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2014 ARTICLE IV CONSULTATION—STAFF REPORT, PRESS RELEASE AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UNION OF THE 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 the 2014 Article IV consultation with Comoros, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 4, 2015, following discussions that ended on November 4, 2014, 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 January 13, 2015.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Press Release** summarizing the views of the Executive Board as expressed during its February 4, 2015 consideration of the staff report that concluded the Article IV consultation with Comoros.
- A **Statement by the Executive Director** for Union of the Comoros.

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

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UNION OF THE COMOROS

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

January 13, 2015

KEY ISSUES

- **The Comorian economy continues to grow although at a slightly slower pace**. Economic growth in 2014 is projected at 3.3 percent, adversely affected by electricity disruptions and slower-than-expected implementation of the public investment program. Inflation has remained subdued. Staffs' baseline assumption is that real GDP growth will average around 4 percent per annum over the medium term, provided reforms are implemented.

- **Implementation of the 2014 budget was challenging, particularly after mid-year**. While revenues were broadly on target, resources were inadequate to meet the higher-than-budgeted wage bill resulting from an increase in teacher salaries in March and previously un-budgeted expenditures, including on elections. Domestically-financed investment spending was severely constrained and temporary arrears were incurred on salaries and external debt.

- **The key short-term challenge is to find a better balance between available resources and expenditures so that arrears can be avoided**. Spending plans need to be based on realistic expectations of the resources likely to be available. The 2015 budget is premised on this principle but the scope for domestically-financed investment is inadequate as obligatory spending on wages and salaries and debt service absorbs most of domestic revenue.

- **For the medium-term the key challenges are to create fiscal space for infrastructure investment and social spending, accelerate inclusive growth and employment generation, and reduce poverty**. The authorities need to focus their efforts on strengthening revenue administration and public financial management to expand fiscal space and improve transparency. Weaknesses in the business environment, including inadequate infrastructure, especially in the energy sector, and difficulties in contract enforcement represent important challenges.

Approved By
David Robinson (AFR) and Robert Traa (SPR)

The mission that visited Comoros during October 20–November 4, 2014, comprised Messrs. Trines (head), Arnason, Campbell, and Jidoud (all AFR). It was assisted by Messrs. Bua (Resident Representative) and Ahamada (local economist). The mission met with President Ikililou and held discussions with Vice President and Minister of Finance Soilihi, Minister of Planning Tadjiddine, Governor of the Central Bank Chanfiou, Councilor to the President and Permanent Secretary of the Economic and Financial Reform Agency Oubeidi, and other government officials, members of parliament, representatives of the island administrations, private sector, unions, civil society, and the donor community.

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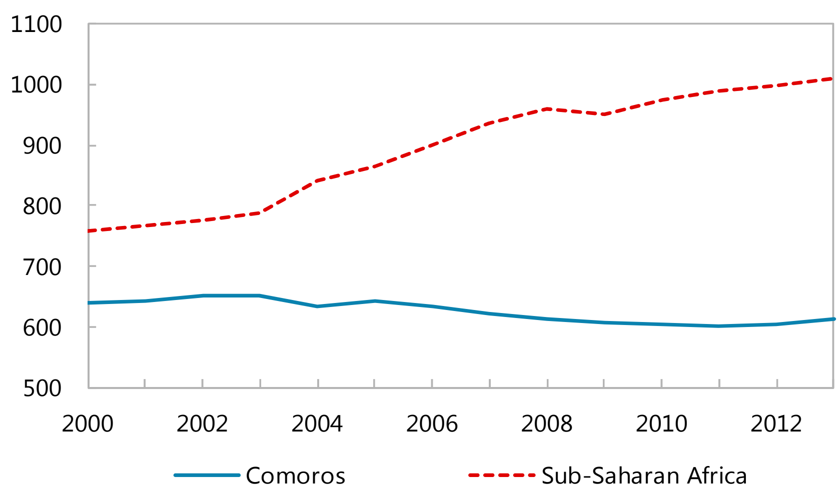
CONTEXT

1. **Country Context**. Comoros is a small, poor, and fragile-three island state with limited natural resources and connectivity to the rest of the world. Political instability and fractious inter-island relations marked the country during the first decades after independence from France in the mid-1970s with more than 20 coups or coup attempts taking place. Economic performance was poor during this period with per capita GDP stagnant or declining (Text Figure 1). A semblance of political stability and economic turnaround has been in place following the adoption of a new constitution in 2009 that sought to clarify the respective roles and responsibilities of the Union and the three autonomous islands. However, coordination challenges between the Union government and the islands remain, resulting in weak delivery of public services. Moreover, the private sector exhibits limited dynamism in an unfavorable business environment. During the 2009–13 ECF arrangement, the secular decline in per capita GDP was arrested and some progress was achieved in consolidating macroeconomic stability and advancing structural reforms that enabled Comoros to attain the completion point under the HIPC Initiative in December 2012.

Text Figure 1. Real GDP Per Capita, 2000–2012
(2005 US dollars)



2. **Traction**. Progress on structural reforms since the 2012 Article IV consultation has generally been disappointing (Annex I). While the authorities' post-HIPC reform program emphasized advances on revenue administration (RA), public financial management (PFM), state enterprises, and the business environment, progress across all these areas has been lacking reflecting limited implementation capacity. With two rounds of parliamentary elections in January and February 2015 and presidential elections in late 2015 or early 2016, there is a risk that the authorities' room for maneuver on needed reforms could be further diminished in the immediate future.

RECENT ECONOMIC DEVELOPMENTS

3. **Macroeconomic Performance in 2013 and 2014**.

- **Real GDP Growth** was an estimated 3.5 percent in 2013, the highest growth rate in almost a decade, supported by relatively buoyant activity in the construction and services sectors. (Figure 1 and Table 1). For 2014, economic growth is projected to slow to 3.3 percent because of the adverse effects of slower-than-expected implementation of public investment and frequent electricity interruptions, although performance in agriculture is reported to have been favorable.

- Twelve-month **CPI inflation** was 3.5 percent at end-2013 but had eased to 0.1 percent by October 2014, reflecting subdued increases in food prices and fuel and transportation costs, as well as, in recent months, weak demand due to delays in public sector salary payments.

- **Exports** (mainly of cloves, vanilla, and ylang-ylang) are estimated to have grown strongly in volume terms in 2013, albeit from a very low base, but prices were low (Table 2). With imports growing strongly, the trade deficit widened somewhat. Remittances continued to increase, partly offsetting the effect of the higher imports on the current account deficit, which is estimated at 11.3 percent of GDP. For 2014, exports (other than re-exports) appear set to decline, reflecting stock building in the context of low world market prices for the main export crops. Imports also seem likely to decline, reflecting in part the slow implementation of the public investment program, while remittances have continued to increase, reaching a record level of 26.4 percent of GDP. On balance, the current account deficit is projected to narrow to 7.4 percent of GDP.

4. **Fiscal Outturn for 2013 and 2014**.

- **Fiscal developments** in 2013 were strongly affected by the spending of significant amounts of proceeds from the Economic Citizenship Program (ECP)[1] that had accrued in government accounts at the central bank in 2012 (Table 3).[2] Despite only a modest increase in tax revenue, of 0.3 percentage points of GDP to 12.1 percent, and a decline in non-tax revenue of 3.2 percentage points of GDP, mainly as a result of a sharp contraction in the ECP receipts, the government was able to raise domestically-financed capital spending to 3.4 percent of GDP by drawing on the ECP deposits. The overall balance (cash basis, net of debt relief) went from a surplus of 1.6 percent of GDP in 2012 to a deficit of 1.3 percent. Arrears of about

[1] The ECP involves the selling of passports to foreign nationals in some Middle Eastern countries, mainly the United Arab Emirates. Revenues from the program declined steeply in 2013 following the imposition of tighter controls in response to earlier irregularities.

[2] The 2013 fiscal accounts also reflect the recording of debt relief under the HIPC Initiative and the MDRI amounting to 16.8 percent of GDP.

€225,000 were incurred on a rescheduled loan with an official bilateral creditor in late December 2013.[3]

- Implementation of **the 2014 budget** was challenging. The fiscal situation during the first three-quarters of 2014 was tight, especially after mid-year, when resources were inadequate to meet the higher wage bill resulting from a sizeable un-budgeted increase in teacher salaries approved in March. Preliminary figures indicate that for the year as a whole, revenues will be slightly higher than projected, whereas primary current spending could be almost 20 percent higher-than-planned, almost fully matched by a corresponding shortfall in domestically-financed capital spending. Also, public sector salaries for July were not paid until mid-September and those for August not until late October as funds were diverted to pay for un-budgeted election costs and expenses related to the hosting of the summit of the Indian Ocean Islands Commission. Moreover, the government was unable to pay announced subsidies to the electric utility, exacerbating an already difficult electricity situation, and incurred arrears on a rescheduled commercial loan of about US$1 million. During the first three-quarters of 2014, the execution rate for the foreign-financed public investment program was only 67 percent, and no significant pickup was expected in the fourth quarter.

5. **Monetary Developments**.

- **Net credit** to the economy grew by 21 percent in 2013, reflecting the drawdown of ECP proceeds by the government and a substantial increase in private sector credit (Table 4). The credit expansion was largely offset by a decline in net foreign assets, mainly of the central bank, and broad money expanded by just 2.8 percent. Mirroring, the decline in the net foreign assets of the central bank, international reserves shrank substantially in 2013, to 5.4 months imports by year-end.

- **The Pattern of monetary developments** during the first three-quarters of 2014 was similar to that of 2013, with a further drawdown of government deposits. However, with the central bank's net foreign assets stable, reflecting the stronger balance of payments position, the pace of broad money growth picked up somewhat.

[3] These arrears were settled in March 2014.

6. **Social Developments**.

- The most recent data on poverty—from 2004—suggest that poverty is pervasive but the paucity of data makes a comprehensive assessment of progress in poverty reduction impossible.[4] There is some evidence of improvement in **social indicators** (primary education, child mortality, maternal health) in recent years (Table 5).

OUTLOOK AND RISKS

7. **Outlook for 2015**. Economic growth is expected to strengthen to 3.5 percent in 2015, despite continuing headwinds from the situation in the electricity sector and a tight fiscal situation, supported by an acceleration in the pace of implementation of foreign-financed public investment and lower fuel prices. The impact on the economy of lower international fuel prices is uncertain, in part as oil imports are purchased by the state oil importing company through long-term contracts and due to uncertainty as to the extent to which lower oil prices will be passed on to consumers. The positive impact of lower fuel prices on the current account deficit is expected to be more than offset by higher investment-related imports with the deficit widening to 11 percent of GDP. Inflation is expected to be well contained, at 2 percent over the course of the year.

8. **Medium-Term Outlook**. Staff's baseline assumption is that real GDP growth will average about 4 percent per annum over the medium term supported by the expansion of agriculture, tourism, and fisheries as well as a large, mostly foreign-financed, public investment program (mostly for construction).[5] Inflation is projected to be contained at around 2.5 percent per year by the peg to the euro under the monetary cooperation agreement with France. With remittances and foreign-financed investment spending expected to remain strong, import growth is expected to exceed export growth. The current account deficit is projected to average close to 11 percent of GDP and be financed mainly by project grants but also by some foreign direct investment and modest recourse to concessional borrowing. Reserves are projected to stabilize around five months of prospective imports of goods and services.

9. **Risks**. The principal channels through which the international economy affects Comoros are remittances, international food and fuel prices, donor aid, foreign direct investment (mainly from the Middle East), and exports (Annex II). Remittances, mainly from the diaspora in France, have remained resilient, and even rising, in the face of the global slowdown in recent years. The impact of a drop in remittance inflows on growth would be relatively muted by the fact that only a small share of remittances is spent on productive activities in Comoros (see paragraph 22), however, consumption and welfare would be adversely affected. The outlook for international food and fuel prices,

[4] Surveys are being completed that should allow an assessment of the current poverty situation.

[5] With an annual population growth rate of about 3 percent, the projected growth in per capita terms is modest. Construction of roads, schools, and hospitals, mostly financed by bilateral foreign grants, account for a large part of the investment program.

especially the latter, is generally benign. Moreover, despite the slower-than-expected rate of implementation of the public investment program in 2014, there are no signs that donors are pulling back from Comoros. Foreign direct investment and exports, while important drivers of growth, are starting from a small base. On balance, it is staff's view that a protracted period of slower growth in advanced economies and/or continued turmoil in the Middle East would have only a limited impact on economic growth in Comoros. Comoros is also highly vulnerable to natural disasters, including volcanic eruptions and earthquakes, and flooding resulting from cyclones in the southwestern Indian Ocean, a vulnerability that is expected to intensify as a result of climate change.

10. **Debt Sustainability Analysis**. The revised DSA—which, unlike the previous DSA, takes remittances fully into account—calls for an upgrading of Comoros' risk of debt distress rating to moderate from high (DSA Supplement). There are no breaches of debt burden and debt service thresholds in the baseline scenario and only a moderate breach of one threshold in the standard alternative scenario and stress tests. Customized scenarios that incorporate lower remittances or substantially higher external borrowing than in the baseline underscore continuing debt vulnerabilities. Moreover, Comoros has incurred some arrears on its rescheduling agreements under the HIPC Initiative. The authorities welcomed the proposed upgrading of the risk of debt distress classification. Staff urged the authorities to address the underlying debt management weaknesses reflected in the incurrence of external arrears, notably by strengthening coordination between the Debt Department and the Treasury, and to continue to limit external borrowing to loans on concessional terms.

MACROECONOMIC POLICIES AND STRUCTURAL REFORMS

A. Introduction

11. **Key Challenges**. Comoros' key challenges are:

- In the **short-term**, to bring the fiscal situation under control in order to avoid the incurrence of domestic and external arrears, while arresting the depletion of government deposits at the central bank and easing the pressure on international reserves.

- Over the **medium-term**, to address the underlying sources of fragility by creating fiscal space, accelerating inclusive growth, employment generation, and poverty reduction while simultaneously strengthening resilience against external shocks, including natural disasters.

B. Short-Term Fiscal Policy

12. **The Budget for 2015**.[6] In discussing the fiscal outlook for the remainder of 2014, the authorities and staff agreed that the most urgent task was to prioritize spending so that arrears on public sector wages and salaries and external loan payments could be eliminated by year-end, while maintaining a modest deposit buffer at the central bank. For 2015, staff argued that bringing spending into line with available resources was key to gaining control of the fiscal situation. In this connection, staff indicated that the authorities' initial budget proposal for 2015 was based on excessively optimistic projections of tax revenue (an increase of about 30 percent in nominal terms) without any clearly identified measures. As a result, the proposed spending plans needed to be scaled back. To align revenue and spending, staff recommended that the authorities take immediate steps to strengthen revenue mobilization by (i) freezing/rationalizing exemptions, and enforcing compliance, particularly for excise taxes and custom duties, (ii) maintaining the wage bill constant relative to GDP despite significant pressures for higher wages and hiring, (iii) scaling back spending on goods and services, and (iv) delaying domestically-financed capital spending. The authorities acknowledged the need for the 2015 budget to be based on realistic revenue projections and for spending plans to be aligned to those projections as recourse to domestic financing would be limited to a small amount of statutory advances from the central bank.[7] The revised 2015 budget proposal, presented in the wake of the mission, fully reflects these understandings (Text Table 1). The authorities noted that they are working with the island administrations to ensure greater control over the wage bill. Tax revenue is projected to increase to 12.6 percent of GDP, reflecting more limited use of tax exemptions and continued efforts to improve revenue administration. Primary current spending is projected to decline by 0.6 percentage points of GDP, to 13.8 percent, primarily by restraining spending on goods and services. The scope for domestically-financed capital spending is severely circumscribed at only 1.3 percent of GDP.

[6] Fiscal policy is premised on a consolidated budget for the Union and the three islands, based on constitutionally mandated rules for revenue allocation. There are, however, clear difficulties in revenue collection and sharing, with the islands reluctant to hand over locally-collected revenue to the Union. Moreover, the Union faces difficulties in controlling spending, particularly on wages and salaries, as the island governments are in charge of hiring decisions.

[7] The monetary cooperation agreement with France limits central bank financing of government operations by placing a ceiling of statutory advances to no more than 20 percent of the average of tax revenues for the previous three years.

Text Table 1. Key Fiscal Figures for 2014 and 2015
(percent of GDP)

	2014	2015
Total revenue and grants	23.5	24.2
of which: Tax revenue	12.0	12.6
Total exenditure and net lending	23.8	25.3
Current spending	15.7	15.3
of which: Wages and Salaries	8.4	8.4
Captial spending	8.0	10.0
of which: Domestically-financed investment	1.3	1.3
Change in arrears	--	--
Overall balance (cash basis)	-0.6	-1.0
Financing, net	0.6	1.0
Domestic financing	1.7	--
External financing 1/	-1.1	1.1

Source: Comorian authorities; staff estimates

1/ The external financing in 2015 is from an already contracted loan from the EXIM Bank of India.

13. **New ECP**. The authorities indicated that they were optimistic that a new ECP program with Kuwait would be agreed. Staff argued that any such highly volatile revenues should be budgeted prudently and ring-fenced to create a buffer for external shocks and for priority investment projects. Such resources could also possibly be used to fund the essential costs of one-off restructuring/recapitalization of public enterprises. Staff urged the introduction of strong safeguards to prevent the misuse of the program for illegitimate purposes and to ensure its sustainability. The authorities generally concurred with these principles.

C. Medium-Term Fiscal Reforms

14. **Medium-Term Fiscal Stance**. Public service delivery and public investment in Comoros are severely hampered by a lack of resources and inappropriate spending prioritization: (i) the tax revenue-to-GDP ratio (about 12 percent) is low by any standard (Figure 2); (ii) donors (World Bank, AfDB, France, EU, some Gulf countries) provide substantial project financing but negligible budget support; and (iii) primary current spending exceeds all tax revenue, leaving little space for domestically-financed capital spending. Staff noted that, as for the 2015 budget, with limited recourse possible to domestic financing,[8] fiscal policy should aim for a budget stance that reflected

[8] In addition to the constraint on statutory advances, a recent MCM TA mission found that it would likely take several years before a Treasury-bill market could be developed.

identified resources, including concessional external financing. This implies a modest overall deficit throughout the medium-term, consistent with debt sustainability. In this context staff underscored the imperative of mobilizing additional domestic revenue to increase fiscal space in support of development. Moreover, staff emphasized the need to enhance transparency and accountability in the recording of government revenue and expenditure by bringing all government transactions on budget. This could serve to lessen distrust between the Union and island governments.

15. **Revenue Administration**. Staff noted that gaps in revenue administration, together with a myriad of statutory and ad hoc exemptions created significant revenue leakage. While progress has been made in a number of areas, including in designing an integrated tax directorate and modernizing the customs code, the agenda of unfinished business is daunting. Cognizant of capacity limitations in this area, staff urged the authorities to quickly implement the quick-win revenue administration measures listed in Text Table 2 that have been identified by FAD TA as critical first steps. The authorities welcomed the focused list of revenue administration measures and committed to implementing them as soon as possible, taking a number of steps in this direction following the mission. While an analytical study undertaken by staff as part of the Article IV consultation pointed to significant potential for mobilizing additional domestic revenue (Annex III), staff cautioned that it will take time to realize this potential and that the medium-term tax revenue target should, therefore, be realistic.

Text Table 2. Quick-Win Revenue Administration Reforms

1. Strengthen the monitoring of the tax returns, including of public enterprises, and expand the list of large taxpayers;
2. Project and monitor revenue (customs and tax administration) on a monthly basis;
3. Reactivate the mixed brigade of customs and tax administration officials with the aim of improving tax compliance, through cross checks of import and turnover data;
4. Strengthen control and monitoring of temporary deferrals of payments of customs duties; and
5. Freeze the granting of any new customs and tax exemptions and strengthen the monitoring of exemptions already in place.

16. **Public Financial Management**. As with revenue administration, staff observed that Comorian public financial management systems were beset by weaknesses, including in regard to budgeting, budget execution, and cash management. Staff urged the authorities to accelerate the implementation of the reform program developed with technical assistance from FAD and AFRITAC South. With capacity limitations in mind, staff indicated that the measures listed in Text Table 3 were critical and that they should be implemented quickly. Staff also noted that, in view of the high wage bill, civil service reform also needed to be high on the agenda (with input from the World Bank).

Text Table 3. Quick-Win Public Financial Management Reforms

1.Ensure that all revenue and expenditure transactions on behalf of the government are captured in the budget and treasury accounts.;

2. Gradually restore normal financial flows (payments for goods and services and of taxes and subsidies) between government and public enterprises and eliminate the use of offsets;

3. Project and monitor budget execution on a quarterly basis through detailed revenue and expenditure reports;

4. Assign a treasury committee to project and monitor a treasury cash flow plan on a weekly basis;

5. Enforce a ceiling of five percent for the expenditures executed under the exceptional treasury budgetary procedure;

6. Control the government wage bill, enforcing a ceiling for each of the Union and the three islands; and

7. Put into place a single treasury account for the Union and the autonomous islands.

D. Monetary and Exchange Rate Policy

17. **Exchange Rate Peg**. The authorities place great stock in Comoros' monetary cooperation agreement with France, which parallels the agreements underpinning the CFA zones in West Africa. The monetary cooperation agreement provides an anchor for the monetary policy of the central bank (Banque centrale des Comores) through a peg of the Comorian Franc to the euro (at KMF 490 per Euro). The agreement requires the central bank to maintain international reserves equal to at least 20 percent of base money, although for Comoros this level has typically been close to or in excess of 100 percent. Reserve requirements are the central bank's main instrument but have been non-binding for an extended period as the commercial banks have maintained excess reserves. Staff concurred that the monetary cooperation agreement has served Comoros well and should continue to do so going forward.

E. Policies for Growth

18. **Structural Obstacles to Growth**. Like many other small island states, Comoros faces growth challenges associated with its small size and geographic isolation (Text Table 4). The narrow resource base and small domestic market make it difficult for Comoros to diversify its economy and take advantage of economies of scale. With weak international connectivity and high transport fees, the costs of imports and intermediate goods are high, hampering competitiveness. The domestic market is further fragmented by difficult relations and limited transport and communication links between the islands, and overall infrastructure, including in energy and telecommunications, is in need of improvement. In the discussions, staff remained cognizant of the fragile relations among the islands and the limited capacity for implementing comprehensive and far reaching reforms by focusing on realistic policy measures and reforms.

Text Table 4: Selected Small Island Country Comparisons (2013)

	Comoros	Sao Tomé and Principe	Cabo Verde	Samoa	Fiji
		(Annual percentage change)			
Real GDP Growth	3.5	4.0	0.5	0.9	3.0
Inflation (end-period)	3.5	8.0	0.1	4.5	2.9
		(Percent of GDP)			
Current Account Balance	-11.3	-20.3	-1.9	-2.3	-18.5
Tax Revenue	12.1	15.3	17.6	24.5	23.3
Capital Expenditure	9.8	20.3	9.8	15.7	1.3
of which: domestically-financed	3.4	1.7	...	...	...
Official Transfers	7.6	8.3	2.4	12.2	0.2
Private Transfers	26.4	7.5	10.9	22.5	3.1
External Debt (PV)	18.5	85.3	98.9	61.8	25.1
		(2014 rank)			
Human Development Index	159.0	142.0	123.0	106.0	88.0

Sources: Government Authorities and IMF estimates

19. **New Poverty Reduction Strategy**. The authorities outlined their new poverty reduction strategy for 2015-19 (Stratégie de Croissance Accélérée et de Développement Durable, SCA2D)[9] that is in the final stages of preparation. As with its predecessor, the main themes of the new strategy are to (i) achieve economic stability and inclusive growth; (ii) promote sectors with high growth potential (tourism, fisheries, agriculture); (iii) strengthen governance and social cohesion; and; (iv) enhance human development. Staff concurred that these themes remained appropriate but noted that it was critical for the new strategy to be based on realistic macroeconomic assumptions that reflected the severity of the challenges ahead, including in mobilizing adequate domestic and external financing in support of public and private investment. Staff also expressed disappointment that the strategy did not contain a robust discussion of private sector development that addressed the identified drawbacks and obstacles in the Comorian business environment. The authorities acknowledged this shortcoming but responded that the SCA2D would be a living document that would be updated as circumstances warranted, with a chapter on private sector development to be added in 2015. They also indicated that they planned to organize a donor conference in 2015 to seek additional funding.

20. **External Stability and Competitiveness Assessment**. Standard models suggest that at end-2013 the real effective exchange rate was moderately overvalued but, given the large real depreciation of the Comorian Franc during 2014 as the US dollar strengthened against the euro, this has been corrected and the Comorian Franc is now broadly in line with fundamentals (Annex IV). The authorities noted this assessment and stressed their commitment to the existing exchange rate peg against the euro, a view staff supported. Staff pointed out that survey-based indicators point to competitiveness issues related to poor infrastructure and institutional and governance deficiencies that affect the quality of the business environment. Thus, Comoros ranks low on the list of the World Bank's Doing Business Indicators (159th of 189 countries). Comoros ranks particularly poorly in the

[9] Strategy for Accelerated Growth and Sustained Development

areas of starting a business, enforcing contracts, and government effectiveness. Comoros performs similarly poorly on comparative governance and corruption indicators. The authorities felt that progress in these areas had been made, especially by putting in place updated legislation, but they acknowledged that this had not yet resulted in improvements in the rankings and that it is important to ensure the consistent application of the new laws.

21. **Growth-Enhancing Structural Reforms**. Staff argued that Comoros needed to be especially ambitious in pursuing growth-enhancing structural reforms. In particular, staff encouraged the authorities to take advantage of assistance provided by the IFC to strengthen the business environment, not least in regard to the ease of establishing a business and the enforcement of contracts. Staff also maintained that, while a lack of resources constrains investment, progress could be made by prioritizing the highest return infrastructure investments and restructuring public utilities to ensure they are able to provide their services reliably and cost effectively. Action was particularly urgent in the field of energy where both the main electrical utility **(MAMWE) and the fuel importing comp**any (SCH) face severe difficulties.[10] Staff pointed out that the electricity shortages and recurrent blackouts represented significant obstacles to growth. The authorities acknowledged the acute problems in the electricity and fuel sectors. They indicated that they were committed to working closely with the World Bank and African Development Bank, both of which already have approved projects to help restructure and strengthen the electricity sector. They also confirmed that the Ministry of Finance had opened a revolving line of credit of $20 million with the Islamic Development Bank to ensure the availability of the financing for fuel imports.[11] Staff cautioned that this credit line needed to be carefully handled. Staff also argued that the introduction of competition in the telecommunications sector through the privatization of the state-owned telecommunications company and/or the issuance of an additional license to bring down costs and improve service was long overdue. The authorities acknowledged that there had been unfortunate delays in the process but indicated that preparations for launching a bidding process for a second telecommunications license were well under way.

22. **Remittances and Growth**. Staff pointed out that few, if any, countries enjoy as large, remittance inflows in relative terms as Comoros. Yet, only a small share of these inflows is directed toward productive activity. Staff noted that, as shown in recent surveys of the diaspora, a more attractive business environment could help channel a greater share of remittances into productive activities, thereby enhancing their contribution to growth (Box 1). The authorities expressed confidence that remittances would remain high and agreed that it would be desirable that a larger share flow into productive investments rather than be spent on consumption and imports.

[10] Over the summer and into the fall, the capital Moroni faced recurrent blackouts because of either equipment breakdowns or fuel shortages caused by the inability of SCH to finance fuel imports. Other parts of Grand Comore and the other islands have been in the dark for extended periods.

[11] Drawings under the credit line carry an annual interest rate of 6.1 percent and are to be repaid in equal monthly installments in the three months period immediately following each drawing.

Box 1 Remittances and Growth Nexus[1]

Remittances flows in Comoros have increased sharply in recent years. Remittances accounted for about 26 percent of GDP in 2012 and 2013, making Comoros among the top 20 among sub-Saharan countries and small islands (Figure 1). Remittance receipts significantly exceed receipts from the export of goods and services (15 percent of GDP)(Figure 2). Their resilience to the recent global downturn and their persistence has made them potentially a source of private investment funding for Comoros in a context of limited domestic resources and volatile external financing.

Remittances mainly flow through informal channels. The funds transferred are often collected through a migrant savings association. Most expatriate Comorians reside in France, mainly in Marseille and Paris, but also in Mayotte. Most of the funds come from people in low-skill jobs and French social security, which partly explains the resilience of the transfers.

Despite their relative high level, remittances have failed to translate into productive investment and growth (Figure 3). Contrary to some high remittances-receiving countries (e.g., Moldova, Tajikistan) where remittances have substantially contributed to boosting productive capacities and reducing unemployment, remittances in Comoros mostly finance imports.[2] A disproportionately high share of these flows is used to finance consumption—70 percent to 90 percent—as part of "*grands marriages*", crowding out savings to finance productive investment.[3] However, remittances most likely help in improving the recipients' standard of living and their resilience to shocks by sustaining their consumption levels and providing them with a greater access to medications.

This inability of remittances to translate into growth and employment-creating activities mainly reflects a poor business environment and market failures. Inadequate infrastructure in key sectors—electricity, water and roads—along with marked weaknesses of the legal system undermine the overall quality of the business environment in Comoros. In addition to these distortions, financial sector intermediation is shallow and non-competitive. In this context transfer services are costly compared to peers, impeding migrants to transfer significant amounts needed to undertake costly investments.

The authorities have sought to identify and resolve the bottlenecks of growth-creating remittances. In June 2013, a diaspora conference, co-chaired by the World Bank, was organized by the authorities in France in a bid to identify and lift the constraints impeding migrants from engaging in productive activities. The diaspora identifies the quality of the business environment particularly the reliability of the judiciary system and the high costs of transfers as the biggest obstacles to investment in Comoros. Initiatives in strengthening the legal system, improving competition in the banking system and access to investment opportunities need to be taken swiftly. The recent Hamboda real estate project is a good start but needs to be carried out effectively to provide strong and consistently good signals towards this objective. The French Cooperation Agency has also provided advice to the authorities in order to establish appropriate conditions for the diaspora to create income generating activities.

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[1] This box was prepared by Ibrahim Ahamada and Ahmat Jidoud.

[2] Though underestimated, from 2009 to June 2014, only 16 businesses financed directly by diaspora funds have been listed at the National Agency for Investment Promotion (ANPI), corresponding to 5.4 billion and creating about 312 jobs.

[3] Da Cruz, Fengler and Schwartzman, "Remittances to Comoros: Volume, Trends and Implications", World Bank African Region Working Paper Series No. 75, October 2004.

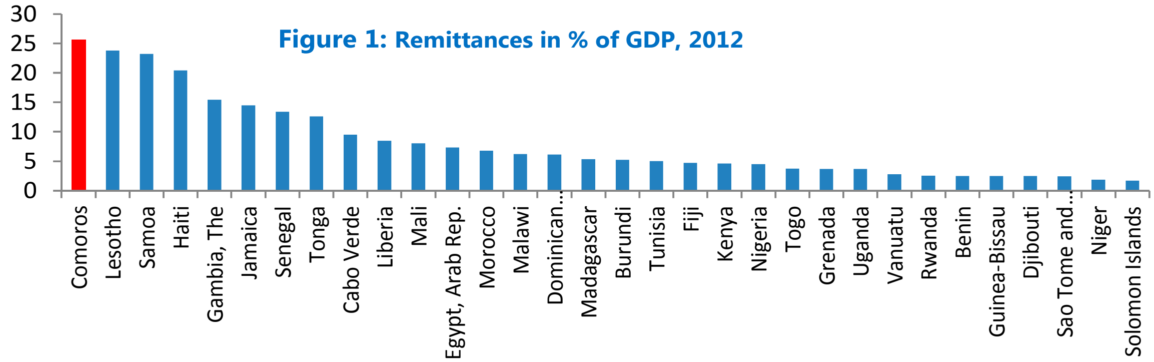


Figure 1: Remittances in % of GDP, 2012

Figure 2: Sources of financing, 2013 (% of GDP)

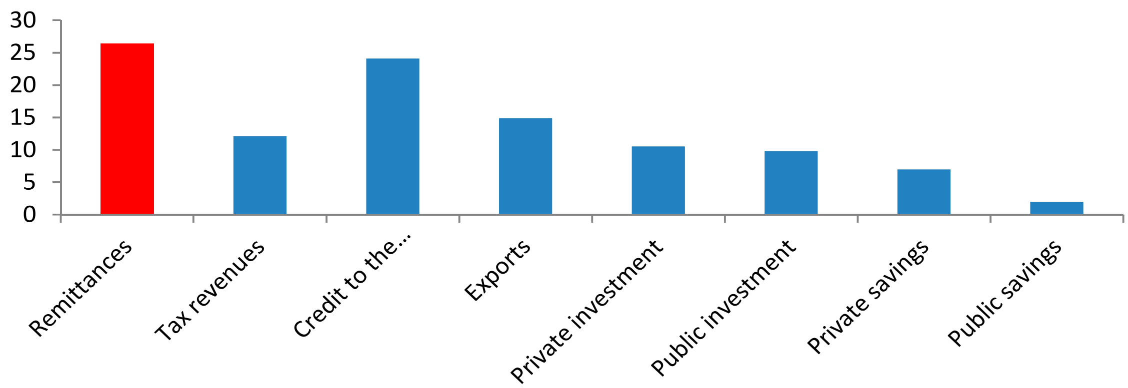
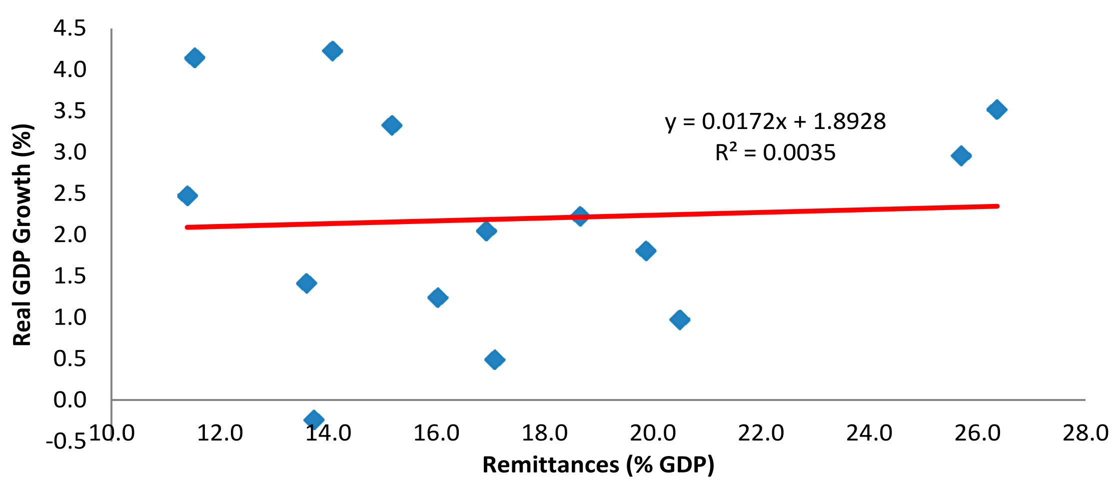


Figure 3: Growth-Remittances nexus in Comoros



F. Financial Sector Stability Assessment

23. **Financial System**. The Comorian financial system is underdeveloped and shallow. Total assets of the financial system were only 54 percent of GDP in 2013. The system is dominated by bank and micro-finance deposit taking institutions while other aspects of the financial sector—insurance, pensions, and capital markets—are almost non-existent. Four foreign-owned banks and the state-owned postal bank (SNPSF) account for about two-thirds of total financial system assets and three micro-finance institutions for the remaining third. Private sector credit growth has been brisk, but from a low base and credit has been extended mostly for consumption rather than investment. While the banking system held considerable excess reserves at end-2013, these had declined by end-June 2014. Access to banking services is low, with 22 percent of adults with an account at a formal institution in 2011 compared to 40 percent in Mozambique and 80 percent in Mauritius. Although the coverage of the banking services has expanded in recent years, it remains narrow with the number of commercial banks branches per 100,000 adults at 1.9 and the number of bank accounts per 1,000 adults at 92 in 2013.

24. **Financial Sector Soundness**. The financial system is fragile. While available indicators suggest that the financial system is generally sound (Table 6), albeit with one large public institution facing difficulties, these indicators need to be interpreted with caution. Reported non-performing loans (NPLs) stood at 18 percent of total loans at end-June 2014, unchanged from end-2013 but up from 17 percent at end-2012.[12] Provisioning for non-performing loans was high, at close to 70 percent. However, different accounting standards across financial institutions and difficulties in assessing the credit risk of borrowers due to the lack of reliable financial statements make it difficult to firmly assess the financial soundness of the sector. Moreover, the central bank hasn't conducted any on-site examinations during 2013–14 due to limited resources and the rudimentary nature of the off-site monitoring framework. Staff encouraged the central bank to continue to strengthen banking supervision, including risk-based supervision, in line with MCM advice, and welcomed recent steps by the central bank to clean up a number of old non-performing loans related to problems in the vanilla sector dating back to the early 2000s.

25. **SNPSF**. Staff expressed concern about the postal SNPSF, the largest deposit-taker in the country,[13] which was beset by management problems and in need of re-capitalization and restructuring. Some temporary measures aimed at greater control by the central bank of the SNPSF's lending operations continue to be applied. Staff urged the Ministry of Finance and the central bank to closely monitor developments in the postal bank and to come up with a viable plan, with technical assistance from MCM, for resolving the problems of the SNPSF.

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[12] The stock of non-performing loans includes old discount loans of KMF 1.3 billion to the vanilla sector that have non-performing since the early 2000s. The central bank is coordinating efforts to have these loans written off.

[13] All public sector salaries require deposit in the SNPSF.

OTHER ISSUES

26. **Data Adequacy**. Economic data in Comoros have serious shortcomings and deficiencies in all sectors that hamper surveillance and policy design. The authorities indicated that progress was being made in strengthening data collection, particularly concerning the rebasing of the national accounts and the CPI and the production of balance of payments data but that it was held back by capacity and resource limitations. Staff noted, however, that fiscal data was only available with a delay and lacked comprehensiveness. Moreover, balance of payments data were incomplete and of poor quality, while capacity constraints have prevented the compilation of international investment position data. Staff urged the authorities to continue to work with international organizations, including the IMF, to improve statistics and to make adequate allocations to the new statistical agency despite the tight fiscal situation. The authorities agreed with the need to adequately fund statistical agencies and indicated that surveys that would allow the compilation of new household income, consumption, employment, and poverty data were nearing completion.

STAFF APRRAISAL

27. **Macroeconomic policy implementation and economic performance have improved since the adoption of the new constitution in 2009**. However, much remains to be done to accelerate inclusive growth through continued focus on policies that emphasize macroeconomic stability and enhance the competitiveness of the economy, including through improvements in infrastructure, and structural reforms to improve the business environment.

28. **The key near term challenge is to maintain fiscal stability**. In 2014, government revenue has been inadequate to meet the higher wage bill resulting from the increase in teacher salaries in March and other previously unbudgeted expenditures, including on the administration of elections. The government must strive to find a better balance between available resources and expenditures so that it can avoid the incurrence of arrears.

29. **For the medium term, the key task is to strengthen domestic revenue mobilization to create fiscal space to strengthen public service provision**. Revenue collection is well below potential and well below the levels of similar small island economies. In this regard, the authorities need to focus their efforts on strengthening revenue administration through more effective management of the large tax payer list and strengthened efforts to enforce tax compliance. More judicious use should also be made of exemptions than has been the case.

30. **Public financial management is also in need of strengthening**, particularly through the implementation of effective cash management and greater fiscal transparency. Better cash management should help limit the incurrence of arrears. For the sake of building trust among stakeholders, including the autonomous island governments, it is important that all transactions on behalf of the government, whether for revenue or spending, should be reflected in the budget.

31. **The government's decision to revise the draft 2015 budget to include more realistic expectations of resource availability is a welcome step toward enhancing the credibility of the budget as a guide to resource allocation**. Efforts to strengthen revenue mobilization are bound to take time to yield results. With the scope for financing constrained, current spending, particularly on wages and salaries, the largest component of expenditure from domestic resources, needs to be carefully controlled.

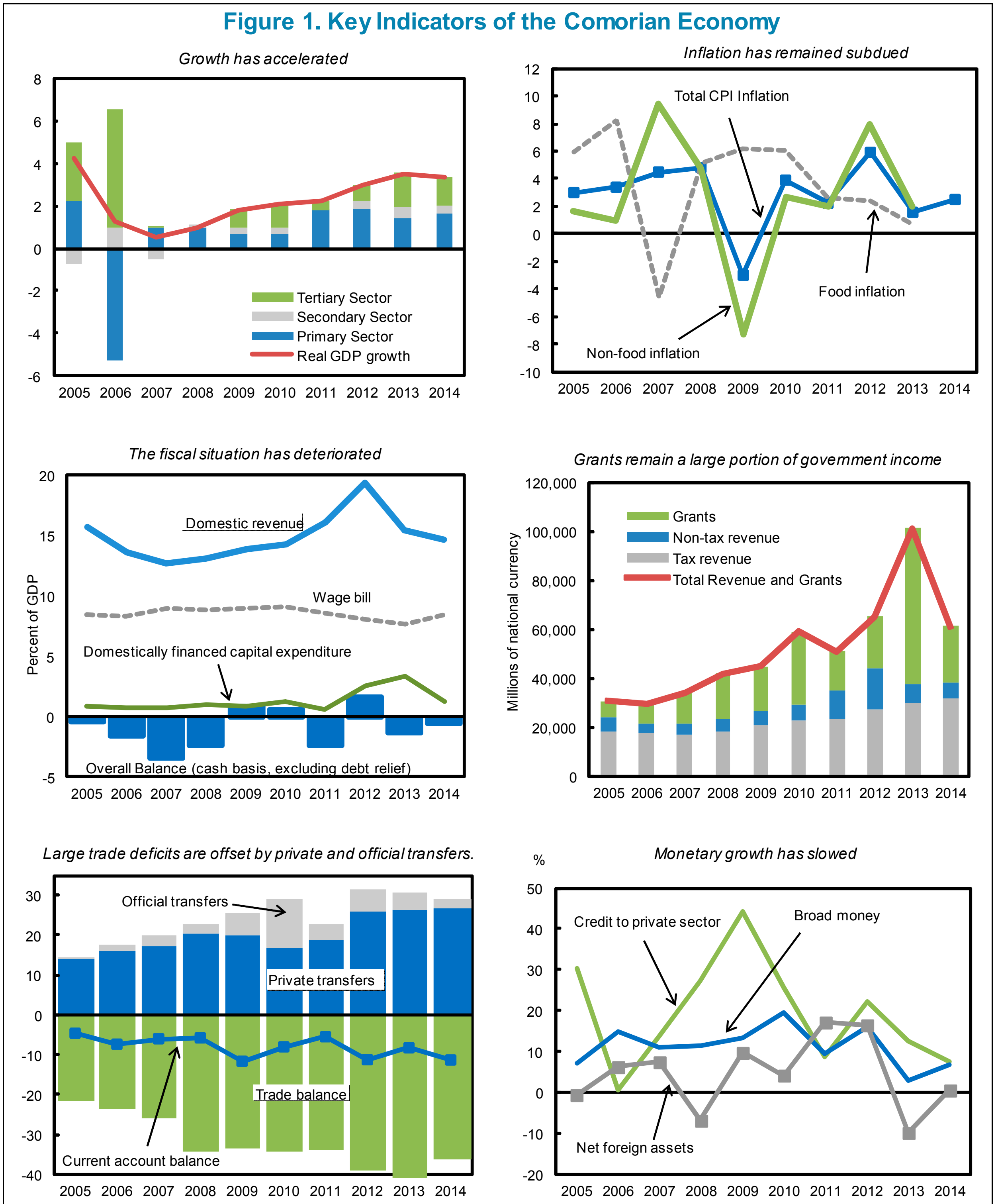
32. **The financial sector is fragile and problems at the postal bank remain a concern.** The authorities should continue to implement the temporary measures to keep the situation at the bank from worsening and should work with the Fund to develop a resolution strategy.

33. **Urgent action is needed to improve energy supply reliability**. Frequent blackouts and overall shortages of electricity are a significant constraint on growth. The government should work closely with the World Bank and the African Development Bank to fashion a long-term solution to the energy supply problem.

34. **The new poverty reduction strategy under preparation appropriately focuses on accelerating inclusive growth and human development**. The strategy should include a strong private sector development component aimed at improving the attractiveness of Comorian economy as an investment and tourist destination. Following depreciation in 2014, the real effective exchange rate is broadly in line with fundamentals.

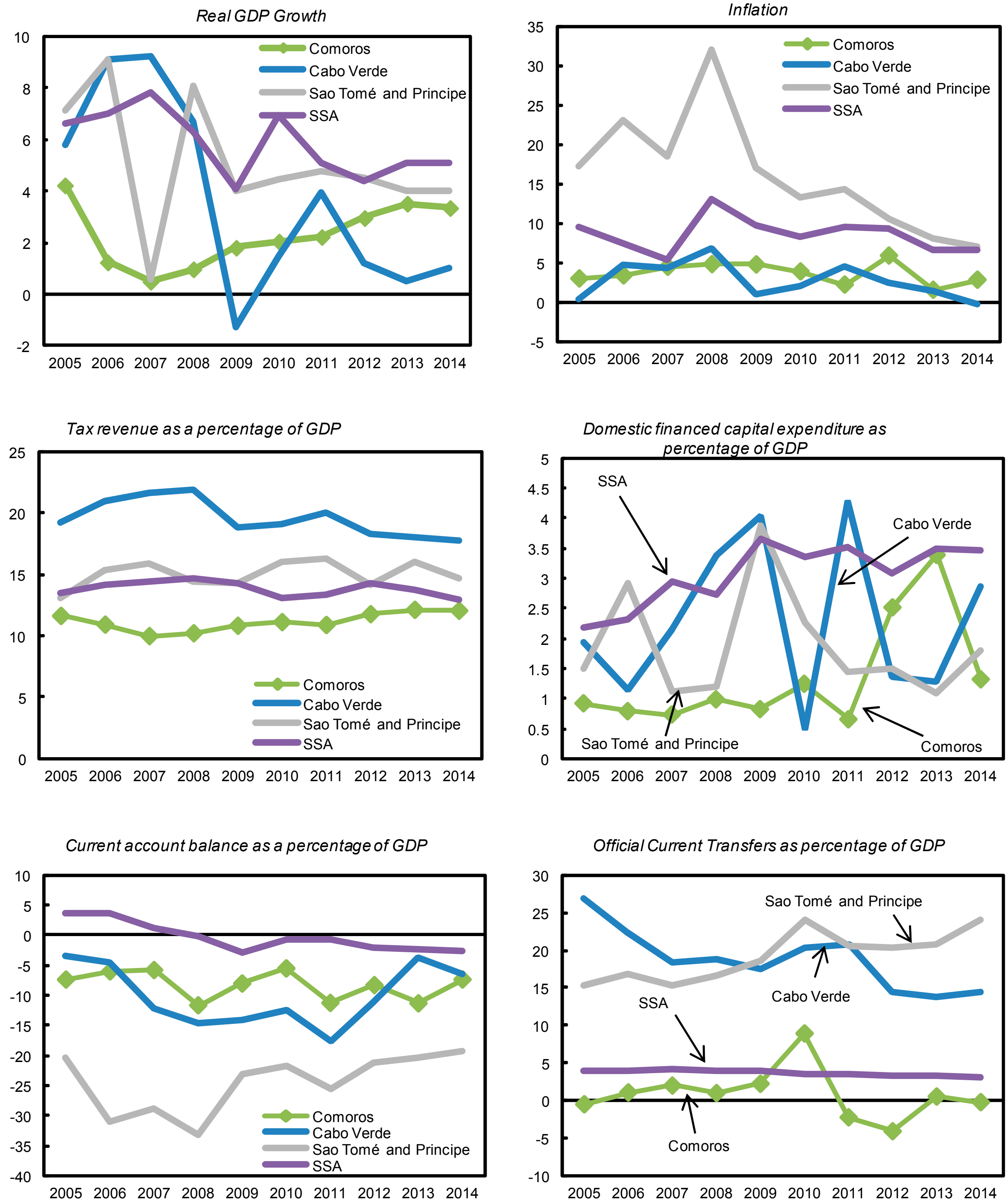
35. **Lack of quality and timely economic data makes assessment of economic performance and the formulation of economic projections and policies difficult**. The authorities are urged to make adequate allocations to the new statistical agency and continue to strive for improvements in data quality and frequency despite the challenging budgetary environment. Rebasing the national accounts and the CPI and improving the comprehensiveness and timeliness of fiscal and balance of payments data are particularly urgent.

36. **It is expected that the next Article IV consultation be held on the standard 12-month cycle**.



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

Figure 2. Cross Country Comparison



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

Table 1. Comoros: Selected Economic and Financial Indicators, 2011–18

	2011	2012	2013	2014	2015	2016	2017	2018
			Prel.	Projections				
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP	2.2	3.0	3.5	3.3	3.5	4.0	4.0	4.0
GDP deflator	4.7	2.6	3.1	3.2	3.1	3.0	3.0	3.0
Consumer price index (annual averages)	2.2	5.9	1.6	2.9	2.5	2.5	2.5	2.5
Consumer price index (end period)	4.9	1.0	3.5	2.8	1.8	2.5	2.5	2.5
Money and credit								
Net foreign assets	17.2	16.5	-9.8	0.6	-1.5	4.5	6.1	6.0
Domestic credit	4.9	7.6	21.0	15.0	14.1	9.3	8.1	8.2
Credit to the private sector	8.9	22.4	12.6	7.6	17.4	14.6	13.0	13.7
Broad money	9.6	16.0	2.8	6.7	6.7	7.1	7.1	7.1
Velocity (GDP/end-year broad money)	2.9	2.6	2.7	2.7	2.7	2.7	2.7	2.7
External sector								
Exports, f.o.b.	16.4	-19.0	-3.1	-6.7	9.5	7.4	7.0	7.0
Imports, f.o.b.	7.2	18.1	2.8	-6.2	5.1	8.5	5.9	6.4
Export volume	-24.3	-28.1	25.6	-8.6	6.1	4.6	3.9	3.9
Import volume	-6.9	12.1	7.5	2.7	10.5	9.2	6.7	7.0
Terms of trade	3.1	2.6	-0.9	4.0	5.4	2.2	2.3	2.1
	(In percent of GDP, unless otherwise indicated)							
Investment and savings								
Investment	14.9	16.8	20.4	19.4	20.8	22.1	22.8	23.4
Public	5.4	6.8	9.8	8.0	10.0	11.0	11.6	12.3
Private	9.5	10.1	10.5	11.4	10.8	11.1	11.2	11.2
Gross national savings	-19.0	8.5	9.0	12.1	9.8	11.3	12.3	12.5
Public	2.2	5.5	2.0	0.2	1.4	2.0	2.6	3.2
Private	-21.3	3.0	7.0	11.8	8.4	9.4	9.8	9.3
Government budget								
Total revenue and grants	23.6	28.5	41.5	23.5	24.2	24.4	25.0	25.7
Tax Revenue	10.9	11.8	12.1	12.0	12.6	13.1	13.8	14.4
Total grants [1]	7.5	9.2	26.0	8.9	9.0	8.7	8.7	8.7
Total expenditure	22.0	25.1	24.6	23.8	25.3	26.3	26.9	27.5
Current expenditure	16.6	18.4	14.8	15.7	15.3	15.2	15.3	15.3
Capital expenditure	5.4	6.8	9.8	8.0	10.0	11.0	11.6	12.3
Domestic primary balance	1.6	3.0	-1.4	-1.4	0.1	1.0	1.1	1.3
Change in arrears	-3.4	-0.7	-0.9	-0.4	0.0	0.0	0.0	0.0
External (Interest)	-0.8	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Domestic	-2.6	-0.6	-0.9	-0.2	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-1.9	2.5	15.5	-0.6	-1.0	-1.9	-1.8	-1.8
Excluding grants	-9.4	-6.7	-10.6	-9.5	-10.1	-10.6	-10.5	-10.5
Financing	0.3	-2.8	-15.4	0.6	1.0	1.9	1.8	1.8
Foreign (net)	-0.2	-1.1	-17.0	-1.1	1.1	2.2	2.2	2.4
Domestic (net)	0.5	-1.7	1.6	1.7	0.0	-0.3	-0.4	-0.5
Errors and omissions	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External sector								
Exports of goods and services	16.2	14.9	14.9	14.5	14.5	14.4	14.3	14.2
Imports of goods and services	50.2	53.9	57.2	50.9	53.2	51.7	50.4	49.9
Current account balance	-11.3	-8.3	-11.3	-7.4	-11.0	-10.8	-10.5	-10.9
Excl. official and private transfers	-34.1	-39.7	-42.1	-36.5	-38.8	-37.3	-36.2	-35.8
Remittances	18.7	25.7	26.4	26.7	26.2	25.6	25.1	24.5
External debt, in percent of GDP [2]	44.9	40.7	18.5	17.4	17.5	18.5	19.4	20.3
External debt, in percent of exports of goods and services [2]	275.5	271.8	123.7	121.1	120.9	128.1	135.0	142.7
External debt service (in percent of exports of goods and services) [2]	10.0	10.3	2.1	2.8	2.3	3.8	4.0	4.6
Overall balance of payments (in millions of U.S. dollars)	-25.5	-5.8	-32.5	0.0	-4.1	8.2	11.3	9.8
Official grants and loans (percent of GDP)	7.5	9.2	26.0	8.9	10.4	11.4	11.4	11.6
Gross international reserves (end of period)								
In millions of U.S. dollars	170.1	191.1	168.0	170.2	166.8	174.6	185.1	194.2
In months of imports of goods & services	6.7	7.1	5.4	5.6	4.9	5.0	5.1	5.0
Real effective exchange rate (2000=100)	100.2	95.5	99.0	98.4	…	…	…	…
Exchange rate CF/US$ (period average)	353.6	382.7	370.4	363.0	…	…	…	…
Memorandum items:								
GDP (nominal, in bilions of CF)	216.0	228.2	243.6	260.1	277.6	297.3	318.3	340.9
GDP per capita (nominal, in US Dollars)	860	815	873	923	948	991	1,039	1,087
Education and health expenditure (in bilions of CF)	14.8	16.8	18.3	…	…	…	…	…

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

[1] Includes interim HIPC assistance (2010-12) and debt relief under HIPC and MDRI.

[2] External debt ratios after full HIPC, MDRI and beyond HIPC relief from end-2012.

Table 2. Comoros: Balance of Payments, 2011–18

(Millions of Comorian francs, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018
			Prel.			Projections		
Current account	-24,307	-18,900	-27,565	-19,133	-30,491	-32,058	-33,336	-37,212
Goods and services	-73,308	-89,059	-102,810	-94,800	-107,479	-110,773	-114,892	-121,631
Trade balance	-61,686	-76,126	-78,714	-73,905	-77,350	-83,972	-88,827	-94,457
Exports	8,908	7,215	6,990	6,519	7,137	7,668	8,203	8,774
Of which: Vanilla	350	552	1,413	1,262	1,394	1,523	1,631	1,746
Cloves	6,361	5,494	3,380	3,019	3,335	3,575	3,828	4,099
Ylang-ylang	745	666	797	750	828	888	951	1,018
Other	1,452	503	1,400	1,488	1,579	1,683	1,793	1,911
Imports (f.o.b.)	-70,594	-83,341	-85,704	-80,424	-84,487	-91,641	-97,029	-103,231
of which oil	-22,190	-25,519	-26,244	-28,309	-25,259	-26,461	-27,264	-28,052
Services (net)	-11,622	-12,933	-24,096	-20,895	-30,129	-26,800	-26,065	-27,174
Receipts	26,135	26,818	29,423	31,149	33,068	35,124	37,300	39,612
Payments	-37,757	-39,751	-53,519	-52,045	-63,197	-61,924	-63,365	-66,786
Income (net)	-344	-1,502	187	-241	-165	-251	-321	-412
Of which: Interest on rescheduled obligations	-91	-148	-15	-302	-219	-251	-282	-316
Current transfers (net)	49,344	71,661	75,058	75,908	77,152	78,965	81,877	84,830
Government	9,019	12,994	10,829	6,475	4,433	2,829	2,122	1,301
Of which: HIPC and MDRI assistance	198	205	6,738	0	0	0	0	0
Private	40,325	58,667	64,229	69,433	72,719	76,136	79,755	83,529
Capital and financial account	16,635	12,407	17,071	19,148	28,991	35,058	37,436	40,712
Capital account	11,019	11,476	56,498	17,471	20,455	21,902	23,453	25,115
Capital transfers	11,019	11,476	56,498	17,471	20,455	21,902	23,453	25,115
Transfer of fixed assets	10,291	9,696	15,643	17,471	20,455	21,902	23,453	25,115
HIPC assistance	729	1,780	40,855	0	0	0	0	0
Financial account	5,615	931	-39,427	1,677	8,536	13,156	13,982	15,597
Direct investment	8,171	3,973	3,504	5,202	5,553	5,946	6,685	7,840
Net portfolio and other investment	-2,556	-3,042	-42,931	-3,526	2,984	7,210	7,297	7,757
Government	-2,742	-2,892	-41,469	-3,163	2,960	6,560	7,040	8,026
Drawings	31	5	0	0	3,662	7,955	8,649	10,005
Of which: Indian loan disbursements	0	0	0	0	3,662	3,643	3,613	4,163
Amortization	-2,772	-2,726	-614	-3,163	-702	-1,394	-1,609	-1,979
Private sector (net)	186	-149	-1,462	-363	24	650	257	-269
Banks, net	-3,093	-2,060	-5,759	-321	-364	-80	-282	-892
Other	3,279	1,911	4,297	-42	388	730	539	624
Errors and omissions	2,558	19,148	-1,544	0	0	0	0	0
Overall balance	-6,456	12,655	-12,038	15	-1,500	3,000	4,100	3,500
Financing	9,014	-12,655	12,038	-15	1,500	-3,000	-4,100	-3,500
NFA of central bank (increase -)	-4,793	-13,044	11,929	0	1,500	-3,000	-4,100	-3,500
Foreign assets	-6,050	-12,901	10,624	0	1,500	-3,000	-4,100	-3,500
Foreign liabilities	1,257	-143	1,305	0	0	0	0	0
Of which: Net IMF Credit	881	83	1,761	0	-58	-742	-918	-1,270
Net change in arrears	5,132	171	109	-2,423	0	0	0	0
Clearance of deferred arrears and debt service								
Exceptional financing	5,808	218	0	2,407	0	0	0	0
Arrears restructuring and deferral	5,014	0	0	0	0	0	0	0
Current maturities restructuring and deferral	794	218	0	2,407	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Current account (percentage of GDP)	-11.3	-8.3	-11.3	-7.4	-11.0	-10.8	-10.5	-10.9
Excluding transfers	-34.1	-39.7	-42.1	-36.5	-38.8	-37.3	-36.2	-35.8
Exports of goods and services (percentage of GDP)	16.2	14.9	14.9	14.5	14.5	14.4	14.3	14.2
Imports of goods and services (percentage of GDP)	50.2	53.9	57.2	50.9	53.2	51.7	50.4	49.9
Gross international reserves (millions of U.S. dollars)	170.1	191.1	168.0	170.2	166.8	174.6	185.1	194.2
In months of imports of goods and services	6.7	7.1	5.4	5.6	4.9	5.0	5.1	5.0
Nominal GDP (CF millions)	216,039	228,189	243,606	260,123	277,627	297,278.1	318,329.4	340,880.8
Nominal GDP (millions of U.S. dollars)	611	596	658	717	758	816.1	881.2	949.8

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

Table 3A. Comoros: Consolidated Government Financial Operations, 2011–18

(In millions of Comorian francs, cumulative, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018
			Prel.	Projections				
Total revenue and grants	50,907	65,130	101,093	61,129	67,267	72,581	79,736	87,582
Revenues	34,793	44,137	37,716	37,979	42,169	46,777	52,105	57,993
Tax revenues	23,520	26,849	29,536	31,324	34,977	39,076	43,858	49,163
Direct and indirect taxes [1]	12,412	17,600	24,202	25,915	29,021	32,363	36,396	40,841
Taxes on international trade and transactions [1]	11,108	9,250	5,334	5,409	5,956	6,713	7,463	8,321
Nontax revenues	11,273	17,287	8,180	6,654	7,192	7,701	8,246	8,830
External grants	16,114	20,994	63,376	23,150	25,098	25,804	27,631	29,589
Budgetary assistance	53	0	4,091	2,567	1,000	0	0	0
Projects (incl. techn.assist.)	15,135	19,008	18,430	20,584	24,098	25,804	27,631	29,589
HIPC and MDRI assistance	926	1,985	40,855	0	0	0	0	0
Total expenditure and net lending	47,793	57,803	61,305	61,834	70,111	78,157	85,540	93,866
Current expenditure	35,785	41,898	36,101	40,928	42,465	45,326	48,549	52,002
Primary current expenditures	29,959	31,604	32,856	37,331	38,408	40,965	43,866	46,973
Wages and salaries	18,409	18,278	18,582	21,866	23,337	24,989	26,759	28,654
Goods and services	7,662	8,932	9,047	10,706	9,681	10,366	11,100	11,887
Transfers and pensions	3,889	4,394	5,227	4,759	5,390	5,609	6,007	6,432
Interest payments	952	977	457	484	413	459	505	555
External debt	743	780	238	302	219	251	282	316
Before rescheduling	652	631	…	…	…	…	…	…
On restructured obligations	91	148	…	…	…	…	…	…
Domestic debt	209	198	220	182	194	208	223	239
Foreign-financed project maintenance	2,636	2,860	1,226	1,175	1,375	1,473	1,577	1,689
Technical assistance	2,238	6,457	1,561	1,938	2,268	2,429	2,601	2,785
Capital expenditure	11,708	15,444	23,904	20,906	27,646	32,831	36,991	41,865
Domestically financed investment	1,417	5,747	8,261	3,435	3,530	2,974	4,889	6,745
Foreign-financed investment	10,291	9,696	15,643	17,471	24,116	29,857	32,102	35,120
Net lending	300	461	1,300	0	0	0	0	0
Domestic primary balance [2]	3,417	6,785	-3,401	-2,787	231	2,838	3,350	4,275
Overall balance (commitment basis)	3,114	7,328	39,788	-705	-2,843	-5,576	-5,804	-6,285
Excluding grants	-13,000	-13,666	-23,588	-23,855	-27,942	-31,380	-33,435	-35,874
Change in net arrears	-7,281	-1,544	-2,122	-918	0	0	0	0
External arrears	-1,662	-171	24	-390	0	0	0	0
Domestic arrears	-5,619	-1,372	-2,146	-528	0	0	0	0
Repayment	-7,985	-1,372	-2,146	-528	0	0	0	0
Accumulation	2,366	0	0	0	0	0	0	0
Float	2,071	45	-20	0	0	0	0	0
Overall balance (cash basis)	-4,167	5,784	37,666	-1,623	-2,843	-5,576	-5,804	-6,285
Excluding grants	-20,280	-15,210	-25,710	-24,773	-27,942	-31,380	-33,435	-35,874
Special adjustment [3]	3,900	-300	0	0	0	0	0	0
Errors and omissions (+ = underfinancing)	-419	874	-183	0	0	0	0	0
Financing	685	-6,358	-37,483	1,623	2,843	5,576	5,804	6,285
Foreign (net)	-404	-2,504	-41,384	-2,788	2,960	6,560	7,040	8,026
Drawings, PIP (identified)	31	5	0	0	3,662	7,955	8,649	10,005
Amortization	-2,772	-2,726	-41,469	-3,163	-702	-1,394	-1,609	-1,979
Change in net arrears (principal)	-3,470	0	84	-2,033	0	0	0	0
Exceptional financing	5,808	218	0	2,407	0	0	0	0
Domestic (net)	1,089	-3,854	3,902	4,411	-116	-984	-1,237	-1,741
Bank financing	1,089	-3,854	3,902	4,411	-116	-984	-1,237	-1,741
Central bank	2,260	-4,398	3,758	4,411	-116	-984	-1,237	-1,741
Of which: IMF (net)	881	83	1,761	0	-116	-1,484	-1,837	-2,541
Of which: HIPC assistance	0	-1,012	0	0	0	0	0	0
Commercial banks	-1,171	544	144	0	0	0	0	0
Financing gap (+ = underfinancing)	0	0	0	0	0	0	0	0
Memorandum items:								
GDP (nominal)	216,039	228,189	243,606	260,123	277,627	297,278	318,329	340,881
Wages in percentage of revenues	52.9	41.4	49.3	57.6	55.3	53.4	51.4	49.4

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

[1] Since January 1, 2013, revenues collected at customs are classified according to their nature rather than the institution collecting them. The new classification system produced a change in the composition of tax revenues.

[2] Domestic revenue less current primary expenditure and domestically financed capital expenditure.

[3] 2010 revenues received in early 2011; and 2012 revenues received in early 2013.

Table 3B. Comoros: Consolidated Government Financial Operations, 2011–18

(In percent of GDP, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018
			Prel.	Projections				
Total revenue and grants	23.6	28.5	41.5	23.5	24.2	24.4	25.0	25.7
Revenues	16.1	19.3	15.5	14.6	15.2	15.7	16.4	17.0
Tax revenues	10.9	11.8	12.1	12.0	12.6	13.1	13.8	14.4
Direct and indirect taxes [1]	5.7	7.7	9.9	10.0	10.5	10.9	11.4	12.0
Taxes on international trade and transactions [1]	5.1	4.1	2.2	2.1	2.1	2.3	2.3	2.4
Nontax revenues	5.2	7.6	3.4	2.6	2.6	2.6	2.6	2.6
External grants	7.5	9.2	26.0	8.9	9.0	8.7	8.7	8.7
Budgetary assistance	0.0	0.0	1.7	1.0	0.4	0.0	0.0	0.0
Projects (incl. techn.assist.)	7.0	8.3	7.6	7.9	8.7	8.7	8.7	8.7
HIPC and MDRI assistance	0.4	0.9	16.8	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	22.1	25.3	25.2	23.8	25.3	26.3	26.9	27.5
Current expenditure	16.6	18.4	14.8	15.7	15.3	15.2	15.3	15.3
Primary current expenditures	13.9	13.8	13.5	14.4	13.8	13.8	13.8	13.8
Wages and salaries	8.5	8.0	7.6	8.4	8.4	8.4	8.4	8.4
Goods and services	3.5	3.9	3.7	4.1	3.5	3.5	3.5	3.5
Transfers and pensions	1.8	1.9	2.1	1.8	1.9	1.9	1.9	1.9
Interest payments	0.4	0.4	0.2	0.2	0.1	0.2	0.2	0.2
External debt	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Domestic debt	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign-financed project maintenance	1.2	1.3	0.5	0.5	0.5	0.5	0.5	0.5
Technical assistance	1.0	2.8	0.6	0.7	0.8	0.8	0.8	0.8
Capital expenditure	5.4	6.8	9.8	8.0	10.0	11.0	11.6	12.3
Domestically financed investment	0.7	2.5	3.4	1.3	1.3	1.0	1.5	2.0
Foreign-financed investment	4.8	4.2	6.4	6.7	8.7	10.0	10.1	10.3
Net lending	0.1	0.2	0.5	0.0	0.0	0.0	0.0	0.0
Domestic primary balance [2]	1.6	3.0	-1.4	-1.1	0.1	1.0	1.1	1.3
Overall balance (commitment basis)	1.4	3.2	16.3	-0.3	-1.0	-1.9	-1.8	-1.8
Excluding grants	-6.0	-6.0	-9.7	-9.2	-10.1	-10.6	-10.5	-10.5
Change in net arrears	-3.4	-0.7	-0.9	-0.4	0.0	0.0	0.0	0.0
External arrears	-0.8	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Domestic arrears	-2.6	-0.6	-0.9	-0.2	0.0	0.0	0.0	0.0
Repayment	-3.7	-0.6	-0.9	-0.2	0.0	0.0	0.0	0.0
Accumulation	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-1.9	2.5	15.5	-0.6	-1.0	-1.9	-1.8	-1.8
Excluding grants	-9.4	-6.7	-10.6	-9.5	-10.1	-10.6	-10.5	-10.5
Special adjustment [3]	1.8	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions (+ = underfinancing)	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	0.3	-2.8	-15.4	0.6	1.0	1.9	1.8	1.8
Foreign (net)	-0.2	-1.1	-17.0	-1.1	1.1	2.2	2.2	2.4
Drawings, PIP (identified)	0.0	0.0	0.0	0.0	1.3	2.7	2.7	2.9
Amortization	-1.3	-1.2	-17.0	-1.2	-0.3	-0.5	-0.5	-0.6
Change in net arrears (principal)	-1.6	0.0	0.0	-0.8	0.0	0.0	0.0	0.0
Exceptional financing	2.7	0.1	0.0	0.9	0.0	0.0	0.0	0.0
Arrears restructuring and deferral	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current maturities restructuring and deferral	0.4	0.1	0.0	0.9	0.0	0.0	0.0	0.0
Domestic (net)	0.5	-1.7	1.6	1.7	0.0	-0.3	-0.4	-0.5
Bank financing	0.5	-1.7	1.6	1.7	0.0	-0.3	-0.4	-0.5
Central bank	1.0	-1.9	1.5	1.7	0.0	-0.3	-0.4	-0.5
Of which: IMF (net)	0.4	0.0	0.7	0.0	0.0	-0.5	-0.6	-0.7
Of which: HIPC assistance	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	-0.5	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Financing gap (+ = underfinancing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
GDP (nominal)	216,039	228,189	243,606	260,123	277,627	297,278	318,329	340,881
Wages in percentage of revenues	52.9	41.4	49.3	57.6	55.3	53.4	51.4	49.4

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

[1] Since January 1, 2013, revenues collected at customs are classified according to their nature rather than the institution collecting them. The new classification system produced a change in the composition of tax revenues.

[2] Domestic revenue less current primary expenditure and domestically financed capital expenditure.

[3] 2010 revenues received in early 2011; and 2012 revenues received in early 2013.

Table 3C. Comoros: Consolidated Government Financial Operations, 2014

(In millions of Comorian francs, cumulative, unless otherwise indicated)

	2014						
	March		June		Sept		Dec.
	Proj.	Prel.	Proj.	Prel.	Proj.	Prel.	Proj.
Total revenue and grants	15,705	16,313	30,831	31,176	44,602	43,936	61,129
Revenues	10,041	8,710	18,216	18,451	26,323	27,018	37,979
Tax revenues	8,287	6,934	14,448	14,692	21,436	22,027	31,324
Direct and indirect taxes	6,746	6,004	11,367	12,352	16,814	17,970	25,915
Taxes on international trade and transactions	1,541	929	3,081	2,340	4,622	4,057	5,409
Nontax revenues	1,754	1,777	3,768	3,759	4,887	4,991	6,654
External grants	5,665	7,603	12,615	12,725	18,280	16,919	23,150
Budgetary assistance	0	0	1,285	1,395	1,285	1,395	2,567
Projects (incl. techn.assist.)	5,665	7,603	11,330	11,330	16,695	15,523	20,584
Total expenditure and net lending	19,007	17,892	38,420	32,310	56,504	46,203	61,834
Current expenditure	9,077	8,322	18,561	20,191	26,715	28,190	40,928
Primary current expenditures	8,059	8,105	16,507	18,262	23,634	27,811	37,331
Wages and salaries	5,031	5,078	10,063	10,748	15,094	16,399	21,866
Goods and services	2,288	2,270	4,576	5,316	6,098	8,030	10,706
Transfers and pensions	740	756	1,868	2,198	2,442	3,382	4,759
Interest payments	161	131	511	215	588	293	484
External debt	116	78	231	103	347	135	302
Domestic debt	46	53	110	112	165	158	182
Foreign-financed project maintenance	323	11	647	647	970	11	1,175
Technical assistance	533	74	1,066	1,066	1,600	74	1,938
Capital expenditure	9,930	9,570	19,859	12,119	29,789	18,014	20,906
Domestically financed investment	2,060	2,053	4,119	2,502	6,197	2,576	3,435
Foreign-financed investment	7,672	7,517	15,344	9,617	23,015	15,438	17,471
Net lending	0	0	0	0	0	0	0
Domestic primary balance [1]	-78	-1,448	-2,410	-2,313	-3,490	-3,369	-2,787
Overall balance (commitment basis)	-3,301	-1,578	-7,589	-1,133	-11,902	-2,267	-705
Excluding grants	-8,966	-9,182	-20,204	-13,858	-30,181	-19,186	-23,855
Change in net arrears	-522	-494	-1,044	-558	-1,566	-528	-918
External arrears	0	0	0	0	0	0	-390
Domestic arrears	-522	-494	-1,044	-558	-1,566	-528	-528
Repayment	-522	-494	-1,044	-558	-1,566	-528	-528
Accumulation	0	0	0	0	0	0	0
Float	0	-478	0	41	0	1,752	0
Overall balance (cash basis)	-3,824	-2,550	-8,634	-1,650	-13,468	-1,043	-1,623
Excluding grants	-9,488	-10,153	-21,248	-14,375	-31,747	-17,961	-24,773
Financing	3,849	2,709	8,659	1,751	12,592	1,190	1,623
Foreign (net)	2,631	-71	5,347	-250	8,062	-345	-2,788
Drawings, PIP (identified)	2,863	0	5,727	0	8,590	0	0
Amortization	-148	-349	-296	-452	-455	-529	-3,163
Exceptional financing (arrears and deferred debt restructu	0	0	0	0	0	0	2,407
Change in net arrears (principal)	-84	262	-84	184	-84	149	-2,033
Domestic (net)	1,218	2,780	3,313	2,001	4,530	1,535	4,411
Bank financing	1,218	2,780	3,313	2,001	4,530	1,535	4,411
Central bank	1,218	2,757	3,313	1,955	4,530	1,476	4,411
Commercial banks	0	23	0	46	0	59	0
Errors and omissions/Financing gap (+ = underfinancing)	-25	-159	-26	-102	876	-147	0
Memorandum items:							
GDP (nominal)	261,027	260,123	261,027	260,123	261,027	260,123	260,123
Wages in percentage of revenues	50.1	58.3	55.2	58.3	57.3	60.7	57.6

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

[1] Domestic revenue less current primary expenditure and domestically financed capital expenditure.

Table 4. Comoros: Monetary Survey, 2011–18
(In Millions of Comorian francs)

	2012	2013	2014	2015	2016	2017	2018
					Projections		
Net foreign assets	62,737	56,567	56,888	56,039	58,545	62,142	65,864
Central bank assets	72,761	62,136	62,136	60,923	63,349	66,664	69,494
Central bank liabilities	-10,589	-11,894	-11,894	-11,894	-11,894	-11,894	-11,894
Commercial banks assets	5,524	10,787	11,287	11,837	12,110	12,592	13,484
Commercial banks liabilities	-4,959	-4,463	-4,641	-4,827	-5,020	-5,221	-5,221
Net domestic assets	24,636	33,295	38,971	46,271	51,007	55,168	59,756
Domestic credit	49,326	59,695	68,626	78,286	85,579	92,508	100,093
Net credit to government [1]	1,604	5,501	10,559	10,327	7,858	4,785	503
Of which: Treasury	6,120	10,012	14,296	14,064	11,596	8,523	4,241
Bank financing	1,604	5,501	10,559	10,327	7,858	4,785	503
Claims on government	13,779	15,787	15,662	15,546	14,061	12,225	9,684
HIPC and MDRI assistance	-12,175	-10,287	-5,103	-5,219	-6,203	-7,440	-9,181
Claims on public enterprises	512	986	986	986	986	986	986
Claims on other financial institutions	-4	-10	-10	-10	-10	-10	-10
Claims on private sector	47,026	52,967	56,993	66,886	76,648	86,649	98,516
Other items net	-24,690	-26,400	-28,581	-30,942	-33,499	-36,266	-39,263
Broad money	87,373	89,862	95,860	102,310	109,552	117,309	125,620
Money	56,501	56,878	60,674	64,757	69,341	74,251	79,511
Currency in circulation	21,755	21,740	25,507	27,224	29,151	31,215	33,426
Demand deposits	34,747	35,138	35,167	37,533	40,190	43,036	46,085
Quasi-money	30,871	32,984	35,185	37,553	40,211	43,059	46,109
		(in percent of beginning period broad money):					
Net foreign assets	11.8	-7.1	0.4	-0.9	2.4	3.3	3.2
Net domestic assets	4.2	9.9	6.3	7.6	4.6	3.8	3.9
Domestic credit	4.6	11.9	9.9	10.1	7.1	6.3	6.5
Net credit to government	-5.9	4.5	5.6	-0.2	-2.4	-2.8	-3.7
Credit to public enterprises	-0.9	0.5	0.0	0.0	0.0	0.0	0.0
Credit to private sector	11.4	6.8	4.5	10.3	9.5	9.1	10.1
Other items (net)	-0.4	-2.0	-2.4	-2.5	-2.5	-2.5	-2.6
Broad money	16.0	2.8	6.7	6.7	7.1	7.1	7.1
Money	10.2	0.4	4.2	4.3	4.5	4.5	4.5
Quasi-money	5.8	2.4	2.4	2.5	2.6	2.6	2.6
Velocity (GDP/end-year broad money)	2.6	2.7	2.7	2.7	2.7	2.7	2.7
Credit to private sector (percent change)	22.4	12.6	7.6	17.4	14.6	13.0	13.7

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

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

Table 5. Millenium Development Goals Progress

	2004	2008	2012
1. Eradicate extreme poverty and hunger			
1.1 Proportion of population below $1.25 (PPP) per day, percentage	46.1	n.a	n.a
1.2 Poverty gap ratio at $1.25 a day (PPP), percentage	20.8	n.a	n.a
2. Achieveve universal primary education			
2.2 Proportion of pupils starting grade 1 who reach last grade of primary	71.3	79.8	n.a
2.3 Literacy rate of 15-24 year-olds, percentage	n.a	n.a	86.4
3. Promote gender equality and women empowerment			
3.1 Ratio of girls to boys in primary, secondary and tertiary education	0.83	0.92	0.9
3.3 Proportion of seats held by women in national parliament, percentage	n.a	3	3
4. Reduce child mortality			
4.1 Under-five mortality rate per 1,000 live births	95.7	87.2	77.6
4.2 Infant mortality rate (0-1 year) per 1,000 live births	69.2	63.8	57.7
4.3 Proportion of 1 year-old children immunized against measles, percentage	76	76	85
5. Improve maternal health			
5.1 Maternal mortality ratio per 100,000 live births			
5.2 Proportion of births attended by skilled health personnel, percentage	n.a	n.a	82.2
5.3 Contraceptive prevalence rate	n.a	n.a	19.4
5.5 Antenatal care coverage (at least one visit)	75	n.a	92.1
6. Combat HIV/AIDS, malaria and other diseases			
6.5 Proportion of population with advanced HIV infection with access to antiretroviral drugs			
6.6 Incidence and death rates associated with malaria, per 100,000 population	n.a	n.a	70
6.9 Incidence, prevalence and death rates associated with tuberculosis, per 100,000 population	66	65	62
6.10 Proportion of tuberculosis cases detected and cured under directly observed treatment short co	42	59	49
7. Ensure environmental sustainability			
7.1 Proportion of land area covered by forest, percentage			
7.2 Carbon dioxide emissions, total, per capita and per $1 GDP (PPP)	103	125	n.a
7.3 Consumption of ozone-depleting substances	1.2	0.1	0.1
7.6 Proportion of terrestrial and marine areas protected, percentage	n.a	n.a	3.99
8. Develop a global partnership for development			
8.1 Debt relief committed under HIPC and MDRI Initiatives, , cumulative million US$ in end-2009 NPV terms			
Debt relief committed under HIPC initiative, cumulative million US$ in end-2009 NPV terms			157
Debt relief delivered in full under MDRI initiative, cumulative million US$ in end-2009 NPV terms			56

Source: United Nations, http://mdgs.un.org/unsd/mdg/Data.aspx

Table 6: Financial Soundness Indicators for the Banking Sector

(percent unless otherwise indicated)

	2011	2012	2013	2014 [1]
Capital Adequacy:				
Regulatory capital to risk-weighted assets	36	28	26	27
Asset quality:				
Nonperforming loans to total gross loans	15	17	18	18
Nonperforming loans net of provisions to capital	20	23	25	36
Earnings and profitability:				
Net income/average assets (ROA)	54	52	n.a.	n.a.
Net income/average capital (ROE)	340	392	n.a.	n.a.
Liquidity:				
Liquid assets to total assets	41	42	50	51
Liquid assets/short-term liabilities	152	196	116	94
Loan/deposits	69	69	75	76
Liquid assets/total deposits	56	53	48	41
Excess reserves/broad money	9	15	5	2
Exposure to FX risk:				
Foreign exchange liabilities/total liabilities	0	0	0	0

Source: Central Bank of Comoros and IMF staff

[1] Up to June

Annex I. Status of 2012 Article IV Main Recommendations

Areas	Recommendations	Actions/Status
1. Revenue Administration	Establish the new General Tax Administration (AGID) to increase efficiency in tax administration.	The AGID has been created but is not yet operational as it has experienced operational issues at the island level.
	Establish an operational electronic network between the country's four major customs offices.	The four customs offices are now connected
2. Public Financial Management	Implement a medium-term macro framework for the period 2014-2017 to increase budget management, improve the quality of expenditure and enhance medium term budget and macroeconomic viability.	FAD and AFS have helped in establishing an updated PFM strategy for 2014-2016 addressing the weaknesses identified in the 2007 PEFA evaluation.
	Implement a comprehensive automated PFM management system to improve monitoring of expenditures and overall budget execution.	Progress on actual implementation has been slow and monitoring of budget execution remains weak.
3. State Owned Enterprises		
Comores telecom/telecom sector	Privatization of the company by end 2013 and issuance of a second mobile license to open competition	Comores telecom has not been privatized but the government plans to issue a second license
Société Comorienne des Hydrocarbures (SCH)	Define a reform strategy of the company and enhance the flexibility of domestic fuel pricing policies to ensure reliability of supply of petroleum products and limit budgetary pressures from subsidies.	A reform strategy of the company is yet to be defined but the supply of petroleum products has improved recently through the signing of a credit line with the Islamic Development Bank.
MaMWE (Electricity company)	Implement a privatization plan of the company to ensure reliable electricity supply and limit budgetary pressures from subsidies.	The reform strategy supported by the World Bank and the AfDB does not include privatization. Instead, it focuses on improving the operational and financial management of the company.
4. Business Environment	Implement business friendly policies to support growth and enhance investors' interest in Comoros through structural	While supportive legislation has been put in place, actual implementation has deteriorated. Comoros fell three places in the

	reforms that boost competitiveness and export diversification.	World Bank's doing business ranking between 2014 and 2015.
	Adherence to stability oriented fiscal and reserve management policies and to increased investment in infrastructure and education.	Limited fiscal revenues make fiscal management difficult and constrain public investment in infrastructure. Construction of schools and hospitals is supported by bilateral donors.
5. Financial and Banking Sector	Modernize the banking supervision and regulation to address weaknesses in the legal system that make enforcement of rulings against loan defaulters costly and slow.	The BCC has implemented new prudential and regulation rules (*centrale des risques* and on site controls) to strengthen its monitoring on banking activity to curb the expansion of NPLs

Source: Comorian Authorities and IMF Staff.

Annex II. Risk Assessment Matrix (RAM)[1]

Nature/Source of Threat	Likelihood	Expected Impact on Economy	Staff Advice on Policy Responses
External Risks			
Decline in remittances	Low	Reduction in consumption, investment, and imports. Somewhat lower economic growth and fiscal revenue. Pressure on reserves.	Enhance competiveness of economy. Strengthen revenue mobilization.
Decline in donor support Fiscal pressures in donor countries reduce availability of project grants.	Low	Adverse impact on growth and provision of social services.	Strengthen revenue mobilization and prioritize spending in support of domestic investment and social support.
Protracted period of slower growth in advanced and emerging economies: • **Advanced economies:** Lower-than-anticipated potential growth and persistently low inflation due to a failure to fully address legacies of the financial crisis, leading to secular stagnation.	High	Marginal adverse impact on remittances, exports, and FDI. Marginal implications for growth and fiscal revenue.	Enhance competiveness of economy. Strengthen revenue mobilization and re-prioritize spending.
• **Emerging markets:** maturing of the cycle, misallocation of investment, and incomplete structural reforms leading to prolonged slower growth.	High	Marginal adverse impact on remittances, exports, and FDI. Marginal implications for growth and fiscal revenue.	Enhance competiveness of economy. Strengthen revenue mobilization and reprioritize spending.
Heightened geopolitical risks in the Middle East, leading to a sharp rise in oil prices, with negative spillovers to the global economy.	Medium	Increase the cost of oil imports. Fuel-related subsidies could destabilize the fiscal stance. Lower project grants.	Seek lower cost arrangements for fuel imports. Continue restructuring of energy sector. Strengthen revenue mobilization and reprioritize spending.

Nature/Source of Threat	Likelihood	Expected Impact on Economy	Staff Advice on Policy Responses
Domestic Risks			
Political developments Policy slippages ahead of parliamentary elections in late 2014 and presidential elections in 2015.	Medium	Increased fiscal spending. Delays in implementation of reforms.	Contain election related spending. Avoid delays in implementation of reforms.
Ebola spread	Low	Marginal and temporary impact on growth and revenue.	Cover cost of Ebola preparedness by temporarily restraining other current and capital spending,
Natural disasters	Medium	Potentially large economic impact.	Limited options for mitigation.
1/ The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding this baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of discussions with the authorities.			

Annex III. Assessing the Potential of Tax Revenues in Comoros[1]

This note explores the challenges facing Comoros in mobilizing sufficient tax revenue to finance its outstanding development needs. With a tax to GDP ratio as low as 12 percent in GDP, Comoros appears to lag well behind all comparable countries. Weak institutional capacity, excessive exemptions, low tax compliance along with hard-to-tax sectors (agriculture and small businesses) are at the core of this lackluster fiscal performance. However, eliminating these distortions through implementation of revenue administration reforms (including a reduction in the use of exemptions) has the potential to raise Comoros' tax revenue to up 19.2 percent of GDP.

A. Background

1. **Comoros, a Union of three semi-autonomous islands, is in a fragile state and has been subject to a long political instability**. While Comoros attained the completion point under the HIPC Initiative in late 2012, the country has fallen short in generating sufficient resources to finance the public investment needed to generate a sustained and inclusive growth and curb poverty— around 44.8 percent of the population over the last two decades.[2] Real GDP growth was poor and well below peers (Figure 1). Tax revenues performance has remained low over the recent years amid pressing development challenges. Tax revenues, at 12 percent of GDP in 2012, are low by any standards. Current expenditure, particularly the wage bill, absorb the bulk of tax revenues (up to 55 percent), crowding out productive spending. In the face of such binding development challenges, greatly strengthening revenue collection would significantly improve fiscal space for pro-poor spending and infrastructure investment, in order to lay the foundations for strong and inclusive growth while also strengthening resilience against external shocks.

2. **This note reviews assesses the potential level of revenues that Comoros could mobilize given its structural characteristics -- income level, openness, economic structure, institutions, and government policies.** Using a reduced form model based on a panel of SSA countries, the potential total revenues-to-GDP ratio for Comoros is estimated at 20.3 percent with 19.2 percent accrued to tax revenues. This suggests that there is a potential for Comoros to raise its tax revenue-to-GDP, on average, by some 8.7 percentage points of GDP compared to actual average collection of 10.5 percent of GDP over 1990-2010. Moreover, the empirical results suggest that the actual low revenue mobilization reflects both the weaknesses of the fundamentals and distorting policies.

[1] This note was prepared by Ahmat Jidoud.

[2] World Bank website: http://data.worldbank.org/country/comoros. Due to data limitations, this number is for 2004 and the most recent available figures on poverty statistics.

B. Historical Performance

4. **Comoros registers one of the lowest fiscal performances in terms of tax revenue-to-GDP ratios across all standards.** Over the past two decades, the ratio of tax revenue-to-GDP has averaged a disappointing 10.5 percent. This is 3 percentage points below the SSA average of 13.5 percent over the same period, (see Table 1). Moreover, Comoros compares unfavorably with respect to the fragile states countries (11.4 percent) and non resource rich countries (14 percent). A further comparison with small island countries points to the same conclusion, as Comoros had the lowest tax to GDP ratio (see Table 2 and Figure 1) in recent years. Over recent years, higher than average non-tax revenues, owing to large receipts from the Economic Citizenship Program (ECP), have seemingly diluted the tax effort.[3] ECP receipts accounted for more than 6 percent of GDP in 2012, generating an overall fiscal surplus (cash basis, net of debt relief) of 1.6 percent of GDP.

5. **Over the period under review, there have been ups and downs in revenue performance.** In the 1990s, the tax-to-GDP ratio averaged about 10.9 percent before rising to 11.7 percent during 2001–2010; and it recently increased to 11.8 percent in 2012 (see Figure 1). The relatively poor revenue performance in the 1990s underscores the political instability in the country, with 2 coups (1989 and 1995) and separatists' rebellions in Anjouan and Moheli in 1997. The 2000s display more significant swings as tax revenue-to-GDP ratio increased from 10.2 percent in 2000 to 15.7 percent in 2005, reflecting the relative political stability gained after the adoption of a new constitution in 2001. However revenue fell by 3 percentage points in 2007 partly reflecting disruptions on Anjouan island and sanctions imposed by both the African Union and the Union of Comoros on the island.

6. **The composition of revenues has evolved with the tax base shifting from trade duties toward more taxes on income and profits and taxes on goods and services**. While the ratio of taxes on international trade to GDP accounted for 4/5 of total tax revenue over 1990–2000 (8.2 percent of GDP), it was only 5.3 percent over 2001–2013 (see Table 3). The decline reflects the extent of customs exemptions but also the reduction of trade tariffs as Comoros integrates more to the COMESA region. Over the same period, the share of domestic taxes on goods and services has moderately increased, up from 1.4 percent in 1990s to 3.6 percent over 2001–2013. Tax from income and profits remained relatively stable but shows some substantial increase during 2005-06. Despite extensive TA in revenue and custom administration and public financial management progress in mobilizing more tax revenues has been limited. Tax revenues increased by only 1.3 percentage points between 2009 and 2013, to 12.1 percent.

[3] The ECP refers to a 2008 arrangement whereby the government sells passports to certain foreigners under bilateral agreement with certain countries.

C. Assessing the Potential of Tax Revenues

7. **Econometric methodology**: In assessing the revenue potential for Comoros, two complementary approaches have been used in order to relieve serious data limitations and inconsistencies. A reduced form approach is applied, which consists of estimating an empirical model based on panel data. Taking an SSA sample[4] as the reference, the potential revenue for Comoros is estimated as the fitted value of revenue from the reduced-form model in which actual revenue-to-GDP is regressed on a set of country characteristics, including GDP per capita, the composition of the economy, the degree of openness, the ratio of public debt to GDP and other institutional factors. This approach is applied for taxes on goods and services and income tax but also for non-tax revenues. Formally, the estimated model is given by:

$$\boldsymbol{R_{it} = \alpha_i + X_{it}\beta + \varepsilon_{it}}$$

The potential for international trade taxes is estimated as the actual ratio of international trade taxes plus 30 percent of the actual collection. This ad hoc assumption is motivated by considerable anecdotal evidence of tax leakage combined with data limitations on international trade tax collection.[5] Thus, potential tax revenues are obtained by adding up the potential for income taxes, taxes on goods and services, and international trade taxes. Total potential revenues are then obtained adding potential non-tax revenues to potential tax revenues. Finally, the tax effort is derived as the ratio of actual revenues to potential revenues.

8. **Based on this approach, the empirical results point to substantial potential tax revenues in Comoros**. On average, the potential revenue that Comoros could mobilize amounts to 20.3 percent of GDP, of which 19.2 percent accrued to tax revenue. The corresponding tax effort index is 0.5. With the actual ratio of 10.5 percent of GDP, Comoros could raise its tax revenue-to-GDP, on average, by about 8.7 percentage points. Looking at the different sub-components of revenue shows that Comoros should focus on minimizing the leakages in collecting taxes on goods and services, which account for the bulk of the identified tax gap.

9. **Broadly, Comoros' tax effort is rather small relative to small island and SSA countries.** For the first group, the revenue effort index is 0.8 while the index is 1 for SSA countries suggesting Comoros relative poor performance—an index of 0.6—requires sound policy and administration reforms along with broader economic reforms intended to diversify the economy.

[4] The model is estimated over the period 1990-2010 on the following countries: Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Central African Republic, Chad, Comoros, Republic of Congo, Equatorial Guinea, Eritrea, Ethiopia, Gabon, The Gambia, Guinea Bissau, Guinea, Cote d'Ivoire, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Seychelles, Senegal, Sierra Leone, Swaziland, Tanzania, Togo, Uganda, Zambia and Zimbabwe,

[5] To illustrate the point, as of June 2014, customs' exemptions were as high as actually collected tax revenues at around 2.03 billion KMF.

Table 1: Revenue to GDP ratios: Selected SSA Groupings (1990-2010)

	Total Revenue	Tax	Non tax
Comores	**12.7**	**10.5**	**2.1**
SSA	18.2	13.5	4.7
Fragile States	13.8	11.4	2.4
Small Islands	20.3	15.8	4.5
Non resource rich countries	16.9	14.0	2.9

Source: IMF database

Table 2: Tax revenue across Small Island Economies

	Tax revenue in 2012
Antigua and Barbuda	18.8
Bahamas	16.2
barbade	26.4
Cabo Verde	17.9
Comoros	**11.8**
Maldives	17.7
Mauritius	18.9
Sao Tome y Principe	14.0
Seychelles	22.8
Trinidad and Tobogo	29.9

Source: IMF database

Table 3: Revenue to GDP Ratio in Comoros

	1990-00	2001-12	1990-13	2009	2013	2009-13[1]
Total Revenue and Grants						
Revenue	12.9	15.1	14.1	13.9	15.5	15.8
Tax	10.9	11.7	11.3	10.8	12.1	11.3
Income and profit	1.4	2.7	2.1	2.3	3.2	2.7
Goods and Services	1.4	3.6	2.6	3.4	6.6	4.1
International Trade	8.2	5.3	6.7	5.1	2.2	4.4
Non Tax	2.0	3.3	2.7	3.1	3.4	4.5
Grants	11.0	8.5	9.7	9.7	28.3	14.0

Source: IMF database

1/ Period corresponding to the IMF program under an ECF arrangement

Table 4: Econometric estimation results

Variables	(1) Total revenue	(2) Tax revenues	(3) Income and profit	(4) Goods and Services	(5) International trade	(6) Non Tax revenues
Income (log of GDP per capita)	2.748***	1.842**	0.919	0.271	0.520**	1.769***
	(0.797)	(0.858)	(0.564)	(0.357)	(0.222)	(0.631)
Agriculture share[1]	-0.168***	-0.153***	-0.043***	-0.034***	-0.027**	-0.054**
	(0.036)	(0.018)	(0.011)	(0.008)	(0.011)	(0.023)
Imports[1]	0.007	0.005	-0.000	0.008**	0.000	0.005
	(0.007)	(0.006)	(0.004)	(0.003)	(0.003)	(0.004)
Debt[1]	-0.009*	-0.004	-0.001	0.002	-0.003*	-0.002
	(0.005)	(0.003)	(0.001)	(0.002)	(0.001)	(0.002)
Official development Assistance[1]	-0.005	-0.006	-0.003	-0.011**	0.001	0.005
	(0.015)	(0.011)	(0.005)	(0.005)	(0.006)	(0.008)
Freedom House Index[2]	-1.806	-1.639*	0.070	-0.259	-1.334**	0.671
	(1.329)	(0.936)	(0.563)	(0.493)	(0.620)	(0.528)
Small island Dummy	-1.232	-1.091	-1.128	3.962	1.114	-1.400
	(1.205)	(0.796)	(1.489)	(3.924)	(1.645)	(1.708)
Constant	7.020	8.297	0.037	3.693	3.062*	-6.056
	(5.608)	(5.099)	(3.345)	(2.330)	(1.737)	(4.159)
Observations	632	923	923	916	916	630
R-squared	0.502	0.404	0.109	0.217	0.250	0.253
Number of code	34	36	36	36	36	34

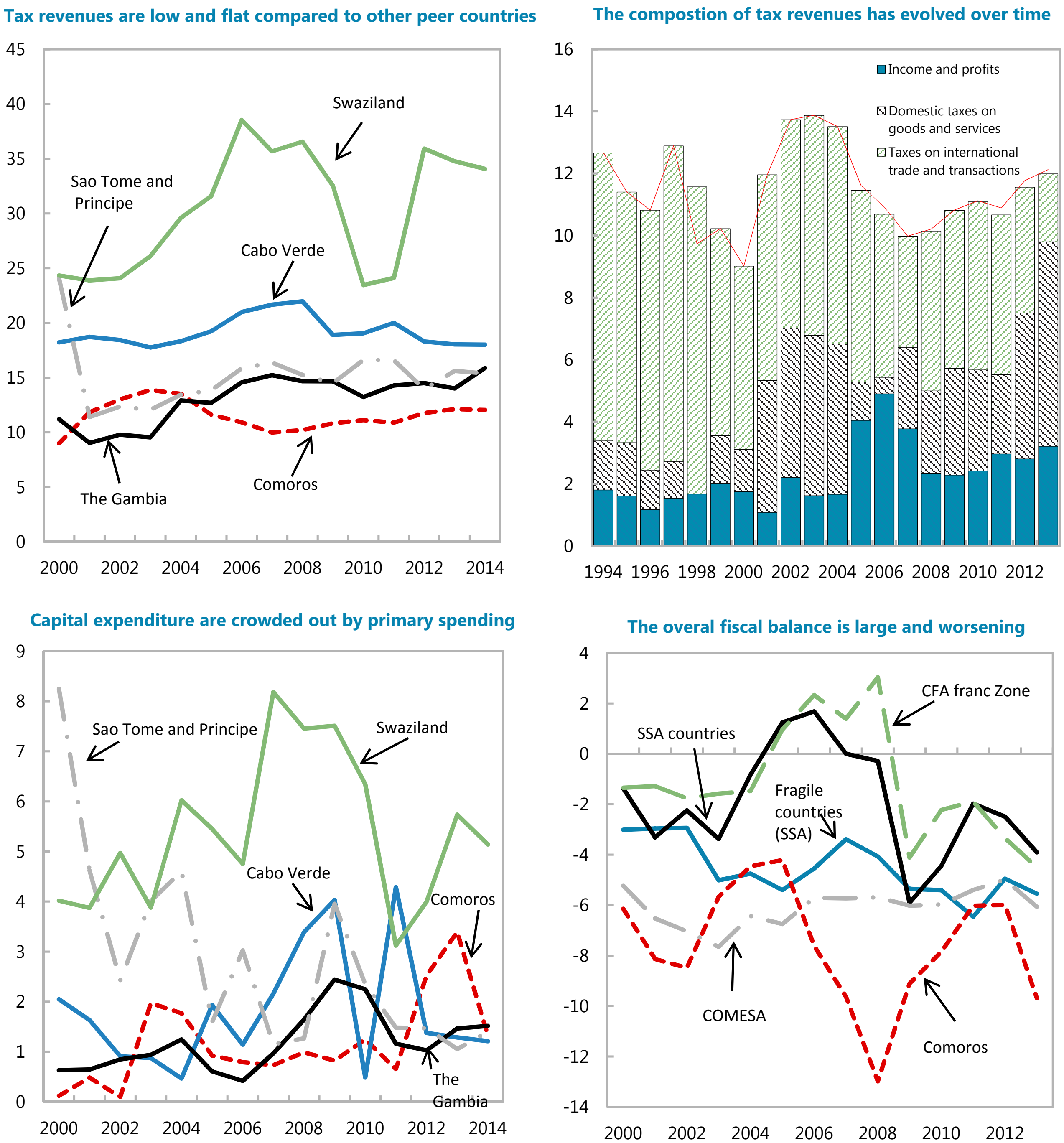
Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
[1] Pourcentage of GDP
[2] Index ranging from 1 (most free) to 7 (least free).

Table 5: Revenue to GDP Ratio in Comoros

			Actual	Potential	Gap	Tax effort
Comoros	Revenue		12.7	20.3	-7.6	0.6
	Tax		10.5	19.2	-8.7	0.5
		Income and profit	1.8	2.6	-0.8	0.7
		Goods and Services	1.3	6.9	-5.6	0.2
		International Trade	7.4	9.7	-2.3	0.8
	Non Tax		2.1	1.1	1.0	1.9
Small Islands	Revenue		20.1	26.0	-5.9	0.8
	Tax		15.8	20.2	-4.4	0.8
		Income and profit	3.5	4.5	-1.0	0.8
		Goods and Services	6.1	8.7	-2.6	0.7
		International Trade	6.2	4.6	1.6	1.3
	Non Tax		4.5	4.9	-0.4	0.9
SSA	Revenue		18.4	18.7	-0.3	1.0
	Tax		13.6	14.5	-0.9	0.9
		Income and profit	4.4	5.1	-0.7	0.9
		Goods and Services	4.5	5.4	-0.9	0.8
		International Trade	4.7	3.9	0.8	1.2
	Non Tax		3.7	4.0	-0.3	0.9

Source: Staff estimation based on IMF database

Figure 1. Fiscal Indicators and Cross Country Comparisons



Source: Comorian authorities and IMF database

Annex IV. External Balance Assessment[1]

Comoros' current account balance relative to GDP is expected to improve in 2014 mostly on account of lower imports and larger remittance inflows. It is projected to weaken slightly over the medium term, mainly reflecting a modest reduction in remittances relative to GDP, the import cover of international reserves remaining broadly adequate. Standard empirical model suggest that the real exchange rate was moderately overvalued at end-2013 but these results are subject to considerable uncertainty related to data limitations and volatility of economic variables in a fragile state. Moreover, the recent real depreciation of the Comorian Franc suggests that the estimates of overvaluation may be exaggerated. Survey-based indicators underscore the need to implement structural reforms to remove the inefficiencies and distortions that undermine the competitiveness of the economy.

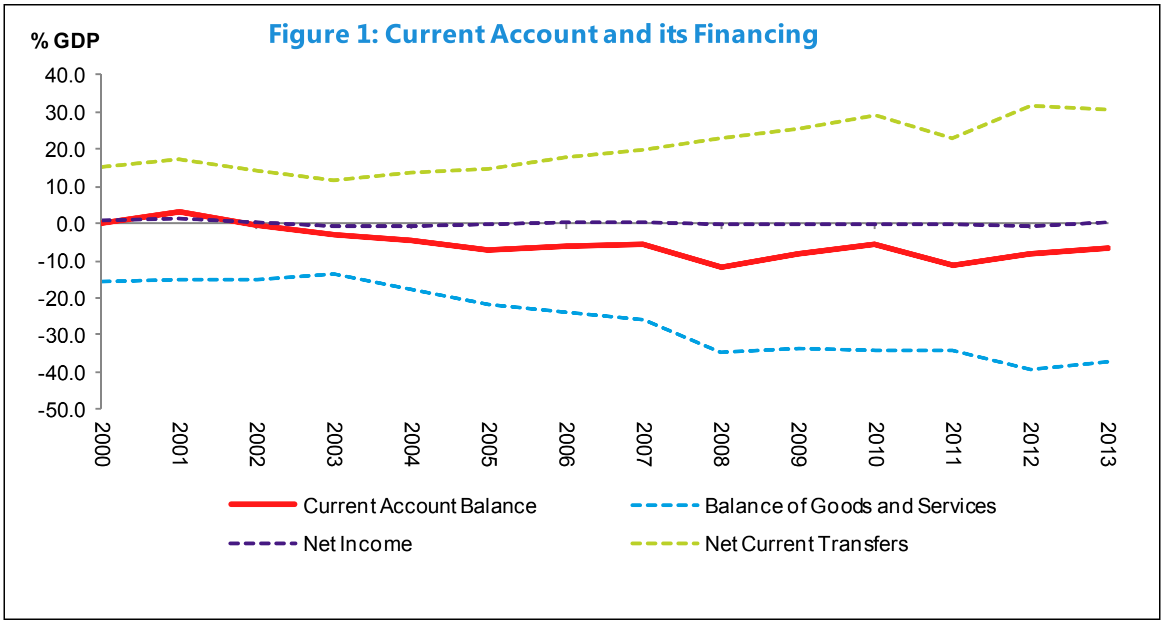
A. Balance of Payments

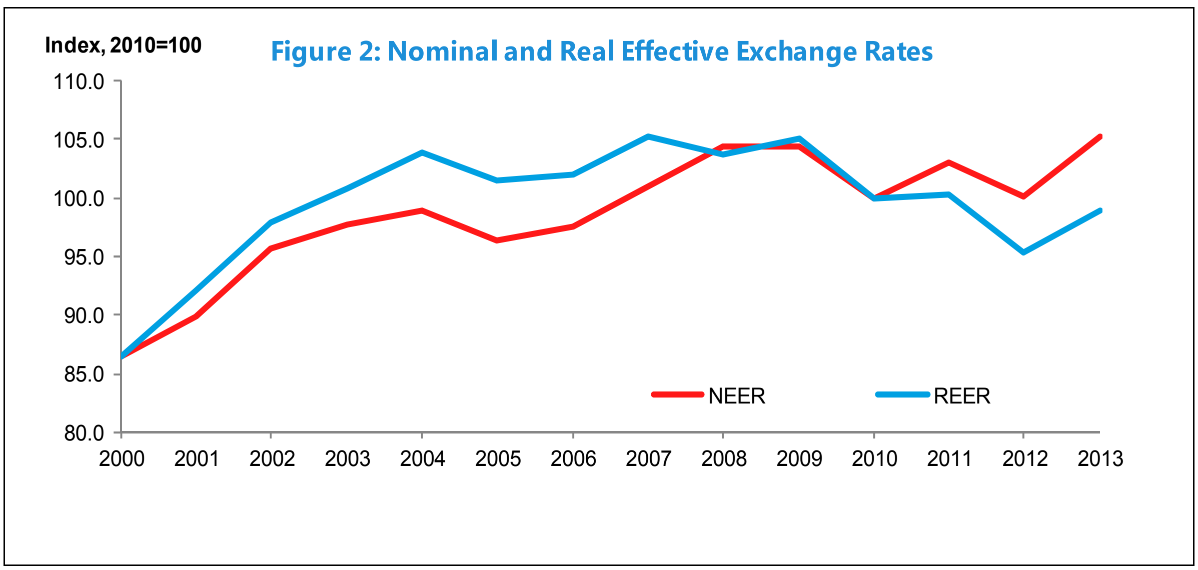
1. **Comoros' external position is vulnerable owing mainly to the country's narrow export base and heavy reliance on remittances to fund imports**. The current account deficit is projected at 7.4 percent of GDP in 2014, down from 11.3 percent in 2013, mostly on account of lower imports and larger remittance inflows (Figure 1). For 2015, the current account deficit is projected to widen again to 11 percent of GDP, despite lower oil prices, mainly on account of a rise in investment related imports. Beyond 2015, the current account deficit is projected to average close to 11 percent.

2. **Comoros' real effective exchange rate depreciated by more than 10 percent from end-2013 through October 2014, largely owing to the depreciation of the euro against dollar**. The longstanding peg of the Comorian Franc to the euro,[2] and subdued inflation, mean that movements in the real effective exchange rate tend to be dominated by movements in the US dollar-euro exchange rate (Figure 2)

[1] This note was prepared by Ahmat Jidoud and Graham Campbell (AFR).

[2] The Comorian Franc is fixed against the Euro at a value of KMF 490 per euro under the monetary policy agreement with France.





B. Reserves Adequacy[3]

3. **Official reserves appear to be adequate to withstand external shocks over the medium term.** Reserves reached a historical peak of KMF 72.7 billion (US$190 million) in 2012 owing to strong remittances and substantial ECP receipts. They declined to KMF 62.1 billion (US$168 million) at the end-2013 and are projected to remain flat in 2014. Reserve coverage

[3] Under the monetary cooperation agreement with France, the central bank has unlimited access to a credit line at the French Treasury. The agreement requires the central bank to hold reserves of at least 20 percent of broad money.

remains adequate at 5 months of imports, 24 percent of GDP, and 64 percent of broad money in 2014.

C. Price Competitiveness

4. **The Comorian Franc is estimated to be moderately overvalued using standard analytical methods.**[4] While external stability assessments are particularly difficult to benchmark for fragile countries like Comoros with severe data limitations, this conclusion is based on a comprehensive approach using a variety of assessment methods (CGER-like): (i) the macroeconomic balance (MB); (ii) the equilibrium real exchange rate (ERER); and (iii) the external sustainability (ES), further complemented with the purchasing power parity (PPP) approach. The CGER-like approaches suggest that the real effective exchange rate is moderately overvalued, with the misalignment ranging from 5 percent to 22 percent in the short term and from 6 percent to 15 percent in the medium term, while the PPP approach signals an undervaluation of about 10 percent in the short term and 7 percent in the medium term. Results are summarized in Table 1.

Table 1: Comoros: Quantitative Exchange Rate Assessment

	Current Account (in % of GDP)				CA Elasticity[1]	REER misalignment[2]	
	2013		2018			2013	2018
	Norm	Underlying	Norm	Underlying			
Macroeconomic Balance	-3.9	-11.3	-8.1	-10.3	-0.342	21.6	6.4
Equilibrium Real Effective Exchange Rate	...	...	...	...	...	5.0	5.7
External Sustainability	-6.5	-11.3	-5.2	-10.3	-0.342	14.2	14.8
Purshasing Power Parity	...	...	...	...	...	-9.5	-7.3
Average						7.8	4.9

Source: IMF staff estimates.

1/ CA elasticity is computed assuming export and import elasticities of 0.8 and -1.18 respectively (Tokarik (2010)).

2/ In percentage, "+" = overvaluation.

5. **The macroeconomic balance approach calculates exchange rate under - or overvaluation by measuring the adjustment needed for the real exchange rate to close the gap between the projected medium-term CA balance at the prevailing real effective exchange rate and a CA norm.** The latter is defined as the CA that is consistent with sustainable medium-term macroeconomic fundamentals and is estimated through a regression model including the fiscal balance, output growth, real income, oil balance, demographics, trade openness, relative productivity, aid and remittances. The estimated current account norm is a deficit of 8.1 percent of GDP, while the projected medium-term current account deficit is 11.9 percent of GDP, suggesting that a depreciation of 22 percent would be required to close the

[4] The EBA-lite methodology could not be applied because of data limitations.

gap between the underlying and the CA account norm, using an elasticity of the CA with to the exchange rate of -0.342.

6. **The REER approach is a reduced-form regression model in which the degree misalignment is measured by the percentage deviation of the exchange rate from its equilibrium value.** The medium-term equilibrium value of the REER is estimated in a regression relating the REER to medium term fundamentals including the NFA position, relative productivity differentials between tradable and non-tradable sectors, terms of trade, government consumption but also aid and remittances for countries like Comoros. The results suggest a mild overvaluation of about 5 percent in 2013 and 5.7 percent in 2018.

7. **The ES approach works in the same way as the MB approach.** The degree of exchange rate misalignment is measured by how much the exchange rate needs to adjust to close the gap between the projected CA position—with no change in the exchange rate path—and the CA norm. The later is calculated as the CA balance that stabilizes the NFA position. Following the literature, this value is calibrated to the most recent NFA position observed of 14.8 percent of GDP in 2013 implying a CA norm (deficit) of 6.5 percent of GDP. The results suggest that the Comorian Franc is overvalued by 14 percent.

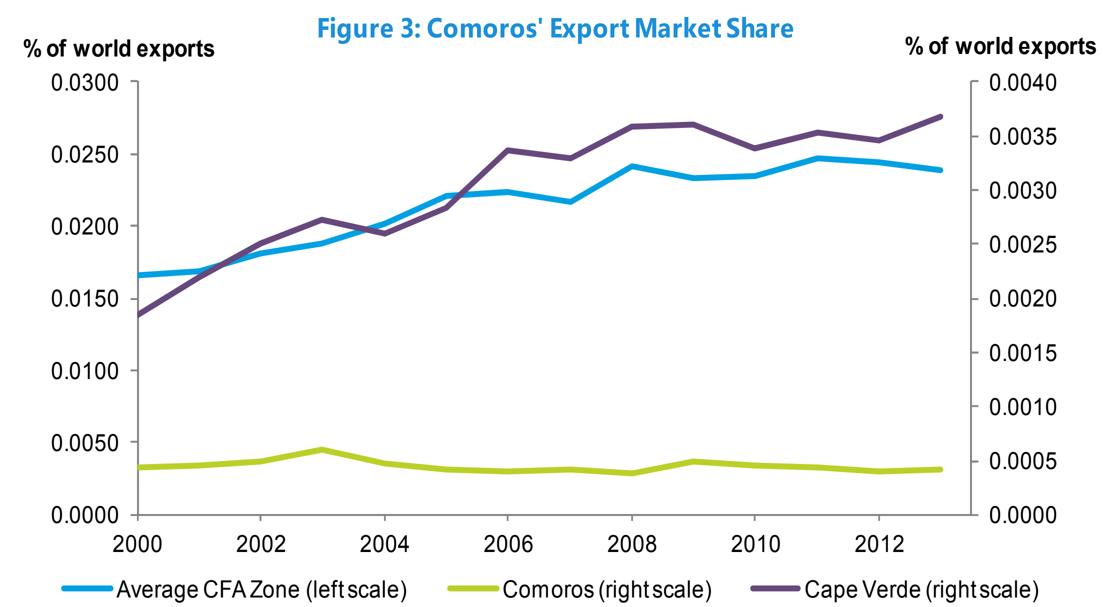
8. **The PPP approach relies on the assumption that nominal exchange rates are related to national price levels, and changes in the former should be in line with changes in relative price levels.** The results using this approach indicate that the Comorian Franc is slightly undervalued, by 9.5 percent in the short term and by 7.3 percent in the medium term. However, the deviations of the exchange rate from medium-term fundamentals are not significantly different from zero.

D. Structural Competitiveness

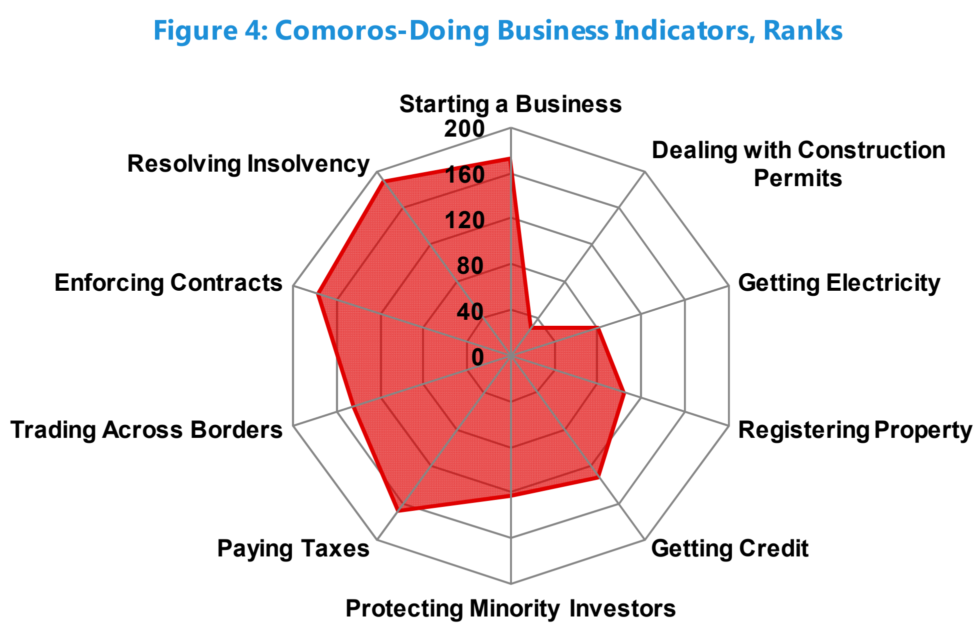
9. **Non-price and survey-based indicators underline important competiveness and structural issues.**

- Comoros' export base has deteriorated over time, with the trade deficit widening and export shares declining relative to peers. In the medium term, exports are expected to remain sluggish, reflecting structural inefficiencies and domestic distortions impeding private sector development and competitiveness (See Figure 3).

- The World Bank's 2015 doing business indicators show that the overall quality of the business environment is poor (Figure 4) and lags well behind peers (Figure 5) as Comoros ranks 159th of 189 countries, down three places since 2014. Comoros underperforms notably in the areas of starting a business, getting credit, enforcing contracts, paying taxes and resolving insolvency, underscoring the need to accelerate structural reforms in these areas.



Source: Authorities and IMF Estimates



Source: World Bank Doing Business Report, 2015

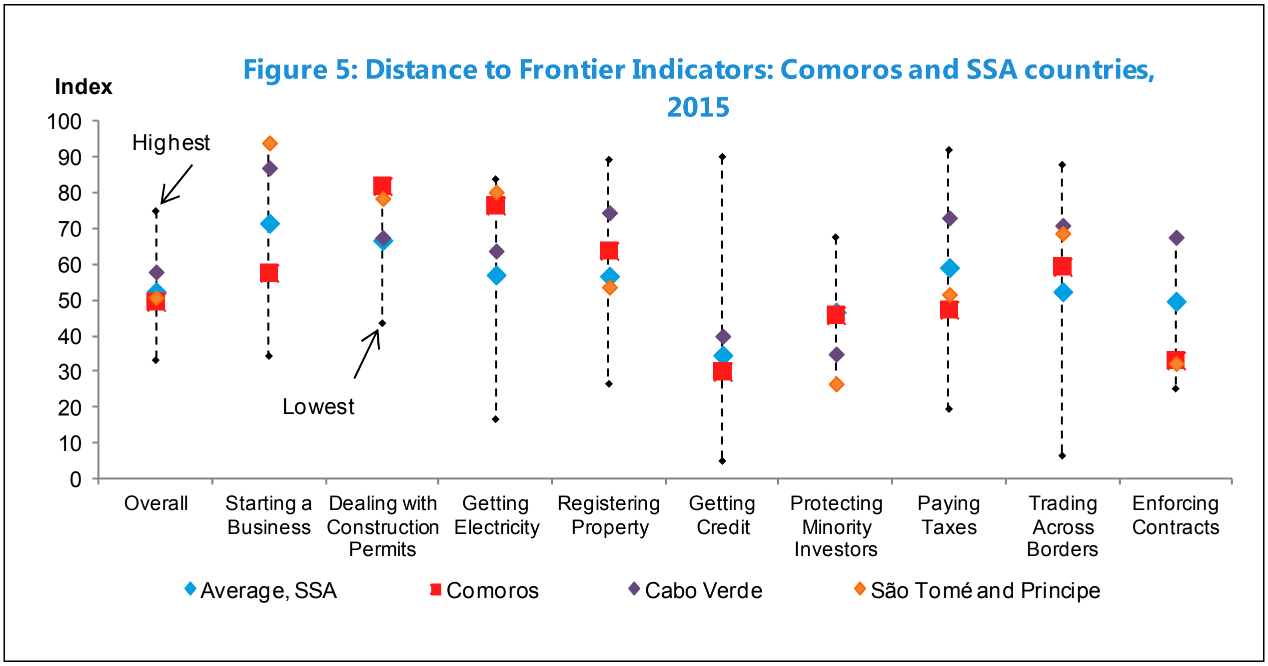


Figure 5: Distance to Frontier Indicators: Comoros and SSA countries, 2015
Index
100
90
80
70
60
50
40
30
20
10
0
Highest
Lowest
Overall
Starting a Business
Dealing with Construction Permits
Getting Electricity
Registering Property
Getting Credit
Protecting Minority Investors
Paying Taxes
Trading Across Borders
Enforcing Contracts
Average, SSA
Comoros
Cabo Verde
São Tomé and Principe

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 13, 2015

CONTENTS

RELATIONS WITH THE FUND

(As of December 31, 2014)

Membership Status: Joined September 21, 1976 Article VIII

General Resources Account:	**SDR Millions**	**% Quota**
Quota	8.90	100.00
Fund holdings of currency	8.33	93.59
Reserve position in Fund	0.58	6.50
SDR Department:	**SDR Millions**	**% Allocation**
Net cumulative allocation	8.50	100.00
Holdings	14.45	170.15
Outstanding Purchases and Loans:	**SDR Millions**	**% Allocation**
ECF Arrangements	12.83	144.15

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
ECF	Sep. 21, 2009	Dec. 31, 2013	13.57	10.46
SAF	Jun. 21, 1991	Jun. 20, 1994	3.15	2.25

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

	Forthcoming				
	2014	2015	2016	2017	2018
Principal	0.00	0.10	1.31	1.62	2.25
Charges/interest	0.00	0.03	0.03	0.03	0.02
Total	0.00	0.13	1.34	1.65	2.27

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	December 2012
II. Total disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	2.89
Interim assistance	--
Completion point balance	2.89
Additional disbursement of interest income	0.07
Total disbursements	2.97

Summary of Safeguards Assessment. The update safeguards assessment of the Banque Centrale des Comores (BCC) in 2010 found that despite capacity constraints the central bank had taken steps to strengthen its safeguards framework. Recommendations made to establish an independent internal audit function and obtain assistance to adopt international standards for financial reporting remain outstanding. The BCC has published its 2012 audited financial statements, and staff has received the financial statements and management letter for the 2013 financial year.

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

Exchange Rate Arrangements: The currency of the Union 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.

Article IV Consultation: The last Article IV consultation was concluded on December 17, 2012 (Country Report No. 13/32). Directors commended the Comorian authorities for their strong implementation of reforms under the ECF arrangement and for reaching the completion point under the enhanced HIPC Initiative. Welcoming the improved fiscal performance, they encouraged the authorities to continue strengthening mobilization and to keep spending in line with public resources mobilization capacity. They underscored the need for budget discipline and reliance on grants and highly concessional loans, as Comoros remained at high risk of debt distress owing notably to a narrow export base. Directors commended the authorities for rekindling their structural reforms agenda to invigorate growth, accelerate poverty reduction, and reduce vulnerability to external shocks.

Recent Technical Assistance

Department	Dates	Subject
Fiscal		
FAD	Mar. 2011	Modernization of fiscal administration
FAD	Oct. 2011	Public expenditure management
FAD, AFS	June 2012	Budget execution, public expenditure management
FAD	Oct. 2012	Revenue administration
FAD, AFS	Jan. 2013	Budget execution, public expenditure management
AFS	Jan. 2013	Cash Management and Banking Arrangements
FAD, AFS	June. 2013	Audit of payroll system
AFS	Oct. 2013	Cash Management and Internal Control
AFS	Oct. 2013	Development of Medium Term Macro Fiscal Framework
FAD, AFS	Oct. 2013	PFM Strategy and Action Plan
FAD, AFS	Dec. 2013	Revenue administration
AFS	Mar-Apr. 2014	Establishment of the Treasury Single Account
AFS	May 2014	Strengthening the medium Term Macro Fiscal Framework
FAD	June-Jul. 2014	Budget Preparation and Presentation
AFS	Nov. 2014	Budget preparation, Medium term Macro Fiscal Framework, Treasury Single Account.
Monetary		
MCM	Nov. 2012	Banking supervision
MCM	Dec. 2013	Banking Supervision
MCM, AFS	Jan. 2014	Implementation of Risk-Based Supervision
AFS	Feb. 2014	TOR for the new Integrated Management System of the State's Financial Information
MCM	April 2014	Banking Supervision and Regulation
MCM	April 2014	Introduction of Government Securities and Assessment of Monetary Instruments.
MCM	Nov. 2014	Banking Supervision and Regulation
MCM	Nov. 2014	Banking Supervision
Statistics		
STA	Mar–Apr. 2012	General Data Dissemination System
STA, AFS	July 2013	National Accounts
STA	Mar. 2014	Balance of Payments Statistics
STA, AFS	Sept. 2014	National Accounts

Resident Representative: A resident representative post was (re)established in May 2012. The current resident representative is Mr. Michel Bua. In the 2000s, the IMF's field operations in the country were managed by the resident office in Madagascar.

JOINT WORLD BANK-IMF WORK PROGRAM, 2014–2015

TITLE	Products	Provisional timing of mission	Expected delivery date
	A. Mutual information on relevant work programs		
Bank work program in next 12 months	1. Additional Funding for Social Safety Net Project.		March 2015
	2. Budget Support Operation	Appraisal 3/13/15	April 2015
	3. Public Expenditure Review Policy Notes Series.		June. 2015
	4. Youth Employment Project		August 2015
	5. Statistics Capacity TA.		August 2015
	6. FIRST Project – Financial Sector Development Strategy.		October 2015
	7. Private Sector Development JIT TA – Value Chains, Bus Environment.		October 2015
	8. Technical Assistance through ABGE project – Financial & Public Sector Management.		June 2016
	9. Regional Telecom Project	Mid-Term Review June 2015	June 2018
IMF work program in next 12 months	2014 Article IV Consultation	November 2014	January 2015 : Board meeting
	B. Requests for work program inputs		
Fund request to Bank	Update on Bank's assistance in the area of PFM reforms and PRSP implementation and energy sector reforms		Continuous
Bank request to Fund	Sharing macro-framework updates; policy notes produced in the area of monetary and fiscal policy, and AFRITAC reports on PFM support.		Continuous

Comoros: Recent World Bank Operations				
Project	Type of Funding	Amount Approved (in mln. of US$)	Date Approved	Description
Coastal Resources Co-management for Sustainable Livelihood	TF	2.73	4/5/2011	Grant to increase access to revenues and to basic social services in the fishing community of the recipient’s territory.
Development Policy grant 2	IDA Grant	5.0	11/29/2012	Budgetary financing to support the implementation of core reforms in Comoros' Poverty Reduction and Growth Strategy.
Emergency Response Project (Additional Financing)	IDA Grant	3.0	3/28/2013	The objective of the project is to increase access to short-term employment and to basic and social services in areas affected by the crises, both global and internally-generated.
Electricity Sector Recovery project	IDA Grant	5.0	6/9/2013	To implement the MAMWE recovery plan with focus on Commercial aspects reforms.
Support to Statistical Development	TF	0.358	7/9/2013	The TFSCB Grant supports the development of Comoros national statistical system, especially the National Direction of Statistics (DNS), and the production and dissemination of timely, reliable, and relevant data.
Regional Telecom Project	IDA Grant	22	9/10/2013	To support the Recipient’s efforts to lower prices for international capacity and extend the geographic reach of broadband networks
Economic Governance TA Project	IDA Grant	3.5	11/12/2013	Grant to increase the efficiency, accountability and transparency of public financial management and to improve the management of civil service human resources and wages.
Economic Governance Reform Grant	IDA Grant	3.8	4/29/2014	Grant to improve economic management and transparency, and enhance competition and improve performance in key infrastructure sectors (Information and Communications Technologies (ICT) and electricity).
Social Safety Net Project (pipeline)	IDA Grant	6.0	3/17/2015	Provide poor communities with access to safety net and nutrition services.
South West Indian Ocean Fisheries Governance (pipeline)	IDA Grant	1.2	4/30/2015	Grant to boost regional cooperation and integration in the fisheries sector.

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP

A. Bank Group's Support in Comoros

The African Development Bank Group (AfDB) started its operations in Comoros in 1977 and has since then approved seventeen (17) operations and one (2) economic and sector work (ESW). Cumulative Bank Group commitments net of cancellation amounted to UA 78.26 million as of November 2014. These operations targeted the public sector and were mainly financed from ADF resources (87.6 percent). One (1) port infrastructure project was financed through the ADB window for a net UA 9.67 million representing 12.4 percent of total net commitments. In addition, the AfDB approved three (3) emergency operations to assist in mitigating the adverse impact of the food crisis in 2008 (UA 1.5 million) and support victims of floods in 2009 and most recently in 2012 (UA 1.28 million). Since 2009, in addition to the ADF, Comoros are eligible for Pillars I and III of the Fragile States Facilities (FSF), on which they have received additional resources of UA 21.46 million. On the Pillar I, Comoros received UA 10 million in ADF 12 and UA 10 million in ADF 13 e), respectively addressed to support Energy Sector in the ADF 12 and Road sector in the ADF 13. The resources on Pillar III have supported the statistical capacity building in the PRCI (UA 595.000), the preparation of SCA2D (UA 241.000), and recently the assistance to private sector (UA 625.000).

1. Overall, AfDB operations in Comoros have been mainly directed toward supporting economic-related infrastructure, support to public finances and improvement of rural livelihoods. They have primarily concerned Energy sector (45 percent), multi-sector (21 percent), water and sanitation (34 percent).

B. Strategic Orientation

2. The Bank Group concretely re-engaged in Comoros in 2010 following the resolution of the Anjouan crisis and the lifting of sanctions in February 2009 after clearance of its arrears with the Bank. A two-year Interim Country Strategy Paper (I-CSP) 2009-2010 focusing on economic and financial governance and water and sanitation was approved in April 2009. In December 2011, the Board of the AfDB approved a new Country Strategy Paper (CSP) for 2011–2015 based on a single pillar focusing on the energy sector in support of economic diversification. The new CSP draws on the Growth and Poverty Reduction Strategy Paper for 2010-2014 and spans over two ADF cycles - ADF 12 and ADF 13. Under ADF 12, the indicative country allocation will amount to UA 15.6 million, including UA 10 million from the Fragile States Facility (FSF). These resources will primarily aim to finance (i) an energy sector project (UA 13.6 million) and (ii) a budget support operation (UA 2 million) whose main objective will be to leverage the level of available domestic resources and assist the country in reaching HIPC Completion Point by end 2012. It will also provide Comoros with additional resources to support economic and social development and manage transition during the post-HIPC phase. Under ADF 13, the country allocation is amounted to UA 25 million, of which 10 from FSF. After the midterm review of the CSP, the total

FSF resources are mobilized to finance budgetary support (UA 4 million), the Institutional capacity building project- PRCI II (UA 5 million) and the assistance to CGP (UA 1 million).

3. As of November 2014, the Bank's ongoing portfolio in resources amounts to UA 21.9415 million comprising five operations: (i) the *Institutional Capacities Strengthening Project (ICSP)* whose objective is to strengthen national capacities in PFM, debt management and macroeconomic statistics and (ii) the Drinking Water and Sanitation Project (DWSP) and (iii) the assistance to CGP to finalize the preparation of SCA2D, , *(iv)*Energy Sector Support Project, and (v) the budgetary support to Energy sector. . A Midterm review of CSP combined to Country Portfolio Performance Review (CPPR) is approved by the Bank in November 2014.

C. Non Lending Activities

4. Along with other developing partners, the AfDB aims to provide Comoros's authorities with policy advice and decision tools on key strategic directions with the objective of leveraging and sustaining economic growth over the medium-long term. In this respect, the first phase of a study on the sources of growth in Comoros was completed in December 2010 and provided a series of preliminary key recommendations on ways of boosting growth and improving the economic and business climate. A second ESW concerning Fragility study is achieved in April 2014, to support the finalization of SCA2D..

D. 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	11/19/2009	06/30/2015	5.86	8.66
Drinking Water and Sanitation Project	Public Utilities	02/12/2010	06/30/2015	9.84	14.55
Energy Sector	Multisector	01/23/2013	06/30/2014	2.00	2.96
Assistance to CGP-Finalization of SCA2D	Multisector	11/21/2013	12/31/2015	0.241	0.356
Budgetary Support to Energy Sector	Public utilities	11/12/2014	06/30/2016	4.00	5.91
Total				21.941	32.43

Source: AfDB, 2013

E. 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 will be explored.

Statistical Issues Appendix

As of December 31, 2014

I. Assessment of Data Adequacy for Surveillance[1]
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. Some progress was made with collecting income-distribution statistics and social welfare indicators when the Interim Poverty Reduction Strategy Paper (I-PRSP) was being prepared in 2003–04. Since then, coverage has remained limited, hampering the monitoring of progress towards the Millennium Developing Goals (MDGs). In January 2014 a new Statistics Act was signed by the President, providing the Directorate General of Statistics and Planning (DGSP) a status of autonomous agency to manage an own budget. It is expected that the administrative structure of the agency will be in place next year. From October 2014, an external consultant assists the agency in organizational and administrative issues. In mid-2014, the statistical function were transferred to the Institut National de la Statistique et des Etudes Economiques et Demographiques (INSEED). The institute is under the supervision of the Ministry of Finance.
National accounts. Despite recent improvements, the national accounts compilation system remains weak and unstable, in particular to provide regular and timely data, and thus impart a high degree of uncertainty to economic analysis. The national accounts compilation is hampered mainly because of inadequate funding, especially for collection of data. National accounts staff need further training. As part of a project on Statistical Capacity Building, the African Development Bank (AfDB) assigned an international Expert from May 2011 to January 2012, who helped DGSP to introduce new base year and implement new compilation techniques. The new benchmark GDP for 2007 was introduced in 2012, and a follow up mission in June 2013 assisted DGSP with the compilation of the accounts for 2008. In the absence of regular basic source data, the GDP estimates are prepared on crude assumptions and extrapolations, in particular as regards measurement of national account aggregates in volume terms. There is no regular survey conducted on agriculture. The estimates are based on the results of the 2004 census in agriculture and expert views. Little information could be retrieved on household final consumption. More data should be available as soon as the on-going survey on employment, informal sector, and household consumption survey (1.2.3 survey) is completed. It is expected that the GDP time series for the period 2000-2014 will be available by June 2015 (2000 to 2006 by the end of 2014, accounts up to 2012 in March 2015).
Price Statistics. In spite of the improvements made, the accuracy and reliability of the consumer price index (CPI) is still uncertain, mainly due to the old weighting system, based on a survey from 1999. The AfDB assigned an international Expert from May 2011 to January 2012, who helped the NSI to design a new CPI. Baskets of products, expenditure weights, collection locations as well as calculation techniques were revised. An IT tool was implemented and the responsible official was trained in managing the whole compilation process. The new CPI covers all the three islands (vs. one only for the current one); it takes into account more products (500 vs. 128), and is based on sounder methods. The expenditure weights are not updated, still awaiting the results of the household expenditure survey. However, the new methodology is not yet fully implemented due to

[1] Case C

lack of funding and staffing. Starting in October 2014, the statistics office will recruit consultants to help in the analysis of the survey results and to adopt the new weighting system for CPI.
Government finance statistics. The data for the Consolidated Government Fiscal Operations table (TOFE) are based largely on the classifications and definitions of the 1986 *Government Finance Statistics Manual*. The fiscal data currently covers "government sector" defined as the government of the Union of the Comoros and the autonomous island governments. Local governments, the central bank, and any government-owned entity with independent legal status are excluded from the definition of government. Owing to the reporting requirements under the Extended Credit Facility, Comoros currently does not compile fiscal statistics based on the *GFSM* 2001 presentation. Debt data are also not aligned with either the *GFSM* 2001 or the IMF's *Public Sector Debt Statistics Guide* (2011). The authorities are encouraged to adopt current international statistical standards for fiscal data compilation and analysis.
Monetary and financial statistics. The Central Bank of Comoros (BCC) produces adequate monetary statistics on its own accounts, for the commercial banks, the development bank, the deposits collected by the Société nationale des postes et des services financiers (chèques postaux and saving passbooks), and for two microfinance networks. The BCC reports monetary data in the IMF's recommended Standardized Report Form format. 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. Comoros does not report Financial Soundness Indicators to the IMF's Statistics Department.
Financial sector surveillance: Comoros does not produce Financial Soundness Indicators (FSIs) yet. An FSI technical assistance mission is scheduled in FY 2015.
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*. The external sector statistics TA mission conducted in March 2014 found that the measurement of goods is impaired by insufficient details in customs statistics and that data collection from non financial enterprises is largely empirical. The BCC relies heavily on estimates for key BOP components. The mission focused on steps to improve the accuracy of trade statistics for BOP, discussed methodological issues as well as assisted the authorities to come up with a system of data reporting to STA.

II. Data Standards and Quality	
From 2013, Comoros is participating in the General Data Dissemination System. In this context, the DGSP provided information on various dimensions of the quality of its consumer price index (CPI) and annual national accounts (ANA).	No data ROSC is available.

III. Reporting to STA
Comoros does not report government finance statistics to STA for publication in the International Financial Statistics (IFS) or in the Government Finance Statistics Yearbook, nor does it report balance of payments statistics in the IFS. Among national accounts data, only GDP is reported for publication in the IFS. The BCC reports 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 2000*.

Table of Common Indicators Required for Surveillance
As of December 31, 2014

Indicators	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]	November 2014	December 2014	M	M	M
Reserve/Base Money	November 2014	December 2014	M	Q	Q
Broad Money	November 2014	December 2014	M	Q	Q
Central Bank Balance Sheet	November 2014	December 2014	M	Q	Q
Consolidated Balance Sheet of the Banking System	October 2014	December 2014			
Interest Rates[2]	October 2014	December 2014	C	C	M
Consumer Price Index	October 2014	November 2014	M	I	I
Revenue, Expenditure, Balance and Composition of Financing[3] — General Government[4] — Union government and three island governments	September 2014	November 2014	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]	September 2014	November 2014	A	I	I
External Current Account Balance	2013	November 2014	A	I	I
Exports and Imports of Goods and Services	June 2014	November 2014	A	I	I
GDP/GNP	2013	November 2014	A	I	I
Gross External Debt	September 2014	November 2014	A	I	I
International Investment Position[6]	NA	NA			

[1] Any reserve assets that are pledged or 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).

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

January 13, 2015

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
David Robinson (IMF) and John Panzer (World Bank)

Prepared by the staffs of the IMF and World Bank

Based on the external LIC DSA, Comoros' risk of debt distress is assessed as moderate rather than high, as was the case in the previous DSA update for the sixth review under the previous ECF completed in December 2013. The full inclusion of remittances in the analysis is the main reason for the improved debt sustainability outlook. Public sector domestic debt and private sector external debt are minimal in Comoros and are expected to remain so for the foreseeable future.[1]

[1] Figure A2 shows the public sector debt dynamics.

BACKGROUND

1. Comoros reached the completion point under the HIPC Initiative in December 2012. Following agreements with all, but one,[1] bilateral creditors, Comoros received extensive irrevocable debt relief in 2013 which resulted in a decline in nominal external debt from 40.3 percent of GDP at end-2012 to 18.5 percent at end-2013 (Text Table 1, Table A1). In 2014, France unilaterally cancelled a debt of about $6.6 million Comoros owed to the French Post Office. All the debt and debt service indicators were brought to well below their respective thresholds of the debt sustainability framework. Since the completion point, Comoros has contracted only one external loan, with India of about $42 million for the construction of a heavy-fuel electricity generation plant that is projected to be disbursed over 2015–18. Comoros has incurred some arrears (about $1 million) on rescheduled payments under the bilateral agreements; these are expected to be paid before end-2014.

Text Table 1. Nominal Stock of External Debt, 2014[1]
(Millions of U.S. Dollars; end-of-period)

Total External Debt	**125.0**
Multilateral Creditors	**80.8**
IMF	19.9
IDA	14.2
BADEA	28.3
Other multilateral creditors	18.4
Official Bilaterals	**44.2**
Paris Club Creditors	6.9
Non-Paris Club Creditors	37.3
Mauritius	0.8
Kuwait	27.3
India[2]	0.0

[1] Following Paris Club cancellation of all its HIPC-eligible debt, rescheduling of short-term debt in arrears, and restructuring non-Paris club debt.
[2] Disbursements of $41.6 million are expected over a 4-year period, starting in 2015
Source: Comorian authorities

[1] Mauritius is the remaining holdout; negotiations are ongoing.

UNDERLYING ASSUMPTIONS

2. The medium-term macroeconomic framework has been updated for the 2014 Article IV consultation and the long-term assumptions revised since the last DSA update was prepared in December 2013.[1] The long-term assumptions on growth and inflation have been retained broadly unchanged from the previous. However, the projected current account deficits have been revised upwards to reflect an upward revision in project grants and external financing.

- **Real GDP growth** is assumed to be 3.3 percent and 3.5 percent in 2014 and 2015, respectively, and stabilize at 4 percent per year thereafter. This represents a growth acceleration relative to the historical record reflecting improved prospects for political stability and governance, as well as the planned reforms in the electricity and telecom sectors, the coming on stream of a large fishing project, and continues strong investment financed by donors in the construction of roads, schools, and hospitals. However, with population growth at about 3 percent per year, this growth assumption is modest in per capita terms.

- **Inflation** is assumed to average around 3 percent per year, anchored by Comoros' exchange rate peg under the monetary cooperation agreement with France.

- The **current account deficit** is projected to average around 10.5 percent of GDP per year over the medium term and thereafter decline gradually to 6 percent of GDP by the end of the projection period, representing a continuation of net resource transfers to Comoros in support of growth and development, albeit at a slowly declining rate. The drop in international commodity prices will also help contain the imports bill. In addition to the full inclusion of remittances, this is the most significant difference with respect to the previous DSA which had the current account deficit narrowing more significantly over the long term. The projected current account deficit is also larger than before because of a technical upward revision of non-factor service imports.

- **Exports** are assumed to grow somewhat faster than **imports** over the projection period but from a very low base.

- **Private remittances from** the diaspora in France, which have been resilient in the face of the recession and slowdown in Europe, are projected to continue to growth in nominal terms but decline gradually relative to GDP, from 26.4 percent in 2014 to 24 percent by 2019 and 16 percent by 2034. These remittances are assumed to continue to finance a substantial part of imports to Comoros.

[1] Appendix 2, Staff Report for Sixth Review under the ECF.

- **Gross investment** in support of growth and development is assumed to stabilize at close to 24 percent of GDP. Reforms in key sectors such as energy and telecommunications are expected to lead to higher FDI inflows during the projection period.

- **Public investment** is projected to account for more than half of investment, initially mainly financed by project grants. Over time, foreign borrowing (on somewhat concessional terms; a grant element of 32 percent, corresponding to non-Paris Club bilateral terms in the LIC DSA template) is assumed to gradually replace some of the grant financing so that by 2034 grants account for two-thirds of foreign-financed capital spending and semi-concessional loans for one-third. This assumed pattern of external financing would seem justified in view of the limited growth in per capita GDP that is projected over the next two decades. Domestically-financed capital spending is projected to rise modestly over the projection period. No domestic borrowing by the government is assumed.

- The overall **fiscal deficit** is projected to average around 2-3 percent of GDP and be mainly financed through external loans for investment purposes.

EXTERNAL DSA

A. Remittances Scenario

3. **Comoros qualifies for the inclusion of private remittances in the denominator of the debt and debt service indicators for the purposes of the baseline of the DSA**. For Comoros, private remittances represent a large and reliable source of foreign exchange—currently well in excess of 25 percent of GDP—and sizable inflows are expected to continue over the medium and long term. That said, the debt sustainability outlook is sensitive to the level of remittance flows, which more than doubled relative to GDP between 2003 and 2013, and are potentially subject to downside risk.

4. **The inclusion of remittances in the debt sustainability analysis leads to a marked improvement in the debt and debt service indicators relative to the previous traditional non-remittances baseline scenario**. Under the remittances baseline, there are no breaches of debt or debt service thresholds in the baseline. (Figure A1, Tables A1 and A2). Debt burdens rise gradually toward the end of the projection period reflecting the assumption of only a modest level of external borrowing during the projection period, based on Comoros' continuing status as a fragile low income country. The ratio PV of debt to exports plus remittances shows a modest breach of its threshold under the shocks to non-debt creating inflows[1] and the same indicator breaches the threshold late in the projection period in the historical scenario. The initial improvement in the debt and debt service indicators under the historical scenario mainly reflects the fact that the projected current account deficits in the baseline are larger than the historical deficits over the medium term. The historical scenario is, therefore, over-financed during this

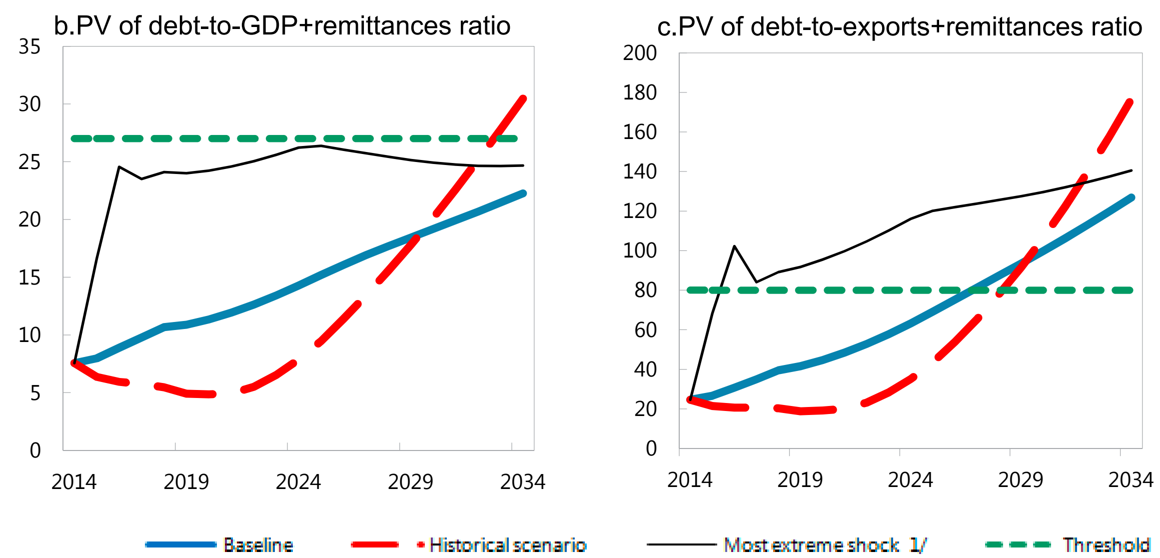
[1] These non-debt creating inflows represent mainly remittances in the case of Comoros. As the remittances have been growing rapidly over the last decade their historical standard deviation is large, which accounts for the severity of this shock.

period. The opposite is the case for the latter part of the projection period, when the projected current account deficit falls below the historical average, leading to under-financing and the need for additional borrowing.

B. Customized Scenarios—Lower Remittances and Higher Borrowing

5. A customized scenario with lower remittances than in the baseline underscores larger debt vulnerabilities. Rather than assuming a gradual rise in the nominal value of remittances, this scenario assumes that levels stabilize at current nominal levels (thereby declining faster in relation to GDP than in the baseline). The DSA is much less favorable on this basis, with a sustained breach of the PV of debt-to-GDP plus remittances threshold in both the baseline and in the stress tests (Text Figure 1). Given the recent marked changes in the level of measured remittances and corresponding uncertainties about the future path, this alternative scenario further underpins for a "moderate" risk rating for external debt distress.

Text Figure 1. Comoros: Indicators of Public and Publicly Guaranteed External Debt under Lower Remittances Scenario Including Remittances, 2014–2033 1/

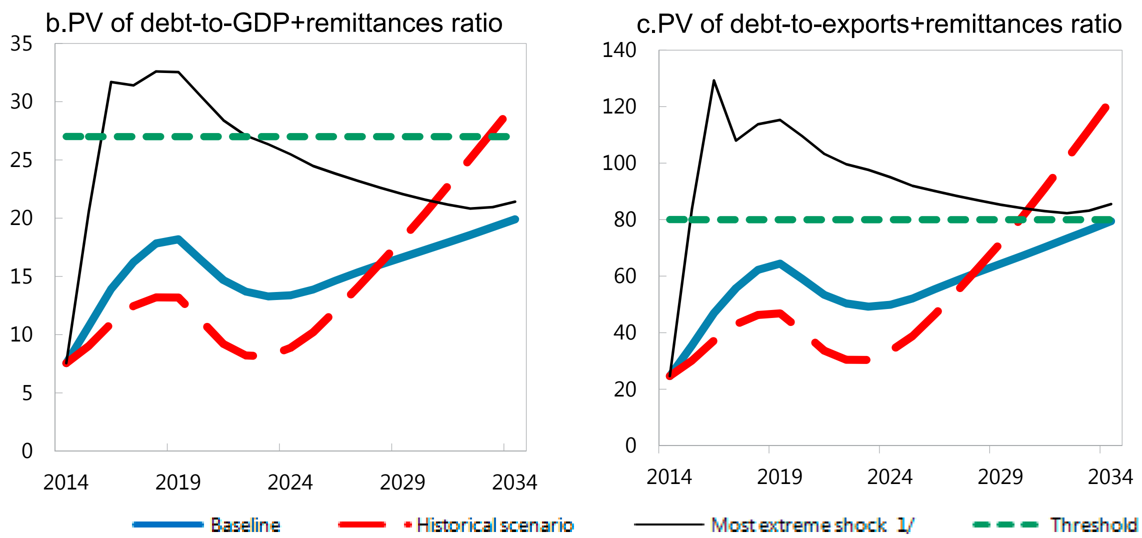


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows shock

6. The debt sustainability outlook for Comoros would also deteriorate somewhat were the country to engage in significant external borrowing over the medium term, particularly if that borrowing were on commercial or near-commercial terms. Additional external borrowing on commercial terms amounting to about 5 percent of GDP per year would not on its own lead to breaches of thresholds under the baseline but to several breaches under alternative scenarios and stress tests (Text Figure 2). While it is unlikely that Comoros could find creditors that would be willing to extend this amount of credit to the country on an ongoing basis, this scenario underlines that Comoros's scope for external borrowing, especially on commercial terms is limited

Text Figure 2. Comoros: Indicators of Public and Publicly Guaranteed External Debt under High Borrowing Scenario Including Remittances, 2014–2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows shock

DEBT DISTRESS CLASSIFICATION AND CONCLUSION

1. In light of the revised DSA, it is the view of the staffs of the IMF and the World Bank that Comoros' risk of debt distress rating should be upgraded from high to moderate, a view that the country authorities share. The analysis shows that, taking remittances into account, the debt and debt service indicators remain below the applicable thresholds in the baseline, and that there are only modest breaches under alternative scenarios and stress tests. However, customized scenarios show that debt sustainability is sensitive to both the level of remittance flows and to external borrowing levels over the medium-term. These findings underline the importance of fostering a climate conducive to maintaining high levels of remittances that can be used productively, and limiting recourse to external financing, particularly on non-concessional terms. It also highlights the importance of striving to maintain higher growth levels compared to historical average by implementing planned structural reforms in infrastructure and the businesses environment, the electricity and the telecom sectors in a timely fashion.

Table A1. Comoros: External Debt Sustainability Framework, Baseline Scenario, 2011-2034
1/(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2014-2019			2020-2034
	2011	2012	2013			2014	2015	2016	2017	2018	2019	Average	2024	2034	Average
External debt (nominal) 1/	**44.7**	**40.5**	**18.5**			**17.5**	**17.5**	**18.4**	**19.3**	**20.3**	**20.0**		**22.7**	**30.7**	
of which: public and publicly guaranteed (PPG)	44.7	40.5	18.5			17.5	17.5	18.4	19.3	20.3	20.0		22.7	30.7	
Change in external debt	-4.5	-4.2	-22.0			-0.9	0.0	0.9	0.9	1.0	-0.2		0.7	0.9	
Identified net debt-creating flows	2.1	7.6	6.1			4.8	8.4	8.2	7.7	7.9	7.3		5.2	2.9	
Non-interest current account deficit	**10.9**	**7.9**	**11.2**	**7.7**	**2.7**	**7.3**	**10.9**	**10.7**	**10.3**	**10.7**	**10.2**		**8.3**	**6.2**	7.8
Deficit in balance of goods and services	33.9	39.0	42.2			36.5	38.7	37.3	36.1	35.7	34.5		30.1	23.9	
Exports	16.2	14.9	14.9			14.5	14.5	14.4	14.3	14.2	14.1		13.6	12.7	
Imports	50.2	53.9	57.2			50.9	53.2	51.7	50.4	49.9	48.6		43.7	36.6	
Net current transfers (negative = inflow)	-22.8	-31.4	-30.8	-22.8	6.4	-29.2	-27.8	-26.6	-25.7	-24.9	-24.1		-21.6	-17.3	-20.3
of which: official	2.2	4.1	-0.5			0.2	1.0	1.3	1.3	1.3	1.3		1.2	1.0	
Other current account flows (negative = net inflow)	-0.2	0.3	-0.2			0.0	0.0	0.0	-0.1	-0.1	-0.1		-0.2	-0.5	
Net FDI (negative = inflow)	**-3.8**	**-1.7**	**-1.4**	**-1.4**	**1.2**	**-2.0**	**-2.0**	**-2.0**	**-2.1**	**-2.3**	**-2.5**		**-2.7**	**-2.7**	-2.7
Endogenous debt dynamics 2/	**-5.0**	**1.4**	**-3.7**			**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**		**-0.4**	**-0.5**	
Contribution from nominal interest rate	0.3	0.3	0.1			0.1	0.1	0.1	0.2	0.2	0.3		0.4	0.6	
Contribution from real GDP growth	-1.0	-1.4	-1.3			-0.6	-0.6	-0.6	-0.7	-0.7	-0.7		-0.8	-1.1	
Contribution from price and exchange rate changes	-4.4	2.5	-2.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-6.6**	**-11.8**	**-28.1**			**-5.7**	**-8.5**	**-7.2**	**-6.9**	**-7.0**	**-7.5**		**-4.4**	**-2.0**	
of which: exceptional financing	-4.0	-0.1	0.0			-0.9	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	13.1			12.3	12.7	13.6	14.4	15.2	15.2		18.0	24.0	
In percent of exports	...	...	87.6			85.3	87.7	94.4	100.7	107.2	108.0		132.4	188.4	
PV of PPG external debt	**...**	**...**	**13.1**			**12.3**	**12.7**	**13.6**	**14.4**	**15.2**	**15.2**		**18.0**	**24.0**	
In percent of exports	**...**	**...**	**87.6**			**85.3**	**87.7**	**94.4**	**100.7**	**107.2**	**108.0**		**132.4**	**188.4**	
In percent of government revenues	**...**	**...**	**84.5**			**84.6**	**83.6**	**86.4**	**87.9**	**89.5**	**88.8**		**95.2**	**105.1**	
Debt service-to-exports ratio (in percent)	**10.1**	**10.4**	**2.1**			**2.5**	**2.4**	**4.2**	**4.7**	**5.6**	**6.1**		**5.0**	**12.2**	
PPG debt service-to-exports ratio (in percent)	**10.1**	**10.4**	**2.1**			**2.5**	**2.4**	**4.2**	**4.7**	**5.6**	**6.1**		**5.0**	**12.2**	
PPG debt service-to-revenue ratio (in percent)	**10.2**	**8.0**	**2.0**			**2.4**	**2.3**	**3.8**	**4.1**	**4.7**	**5.0**		**3.6**	**6.8**	
Total gross financing need (Millions of U.S. dollars)	53.5	46.2	66.4			40.5	70.2	75.7	78.4	87.4	88.1		91.0	142.9	
Non-interest current account deficit that stabilizes debt ratio	15.4	12.1	33.3			8.2	10.9	9.7	9.5	9.7	10.5		7.6	5.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.2	3.0	3.5	1.9	1.4	3.3	3.5	4.0	4.0	4.0	4.0	3.8	4.0	4.0	4.0
GDP deflator in US dollar terms (change in percent)	9.8	-5.2	6.5	5.5	6.8	5.4	2.2	3.5	3.9	3.7	3.7	3.7	3.0	2.7	3.0
Effective interest rate (percent) 5/	0.8	0.7	0.2	0.6	0.2	0.4	0.6	0.8	1.0	1.2	1.4	0.9	1.9	2.1	1.9
Growth of exports of G&S (US dollar terms, in percent)	15.7	-10.3	10.5	6.0	9.0	5.6	5.8	7.0	7.2	7.0	7.0	6.6	6.3	6.3	6.3
Growth of imports of G&S (US dollar terms, in percent)	12.7	5.0	16.9	14.4	10.3	-2.9	10.5	4.5	5.3	6.7	4.9	4.8	4.7	5.0	5.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	38.3	32.0	32.0	32.0	32.0	32.0	33.1	32.0	32.0	32.0
Government revenues (excluding grants, in percent of GDP)	16.1	19.3	15.5			14.6	15.2	15.7	16.4	17.0	17.1		18.9	22.8	20.1
Aid flows (in Millions of US dollars) 7/	45.6	54.9	171.1			63.8	68.5	70.8	76.5	82.4	87.5		113.8	187.7	
of which: Grants	45.6	54.9	171.1			63.8	68.5	70.8	76.5	82.4	87.5		113.8	187.7	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			8.9	9.5	9.5	9.6	9.6	9.1		8.7	7.8	8.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			100.0	91.3	84.0	83.8	82.8	87.9		83.6	75.0	81.0
Memorandum items:															
Nominal GDP (Millions of US dollars)	611.0	596.3	657.7			716.6	758.2	816.1	881.2	949.8	1023.9		1442.5	2854.5	
Nominal dollar GDP growth	12.2	-2.4	10.3			9.0	5.8	7.6	8.0	7.8	7.8	7.7	7.1	6.9	7.1
PV of PPG external debt (in Millions of US dollars)			86.2			88.0	96.6	111.3	127.2	145.0	156.3		260.5	686.3	
(PVt-PVt-1)/GDPt-1 (in percent)						0.3	1.2	1.9	2.0	2.0	1.2	1.4	2.0	2.3	2.0
Gross workers' remittances (Millions of US dollars)	112.6	152.6	159.2			167.3	170.8	176.8	183.7	192.3	201.4		260.3	469.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	10.5			10.0	10.4	11.2	11.9	12.7	12.7		15.3	20.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	33.4			32.6	34.3	37.7	41.0	44.2	45.1		56.9	82.2	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.8			0.9	0.9	1.7	1.9	2.3	2.5		2.1	5.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

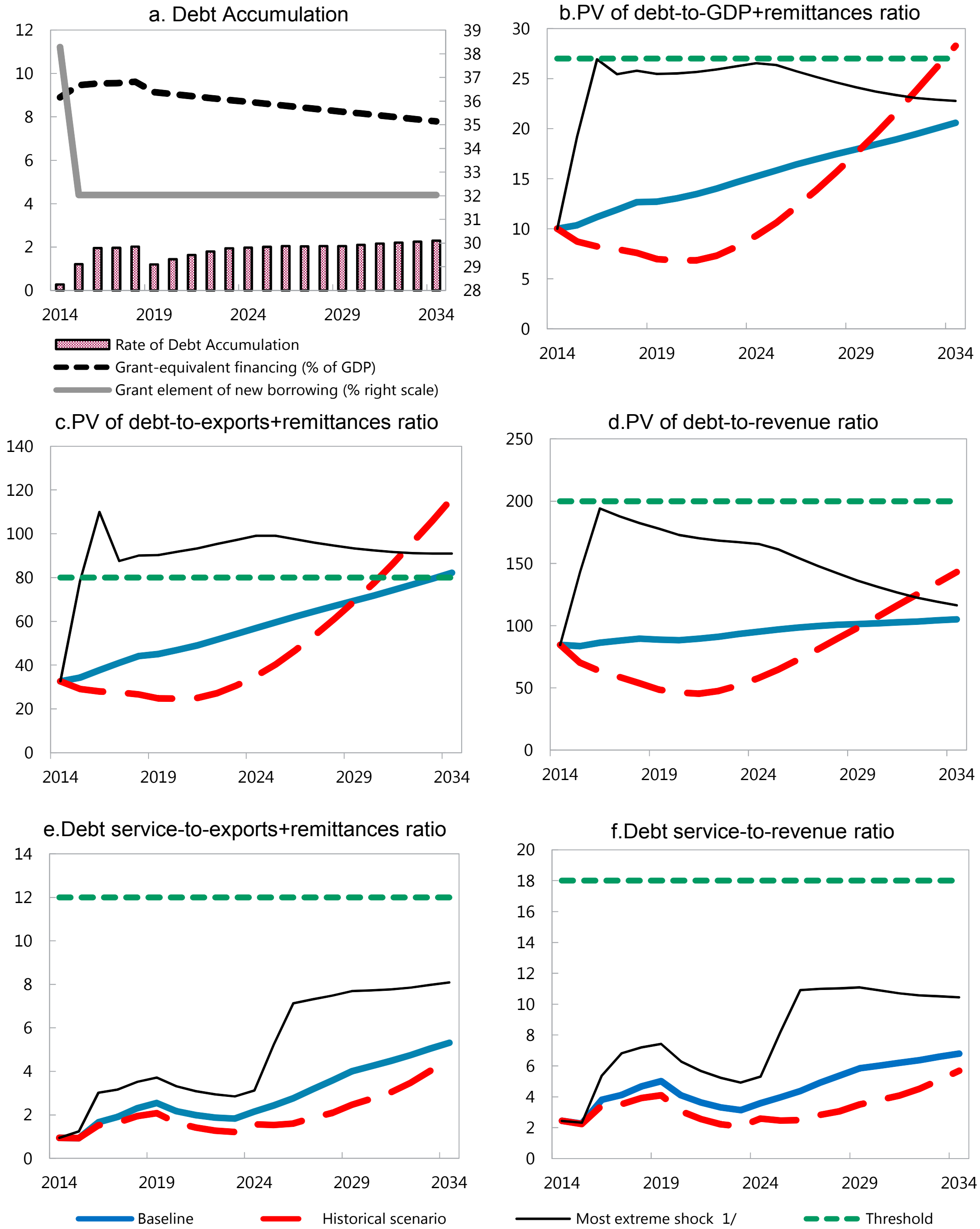
5/ Current-year interest payments divided by previous period debt stock.

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

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

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Figure A1. Comoros: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014-2034 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows shock; in d. to a Non-debt flows shock; in e. to a Non-debt flows shock and in figure f. to a Combination shock

Table A2. Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034
(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to-GDP+remittances ratio								
Baseline	10	10	11	12	13	13	**15**	21
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	10	9	8	8	8	7	**9**	28
A2. New public sector loans on less favorable terms in 2014-2034 2	10	11	12	13	14	15	**19**	29
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	10	11	12	13	13	13	**16**	22
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	10	11	13	14	15	15	**17**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	10	11	12	13	14	14	**16**	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	10	19	27	25	26	25	**27**	23
B5. Combination of B1-B4 using one-half standard deviation shocks	10	18	25	24	25	25	**26**	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	10	14	15	16	17	17	**20**	28
PV of debt-to-exports+remittances ratio								
Baseline	33	34	38	41	44	45	**57**	82
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	33	29	28	28	27	25	**35**	116
A2. New public sector loans on less favorable terms in 2014-2034 2	33	35	40	45	50	52	**71**	115
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	33	34	38	41	44	45	**57**	83
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	33	38	48	51	55	56	**68**	91
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	33	34	38	41	44	45	**57**	83
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	33	78	110	88	90	90	**99**	91
B5. Combination of B1-B4 using one-half standard deviation shocks	33	67	96	80	83	83	**93**	90
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	33	34	38	41	44	45	**57**	83
PV of debt-to-revenue ratio								
Baseline	85	84	86	88	89	89	**95**	105
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	85	70	63	59	54	49	**58**	143
A2. New public sector loans on less favorable terms in 2014-2034 2	85	86	92	97	102	103	**119**	147
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	85	86	92	94	96	95	**102**	112
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	85	89	103	103	103	102	**106**	107
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	85	87	94	96	98	97	**104**	115
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	85	143	194	188	182	178	**166**	116
B5. Combination of B1-B4 using one-half standard deviation shocks	85	134	189	184	179	175	**165**	122
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	85	119	123	125	127	126	**135**	149

Table A2. Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034 (continued)

(In percent)

Debt service-to-exports+remittances ratio

Baseline	1	1	2	2	2	3	**2**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	1	1	2	2	2	2	**2**	5
A2. New public sector loans on less favorable terms in 2014-2034 2	1	1	2	2	3	3	**3**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	1	1	2	2	2	3	**2**	5
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	1	1	2	2	3	3	**2**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	1	1	2	2	2	3	**2**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	1	1	3	3	4	4	**3**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	3	3	3	4	**3**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	1	1	2	2	2	3	**2**	5

Debt service-to-revenue ratio

Baseline	2	2	4	4	5	5	**4**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	2	2	3	4	4	4	**3**	6
A2. New public sector loans on less favorable terms in 2014-2034 2	2	2	4	4	5	6	**5**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	2	2	4	4	5	5	**4**	7
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	2	2	4	5	5	5	**4**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	2	2	4	4	5	5	**4**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	2	2	5	7	7	7	**5**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	5	7	7	7	**5**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	2	3	5	6	7	7	**5**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	31	31	31	31	31	31	**31**	31

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

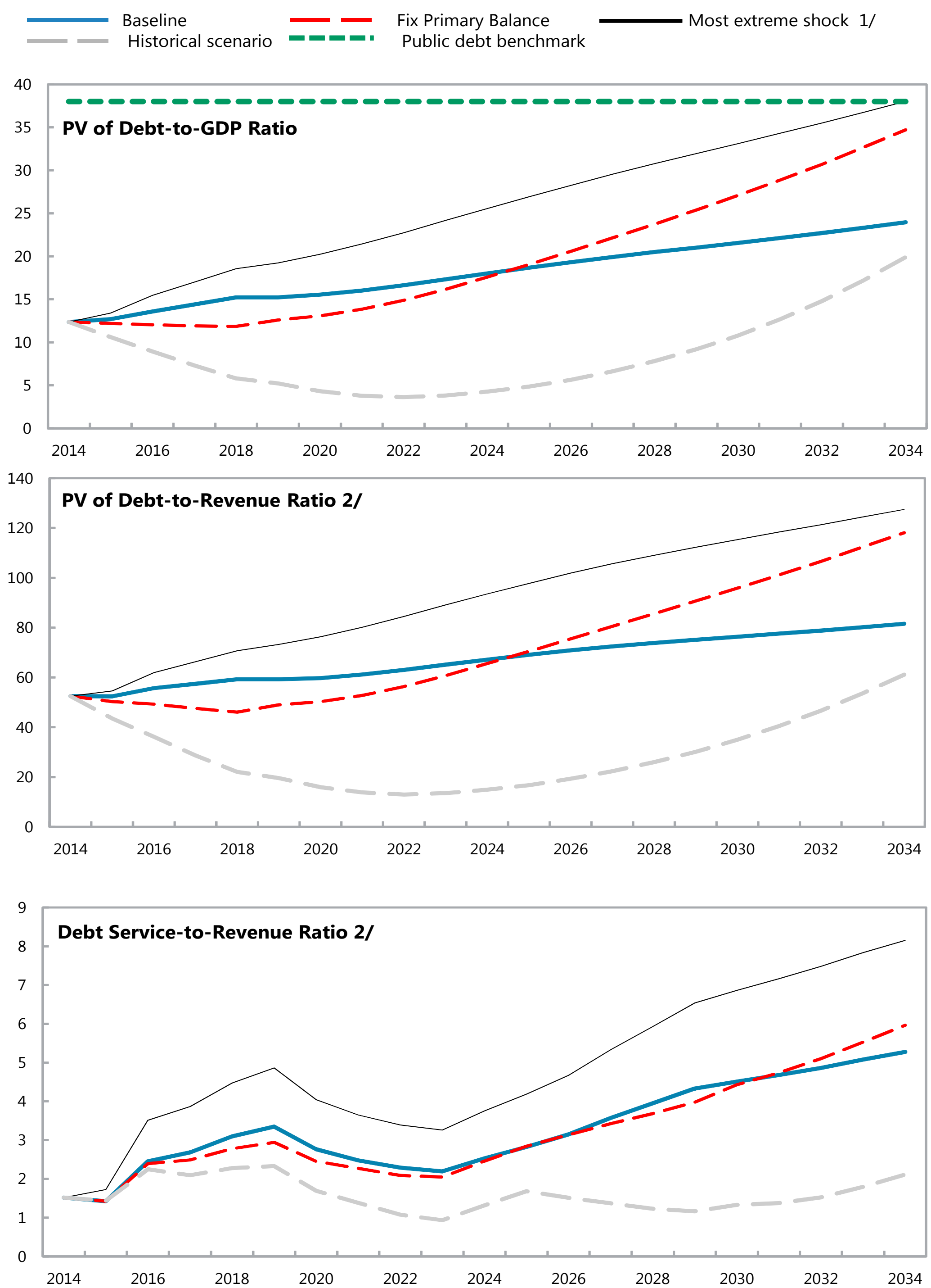
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure A3. Comoros: Indicators of Public Debt Under Alternative Scenarios, 2014-2034 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND
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IMF Executive Board Concludes 2014 Article IV Consultation with the Union of Comoros

On February 4, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the 2014 Article IV consultation[1] with the Union of Comoros.

Comoros is a small, low-income and fragile-three island state with limited natural resources and connectivity to the rest of the world. Political instability and fractious inter-island relations marked the country during the first decades after independence from France in the mid-1970s. Political stability and economic turnaround have been in place following the adoption of a new constitution in 2009. Under the 2009–13 Extended Credit Facility (ECF) arrangement the secular decline in per capita GDP slowed. Additionally, authorities made progress in consolidating macroeconomic stability and advancing structural reforms that enabled Comoros to complete the Heavily Indebted Poor Countries (HIPC) Initiative in December 2012.

Economic growth was 3.5 percent in 2013 but is estimated to have eased to 3.3 percent in 2014, adversely affected by electricity disruptions and slower-than-expected implementation of the public investment program. Inflation has remained subdued in the low single digits. The current account deficit is projected to narrow to 7.4 percent of GDP in 2014 from 11.3 percent in 2013, reflecting a contraction in imports that resulted from lower imports of investment goods and lower fuel import prices, as well as higher remittances.

Economic growth is expected to firm to 3.5 percent in 2015, despite continuing headwinds from the electricity sector and a tight fiscal situation, supported by an acceleration in the pace of implementation of foreign-financed public investment and lower fuel prices. For the

[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.

medium term, staff's baseline assumption is that economic growth will average around 4 percent per annum, provided that reforms are implemented.

Implementation of the 2014 budget was challenging, particularly after mid-year. While revenues were broadly on target, resources were inadequate to meet the higher-than-budgeted wage bill resulting from an increase in teacher salaries and previously un-budgeted expenditures. Domestically-financed investment spending was severely constrained and temporary arrears were incurred on salaries and external debt.

The key short-term challenge is to find a better balance between available resources and expenditures so that arrears can be avoided. Spending plans need to be based on realistic expectations of the resources likely to be available. The 2015 budget is premised on this principle, but the scope for domestically-financed investment is inadequate, as obligatory spending on wages and salaries and debt service absorb most of domestic revenue.

For the medium term, the key challenges are to create fiscal space for infrastructure investment and social spending, accelerate inclusive growth and employment generation, and reduce poverty. The authorities need to focus their efforts on strengthening revenue administration and public financial management to expand fiscal space and improve transparency. Weaknesses in the business environment, including inadequate infrastructure, especially in the energy sector, and difficulties in contract enforcement represent important challenges.

Based on the external low income country debt sustainability analysis, IMF and World Bank staff have re-assessed Comoros' risk of debt distress as moderate rather than high, which was the case in the previous DSA update completed in December 2013. The full inclusion of remittances in the analysis is the main reason for the improved debt sustainability outlook.

Executive Board Assessment[2]

Executive Directors welcomed Comoros's improved policy implementation and economic performance in recent years. However, Directors noted that significant challenges remain—including high poverty, inadequate infrastructure, and vulnerabilities characteristic of small island economies. Prudent macroeconomic policies and stepped-up reform efforts are needed to bolster resilience, enhance competitiveness, and foster inclusive growth.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and the summary is transmitted to the country's authorities. An explanation o any qualifiers used in summing up can be found here: http://www.imf.org/external/np/secmisc/qualifiers.htm.

Directors saw achieving fiscal stability as a key near-term objective. Regretting the incurrence of domestic arrears in 2014, they encouraged the authorities to strike a better balance between available resources and expenditures. In this regard, Directors welcomed the government's decision to base the 2015 budget on more realistic assumptions, and advised both enhanced prioritization and restraint, including containment of the wage bill.

Directors called for efforts to strengthen revenue mobilization and public financial management, and encouraged the authorities to implement quick-win reforms in both areas. They noted that revenue collection trails that of peer economies, and recommended strengthening administration through more effective management of the large tax payer list, better enforcement of compliance, and streamlining exemptions. Strengthening public financial management would help to limit the incurrence of arrears, enhance fiscal transparency and credibility of the budget, and create space for infrastructure investment and priority social spending. Directors noted the improvement in Comoros's debt distress rating, and encouraged the authorities to continue to rely on grants and concessional financing.

Directors cautioned against excessive reliance on the potentially volatile proceeds from a new Economic Citizenship Program, and advised allocating these resources to investment projects, restructuring public enterprises, and strengthening external buffers. Strong safeguards are also needed to help prevent misuse of the program.

Directors stressed the need to develop the financial sector, and strengthen the central bank's regulatory and supervisory oversight, including through risk-based supervision. They called for the development, with Fund technical assistance, of a resolution strategy to accelerate the recapitalization and restructuring of the Postal Bank.

Directors encouraged the authorities to expedite the pace of structural reforms in order to boost external competitiveness and growth prospects. Efforts are needed to strengthen the business climate through the removal of key supply-side constraints in the electricity, telecommunications, and financial sectors. Directors welcomed the progress in preparing a new Poverty Reduction Strategy, while calling for a strong private sector development component aimed at improving the attractiveness of the Comorian economy.

Directors encouraged the authorities to improve data quality and timeliness by prioritizing allocations to the new statistical agency and working with technical assistance providers.

Directors agreed that assistance from development partners is critical, given Comoros's limited capacity to undertake complex reforms. They acknowledged the role that a new Fund arrangement could play in supporting the authorities' reform efforts taking into account the small states' challenges that Comoros is facing, and looked forward to early engagement on this issue.

Comoros: Selected Economic and Financial Indicators, 2011-18

	2011	2012	2013	2014	2015	2016	2017	2018
			Prel.		Projections			
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP	2.2	3.0	3.5	3.3	3.5	4.0	4.0	4.0
GDP deflator	4.7	2.6	3.1	3.2	3.1	3.0	3.0	3.0
Consumer price index (annual averages)	2.2	5.9	1.6	2.9	2.5	2.5	2.5	2.5
Consumer price index (end period)	4.9	1.0	3.5	2.8	1.8	2.5	2.5	2.5
Money and credit								
Net foreign assets	17.2	16.5	-9.8	0.6	-1.5	4.5	6.1	6.0
Domestic credit	4.9	7.6	21.0	15.0	14.1	9.3	8.1	8.2
Credit to the private sector	8.9	22.4	12.6	7.6	17.4	14.6	13.0	13.7
Broad money	9.6	16.0	2.8	6.7	6.7	7.1	7.1	7.1
Velocity (GDP/end-year broad money)	2.9	2.6	2.7	2.7	2.7	2.7	2.7	2.7
External sector								
Exports, f.o.b.	16.4	-19.0	-3.1	-6.7	9.5	7.4	7.0	7.0
Imports, f.o.b.	7.2	18.1	2.8	-6.2	5.1	8.5	5.9	6.4
Export volume	-24.3	-28.1	25.6	-8.6	6.1	4.6	3.9	3.9
Import volume	-6.9	12.1	7.5	2.7	10.5	9.2	6.7	7.0
Terms of trade	3.1	2.6	-0.9	4.0	5.4	2.2	2.3	2.1
	(In percent of GDP, unless otherwise indicated)							
Investment and savings								
Investment	14.9	16.8	20.4	19.4	20.8	22.1	22.8	23.4
Public	5.4	6.8	9.8	8.0	10.0	11.0	11.6	12.3
Private	9.5	10.1	10.5	11.4	10.8	11.1	11.2	11.2
Gross national savings	-19.0	8.5	9.0	12.1	9.8	11.3	12.3	12.5
Public	2.2	5.5	2.0	0.2	1.4	2.0	2.6	3.2
Private	-21.3	3.0	7.0	11.8	8.4	9.4	9.8	9.3
Government budget								
Total revenue and grants	23.6	28.5	41.5	23.5	24.2	24.4	25.0	25.7
Tax Revenue	10.9	11.8	12.1	12.0	12.6	13.1	13.8	14.4
Total grants [1]	7.5	9.2	26.0	8.9	9.0	8.7	8.7	8.7
Total expenditure	22.0	25.1	24.6	23.8	25.3	26.3	26.9	27.5
Current expenditure	16.6	18.4	14.8	15.7	15.3	15.2	15.3	15.3
Capital expenditure	5.4	6.8	9.8	8.0	10.0	11.0	11.6	12.3
Domestic primary balance	1.6	3.0	-1.4	-1.4	0.1	1.0	1.1	1.3
Change in arrears	-3.4	-0.7	-0.9	-0.4	0.0	0.0	0.0	0.0
External (Interest)	-0.8	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Domestic	-2.6	-0.6	-0.9	-0.2	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-1.9	2.5	15.5	-0.6	-1.0	-1.9	-1.8	-1.8
Excluding grants	-9.4	-6.7	-10.6	-9.5	-10.1	-10.6	-10.5	-10.5
Financing	0.3	-2.8	-15.4	0.6	1.0	1.9	1.8	1.8
Foreign (net)	-0.2	-1.1	-17.0	-1.1	1.1	2.2	2.2	2.4
Domestic (net)	0.5	-1.7	1.6	1.7	0.0	-0.3	-0.4	-0.5
Errors and omissions	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External sector								
Exports of goods and services	16.2	14.9	14.9	14.5	14.5	14.4	14.3	14.2
Imports of goods and services	50.2	53.9	57.2	50.9	53.2	51.7	50.4	49.9
Current account balance	-11.3	-8.3	-11.3	-7.4	-11.0	-10.8	-10.5	-10.9
Excl. official and private transfers	-34.1	-39.7	-42.1	-36.5	-38.8	-37.3	-36.2	-35.8

Remittances	18.7		26.4	26.7	26.2	25.6	25.1	24.5
External debt, in percent of GDP [2]	44.9	40.7	18.5	17.4	17.5	18.5	19.4	20.3
External debt, in percent of exports of goods and services [2]	275.5	271.8	123.7	121.1	120.9	128.1	135.0	142.7
External debt service (in percent of exports of goods and services) [2]	10.0	10.3	2.1	2.8	2.3	3.8	4.0	4.6
Overall balance of payments (in millions of U.S. dollars)	-25.5	-5.8	-32.5	0.0	-4.1	8.2	11.3	9.8
Official grants and loans (percent of GDP)	7.5	9.2	26.0	8.9	10.4	11.4	11.4	11.6
Gross international reserves (end of period)								
In millions of U.S. dollars	170.1	191.1	168.0	170.2	166.8	174.6	185.1	194.2
In months of imports of goods & services	6.7	7.1	5.4	5.6	4.9	5.0	5.1	5.0
Real effective exchange rate (2000=100)	100.2	95.5	99.0	98.4	…	…	…	…
Exchange rate CF/US$ (period average)	353.6	382.7	370.4	363.0	…	…	…	…
Memorandum items:								
GDP (nominal, in bilions of CF)	216.0	228.2	243.6	260.1	277.6	297.3	318.3	340.9
GDP per capita (nominal, in US Dollars)	860	815	873	923	948	991	1,039	1,087
Education and health expenditure (in bilions of CF)	14.8	16.8	18.3	…	…	…	…	…

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

[1] Includes interim HIPC assistance (2010-12) and debt relief under HIPC and MDRI.

[2] External debt ratios after full HIPC, MDRI and beyond HIPC relief from end-2012.

Statement by Mr. Ngueto Tiraina Yambaye, Executive Director for Union of the Comoros and Mr. Sidi Bouna Mohamed, Senior Advisor to the Executive Director
February 4, 2015

I. Introduction

A coordinated effort by International Financial Institutions (IFIs), bilateral donors, and the Comorian authorities, led to a meaningful improvement in Comoros' macroeconomic performance during the 2009-13 period under the ECF arrangement. The country also achieved satisfactory progress on key structural reforms leading up to the HIPC completion point in 2012 while making advancements on key social indicators. The IMF's close involvement along with the authorities' resolve to undertake difficult reforms have enabled a sound economic performance while also, importantly, helping catalyze donors' support. Since then, however, preserving hard-won macroeconomic gains has been challenging, and progress on structural reforms has been limited.

The authorities acknowledge that in the short- and medium-term, part of regaining the reform momentum requires the kind of "quick-win" measures recommended by staff, for example, in the fiscal area. The authorities welcome the recommended measures and are taking the necessary steps in the 2015 budget to address identified fiscal weaknesses. However, to achieve more meaningful progress in other areas, there is a need to address a number of uncompleted reforms initiated in the context of the 2009-13 ECF and leading up to the HIPC completion point with the assistance of the donor community. This will require a stronger, more sustained and coordinated involvement of IFIs and other development partners, as the authorities lack the capacity, planning ability, and financial resources to finalize these reforms on their own. This is especially true for the restructuring of the electricity company, for example, which continues to exert a significant drag on the country's growth potential.

Comoros' distinctive features as a small island state also make the authorities' task of further enhancing growth particularly challenging. Limited natural resource endowment and a very small market, inhibit the realization of economies of scale. Furthermore, Comoros lacks the kind of dominant industries found in some other small island states such as tourism or a financial sector. The economy is dominated by the public sector with no alternative engines of growth coming from the private sector. Addressing these deep-rooted challenges requires a comprehensive approach to the development of the country and progress will be dependent on a strong and sustained involvement of donors. These structural weaknesses are generally shared among small island states and require a unique approach to development with a particular strong focus on growth compared to other LICs as noted in the "Staff Guidance Note on the Fund's Engagement with Small Developing States"[1].

[1] Staff Guidance Note on the Fund's Engagement with Small Developing States (www.imf.org)

II. Recent Developments and Outlook

- *Growth* is estimated to have reached 3.3 percent in 2014 (from 3.5 percent in 2013) and is projected to revert to 3.5 percent in 2015 driven by public investment which remains one of the country's main engines of growth.

- *Inflation* remains in check within the 2.5-3 percent range on average in 2014 and 2015. Stable and low domestic food and fuel prices and a prudent monetary policy stance within the CFA zone have contributed to containing inflation.

- The *fiscal* stance has deteriorated in 2014 due to the substantial drop in nontax revenues —the previous Economic Citizenship Program (ECP) has been cancelled—, and to the increase in teachers' salaries despite a sizeable downward revision in capital spending. In 2015, the more limited use of tax exemptions along with cuts in goods and services expenditures and also the postponement of domestically-financed capital expenditures are projected to contribute to an improvement of the fiscal stance. On the new ECP, the authorities remain confident that they will be able to reach an agreement soon. They intend to discuss and seek advice from staff on how to optimize the use of these resources, as soon as they become available.

- While the *current account* deficit has declined in 2014 to 7.4 percent of GDP, it is projected to widen to 11 percent in 2015 despite strong remittances inflows. This development is driven by high imports associated with the public investment program. Consequently, international reserves are projected to decline from 5.6 months of imports cover in 2014 to 4.9 months in 2015.

- *Outlook:* the near-term outlook is mostly affected by the country's limited fiscal space and the associated reduction in capital spending along with long-standing weaknesses in the electricity sector. The longer term outlook, however, appears more favorable as new investments are launched in areas with comparative advantage such as tourism and fisheries along with the resumption of other public investments, including domestically financed.

III. Policy Adjustments

Following the 2014 fiscal slippages, the authorities have welcomed the staff's advice and recommendations aimed at redressing the situation. They have adopted a 2015 budget that aligns more closely revenues —based on more realistic assumptions— and expenditures —better prioritized— while limiting recourse to statutory advances from the central bank —which are contained by the ceiling under the CFA zone arrangements— with the goal of ultimately eliminating arrears both domestic and external. The focus of this year's budget is also to further limit the wage bill.

An important long-term fiscal challenge the authorities have been struggling with over the years is raising the country's revenue-to-GDP ratio. They welcome the annex on this issue which will contribute towards this endeavor, and agree, in particular, with the foremost need to contain revenue leakages through the "freeze of the granting of any new customs and tax exemptions". They also welcome the critical quick-win revenue administration reforms identified, and would like to reiterate their commitment to implementing all of the recommended measures.

The authorities also acknowledge weaknesses in PFM and welcome the recommended quick-win PFM reforms, including the "control of the government wage bill through the enforcement of a ceiling for each of the Union and the three islands" which they intend to fully implement.

The authorities very much appreciate the findings of the DSA update that take into consideration the impact of remittances, and indicate a revision of the rating from high to moderate of the country's risk of debt distress. They would like to reiterate their commitment to seeking borrowing on concessional terms only, and continuing to address debt management weaknesses with the technical assistance of the IMF and other development partners.

IV. Small Island State

My authorities welcome the acknowledgement by staff of the country's significant structural obstacles to growth and, in particular, the challenges with efforts to diversify the economy, as a result of the country's very narrow resources base (3 crops —vanilla, cloves, and ylang-ylang— account for approximately 75 percent of all exports). Comoros is also a very small market which is further fragmented by the limited transport and communication links between the three islands that constitute the Union.

The authorities appreciate the efforts by staff to recommend realistic policy measures and reforms in their discussions, as stressed in the report, cognizant of the country's limited capacity for implementing comprehensive and far-reaching reforms.

However, it is also clear from the staff's analysis that devising and implementing a realistic and successful diversification strategy is beyond the reach of the authorities, and will require a strong involvement from development partners.

V. Conclusion

In spite of a challenging environment, Comoros, with the much-appreciated assistance of development partners, has been able to achieve satisfactory economic and financial progress, over the past years. However, much remains to be done. My Comorian authorities are eager to undertake the efforts needed to raise economic growth, improve the standards of living of the population and place Comoros on a sustainable economic and financial path. In this endeavor, the assistance of developing partners is of vital importance as Comoros has neither the technical nor financial capacity to undertake such reforms on its own. My authorities look forward to embarking on a medium-term program of reforms. Above all, they would like to implement a program of adjustment with the Fund's assistance, under an ECF arrangement. My authorities believe that such an arrangement with a particular focus on addressing the country's structural impediments to growth would help catalyze the needed donor involvement to address the country's macroeconomic and structural challenges. They look forward to the Board's support for the start of rapid discussions with staff to address these challenges under a new ECF.