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Union of the Comoros: 2010 Article IV Consultation and Second Review Under the Extended Credit Facility, Request for Modification of a Performance Criterion, and Financing Assurances Review—Staff Report; Staff Statement and Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Comoros.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2010 Article IV Consultation with Comoros and Second Review Under the Extended Credit Facility, Request for Modification of a Performance Criterion, and Financing Assurances Review, the following documents have been released and are included in this package:

- The staff report for the combined 2010 Article IV Consultation and Second Review Under the Extended Credit Facility, Request for Modification of a Performance Criterion, and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on October 30, 2010, with the officials of Comoros on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 27, 2010. 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 statement of January 18, 2011 and staff supplement of December 29, 2010 updating information on recent economic developments.
- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its January 21, 2011 discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- A statement by the Executive Director for Comoros.

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

Letter of Intent sent to the IMF by the authorities of Comoros*
Memorandum of Economic and Financial Policies by the authorities of Comoros*
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

Staff Report for the 2010 Article IV Consultation and Second Review Under the Extended Credit Facility, Request for a Modification of a Performance Criterion, and Financing Assurances Review

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

Approved by Roger Nord and Thomas Dorsey

December 27, 2010

ECF arrangement:	Comoros's three-year ECF arrangement was approved in September 2009 (152.5 percent of quota, including 12.5 percent for EPCA repurchase). The first review was completed on June 21, 2010.
Mission team:	Mr. Matungulu (head) and Messrs. Crispolti, Culiuc, Reinke (all AFR) and Dicks-Mireaux (SPR). Moroni, October 16–30, 2010. The mission met with Mr. Mohamed Bacar Dossar, Minister of Finance, Budget, and Investment; and other members of the Cabinet of the Union; Mr. Bourhane Hamidou, Speaker of Parliament; Mr. Mzé Abdou Mohamed Chanfiou, the Vice Governor of the Central Bank of the Comoros; and representatives of island entities, civil society and donors.
Mission focus and outcome:	2010 Article IV consultations; second review under the ECF arrangement; modification of a performance criterion; and financing assurances review. The authorities shared staff's assessment of key challenges to growth and poverty reduction and welcomed staff's policy recommendations. They met all quantitative performance criteria and structural benchmarks for end-June 2010, and agreed to corrective measures to reverse fiscal slippages in the third quarter. Staff recommends completion of the second review under the ECF arrangement and of the financing assurances review.
Article VIII Status:	Comoros, a member of the Franc Zone, has accepted the obligations under Article VIII and maintains an exchange system free of restrictions on payments and transfers for current international transactions.

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I. EXECUTIVE SUMMARY

- **In the last two years, the Comoros authorities have made progress in addressing long-standing inter-entity political tensions, and in initiating much needed strengthening of the budgetary situation.** In parallel, some progress in structural reforms has been achieved, and a more enabling general reform context is emerging. Concurrently, the country has enjoyed a surge in donor and private sector interest, especially from the Gulf region.

- **Growth has rebounded modestly, and medium-term economic prospects appear favorable.** However, as the authorities concur, a further strengthening of economic activity and faster progress in poverty alleviation will require continued close adherence to reforms under the ECF arrangement, including timely implementation of public utilities and other structural reforms, especially after the December 26, 2010 presidential elections.

- **The government's fiscal strategy seeks continued fiscal consolidation to achieve a sustainable fiscal position and stronger growth.** Accordingly, the authorities are committed to efforts to strengthen revenue and improve the quality of spending. Enhanced inter-entity cohesion in managing the fiscal agencies and rigorous control of the wage bill will be critical in the period ahead. To maintain debt sustainability, the authorities intend to pursue a prudent debt policy, and will rely on grants and highly concessional loans.

- **Performance under the ECF-supported program through end-June was satisfactory.** All performance criteria and benchmarks were observed. The authorities are taking corrective measures to offset third-quarter slippages to keep the fiscal and overall program on track. Nevertheless, a modification of the end-2010 performance criterion on net domestic credit to the government is requested.

- **The government has initiated preparations for a comprehensive reform package to begin addressing long-standing structural impediments to growth.** With IFC assistance, the authorities have drafted reform strategies for the public utilities, but tangible progress in reforming these entities has yet to be achieved. To facilitate progress, the government has requested a multi-year IFC technical assistance program, and plans to call for bids in 2011 to enlist strategic partners in the management of the public utilities.

- **The real exchange rate is subject to bouts of overvaluation pressures, but remains broadly in line with fundamentals.** Nevertheless, competitiveness should be strengthened through determined implementation of ambitious structural reforms.

- **Staff supports the authorities' request for completion of the second review under the ECF arrangement and of the financing assurances review.**

II. Recent Economic Developments: Encouraging Signs of Recovery

1. **Political conditions have improved.** A consensus national unity cabinet took office in May 2010, tasked with organizing presidential and local elections. As a result, tensions between the Union and islands authorities have subsided. In accordance with the 2001 constitution, the rotating Union presidency is to pass to Mohéli, the archipelago's smallest island. The first round of presidential elections on the island, together with countrywide local elections, took place last November; the final round is scheduled for December 26.

2. **Economic activity is trending up (MEFP ¶2).** In the more enabling political context, financial intermediation is expanding, and real GDP growth is projected at 2.1 percent for 2010 (1.4 percent in 2008–09). Contributing factors include a rebound in donor-supported public works and private consumption, and a pick-up in remittances-based housing construction. Also, prospects for tourism have improved as a tender to redevelop a major hotel (Galawa), which when operating a decade ago accounted for 2–3 percent of GDP, has been launched; and preparations have started for an inter-island maritime transportation service. A large aid-financed settlement of wage arrears fueled a mid-year inflationary spike[1]; nonetheless, inflation has since subsided and is projected at 3.2 percent at end-2010, anchored by Comoros' membership in the Franc zone. The external current account is projected to widen to 10.2 percent of GDP in 2010 (9 percent of GDP in 2009), driven by a surge in aid-funded imports and a marked deterioration in the terms of trade. Efforts at fiscal consolidation are continuing, and the fiscal program is expected to remain broadly on track in 2010.

3. **Financial intermediation has expanded, with two foreign banks—Eximbank of Tanzania and Persian Gulf-originated BFC *(Banque Fédérale des Comores*)—commencing activities.** This contributed to brisk expansion of credit to the private sector, primarily to finance imports. To contain the expansion of liquidity and price pressures, in June 2010, the Central Bank of Comoros (BCC) increased the required reserve ratio from 25 to 30 percent.

4. **Comoros made progress towards comprehensive debt relief.** In July 2010, Comoros reached the HIPC Initiative decision point; HIPC interim assistance and other debt relief savings are projected at CF 16.7 billion (8.3 percent of GDP) for 2010 or 82 percent of all debt service obligations due. Assuming satisfactory implementation of reforms, full HIPC and MDRI debt relief could be achieved in late 2012, reducing the NPV of debt-to-exports ratio to a more sustainable 86 percent from 343 percent at end-2009.

[1] In May 2010 Qatar granted US$26 million in budget support (equivalent to 4.9 percent of GDP) earmarked primarily for the repayment of domestic arrears, including several months of civil service wage arrears.

III. ECONOMIC CHALLENGES—CREATING CONDITIONS FOR SUSTAINED STRONG GROWTH AND POVERTY REDUCTION

5. **Discussions for the Article IV consultation focused on the challenges of restoring fiscal and debt sustainability, and boosting growth to facilitate progress towards the MDGs.**

Text Table 1. Comoros: Progress in Achieving the Millennium Development Goals

MDG Indicators	1990–96*	2004–08**	Target 2015	Status
Goal 1: Eradicate extreme poverty and hunger				
Proportion of population below poverty line (%)	54.7	44.8	27.3	Progress
Malnutrition prevalence for children under 5 (%)	13.9	13.8	7	Off track
Goal 2: Achieve universal primary education				
Net primary enrollment rate (%)	63.2	76.1	100	Progress
Goal 3: Promote gender equality and empower women				
Ratio of female to male primary enrollment (%)	85	82	100	On track
Levels of women employed in the nonagricultural sector (%)	3.1	13.7	50	Progress
Proportion of seats held by women in national parliament (%)	-	3	50	Off track
Goal 4: Reduce child mortality				
Infant mortality rate (per 1,000 births)	86.2	49	28.7	Progress
Mortality for children under 5 (per 1,000 births)	130	66	43.3	On track
Goal 5: Improve maternal health				
Maternal mortality (per 100,000 births)	517	380	129	Progress
Proportion of births assisted by qualified health workers (%)	52	80	>60	On-track
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Prevalence of HIV in % of population (15-49 years old)	0.1	0.1	<0.025	On track
Goal 7: Ensure environmental sustainability				
Access to an improved water source (% of population)	91.6	85.1	96	On track

Source: Millennium Development Goals Report, 2009
* Indicates data available for the date in time period closest to 1990 (MDG benchmark date).
** Indicates data available for latest date in time period.

6. **The authorities emphasized the need for stronger growth to translate into higher employment opportunities, especially for the young**. The policy priorities that emerged from the discussions confirmed the key objectives in Comoros' medium-term economic program supported by the ECF arrangement, namely:

- Creating fiscal space for higher pro-growth and pro-poor expenditures, while ensuring fiscal and debt sustainability. This would notably be achieved with stepped-up revenue efforts and prudent management of the wage bill, scaled-up aid, and debt relief, including under the HIPC initiative and MDRI.

- Accelerating the pace of structural reforms to improve productivity and competitiveness. Critical to this end are the acceleration of reform of public utilities, and early implementation of measures to improve the business and investment climate, and to advance financial intermediation.

- Providing incentives for remittances to be channeled to productive investments, supporting durable growth. Consumption taxes could be used to encourage greater savings and enhanced financial intermediation from remittances, which would support stronger domestic investment.

Text Table 2. Comoros: Recommendations from the 2008 Article IV Consultation

Advice	Status
National reconciliation	
Restore inter-island cooperation	The Union budget covers all entities, customs administration has been fully integrated across islands. Integration of tax administrations is on track.
Public finances and fiscal sustainability	
Improve revenue mobilization	ECF-supported reforms in the area customs administration have resulted in a moderate improvement in revenue. The reform of the tax administration is proceeding slower than expected.
Contain the wage bill	The wage bill has remained broadly unchanged as a proportion of GDP in 2009-10. Further efforts to contain it include the recently completed computerization of the civil servant payment roster, and introduction of the civil service organizational frameworks under the in 2011 budget. The bill is projected to decline to 7.9 percent of GDP by 2012 (9 percent of GDP in 2009).
Accommodate higher pro-growth and pro-poor expenditures	From 2008 to 2010 domestic expenditure on health and education has increased by around 40 percent; in 2010 domestically financed investment outlays are projected to reach the highest level in the last 8 years.
Structural reforms	
Complete the PRSP	PRSP completed in September 2009 and reviewed by the IMF and World Bank Boards in March 2010
Maintain a flexible-pricing mechanism for fuel products	Operational since 2008; price changes have been made only once and retail petroleum prices have been generally comparable to those in effect in the CFA Zone and in key peer and neighboring countries.
Reform state-owned enterprises	Progress has been slow. With IFC assistance, reform strategies have been developed for Comores Télécom and Société Comorienne des Hydrocarbures. Preparations are underway for a reform strategy for MAMWE (the power and water supplier), with AfDB technical support. Strategic partners of international repute are expected to join management of the three parastatals in 2011.
Financial intermediation	
Enhance financial sector supervision	BCC performed on-site supervision missions in three decentralized financial institutions; and is establishing a banking supervision unit with TA from the IMF (MCM) and Banque de France.
Strengthen the Anti-Money Laundering/Combating the Financing of Terrorism framework	BCC assessed the AML/CTF safeguards in all banks and financial intermediaries.

A. Medium-term Macroeconomic Outlook and Risks

7. **Short-term macroeconomic prospects are in line with the initial program projections (MEFP ¶7).** Sustained donor support and remittances, higher FDI in transportation and tourism, and improved political conditions should help push real GDP growth higher to at least 2.5 percent in 2011, permitting the first, albeit modest, increase in per capita income in five years. Inflation is expected to remain close to 3 percent. Reflecting a pickup in growth-supporting imports, the external current account deficit is projected to widen to 13.6 percent of GDP in 2011.

8. **In the medium term, growth is to be driven by tourism, fishing and agriculture.** The 2010 Doha conference promised US$80 million in FDI for tourism over the next five years. Fishing and agriculture should also see increased growth on the back of a wide array of projects envisaged in the PRSP. Annual GDP growth is expected to rise to 4 percent by 2013 and to stabilize thereafter; and Comoros' membership in the Franc Zone should ensure that inflation remains within low single digits. A sustained increase in government revenues and enhanced spending discipline should drive the domestic primary fiscal balance to equilibrium by 2014, and into positive territory beyond. Containment of current expenditure will allow domestically-financed investment to rise above 2 percent of GDP by 2014, from 0.8 percent in 2009. Reaching the HIPC completion point in 2012 would free additional domestic resources for public investment.

Text Table 3. Comoros: Selected Economic and Financial Indicators, 2008–15

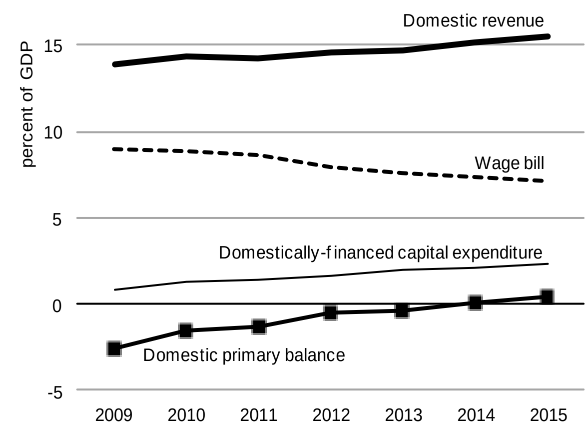
	2008	2009	2010		2011	2012	2013	2014	2015
			Prog	Proj					
Real GDP, percentage change	1.0	1.8	2.1	2.1	2.5	3.5	4.0	4.0	4.0
Consumer price index (end period percentage change)	7.4	2.2	3.1	3.2	2.8	2.9	3.0	3.0	3.0
Domestic government revenues (share of GDP)	13.1	13.9	14.3	14.4	14.2	14.5	14.7	15.1	15.5
Total grants (share of GDP)	10.4	9.7	13.7	14.5	7.1	7.2	6.9	7.1	7.1
Total expenditure (share of GDP)	26.0	23.0	23.2	24.0	23.2	22.7	22.9	23.0	23.0
Domestic primary balance (share of GDP)	-2.8	-2.6	-1.5	-1.6	-1.3	-0.5	-0.4	0.0	0.4
Current account balance (share of GDP)	-11.1	-9.0	-8.9	-10.2	-13.6	-13.1	-12.0	-11.9	-11.1
Excl. official and private transfers	-34.3	-34.7	-35.9	-38.1	-34.2	-33.6	-31.4	-30.4	-28.7
Gross international reserves (millions USD, end of period)	110.4	153.1	153.3	137.5	139.3	139.8	140.6	141.5	144.1
In months of imports of goods & services	5.1	7.1	6.5	6.1	6.3	6.0	5.9	5.7	5.6

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

B. Medium-term Fiscal Strategy

9. **The government's fiscal strategy seeks continued fiscal consolidation to achieve a sustainable fiscal position and stronger growth (MEFP ¶9)**. Accordingly, the authorities are committed to closely adhering to, and carrying beyond the ECF arrangement, ongoing efforts to strengthen revenue and improve the quality of spending. Underpinning policy actions comprise initiatives to expand the tax base and improve the efficiency of tax and customs administration; measures to rightsize the civil service; and efforts to maintain the ECF-supported reform agenda on track with a view to facilitating access to full HIPC and MDRI debt relief. In this context, the government is also committed to strengthening treasury management, avoiding accumulation of new payments arrears, and clearing the remaining stock of domestic arrears by 2016. In addition, the authorities intend to pursue a prudent external debt policy, and rely on grants and highly concessional loans. Accordingly, the financing gaps for the remainder of the program period (2010–12) are expected to be filled by donor grants and ECF disbursements; and continued donor support of similar magnitude and nature would be needed to fill the financing needs for 2013–15 (Text Table 8).

Figure 1. Selected fiscal indicators, 2009–15



Source: Ministry of Finance and staff projections

C. Strengthening Economic Competitiveness and Long-Term Growth

Exchange rate developments and prospects

10. **Weak external competitiveness is stifling export growth and diversification.** Over the decade to end-2009, Comoros' real effective exchange rate appreciated by about 23 percent, mainly reflecting the strengthening of the euro *vis-à-vis* the US dollar. Also, available structural indicators suggest that the overall quality of the business environment has been weaker than in peer countries, especially regarding the ease of doing business, government effectiveness, and quality of regulation. These have discouraged entrepreneurship and hampered private sector development. As a result, export performance has been sluggish—including in comparison with other countries in the CFA franc zone—leading to a decline in Comoros share in world exports.

Text Table 4. Doing Business Indicators 2011: Comoros and selected East African Countries

	Comoros	Madagascar	Mozambique	Tanzania	Seychelles	Kenya	Mauritius
Ease of...							
Doing Business [1]	159	140	126	128	95	98	20
Starting a Business	168	70	65	122	109	125	12
Dealing with Construction Permits	68	110	155	179	61	35	39
Registering Property	99	162	144	151	62	129	69
Getting Credit	168	176	128	89	152	6	89
Protecting Investors	132	59	44	93	59	93	12
Paying Taxes	96	72	101	120	38	162	12
Trading Across Borders	135	106	133	109	36	144	22
Enforcing Contracts	152	153	132	32	69	125	61
Closing a Business	183	183	129	113	183	85	71
Memorandum:							
Population (thousands)	659	19625	22894	43739	88	39802	1275
GNI per capita (US$):	870	412	440	500	8480	770	7240

Source: World Bank Doing Business Indicators 2011
[1] Bottom ranking 183 equals worst business climate; top 1 equales best business climate.

11. **Nevertheless, available data suggest that while Comoros' exchange rate is subject to overvaluation pressures, it remains broadly consistent economic fundamentals (Annex I)**.

Text Table 5. Comoros: Assessing the Real Effective Exchange Rate [1]

Methodology / Macroeconomic indicators	Underlying Current Account Balance	Current Account Norm	Estimated over (+) / under (-) valuation
Macroeconomic Balance 2/	-9.9	-9.3	1.7
External Sustainability 2/ 3/	-9.9	-2.5	22.4
Equilibrium Real Exchange Rate 4/	n.a.	n.a.	7.8
Purchasing Power Parity	n.a.	n.a.	9.7

1/ Based on CGER-like and non-CGER methodologies. Regressions based on a non-oil exporting SSA countries.
2/ Based on 2015 projections.
3/ Based on the assumption of maintaing the NFA position at its end-2009 level.
4/ Based on current (2009) and medium term (2015 projections) fundamentals.

12. **Staff encouraged the authorities to closely adhere to the macroeconomic and structural reforms under the ECF, to stem the erosion of competitiveness.** Also, in addition to timely implementation of PRSP plans to promote activity in agriculture, fishing, and tourism, staff urged swift initiation of reforms to improve the business environment.

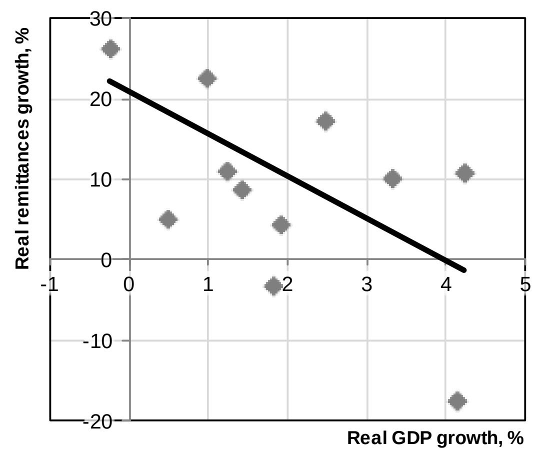
13. **The authorities shared staff's assessment of exchange rate developments and related policy recommendations**. They noted the pressures on the external position, but viewed the exchange rate peg as an appropriate anchor for stability and low inflation. The authorities concurred with the need for rigorous implementation of the reform agenda under the ECF arrangement; and, with technical assistance from the IFC, they have initiated preparations for ambitious initiatives to begin addressing long-standing structural impediments to growth. In this context, they notably plan to establish a one-stop business licensing window.

14. **Comoros's membership of COMESA could promote efficiency in tradable goods production and create new export and investment opportunities.** Technical preparations to adopt COMESA's common external tariff are advanced and final decisions are expected next year, which would reduce Comoros' existing four tariff bands of 0/5/15/20 percent to three bands of 0/10/25 percent. Comoros is also participating as a member of the East and South Africa group in discussions with the EU on a regional interim Economic Partnership Agreement (EPA). Pending issues include the length of the transition period and the size of the accompanying development program. Following Comoros' application for WTO accession in 2007, a draft aide-memoire (a summary of all related tax and regulatory regimes) is expected to be submitted by end-2010 after which a negotiating timetable would be established.

Remittances, scaled-up aid, and growth

15. **Comoros has yet to reap the growth benefits from large-scale remittances.** At over 25 percent of GDP, remittances have helped secure much higher imports than permitted by a narrow export base, but failed to boost domestic economic activity. In a high-costs and high-risks environment, their potential long-term growth impact, via investment, has been negligible; especially as these resources are channeled mostly through informal networks, outside of the financial system. If anything, migration and remittances appear to have stifled growth by constraining the supply of skilled labor and increasing equilibrium wages. Moreover, unlike incomes from domestic economic activity, remittances are hardly taxed, which represents an important distortion with potentially negative repercussions on growth. Not suprisingly, vanilla exporters are singling out migrant worker transfers as an important reason for a higher reservation wage and increasing domestic input costs, erosion of competitiveness, and sluggish exports. Remittances appear also to affect fiscal consolidation efforts—sizable customs revenue from remittances-based imports have been accompanied by weakening mobilization of other revenue categories. To ensure that remittances better support growth, staff urged the authorities to notably (i) improve the investment climate, and (ii) foster competition in the financial sector to lower the cost of remittance transfer and increase the share of remittances channeled through the banking system (Annex II).

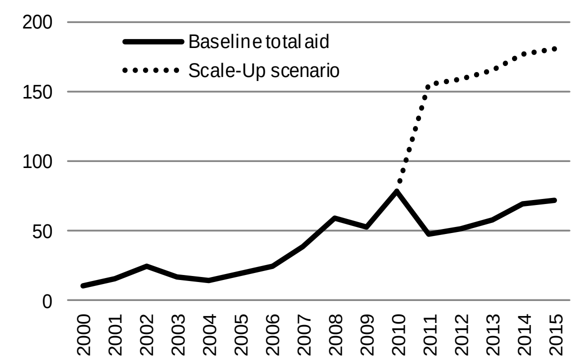
Figure 2. Remittances and growth in Comoros, 1998-2009



Source: IFS and staff estimates.

16. **The prospect of a large increase in aid and FDI from the Gulf region raises questions about Comoros' absorptive capacity, and the potential macroeconomic effects and appropriate policy responses.** At the March 2010 Doha conference donors pledged $540 million in aid for Comoros, equivalent to over 70 percent of Comoros' GDP. In addition, Gulf investors made sizable commitments of foreign direct investment, mostly for the transportation and tourism sectors. If disbursed in full over five years (the scaling-up scenario), aid inflows would increase from 20 percent of GDP in 2009 to 33 percent of GDP in 2011. However, technical work on related projects is not completed yet, and the authorities are still uncertain about the Doha aid amounts and disbursement schedules for the coming years. These resource pledges are therefore not included in the current macroeconomic framework under the ECF. Nevertheless, the mission advised the authorities to guard against the risk of "Dutch Disease" and to avoid deepening Comoros' aid dependency. It underscored investing the scaled-up aid in growth-supporting human and physical capital in due course; and using public sector wage restraint to avoid wage-led price pressures. The government concurred, and has established a secretariat to monitor aid disbursements and guide project implementation; and is planning improvements in capacity for budget preparation and implementation.

Figure 3. Comoros: Aid receipts, 2000–2015 (Millions USD)



Note: The baseline corresponds to the program macroeconomic framework. The scaling-up scenario is hypothetical and assumes all Doha conference pledges are received in 2011-15.
Source: Authorities and staff estimates.

IV. Second Review of the ECF Arrangement

A. Performance under the ECF

17. **Program performance through end-June was satisfactory (MEFP ¶4).** All performance criteria and benchmarks were observed. In particular, revenue was slightly above projections despite delays in putting in place new revenue measures, the wage bill was kept in check, and the benchmark on the primary fiscal balance was observed.

18. **The fiscal position deteriorated in the third quarter (MEFP ¶5).** Revenue mobilization weakened, partly reflecting delays in collecting assessed profit taxes, and in implementing new fiscal measures under the program. In particular, a planned 5 percent increase in the gasoline tax was not introduced; and recently (re)enacted excises—on motor vehicles, business licenses, alcohol and tobacco, as well as radio frequency license fees—are expected to begin generating revenue only in late 2010. The resulting revenue shortfall, together with overruns on transfer spending, pushed the end-September domestic primary deficit above the indicative target. Also, because of delayed budget support from the World Bank and AfDB, the indicative target on net credit to the government was exceeded as well.

Text Table 6. Comoros: Quantitative Indicators Under the ECF[1]
(in millions of Comorian Francs, cumulative since end of previous year, unless otherwise specified)

	Mar.			Jun.			Sep.		
	Indicative Target	Adj. IT	Actual	PC	Adj. PC	Actual	Indicative Target	Adj. IT	Prel
Performance Criteria									
1. Ceiling on net credit to government (NCG) [2]	-391		387 not met	-1,596		-1,709 met	-3,730		590
2. Ceiling on the net accumulation of domestic payments arrears [3]	-159	-2,369	-2,645 met	-9,784	-7,323	-11,222 met	-10,284	-4,572	-11,914
3. Ceiling on new nonconcessional external debt contracted or guaranteed by the government [4, 5]	0		0 met	0		0 met	0		0
4. Ceiling on new short-term external debt contracted or guaranteed by the government [4, 5]	0		0 met	0		0 met	0		0
5. Ceiling on accumulation of external debt service arrears [5]	0		0 met	0		0 met	0		0
Quantitative Benchmarks									
6. Floor on the domestic primary balance	-1,421		-825 met	-2,795		-2,398 met	-1,216		-3,284
7. Floor on total domestic revenues	5,232		5,152 not met	12,028		12,039 met	20,491		18,740
8. Ceiling on expenditures by cash advances	100		89 met	150		148 met	150		148
9. Floor on domestically financed social spending									

[1] Definitions of targets and adjusters are provided in the Technical Memorandum of Understanding (TMU).
[2] Unlike in the monetary survey, NCG includes net ECF purchases.
[3] Targets and realizations adjusted as specified in the TMU.
[4] Excluding trade credits.
[5] Monitored on a continuous basis.

19. **The authorities have introduced corrective measures to offset the third-quarter slippages and keep the 2010 fiscal program on track**. These include the collection of CF 1.55 billion (0.8 percent of GDP) in profit taxes from Comores Télécom; the authorities are also seeking CF 2.2 billion (1.1 percent of GDP) in additional non-tax revenue from the special economic citizenship program. As a result, with expenditures broadly as programmed, the domestic primary budget deficit is projected at 1.6 percent of GDP (1.5 percent of GDP under the program). However, a programmed build-up in government deposits is expected to be lower, and net bank credit to government higher, than anticipated because of the cancellation of a CF 1.8 billion (0.9 percent of GDP) EU food security grant,[2] and the authorities' failure to promptly reduce domestic arrears repayments in response to the lower aid—as provided for under the program.

20. **Implementation of the structural reform agenda has been satisfactory (MEFP ¶6).**

Text Table 7. Comoros: Structural Benchmarks Under the ECF, 2010

Structural indicators	Date	Status
Full computerization of civil servant payment roster and adequate staffing of the unit monitoring wage payments.	March 31, 2010	Met with delay
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	March 31, 2010	Met
Maintaining the petroleum product price-setting mechanism.	Continuous	Met
Appointment of Union Presidency representative in the reform-monitoring committee (CREF)	June 30, 2010	Met
Introduction of computerized pay slips	September 30, 2010	Met
Completion of the census of government employees and officials	December 31, 2010	WB support requested
Implementation of the civil service organizational frameworks	June 30, 2011	In progress

[2] The EU decision sanctioned authorities' delay in preparing projects to advance food security.

B. Program for 2011

2011 budget and financing

21. **The 2011 budget continues the government's medium-term fiscal consolidation and poverty reduction efforts (MEFP ¶8)**. It targets a domestic primary fiscal deficit of 1.3 percent of GDP (1.6 percent of GDP in 2010), with revenue at 14.2 percent of GDP and the wage bill reduced to 8.6 percent of GDP (8.9 percent of GDP in 2010). Domestically funded spending for education and health are expected to increase to 6.1 percent of GDP (5.9 percent of GDP in 2010). Estimated at 2.2 percent of GDP after interim HIPC assistance, the fiscal gap for 2011 is fully covered (Text Table 8).

22. **To help achieve the targeted 14.2 percent of GDP in revenue, the authorities will notably introduce measures to enhance inter-entity cohesion in the management of the revenue agencies**, especially the Directorate General of Taxes; and to improve the efficiency of newly established ad valorem taxation of imports (MEFP ¶9).

Text Table 8. Comoros: Filling the Financing Gap for 2010–12

	2010			2011			2012
	Billions CF	Millions USD	pct of GDP	Billions CF	Millions USD	pct of GDP	pct of GDP
I. Gross financing requirement	4.1	10.7	2.1	4.7	12.2	2.2	2.2
II. Identified financing	3.2	8.3	1.6	2.9	7.5	1.4	1.4
AfDB	0.6	1.5	0.3	0.8	2.0	0.4	0.3
World Bank	1.2	3.0	0.6	1.0	2.5	0.5	0.5
Gulf partners/Arab league and others	...	...	...	1.1	3.0	0.5	0.5
EU payment of AfDB and EIB arrears	1.5	3.8	0.7	...	...	...	...
III. Financing gap (I - II)	0.9	2.3	0.4	1.8	4.7	0.9	0.8
IV. ECF Disbursement	0.9	2.3	0.4	1.8	4.7	0.9	0.8
V. Residual financing gap (III - IV)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: IMF Staff estimates and projections.

23. **On the spending side, the focus remains on close monitoring of wage expenditures** through rigorous implementation of a new computerized wage payment system, and introduction under the 2011 budget of ministry personnel lists that are compatible with medium-term budget viability (MEFP ¶10).

Structural and financial sector reforms

24. **The authorities are continuing preparations for enlisting private sector participation in the management of public utilities.** They have requested a multi-year IFC technical assistance program, and plan to issue calls for bids to potential strategic partners in 2011 (MEFP Table 2 and ¶16).

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Comores Télécom (CT): Following an open bidding process, Mauritius-based BDO de Chazal Dumée has been selected to audit the 2009 financial statements, and Ernest Young to conduct a net-worth assessment of the company. On the basis of these evaluations, the authorities will prepare and issue calls for bids to potential strategic partners before end-March 2011.

Société Comorienne des Hydrocarbures (SCH). A restructuring committee has been set up by ministerial decree to help the government select a preferred reform option from the list prepared by IFC staff. With IFC support, the committee will manage the SCH restructuring process.

Water and Electricity Company (MAMWE). The AfDB is providing financial support for the preparation of a reform strategy.

25. **The health of the banking system strengthened somewhat in 2010 with improvements in profitability and quality of risk**. In June 2010, the ratio of non-performing-to-outstanding loans declined for all banking institutions. However, the National Post and Financial Services (SNPSF) and the Comoros Development Bank (BDC) continue to experience difficulties in complying with key prudential ratios. The authorities have taken steps to strengthen SNPSF management, and are on track with efforts to privatize BDC in the coming months (MEFP ¶13).

26. **The Central Bank (BCC) is implementing recommendations from the 2010 safeguards assessment and improving banking supervision to support financial sector development.** BCC's cash holdings are subject to verification at year-end by an external auditor and the Bank's financial controller reviews monetary data reported to the IMF staff. The Bank's 2009 financial statements will be published on its website soon. Also, work is underway to bring BCC financial statements up to international standards starting in 2011. Furthermore, in line with recommendations by recent IMF (MCM) technical assistance missions, BCC has set up a banking supervision unit, signed an agreement with the Central Bank of Tanzania on joint banking supervision missions, and established cooperation agreements with the French Prudential Supervisory Authority and the Central African Banking Commission (COBAC). Over the next two years, the authorities will address shortcomings in banking supervision pertaining to the adequacy of the legal framework, scope of risks covered by prudential regulation, quality of internal procedures, and the effectiveness of controls performed (MEFP ¶12).

C. Program monitoring, financing assurances, and short-term risks

A modification of the end-December 2010 performance criterion on net credit to government is proposed (MEFP, Table 1). In spite of corrective measures taken to keep revenue on target, the programmed build-up in Treasury deposits with the Central Bank is expected to fall short of expectations because of (i) the cancellation of the 2010 EU food security grant and (ii) the authorities' failure to promptly reduce domestic arrears repayments in response to the lower aid as provided for under the program (TMU ¶10). As a result, net credit to the government is expected to be higher than programmed, necessitating an upwardly adjustment of the related end-December 2010 performance criterion. Notwithstanding this, the underlying objectives of the fiscal program remain broadly unchanged (¶19 above**).**

27. **To strengthen the likelihood of the program's success, three of four prior actions have been completed, and the fourth has been partially executed (MEFP, Table 2).** The program includes quantitative performance criteria for end-December 2010 and end-June 2011, and indicative targets for March 2011 (MEFP, Table 1). The prior actions and proposed structural measures focus on public finance management and key sectors critical to improved growth performance. They aim to enhance revenue mobilization and advance fiscal consolidation, and to expedite reforms of public utilities, essential for strong growth and to lessen potential subsidy pressures on the budget. The third review of the program will focus on structural reforms designed to reinforce control over the wage bill. These include the full implementation of the computerized pay slip system, completion of the civil service census, and the implementation of the new civil service personnel frameworks.

28. **The authorities are on track with discussing and/or signing debt restructuring understandings with bilateral and multilateral creditors, consistent with the November 2009 Paris Club Agreement; and in keeping with the HIPC Initiative framework.** A bilateral agreement has been signed with France, the major Paris Club creditor, and is expected to be signed with Italy by end-2010, and with remaining Club creditors in early 2011. A number of multilateral and official bilateral creditors have agreed to further defer payment of arrears and debt service falling due until end-2010, and the government has initiated discussions with these and commercial creditors on terms comparable with the Paris Club agreement and in the context of the HIPC initiative. The authorities have demonstrated and intend to continue good faith efforts to reach collaborative agreement with the remaining external creditors in line with the Paris Club's comparability of treatment requirement, the HIPC Initiative, and the Fund's lending into arrears policy.

29. **There are risks to the program and medium-term economic outlook.** Union pressures for higher wages, and political resistance to public enterprise reform, pose risks to fiscal consolidation and to the structural reform agenda. Also, a return of political instability following the elections could hinder delivery of anticipated external resources, including FDI. Furthermore, in the absence of much-needed technical assistance, weak absorption and implementation capacity would limit the growth dividend from scaled-up aid and FDI. To mitigate these risks, steadfast implementation of the reform agenda would help maintain the program on track and ensure steady provision of donor financial and technical support. Also, stepped-up efforts will be needed to secure enhanced public support for reforms and stronger program ownership.

30. **The risks to Fund resources are manageable.** Over the remainder of the program period (2010–12), debt service to the Fund would average 0.04 percent of exports of goods and services (Table 7), within Comoros' capacity to repay the Fund.

D. PRSP, HIPC, Data and Other Issues

31. **Implementation of the government's Poverty Reduction Strategy (PRS) is proceeding and a first Annual Performance Review is expected to be completed by end-December 2010 (MEFP ¶19-20).** Implementation of the PRS began in January 2010, and the government is expecting support from the UN for obtaining and analyzing preliminary data on progress thus far. To overcome capacity constraints at the *Direction Generale du Plan*, the AfDB is providing technical assistance to refocus the PRS action plan to better reflect implementation capacity, financial constraints and priority objectives. The revised action plan will be completed by early 2011.

32. **Progress is being made towards meeting the HIPC debt management triggers.** The Debt Directorate will soon be installing new debt management software and equipment, and receiving training with the assistance of the AfDB. In addition, the government intends to request an evaluation of, and recommendations to improve, its debt management capacity from the World Bank (DeMPA). A first annual report on debt for 2010 is planned for next year.

33. **Macroeconomic data are broadly adequate for surveillance, despite numerous shortcomings.** National accounts, prices and balance of payments data are weak in terms of accuracy, timeliness and periodicity, but fiscal and monetary data reach a higher standard. A peripatetic technical assistance project in national accounts and price statistics supported by the AfDB will start in November 2010. The real sector statistics division at the *Direction Generale du Plan* is understaffed and its ability to absorb additional technical assistance is weak. Strengthening its capacity in compiling reliable and timely real sector statistics and related data (e.g., agricultural statistics) should be a priority.

34. **Program-related policies are generally supported by important stakeholders.** The mission met with representatives from the private sector, unions, civic society, and the national assembly. Despite specific concerns, particularly about the public enterprise reform process, there is broad agreement on the importance of achieving the program targets and of reaching the HIPC initiative completion point.

V. Staff Appraisal

35. **Comoros is experiencing a steady albeit slow return of political stability and a modest uptick in growth.** The run-up to the end-year presidential elections has been free of major political disturbances, with the first round successfully completed in November. Real GDP growth is catching up with that of population expansion, heralding much needed per capita income gains in the period ahead. Concurrently, prospects point to a strengthening of the budget position beginning in 2010. Against a backdrop of heightened donor and investor interest in the country, especially from the Gulf region, these developments could usher in a turnaround in Comoros' economic fortunes. Staff urges the authorities to ensure that supportive, complementary, reforms are nurtured and expedited.

36. **Preserving macroeconomic stability must remain a key medium-term objective for the government**. The ECF-supported program calls for efforts to strengthen revenue

mobilization and keep spending at levels compatible with medium-term fiscal sustainability. In this context, the authorities are notably striving to enhance inter-entity cohesion in the management of the revenue agencies, especially the Directorate General of Taxes. They are also maintaining wage expenditures under scrutiny through rigorous implementation of a new computerized wage payment system, as well as the introduction under the 2011 budget of ministry personnel lists that are compatible with medium-term budget viability. Staff urges timely implementation of the ministry personnel lists to ensure that the fiscal program stays on track.

37. **Staff welcomes recent progress in strengthening banking supervision, but urges the authorities to implement swiftly remaining Fund recommendations.** These include addressing remaining shortcomings in (i) the adequacy of the legal framework, the scope of risks covered by prudential regulation, (iii) the quality of internal procedures and controls, and (iv) the reporting standards (IFRS).

38. **Putting the economy on a path of strong sustained growth will require determined implementation of ambitious structural reforms.** Staff welcomes the authorities' plans to issue calls in 2011 for bids to enlist strategic partners in the management of the public utilities. With technical assistance from the IFC, the authorities have initiated preparations for reforms to begin addressing deep-seated structural impediments to growth, including costly administrative barriers to starting and closing businesses. The authorities are also developing policies to make remittances better support growth, and to maximize the growth benefits from increasing aid and FDI. While the real effective exchange rate appears to be broadly in line with economic fundamentals, these efforts will be crucial to keeping overvaluation pressures in check, and to strengthening competitiveness. Staff urges the authorities to ensure more involvement of the private sector in economic policy debate, which would help inform investors' resource allocation decisions. Full implementation of reforms in these areas would help raise real GDP growth to 4–5 percent by 2015, enhancing the effectiveness of Comoros' poverty reduction strategy.

39. **Staff recommends the completion of the second review under the ECF arrangement and of the financing assurances review, and modification of the end-2010 performance criterion on net credit to government.** Corrective actions to offset third-quarter fiscal slippages are being taken to ensure that Comoros' macroeconomic performance remains broadly on track, in keeping with government efforts to enhance revenue mobilization and reestablish spending discipline. However, progress on the structural reform agenda needs to be expedited, to ensure that the country's growth and poverty reduction prospects are not compromised. Against this background, staff welcomes the renewed government collaboration framework with IFC in public enterprise and business environment reforms. The onus for maintaining these initiatives on track remains on the authorities; however, donor and especially IMF support will be critical in bolstering the government's efforts and resolve.

40. **The main risks to the program relate to political frictions between the Union and island authorities**. Resumption of inter-entity tensions would delay implementation of politically difficult reforms, in particular the streamlining of public service staffing levels and

restructuring of public utilities. There seems however to be broad national consensus on the importance of achieving the program targets and of reaching the HIPC initiative completion point. This, together with greater efforts to enlist public support for reforms, should help mitigate the risks in the period ahead.

41. **It is proposed that the next Article IV consultation with the Union of Comoros take place within 24 months subject to the provisions of the decision on consultation cycles in program countries**.

Table 1. Comoros: Selected Economic and Financial Indicators, 2008–15

	2008	2009	2010 Prog 1st Rev.	2010 Rev. prog.	2011 Proj	2012 Proj	2013 Proj	2014 Proj	2015 Proj
(Annual percentage change, unless otherwise indicated)									
National income and prices									
Real GDP	1.0	1.8	2.1	2.1	2.5	3.5	4.0	4.0	4.0
GDP deflator	5.5	4.6	3.8	3.8	3.3	3.1	3.1	3.3	3.3
Consumer price index (annual averages)	4.8	4.8	2.6	2.7	3.0	2.9	2.9	3.0	3.0
Consumer price index (end period)	7.4	2.2	3.1	3.2	2.8	2.9	3.0	3.0	3.0
Money and credit									
Net foreign assets	-6.8	9.7	9.6	0.3	1.5	1.2	1.5	2.2	4.6
Domestic credit	41.7	34.9	7.2	9.7	15.1	10.5	10.0	9.9	10.1
Net credit to government (Treasury)	31.2	13.4	-28.7	-7.8	17.5	4.3	2.6	1.5	-2.6
Broad money	11.6	13.5	7.5	12.7	8.6	7.3	7.5	7.7	7.6
Velocity (GDP/end-year broad money)	3.5	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.2
External sector									
Exports, f.o.b.	-55.4	93.1	17.1	14.1	13.9	8.2	7.8	7.8	7.9
Imports, f.o.b.	28.5	1.6	13.1	14.4	-1.4	6.3	2.3	5.7	4.0
Export volume	-35.0	71.2	18.1	12.5	9.8	2.1	1.8	2.7	2.7
Import volume	33.1	10.6	-0.8	-4.8	-7.0	4.8	-0.3	4.9	2.8
Terms of trade	-40.8	22.8	-13.0	-15.6	-2.1	4.5	3.1	4.2	3.8
(in percent of GDP, unless otherwise indicated)									
Investment and savings									
Investment	14.3	12.4	16.6	17.2	17.3	18.1	19.0	19.8	20.4
Public	9.3	4.7	7.5	7.5	7.7	8.0	8.5	8.8	9.0
Private	5.0	7.7	9.1	9.7	9.6	10.1	10.6	11.0	11.5
Gross national savings	3.2	3.4	7.7	7.1	3.7	5.0	7.0	7.9	9.3
Public	1.0	4.1	7.6	8.5	1.0	2.1	2.4	3.1	3.6
Private	2.3	-0.7	0.1	-1.4	2.8	2.9	4.6	4.8	5.7
Government budget									
Domestic Revenue	13.1	13.9	14.3	14.4	14.2	14.5	14.7	15.1	15.5
Total grants	10.4	9.7	13.7	14.5	7.1	7.2	6.9	7.1	7.1
Total expenditure	26.0	23.0	23.2	24.0	23.2	22.7	22.9	23.0	23.0
Current expenditure	16.8	18.1	15.6	16.5	15.5	14.7	14.5	14.3	14.0
Domestic primary balance	-2.8	-2.6	-1.5	-1.6	-1.3	-0.5	-0.4	0.0	0.4
Change in arrears	0.2	0.2	-7.6	-7.8	-0.4	-0.5	-0.8	-0.9	-0.8
External interest	0.1	-0.1	-2.2	-2.4	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.4	-5.4	-5.4	-0.4	-0.5	-0.8	-0.9	-0.8
Overall balance (cash basis)	-2.3	0.8	-2.7	-3.0	-2.2	-1.5	-2.2	-1.7	-1.2
Excluding grants	-12.8	-8.9	-16.4	-17.4	-9.4	-8.7	-9.0	-8.8	-8.3
Financing	2.4	-0.7	-0.6	0.9	0.0	-0.7	-0.7	-0.9	-1.0
Foreign (net)	1.2	-1.3	0.8	1.3	-0.7	-0.9	-0.8	-1.0	-0.9
Domestic (net)	1.1	0.6	-1.4	-0.4	0.7	0.2	0.1	0.1	-0.1
Financing gap [1]	0.0	0.0	3.3	2.1	2.2	2.2	2.9	2.6	2.2
External sector									
Exports of goods and services	14.0	13.2	15.0	13.2	13.7	14.0	14.0	14.3	14.5
Imports of goods and services	48.4	47.9	50.5	50.8	47.6	47.4	45.3	44.6	43.2
Current account balance	-11.1	-9.0	-8.9	-10.2	-13.6	-13.1	-12.0	-11.9	-11.1
Excl. official and private transfers	-34.3	-34.7	-35.9	-38.1	-34.2	-33.6	-31.4	-30.4	-28.7
External debt, NPV in percent of GDP [2]	37.4	46.2	41.8	41.8	40.2	38.4	36.5	34.5	32.5
External debt, NPV in percent of exports of goods & services	267	330	308	308	286	275	266	255	242
External debt service (in percent of exports of goods and services)	12.2	14.3	19.5	19.5	9.7	9.1	7.8	8.3	10.3
Overall balance of payments (in millions of U.S. dollars)	-15.9	30.1	-6.0	-13.7	-11.8	-12.3	-16.6	-15.2	-10.8
Official grants and loans (percent of GDP)	11.1	9.7	13.9	14.9	7.3	7.4	7.1	7.3	7.3
Gross international reserves (end of period)									
In millions of U.S. dollars	110.4	153.1	153.3	137.5	139.3	139.8	140.6	141.5	144.1
In months of imports of goods & services	5.1	7.1	6.5	6.1	6.3	6.0	5.9	5.7	5.6
Real effective exchange rate (2000=100)	122.3	122.6	...	...	...	...	...	...	...
Exchange rate CF/US$ (period average)	334.3	353.2	360.7	383.2	...	...	...	...	...
Memorandum items:									
GDP (nominal, in bilions of CF)	178.0	189.6	201.0	201.0	212.7	226.8	243.3	261.4	280.8

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

[1] The program financing gap for 2010–12 will be covered by grants and ECF financing as spelled out in Text Table 8.

[2] External debt ratios before traditional debt-relief. 2008 debt data not comparable, as it does not account for the full stock of debt.

Table 2A. Comoros: Consolidated Government Financial Operations, 2008–15
(in millions of Comorian francs, cumulative, unless otherwise indicated)

	2008	2009	2010		2011		2012		2013	2014	2015
			Prog 1st Rev.	Rev. prog.	Prog 1st Rev.	Rev. prog.	Prog 1st Rev.	Rev. prog.	Proj	Proj	Proj
Total revenue and grants	41,853	44,776	56,340	57,912	45,322	45,349	49,063	49,210	52,606	58,082	63,384
Revenues	23,266	26,401	28,838	28,848	30,175	30,175	32,949	32,939	35,871	39,580	43,509
Tax revenues	18,176	20,515	25,097	22,479	26,367	26,337	28,869	28,826	31,399	34,775	38,312
Direct and indirect taxes	9,006	10,867	14,435	11,998	15,647	16,000	17,511	17,371	18,752	20,756	22,776
Taxes on international trade and transactions	9,169	9,648	10,663	10,481	10,721	10,609	11,357	11,208	11,603	12,597	13,406
Nontax revenues	5,091	5,887	3,741	6,368	3,808	3,838	4,080	4,113	4,472	4,805	5,197
External grants	18,586	18,374	27,502	29,064	15,147	15,174	16,114	16,271	16,734	18,502	19,875
Budgetary assistance	2,857	7,743	14,399	15,177	0	0	0	0	0	0	0
Projects (incl. techn.assist.)	15,729	10,631	12,678	13,444	14,221	14,205	15,146	15,259	16,734	18,502	19,875
HIPC interim assistance			425	444	927	969	968	1,012	0	0	0
Total expenditure and net lending	46,338	43,627	46,567	48,300	49,105	49,269	51,484	51,464	55,798	60,220	64,556
Current expenditure	29,855	34,240	31,432	33,155	32,377	32,941	33,168	33,428	35,226	37,255	39,386
Primary current expenditures	26,490	29,806	29,190	29,391	30,108	30,107	30,784	30,436	32,110	33,931	35,918
Wages and salaries	15,690	17,034	17,864	17,864	18,350	18,350	17,875	17,875	18,516	19,190	19,902
Goods and services	8,122	7,447	7,492	7,692	7,743	7,743	8,298	8,307	9,032	9,839	10,714
Transfers and pensions	2,678	5,325	3,835	3,835	4,015	4,015	4,611	4,254	4,562	4,902	5,301
Interest payments	1,273	1,069	1,100	1,425	989	987	1,021	1,008	941	919	885
External debt	888	715	906	1,197	785	781	807	793	746	736	688
Before rescheduling			670	686	649	674	623	649	618	601	582
On restructured obligations			236	511	136	107	184	144	128	135	106
Domestic debt	386	355	195	228	204	206	214	215	195	183	197
Foreign-financed project assistance	945	1,585	634	1,412	711	1,094	757	1,175	1,289	1,425	1,530
Technical assistance	1,147	1,780	507	928	569	753	606	809	887	981	1,053
Capital expenditure	16,483	8,939	15,135	15,145	16,728	16,328	18,316	18,036	20,572	22,965	25,169
Domestically financed investment	1,758	1,563	2,598	2,598	2,718	2,900	3,384	3,611	4,748	5,525	6,427
Foreign-financed investment	14,725	7,326	11,960	11,970	13,389	12,807	14,260	13,754	15,094	16,646	17,881
Counterpart funds-financed	0	50	577	577	621	621	672	672	730	793	862
Net lending	0	448	0	0	0	0	0	0	0	0	0
Domestic primary balance	-4,981	-4,967	-2,950	-3,141	-2,651	-2,832	-1,218	-1,108	-986	124	1,165
Overall balance (commitment basis)	-4,485	1,148	9,773	9,611	-3,783	-3,920	-2,420	-2,253	-3,193	-2,138	-1,172
Excluding grants	-23,072	-17,226	-17,729	-19,453	-18,930	-19,094	-18,535	-18,525	-19,927	-20,640	-21,047
Change in net arrears	309	430	-15,212	-15,593	-851	-851	-1,132	-1,134	-2,048	-2,327	-2,247
Interest on external debt	232	-271	-4,428	-4,809.5	0	0	0	0	0	0	0
Domestic arrears [1]	77	702	-10,784	-10,784	-851	-851	-1,132	-1,134	-2,048	-2,327	-2,247
Excluding float		-2,147									
Overall balance (cash basis)	-4,176	1,579	-5,439	-5,982	-4,633	-4,771	-3,553	-3,388	-5,240	-4,465	-3,418
Excluding grants	-22,763	-16,795	-32,940	-35,046	-19,780	-19,945	-19,667	-19,659	-21,975	-22,967	-23,293
Errors and omissions (+ = underfinancing)	-57	-324									
Financing	4,233	-1,255	-1,205	1,859	-992	83	-2,041	-1,571	-1,747	-2,326	-2,833
Foreign (net)	2,218	-2,387	1,653	2,605	-1,297	-1,466	-1,939	-2,021	-2,028	-2,489	-2,540
Drawings, PIP (identified)	1,088	60	424	866	448	448	477	478	535	549	590
Amortization	-2,164	-2,239	-2,800	-4,132	-2,650	-2,722	-2,653	-2,721	-2,563	-3,038	-3,130
Before rescheduling			-2,510	-2,560	-2,433	-2,514	-2,379	-2,461	-2,206	-2,398	-2,489
On restructured obligations			-290	-1,572	-217	-208	-274	-259	-357	-641	-641
Clearance of deferred arrears and debt service [2]		-5,016									
Change in net arrears (principal)	3,015	-1,155	-12,252	-13,937	0	0	0	0	0	0	0
Exceptional financing	280	5,964	16,282	19,808	905	807	237	221	0	0	0
Arrears restructuring and deferral			15,103	18,700	0	0	0	0	0	0	0
Current maturities restructuring and deferral			1,178	1,108	905	807	237	221	0	0	0
Domestic (net)	2,015	1,131	-2,858	-746	305	1,549	-102	450	281	163	-293
Bank financing	1,320	1,131	-2,858	-746	305	1,549	-102	450	281	163	-293
Central bank	1,320	1,357	-2,445	-333	512	1,756	208	761	436	318	-293
Of which: IMF	1,826	1,693	0	920	0	0	0	0	0	-267	-770
Commercial banks	0	-226	-413	-413	-207	-207	-310	-310	-155	-155	0
Nonbank financing	695	0	0	0	0	0	0	0	0	0	0
Financing gap [3] (+ = underfinancing)	0	0	6,644	4,123	5,625	4,689	5,594	4,958	6,988	6,791	6,251
Memorandum items:											
GDP (nominal)	178,047	189,586	200,995	201,028	212,644	212,732	226,484	226,823	243,319	261,428	280,815
Debt service to be paid in cash [4]			2,200	2,343	1,603	1,727	2,255	2,280	3,309	3,774	3,818

Sources: Ministry of Finance; and IMF staff estimates.

[1] Quantitative PCs and benchmarks on net accumulation of domestic arrears exclude float (nil in projections).

[2] Includes further deferral of arrears to the HIPC decision point, following which these arrears are assumed to be cleared through restructuring or further deferral.

[3] The program financing gap for 2010–12 will be covered by grants and ECF financing as spelled out in Text Table 8.

[4] Net of HIPC interim assistance from mid-2010 to 2012.

Table 2B. Comoros: Consolidated Government Financial Operations, 2008–15
(in percentage of GDP, cumulative, unless otherwise indicated)

	2008	2009	2010		2011		2012		2013	2014	2015
			Prog 1st Rev.	Rev. prog.	Prog 1st Rev.	Rev. prog.	Prog 1st Rev.	Rev. prog.	Proj	Proj	Proj
Total revenue and grants	23.5	23.6	28.0	28.8	21.3	21.3	21.7	21.7	21.6	22.2	22.6
Revenues	13.1	13.9	14.3	14.4	14.2	14.2	14.5	14.5	14.7	15.1	15.5
Tax revenues	10.2	10.8	12.5	11.2	12.4	12.4	12.7	12.7	12.9	13.3	13.6
Direct and indirect taxes	5.1	5.7	7.2	6.0	7.4	7.5	7.7	7.7	7.7	7.9	8.1
Taxes on international trade and transactions	5.2	5.1	5.3	5.2	5.0	5.0	5.0	4.9	4.8	4.8	4.8
Nontax revenues	2.9	3.1	1.9	3.2	1.8	1.8	1.8	1.8	1.8	1.8	1.9
External grants	10.4	9.7	13.7	14.5	7.1	7.1	7.1	7.2	6.9	7.1	7.1
Budgetary assistance	1.6	4.1	7.2	7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects (incl. techn.assist.)	8.8	5.6	6.3	6.7	6.7	6.7	6.7	6.7	6.9	7.1	7.1
HIPC interim assistance			0.2	0.2	0.4	0.5	0.4	0.4	0.0	0.0	0.0
Total expenditure and net lending	26.0	23.0	23.2	24.0	23.1	23.2	22.7	22.7	22.9	23.0	23.0
Current expenditure	16.8	18.1	15.6	16.5	15.2	15.5	14.6	14.7	14.5	14.3	14.0
Primary current expenditures	14.9	15.7	14.5	14.6	14.2	14.2	13.6	13.4	13.2	13.0	12.8
Wages and salaries	8.8	9.0	8.9	8.9	8.6	8.6	7.9	7.9	7.6	7.3	7.1
Goods and services	4.6	3.9	3.7	3.8	3.6	3.6	3.7	3.7	3.7	3.8	3.8
Transfers and pensions	1.5	2.8	1.9	1.9	1.9	1.9	2.0	1.9	1.9	1.9	1.9
Interest payments	0.7	0.6	0.5	0.7	0.5	0.5	0.5	0.4	0.4	0.4	0.3
External debt	0.5	0.4	0.5	0.6	0.4	0.4	0.4	0.3	0.3	0.3	0.2
Before rescheduling			0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2
On restructured obligations			0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Domestic debt	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign-financed project assistance	0.5	0.8	0.3	0.7	0.3	0.5	0.3	0.5	0.5	0.5	0.5
Technical assistance	0.6	0.9	0.3	0.5	0.3	0.4	0.3	0.4	0.4	0.4	0.4
Capital expenditure	9.3	4.7	7.5	7.5	7.9	7.7	8.1	8.0	8.5	8.8	9.0
Domestically financed investment	1.0	0.8	1.3	1.3	1.3	1.4	1.5	1.6	2.0	2.1	2.3
Foreign-financed investment	8.3	3.9	6.0	6.0	6.3	6.0	6.3	6.1	6.2	6.4	6.4
Counterpart funds-financed	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net lending	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance	-2.8	-2.6	-1.5	-1.6	-1.2	-1.3	-0.5	-0.5	-0.4	0.0	0.4
Overall balance (commitment basis)	-2.5	0.6	4.9	4.8	-1.8	-1.8	-1.1	-1.0	-1.3	-0.8	-0.4
Excluding grants	-13.0	-9.1	-8.8	-9.7	-8.9	-9.0	-8.2	-8.2	-8.2	-7.9	-7.5
Change in net arrears	0.2	0.2	-7.6	-7.8	-0.4	-0.4	-0.5	-0.5	-0.8	-0.9	-0.8
Interest on external debt	0.1	-0.1	-2.2	-2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears [1]	0.0	0.4	-5.4	-5.4	-0.4	-0.4	-0.5	-0.5	-0.8	-0.9	-0.8
Excluding float		-1.1									
Overall balance (cash basis)	-2.3	0.8	-2.7	-3.0	-2.2	-2.2	-1.6	-1.5	-2.2	-1.7	-1.2
Excluding grants	-12.8	-8.9	-16.4	-17.4	-9.3	-9.4	-8.7	-8.7	-9.0	-8.8	-8.3
Errors and omissions (+ = underfinancing)	0.0	-0.2									
Financing	2.4	-0.7	-0.6	0.9	-0.5	0.0	-0.9	-0.7	-0.7	-0.9	-1.0
Foreign (net)	1.2	-1.3	0.8	1.3	-0.6	-0.7	-0.9	-0.9	-0.8	-1.0	-0.9
Drawings, PIP (identified)	0.6	0.0	0.2	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Amortization	-1.2	-1.2	-1.4	-2.1	-1.2	-1.3	-1.2	-1.2	-1.1	-1.2	-1.1
Before rescheduling			-1.2	-1.3	-1.1	-1.2	-1.1	-1.1	-0.9	-0.9	-0.9
On restructured obligations			-0.1	-0.8	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
Clearance of deferred arrears and debt service [2]		-2.6									
Change in net arrears (principal)	1.7	-0.6	-6.1	-6.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.2	3.1	8.1	9.9	0.4	0.4	0.1	0.1	0.0	0.0	0.0
Arrears restructuring and deferral			7.5	9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current maturities restructuring and deferral	0.0	0.0	0.6	0.6	0.4	0.4	0.1	0.1	0.0	0.0	0.0
Domestic (net)	1.1	0.6	-1.4	-0.4	0.1	0.7	0.0	0.2	0.1	0.1	-0.1
Bank financing	0.7	0.6	-1.4	-0.4	0.1	0.7	0.0	0.2	0.1	0.1	-0.1
Central bank	0.7	0.7	-1.2	-0.2	0.2	0.8	0.1	0.3	0.2	0.1	-0.1
Of which: IMF	1.0	0.9	0.0	0.5	0.0	0.0	0.0	0.0	0.0	-0.1	-0.3
Commercial banks	0.0	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Nonbank financing	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap [3] (+ = underfinancing)	0.0	0.0	3.3	2.1	2.6	2.2	2.5	2.2	2.9	2.6	2.2
Memorandum items:											
GDP (nominal)	178,047	189,586	200,995	201,028	212,644	212,732	226,484	226,823	243,319	261,428	280,815
Debt service to be paid in cash [4]			1.1	1.2	0.8	0.8	1.0	1.0	1.4	1.4	1.4

Sources: Ministry of Finance; and IMF staff estimates.

[1] Quantitative PCs and benchmarks on net accumulation of domestic arrears exclude float (nil in projections).

[2] Includes further deferral of arrears to the HIPC decision point, following which these arrears are assumed to be cleared through restructuring or further deferral.

[3] The program financing gap for 2010–12 will be covered by grants and ECF financing as spelled out in Text Table 8.

[4] Net of HIPC interim assistance from mid-2010 to 2012.

Table 2C. Comoros: Consolidated Government Financial Operations, 2010–11
(in millions of Comorian francs, cumulative, unless otherwise indicated)

	2010							2011	
	Mar	Jun		Sep		Dec		Mar	Jun
		Prog 1st Rev.	Actual	Prog 1st Rev.	Prel	Prog 1st Rev.	Rev. prog.	Prog.	Prog.
Total revenue and grants	11,936	32,766	31,161	44,635	40,514	56,340	57,912	10,824	22,013
Revenues	5,152	12,028	12,039	20,491	18,740	28,838	28,848	7,008	14,446
Tax revenues	4,477	9,959	9,481	17,747	15,398	25,097	22,479	6,049	12,527
Direct and indirect taxes	2,285	6,174	4,725	10,177	7,164	14,435	11,998	3,821	7,753
Taxes on international trade and transactions	2,192	3,785	4,756	7,571	8,234	10,663	10,481	2,228	4,774
Nontax revenues	676	2,069	2,558	2,744	3,342	3,741	6,368	960	1,919
External grants	6,784	20,738	19,122	24,145	21,774	27,502	29,064	3,816	7,567
Budgetary assistance	3,610	14,399	14,415	14,399	14,466	14,399	15,177	0	0
Projects (incl. techn.assist.)	3,174	6,339	4,707	9,508	7,061	12,678	13,444	3,551	7,103
HIPC interim assistance				237	248	425	444	264	464
Total expenditure and net lending	9,480	22,243	20,112	32,849	30,577	46,567	48,300	11,507	23,919
Current expenditure	7,189	14,676	15,340	21,576	22,922	31,432	33,155	8,005	15,842
Primary current expenditures	5,855	13,525	13,557	19,836	20,208	29,190	29,391	7,229	14,437
Wages and salaries	4,161	8,664	8,388	12,995	12,778	17,864	17,864	4,642	9,267
Goods and services	1,210	3,633	3,592	5,050	4,939	7,492	7,692	1,703	3,484
Transfers and pensions	484	1,227	1,577	1,791	2,490	3,835	3,835	883	1,686
Interest payments	329	581	470	884	744	1,100	1,425	314	482
External debt	241	483	321	738	571	906	1,197	265	379
Before rescheduling	237	314	317	553	566	670	686	248	325
On restructured obligations	4	169	4	185	5	236	511	17	54
Domestic debt	88	97	149	146	173	195	228	49	103
Foreign-financed project assistance	473	317	847	475	1,271	634	1,412	273	547
Technical assistance	532	254	466	380	699	507	928	188	376
Capital expenditure	2,291	7,568	4,772	11,273	7,654	15,135	15,145	3,502	8,077
Domestically financed investment	122	1,299	880	1,870	1,816	2,598	2,598	145	1,363
Foreign-financed investment	2,169	5,980	3,892	8,970	5,838	11,960	11,970	3,202	6,403
Counterpart funds-financed	0	289	0	433	0	577	577	155	311
Net lending	0	0	0	0	0	0	0	0	0
Domestic primary balance	-825	-2,795	-2,398	-1,216	-3,284	-2,950	-3,141	-366	-1,354
Overall balance (commitment basis)	2,456	10,523	11,048	11,786	9,937	9,773	9,611	-683	-1,906
Excluding grants	-4,328	-10,215	-8,074	-12,359	-11,837	-17,729	-19,453	-4,498	-9,473
Change in net arrears	-1,407	-10,181	-9,433	-14,712	-14,759	-15,212	-15,593	0	-283
Interest on external debt	-387	-397	-387	-4,428	-4,809	-4,428	-4,809	0	0
Domestic arrears [1]	-1,020	-9,784	-9,046	-10,284	-9,949	-10,784	-10,784	0	-283
Excluding float	-2,645		-11,222		-11,914				
Overall balance (cash basis)	1,049	342	1,615	-2,926	-4,821	-5,439	-5,982	-683	-2,190
Excluding grants	-5,735	-20,396	-17,507	-27,071	-26,596	-32,940	-35,046	-4,498	-9,757
Errors and omissions (+ = underfinancing)	-1,297	0	372	0	59	0	0	0	0
Financing	248	-2,818	-1,988	-2,853	4,763	-1,205	1,859	683	218
Foreign (net)	-139	-359	-279	1,740	4,172	1,653	2,605	-496	-686
Drawings, PIP (identified)	0	212	199	318	748	424	866	112	224
Amortization	-889	-1,401	-1,311	-2,136	-2,074	-2,800	-4,132	-790	-1,247
Before rescheduling	-876	-1,257	-1,269	-1,941	-1,979	-2,510	-2,560	-737	-1,143
On restructured obligations	-13	-144	-42	-195	-95	-290	-1,572	-53	-104
Change in net arrears (principal)	-1,165	-1,235	-1,195	-12,252	-13,937	-12,252	-13,937	0	0
Exceptional financing	1,915	2,065	2,028	15,810	19,435	16,282	19,808	183	337
Arrears restructuring and deferral	1,536	1,536	1,536	15,103	18,700	15,103	18,700	0	0
Current maturities restructuring and deferral	380	529	493	707	735	1,178	1,108	183	337
Domestic (net)	387	-2,459	-1,709	-4,593	590	-2,858	-746	1,179	904
Bank financing	387	-2,459	-1,709	-4,593	590	-2,858	-746	1,179	904
Central bank	465	-2,356	-1,392	-4,324	756	-2,445	-333	1,220	966
Of which: IMF	0	0	0	0	920	0	920	0	0
Commercial banks	-78	-103	-317	-269	-166	-413	-413	-41	-62
Nonbank financing	0	0	0	0	0	0	0	0	0
Financing gap [3] (+ = underfinancing)	0	2,477	0	5,779	0	6,644	4,123	0	1,972
Memorandum items:									
GDP (nominal)	201,028	200,995	201,028	200,995	201,028	200,995	201,028	212,732	212,732
Debt service to be paid in cash [4]	754	1,452	1,186	3,507	1,708	3,680	3,823	608	824

Sources: Ministry of Finance; and IMF staff estimates.

[1] Quantitative PCs and benchmarks on net accumulation of domestic arrears exclude float (nil in projections).

[2] Includes further deferral of arrears to the HIPC decision point, following which these arrears are assumed to be cleared through restructuring or further deferral.

[3] The program financing gap for 2010–12 will be covered by grants and ECF financing as spelled out in Text Table 5.

[4] Net of HIPC interim assistance from mid-2010 to 2012.

Table 3. Comoros: Monetary Survey, 2008–15
(in millions of Comorian francs unless otherwise indicated)

	2008	2009	2010 Proj	2011 Proj	2012 Proj	2013 Proj	2014 Proj	2015 Proj
Net foreign assets	40,203	44,114	44,264	44,919	45,458	46,139	47,134	49,310
Central bank Assets	39,861	51,601	52,545	53,512	53,972	54,550	55,162	56,441
Central bank Liabilities	-2,379	-8,108	-9,028	-9,028	-9,028	-9,028	-8,761	-7,992
Commercial Banks Assets	3,612	2,089	2,215	2,344	2,499	2,681	2,881	3,094
Commercial Banks Liabilities	-890	-1,468	-1,468	-1,909	-1,985	-2,065	-2,147	-2,233
Net domestic assets	10,496	13,419	20,584	25,522	30,150	35,239	40,593	45,240
Domestic credit	27,503	37,095	40,682	46,814	51,724	56,916	62,557	68,895
Net credit to government [1]	5,246	7,266	5,195	6,744	7,195	7,475	7,639	7,866
Of which: Treasury	8,473	9,604	8,858	10,407	10,857	11,138	11,301	11,008
Claims on public enterprises	2,744	1,303	1,975	1,975	1,975	1,975	1,975	1,975
Claims on other financial institutions	53	478	319	319	319	319	319	319
Claims on private sector	19,460	28,048	33,511	38,095	42,554	47,466	52,944	59,054
Other items net	-17,007	-23,676	-20,098	-21,292	-21,575	-21,677	-21,964	-23,654
Broad money	50,699	57,533	64,848	70,441	75,608	81,378	87,727	94,551
Money	34,622	35,664	40,198	43,665	46,868	50,548	54,603	58,970
Currency in circulation	12,335	14,291	16,107	17,497	18,780	20,213	21,791	23,485
Demand deposits	22,287	21,373	24,090	26,168	28,088	30,231	32,590	35,125
Quasi-money	16,077	21,869	24,650	26,776	28,740	30,830	33,124	35,581
Memorandum items (in percent of beginning period broad money):								
Net foreign assets	-6.5	7.7	0.3	1.0	0.8	0.9	1.2	2.5
Net domestic assets	18.1	5.8	12.5	7.6	6.6	6.7	6.6	5.3
Domestic credit	17.8	18.9	6.2	9.5	7.0	6.9	6.9	7.2
Net credit to government	5.1	4.0	-3.6	2.4	0.6	0.4	0.2	0.3
Credit to public enterprises	3.8	-2.8	1.2	0.0	0.0	0.0	0.0	0.0
Credit to private sector	9.2	16.9	9.5	7.1	6.3	6.5	6.7	7.0
Other items (net)	0.3	-13.2	6.2	-1.8	-0.4	-0.1	-0.4	-1.9
Broad money	11.6	13.5	12.7	8.6	7.3	7.6	7.8	7.8
Money	5.8	2.1	7.9	5.3	4.5	4.9	5.0	5.0
Quasi-money	5.8	11.4	4.8	3.3	2.8	2.8	2.8	2.8
Velocity (GDP/end-year broad money)	3.5	3.3	3.3	3.2	3.2	3.2	3.2	3.2
Credit to private sector (percent change)	27.3	44.1	19.5	13.7	11.7	11.5	11.5	11.5

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

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

Table 4. Comoros: Balance of Payments, 2008–15
(in millions of Comorian francs unless otherwise indicated)

	2008	2009	2010 Proj	2011 Proj	2012 Proj	2013 Proj	2014 Proj	2015 Proj
Current Account	-19,675	-17,081	-20,476	-28,830	-29,665	-29,160	-31,097	-31,268
Goods and Services	-61,200	-65,762	-75,500	-72,066	-75,589	-76,197	-79,186	-80,501
Trade Balance	-56,882	-55,815	-63,890	-62,250	-66,051	-67,278	-70,983	-73,570
Exports (f.o.b.)	2,190	4,230	4,828	5,498	5,948	6,411	6,913	7,455
Imports (f.o.b.)	-59,072	-60,045	-68,718	-67,748	-71,999	-73,689	-77,896	-81,025
Services (net)	-4,319	-9,947	-11,610	-9,816	-9,538	-8,919	-8,203	-6,931
Receipts	22,811	20,806	21,773	23,682	25,875	27,667	30,373	33,319
Payments	-27,130	-30,753	-33,383	-33,498	-35,413	-36,586	-38,576	-40,251
Income (net)	67	-4	-1,168	-653	-536	-296	-376	-211
Credit	955	711	29	128	257	450	360	478
Debit	-888	-715	-1,197	-781	-793	-746	-736	-688
of which: Interest on rescheduled obligations			-511	-107	-144	-128	-135	-106
Current Transfers (net)	41,459	48,685	56,192	43,888	46,461	47,333	48,466	49,443
Government	4,949	11,108	17,621	2,053	2,189	2,175	2,405	2,584
of which: HIPC interim assistance			105	206	205	0	0	0
Private	36,509	37,577	38,572	41,835	44,272	45,157	46,061	46,860
Capital and Financial Account	16,303	22,576	15,315	24,301	24,945	22,751	25,185	27,065
Capital Account	13,637	10,771	11,444	13,121	14,083	14,559	16,097	17,291
Capital Transfers	13,637	10,771	11,444	13,121	14,083	14,559	16,097	17,291
Transfer of fixed assets	13,637	7,266	11,104	12,359	13,276	14,559	16,097	17,291
HIPC interim assistance			339	762	807	0	0	0
Financial Account	2,666	11,806	3,871	11,180	10,862	8,192	9,087	9,775
Direct Investment	1,545	4,882	5,089	8,067	8,122	8,174	8,225	8,277
Net Portfolio and Other Investment	1,121	6,924	-1,218	3,113	2,741	19	863	1,498
Government	-1,076	1,960	-3,266	-2,274	-2,243	-2,028	-2,489	-2,540
Drawings	1,088	60	866	448	478	535	549	590
SDR Allocations		4,139						
Amortization	-2,164	-2,239	-4,132	-2,722	-2,721	-2,563	-3,038	-3,130
Before rescheduling			-2,560	-2,514	-2,461	-2,206	-2,398	-2,489
On restructured obligations			-1,572	-208	-259	-357	-641	-641
Private Sector (net)	2,197	4,963	2,047	5,386	4,983	2,047	3,352	4,038
Banks, net	-1,153	2,101	-126	312	-79	-102	-117	-128
Other	3,351	2,862	2,173	5,075	5,062	2,149	3,469	4,166
Errors and Omissions	-1,952	5,135	0	0	0	0	0	0
Overall Balance	-5,323	10,630	-5,161	-4,529	-4,720	-6,409	-5,912	-4,203
Financing	5,323	-10,630	1,038	-160	-239	-578	-879	-2,049
NFA of central bank (increase -)	1,797.7	-10,151	-24	-967	-460	-578.4	-878.6	-2,049
Foreign Assets	2	-11,741	-944	-967	-460	-578	-612	-1,279
Foreign Liabilities	1,796	1,590	920	0	0	0	-267	-770
Of which: Net IMF Credit	1,826	1,693	920	0	0	0	-267	-770
Net Change in Arrears	3,246	-1,427	-18,746	0	0	0	0	0
Clearance of deferred arrears and debt service [1]	0	-5,016						
Exceptional Financing	280	5,964	19,808	807	221	0	0	0
Arrears restructuring and deferral			18,700	0	0	0	0	0
Current maturities restructuring and deferral			1,108	807	221	0	0	0
Financing Gap [2]	0	0	4,123	4,689	4,958	6,988	6,791	6,251
Memorandum items:								
Current Account (percentage of GDP)	-11.1	-9.0	-10.2	-13.6	-13.1	-12.0	-11.9	-11.1
Excluding Transfers	-34.3	-34.7	-38.1	-34.2	-33.6	-31.4	-30.4	-28.7
Exports of goods and services (percentage of GDP)	14.0	13.2	13.2	13.7	14.0	14.0	14.3	14.5
Imports of goods and services (percentage of GDP)	48.4	47.9	50.8	47.6	47.4	45.3	44.6	43.2
Gross international reserves (In millions of U.S. dollars)	110.4	153.1	137.5	139.3	139.8	140.6	141.5	144.1
In months of imports of goods and services	5.1	7.1	6.1	6.3	6.0	5.9	5.7	5.6

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

[1] Includes further deferral of arrears to the HIPC decision point, following which these arrears are assumed to be cleared through restructuring or further deferral.

[2] The program financing gap for 2010–12 will be covered by grants and ECF financing as spelled out in Text Table 8.

Table 5. Comoros: Education and Health Expenditure, 2008–11
(in millions of Comorian francs unless otherwise indicated)

	2008	2009	2010	2011
Education	9,573	10,089	12,775	13,761
Wages	5,783	7,597	8,336	8,753
Goods and services	171	145	336	420
Transfers	731	649	903	1,038
Capital	2,888	1,698	3,200	3,550
Domestically-funded	0	0	200	400
Foreign-funded	2,888	1,698	3,000	3,150
Health	5,437	3,195	6,095	6,565
Wages	1,189	1,361	1,429	1,501
Goods and services	19	6	80	120
Transfers	392	130	466	495
Capital	3,838	1,698	4,120	4,450
Domestically-funded	0	0	120	250
Foreign-funded	3,838	1,698	4,000	4,200
Total education and health	15,010	13,284	18,870	20,327
Domestically funded	8,284	9,888	11,870	12,977
Domestically funded, in percent of GDP	4.7	5.2	5.9	6.1
Memorandum item				
GDP, in millions of CF francs	178,047	189,586	201,028	212,732

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

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

Date	Disbursements [1] (Millions of SDRs)	Conditions
September 30, 2009 [2]	4.2275	Disbursed, based on Executive Board approval (September 21, 2009)
June 30, 2010	1.5575	Disbursed, based on completion of first review (June 21, 2010)
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 7, 2012	1.5575	Completion of sixth review, based on observance of performance criteria through June 30, 2012

Source: IMF staff estimates and projections.
[1] Based on access of 152.5 percent of quota (SDR 13.5725 million).
[2] Includes early repayment of the SDR 1.1125 million EPCA purchased in December 2008.

Table 7. Comoros: Indicators of Capacity to Repay the Fund, 2009–22

	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	0.00	0.00	0.00	0.00	0.00	0.45	1.29	1.60	1.60	1.60	1.16	0.31	0.00	0.00
Charges and interest [1]	0.02	0.00	0.00	0.02	0.02	0.02	0.02	0.01	0.01	0.01	0.00	0.00	0.00	0.00
Fund obligations based on existing and prospective credit (in millions of SDRs)														
Principal	1.12	0.00	0.00	0.00	0.00	0.45	1.29	2.07	2.69	3.16	2.71	1.87	1.09	0.47
Charges and interest [1]	0.03	0.00	0.00	0.04	0.04	0.04	0.04	0.03	0.03	0.02	0.01	0.01	0.00	0.00
Total obligations based on existing and prospective credit [2]														
In millions of SDRs	1.2	0.0	0.0	0.0	0.0	0.5	1.3	2.1	2.7	3.2	2.7	1.9	1.1	0.5
In millions of CF	626.6	0.0	0.0	23.4	23.6	290.8	793.6	1,253.0	1,622.9	1,897.4	1,622.9	1,121.7	650.4	280.4
In percent of government revenue	2.4	0.0	0.0	0.1	0.1	0.7	1.8	2.6	3.1	3.4	2.7	1.7	0.9	0.4
In percent of exports of goods and services	2.5	0.0	0.0	0.1	0.1	0.8	1.9	2.8	3.3	3.6	2.8	1.8	0.9	0.4
In percent of debt service [3]	21.2	0.0	0.0	0.7	0.7	7.2	17.3	28.0	36.7	44.3	42.8	34.4	19.9	8.5
In percent of GDP	0.3	0.0	0.0	0.0	0.0	0.1	0.3	0.4	0.5	0.6	0.4	0.3	0.2	0.1
In percent of quota	12.9	0.0	0.0	0.4	0.4	5.5	14.9	23.6	30.6	35.7	30.6	21.1	12.2	5.3
Outstanding Fund credit [2]														
In millions of SDRs	6.4	9.6	12.7	15.8	15.8	15.4	14.1	12.0	9.3	6.1	3.4	1.6	0.5	0.0
In millions of CF	3,513.3	5,458.8	7,386.3	9,260.2	9,319.7	9,109.6	8,389.0	7,153.9	5,548.9	3,663.5	2,046.5	930.8	280.4	0.0
In percent of government revenue	13.3	18.9	24.5	28.1	26.0	23.0	19.3	15.0	10.7	6.6	3.4	1.4	0.4	0.0
In percent of exports of goods and services	14.0	20.5	25.3	29.1	27.3	24.4	20.6	16.0	11.4	6.9	3.5	1.5	0.4	0.0
In percent of debt service [3]	119.0	130.9	276.1	282.2	281.6	225.6	182.8	159.7	125.5	85.6	53.9	28.6	8.6	0.0
In percent of GDP	1.9	2.7	3.5	4.1	3.8	3.5	3.0	2.4	1.7	1.1	0.6	0.2	0.1	0.0
In percent of quota	72.4	107.5	142.5	177.5	177.5	172.5	158.0	134.7	104.5	69.0	38.5	17.5	5.3	0.0
Net use of Fund credit (millions of SDRs)	3.1	3.1	3.1	3.1	0.0	-0.5	-1.3	-2.1	-2.7	-3.2	-2.7	-1.9	-1.1	-0.5
Disbursements	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	1.1	0.0	0.0	0.0	0.0	0.5	1.3	2.1	2.7	3.2	2.7	1.9	1.1	0.5
Memorandum items														
Nominal GDP (millions of CF)	189,586	201,028	212,732	226,823	243,319	261,428	280,815	300,722	322,041	344,871	369,319	395,500	423,538	453,563
Exports of goods and services (millions of CF)	25,036	26,601	29,180	31,823	34,078	37,285	40,775	44,608	48,612	52,958	57,764	63,030	68,808	75,141
Government revenue (millions of CF)	26,401	28,848	30,175	32,939	35,871	39,580	43,509	47,534	51,971	55,886	60,865	66,315	72,400	78,810
Debt service (millions of CF) [2]	2,954	4,170	2,675	3,282	3,309	4,039	4,590	4,479	4,422	4,281	3,796	3,257	3,265	3,281
CF/SDR (period average)	545													

Sources: IMF staff estimates and projections.

[1] Temporary waiver of interest payments on PRGT borrowing until December 2011 is assumed.

[2] Assuming ECF disbursement of the entire amount of SDR 13.57 million (152.5 percent of quota). The entire EPCA credit of SDR 1.1 million (12.5 percent of quota) was repurchased by the first ECF disbursement.

[3] Total debt service before HIPC interim assistance; includes IMF repurchases and repayments.

Annex I. Comoros' External Competitiveness—An Assessment[1]

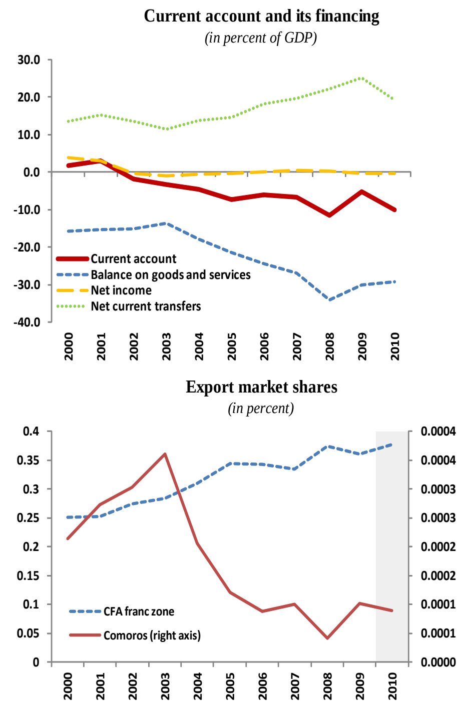
Comoros' external competitiveness remains weak. The exchange rate is broadly consistent with economic fundamentals but remains subject to overvaluation pressures, and structural indicators suggest that Comoros' business environment compares poorly to peer countries. Going forward, overvaluation pressures may build up absent continued fiscal consolidation, sustained political stability, and structural reforms to improve the business climate and governance.

A. External Sector Developments

1. **The real effective exchange rate (REER) has appreciated steadily over the past decade**. Between 2000 and 2009, the CPI-based REER appreciated by 23 percent, mainly reflecting the strengthening of the euro *vis-à-vis* the US dollar and, more recently, the rise in oil and food prices.[2]

2. **During the same period Comoros' external position weakened considerably.** The terms of trade deteriorated significantly, import growth was strong, underpinned by increasing aid flows and remittances, and export performance was sluggish—including with respect to other countries in the CFA franc zone.[3] Exports were also held back by chronic political instability, deficient infrastructure, and a poor business environment, which discouraged private sector initiative and foreign investors. As a result, Comoros' share in world exports declined and the trade deficit widened markedly (Figure 1).

Figure 1: External sector developments (2000-2010)



B. Price Competitiveness: Exchange Rate Assessment[4]

The Macroeconomic Balance Approach (MB)

3. **The MB approach assesses the exchange rate alignment by computing the difference between the *underlying* current account (CA) and its estimated equilibrium**

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[1] Prepared by Valerio Crispolti.

[2] Since joining the Franc Zone in 1979, Comoros operates under a fixed exchange rate regime.

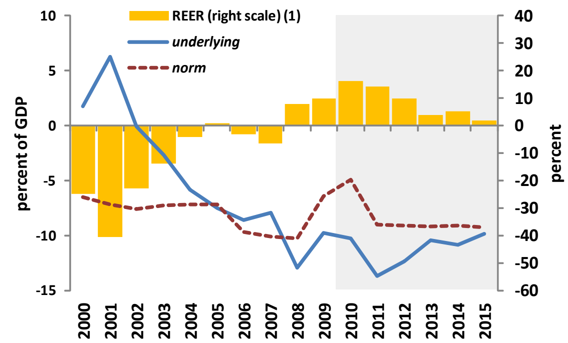
[3] Since its peak in 2004, the world price of vanilla—Comoros' main export—has collapsed; while, food and fuel prices have trended upwards. At the same time, imports of goods and services rose from 33 percent of GDP in 2000 to 48 percent in 2009.

[4] The exchange rate assessment is based on Vitek, 2010, *Exchange Rate Assessment Toolkit*, and Aydin, 2010, *Exchange Rate Assessment for Sub-Saharan Economies* (IMF internal documents). The dataset used for the regressions contains annual data on non-oil exporting Sub-Saharan countries over the period 1990-2010.

level (i.e. *norm*).[5] The magnitude of the exchange rate adjustment required to close the gap between the underlying and norm current accounts provides a measure of existing currency misalignment (e.g. under- or overvaluation).[6]

4. **Staff's estimates suggest that Comoros' REER is broadly in line with medium-term fundamentals** (Figure 2). At end-2009, the *underlying* and *norm* CAs were estimated respectively at -9.8 and -6.5 percent of GDP. This implies an overvaluation of about 10 percent in real terms, given the assumed exchange rate-elasticity of the current account. In the medium term, the *norm* CA would weaken owing to slower pace of fiscal consolidation in Comoros with respect to trading partners. As a result, the real devaluation needed to close the gap between the *underlying* CA and the *norm* would fall to 2 percent by 2015.[7]

Figure 2: Macroeconomic Balance Approach



(1) + overvaluation / - undervaluation

The External Sustainability Approach (ES)

5. **The ES approach examines the relationship between the underlying CA and the sustainability of a country's medium-term net foreign asset position.**[8] Unlike in the MB approach, the *norm* is derived in the ES analysis as the CA balance that would stabilize the net foreign assets (NFA) position of the country at a benchmark level.

6. **Alternative scenarios were considered to determine the benchmark level for Comoros' NFA**. Under a backward-looking scenario, the *norm* was computed as the CA balance that would stabilize the NFA position at its end-2009 level (-37 percent of GDP).[9]

[5] The *underlying* CA is derived by stripping temporary factors from the CA balance, including by closing the country's and trading partners' output gaps and controlling for lagged effects of past exchange rate changes. The *norm* is estimated as a function of the country's projected medium-term fundamentals. See Christiansen et al., 2009, *External Balance in Low Income Countries* (IMF WP/09/221).

[6] The exchange rate adjustment needed to close the gap between the *underlying* CA balance and the *norm* is obtained using a country-specific elasticity of the CA balance with respect to real exchange rate changes. An elasticity of -0.330 was used based on Tokarick, 2009, *A Method for Calculating Export Supply and Import Demand Elasticities* (mimeo).

[7] To check for robustness, staff also estimated the *norm* based on the CGER coefficients. The new *norm* is consistent with the MB *norm*; but implies a somewhat higher overvaluation over the medium term (17 percent in 2015). This result mainly reflects the fact that the CGER methodology does not take in to account aid flows and remittances, which are important sources of financing for imports in Comoros (see Annex II).

[8] In this section, staff assumed that Comoros attains HIPC and MDRI debt relief in 2012.

[9] The benchmark level of NFA should be interpreted as illustrative rather than normative (i.e. an appropriate level to attain), given that Comoros is in debt distress with an NPV of debt-to-exports ratio of 343 percent at end-2009—a level well above HIPC and low-income country debt sustainability thresholds (EBS/10/110).

Under a forward-looking scenario, the *norm* was derived as the CA balance that would maintain the NFA position at its medium-term level; different FDI inflow assumptions were considered and their effects reviewed[10]. In a pessimistic scenario, the FDI-to-GDP ratio (2.6 percent of GDP in 2009) was assumed to gradually revert to its historical average of 0.7 percent of GDP over the medium term. Under more optimistic assumptions, the ratio would reach 5 percent by 2015, a level in line with that of regional island economies.[11]

7. **Results based on the ES approach point to an overvaluation in the range of 22 to 28 percent (Table 1**). To maintain the NFA position at the 2009 level, the CA deficit would have to narrow to 2.5 percent of GDP (compared with a projected -9.9 percent of GDP for 2015), requiring a depreciation in real terms of 22 percent over the medium term. In the forward-looking scenario, the CA adjustment needed to achieve medium-term external sustainability ranges from 8.9 to 9.4 percent of GDP under various FDI inflow assumptions. In this case, the real depreciation needed to close the gap would vary from 26.7 to 28.4 percent.

Table 1: External Sustainability Approach

(in percent of GDP, unless otherwise specified)

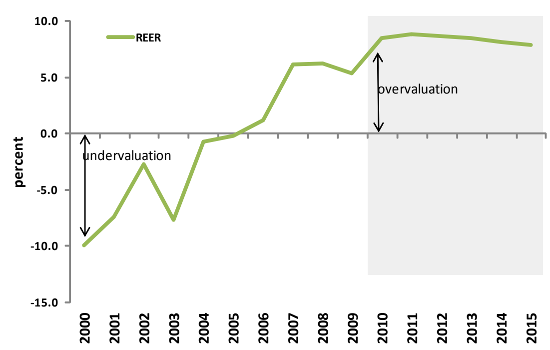
	Backward-looking scenario	Forward-looking scenario		
		high-FDI	FDI baseline	low-FDI
NFA benchmark	-36.9	-15.4	-10.5	-7.4
Underlying CA	-9.8	-9.9	-9.9	-9.9
CA norm	-2.5	-1.0	-0.7	-0.5
Gap between *underlying* and *norm*	-7.3	-8.9	-9.2	-9.4
Estimated real overvaluation (in percent)	**22.1**	**26.7**	**27.7**	**28.4**

The Equilibrium Real Exchange Rate Approach (ERER)

8. **The ERER approach directly estimates the equilibrium level of the exchange rate as a function of its medium-term fundamentals.**[12] The gap between the actual REER and its estimated equilibrium level identifies the exchange rate adjustment that is needed to restore equilibrium over the medium term.

9. **ERER-based estimates suggest that Comoros' REER is slightly overvalued** (Figure 3)**.** At end 2009, the exchange rate was overvalued by about 5 percent in real terms. Over the medium term, real overvaluation would increase to about 8 percent on account of higher aid flows and remittances.

Figure 3: Equilibrium Real Effective Exchange Rate Approach



[10] The NFA position is estimated using data on NFA of the banking system, external public debt, and FDI stock; its medium-term value is the projected level for 2015.

[11] Madagascar, Mauritius, and Seychelles, for which the average FDI-to-GDP ratio during 2010-15 is projected at 6 percent.

[12] Fundamentals include the terms of trade, productivity, government consumption, net foreign asset position, aid inflows and remittances.

The Purchasing Power Parity Approach (PPP)

10. **The PPP approach assesses the exchange rate alignment assuming that the PPP hypothesis holds.**[13] The difference between the REER and its PPP equilibrium level determines the degree of the exchange rate under- or overvaluation. For Comoros, this approach points to an overvaluation in real terms of about 10 percent over the medium term.

C. Non-price Competitiveness: A Qualitative Assessment

11. **The World Bank's Indicators of Doing Business (DBIs) and Governance (GIs) point to overall poor quality of the economic environment (Figure 4) and persistent weaknesses in governance (Figure 5).** The 2011 DBI report ranks Comoros 159 out of 183 countries, stressing the need to address long-standing structural impediments to private sector development, particularly in the areas of starting and closing a business, getting credit, and enforcing contracts. At the same time, the GIs place Comoros much below average in the CFA zone, especially on government effectiveness and quality of regulation.

Figure 4: Doing Business Indicators for Comoros and Selected Countries
(DB 2011 ranking; closer to origin means better position)

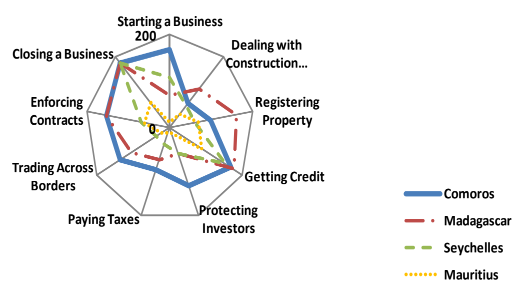
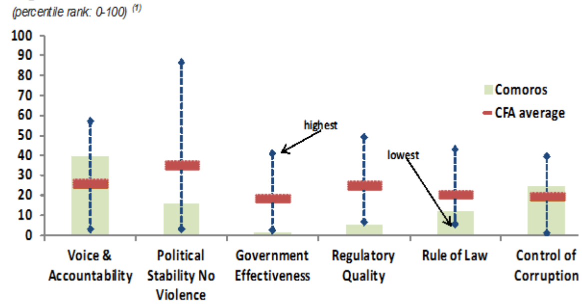


Figure 5: Structural Indicators of Governance: Comoros and CFA countries
(percentile rank: 0-100) (1)



(1) Ranking of the country among all countries of the world; 0 (100) indicates lowest (highest) rank

D. Policy Recommendations

12. **The authorities concur with the need for continued fiscal consolidation and determined implementation of structural measures to strengthen external competitiveness.** In addition to reforms under the ECF arrangement, they have enlisted IFC assistance in preparing an ambitious structural reform agenda aimed at removing deep-rooted structural constraints to growth.

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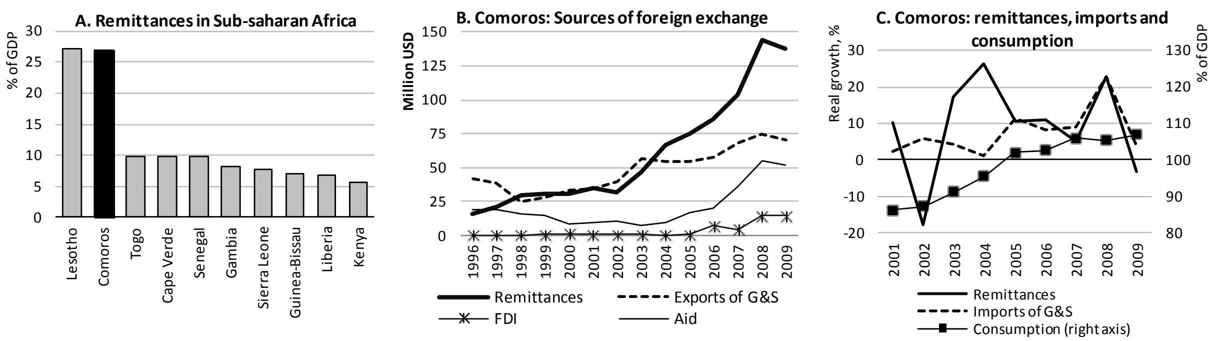
[13] Under the PPP hypothesis, the equilibrium level of the REER is approximated by a constant. As a result, the nominal exchange rate moves to offset changes in price differentials with trading partners.

Annex II. Comoros: Remittances and Growth—The Missing Link[1]

1. **In 2009, Comoros was one of only two African countries with a remittances-to-GDP ratio exceeding 25 percent (Figure 1A).** This places the archipelago within the top five worldwide. In 2008-09, remittances amounted to as much as the combined sum of aid, exports of goods and services, and FDI (Figure 1B).

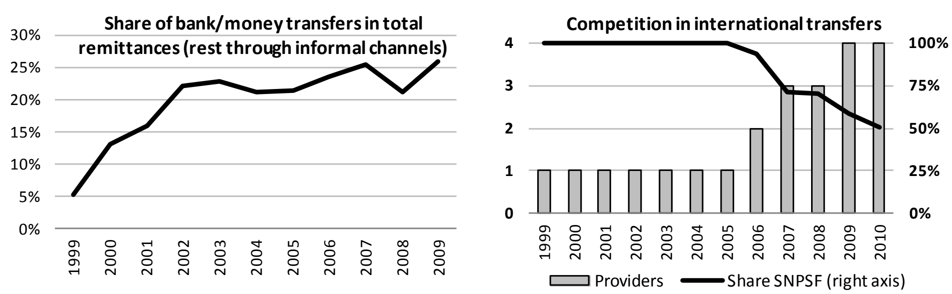
Figure 1. Remittance flows in Comoros and Sub-Saharan Africa



Sources: WDI, Comorian authorities and IMF staff estimates.

2. **The rapid increase in remittances has not translated into growth in output and productive capacity,** as in other countries that recently experienced an explosion in remittances (e.g. Moldova, Tajikistan). Unlike in countries with significant domestic production where the multiplier effect from remittances can be important[2], in Comoros remittances have mostly fueled imports (Figure 1C).

Figure 2. Remittances and the banking sector



Sources: BCC and IMF staff estimates.

3. **The potential positive link between remittances and sustained long-term growth—via investment—has been affected by government and market failures.** The high cost of doing business and the quality/price of complementary factors of production—primarily infrastructure and public utilities—have depressed returns on private investment. In

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[1] Prepared by Alexander Culiuc

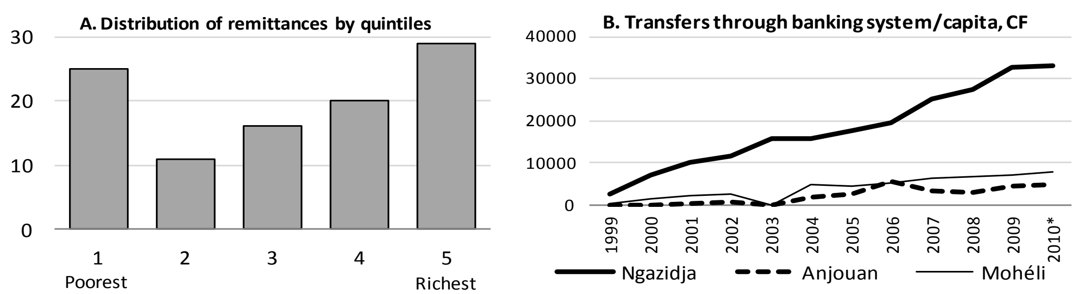
[2] Multiplier from remittances estimated at 1.24 for Bangladesh and 3.2 for Mexico. See, respectively, Stahl and Habib, 1989, "The Impact of Overseas Workers' Remittances on Indigenous Industries: Evidence from Bangladesh." *The Developing Economies*, Vol. 27, pp. 269–85 and Adelman and Taylor, 1992, "Is structural adjustment with a human face possible? The case of Mexico." *Journal of Development Studies*, 26: 387-407.

addition, the underdeveloped financial system has hindered the intermediation of remittances into higher financial savings and expanded productive activities, as the high cost of money transfers diverts three-quarters of remittances to informal channels (Figure 2).

4. **Migration and consumption patterns also play a role in the limited development impact of remittances in Comoros.** Studies from countries with important remittances inflows have found that a large portion of returning migrants set up enterprises using funds brought back from abroad.[3] However, the large distance between Comoros and France, the main migration destination, implies high migration costs, which favor permanent migration. The large distance also lowers migrants' ability to oversee the use of transferred funds, which results in lower equilibrium savings, since recipients tend to allocate a larger share of remittances to consumption than preferred by the migrants.[4] In addition, unlike in other remittance-receiving countries where the marginal propensity to save from remittances is higher than from other forms of income,[5] in Comoros a disproportionate share of remittances is used for consumption as part of *Grands Marriages*.[6]

5. **Migration and remittances affect negatively competitiveness and public sector reform.** The reduction of the working age population through emigration and the higher reservation wage of recipients of remittances, are reducing the labor supply and putting upward pressure on wages. In tandem with the Dutch disease effect of remittances on the real exchange rate, the higher level of wages is eroding Comoros' competitiveness. Remittances also lower the motivation for implementing much-needed public sector reform efforts; by boosting customs revenues (on account of higher imports), they reduce incentives for much-needed structural reforms to strengthen tax and customs administration.

Figure 3. Remittances and inequality in Comoros



Sources: Imani (2008), BCC and IMF staff calculations.

[3] For Mexico and Egypt, see respectively: Woodruff and Zenteno, 2001, "Remittances and Microenterprises in Mexico." University of California, San Diego. McCormick and Wahba, 2002, "Return Migration and Geographical Inequality: The Case of Egypt." University of Southampton.

[4] Chami et al., 2008, *Macroeconomic Consequences of Remittances*, IMF Occasional Paper 259.

[5] For example, for Pakistan see Adams, 2002, "Precautionary Saving from Different Sources of Income: Evidence from Rural Pakistan." World Bank Policy Research Working Paper 2761.

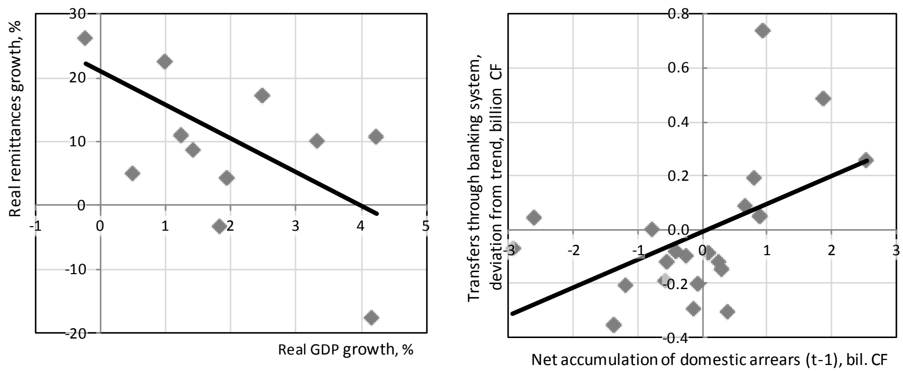
[6] The Grand Marriage, a custom specific to the island of Ngazidja, allows a man to join the ranks of nobility by organizing expensive wedding ceremonies.

6. **Remittances do provide an important cushion against poverty:**

- **They have supplemented the income of the poorest, although their effect on income inequality is ambiguous.** The 2004 household survey reveals a U-shape distribution of remittances across income quintiles, with the poorest and more affluent households receiving the bulk of transfers, at the expense of the marginally poor (Figure 3A). Remittances also explain the lower poverty incidence on the island of Ngazidja—35 percent compared to 38 percent in Anjouan and Moheli. Ngazidga has the largest Diaspora in France, with per capita transfers through the banking system about 2.7 times higher than for the other two islands (Figure 3B).

- **Remittances have proven highly counter-cyclical.** They are inversely correlated with real GDP growth, and provide an important safety net for resident Comorians; in 2009 the transfers held steady notwithstanding the global economic crisis. Remittances also act as countercyclical buffer to domestic shocks, increasing (e.g.) in the quarter following an accumulation of government domestic payment arrears, primarily on wages.

Figure 4. Countercyclicality of remittances in Comoros



Sources: Comorian authorities and IMF staff calculations.

7. **To ensure that remittances better support growth, staff urged the authorities to:**

- Encourage competition in the financial sector to help lower remittance transfer costs and expand remittances-based savings and investment.

- Improve the investment climate to help remove distortions that prevent the channeling of remittances into investment.

- Increase returns on private investment by ensuring the supply of complementary factors of production (give priority to pro-growth spending and push ahead with the reform of public utilities).

- Consider indirectly taxing remittances by shifting the tax mix towards consumption taxes; and beefing up spending on projects that complement domestic economic activity.

ANNEX III

UNION OF THE COMOROS

Moroni, November 29, 2010

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

Dear Mr. Strauss-Kahn:

1. Following the courageous institutional reforms initiated two years ago, the Union of the Comoros is gradually returning to a path of political stability. This process should be consolidated after the December 2010 island and presidential elections, when the first President of the Union and Governors of the islands will be chosen in accordance with the 2009 constitutional amendments and in strict observance of the rotating Union Presidency. These important developments create a political climate that is calmer and more conducive to development efforts. The government intends to use this opportunity to accelerate the ongoing reforms to boost growth and more effectively combat poverty, with the support of the IMF and other development partners of the Comoros.

2. The government's economic policies continue to be built upon the National Poverty Reduction and Growth Strategy Paper (PRGSP) adopted in 2009, which serves as the foundation for the three-year reform program supported by the IMF under the Extended Credit Facility (ECF). In the context of this program, the government intends to strengthen its efforts to stabilize the economy to lay the foundations for sustained and equitable growth, while improving public finances and strengthening the country's economic and social infrastructures. Thus, the government is working with resolve to expand fiscal space so as to increase spending in priority and growth-supporting sectors. To strengthen overall economic competitiveness and foster stronger growth, the ECF program continues to include an important agenda focused on restructuring public utilities. The government is also engaged in reassessing the priority actions of the PRGSP and will establish a more realistic implementation timetable for them. It intends to ensure the rigorous implementation of this refocused PRGSP action plan starting in 2011.

3. Our discussions with Fund staff for the second review of the ECF program established that all performance criteria and quantitative and structural benchmarks for end-June 2010 were observed. The primary fiscal balance was kept within the program ceiling, thanks in particular to firm control over non-transfer expenditures, including wages. In the

structural area, efforts to computerize the civil service payroll are ongoing, in particular with the coming on stream of the computerized pay slip system. However, the fiscal position deteriorated in September following delays in the collection of revenue from some taxpayers, as well as an unforeseen increase in expenditure on goods and services associated with preparations for the end-year elections.

4. The government is determined to continue its fiscal consolidation efforts. It intends, before end-November 2010, to obtain payment of tax arrears from the third quarter, and to collect additional revenues under its economic citizenship program. This would enable it to meet its revenue target for the current fiscal year. The government nonetheless recognizes that expenditures on goods and services cannot realistically be expected to be held within the program limit, because of the cost of the elections. However, by endeavoring to hold all other expenditure categories within program limits, the government should be able to minimize any slippage from its budget outturn objective. In light of these corrective measures, the government requests completion of the second review and disbursement of the related ECF resources.

5. A number of positive developments in 2010 have had a favorable impact on the country’s economic performance. Political tensions have been eased significantly, in tandem with an increase in foreign aid and the return of tourists. Moreover, after a cutback associated with the Yemenia accident in 2009, in-country visits by members of the Diaspora rose sharply in 2010. Even more important, credit to the economy has been sustained, supported by expanding financial intermediation. All these factors explain the relative acceleration in the rate of real GDP growth, which is expected to reach 2.1 percent as compared with an initial projection of 1.8 percent. Inflation remains moderate, owing to the country’s participation in the franc zone. Reflecting a significant increase in imports financed with help from grants from development partners, the external current account deficit is not expected to narrow in 2010.

6. The government’s IMF-supported reform program under the ECF is aimed at underpinning a sustainable economic recovery that is now taking shape. The program’s architecture and basic objectives remain unchanged. However, to take account of the impact of lower-than-expected budget support, we wish to request a modification of the end-December 2010 performance criterion for net credit to the government. The program will continue to focus on a prudent fiscal policy, and will seek to accelerate the structural reforms necessary to enhance competitiveness. Underpinning policies are set forth in the attached memorandum on economic and financial policies; the government intends to implement them with determination. If necessary, it would consult Fund staff before any revisions are made, in accordance with the Fund's policy on such consultation. It is expected that the third review of the ECF arrangement will take place in June 2011, and that the fourth review will be completed by mid-September 2011.

7. In line with our commitment to transparency in government operations, we agree to the publication of documents relating to our discussions with Fund staff under the second review of our ECF-supported program.

Sincerely yours,

/s/

Ahmed Abdallah Mohamed Sambi,
President, Union of the Comoros

/s/

Mohamed Bacar Dossar
Minister of Finance, Budget, and Investment

/s/

Governor of the BCC
Mzé Abdou Mohamed Chanfiou
Vice Governor of the BCC

ATTACHMENT 1

UNION OF THE COMOROS

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR 2011

I. Introduction

1. The economic reforms supported by the International Monetary Fund under the Extended Credit Facility (ECF) are aimed at improving fiscal sustainability, building institutional and governance capacity, and rehabilitating economic and social infrastructure, particularly public utilities, in order to stabilize the macroeconomic framework, enhance the competitiveness of the economy, and impart new impetus to growth so as to combat poverty more effectively. This memorandum takes stock of progress in implementing these reforms in 2010. It also sets out the measures and policies that the government plans to implement in 2011 in order to achieve its objectives.

II. Economic Developments and Program Performance

A. Recent economic developments and outlook for end-2010

2. **Economic activity recovered modestly**. GDP growth is expected to reach 2.1 percent in 2010, a rate slightly higher than that of 2009. Economic growth is beginning to benefit from the effects of relative political stability and a more favorable sub-regional situation, reflected in a substantial increase in external assistance and, in all likelihood, in foreign direct investment. Inflation should continue to be contained, reflecting the country's membership in the franc zone. Excluding the impact of spending for the elections in December 2010, overall fiscal performance has remained in line with the program's objectives. However, tax revenues, in particular from domestic direct and indirect taxes, remain below program targets owing to the persistence of weaknesses in tax administration. Government revenue is expected to be equivalent to the 14.4 percent of GDP envisaged under the program, thanks to a good performance in customs revenues and the boost provided by nontax revenue, in particular the revenues associated with the economic citizenship program. The value of imports increased, driven by rising prices for major imported products and supported by increased external assistance. Consequently, the external current account deficit is expected to deteriorate in 2010. Foreign exchange reserves should remain at a comfortable level, equivalent to 6.1 months' imports of goods and nonfactor services.

3. **The external debt of the Comoros remains unsustainable.** It is expected to be equivalent to 308 percent of goods exports (in net present value terms) at end-2010. The government is continuing its efforts to find a comprehensive solution to its debt situation

under the HIPC Initiative, for which it reached the decision point in July 2010. It intends to continue ensuring satisfactory implementation of the reforms with assistance from its partners, including the timely implementation of triggers, so as to reach the completion point in 2012. At present, in conformity with the debt rescheduling agreement reached with Paris Club members in November 2009, we have signed a debt rescheduling agreement with one of our principal creditors. Other agreements still pending should be finalized promptly; the government remains determined to honor the commitments entered into within this framework in a timely manner. This provides for a significant reduction in the debt service falling due during the mid-2009 to mid-2012 period. For 2010, various creditors have agreed to defer the settlement of external arrears and current debt service amounting to CF 21.2 billion, or 88 percent of the gross debt service for the year, pending debt relief under the enhanced HIPC Initiative on terms comparable to those agreed with Paris Club creditors.

B. Program implementation

4. **Implementation of the program was satisfactory in the first half of 2010.** All performance criteria and quantitative benchmarks were met, as were the structural benchmarks of the program; in particular, the revenue target was achieved. In addition, the target for the primary fiscal deficit was met despite spending overruns noted on transfers, in particular to the University of the Comoros. In the structural area, preparations for the introduction of computerized pay slips progressed; the government submitted to the National Assembly a draft law setting forth the personnel frameworks for the Civil Service; and the representative of the Office of the President of the Union on the reform monitoring committee (CREF) was appointed.

5. **Although weakened in the third quarter of the year, the fiscal position is expected to improve in the fourth quarter and to move closer to the initial program path for 2010**. A shortfall in revenue of CF 1.75 billion was recorded in the third quarter, reflecting the combined impact of: (i) the still limited effectiveness of new revenue measures under the program, the full yield of which will not be realized until the next few months; (ii) abandonment of the 5 percent increase in the tax on petroleum products, which was deemed politically sensitive; and especially (iii) the late collection of profits tax payable by the State-owned Telecommunications Company (Comores Télécom). Owing to this revenue shortfall and delays in the disbursement of financial support from some development partners, the main fiscal objectives of the program for end-September, including the target relating to net credit to the government, could not be met. The government has taken corrective measures. In particular, in November it obtained settlement of the profits tax payable by Comores Télécom, as well as the payment of sizable revenues under the economic citizenship program. In tandem with the improved yield from the program's new tax measures for 2010, in particular the introduction of fees on the use of radio frequencies, these efforts should enable the government to meet its revenue objective for the year. However, the government still faces an irreducible overrun in spending associated with the elections, equivalent to 0.1 percent of GDP. Under these circumstances, the primary domestic

fiscal deficit is expected to amount to 1.6 percent of GDP in 2010 (2.6 percent of GDP in 2009), as compared with the initial program target of 1.5 percent of GDP. In addition, owing to the cancellation of budget support expected from the European Union (CF 1.8 billion), the accumulation of government deposits with the BCC is expected to be less than projected, necessitating a change in the ceiling on net credit to the government from CF -1.130 billion to CF 156 million. These developments require a modification of this performance criterion for end-December 2010.

6. **Preparation of the public utility reforms is continuing in the second half of 2010.** The government has recruited consultants and begun work on auditing the 2009 accounts of Comores Télécom, which will be followed by an appraisal of the enterprise's net worth with a view to issuing calls for expressions of interest from potential strategic partners in the period ahead. At the same time, a committee has been established for monitoring the reform of the petroleum product-importing company (Société Comorienne des Hydrocarbures—SCH) in order to assist the government with finalizing its choice of an appropriate reform strategy. Finally, with support from the AfDB, the government is continuing preparatory work for the reform strategy for the electricity company (MAMWE).

III. Economic and Financial Policies for 2011

A. Macroeconomic Framework

7. **In 2011, real GDP is projected to increase by 2.5 percent, and inflation to remain moderate.** Growth is expected to be driven by subsistence agriculture, private construction supported by funding from the Diaspora, the rehabilitation of economic infrastructure financed by development partners, a rebound in financial services resulting from increased financial intermediation, and a greater availability of electric power. Furthermore, attracted by the easing of political tensions, new sectors of activity are expected to emerge with some dynamism; in particular, an inter-island transport service is expected to be launched and work should begin on rebuilding the Hôtel Galawa, which will support growth. Price pressures are not projected to increase in 2011, which will help contain inflation below 3 percent. However, given the low level of exports and the continuing high demand for imports, the external current account deficit is projected to increase to 13.6 percent of GDP.

B. Fiscal Policy

8. **The government is resolved to continue its ongoing fiscal consolidation efforts in 2011.** The fiscal program will be focused on measures to mobilize government revenue and improve the control of expenditure, particularly wage outlays. The deficit of the domestic primary fiscal balance is not expected to exceed the equivalent of 1.3 percent of GDP, compared with an average of 2.1 percent of GDP in 2008-2009. The government's net financing needs for fiscal 2011, after debt relief, is estimated at 2.2 percent of GDP, and will be fully covered by budgetary support from development partners. If the government receives external budget support in excess of programmed amounts, it will consult with the

IMF on its use and will establish a new supplementary budget specifying how these resources will be allocated, giving priority to the settlement of domestic payments arrears and to other priority sectors.

9. **Domestic revenue is expected to reach CF 30.175 billion (14.2 percent of GDP).** Achieving this objective will require an improvement in the efficiency of the tax and customs administrations. At the Directorate-General of Taxes (DGI), two major reforms will be carried out by end-March 2011: (i) establishment of a Board of Directors made up of the Minister of Finance of the Union and the Governors (or their delegates) and an operational unit bringing together the tax offices of the Union and the islands, with a director-general who has sole responsibility for reporting to the authorities through the Board of Directors; and (ii) the effective operation of offices of the large taxpayer unit in Anjouan and Mohéli. At the same time, the monitoring of declarations by large enterprises will be further strengthened in order to increase the voluntary filing rate to 95 percent. Implementation of these major reforms has benefited from technical assistance from the IMF's Fiscal Affairs Department, from which a team of experts visited the Comoros in November 2010. In 2011, revenue mobilization will also reflect the full effect of new domestic tax measures taken in 2010, including the introduction of fees on the use of radio frequencies in the telecommunications sector. Regarding Customs, the ad valorem taxation of imports will be subject to closer monitoring. To this end, the operational resources of the central office responsible for the valuation, type, and origin of goods will be strengthened, and the flat tax per container will be eliminated definitively.

10. **To ensure that its fiscal objectives are fully met, the government intends to rigorously control expenditure.** Expenditures will be capped at CF 49.269 billion, or 23.2 percent of GDP, of which CF 18.350 billion for the wage bill, nearly CF 2.9 billion (1.4 percent of GDP) for investment expenditure, and CF 13 billion (6.1 percent of GDP) financed with own resources for the education and health sectors. The government will ensure the effective operation of its new computerized payroll management system, and the rapid completion of the census of government employees and officials following the election. It intends to ensure the timely implementation of recommendations from the census, including the elimination of fictitious workers. To avoid any new accumulation of payments arrears, the government will ensure the more effective operation of its Cash Flow Committee chaired by the Minister of Finance. Moreover, it will introduce measures aimed at improving over the medium-term the still poor quality of the public expenditure management system (see paragraph 17 below).

11. **The overall fiscal deficit (cash basis, including grants) is projected at CF 4.771 billion (2.2 percent of GDP).** With net external financing (including debt relief and other deferrals of external debt service) projected at CF -1.466 billion, and net domestic financing (including the use of CF 1.2 billion in 2010 budget support held in reserve) amounting to CF 1.549 billion, the government's net financing requirements for 2011 are estimated at CF 4.689 billion (2.2 percent of GDP). This will be covered as follows:

(i) World Bank: CF 1 billion; (ii) AfDB: CF 0.8 billion; (iii) Gulf region partners: CF 1.1 billion; and (iv) IMF: CF 1.8 billion.

C. Money, Credit, and Financial System

12. **Government borrowing from the banking system will remain prudent, to allow an adequate expansion of credit to the private sector**. Broad money is expected to grow at a rate of 8.6 percent in 2011, faster than the growth of nominal GDP, compared with 12.7 percent in 2010. The required reserve ratio will continue to be the main liquidity management instrument. Set at 25 percent in 2008, it was increased to 30 percent in 2010 in response to a pronounced increase in demand for credit and in domestic prices in the third quarter, as well as to a substantial increase in liquidity associated with sharply higher external budget support. Subsequent changes in the ratio will continue to be subject to the need for the BCC to provide adequate liquidity to the economy, while preserving overall price and macroeconomic stability. The BCC will continue to ensure implementation of the main recommendations from the safeguards assessment conducted in 2010. In this context, the Bank's cash holdings are already subjected to external auditing and certification; the work to bring the BCC's financial statements into conformity with international standards is ongoing, and should be completed in 2011. In addition, the monetary data reported to Fund staff are subject to prior review by the Bank's internal controller. Finally, in 2011, the BCC will complete its work to strengthen banking supervision, with technical and financial support from the IMF and the Banque de France.

13. **Overall, the financial position of the Comorian banking system continues to be satisfactory**. The prevalence of nonperforming loans declined in 2010, and though affected by the crisis, the overall profitability of banking institutions—and microfinance institutions in particular—remained stable. The government has also taken steps to begin strengthening management of the National Postal and Financial Services Company (SNPSF), with a view to improving the institution's financial standing and helping protect depositors' savings.

D. Balance of Payments and External Debt

14. **The external current account deficit, including grants and private and official transfers, is expected to widen in 2011**, to 13.6 percent of GDP, compared with 10.2 percent in 2010. This largely reflects a return to normal levels of official grants, following the strong expansion noted in the previous year. Having begun discussions for substantial debt relief under the enhanced HIPC Initiative and on terms comparable to those provided by Paris Club creditors, the government reaffirms its commitment to a prudent debt policy so as to avoid jeopardizing the sustainability of the country's external debt.

15. **Any external borrowing contracted or guaranteed by the government is subject to prior approval by the Minister of Finance of the Union, and the autonomous governments of the islands do not have the authority to contract or guarantee external borrowing**. As in the past, the government will neither contract nor guarantee any short-term

or nonconcessional borrowing as defined in the Technical Memorandum of Understanding (TMU). The authorities will continue to consult the IMF before contracting or guaranteeing any concessional external debt in excess of US$20 million. With support from the African Development Bank, the Public Debt Directorate will soon be provided with an effective debt management software and training for staff. The government will shortly submit to the World Bank a request for technical assistance to assess its debt management capacity. On this basis, it will be able to develop an effective program for enhancing its expertise in this area.

E. Structural Policies

16. **The government aims to impart new impetus to its public enterprise reform program.** To this end, it has notably made a request for multiyear technical assistance from the IFC. With support from the African Development Bank, by end-December 2010 it will finalize the recruitment of the consultant tasked with preparing the reform strategy for the electric company (MAMWE); the strategy should be completed by end-March 2011. In the first quarter of 2011, the government intends to call for expressions of interest from potential strategic partners for Comores Télécom and SCH. It will do the same for MAMWE before end-June 2011.

17. **Public finance structural reforms aim to improve budget management.** The government has requested World Bank assistance in drawing up a list of priority sector expenditures. By end-March 2011, it will adopt the terms of reference for a study aimed at introducing a budgetary framework and medium-term expenditure plans. Also by end-June 2011, it intends to adopt a list of priority expenditures which it will have rigorously monitored by the inter-unit committee responsible for monitoring PRSP implementation. This should help ensure that the saving resulting from the debt service reduction under the HIPC Initiative will be used to effectively finance the priority sectors defined in the poverty reduction and growth strategy.

18. **Efforts underway in the area of public administration are aimed at strengthening the sustainability of the budget in the medium term.** The National Assembly recently adopted new personnel frameworks for the civil service. These will be implemented starting in fiscal year 2011, making it possible in particular to reduce civil service staffing (including that of the army) to about 10,600, as compared with 12,300 at end-2010. This is more in line with the government’s financial resources. The government is continuing to seek technical and financial support from its development partners for the preparation and implementation of a staff separation support program.

F. Poverty Reduction Strategy Paper (PRSP) and Improvement of Economic and Social Statistics

19. **The government intends to make its Poverty Reduction Strategy (PRS) more operational**. It is improving the prioritization and the specificity of projects and policies, especially those associated with the HIPC Initiative completion point triggers. With the

assistance of development partners, the preparation of an action plan refocused on the PRSP will be finalized by end-2010. The government intends to implement it rigorously starting in 2011, with technical and financial support from its development partners.

20. **The government is resolved to continue its efforts to improve the socio-demographic and macroeconomic database needed in the design and monitoring of its development policy.** In this connection it is receiving significant technical assistance from the AfDB, particularly in respect of the preparation of the national accounts and the consumer price index. The program to improve the quality of national accounts and consumer price index statistics is expected to be completed in 2011.

IV. Monitoring of Program Execution

21. **Before the discussion of the second review of the program by the IMF Executive Board**, the government will (i) provide Fund staff with evidence of payment to the Treasury's account at the BCC of the balance of the amount due from the profit tax (IBD) of Comores Télécom for 2010, namely CF 1.553 billion; as well as CF 2.247 billion in additional revenue from the economic citizenship program; (ii) request multiyear technical support from the International Finance Corporation (IFC) to implement smoothly the reforms of Comores Télécom and SCH; (iii) provide Fund staff with specimens of the computerized payroll slips for the Union, Ngazidja, Anjouan, and Mohéli; and (iv) request technical support from the World Bank to drawing up a list of social and priority expenditures.

22. **The program will be monitored on the basis of quarterly targets with performance criteria established on a half-yearly basis** (Tables 1 and 2). The authorities will provide the IMF with such information as needed to monitor the program, in accordance with the Technical Memorandum of Understanding. During the program period, the authorities will not introduce or intensify restrictions on payments and transfers for current international transactions, and will not introduce or modify any multiple currency practices, conclude any bilateral payments agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement, or impose any restrictions on imports for balance of payments purposes.

23. **The third review of the ECF arrangement will take place in June 2011.** In the area of structural reforms, the review will focus primarily on measures aimed at strengthening control of the wage bill, particularly: (i) the introduction of computerized pay slips; (ii) completion of the census of government employees and officials; and (iii) implementation of the Civil Service organizational frameworks.

Table 1. Comoros: Quantitative Performance Criteria and Benchmarks under the ECF-supported Program [1]
(in millions of Comorian francs, cumulative since the start of the fiscal year, unless otherwise specified)

	2010									2011	
	Jun.				Sep.			Dec.		Mar.	Jun.
	PC	Adj. PC	Actual		Indicative Target	Adj. IT	Prel	PC	Modified PC	Indicative Target	PC
Performance Criteria											
1. Ceiling on net credit to government (NCG) [2]	-1,596		-1,709	met	-3,730		590	-1,130	156	1,179	1,811
2. Ceiling on the net accumulation of domestic payments arrears [3]	-9,784	-7,323	-11,222	met	-10,284	-4,572	-11,914	-10,784	-10,784	0	-283
3. Ceiling on new nonconcessional external debt contracted or guaranteed by the government [4, 5]	0		0	met	0		0	0	0	0	0
4. Ceiling on new short-term external debt contracted or guaranteed by the government [4, 5]	0		0	met	0		0	0	0	0	0
5. Ceiling on accumulation of external debt service arrears [5]	0		0	met	0		0	0	0	0	0
Quantitative Benchmarks											
6. Floor on the domestic primary balance	-2,795		-2,398	met	-1,216		-3,284	-2,950	-3,141	-366	-1,354
7. Floor on total domestic revenues	12,028		12,039	met	20,491		18,740	28,838	28,848	7,008	14,446
8. Ceiling on expenditures by cash advances	150		148	met	150		148	150	150	150	150
9. Floor on domestically financed social spending								11,870	11,870		

[1] Definitions of targets and adjusters are provided in the Technical Memorandum of Understanding (TMU).
[2] Unlike in the monetary survey, NCG includes net ECF purchases.
[3] Targets and realizations adjusted as specified in the TMU.
[4] Excluding trade credits.
[5] Monitored on a continuous basis.

Table 2. Comoros: Proposed Prior Actions and Structural Benchmarks for the Arrangement Under the ECF, 2010-11

Measures	Macroeconomic Justification	Date	Status
Prior actions			
Forwarding to Fund staff of evidence of the collection of profits tax arrears from 2010 owed by Comores Télécom, as well as of CF 2.247 billion in additional receipts under the economic citizenship program			Pending
Submission of a request for technical assistance from the World Bank for the preparation of a list of social and other priority expenditures			Done
Submission of a request for multiyear technical assistance from the IFC on the conduct of the reform of Comores Télécom and SCH			Done
Forwarding to Fund staff of specimen computerized pay slips for October for Civil Service employees of the Union, Ngazidja, Anjouan, and Mohéli			Done
Structural benchmarks			
Public finance management			
Completion of the census of Civil Service employees	Improve control of the wage bill and public expenditure	December 31, 2010	
Establishment of Large Taxpayer Unit (SFE) offices in Anjouan and Mohéli	Enhanced effectiveness of tax administration	March 31, 2011	
Appointment of the Directorate-General of Taxes (GDI) Board of Directors	Enhanced effectiveness of tax administration	March 31, 2011	
Adoption of terms of reference for the study on the budgetary framework and medium-term expenditure frameworks	Enhance the effectiveness of budgetary and expenditure management	March 31, 2011	
Implementation of the new organizational frameworks for the administrations of the Union and the islands	Rightsizing the civil service to ensure medium-term budget sustainability	June 30, 2011	
Adopt indicative targets for social and other priority expenditures	Improve monitoring of the use of HIPC resources	June 30, 2011	

Measures	Macroeconomic Justification	Date	Status
Public enterprise reform			
Maintaining the flexible petroleum product price-setting mechanism	Permit a reliable supply of petroleum products and limit the pressures for subsidies on the budget	Ongoing	
Adoption of the reform strategy for MAMWE	Permit a reliable supply of electrical energy and limit the pressures for subsidies on the budget	March 31, 2011	
Call for expressions of interest from potential strategic partners for Comores Télécom and SCH	Permit a reliable supply of communications services and petroleum products and limit the pressures for subsidies on the budget	March 31, 2011	
Call for expressions of interest from potential strategic partners for MAMWE	Permit a reliable supply of electrical energy and limit the pressures for subsidies on the budget	June 30, 2011	

ATTACHMENT 2

UNION OF THE COMOROS

TECHNICAL MEMORANDUM OF UNDERSTANDING

Moroni, November 29, 2010

1. This technical memorandum of understanding (TMU) defines the quantitative performance criteria and quantitative and structural benchmarks to monitor the implementation of the program supported by the three-year arrangement under the Extended Credit Facility. It also describes the data to be reported for program monitoring purposes.

I. Definition

2. Unless otherwise specified below, "the government" is meant to include the government of the Union of the Comoros and the autonomous island governments. 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

3. Quantitative performance criteria are proposed for December 31, 2010 and June 30, 2011 with respect to changes in net domestic credit to the government and net changes in domestic payments arrears; with benchmarks for March 31, 2011. The following performance criteria are proposed for monitoring on a continuous basis: (i) the external payments arrears of the government; (ii) the contracting or guaranteeing of new nonconcessional external debt by the government; and (iii) the contracting or guaranteeing of new short-term external debt by the government.

A. Change in Net Domestic Credit to the Government

Definitions

4. Net domestic credit to the government is defined as overall net credit extended to the government from domestic bank and nonbank sources. Net bank credit to the government reflects the net debt 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 nonbank credit to the government includes changes in the stock of Treasury bills placed in the domestic market, privatization receipts, and any other domestic financial debt of the government held outside the banking sector, other than arrears.

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

Performance criteria

6. The amounts set out in Table 1 of the MEFP on Net Credit to Government for December 31, 2010 and June 30, 2011 are ceilings and constitute performance criteria. The amount set out in the above table for March 31, 2011 is a ceiling and constitutes an indicative target.

Reporting requirements

7. The BCC will report the provisional data on 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 monthly on any financing from nonbank sources.

B. Domestic Payments Arrears

Definition

8. New domestic payments arrears of the government are defined as any of the following: (i) any invoice that a spending ministry has received 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 invoice 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; and (iv) wages and salaries and any payments to a government employee that were due to be paid in a given month but remained unpaid on the 15th day of the following month.

Performance criterion

9. Under the program, the government will not accumulate any new domestic payments arrears and will gradually reduce the outstanding amount of such arrears determined as at December 31, 2010. The amounts set out in Table 1 of the MEFP on Domestic Payments

Arrears and Net Credit to Government for December 31, 2010 and June 30, 2011 are ceilings and constitute performance criteria. The amount set on in the above table for March 31, 2011 represents a ceiling and constitutes a quantitative benchmark.

Adjuster

10. If external budget support is less than expected, the floor on the reduction of domestic payments arrears will be lowered by the full amount of the shortfall. In the case of a surplus in the amount of external budget support, the floor on the net reduction of domestic arrears will be raised by the full amount of the surplus. Cumulative from January 1 of the year in question, the program assumes external budget support of CF 19.300 billion by end-December 2010, CF 0 billion by end-March 2011, and CF 1.972 billion by end-June 2011.

Reporting requirements

11. 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

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

Performance criterion

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

Reporting requirements

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

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

Definition

15. This performance criterion applies not only to debt as defined in Point 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. 1441-(09/91), effective December 1, 2009), but also to commitments contracted or guaranteed by the government for which value has not been received.

16. Short-term debt refers to external debt with a contractual maturity of less than one year. External debt refers to debt owed to nonresidents.

17. 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. Debt 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 sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of 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."

18. 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 Extended Credit 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.

19. For the purposes of this performance criterion, government is understood to include the government (as defined in paragraph 2 above), as well as local administrations, public institutions of an industrial and commercial nature (EPICs), public administrative institutions (EPAs), 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

20. The government as defined in paragraph 19 will not contract or guarantee nonconcessional or short-term external debt as defined above. This performance criterion will be 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 this performance criterion on short-term debt.

Reporting requirements

21. The authorities 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

22. The consolidated domestic primary fiscal balance (payment 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

23. The benchmarks for the floor on the domestic primary fiscal balance, cumulative from the beginning of the 2011 calendar year, are set at CF –3.141 billion for December 31, CF –0.366 billion for March 31, 2011, and CF –1.354 billion for June 30, 2011.

Reporting requirements

24. During the program period, data on the domestic primary fiscal balance (payment order basis) will be forwarded to Fund staff monthly by the Ministry of Finance of the Union within 45 days following the end of each month.

B. Government Revenue

Definition

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

Quantitative Benchmarks

26. The floor on government revenue, cumulative from the beginning of the 2001 calendar year, is set at CF 28.848 billion for December 31, 2010, CF 7.008 billion for March 31, 2011, and CF 14.446 billion for June 30, 2011. These amounts are considered benchmarks under the program, for the respective dates.

Reporting requirements

27. The Ministry of Finance will report preliminary revenue data to Fund staff 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

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

Quantitative Benchmarks

29. Responsibility for achieving the ceiling on expenditures outside of normal procedures rests with both the Union government and the autonomous island governments. This ceiling, cumulative from January 1, 2011, is set at CF 150 million at December 31, 2010, March 31, 2011, and June 30, 2011.

Reporting requirements

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

D. Domestically Financed Social Spending

Definition

31. Total domestically financed social spending (current and capital) is calculated, for each category of current expenditure (wages, goods and services, transfers and subsidies) and capital expenditure as: (1) expenditure executed by the Ministry of Health (under "health"), and (2) expenditure executed by the Ministry of Education (under "education"). Domestically financed social spending is classified according to the above categories (health and education) based on a classification of each project presented in the 2010 budget into health and education. Total domestically financed current and capital social spending includes social spending financed by domestic resources, including revenues, domestic financing, and general external budget support, and excludes all social spending financed by project-specific foreign grants and/or loans.

Quantitative benchmarks

32. The floor on total domestically financed social spending for the period from January 1, 2010 to end-December 2010 is set at CF 11.870 billion. This amount is an indicative target under the program.

Reporting deadlines

33. During the program period, data on domestically financed social spending will be forwarded to Fund staff by the Ministry of Finance within 45 days following the end of the period.

IV. Additional Information for Program Monitoring

34. 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 payment order basis, the related detailed tables on revenue, and a table showing the link between the payment order basis and cash basis for expenditures;

External public debt operations (debt contracted and guaranteed by the government, 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 agricultural products (vanilla, cloves, ylang-ylang).

Annually:

National accounts data;

Balance of payments data.

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 by the authorities on a timely basis.

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

2010 Article IV Consultation and Second Review Under the Extended Credit Facility, Request for a Modification of a Performance Criterion, and Financing Assurances Review—Informational Annex

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

December 27, 2010

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I. COMOROS: RELATIONS WITH THE FUND

(As of October 31, 2010)

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

	SDR Millions	% Quota
II. General Resources Account:	**SDR Millions**	**% Quota**
Quota	8.90	100.00
Fund holdings of currency	8.36	93.91
Reserve position in Fund	0.54	6.11
III. SDR Department:	**SDR Millions**	**% Allocation**
Net cumulative allocation	8.50	100.00
Holdings	6.67	78.44
IV. Outstanding Purchases and Loans:	**SDR Millions**	**% Allocation**
ESF RAC Loan	2.23	25.00
ECF Arrangement	5.79	65.00

V. **Latest Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
ECF	Sep. 21, 2009	Sep. 20, 2012	13.57	5.79
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				
	2010	2011	2012	2013	2014
Principal	0.00	0.00	0.00	0.00	0.45
Charges/interest	0.00	0.01	0.02	0.02	0.02
Total	0.00	0.01	0.02	0.02	0.47

VII. Implementation of HIPC Initiative: Enhanced framework

I.	Commitment of HIPC assistance	
	Decision point date	July 2010
	Assistance committed	
	by all creditors (US$ Million in NPV terms)	144.80
	Of which: IMF assistance (US$ million)	4.27
	(SDR equivalent in millions)	2.89
	Completion point date	Floating
II.	Total disbursement of IMF assistance (SDR Million)	--

VIII. Summary of Safeguards Assessment. An update of the August 2007 safeguards assessment of the Banque Centrale des Comores (BCC) was completed in April 2010. The safeguards assessment found that despite capacity constraints the central bank has taken steps to strengthen its safeguards framework; it recommended that efforts to implement International Financial Reporting Standards (IFRS) should be intensified and the financial controller should review data submitted to the Fund for each program test date, starting in December 2009.

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 last 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.

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
MCM	Sept. 2009	Banking supervision
FAD	Dec. 2009	Tax and customs administration
MCM	May-June 2010	Banking supervision and internal audit

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, 2010–11

Title	Products	Provisional timing of mission	Expected delivery date
	A. Mutual information on relevant work programs		
Bank work program in next 12 months	1. Emergency Crisis Response Project		June 2010
	2. Interim Strategy Note		June 2010
	3. HIPC Decision Point Document		June 2010
	4. Economic Governance Technical Assistance Project	Appraisal & Negotiation Nov-Dec 2010	January 2011
IMF work program in next 12 months	1. Second ECF Review and Article IV consultation	November 2010	December 2010: Board meeting
	2. Third ECF Review	March 2011	May 2010 : Board meeting
	3. Policy paper on macroeconomic impact of remittances	N/A	March 2011
	4. Fourth ECF Review	September 2011	November 2011
	B. Requests for work program inputs		
Fund request to Bank	1. Update on Bank's assistance in the area of PFM reforms and PRSP implementation		December 2010
	2. Bank's assistance strategy in support of public enterprise reform		December 2010
Bank request to Fund	1. Sharing macro-framework updates		Continuous
	C. Agreement on joint products and missions		
Joint products in next 12 months	1. JSAN for 1st PRSP APR		March 2011

III. Comoros: Relations with the African Development Bank Group

A. Bank Group's Support in Comoros

1. The African Development Bank Group (AfDB) started operations in Comoros in 1978 and has since approved thirteen operations comprising twelve projects and one study. Cumulative Bank Group commitments net of cancellation amount to UA 46.7 million as of 31 March 2010, the bulk of this financing (64%) being from the concessional window, the African Development Fund (ADF). In addition, the AfDB approved a UA 1.5 million emergency financing to assist in mitigating the adverse impact of the food crisis in February 2009, plus a UA 0.6 million grant under the Institutional Capacity Building Project (ICBP) in November 2010. Overall, the AfDB operations in Comoros have been directed toward supporting economic-related infrastructure, budget support and rural livelihoods. In terms of sector distribution, infrastructure sector projects received the largest share (51 percent) of the total resources committed, followed by multi-sector (30.2 percent, comprising operations in governance, economic and financial reform) and agriculture (11.2 percent).

B. Strategic Orientation

2. The Bank Group re-engagement in Comoros is recent. Following the resolution of the Anjouan crisis in 2007 and the lifting of sanctions in February 2009 after clearance of its arrears with the Bank under the Bank's Post-Conflict Countries Facility (PCCF), a two-year Interim Country Strategy Paper 2009-2010 (I-CSP) was approved in April 2009. The I-CSP is aligned to the Interim Growth Strategy and Poverty Reduction Paper (I-GSRP) prepared by the Government of Comoros (GoC). This I-CSP builds *inter alia* on the new strategic orientations of the Bank for increased commitment in fragile States aimed at mitigating the country's situation of fragility and providing support to create an enabling environment for sustainable development, as well as helping Comoros to reach the completion point of the HIPC Initiative in the near future. In this respect, the Bank's I-CSP (2009-2010) aims at: (i) improving economic management through support for institutional capacity building, and (ii) creating a better environment through improved water supply and sanitation. All the Bank's operations are articulated around the two I-CSP pillars: (i) *strengthening institutions and the macroeconomic framework,* and (ii) *improving water supply and sanitation*. The envelope available for Comoros for the 2009–2010 period stands at UA 15.9 million, comprising the normal performance-based ADF XI allocation (UA 5,9 million) and the FSF Enhanced Support (UA 10 million). In addition, Comoros just received US$2 million from the Fragile States Facility Targeted Support Window for capacity building, including for the finalization of the PRSP, training of civil servants, revision of the fiscal code, fiscal re-organization, preparation of the PFM strategy and action plan, capacity building to the CGP and to the water and sanitation Ministry.

C. Lending Portfolio

3. Currently, the Bank's ongoing portfolio in Comoros is composed of two operations, *the Economic Support Reform Program (ESRP)* consisting in a budget support operation and the *Institutional Capacities Strengthening Project (ICSP)* whose objective is to strengthen national capacities in public financial management (PFM), debt management and macroeconomic statistics. Consistent with the I-CSP, a Water and Sanitation Project was approved by the Boards in December 2009. Overall, current disbursement trends remain in line with forecasts. A Country Portfolio Performance Review (CPPR) is scheduled for the second half of 2011.

D. Non Lending Activities

4. During the preparation of the I-CSP, the Bank identified a series of possible avenues for economic and sector work (ESW) chief among these was the common objective of the Comorian authorities and the Bank to pay particular attention to growth impediments and identify key sectors likely to leverage and sustain economic growth over the medium-long term in Comoros. A study on the Sources of Growth in Comoros has been launched in August 2009. The first phase consisting in a macro and sector diagnosis is currently at the completion stage. The second phase scheduled for 2011 will focus on fine tuning sector surveys and elaborating a decision-making tool targeted at policy makers with respect to investment choices and economic policy impact. Specific areas for ESWs would be further explored through consultations with Government and other development partners in the context of the preparation of the next Country Strategy Paper (CSP).

E. Summary of AfDB Current Lending Portfolio

Project	Sector	Effectiveness	Closing Date	Amount	
				Millions of Units of Account	Millions of U.S. Dollars
Institutional Capacities Support Project	Multisector	19/11/09	31/12/13	5.26	8.0
Budget Support	Multisector	14/09/09	31/12/10	2.0	3.0
Water Supply and Sanitation Project	Public Utilities	-	-	10.64	16.10
Food Crisis Response	Agriculture	14/09/09	31/12/09	1.5	2.27
Emergency Assistance to Victims of Flood	Social	-	-	0.66	1.0
Total				20.06	30.37

Source: AfDB, 2010

F. IMF-African Development Bank Collaboration

5. Collaboration between the IMF and Africa Development Bank teams has been largely through exchanges, sharing of information and joint missions. More opportunities for collaboration would be explored.

IV. COMOROS: STATISTICAL ISSUES

Comoros—Statistical Issues Appendix As of November 18, 2010
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. The authorities are well aware of these shortcomings and the Commissariat Général au Plan (CGP) has asked the assistance of the African Development Bank for long term technical assistance in both national accounts and price statistics. **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.	
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 was postponed at the request of the authorities. A 2010 request for assistance with reviewing the methodology and practices for preparing national accounts and CPI statistics was withdrawn following the initiation of AfDB technical assistance in the same areas.

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 October 31, 2010

	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]	September 2010	October 2010	M	M	M
Reserve/Base Money	September 2010	October 2010	M	Q	Q
Broad Money	September 2010	October 2010	M	Q	Q
Central Bank Balance Sheet	September 2010	October 2010	M	Q	Q
Consolidated Balance Sheet of the Banking System	September 2010	October 2010			
Interest Rates[2]	September 2010	October 2010	C	C	M
Consumer Price Index	September 2010	October 2010	M	I	I
Revenue, Expenditure, Balance and Composition of Financing[3] — General Government[4] — Union government and three island governments	September 2010	October 2010	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]	December 2009	April 2010	A	I	I
External Current Account Balance	2009	April 2010	A	I	I
Exports and Imports of Goods and Services	June 2010	October 2010	A	I	I
GDP/GNP	2009	April 2010	A	I	I
Gross External Debt	December 2009	April 2010	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 Representative
January 18, 2011

1. **This statement provides an update on the status of the prior actions since the issuance of the staff report and the associated correction (www.imf.org).** The additional information does not change the thrust of the staff appraisal.

2. **All prior actions have been implemented and the program remains broadly on track**.

- As noted in the staff report **(www.imf.org)**, completion of the second review under the ECF arrangement is subject to the implementation of four prior actions, all of which have now been fully implemented. In particular, the authorities have taken steps to address the fiscal slippages incurred in the third quarter of 2010, including the collection of 0.8 percent of GDP in tax arrears owed by the state-owned telecommunication company and recovery of over 1 percent of GDP in receipts under the economic citizenship program. These revenues were collected in late December 2010 and early January 2011, respectively.

- At this stage, staff has no comprehensive information on the fiscal outturn for end-2010. However, available partial data bode well regarding the likelihood of the authorities meeting the modified end-December 2010 performance criteria on net credit to government and the reduction of domestic arrears. The authorities have expressed the view that the two program targets are within reach.

- In light of the late recovery of receipts under the economic citizenship program, staff intends to assess in the context of the next review, when full information on the outcome for end-2010 becomes available, if there is a need to amend the end-June 2011 performance criterion on net credit to government to keep the fiscal program on the envisaged path.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 11/17
FOR IMMEDIATE RELEASE
February 2, 2011

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation with Comoros

On January 21, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Comoros.[1]

Background

Over the last two years, economic activity in the Union of Comoros has gained momentum despite a challenging external environment. Real GDP increased by 1.8 percent in 2009, benefiting from a gradual return to political stability and the launch of reforms to begin removing deep-seated structural impediments to economic development. Preliminary data point to a further strengthening of economic conditions in 2010, with real growth rising to 2.1 percent, underpinned by a rebound in donor-funded public investment, a pick-up in remittances-based private sector construction, and stronger activity in tourism; as well as an expansion of financial intermediation. From its peak during the food and energy crisis of 2008, inflation has eased to low single digits, hovering around 3 percent. Contributing factors include a prudent monetary policy under the Franc zone and somewhat subdued pressures on food and fuel prices. However, in the face of real appreciation of the euro-pegged Comoros franc and deteriorating terms of trade, the external current account deficit is estimated at the relatively high equivalent

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

of 10.2 percent of GDP in 2010. Reflecting broadly satisfactory performance under IMF- and World Bank-supported reforms, Comoros reached the Highly Indebted Poor Countries (HIPC) Initiative Decision Point in July 2010.

Against this background, progress in fiscal consolidation has been slow. The domestic primary fiscal deficit stagnated at 2.6 percent of GDP in 2009, and delays in collecting taxes and implementing new fiscal measures under the IMF-supported program pushed the deficit above the program target for end-September 2010. However, corrective measures introduced late in the year and in the first quarter of 2011 should help keep the fiscal program on track. On the structural front, the authorities have completed reform strategies for key public utilities, with however limited progress in implementing related measures. To advance the public enterprise reform program, the authorities have requested a multi-year technical assistance program from the International Finance Corporation (IFC). In 2011, the government plans to issue calls for bids to enlist private sector involvement in the management of the state-owned telecommunication and petroleum-importing companies.

Economic growth is expected to rise to an annual average of 4 percent in the medium term driven by stronger activity in agriculture and fishing, inter-island transportation, and tourism. Inflation should remain subdued, consistent with Comoros' membership in the Franc zone. By 2014, the authorities aim to bring the domestic primary fiscal balance to equilibrium, with government revenue rising to at least 15 percent of GDP. In the external sector, the HIPC Initiative Completion Point is expected to be reached in late 2012, putting external debt on a sustainable position while freeing additional resources for pro-growth and pro-poor programs. This requires close adherence to reforms under the Extended Credit Facility (ECF) and Poverty Reduction Strategy Paper. Risks to the outlook include civil service pressures for higher wages and political resistance to public enterprise reform, which could delay progress in fiscal consolidation and in implementing the structural reform agenda. Moreover, a return of political instability following the 2010 elections could hinder delivery of anticipated external resources, including Foreign Direct Investment. Also, in the absence of much-needed technical assistance, weak absorption and implementation capacity would cloud the medium-term growth prospects.

Executive Board Assessment

Executive Directors commended the Comorian authorities for their broadly satisfactory policies in a challenging political and economic environment, including the uncertain global recovery and renewed pressure on commodity prices.

Directors welcomed the improved fiscal performance in the first half of 2010, but expressed concern at slippages later in the year. They welcomed corrective steps underway and urged the authorities to implement expeditiously planned revenue and expenditure measures to strengthen the fiscal position.

Directors noted the importance of reforms to enhance the budget process, tax administration and expenditure control especially as regards the public sector wage bill, with a view to creating fiscal space for needed pro-growth and pro-poor spending.

Directors commended the authorities for their prudent debt management and efforts in reaching debt restructuring understandings with all external creditors, which are essential to addressing Comoros' unsustainable external debt.

Directors welcomed recent progress in strengthening banking supervision and adopting the recommendations from the 2010 Safeguards Assessment. They urged the authorities to address lingering structural impediments to financial intermediation, including weaknesses in the legal framework and inadequate internal control mechanisms and reporting standards at banks.

Directors underscored that achieving a higher growth path will require far-reaching structural reforms to bolster Comoros' competitiveness and increase the economy's ability to intermediate remittances and aid inflows. In particular, they stressed the need to improve the business environment and the management of public utilities.

To mitigate risks to the program, Directors urged the authorities to nurture the national consensus on the importance of building on the progress achieved so far and of reaching the HIPC Initiative completion point under the ECF-supported reform agenda.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Comoros: Selected Economic and Financial Indicators, 2008–15

	2008	2009	2010 Prog 1st Rev.	2010 Rev. prog.	2011 Proj	2012 Proj	2013 Proj	2014 Proj	2015 Proj
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
Real GDP	1.0	1.8	2.1	2.1	2.5	3.5	4.0	4.0	4.0
GDP deflator	5.5	4.6	3.8	3.8	3.3	3.1	3.1	3.3	3.3
Consumer price index (annual averages)	4.8	4.8	2.6	2.7	3.0	2.9	2.9	3.0	3.0
Consumer price index (end period)	7.4	2.2	3.1	3.2	2.8	2.9	3.0	3.0	3.0
Money and credit									
Net foreign assets	-6.8	9.7	9.6	0.3	1.5	1.2	1.5	2.2	4.6
Domestic credit	41.7	34.9	7.2	9.7	15.1	10.5	10.0	9.9	10.1
Net credit to government (Treasury)	31.2	13.4	-28.7	-7.8	17.5	4.3	2.6	1.5	-2.6
Broad money	11.6	13.5	7.5	12.7	8.6	7.3	7.5	7.7	7.6
Velocity (GDP/end-year broad money)	3.5	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.2
External sector									
Exports, f.o.b.	-55.4	93.1	17.1	14.1	13.9	8.2	7.8	7.8	7.9
Imports, f.o.b.	28.5	1.6	13.1	14.4	-1.4	6.3	2.3	5.7	4.0
Export volume	-35.0	71.2	18.1	12.5	9.8	2.1	1.8	2.7	2.7
Import volume	33.1	10.6	-0.8	-4.8	-7.0	4.8	-0.3	4.9	2.8
Terms of trade	-40.8	22.8	-13.0	-15.6	-2.1	4.5	3.1	4.2	3.8
	(in percent of GDP, unless otherwise indicated)								
Investment and savings									
Investment	14.3	12.4	16.6	17.2	17.3	18.1	19.0	19.8	20.4
Public	9.3	4.7	7.5	7.5	7.7	8.0	8.5	8.8	9.0
Private	5.0	7.7	9.1	9.7	9.6	10.1	10.6	11.0	11.5
Gross national savings	3.2	3.4	7.7	7.1	3.7	5.0	7.0	7.9	9.3
Public	1.0	4.1	7.6	8.5	1.0	2.1	2.4	3.1	3.6
Private	2.3	-0.7	0.1	-1.4	2.8	2.9	4.6	4.8	5.7
Government budget									
Domestic Revenue	13.1	13.9	14.3	14.4	14.2	14.5	14.7	15.1	15.5
Total grants	10.4	9.7	13.7	14.5	7.1	7.2	6.9	7.1	7.1
Total expenditure	26.0	23.0	23.2	24.0	23.2	22.7	22.9	23.0	23.0
Current expenditure	16.8	18.1	15.6	16.5	15.5	14.7	14.5	14.3	14.0
Domestic primary balance	-2.8	-2.6	-1.5	-1.6	-1.3	-0.5	-0.4	0.0	0.4
Change in arrears	0.2	0.2	-7.6	-7.8	-0.4	-0.5	-0.8	-0.9	-0.8
External interest	0.1	-0.1	-2.2	-2.4	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.4	-5.4	-5.4	-0.4	-0.5	-0.8	-0.9	-0.8
Overall balance (cash basis)	-2.3	0.8	-2.7	-3.0	-2.2	-1.5	-2.2	-1.7	-1.2
Excluding grants	-12.8	-8.9	-16.4	-17.4	-9.4	-8.7	-9.0	-8.8	-8.3
Financing	2.4	-0.7	-0.6	0.9	0.0	-0.7	-0.7	-0.9	-1.0
Foreign (net)	1.2	-1.3	0.8	1.3	-0.7	-0.9	-0.8	-1.0	-0.9
Domestic (net)	1.1	0.6	-1.4	-0.4	0.7	0.2	0.1	0.1	-0.1
Financing gap 1	0.0	0.0	3.3	2.1	2.2	2.2	2.9	2.6	2.2
External sector									
Exports of goods and services	14.0	13.2	15.0	13.2	13.7	14.0	14.0	14.3	14.5
Imports of goods and services	48.4	47.9	50.5	50.8	47.6	47.4	45.3	44.6	43.2
Current account balance	-11.1	-9.0	-8.9	-10.2	-13.6	-13.1	-12.0	-11.9	-11.1
Excl. official and private transfers	-34.3	-34.7	-35.9	-38.1	-34.2	-33.6	-31.4	-30.4	-28.7
External debt, NPV in percent of GDP 2	37.4	46.2	41.8	41.8	40.2	38.4	36.5	34.5	32.5
External debt, NPV in percent of exports of goods & services	267	330	308	308	286	275	266	255	242
External debt service (in percent of exports of goods and services)	12.2	14.3	19.5	19.5	9.7	9.1	7.8	8.3	10.3
Overall balance of payments (in millions of U.S. dollars)	-15.9	30.1	-6.0	-13.7	-11.8	-12.3	-16.6	-15.2	-10.8
Official grants and loans (percent of GDP)	11.1	9.7	13.9	14.9	7.3	7.4	7.1	7.3	7.3
Gross international reserves (end of period)									
In millions of U.S. dollars	110.4	153.1	153.3	137.5	139.3	139.8	140.6	141.5	144.1
In months of imports of goods & services	5.1	7.1	6.5	6.1	6.3	6.0	5.9	5.7	5.6
Real effective exchange rate (2000=100)	122.3	122.6	...	...	...	...	...	...	...
Exchange rate CF/US$ (period average)	334.3	353.2	360.7	383.2	...	...	...	...	...
Memorandum items:									
GDP (nominal, in billions of CF)	178.0	189.6	201.0	201.0	212.7	226.8	243.3	261.4	280.8

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

1 The program financing gap for 2010–12 will be covered by grants and ECF financing.

2 External debt ratios before traditional debt-relief. 2008 debt data not comparable, as it does not account for the full stock of debt.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under ECF Arrangement with the Union of the Comoros and Approves US$2.42 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of the Union of the Comoros' economic performance under a program supported by the Extended Credit Facility (ECF). The Board's decision enables the immediate disbursement of an amount of SDR 1.56 million (about US$2.42 million), bringing total disbursements under the ECF to the Comoros to SDR 7.34 million (about US$11.41 million). The Executive Board also approved a modification of the end-2010 performance criterion on net domestic credit to the government.

At the conclusion of the Executive Board's discussion on the Comoros, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

"Economic performance under the ECF-supported program has been broadly satisfactory. Despite a challenging political environment, economic activity is accelerating and efforts are made to build on progress to date in macroeconomic management. Initiatives are in place to remove structural impediments to growth and make further inroads into poverty alleviation.

"Recent fiscal slippages need to be addressed by strengthening revenue mobilization and containing the wage bill with a view to channeling resources to pro-poor and pro-growth programs. Additional action is also needed to improve the efficiency of tax and custom administration and reform the budget process.

"The authorities' prudent debt management and good faith efforts in reaching debt restructuring understandings with all external creditors are essential to addressing Comoros' unsustainable external debt.

“On the structural front, renewed efforts are needed to improve the business environment and the management of public utilities. Progress in these areas will bolster Comoros’ competitiveness. In particular, enlisting private sector participation in the management of the telecommunications, electricity, and oil-importing parastatals remains a priority. In the financial sector, the authorities need to further reinforce banking oversight

“A continued commitment to the macroeconomic and structural reform agenda as well as a national consensus on policy direction will be crucial for the program’s success,” Mr. Shinohara added.

Statement by Kossi Assimaidou, Executive Director for the Union of the Comoros
January 18, 2011

I. Introduction

Against the backdrop of a stable political environment and the strengthening of the country's institutions, my Comorian authorities have embarked on an ambitious economic reform agenda underpinned by the 2009 Poverty Reduction and Growth Strategy Paper (PRGSP). This paper also serves as the foundation for the three-year reform program supported by the IMF under the Extended Credit Facility (ECF). Under this program, my authorities are implementing sound policies aimed at achieving macroeconomic stability, raising the level of economic growth while tackling poverty more effectively. These efforts are also receiving the support of the international community through a substantial increase in external assistance.

As confirmed by staff in the report, my authorities have continued to make progress under the Fund-supported program. In particular, all June 2010 performance criteria and quantitative and structural benchmarks were met. Macroeconomic performance has also been broadly satisfactory, thanks in part to an increase in FDI and the authorities' sound policies under the ECF which have contributed to a strengthening of domestic demand.

During the second half of 2010, the fiscal position weakened in the third quarter due, among others, to a shortfall in revenues reflecting delays in the payment of taxes owed to the Treasury by *Comores Télécom.* As a result, the fiscal objectives as of end-September 2010 were not met. In addition, the delayed disbursement of financial support from some development partners adversely affected government deposits at the central bank and therefore led to a breaching of the ceiling on net credit to the government. The authorities took corrective measures, and in November they obtained the settlement of the profit taxes owed by *Comores Télécom*, along with other revenues. Nevertheless, there was still an overrun in spending associated with the elections equivalent to 0.1 percent of GDP.

My authorities would like to reassure Directors that they remain fully committed to the objectives of the program. They have completed all prior actions, and going forward, the program will continue to focus on the implementation of a prudent fiscal policy and on the adoption of structural policies that will enhance the economy's competitiveness. In this regard, my authorities would like to point out that many of the taxes enacted in 2010 started to generate revenue only in late 2010 but will be fully effective in 2011. Moreover, the government has recruited external consultants who have begun work on auditing the 2009 accounts of *Comoros Télécom,* which will be followed by an appraisal of the enterprise's net worth, with a view to issuing calls for expressions of interest from potential partners. At the same time, a committee has been established to monitor the reform of the petroleum product-importing company in order to assist the government with finalizing the choice of an appropriate reform strategy. The government is also working with the African Development Bank to develop a plan to reform the electricity company.

The fight against poverty will remain at the core of my authorities' development agenda as they strive to make their PRGSP more operational. In this regard, they are currently finalizing the preparation of an action plan with the assistance of development partners to better prioritize development projects and policies. They look forward to raising spending in priority sectors in the period ahead with the much-needed resources that will be freed upon reaching the HIPC completion point. In this vein, my authorities would like to reiterate their firm commitment to pursuing a timely implementation of all the triggers in order to reach the completion point in 2012 as expected.

II. Policies Under the Extended Credit Facility

In 2011, my authorities will pursue the implementation of prudent macroeconomic policies under the program. In particular, they are aware of the need to accelerate progress towards a more sustainable fiscal position. The strict implementation of these policies within a more stable political and social environment should help contribute to a strengthening of economic activity led by investment in infrastructure and private construction. Accordingly, real GDP is projected to reach 2.5 percent in 2011 (from 1.8 in 2010), increasing more rapidly than population growth, thereby raising the population's living standards following many years of stagnation. Inflation will remain in the low single-digit, thanks to Comoros' membership in the zone Franc's monetary framework which continues to serve the economy well.

In the **fiscal** area, my authorities are determined to continue in 2011 their fiscal consolidation efforts, and reduce the fiscal deficit from 3 percent of GDP in 2010 to 2.2 percent in 2011. To this effect, they intend to strengthen government revenues while keeping a strict control over expenditures—particularly the wage bill—while improving the quality of spending, preserving pro-poor expenditures, and avoiding the accumulation of arrears. The projected increase in domestic revenues to 14.2 percent of GDP in 2011 from 13.1 in 2008 is expected to result from the improvement in the efficiency of the tax and customs administration currently being undertaken, based on the recommendations of a recent Fiscal Affairs Department T/A mission. New domestic tax measures will also contribute to raising domestic revenues.

Fiscal expenditures in 2011 will be capped at 23.2 percent of GDP, and a particular attention will be given to keeping the wage bill under strict control. In support of these efforts, Comoros' National Assembly has adopted recently new personnel frameworks for the civil service that will help reduce civil service staffing starting in 2011, and lead to a decline in the wage bill.

In the context of increased financial intermediation resulting from the introduction of two new foreign banks in Comoros, the **banking system's** financial position remains satisfactory. NPLs declined in 2010 and the overall profitability of banks stayed stable despite the relative impact of the global crisis. These developments will positively contribute to further entrench the economic recovery through increased credit to the private sector. Measures have also been taken to strengthen the national postal and financial services company (SNPSF)—which shows relatively weaker prudential ratios than other financial institutions—with a view to improving its financial standing and helping protect depositors' savings.

The **current account deficit** is projected to widen to 13.6 percent of GDP in 2011 from 10.2 percent in 2010 driven by an increase in imports. My authorities are confident that the projected increase in FDIs in the coming years notably following the 2010 Qatar Conference will greatly contribute to an economic diversification towards key sectors identified in the PRSCP such as agriculture, fishing, and tourism. This will contribute to raising exports and curbing the current account deficit over time. Foreign exchange reserves, however, will remain comfortable at above 6 months of imports cover at end-2011.

On the **structural** front, my Comorian authorities intend to further accelerate the reform of public enterprises in 2011 with the assistance of development partners, notably the World Bank and the African Development Bank. Progress has already been achieved in identifying the appropriate reform strategy for the *Société Comorienne des Hydrocarbures* while the preparatory work for the reform strategy of the water and electricity company is ongoing and should be completed by end-March 2011. The authorities intend to issue calls for expressions of interest from potential strategic partners for *Société Comorienne des Hydrocarbures* and for *Comores Télécom* in the first quarter of 2011, as noted above. As for the electricity company, a call for expressions of interest should be issued before end-June 2011.

My authorities are thankful to the partners that are providing **interim debt relief** under the HIPC initiative and to those who have agreed to defer debt service payments pending debt relief under the initiative. Moving forward, they would like to reaffirm their commitment to a prudent debt strategy and, accordingly, will neither contract nor guarantee any short-term or nonconcessional borrowing. Furthermore, as regards concessional borrowing, they will consult with Fund staff before contracting or guaranteeing any such external debt in excess of USD$20 million.

III. Conclusion

My Comorian authorities would like to reiterate their deep commitment to the program of adjustment and to the achievement of its objectives. It is their intention to further strengthen their efforts to boost growth and reduce poverty more rapidly. In this spirit, they would like to express their deep gratitude to the Board for its support and guidance throughout the years. They request once again Executive Directors' support for the completion of the second review under the ECF, and for the modification of a performance criterion for end-December 2010.