	August 2005
Balance of payments and international investment position statistics	M. Dessart	March–April 2005
Money and banking statistics	G. Raymond	July 1997
Balance of payments statistics	Daniel Daco	May–-June 1988
Money and banking statistics	Thiet T. Luu	October 1987
Government finance statistics	Vincent Marie	June 1986

Forthcoming technical assistance

In 2005, the authorities requested a Statistics Department (STA) multi-topic technical assistance mission with a view to a thorough revamping of the statistical system. STA is planning to provide technical assistance in the area of national accounts. A Statistics Department GDDS metadata development mission scheduled for January 2007 has been postponed at the request of the authorities. As regards monetary statistics, the authorities are requesting a technical assistance mission to review the SRF test data and identify possible methodological departures from the recommendations of the Monetary and Financial Statistics Manual.

Comoros: Table of Common Indicators Required for Surveillance

as of July 29, 2009

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Current	Current	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Apr 2009	Jun 2009	M	M	M
Reserve/Base Money	Apr 2009	Jun 2009	M	Q	Q
Broad Money	Apr 2009	Jun 2009	M	Q	Q
Central Bank Balance Sheet	Apr 2009	Jun 2009	M	Q	Q
Consolidated Balance Sheet of the Banking System	Apr 2009	Jun 2009			
Interest Rates[2]	May 2009	Jul 2009	C	C	M
Consumer Price Index	Mar 2000	Jun 2009	M	I	I
Revenue, Expenditure, Balance and Composition of Financing[3] — General Government[4] — Union government and three island governments	March 2009	Jun 2009	Q	I	I
Revenue, Expenditure, Balance and Composition of Financing[3]— Central Government	Central government data for the Union government only would be of limited relevance without data for the three island governments and are not produced separately				
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec 2007	Aug 2008	A	I	I
External Current Account Balance	2007	Aug 2008	A	I	I
Exports and Imports of Goods and Services	2007	Aug 2008	A	I	I
GDP/GNP	2007	Aug 2008	A	I	I
Gross External Debt	2007	Aug 2008	A	I	I
International Investment Position[6]	NA	NA			

[1] Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-a-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); reported when there are changes (C).

Statement by the Staff on the Union of the Comoros
September 16, 2009

This statement provides information that has become available since the staff report (www.imf.org) was issued. The information does not alter the thrust of the staff appraisal; in particular:

- Both program prior actions have been implemented. The authorities have (i) secured agreements with Paris Club and other relevant creditors on rescheduling of external payments arrears and deferment of 2009 debt service obligations pending a comprehensive resolution of the debt situation under the HIPC process; and (ii) requested AfDB assistance in the reform of the electricity parastatal (MA-MWE).

- Preliminary data point to continued good revenue performance and control over the wage bill, suggesting that the authorities remain on track for meeting key end-September budget targets.

The authorities have recognized a hitherto overlooked debt obligation to one Paris Club creditor in an amount equivalent to US$1.4 million (0.5 percent of outstanding stock at end-2008). The creditor has consented to this being treated in due course under the HIPC process.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/315
FOR IMMEDIATE RELEASE
September 21, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$21.5 Million PRGF Arrangement for the Union of the Comoros

The Executive Board of the International Monetary Fund (IMF) today approved a three-year, SDR 13.57 million (about US$21.5 million) arrangement under the Poverty Reduction and Growth Facility (PRGF) for the Union of the Comoros to support the authorities' economic program aimed at promoting sustained strong growth to achieve deeper gains in poverty alleviation and faster progress towards the Millennium Development Goals (MDGs). The decision will enable the Comoros to draw the equivalent of SDR 4.23 million (about US$6.70 million) from the IMF immediately.

At the conclusion of the Executive Board's discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, made the following statement:

" Comoros' performance under the EPCA-supported program was satisfactory, despite the difficult domestic and external circumstances. The authorities' have recently adopted a medium-term reform agenda aimed at boosting private-sector led growth to enhance the effectiveness of their poverty reduction strategy. In this context, the government has introduced far-reaching institutional reforms that should, inter alia, strengthen cohesion in budget management and economic policy making.

" Comoros' reform agenda seeks to consolidate recent gains in macroeconomic stability and promote the development of a business-friendly economic environment, which would create jobs and reduce poverty. An important focus will be on strengthening the fiscal position through implementation of strong revenue measures and better control of the wage bill. In this context, the authorities are adhering to the inter-island revenue-sharing mechanism; and Parliament has approved a stability-oriented supplementary budget for 2009 that is consistent with the fiscal program under the program. Achieving the 2009 fiscal targets will provide confidence regarding government determination to improve public expenditure management and put the budget on a sustainable path.

“ To strengthen debt sustainability, the authorities will limit their fiscal deficits to levels that can be covered by identified external assistance, mostly in form of grants. They will also ensure steadfast implementation of reforms, which is essential to securing HIPC and MDRI debt relief.

“ The authorities are determined to stay the course with efforts to tackle structural impediments to growth. With support from donors, they are finalizing reform strategies for the state-owned telecommunications (Comores Telecom), hydrocarbons (SCH), and electricity (MA-MWE) companies. The authorities are also maintaining a flexible-pricing mechanism for fuel products to make energy supply more reliable. Efforts to enhance the efficiency of the public administration and set optimal staffing levels for the civil service will also feature prominently in the structural reform agenda. Other reforms seek to streamline business licensing requirements, enhance investor protection, strengthen the judiciary, and promote financial intermediation and financial sector soundness”, added Mr. Kato.

ANNEX

Recent Economic Developments

Despite disturbances pertaining to a difficult domestic and international context, real GDP growth is estimated at an average 1 percent in 2008-09, one-half percentage point more than in 2007. The economy is benefiting from strong food production stimulated by favorable weather and relatively sustained construction and public works activity backed by donor support and financial inflows from migrants. Inflation rose to 7.4 percent year-on-year in 2008, owing to the high cost of fuel and transportation, but it has fallen sharply and should drop to 2.3 percent in 2009, reflecting reduced pressures on oil and food prices.

On the fiscal front, government revenues have registered a modest upturn, reaching the equivalent of 13.5 percent of GDP as an annual average since 2008. At the same time, personnel expenditures are increasingly better controlled, although they continue to weigh heavily on the budget. The deficit on the domestic primary budget balance should narrow to 1.6 percent of GDP in 2009, compared to 2.7 percent in 2008.

The external current account deficit (including transfers) has risen to an average 9.7 percent of GDP in 2008-09, compared to 6.7 percent of GDP in 2007. Export growth is subdued given persistently low world prices for Comoros' export commodities; while imports, including construction materials and used vehicles, supported by transfers of funds from emigrants (equivalent to 25 percent of GDP in 2008), remain robust.

Program Summary

The government's medium-term macroeconomic program supported by the PRGF is designed to help reduce poverty and accelerate progress towards the MDGs. It draws from Comoros' Poverty Reduction and Growth Strategy, which focuses on the following strategic areas: laying the ground for sustainable economic development; stimulating private sector activities; developing the agricultural sector; strengthening governance, the judiciary, and security; and enhancing human capital.

The program seeks to achieve the following medium-term macroeconomic objectives:

- An annual real GDP growth of 3-4 percent by 2012;

- Inflation contained at 3 percent in the context of the euro-pegged exchange regime;

- An external current account deficit of 10 percent of GDP by 2012;

- A primary fiscal deficit of 0.8 percent of GDP in 2012, from a projected 1.6 percent of GDP in 2009.

To achieve these objectives, the authorities' proram will notably focus on:

• Increasing public investment by an estimated 1.7 percentage points of GDP over the program period;

• Raising domestic revenue to the equivalent of at least 14 percent of GDP in 2012, with tax revenues reaching a projected 12½ percent of GDP;

• Reforming the civil service and personnel management to help contain the wage bill and free increased resources for growth-supporting outlays in the priority sectors;

• Restructuring public enterprises in the energy and telecommunication sectors, with support from donors.

The Comoros: Selected Economic and Financial Indicators, 2007-12

	2007	2008	2009	2010	2011	2012
		Prel.		Prog.		
(Annual percentage change, unless otherwise indicated)						
National income and prices						
Real GDP	0.5	1.0	1.0	1.5	2.5	3.5
Consumer price index (average)	4.5	4.8	4.9	2.1	2.2	2.7
Real effective exchange rate (2000=100)	129	135	...	...	...	...
Terms of trade	-20.4	-39.4	38.5	-6.0	-2.4	0.7
Money and credit						
Net foreign assets	7.3	-6.7	1.0	0.9	0.9	1.3
Domestic credit	11.8	41.7	7.9	8.5	11.1	12.7
Credit to government	2.3	78.5	3.9	-4.5	-2.8	-9.2
Broad money	8.6	11.0	4.8	5.8	4.8	6.7
(Percent of GDP, unless otherwise indicated)						
Investment and savings						
Investment	11.2	14.3	13.8	15.6	16.6	17.4
Gross national savings	4.5	3.0	5.8	5.1	6.1	7.2
Government budget						
Domestic Revenue	12.7	13.1	13.8	13.6	13.9	14.3
Total grants	7.6	10.4	6.9	6.1	6.3	6.5
Total expenditure	22.3	26.0	22.3	22.1	22.3	22.4
Domestic primary balance	-2.2	-2.7	-1.6	-1.5	-1.2	-0.8
Overall balance (cash basis)	-3.4	-2.3	-2.3	-2.7	-2.5	-2.2
Excluding grants	-11.0	-12.7	-9.2	-8.8	-8.7	-8.6
External sector						
Current account balance	-6.7	-11.3	-8.0	-10.4	-10.4	-10.3
Excl. official and private transfers	-26.5	-33.5	-29.1	-29.1	-29.1	-28.7
NPV of external debt to exports of goods and services	249	254	230	216	202	183

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

Statement by Laurean W Rutayisire, Executive Director for the Union of the Comoros
September 21, 2009

I. Introduction

On behalf of my Comorian authorities, I would like to thank Management and Staff for their continued support to the Union of the Comoros. With the approval of the May 2009 constitutional amendment and the additional leverage given to the central government to manage the economy, the country has finally emerged from several years of political instability and is now focused on addressing the challenges of its economic development.

My authorities have made a request for IMF assistance under the PRGF –for which they have already met all prior actions–, to help them achieve their goal of promoting a stronger and more sustainable economic growth and to reduce poverty more effectively. Their request of a PRGF arrangement follows a satisfactory implementation of the EPCA.

They view the PRGF arrangement as crucial for anchoring their medium-term economic reform agenda, strengthening public finances, institutions, and governance, and improving the investment climate, while catalyzing donor support. A critical factor underlying their agenda is the firm commitment to the full implementation of the national revenue-sharing-agreement and the strengthening of interisland cooperation.

My authorities' reform strategy is based on their Interim-PRSP, which they intend to implement over the medium-term focusing on five strategic areas: laying the grounds for sustainable economic development; stimulating private sector activities; developing the agricultural sector; strengthening governance, the judicial system, and security; and enhancing human capital. They have launched the consultation process which will lead to the elaboration of the full PRSP by end-2009.

They are confident that an effective and successful implementation of their reform strategy will enable them to benefit from debt relief under the HIPC and MDRI, thereby providing room for greater social spending. In this regard, they would like to reiterate their full commitment to a prudent debt management strategy.

II. Recent economic developments

Both political and external shocks weakened the Comoros' economy in recent years, affecting the main productive sectors, in particular, vanilla, transportation, and trade. The economy's weakness, however, was mitigated by a more dynamic performance of the construction and tourism sectors, and financial inflows from migrants.

As a result, real GDP growth increased slightly to 1 percent in 2008, from 0.5 percent in 2007, while inflation remained stable at approximately 4.5 percent over the period.

In the fiscal area, the deficit of the domestic primary budget balance is projected to fall to 1.6 percent of GDP in 2009, compared to 2.7 percent in 2008, as government revenues are projected to grow while personnel expenditures continue to be better controlled –although they still weigh heavily on the government budget.

Government debt remains unsustainable and is expected to reach 230 percent of the NPV of exports at end-2009. The government was, however, able to reach agreements to defer settlement of external arrears until it reaches the HIPC decision point, and of amounts due to creditors –except major multilateral– for servicing the external debt in the 2009 budget.

The current account deficit rose to 9.7 percent of GDP in 2008, compared to 6.7 percent of GDP in 2007, driven by imports from the construction sector and the high oil bill, while exports declined due to low international prices of the country's commodities.

III. Economic policies for 2009 and 2010

1. Fiscal Policy

My authorities are committed to a strict adherence to the revenue-sharing mechanism, essential to achieving their fiscal program. The Economic and Financial Reform Unit charged with consolidating fiscal data from the Union and island governments, and the Budgetary Committee, made up of representatives from the Union and the three island executives, will in this regard, continue to play a key role in monitoring the execution of the government budget.

The government's economic program is aimed at reducing the domestic primary fiscal deficit from 2.7 percent of GDP in 2008 to 1.5 percent of GDP in 2009 and 2010.

Domestic revenues are projected to increase slightly in 2009 and 2010 to respectively 13.8 percent of GDP and 13.6 percent of GDP, compared to 13.1 percent of GDP in 2008. To achieve its revenue collection targets, the government intends to work towards modernizing and improving the tax and customs administrations including by enlarging the tax base and limiting tax and customs exemptions to those stipulated in the investment code. To reinforce the effectiveness of tax administration, the government will enhance the instruments of the large taxpayer unit which has become fully operational.

Although total expenditures are expected to remain elevated at around 22 percent of GDP in 2009-10, the authorities intend to limit primary expenditures to 14.6 percent of GDP in 2009 and 14.1 percent of GDP in 2010, mainly by freezing new hiring. The wage bill will be limited to the equivalent of 8.7 percent of GDP in 2009 and 8.4 percent of GDP in 2010.

Reform of the public administration underway is aimed primarily at enhancing control of the public sector wage bill and ensuring its budgetary viability. The government will soon submit for adoption by Parliament the organic frameworks for all ministries which will make it possible to reduce the civil service to about 9,000 employees, compared to the current 10,600. With the support of its development partners, it intends to develop and implement the reinsertion and redeployment of laid-off personnel.

Also with the support of the development partners including the World Bank, the IMF, and the European Union, the government conducted a preliminary evaluation of public expenditure management systems in 2009. The main recommendations stemming from the assessment are incorporated in the PRGF and include establishing a weekly cash flow committee and approving by end-October 2009 a strategy for clearing domestic payment arrears following an audit. With the assistance of the European Union, the government is currently carrying out an audit of domestic arrears. On this basis, the government intends to approve by end-October 2009 a strategy for their orderly clearance.

2. Monetary Policy

Monetary policy will be pursued within the framework of the Comoros' participation in the zone Franc which has enabled the country to contain inflation and maintain a stable exchange rate and adequate level of foreign reserves despite fiscal imbalances.

The central bank is committed to continuing its efforts to enhance the effectiveness of the financial system and to strengthen bank supervision. To encourage competition, two new foreign commercial banks specializing in the financing of the productive sectors have opened during the past two years. A memorandum of understanding with home country supervisors of these newly licensed foreign banks has been finalized.

To combat money laundering and the financing of terrorism, a law was adopted in 2004 to implement the rules derived from the UN conventions and resolution and the 40 FATF recommendations. The government has updated the legislation and secured its approval by Parliament. In addition, it has terminated the operation of illegal offshore banking centers.

A new Safeguards Assessment is currently being undertaken by the IMF, and should be completed before the first review of the PRGF arrangement in the first half of 2010.

3. Improving the investment climate

The improvement of the investment climate is one of the main priorities of the government. In this regard, it has promulgated a new Investment Code and developed a one-stop shop for investors. It has also defined the legal procedures facilitating recourse to the courts.

With the support of the World Bank, the ADB, and other donors, the government has resumed the program for restructuring and possible divestment of public enterprises, notably in the telecommunications, hydrocarbons, and electricity sectors. A law was passed to dismantle the state telecommunications monopoly.

My authorities have also reaffirmed their commitment not to interfere in the price-setting and marketing mechanisms for the main export crops, including vanilla, cloves, and ylang-ylang, and plans to allow private sector participation in the import of rice.

With the support of the World Bank, the ADB, France, the EU, and several UN agencies, my authorities are developing a program to improve governance and the quality of the judicial system which should be finalized by end-March 2010.

Finally, the Comoros has begun an extensive program of external trade liberalization and has fully subscribed to the commitments resulting from their joining the COMESA. The reforms needed to remove constraints to trade development constitute an essential component of the PRGF.

IV. Conclusion

My authorities view the support of the international community as crucial to the success of their economic and social policies. With the assistance of the IMF, they are committed to a rigorous implementation of their reform agenda which aims at consolidating macroeconomic stability, strengthening institutions and governance, and improving the investment climate.

They would like to request the Board's approval of the PRGF-supported program crucial to the success of their economic policies.

They are aware that an effective implementation of these reforms will also enable them to catalyze donor support, also key to the success of the program, and secure debt relief under the HIPC and MDRI.