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UNION OF COMOROS

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REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNION OF COMOROS

In the context of the Request for Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 24, 2019, following discussions that ended on June 21, 2019, with the officials of the Union of Comoros on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on July 16, 2019.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for the Union of Comoros.

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

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July 24, 2019

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IMF Executive Board Approves US$12.3 Million Rapid Financial Assistance to the Union of Comoros in the Wake of Cyclone Kenneth

On Jul 24, 2019, the Executive Board of the International Monetary Fund (IMF) approved the equivalent of SDR 8.9 million (US$12.3 million) in financial assistance to the Union of Comoros, with one-third (US$4.1 million) to be drawn under the Rapid Credit Facility and two-thirds (US$8.2 million) to be drawn under the Rapid Financing Instrument.[1] These funds will help the authorities address large budgetary and external financing needs arising from the effects of Tropical Cyclone Kenneth. The funds will be made available immediately and are expected to help secure aid from development partners and the international community.

Cyclone Kenneth hit Comoros on April 23-24, inflicting casualties, displacing thousands, and damaging substantial parts of the building stock, infrastructure, and plants used in subsistence and commercial farming, thereby lowering productive capacity and bringing hardship to the population, particularly the poor.

Following the Executive Board's discussion of the Union of Comoros, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, issued the following statement:

"Tropical Cyclone Kenneth struck Comoros in late April, inflicting casualties and damaging infrastructure, buildings, and agriculture. The cyclone has created large and urgent external and fiscal financing needs. Financial assistance from the IMF will help fill part of these needs and is expected to catalyze additional financing from donors and the international community, which will be critical in aiding the authorities' efforts to rebuild the economy.

"The authorities are committed to rebuild the economy's productive capacity fully by repairing damaged infrastructure and providing support to the poor, who were disproportionately affected by the cyclone, while maintaining macroeconomic stability and debt sustainability. For full effectiveness of the authorities' efforts, it will be key to make all cyclone-related spending in a timely and transparent manner. To this effect the authorities have created an inter-ministerial committee to coordinate these efforts.

"To create fiscal space for cyclone-related spending, the authorities intend to contain the civil service wage bill without reducing the quality of service delivery, strengthen state-owned

[1] The Rapid Credit Facility and Rapid Financing Instrument provide rapid financial assistance with limited conditionality to member countries facing an urgent balance of payments need.

enterprise oversight, and make continued efforts on domestic revenue mobilization. Nevertheless, the bulk of cyclone-related fiscal spending needs will have to be covered by aid from donors and the international community. To preserve debt sustainability and development prospects, the authorities will need to implement prudent fiscal and borrowing policies, relying primarily on concessional borrowing. The authorities also plan to reflect the post-cyclone developments in a realistic supplementary budget and make further efforts to enhance public financial management.

“The authorities also plan to address financial sector weaknesses, including by finding a solution for the critical situation of the postal bank, closely monitoring non-performing loans, and addressing obstacles in the judicial system to facilitate the use of collateral and promote lending.

“In an effort to address longstanding structural weaknesses, the authorities intend to strengthen institutions, promote good governance and reduce the scope for corruption. As part of these efforts, they are committed to reporting quarterly on cyclone-related spending. The authorities agree that it will be important to boost the economy’s resilience and preparedness to natural disasters and climate change.”

INTERNATIONAL MONETARY FUND

UNION OF COMOROS

July 16, 2019

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context. Tropical Cyclone Kenneth struck Comoros on April 23-24. The cyclone caused several casualties; displaced thousands; and damaged substantial parts of the building stock, infrastructure, and plants used in subsistence and commercial farming, thereby lowering productive capacity.

Request for Fund support. Reflecting the large budgetary and external financing gaps arising from emergency assistance and reconstruction needs, the authorities are seeking financial assistance under the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) exogenous shock windows. Comoros' qualification is based on urgent balance of payments needs following a severe natural disaster. In the attached letter, the authorities request a disbursement under the RCF and purchase under the RFI of a combined SDR 8.9 million, equivalent to 50 percent of quota, with the full amount to become available upon Board approval. Staff supports this request. IMF involvement in the international effort to assist Comoros will play also a catalytic role in securing grants from Comoros' development partners.

Macroeconomic policies. The authorities shared staff's main policy recommendations. Efforts to address the cyclone's impact will need to focus on mobilizing external financing, creating fiscal space by containing the wage bill, and spending mobilized resources in a well-targeted and timely manner. Policies to address the longer-term challenges include (i) improving budget credibility and raising domestic revenue to create space for development spending; (ii) putting state-owned enterprises on a sounder footing; (iii) addressing financial sector weaknesses; (iv) strengthening governance to enhance the business environment; and (v) boosting resilience to natural disasters.

Approved By
David Owen (AFR) and Edward Gemayel (SPR)

A staff team comprising Messrs. M. Mlachila (head), M. Benlamine, W. Keller and Ms. R. Gupta (all AFR) visited Moroni during June 15-21, 2019. Mr. Keller led an advance team starting work on June 10. Mr. Weisfeld (mission chief, AFR) provided guidance to the advance team, consulted with Mr. Mlachila from Washington, and led preparation of the staff report. Mr. I. Ahamada (Local Economist in the Resident Representative Office) assisted the work. The mission met with President Assoumani and held discussions with Minister of Finance and Budget Chayhane, Minister of Economy and Planning Tharmidhi, Central Bank of Comoros Governor Imani, Secretary General of the Ministry of Finance and Budget Ahamada, Permanent Secretary of the Economic and Financial Reform Unit (CREF) Oubeidi and other senior government officials, as well as representatives of the private sector, development partners, and IFIs. Ms. D. Bieleu assisted in the preparation of this report.

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BACKGROUND

1. **On April 23-24, 2019, Cyclone Kenneth passed over Comoros, inflicting casualties and damaging infrastructure, buildings, and agriculture.** The cyclone caused several casualties; displaced thousands; and damaged substantial parts of the building stock, infrastructure (roads, electricity distribution network, water storage facilities), and plants used in subsistence and commercial farming, thereby lowering productive capacity.

2. **Staff estimates the immediate damage of the storm, defined as the value of destroyed assets and the need for humanitarian aid, at around US$150 million (12.5 percent of GDP[1])**, in line with a World Bank assessment (Annex 1). The poor, particularly those living in rural areas, are likely suffering the most and need support given (i) the storm's disproportionate impact on their dwellings and food sources (plants used in subsistence and small-scale agriculture); and (ii) the insufficiency of their savings for repairing houses and buying food they can presently not produce themselves.

3. **The authorities and the international community are responding.** The UN's Central Emergency Response Fund and some of its specialized agencies, the EU, and the Red Cross have allocated resources. Comoros has also received limited in-kind donations. The authorities have cleared roads and partially restored electricity provision. Many displaced people have found temporary shelter. The authorities have also cut civil servants' wages by 10 percent over two months to help pay for cyclone-related expenses.

4. **The cyclone is expected to create large balance of payments and fiscal financing needs, and the authorities have requested emergency Fund financial assistance.** The external financing need is estimated at 12.7 percent of GDP (cumulative over 2019-25, with urgent short-term needs). Fund support would fill only a small share (8 percent) of this need and is expected to help catalyze additional donor financing.

5. **The cyclone is expected to weaken short-term economic performance, but longer-term impacts should be limited if resources can be found to meet the above needs.** The use of these resources would allow preserving human capital and rebuilding physical capital. However, the public debt burden is likely to rise because some of the financing is likely to come as new debt.

6. **The cyclone struck Comoros in a situation of heightened political tensions after a period of relative tranquility.** A July 2018 referendum approved a new constitution that includes provisions for re-centralizing decision-making at the union level, relaxed rules for mandatory rotation of the Presidency among the islands and allowed President Assoumani to run for another term. He was reelected in March 2019, but international observers noted irregularities and the

[1] Throughout this document, cyclone damage assessments and financing needs expressed as shares of GDP relate to projected 2019 GDP.

opposition denounced the election as fraudulent. Several people died in post-election violence, and several opposition leaders were imprisoned. Parliamentary elections are planned for 2020.

7. More broadly, Comoros is a small island nation where fragility, low levels of human and physical capital, weak governance, and vulnerability to corruption undermine macroeconomic performance. Fragility relates to the political realm (with numerous coups since independence in 1975, latent tensions between the three islands making up the Union, and a fragmented political landscape); a weak institutional set-up and administrative capacity; and high dependency on transfers from Comorians abroad.

8. As a result, over the years, growth has remained lackluster and the ability to withstand shocks limited, while development outcomes have improved only slowly. Growth has averaged 3 percent over the past decade, yielding only very limited per-capita income gains. The country ranks 165 in the UNDP's Human Development Index (out of 189 countries).

RECENT ECONOMIC DEVELOPMENTS

9. The authorities have recently completed a large upward revision of the GDP series, with technical support from the IMF and the World Bank. GDP was raised by 70 percent over the period 2007-16, taking Comoros to lower-middle-income status (income per capita reached US$1,391 in 2018).

10. Growth remained flat in 2018 and inflation contained (Table 1). Deteriorating electricity supply combined with political uncertainty offset increased activity in telecommunications, keeping growth at 3 percent. Inflation was low (at 1.7 percent) thanks to the fixed exchange rate regime, limited impulses from global commodity prices, and an absence of domestic price pressures. Monetary policy remains well-anchored by the cooperation agreement with France and the peg of the Comorian Franc to the Euro, although excess liquidity limits policy effectiveness.

11. Fiscal policy implementation in 2018 was challenging (Table 2). The domestic primary deficit including grants remained contained (at 1.2 percent of GDP). However, revenue performance was driven exclusively by non-tax revenue, while tax revenue fell (by one percentage point of GDP, to 8.3 percent of GDP). Also, the quality of spending deteriorated: current expenditure rose quickly (by 1.1 percentage points of GDP, largely driven by transfers and pensions), while capital expenditure disappointed despite availability of donor grant financing. The stock of domestic arrears to suppliers is uncertain, estimated at 1.8 percent of GDP. External arrears rose to 0.5 percent of GDP at end-2018.

12. The 2019 budget was again ambitious, even if less unrealistic than in previous years. The budget called for a large increase in tax revenue (by 1.3 percentage points of GDP relative to 2018) and a jump in public investment (by 3-4 percentage points of GDP over recent years).

13. Fiscal difficulties intensified in early 2019, and the government now faces a tight liquidity situation. Domestic revenue dropped sharply in the first quarter due to declining tax and non-tax contributions from state-owned enterprises (SOEs), reflecting emerging difficulties in some key SOEs. Elsewhere, the tax take remained stable. On the spending side, March and April wages were paid with a delay and investment spending was limited. An earlier plan to clear all external arrears was not executed.

14. These developments reflect longstanding fiscal policy challenges. Weak public financial management and revenue administration contribute to low tax revenue and excessive reliance on volatile external grants. An elevated wage bill, partly due to the existence of numerous island institutions, low domestically-financed public investment, and opaque financial management of ill-controlled SOEs, as well as over-optimistic budgeting continue to undermine budget credibility. Recurring external arrears harm relationships with foreign partners, while persistent domestic suppliers' arrears undermine private sector development.

15. The current account deficit widened in 2018 (Table 4). Goods exports were sluggish, as strong ylang-ylang exports were insufficient to offset a fall in vanilla and clove exports. Imports rose quickly, partly due to higher oil prices, and receipts of public transfers fell. As a result of these and other developments, international reserves coverage of imports fell somewhat but remained at a still adequate level (7 months).

16. The financial sector faces difficulties as well:

- Adding to its insolvency woes, the state-owned postal bank SNPSF (accounting for 20 percent of financial sector deposits) experienced a liquidity crisis in April 2018. Although swift central bank intervention limited the duration of the crisis phase, the bank's liquidity remains well below prudential requirements. The bank was ordered to stop lending, and the authorities are considering options for restructuring it.

- In the private financial sector, asset quality is depressed: the system-wide non-performing loan (NPL) ratio stands at 23.6 percent of total lending. The situation varies substantially across institutions. The cyclone will likely have a further detrimental impact on asset quality. The sector suffers under a dearth of usable collateral in the context of an overall unconducive business environment, including weaknesses in the judicial system. Correspondent banking relationships have weakened in recent years, given persistent shortcomings in the AML/CFT regime.

17. In line with these financial sector weaknesses, private sector credit growth has been depressed, barely exceeding 1 percent in 2018 (Table 3) and turning negative in recent months. It is likely that slow credit growth reflects in part credit supply constraints from lender risk aversion due to high NPLs and dearth of suitable collateral. Some banks have virtually stopped giving out new credit, and weak credit supply is likely to weigh on economic growth.

OUTLOOK AND RISKS: IMPACT OF THE CYCLONE

18. The pre-cyclone outlook was marked by fiscal challenges and prospects of only moderate growth:

- The weak condition of key SOEs was expected to continue to weigh on tax and non-tax revenue. This condition is likely to persist for some time given that it reflects increased competition, pricing out of line with cost recovery, and weak SOE management – the first element will not change, and the second and third elements will likely take time to address.

- In the context of slow reform implementation, slow progress on revenue collection even outside the SOE sector would leave limited fiscal room to attend to development needs, and the non-conducive business environment would continue to hamper private investment.

- Against a background of fiscal challenges, growth was projected to reach 3-3.5 percent over the medium term, only moderately higher than the historical average. Among the potential drivers of growth is a recently announced tourism investment project.

19. The pre-cyclone outlook also comprised noticeable risks, particularly over the longer term:

- **Growth and development were vulnerable to a range of shocks (Annex II).** Weaker global growth resulting in a decline of remittances and export demand were identified as key external risks, and political unrest and inter-island tensions following the presidential elections as important domestic risks, together with the weak condition of SOEs and the financial sector as well as vulnerability to natural disasters.

- **The external position was assessed as somewhat stronger than indicated by fundamentals, and international reserves were at a satisfactory level,[2] but external stability was nevertheless vulnerable to shocks (Annex III).** A narrow export base, focused on three agricultural products, implies that Comoros remains vulnerable to commodity price shocks, as well as shocks to agriculture production. Weak competitiveness also creates vulnerability, particularly over the longer term.

- **The risk of debt distress was assessed as moderate,** but buffers to high-risk territory were projected to shrink gradually (on account mainly of a rising debt-to-exports ratio).[3]

20. To minimize the longer-run impacts of the cyclone, the government will need to help the poor and ensure full repair of infrastructure. Infrastructure repair aims at rebuilding the country's physical capital, while support for the poor aims at maintaining their human capital, in

[2] The External Stability Assessment in the Staff Report for the 2018 Article IV Consultation assessed the external position as broadly in line with fundamentals.

[3] See the Debt Sustainability Assessment (DSA) in the Staff Report for the 2018 Article IV Consultation.

addition to alleviating human suffering. The poor require help to meet immediate needs (food, medicine, and shelter), rebuild homes, and replace plants used in subsistence and small-scale agriculture. The time frames for these two actions differ: reconstruction of infrastructure will likely take several years, with the bulk of spending expected for 2019-22, while provision of cyclone-related humanitarian support for the poor is of a more urgent and short-term nature.

21. The storm is nevertheless projected to have a substantial impact on economic performance over the short term (Annex I). Growth is expected to fall to 1.3 percent in 2019 (1.7 percentage points below the pre-cyclone baseline projections) due to supply constraints before rising to an average of 3.8 percent per year over 2020-22 (a cumulative 1.3 percentage points above baseline) thanks to higher cyclone-related fiscal spending. The quick projected recovery is in line with historical experience on natural disasters that did not reach truly catastrophic proportions.[4] Inflation is expected to rise in 2019 due to supply constraints before easing thereafter as these constraints ease. The fiscal accounts before grants are expected to be affected negatively for some time in line with weaker domestic revenue and higher spending. Similarly, the trade account is expected to weaken for some time due to a reduced export capacity and higher food and reconstruction-related imports.

22. Against this background, the cyclone is expected to create large financing needs. The external need is estimated at 12.7 percent of GDP and the fiscal financing need at 9.1 percent of GDP (cumulative over 2019-25, Annex I). These needs represent the impacts of the cyclone on the balance of payments and the fiscal accounts under the assumption of full repair of destroyed assets and provision of help to the poor as discussed above. Needs were determined relative to pre-cyclone baseline projections, which included limited macroeconomic buffers.

23. The fiscal need will be filled from a range of sources.

- **Domestic sources:** Compared to the pre-cyclone baseline, wage bill savings are expected to contribute financing of 1.6 percent of GDP (cumulatively over 2019-25).

- **External sources:** Compared to the pre-cyclone baseline, aid is projected to rise by 6.1 percent of GDP cumulatively, of which a substantial share could come from the World Bank and the rest from various donors.[5] Part of these amounts could also be obtained by using existing as yet untapped aid commitments. New debt could fill the remaining fiscal financing needs, including borrowing from the Fund.

[4] See "Small States' Resilience to Natural Disasters and Climate Change - role for the IMF", IMF Policy Paper, December 2016.

[5] Comoros could receive large grants: it obtained grants of 4.5 percent of GDP from Saudi Arabia in 2015 and of 1.6 percent of GDP from the UAE in 2017.

24. The external need will be filled from the same external sources, higher remittances, and a partial draw-down in foreign currency reserves.

- Based on cross-country experience with the response of remittances to natural disasters, remittances are expected to rise by 2.6 percentage points of GDP relative to pre-cyclone projections.[6]

- Reserves are expected to drop from 7 months of imports to 5½ months of imports in 2019 and, while broadly stabilizing in absolute terms, slide further to 4¼ months in the medium term. The Fund's reserves adequacy metric suggests that reserves coverage of 6¼ months of imports is adequate to buffer risks. While a temporary drop in reserves following an adverse shock is appropriate, the fact that reserves are expected to remain below the adequate level is a vulnerability the authorities may wish to address over the medium term.

25. Risks to the outlook have grown. The pre-cyclone risks discussed above (paragraph 19) persist. In addition, debt risks have grown somewhat, and while the risk of external debt distress remains moderate, buffers to absorb shocks are limited, reflecting both the recent contracting of large new loans and the impact of the cyclone (see DSA). Further downside risks include the possibility that grant financing may remain below expectations, and the authorities' weak implementation capacity. These could lead to delays in cyclone-related spending that could constrain the growth recovery and undermine social cohesion. At the same time, experience suggests that grant financing could also exceed expectations.

POLICY DISCUSSIONS

26. Policy discussions focused on addressing the impacts of the cyclone and policies to tackle the country's longer-term macrocritical challenges. Efforts to address the cyclone impact will need to focus on mobilizing external financing, creating further fiscal space by containing the wage bill, and spending the mobilized resources in a well-targeted and timely manner. Among the longer term challenges are: (i) improving budget credibility and raising domestic revenue to create fiscal space for development spending; (ii) putting state-owned enterprises on a sounder footing; (iii) addressing financial sector weaknesses; (iv) strenthening governance and reducing the scope for corruption to enhance the business environment; and (v) boosting resilience to natural disasters. The Article IV consultation, planned for fall 2019, will consider these longer term issues in more depth.

27. Staff's advice took account of the country's political fragility and weak implementation capacity. Staff advised the authorities to ensure that government action benefits all three islands. Staff's advice also focused on quick wins and actions supported by ongoing capacity building.

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[6] See IMF, Western Hemisphere Department Regional Economic Outlook May 2017, Chapter 5 for a study of the reaction of remittances to natural disasters.

Fiscal Policy

28. The authorities are engaged in efforts to contain the wage bill without reducing service delivery. As a first step, 10 percent of public sector wages over two months were withheld, yielding savings of 0.1 percent of GDP. Further savings are possible, including by centralizing government functions at the Union level; controlling hiring through full application of civil service laws and procedures; and strengthening payroll administration by using existing software. Such efforts could yield cumulative wage bill savings of 1.6 percent of GDP over 2019-25, with centralization and improved administration yielding roughly equal shares.[7] The authorities noted that centralization could yield even larger savings. Staff cautioned that centralization may affect inter-island cohesion and suggested that the authorities may wish to consider how they can mitigate this risk, proceeding cautiously.

29. Implementing the sharp expenditure increase needed to minimize the impact of the cyclone will be a challenge, and the authorities have taken first steps to meet it. They have put in place a mechanism for cyclone-related spending under the control of an inter-ministerial committee, which will be supported by the UNDP. Several other international organizations are active in Comoros, including the World Bank, and have mechanisms in place to channel assistance to populations in need. Some of these channels may be available to other donors as well. Use of such channels may relieve implementation pressures on the government but will require close coordination between the government and donors to avoid gaps and overlaps.

30. The authorities intend to reflect the post-cyclone reality in a realistic supplementary budget for 2019, to be presented to Parliament in October. Staff encouraged the authorities to strengthen the realism of budgeting, as only realistic budgets can guide government action and support transparency and accountability.

31. The authorities are pursuing fiscal structural reform to strengthen policy implementation over the medium term, building largely on technical assistance received:

- **Tax administration.** The large and medium taxpayer unit is being strengthened, including through better staffing and computerization.

- **Customs administration**. Ongoing efforts aim at (i) enhancing customs valuation controls through the use of mirror data; (ii) strengthening the operations of the single customs window; (iii) conducting monthly performance evaluations; and (iv) preparing an ethics code. Regulations for implementation of the International Convention on the Simplification and Harmonization of Customs Procedures are awaiting formal approval.

- **Customs policy.** The authorities aim to reduce customs exemptions over time. In the context of the cyclone, however, they have devised a special regime to provide customs tax relief and expedite customs clearing for humanitarian and reconstruction-related imports.

[7] These savings are included in this report's macroeconomic projections.

Under this regime, higher import volumes are expected to yield lower customs revenue. These measures will need to be limited in time and implemented carefully to avoid abuse.

- **Treasury single account (TSA).** The authorities are committed to ensuring that all public revenue and spending flows through this account, including spending for domestically-financed investment. They also explained that they may sequester funds for domestically-financed investment in TSA sub-accounts.

- **Other areas of PFM reforms.** There is room for progress on improving fiscal transparency, enhancing budgeting processes, and strengthening investment project selection.

32. Progress is needed to strengthen SOE oversight. The authorities are aware that several large SOEs pose significant fiscal risks. The authorities will need to review pricing and billing practices with a view to approaching and eventually achieving cost recovery; ensure preparation of certified annual balance sheets and profit and loss statements; audit and settle cross arrears between the government and SOEs and prevent the reoccurrence of such arrears; and strengthen SOE management to enhance investment and staffing decisions. In a welcome first step, the authorities have established an inter-ministerial committee to strengthen SOE oversight.

Financial Sector Policies

33. It is important to find a durable solution to the postal bank's critical situation. Staff highlighted the risks that the bank may pose for financial sector stability and the substantial drain on the public finances it creates, undermining development prospects. The authorities have benefited from World Bank advice on restructuring the bank and are considering their options.

34. Weak bank asset quality and a poor business environment lead to heightened lender risk aversion and should be addressed to enable adequate provision of credit to the private sector. Implementation of a 2018 regulation for the better classification of, provisioning for, and if necessary the write-off, of doubtful loans appears to have helped lower NPLs ratios to some extent. The authorities should continue to implement the regulation. In addition, they should consider strengthening the judicial system over the medium term to enable lenders to attach collateral when borrowers do not meet their obligations.

Strengthening Governance and Resilience to Natural Disasters

35. The authorities concurred with the mission that strengthening institutions and promoting good governance, transparency and accountability, and tackling corruption are crucial. Regarding the use of aid received in the context of Cyclone Kenneth, the authorities expressed confidence that the above-mentioned mechanism to guide cyclone-related spending will allow enhancing transparency and credibility. The authorities have agreed to report quarterly on the spending of emergency funds and commission an audit of this spending in about a year's time and publish the results.

36. The authorities intend to pursue a three-pillar strategy to reduce vulnerability to natural disasters and strengthen resilience. This strategy would aim at: (i) enhancing structural resilience, which requires infrastructure and other investments; (ii) building financial resilience, which involves creating fiscal buffers and using pre-arranged financial instruments to protect fiscal sustainability; and (iii) post-disaster (including social) resilience, which requires contingency planning and investments ensuring a speedy response to a disaster.

ISSUES RELATED TO FUND FINANCIAL SUPPORT

37. Comoros' qualification for financial support under the RCF and RFI reflects an urgent balance of payments need following a natural disaster. The significant impact of the cyclone requires immediate financial support for providing emergency assistance to affected populations and for restoring public infrastructure, the housing stock, and agricultural capacity. The urgent need for financial assistance, the authorities' focus on their immediate recovery efforts, and their very weak implementation capacity make it impossible at this juncture to engage in discussions of a multi-year program requiring UCT quality policies. IMF involvement is also expected to play a catalytic role in securing the needed external grants.

38. Staff considers access under the RCF and RFI at the annual limit (a combined 50 percent of quota) appropriate:

- **The cyclone has created a large balance of payments need, and Fund financial assistance would cover only a small share of it.** The need, cumulative over 2019-25 is estimated at US$152 million (12.7 percent of 2019 GDP), and disbursement of Fund support at 50 percent of quota (SDR8.9 million) would cover 8 percent of it.

- **The authorities are committed to strengthen policies in several areas.** They intend to tackle both the immediate cyclone-related priorities and address the longstanding challenges. To this end, they will reduce the wage bill relative to earlier plans and implement fiscal structural reforms, among other things.

- **Comoros' capacity to repay is strong.** Disbursement of 50 percent of quota would result in Fund exposure to Comoros of 1.7 percent of GDP (or 10 percent of international reserves). The authorities' excellent track record of servicing debt to the Fund also mitigates risks.

- **Outstanding PRGT credit would reach 53.3 percent of quota, below allowable limits.**

39. Comoros needs to blend financial support under the RCF and RFI because per-capita gross national income now exceeds the IDA threshold and debt vulnerabilities are moderate. Under blending rules, one third of access is to be provided under the RCF, and two thirds under the RFI. With the proposed access level of 50 percent of quota, 16.7 percent of quota (SDR 2.9726 million) would thus be provided under the RCF and 33.3 percent of quota (SDR 5.9274 million) under the RFI.

40. Fund financial support should be made available to the budget to help close the fiscal financing need.

41. The authorities commit to transparency in the use of any emergency support received from the Fund and other sources. The authorities have put in place an inter-ministerial committee that will guide the use of emergency financial assistance received from the Fund and others. The UNDP will assist this committee. Operations on the ground will involve the civil protection organization in cooperation with specialized multilateral institutions and national NGOs. Further, as mentioned before, the authorities are committed to presenting quarterly activity reports on, and commission an audit of, the use of these funds.

42. A safeguards assessment will be conducted in connection with this request for Fund support. The last safeguards assessment was conducted in 2010. While the central bank continues to publish its annual audited financial statements, it has not yet implemented International Financial Reporting Standards (IFRS). The safeguards assessment will follow up on IFRS implementation and other outstanding recommendations including the amendment of the central bank statutes and the establishment of an internal audit function.

43. Comoros has external debt arrears to several official bilateral creditors. Arrears of US$2 million (0.2 percent of GDP) have arisen to France, Kuwait, India, and Saudi Arabia due to capacity limitations. The Comoros authorities intend to resolve these arrears by end-2020. In addition, Comoros owes arrears of US$3.1 million (0.3 percent of GDP) to the Arab Bank for Economic Development in Africa (BADEA) and the OPEC Fund for International Development. The authorities are committed to clearing these arrears and have a credible plan for their clearance.

STAFF APPRAISAL

44. The cyclone has added greatly to Comoros' challenges. In the coming months, the government should focus on the acute cyclone-related tasks while also progressing on the medium-term agenda. In all their actions, the authorities should seek to both meet economic policy goals and strengthen social cohesion, including inter-island relations, a precondition for longer-term development.

45. Efforts to address the cyclone's impact will need to focus on mobilizing financing, creating fiscal space, and ensuring targeted and timely spending.

- **The authorities may wish to intensify efforts to seek donor funding for cyclone-related spending.** In this context, the authorities could consider discussing with donors the possibility of redirecting previously committed and as yet unused amounts to cyclone-related spending.

- **Staff welcomes the government's intention to generate wage bill savings without reducing service delivery.** Staff notes that efforts to centralize government functions at the

Union level could affect inter-island relations and encourages the authorities to consider how they can protect these relations.

- **Staff welcomes the authorities' intention to ensure that cyclone-related resources will be spent in a timely and transparent manner.** In implementing the envisaged mechanism for cyclone-related spending, it is important to apply the standard spending procedures and safeguards while also ensuring that the rate of investment project execution rises as planned, drawing on both new and existing unused aid.

- **The authorities' intention to reflect the post-cyclone reality in a supplementary budget for 2019 is welcome.** A realistic budget will provide clarity on the government's intentions and support accountability.

46. The authorities rightly continue their efforts on fiscal structural reforms.

- **Tax administration.** Progress in the functioning of the Tax Department is encouraging. Going forward, efforts to further strengthen the large and medium taxpayer unit and systematically follow-up with delinquent taxpayers could help raise tax revenue substantially.

- **Customs policy and administration**. Ongoing efforts to enhance customs administration are welcome. At the same time, the adoption of new cyclone-related exemptions poses new challenges for customs administration. The authorities may wish to implement this regime carefully and limit it in time to minimize revenue losses.

- **Treasury single account (TSA).** The authorities would benefit from ensuring that all government spending passes through this account. If needed, the authorities could temporarily use TSA subaccounts while strengthening cash management.

- **Other areas of PFM reforms.** There is further room for enhancing fiscal transparency, budgeting processes, and investment project selection by implementing TA recommendations of recent years.

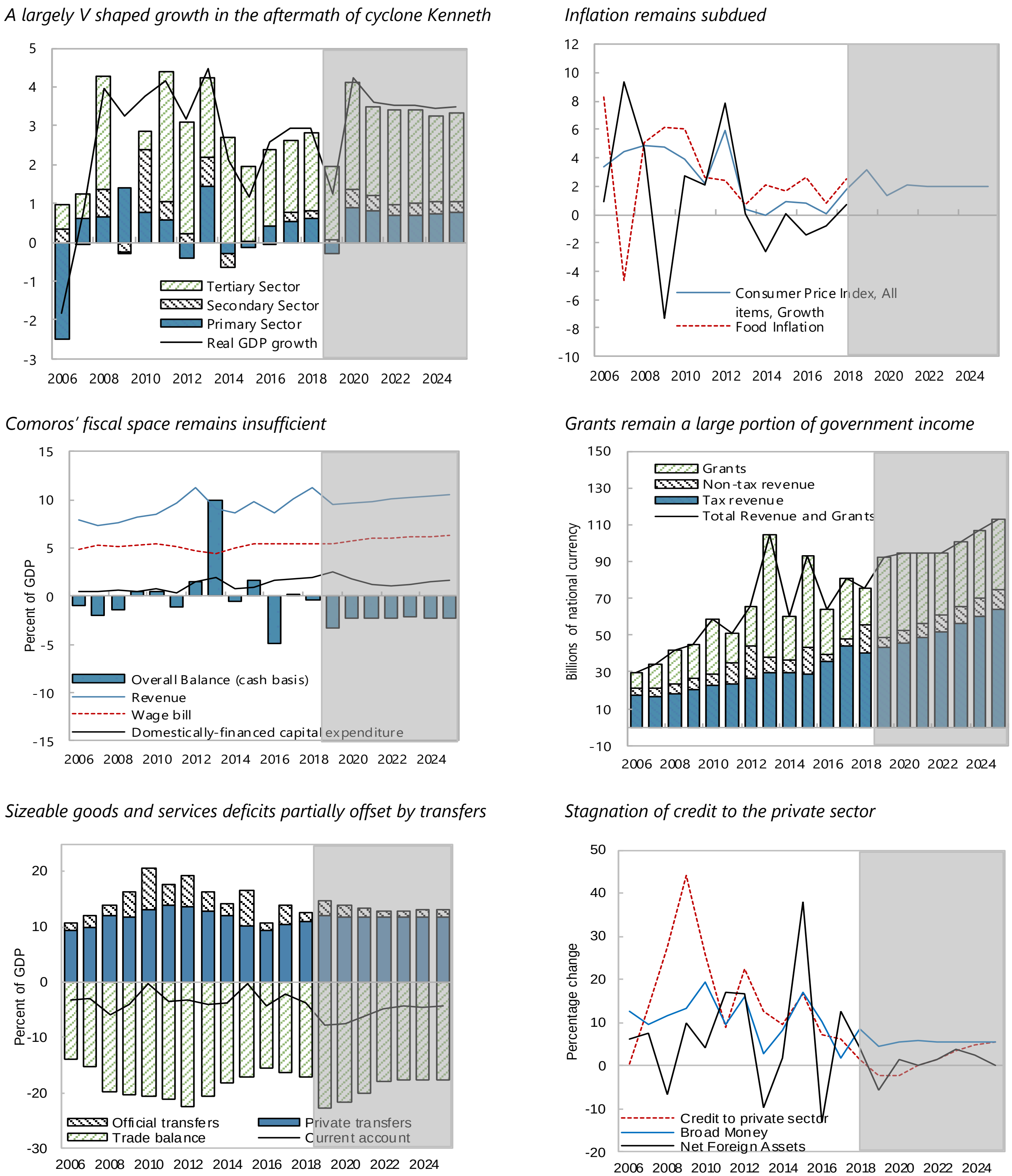
47. Staff shares the authorities' concerns about fiscal risks created by key SOEs. To reduce these risks, the authorities may wish to enhance supervision of SOE management, ensure regular financial reporting, and audit and settle cross-arrears. Staff also encourages the authorities to consider adjusting pricing policies in line with cost recovery.

48. Regarding the longer-term orientation of fiscal policy, staff recommends that the authorities aim to maintain the risk of external debt distress at "moderate" and proceed cautiously on taking up debt. The authorities may wish to carefully assess the economic and social returns of any debt-financed investment projects, keeping in mind that debt service will have to be made from the direct or indirect fiscal revenue that the project will generate. In line with this, the authorities may wish to largely or entirely avoid non-concessional financing.

49. It is important to find a durable solution for the postal bank and improve the environment for financial institutions. Among other measures to improve the business environment, a better-functioning judicial system would facilitate the use of assets as collateral in bank lending.

50. Promoting good governance and reducing the scope for corruption is crucial for growth and development. The authorities' intention to commission and publish an audit of the use of cyclone-related funds is very helpful in this respect.

Figure 1. Comoros: Key Indicators of the Comorian Economy



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

Figure 2. Comoros: Cross-Country Comparisons

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

Table 1. Comoros: Selected Economic and Financial Indicators, 2016-25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Est.[1]					Proj.[1]			
	(Annual percentage change, unless otherwise indicated)									
National income and prices										
Real GDP	2.6	3.0	3.0	1.3	4.2	3.6	3.5	3.5	3.5	3.5
GDP deflator	1.6	0.1	1.7	3.0	1.2	2.0	1.9	1.9	1.9	1.9
Consumer price index (annual average)	0.8	0.1	1.7	3.2	1.4	2.1	2.0	2.0	2.0	2.0
Money and credit										
Net foreign assets	-13.1	12.6	4.2	-5.6	1.3	0.0	1.4	3.9	2.4	0.2
Domestic credit	33.5	-0.4	4.9	2.9	-3.1	-1.2	-0.1	-0.6	1.9	4.9
Credit to the private sector	7.2	6.2	1.2	-2.3	-2.4	0.1	1.6	3.6	4.7	5.4
Broad money	10.3	1.8	8.5	4.3	5.5	5.7	5.5	5.5	5.4	5.5
Velocity (GDP/end-year broad money)	3.6	3.7	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6
External sector										
Exports, f.o.b.	82.0	26.2	1.4	1.1	-0.9	7.6	8.4	8.4	7.9	8.5
Imports, f.o.b.	-0.4	12.1	11.3	30.5	0.1	0.1	-1.5	4.1	6.6	5.3
Export volume	31.5	-1.0	8.1	7.7	-4.0	6.9	7.1	7.0	8.6	9.2
Import volume	12.2	12.3	10.7	28.9	1.6	0.5	-1.4	3.7	6.3	5.3
Terms of trade	22.7	11.8	-4.3	-2.1	1.8	1.1	1.2	1.0	0.5	0.7
	(In percent of GDP, unless otherwise indicated)									
Investment and savings										
Gross fixed capital formation	12.6	12.3	12.2	15.7	14.4	13.5	13.0	12.5	12.0	11.6
Gross national savings	8.4	10.4	9.0	11.9	10.7	10.8	10.2	9.1	8.5	8.0
Government Budget										
Total revenue and grants	14.0	17.2	15.3	18.0	17.4	16.6	15.6	15.8	15.9	15.9
Total revenue	8.7	10.1	11.3	9.5	9.7	9.9	10.1	10.3	10.4	10.6
Tax Revenue	7.7	9.3	8.3	8.4	8.5	8.5	8.6	8.8	8.9	9.1
Non-tax Revenue	0.9	0.8	3.0	1.2	1.2	1.4	1.4	1.5	1.5	1.5
Total grants	5.3	7.1	4.0	8.5	7.7	6.7	5.5	5.5	5.5	5.3
Total expenditure and net lending	18.4	16.8	16.4	21.3	19.7	18.8	17.9	17.9	18.2	18.2
Current expenditure	10.9	10.3	11.4	13.0	12.1	12.5	12.5	12.4	12.4	12.4
Capital expenditure	6.2	6.3	5.0	8.3	7.5	6.3	5.4	5.5	5.8	5.8
Domestic primary balance[2]	-3.0	-1.1	-1.2	-5.1	-3.2	-2.9	-2.5	-2.3	-2.5	-2.5
Overall balance (cash basis)	-4.8	0.2	-0.4	-3.3	-2.3	-2.2	-2.3	-2.1	-2.3	-2.3
Excluding grants	-10.1	-6.8	-4.4	-11.8	-10.0	-8.9	-7.8	-7.7	-7.8	-7.7
Net Financing	4.1	-0.1	0.7	3.3	2.3	2.2	2.3	2.1	2.3	2.3
Foreign (Including IMF)	1.2	-0.2	0.2	3.4	2.3	2.2	2.3	2.1	2.3	2.3
Domestic	2.9	0.0	0.5	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap/errors and omissions	0.7	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External sector										
Exports of goods and services	10.5	11.9	12.7	12.8	12.7	12.8	13.0	13.1	13.1	13.2
Imports of goods and services	26.1	28.3	29.8	35.7	34.3	32.8	31.0	30.7	31.0	30.9
Current account balance	-4.3	-2.2	-3.8	-7.7	-7.4	-6.3	-4.8	-4.4	-4.5	-4.5
Excl. official and private transfers	-15.0	-16.0	-16.5	-22.4	-21.2	-19.7	-17.7	-17.4	-17.5	-17.5
Private remittances, net[3]	9.3	10.3	11.1	12.0	11.9	11.7	11.7	11.7	11.8	11.9
External debt	15.5	17.6	18.9	22.3	26.2	27.9	30.4	30.8	31.3	32.0
Official grants and loans	6.7	7.1	4.6	12.8	10.9	9.4	8.2	8.2	8.3	8.2
Gross international reserves (end of period)										
In millions of U.S. dollars	167.3	200.7	213.8	197.3	197.2	195.0	193.7	192.4	191.2	188.9
In months of imports of goods & services	7.5	7.9	7.0	5.6	5.4	5.3	5.2	4.9	4.6	4.3
Exchange rate CF/US$ (period average)	444.6	435.7	400.4	…	…	…	…	…	…	…
Memorandum items:										
GDP (nominal, in billions of CF)	456.8	470.7	492.9	514.2	542.4	573.3	604.6	637.9	672.6	709.5
GDP per capita (nominal, in US Dollars)	1,274	1,305	1,391	1,368	1,420	1,471	1,521	1,570	1,625	1,672

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

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

[2] Domestic revenues minus current primary expenditures and domestically financed capital expenditures.

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

Table 2a. Comoros: Consolidated Government Financial Operations, 2016-25

(In millions of Comorian francs, unless otherwise indicated)

	2016	2017	2018	2019		2020	2021	2022	2023	2024	2025
		Est.[1]	Prel.[1]	Budget	Proj.[1]			Proj.[1]			
Total revenue and grants	63,841	80,910	75,562	108,542	92,512	94,483	94,999	94,336	100,770	107,047	112,772
Revenues	39,558	47,703	55,642	64,534	48,963	52,520	56,589	60,842	65,587	70,095	74,998
Tax revenues	35,364	44,012	40,696	49,239	43,008	46,031	48,515	52,165	56,260	60,073	64,219
Direct and indirect taxes	30,999	30,992	26,318	37,420	27,863	29,887	31,292	33,840	36,757	39,327	42,126
Taxes on international trade and transactions	4,365	13,020	14,379	11,819	15,145	16,144	17,223	18,325	19,503	20,747	22,093
Nontax revenues[2]	4,194	3,691	14,946	15,295	5,955	6,490	8,074	8,677	9,327	10,021	10,780
External grants	24,283	33,207	19,919	44,008	43,549	41,963	38,410	33,494	35,183	36,953	37,774
Budgetary assistance	135	8,407	1,061	5,000	9,936	6,500	5,500	3,003	3,017	3,035	3,061
Projects (incl. techn.assist.)	24,148	24,800	18,858	39,008	33,613	35,463	32,910	30,491	32,166	33,917	34,712
Total expenditure and net lending	84,003	79,258	80,658	114,857	109,540	106,580	107,682	108,154	114,412	122,513	129,317
Current expenditure	49,739	48,268	56,080	52,050	66,878	65,671	71,637	75,398	79,193	83,523	88,210
Primary current expenditures	45,798	44,238	51,865	51,400	62,313	60,342	65,742	69,046	72,541	76,506	80,778
Wages and salaries	24,640	25,812	26,686	27,384	28,061	30,789	34,576	36,696	38,956	41,647	44,574
Goods and services	13,079	13,145	13,873	13,332	17,490	16,263	17,520	18,267	19,050	19,860	20,719
Transfers and pensions[2]	8,080	5,281	11,305	10,684	16,762	13,290	13,646	14,082	14,535	14,998	15,485
Interest payments	289	280	469	650	776	1,323	1,650	1,860	1,913	2,022	2,162
External debt	289	280	382		612	1,154	1,474	1,672	1,913	2,022	2,162
Domestic debt	0	0	87		165	170	176	188	0	0	0
Foreign-financed project maintenance	1,378	1,415	1,307		1,243	1,320	1,407	1,498	1,580	1,667	1,758
Technical assistance	2,273	2,334	2,440		2,545	2,685	2,838	2,993	3,158	3,329	3,512
Capital expenditure	28,148	29,490	24,578	52,643	42,662	40,909	36,045	32,756	35,219	38,990	41,108
Domestically financed investment	7,651	8,440	9,467	13,635	12,838	9,451	7,380	6,757	7,791	10,068	11,665
Foreign-financed investment	20,497	21,050	15,111	39,008	29,824	31,458	28,664	26,000	27,428	28,921	29,443
Net lending	6,116	1,500	0	7,000	0	0	0	0	0	0	0
Domestic primary balance[3]	-13,891	-4,975	-5,689	-501	-26,188	-17,273	-16,533	-14,961	-14,745	-16,479	-17,445
Overall balance (commitment basis)	-20,162	1,652	-5,097	-6,315	-17,028	-12,097	-12,683	-13,818	-13,642	-15,466	-16,545
Excluding grants	-44,445	-31,555	-25,016	-50,323	-60,577	-54,060	-51,093	-47,312	-48,825	-52,418	-54,319
Change in net arrears	-106	-586	3,137	0	-41	-163	0	0	0	0	0
External arrears	224	142	382		-41	-163	0	0	0	0	0
Domestic arrears	-329	-728	2,755		0	0	0	0	0	0	0
Repayment	-2,208	-4,182	-1,894		0	0	0	0	0	0	0
Accumulation	1,878	3,453	4,649		0	0	0	0	0	0	0
Float	-1,737	0	0	0	0	0	0	0	0	0	0
Overall balance (cash basis)	-22,004	1,066	-1,960	-6,315	-17,069	-12,260	-12,683	-13,818	-13,642	-15,466	-16,545
Excluding grants	-46,287	-32,141	-21,879	-50,323	-60,617	-54,223	-51,093	-47,312	-48,825	-52,418	-54,319
Financing	18,863	-665	3,414		17,069	12,260	12,683	13,818	13,642	15,466	16,545
Foreign (net)	5,508	-830	757		17,551	12,260	12,683	13,818	13,642	15,466	16,545
Drawings, PIP (identified)	6,116	0	2,753		22,190	16,984	15,369	16,254	17,127	18,927	20,150
IMF possible RCF and RFI[4]	0	0	0		5,277	0	0	0	0	0	0
Amortization	-1,166	-1,258	-1,588		-4,205	-2,987	-2,685	-2,435	-3,485	-3,461	-3,604
Change in net arrears (principal)	557	428	-407		-434	-1,737	0	0	0	0	0
Domestic (net)	13,356	165	2,656		-482	0	0	0	0	0	0
Bank financing	13,356	165	2,656		-482	0	0	0	0	0	0
Central bank	13,500	-1,063	3,288		0	0	0	0	0	0	0
Commercial banks	-144	1,228	-631		-482	0	0	0	0	0	0
Errors and omissions/Financing gap (+ = underfinancing)	3,141	-401	-1,454		0	0	0	0	0	0	0
Memorandum items:											
GDP (nominal)	456,756	470,734	492,860	514,210	514,210	542,376	573,290	604,648	637,862	672,590	709,458
Wages in percentage of revenues	62.3	54.1	48.0	42.4	57.3	58.6	61.1	60.3	59.4	59.4	59.4

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

[2] Including RAU from 2018.

[3] Domestic revenues minus current primary expenditures and domestically financed capital expenditures.

[4] Assumes 50 percent of the quota as one-time disbursment in July 2019, of which 33.3 percent is provided by the RCF and 66.7 percent by the RFI.

Table 2b. Comoros: Consolidated Government Financial Operations, 2016-25

(In percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019		2020	2021	2022	2023	2024	2025
		Est.[1]	Prel.[1]	Budget	Proj.[1]			Proj.[1]			
Total revenue and grants	14.0	17.2	15.3	21.1	18.0	17.4	16.6	15.6	15.8	15.9	15.9
Revenues	8.7	10.1	11.3	12.6	9.5	9.7	9.9	10.1	10.3	10.4	10.6
Tax revenues	7.7	9.3	8.3	9.6	8.4	8.5	8.5	8.6	8.8	8.9	9.1
Direct and indirect taxes	6.8	6.6	5.3	7.3	5.4	5.5	5.5	5.6	5.8	5.8	5.9
Taxes on international trade and transactions	1.0	2.8	2.9	2.3	2.9	3.0	3.0	3.0	3.1	3.1	3.1
Nontax revenues[2]	0.9	0.8	3.0	3.0	1.2	1.2	1.4	1.4	1.5	1.5	1.5
External grants	5.3	7.1	4.0	8.6	8.5	7.7	6.7	5.5	5.5	5.5	5.3
Budgetary assistance	0.0	1.8	0.2	1.0	1.9	1.2	1.0	0.5	0.5	0.5	0.4
Projects (incl. techn. assist.)	5.3	5.3	3.8	7.6	6.5	6.5	5.7	5.0	5.0	5.0	4.9
Total expenditure and net lending	18.4	16.8	16.4	22.3	21.3	19.7	18.8	17.9	17.9	18.2	18.2
Current expenditure	10.9	10.3	11.4	10.1	13.0	12.1	12.5	12.5	12.4	12.4	12.4
Primary current expenditures	10.0	9.4	10.5	10.0	12.1	11.1	11.5	11.4	11.4	11.4	11.4
Wages and salaries	5.4	5.5	5.4	5.3	5.5	5.7	6.0	6.1	6.1	6.2	6.3
Goods and services	2.9	2.8	2.8	2.6	3.4	3.0	3.1	3.0	3.0	3.0	2.9
Transfers and pensions[2]	1.8	1.1	2.3	2.1	3.3	2.5	2.4	2.3	2.3	2.2	2.2
Interest payments	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3
External debt	0.1	0.1	0.1		0.1	0.2	0.3	0.3	0.3	0.3	0.3
Domestic debt	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign-financed project maintenance	0.3	0.3	0.3		0.2	0.2	0.2	0.2	0.2	0.2	0.2
Technical assistance	0.5	0.5	0.5		0.5	0.5	0.5	0.5	0.5	0.5	0.5
Capital expenditure	6.2	6.3	5.0	10.2	8.3	7.5	6.3	5.4	5.5	5.8	5.8
Domestically financed investment	1.7	1.8	1.9	2.7	2.5	1.7	1.3	1.1	1.2	1.5	1.6
Foreign-financed investment	4.5	4.5	3.1	7.6	5.8	5.8	5.0	4.3	4.3	4.3	4.2
Net lending	1.3	0.3	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance[3]	-3.0	-1.1	-1.2	-0.1	-5.1	-3.2	-2.9	-2.5	-2.3	-2.5	-2.5
Overall balance (commitment basis)	-4.4	0.4	-1.0	-1.2	-3.3	-2.2	-2.2	-2.3	-2.1	-2.3	-2.3
Excluding grants	-9.7	-6.7	-5.1	-9.8	-11.8	-10.0	-8.9	-7.8	-7.7	-7.8	-7.7
Change in net arrears	0.0	-0.1	0.6		0.0	0.0	0.0	0.0	0.0	0.0	0.0
External arrears	0.0	0.0	0.1		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears	-0.1	-0.2	0.6		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment	-0.5	-0.9	-0.4		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation	0.4	0.7	0.9		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float	-0.4	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-4.4	0.2	-0.4	-1.2	-3.3	-2.3	-2.2	-2.3	-2.1	-2.3	-2.3
Excluding grants	-9.7	-6.8	-4.4	-9.8	-11.8	-10.0	-8.9	-7.8	-7.7	-7.8	-7.7
Financing	4.1	-0.1	0.7		3.3	2.3	2.2	2.3	2.1	2.3	2.3
Foreign (net)	1.2	-0.2	0.2		3.4	2.3	2.2	2.3	2.1	2.3	2.3
Drawings, PIP (identified)	1.3	0.0	0.6		4.3	3.1	2.7	2.7	2.7	2.8	2.8
IMF possible RCF and RFI[4]	0.0	0.0	0.0		1.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.3	-0.3	-0.3		-0.8	-0.6	-0.5	-0.4	-0.5	-0.5	-0.5
Change in net arrears (principal)	0.1	0.1	-0.1		-0.1	-0.3	0.0	0.0	0.0	0.0	0.0
Domestic (net)	2.9	0.0	0.5		-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Bank financing	2.9	0.0	0.5		-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Central bank	3.0	-0.2	0.7		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: IMF (net)	-0.2	-0.2	-0.3		0.7	-0.2	-0.2	-0.3	-0.5	-0.4	-0.1
Commercial banks	0.0	0.3	-0.1		-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions/ Financing gap (+ = underfinancing)	0.7	-0.1	-0.3		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
GDP (nominal)	456,756	470,734	492,860	514,210	514,210	542,376	573,290	604,648	637,862	672,590	709,458
Wages in percentage of revenues	62.3	54.1	48.0	42.4	57.3	58.6	61.1	60.3	59.4	59.4	59.4

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

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

[2] Including RAU from 2018.

[3] Domestic revenues minus current primary expenditures and domestically financed capital expenditures.

[4] Assumes 50 percent of the quota as one-time disbursment in July 2019, of which 33.3 percent is provided by the RCF and 66.7 percent by the RFI.

Table 3. Comoros: Monetary Survey, 2016-25

(In millions of Comorian francs, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Proj.				
Net foreign assets	69,000	77,716	80,970	76,420	77,423	77,392	78,504	81,583	83,556	83,708
Central bank assets	74,638	87,000	85,756	84,397	83,716	82,248	81,294	80,325	79,339	78,367
Central bank liabilities	-12,505	-10,802	-9,718	-13,265	-12,051	-11,131	-9,590	-6,096	-3,717	-3,208
Commercial banks assets	14,198	7,723	8,234	8,590	9,061	9,577	10,101	10,656	11,236	11,852
Commercial banks liabilities	-7,331	-6,205	-3,302	-3,302	-3,302	-3,302	-3,302	-3,302	-3,302	-3,302
Net domestic assets	56,431	49,994	57,558	68,110	75,023	83,742	91,445	97,701	105,489	115,699
Domestic credit	85,745	85,381	89,600	92,155	89,319	88,288	88,197	87,692	89,378	93,799
Net credit to government	10,241	5,946	9,535	13,875	12,874	11,780	10,514	7,316	5,329	5,305
Of which: Treasury	17,379	13,699	15,297	19,932	19,235	18,457	17,437	14,554	12,856	13,119
Bank financing	10,241	5,946	9,535	13,875	12,874	11,780	10,514	7,316	5,329	5,305
Claims on government	18,293	18,405	16,626	21,261	20,564	19,785	18,765	15,882	14,185	14,447
Deposits at Treasury	-8,051	-12,459	-7,090	-7,386	-7,690	-8,005	-8,251	-8,566	-8,856	-9,142
Claims on public enterprises	2,899	2,268	2,017	2,027	2,037	2,047	2,047	2,047	2,047	2,047
Claims on other financial institutions	-64	-77	-108	-108	-108	-108	-108	-108	-108	-108
Claims on private sector	72,669	77,167	78,123	76,361	74,516	74,569	75,743	78,437	82,110	86,555
Other items net	-29,314	-35,387	-32,041	-22,126	-12,367	-2,607	5,187	11,948	18,050	23,839
Of which: Long term liabilities	--	--	--	--	--	--	--	--	--	--
Broad money	125,431	127,710	138,528	144,529	152,446	161,135	169,948	179,284	189,045	199,407
Money	84,251	85,934	92,781	96,800	102,102	107,922	113,825	120,077	126,615	133,555
Currency in circulation	28,679	32,904	35,904	37,459	39,511	41,763	44,048	46,467	48,997	51,683
Demand deposits	55,572	53,031	56,877	59,341	62,591	66,159	69,777	73,610	77,618	81,872
Quasi-money	41,180	41,776	45,747	47,729	50,344	53,213	56,124	59,207	62,430	65,852
	(change in percent of beginning period broad money)									
Net foreign assets	-9.1	6.9	2.5	-3.3	0.7	0.0	0.7	1.8	1.1	0.1
Net domestic assets	19.4	-5.1	5.9	7.6	4.8	5.7	4.8	3.7	4.3	5.4
Domestic credit	18.9	-0.3	3.3	1.8	-2.0	-0.7	-0.1	-0.3	0.9	2.3
Net credit to government	12.8	-3.4	2.8	3.1	-0.7	-0.7	-0.8	-1.9	-1.1	0.0
Credit to public enterprises	1.8	-0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	4.3	3.6	0.7	-1.3	-1.3	0.0	0.7	1.6	2.0	2.4
Other items (net)	0.4	-4.8	2.6	7.2	6.8	6.4	4.8	4.0	3.4	3.1
Broad money	10.3	1.8	8.5	4.3	5.5	5.7	5.5	5.5	5.4	5.5
Money	6.9	1.3	5.4	2.9	3.7	3.8	3.7	3.7	3.6	3.7
Quasi-money	3.3	0.5	3.1	1.4	1.8	1.9	1.8	1.8	1.8	1.8
Velocity (GDP/end-year broad money)	3.6	3.7	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Credit to private sector (percent change)	7.2	6.2	1.2	-2.3	-2.4	0.1	1.6	3.6	4.7	5.4

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

Table 4a. Comoros: Balance of Payments, 2016-25

(In millions of Comorian francs, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Prel.				Proj.				
Current account	-19,575	-10,178	-18,783	-39,692	-40,243	-35,965	-28,997	-28,288	-30,527	-31,590
Goods and services	-71,067	-77,128	-84,117	-117,639	-117,238	-114,848	-109,174	-112,646	-119,963	-125,443
Trade balance	-68,167	-74,475	-84,589	-115,541	-115,778	-114,564	-110,927	-114,581	-121,849	-127,558
Exports	13,682	17,267	17,515	17,700	17,548	18,888	20,468	22,180	23,928	25,966
Of which: Vanilla	2,009	3,609	2,112	1,650	2,262	2,336	2,582	2,855	3,150	3,479
Cloves	8,442	9,442	7,962	8,307	7,334	8,129	8,981	9,927	10,957	12,103
Ylang-ylang	479	1,776	4,211	4,393	4,445	4,788	5,145	5,529	5,655	5,787
Other	2,752	2,440	3,230	3,350	3,507	3,634	3,760	3,869	4,167	4,596
Imports (f.o.b.)	-81,849	-91,742	-102,103	-133,241	-133,326	-133,452	-131,394	-136,760	-145,777	-153,524
of which oil	-16,131	-21,199	-24,696	-22,546	-23,445	-24,075	-24,849	-26,014	-27,254	-28,586
Services (net)	-2,900	-2,653	472	-2,098	-1,459	-284	1,753	1,935	1,886	2,115
Receipts	34,364	38,640	45,189	48,090	51,181	54,474	57,984	61,309	64,386	67,618
Payments	-37,264	-41,293	-44,717	-50,188	-52,640	-54,759	-56,230	-59,374	-62,500	-65,503
Income (net)	2,453	2,018	2,841	2,437	2,096	2,028	1,971	1,901	2,028	1,216
Of which: Interest on rescheduled obligations	-289	-280	-443	-612	-1,154	-1,474	-1,672	-1,913	-2,022	-2,162
Current transfers (net)	49,039	64,932	62,493	75,510	74,899	76,856	78,206	82,457	87,409	92,636
Government	6,560	16,495	7,884	13,724	10,505	9,745	7,494	7,755	8,031	8,331
Private [1]	42,479	48,437	54,609	61,785	64,393	67,110	70,712	74,702	79,377	84,305
Capital and financial account	24,566	10,981	19,495	38,808	41,462	34,497	28,043	27,320	29,540	30,618
Capital account	8,370	20,963	12,359	7,634	14,474	13,296	9,746	10,301	9,995	9,293
Capital transfers	8,370	20,963	12,359	7,634	14,474	13,296	9,746	10,301	9,995	9,293
Transfer of fixed assets	14,381	21,050	12,359	7,634	14,474	13,296	9,746	10,301	9,995	9,293
Financial account	16,197	-9,982	7,136	31,174	26,988	21,201	18,297	17,019	19,545	21,325
Direct investment	1,587	1,707	2,858	3,418	3,631	3,870	4,120	4,388	6,788	7,249
Net portfolio and other investment	14,610	-11,689	4,278	27,756	23,357	17,331	14,177	12,631	12,757	14,076
Government	3,785	-1,258	1,165	17,985	13,997	12,683	13,818	13,642	15,466	16,545
Drawings	6,116	0	2,753	22,190	16,984	15,369	16,254	17,127	18,927	20,150
Amortization	-2,331	-1,258	-1,588	-4,205	-2,987	-2,685	-2,435	-3,485	-3,461	-3,604
Private sector (net)	10,825	-10,431	3,113	9,770	9,360	4,648	358	-1,011	-2,709	-2,469
Banks, net	-5,029	5,349	-3,414	-357	-471	-516	-524	-555	-580	-616
Other	15,855	-15,780	6,527	10,127	9,831	5,164	882	-456	-2,129	-1,853
Errors and omissions	-22,026	10,989	-1,455	0	0	0	0	0	0	0
Overall balance	-17,036	11,792	-743	-884	1,219	-1,468	-954	-969	-987	-972
Financing	17,035	-11,792	743	884	-1,219	1,468	954	969	987	972
NFA of central bank (increase -)	16,254	-12,362	1,244	1,359	681	1,468	954	969	987	972
Foreign assets	16,254	-12,362	1,244	1,359	681	1,468	954	969	987	972
Foreign liabilities	0	0	0	0	0	0	0	0	0	0
Of which: Net IMF Credit[2]	-823	-1,018	-1,408	3,547	-1,214	-921	-1,541	-3,493	-2,379	-508
Net change in arrears	781	570	-501	-475	-1,900	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Current account (percentage of GDP)	-4.3	-2.2	-3.8	-7.7	-7.4	-6.3	-4.8	-4.4	-4.5	-4.5
Excluding transfers	-15.0	-16.0	-16.5	-22.4	-21.2	-19.7	-17.7	-17.4	-17.5	-17.5
Exports of goods and services (percentage of GDP)	10.5	11.9	12.7	12.8	12.7	12.8	13.0	13.1	13.1	13.2
Imports of goods and services (percentage of GDP)	26.1	28.3	29.8	35.7	34.3	32.8	31.0	30.7	31.0	30.9
Gross international reserves (millions of U.S. dollars)	167.3	200.7	213.8	197.3	197.2	195.0	193.7	192.4	191.2	188.9
In months of imports of goods and services	7.5	7.9	7.0	5.6	5.4	5.3	5.2	4.9	4.6	4.3
Nominal GDP (CF millions)	456,756	470,734	492,860	514,210	542,376	573,290	604,648	637,862	672,590	709,458
Nominal GDP (millions of U.S. dollars)	1,027	1,080	1,231	1,195	1,274	1,355	1,438	1,523	1,616	1,705

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

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

[2] Assumes 50 percent of the quota as one-time disbursment in July 2019, of which 33.3 percent is provided by the RCF and 66.7 percent by the RFI.

Table 4b. Comoros: Balance of Payments, 2016-25
(In percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Prel.				Proj.				
Current account	-4.3	-2.2	-3.8	-7.7	-7.4	-6.3	-4.8	-4.4	-4.5	-4.5
Goods and services	-15.6	-16.4	-17.1	-22.9	-21.6	-20.0	-18.1	-17.7	-17.8	-17.7
Trade balance	-14.9	-15.8	-17.2	-22.5	-21.3	-20.0	-18.3	-18.0	-18.1	-18.0
Exports	3.0	3.7	3.6	3.4	3.2	3.3	3.4	3.5	3.6	3.7
Of which: Vanilla	0.4	0.8	0.4	0.3	0.4	0.4	0.4	0.4	0.5	0.5
Cloves	1.8	2.0	1.6	1.6	1.4	1.4	1.5	1.6	1.6	1.7
Ylang-ylang	0.1	0.4	0.9	0.9	0.8	0.8	0.9	0.9	0.8	0.8
Other	0.6	0.5	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Imports (f.o.b.)	-17.9	-19.5	-20.7	-25.9	-24.6	-23.3	-21.7	-21.4	-21.7	-21.6
of which oil	-3.5	-4.5	-5.0	-4.4	-4.3	-4.2	-4.1	-4.1	-4.1	-4.0
Services (net)	-0.6	-0.6	0.1	-0.4	-0.3	0.0	0.3	0.3	0.3	0.3
Receipts	7.5	8.2	9.2	9.4	9.4	9.5	9.6	9.6	9.6	9.5
Payments	-8.2	-8.8	-9.1	-9.8	-9.7	-9.6	-9.3	-9.3	-9.3	-9.2
Income (net)	0.5	0.4	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.2
Of which: Interest on rescheduled obligations	-0.1	-0.1	-0.1	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Current transfers (net)	10.7	13.8	12.7	14.7	13.8	13.4	12.9	12.9	13.0	13.1
Government	1.4	3.5	1.6	2.7	1.9	1.7	1.2	1.2	1.2	1.2
Private [1]	9.3	10.3	11.1	12.0	11.9	11.7	11.7	11.7	11.8	11.9
Capital and financial account	5.4	2.3	4.0	7.5	7.6	6.0	4.6	4.3	4.4	4.3
Capital account	1.8	4.5	2.5	1.5	2.7	2.3	1.6	1.6	1.5	1.3
Capital transfers	1.8	4.5	2.5	1.5	2.7	2.3	1.6	1.6	1.5	1.3
Transfer of fixed assets	3.1	4.5	2.5	1.5	2.7	2.3	1.6	1.6	1.5	1.3
Financial account	3.5	-2.1	1.4	6.1	5.0	3.7	3.0	2.7	2.9	3.0
Direct investment	0.3	0.4	0.6	0.7	0.7	0.7	0.7	0.7	1.0	1.0
Net portfolio and other investment	3.2	-2.5	0.9	5.4	4.3	3.0	2.3	2.0	1.9	2.0
Government	0.8	-0.3	0.2	3.5	2.6	2.2	2.3	2.1	2.3	2.3
Drawings	1.3	0.0	0.6	4.3	3.1	2.7	2.7	2.7	2.8	2.8
Amortization	-0.5	-0.3	-0.3	-0.8	-0.6	-0.5	-0.4	-0.5	-0.5	-0.5
Private sector (net)	2.4	-2.2	0.6	1.9	1.7	0.8	0.1	-0.2	-0.4	-0.3
Banks, net	-1.1	1.1	-0.7	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other	3.5	-3.4	1.3	2.0	1.8	0.9	0.1	-0.1	-0.3	-0.3
Errors and omissions	-4.8	2.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.7	2.5	-0.2	-0.2	0.2	-0.3	-0.2	-0.2	-0.1	-0.1
Financing	3.7	-2.5	0.2	0.2	-0.2	0.3	0.2	0.2	0.1	0.1
NFA of central bank (increase -)	3.6	-2.6	0.3	0.3	0.1	0.3	0.2	0.2	0.1	0.1
Foreign assets	3.6	-2.6	0.3	0.3	0.1	0.3	0.2	0.2	0.1	0.1
Foreign liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Net IMF Credit[2]	-0.2	-0.2	-0.3	0.7	-0.2	-0.2	-0.3	-0.5	-0.4	-0.1
Net change in arrears	0.2	0.1	-0.1	-0.1	-0.4	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	0.0	0.0
Memorandum items:										
Current Account, excl. transfers (percentage of GDP)	-15.0	-16.0	-16.5	-22.4	-21.2	-19.7	-17.7	-17.4	-17.5	-17.5
Exports of goods and services (percentage of GDP)	10.5	11.9	12.7	12.8	12.7	12.8	13.0	13.1	13.1	13.2
Imports of goods and services (percentage of GDP)	26.1	28.3	29.8	35.7	34.3	32.8	31.0	30.7	31.0	30.9
Gross international reserves (millions of U.S. dollars)	167.3	200.7	213.8	197.3	197.2	195.0	193.7	192.4	191.2	188.9
In months of imports of goods and services	7.5	7.9	7.0	5.6	5.4	5.3	5.2	4.9	4.6	4.3
Nominal GDP (CF millions)	456,756	470,734	492,860	514,210	542,376	573,290	604,648	637,862	672,590	709,458
Nominal GDP (millions of U.S. dollars)	1,027	1,080	1,231	1,195	1,274	1,355	1,438	1,523	1,616	1,705

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

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

[2] Assumes 50 percent of the quota as one-time disbursment in July 2019, of which 33.3 percent is provided by the RCF and 66.7 percent by the RFI.

Table 5. Comoros: External Financing Requirements and Sources, 2019-25
(In millions of US$)

	2019	2020	2021	2022	2023	2024	2025
Financing Needs	**124.1**	**116.5**	**99.0**	**76.9**	**76.7**	**82.8**	**86.0**
Current Account Deficit[1]	117.7	110.6	95.3	72.3	69.4	75.3	78.0
Public Debt Amortization	9.8	7.0	6.3	5.8	8.3	8.3	8.7
Reserve Accumulation (+ = increase)	-3.4	-1.2	-2.7	-1.2	-1.1	-0.9	-0.7
Financing Sources[2]	**70.5**	**66.6**	**64.0**	**67.9**	**71.1**	**81.7**	**88.2**
Capital Account	4.5	20.1	22.7	20.9	22.3	21.8	21.6
Financial Account	66.0	46.5	41.3	47.0	48.8	59.9	66.6
Financing Gap	**53.6**	**49.8**	**35.0**	**9.0**	**5.5**	**1.1**	**-2.2**
Additional/Exceptional Financing Sources	**53.6**	**49.8**	**35.0**	**9.0**	**5.5**	**1.1**	**-2.2**
Additional Aid	29.3	22.1	14.6	2.3	2.3	2.2	0.7
Public Current Transfers	16.1	8.2	5.9	0.0	0.0	0.0	0.0
Public Capital Transfers	13.2	13.9	8.7	2.3	2.3	2.2	0.7
Additional Remittances	9.4	7.9	4.5	3.4	1.9	2.0	2.1
Additional Public Borrowings	14.9	19.9	16.0	3.4	1.4	-3.1	-5.0
Financing from the IMF (RCF and RFI)[3]	12.2	-0.1	-0.1	-0.9	-3.2	-2.4	-0.5
Total financing from donors	2.7	20.0	16.1	4.3	4.6	-0.7	-4.5
Remaining Financing Gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Sources: Comorian authorities, and IMF staff projections.

[1] Excluding changes in public and private transfers related to Cyclone Kenneth.

[2] Excluding additional financing related to Cyclone Kenneth and public debt amortization.

[3] Assumes 50 percent of the quota as one-time disbursment in July 2019, of which 33.3 percent is provided by the RCF and 66.7 percent by the RFI.

Table 6. Comoros: Indicators of Capacity to Repay the Fund, 2019-29[1]

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Fund obligations based on existing credit (in millions of SDRs)											
Principal	2.7	1.9	1.4	1.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit (in millions of SDRs)											
Principal	2.7	1.9	1.4	1.8	3.4	2.2	0.6	0.6	0.6	0.6	0.6
Charges and interest	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Total Fund obligations based on existing and prospective credit											
In millions of SDRs	2.8	2.0	1.5	2.0	3.5	2.3	0.6	0.6	0.6	0.6	0.6
In millions of USD	3.9	2.8	2.2	2.8	5.1	3.3	0.9	0.9	0.9	0.9	0.9
In percent of government revenue	3.5	2.3	1.6	1.9	3.2	1.9	0.5	0.5	0.4	0.4	0.4
In percent of exports of goods and services	2.6	1.8	1.3	1.5	2.5	1.5	0.4	0.4	0.4	0.3	0.3
In percent of international reserves	2.0	1.4	1.1	1.5	2.6	1.7	0.5	0.5	0.5	0.5	0.5
In percent of GDP	0.3	0.2	0.2	0.2	0.3	0.2	0.1	0.0	0.0	0.0	0.0
In percent of IMF Quota	15.8	11.3	8.7	11.1	19.8	12.8	3.4	3.4	3.4	3.4	3.4
Outstanding Fund credit											
In millions of SDRs	14.5	11.9	10.5	8.6	5.2	3.0	2.4	1.8	1.2	0.6	0.0
In millions of USD	20.3	16.7	14.9	12.3	7.5	4.3	3.4	2.6	1.7	0.9	0.0
In percent of government revenue	17.9	13.6	11.1	8.5	4.8	2.6	1.9	1.3	0.8	0.4	0.0
In percent of exports of goods and services	13.3	10.4	8.6	6.6	3.7	2.0	1.5	1.1	0.7	0.3	0.0
In percent of international reserves	10.3	8.5	7.6	6.4	3.9	2.2	1.8	1.4	0.9	0.5	0.0
In percent of GDP	1.7	1.3	1.1	0.9	0.5	0.3	0.2	0.1	0.1	0.0	0.0
In percent of IMF Quota	81.3	66.6	58.8	48.5	29.2	16.7	13.4	10.0	6.7	3.3	0.0
Memorandum items											
Nominal GDP (millions of USD)	1,195	1,274	1,355	1,438	1,523	1,616	1,705	1,799	1,897	2,002	2,113
Exports of goods and services (millions of USD)	153	161	173	187	199	212	225	238	252	267	283
Government revenue (millions of USD)	114	123	134	145	157	168	180	191	203	215	228
Gross international reserves (millions of USD)	197	197	195	194	192	191	189	188	187	186	185
IMF Quota (millions of SDR)	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8

Sources: IMF staff estimates and projections.

[1] Assumes 50 percent of the quota as one-time disbursment in July 2019, of which 33.3 percent is provided by the RCF and 66.7 percent by the RFI.

Annex I. Impact of Cyclone Kenneth on Macroeconomic Performance

On April 23-24, 2019, a powerful cyclone hit Comoros. In addition to bringing loss of life and injuries, the cyclone destroyed infrastructure and property. The storm will likely temporarily depress GDP growth, drive up inflation, and create fiscal and external financing needs, while also leaving a lasting impact on debt.

1. **On April 23-24, 2019, Cyclone Kenneth hit Comoros with winds of up to 140 kilometers per hour and heavy rainfalls, causing casualties and injuries, and damaging infrastructure and property.** Preliminary information suggests that the cyclone killed several people, displaced thousands, and destroyed or damaged buildings, substantial parts of the electricity distribution network, and 35 percent of agricultural plants used in both subsistence and commercial farming. It also polluted several drinking water reservoirs. There is a fear that the destruction and rain may raise malnutrition as well as the incidence of communicable diseases, such as cholera and diarrheal diseases, measles, and malaria. The poor are likely to suffer most, including because their dwellings are most vulnerable, and they rely to a high degree on subsistence agriculture.

2. **The value of assets destroyed is estimated at US$120 million (10 percent of GDP), and the need for humanitarian aid to the poor at US$30 million.** This compares to average damages in small states of 16.1 percent of GDP from storms classified as natural disasters (a figure that is not fully comparable however because it includes incomes foregone as a result of the disasters[1]).

3. **The authorities and the international community have started responding.** The UN's Central Emergency Response Fund allocated US$13 million to Comoros and Mozambique (the share intended for Comoros was not specified) for immediate assistance, the EU released Euro 1.5 million for both countries, and the Red Cross US$ 125,000. Comoros has also received limited in-kind donations. Numerous roads have been cleared of fallen trees, and electricity provision has been partially restored. Many displaced people have found temporary shelter in their communities.

4. **The analysis of the cyclone's impact is built on several assumptions.** It is assumed that the cyclone-related loss of infrastructure, the housing stock, and agricultural plants will be fully repaired over the medium term; the government will need to pay for the reconstruction of damaged public infrastructure; and support the poor by helping them meet their immediate needs, including for food, as well contributing to the rebuilding of their homes and replacement of their damaged agricultural plants. Relative to pre-cyclone projections, the fiscal financing need from higher outlays and lower revenue will be met through a combination of higher grants, new external debt, and

[1] See "Small States' Resilience to Natural Disasters and Climate Change - role for the IMF", IMF Policy Paper, December 2016.

(continued)

savings on the civil service wage bill; while private sector needs will be supported partly by higher remittances inflows and a moderate use of foreign exchange reserves.[2]

5. The cyclone will affect economic performance through several channels relative to pre-cyclone baseline projections (Table AI.1 and Figure AI.1):

- ***GDP growth:*** Growth in 2019 will be lower (by 1.7 percentage points of GDP) due to supply constraints from damages to agricultural plants and the electricity, road, water, and telecommunication networks, only partially offset by positive demand effects from higher public and private spending on reconstruction and social transfers. Demand will remain above baseline for several years reflecting continued public and private spending on reconstruction and elevated public transfers (to SOEs and affected populations, see below). Supply constraints will start to ease in 2020, assuming that electricity and water networks will be fully repaired in 2019, while full reconstruction of damage to buildings and roads will take several years. As a result, growth during 2020-22 will exceed the pre-cyclone projection by a cumulative 1.3 percentage points of GDP, allowing real GDP to almost reach its pre-cyclone projected level from 2023 onwards.

- ***CPI inflation and GDP deflator:*** Average inflation will be higher in 2019 (by 1.2 percentage points) due to supply constraints mainly in the area of food items. Inflation will however decelerate in 2020 as food supply starts to pick up in line with agricultural plants being gradually restored and higher availability of imported food (price levels will remain above baseline). The GDP deflator will evolve similarly to CPI inflation. As a result of a higher cumulative GDP deflator and the evolution of real GDP discussed above, nominal GDP will remain slightly below baseline over the projection period.

- ***Fiscal revenue and grants:*** During the years 2019-22, domestic tax and non-tax revenue (the latter is paid mainly by SOEs) will grow more slowly than in the baseline, given lower corporate profit tax payments due to lower profits in the wake of needed corporate reconstruction spending. Import taxes will grow more slowly as well, given the authorities' decision to provide exemptions for part of cyclone-related imports. Grants are projected to exceed baseline by a cumulative 2.5 percentage points of 2019 GDP over 2019-25 thanks to additional donor support.

- ***Fiscal spending:*** During 2019-25, spending will be higher than in the baseline (by cumulative 9.1 percentage points of GDP), and thereafter converge to baseline. There will be a shift in the composition of spending in favor of higher investment spending as well as higher transfers to the poor. To support this effort, the wage bill will be compressed (by cumulative 1.6 percentage points).

- ***Fiscal balance:*** Over 2019-22, the fiscal deficit will be higher (by a cumulative 2.1 percentage points of 2019 GDP) than in the baseline due to lower revenue and higher spending. Thereafter, the fiscal deficit will converge gradually to baseline. The government will take up new debt to finance this deterioration, given very limited opportunities for taking up domestic debt.

[2] The government has already reached the limit for credit from the central bank and there is essentially no domestic market for government debt.

Assuming that the new debt will be on concessional terms, the level of debt should exceed the pre-cyclone baseline by 1.7 percent of GDP in 2025.

- ***External sector:*** The trade balance will be weaker until 2023 due to weaker exports (including of agricultural products) and higher reconstruction-related imports.

6. **Adding up the above impacts suggests that the cyclone will create sizeable financing needs (Table AI.2).** The country's balance of payments need is 12.7 percent of GDP cumulative through 2025, and the fiscal need is 9.1 percent of 2019 GDP.

Table 1. Comoros: Pre- and Post-Cyclone Kenneth Selected Economic Indicators, 2019-25

	2019	2020	2021	2022	2023	2024	2025
	National income and prices, in percent						
Real GDP							
Pre-cyclone	3.0	3.3	3.4	3.4	3.5	3.5	3.5
Post-cyclone	1.3	4.2	3.6	3.5	3.5	3.5	3.5
Consumer price index (annual averages)							
Pre-cyclone	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Post-cyclone	3.2	1.4	2.1	2.0	2.0	2.0	2.0
GDP (nominal, in billions of CF)							
Pre-cyclone	517.3	544.7	574.0	605.0	638.1	673.2	710.4
Post-cyclone	514.2	542.4	573.3	604.6	637.9	672.6	709.5
	Credit, percentage change						
Domestic credit							
Pre-cyclone	-3.0	-1.6	0.9	2.6	3.8	4.8	5.4
Post-cyclone	2.9	-3.1	-1.2	-0.1	-0.6	1.9	4.9
Credit to the private sector							
Pre-cyclone	-2.0	-1.0	2.0	3.0	3.8	4.5	5.2
Post-cyclone	(2.3)	(2.4)	0.1	1.6	3.6	4.7	5.4
	Investment and savings, in percent of GDP						
Investment							
Pre-cyclone	12.0	11.7	11.5	11.3	11.0	10.8	10.6
Post-cyclone	15.7	14.4	13.5	13.0	12.5	12.0	11.6
Gross national savings							
Pre-cyclone	8.4	8.0	7.7	7.6	7.5	7.4	7.3
Post-cyclone	11.9	10.7	10.8	10.2	9.1	8.5	8.0
	Government budget, in percent of GDP						
Total revenue and grants							
Pre-cyclone	15.2	15.3	15.4	15.5	15.5	15.6	15.7
Post-cyclone	18.0	17.4	16.6	15.6	15.8	15.9	15.9
Total revenue							
Pre-cyclone	9.9	10.0	10.1	10.2	10.3	10.4	10.6
Post-cyclone	9.5	9.7	9.9	10.1	10.3	10.4	10.6
Current expenditure							
Pre-cyclone	11.2	11.4	11.9	12.2	12.3	12.3	12.5
Post-cyclone	13.0	12.1	12.5	12.5	12.4	12.4	12.4
Capital expenditure							
Pre-cyclone	6.6	5.4	5.3	5.4	5.4	5.5	5.6
Post-cyclone	8.3	7.5	6.3	5.4	5.5	5.8	5.8
Total pre	17.9	16.8	17.2	17.5	17.6	17.9	18.1
Total post	21.3	19.7	18.8	17.9	17.9	18.2	18.2
Overall balance (cash basis)							
Pre-cyclone	-2.6	-1.6	-1.8	-2.1	-2.1	-2.2	-2.3
Post-cyclone	-3.3	-2.3	-2.2	-2.3	-2.1	-2.3	-2.3
	External sector, in percent of GDP						
Current account balance							
Pre-cyclone	-5.0	-4.3	-4.2	-4.2	-4.2	-4.6	-4.7
Post-cyclone	-7.7	-7.4	-6.3	-4.8	-4.4	-4.5	-4.5
Net private remittances							
Pre-cyclone	11.2	11.2	11.4	11.5	11.6	11.7	11.7
Post-cyclone	12.0	11.9	11.7	11.7	11.7	11.8	11.9
External debt							
Pre-cyclone	21.5	24.7	26.2	28.6	29.0	29.6	30.3
Post-cyclone	22.3	26.2	27.9	30.4	30.8	31.3	32.0
Gross international reserves (in months of imports of goods and services)							
Pre-cyclone	6.4	6.2	5.9	5.5	5.2	4.8	4.5
Post-cyclone	5.5	5.4	5.2	5.2	4.9	4.6	4.3

Sources: Comorian authorities, and IMF staff projections.

Figure 1. Comoros: Pre- and Post-Cyclone Kenneth Selected Economic Indicators 2016-25

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

Table 2. Comoros: Financing Needs and Sources Due to Cyclone Kenneth Cumulative over 2019-25, in Percent of 2019 GDP

	Share (Percent)	Percent of 2019 GDP
		12.5
Assets destroyed that will be fully rebuilt over the medium term		**10.0**
Infrastructure, including public buildings	30%	3.0
Private houses	30%	3.0
Agricultural plants (subsistence and commercial)	40%	4.0
Food and other shortages		**2.5**
1. Needs		
1a. Fiscal needs		**9.1**
	Government burden share	
Repair of destroyed assets		5.1
Infrastructure, including public buildings	100%	3.0
Private houses	30%	0.9
Agricultural plants (subsistence and commercial)	30%	1.2
Transfers for food and other necessities	100%	2.5
Lower revenue		1.5
1b. Balance of payments needs		**12.7**
	Import content	
Repair of destroyed assets		6.4
Infrastructure incl public buildings	80%	2.4
Private houses	80%	2.4
Agricultural plants (subsistence and commercial)	40%	1.6
Higher imports of food and other necessities	100%	2.5
Import Freight and Insurance		1.3
Reduced exports		1.8
Other changes[1]		0.8
2. Foreign resources available to the country		**12.0**
2a. Available to government		**7.5**
Additional aid		6.1
Budget support grants		2.5
Project grants		3.6
New external government debt		1.4
2b. Available to private sector		**4.5**
Higher remittances		2.6
Higher financing		1.9
3. Change in official foreign exchange reserves (+=increase)		**-0.7**
4. Total resources available to government		**9.1**
Foreign resources		7.5
Domestic resources (Wage bill savings)		1.6
Check:		
Unmet fiscal needs: (1a-4)		0.0
Unmet BoP needs: (1b-2+3)		0.0

[1] Includes factors such as changes in FDI and income paid for workers.

Sources: IMF staff projections.

Annex II. Risk Assessment Matrix

Sources of Risk	Relative Likelihood	Time Horizon	Impact on Comoros	Policy Responses
		External Risks		
Decline in remittances. A protracted economic slowdown in Europe reduces remittances from the diaspora in France.	**High**	**ST, MT**	**High**	• **Enhance economic competitiveness** through improving the business climate. • **Enhance revenue mobilization.**
Forced repatriation of Comorian migrants in Mayotte. Renewed tensions between the Comorian diaspora in Mayotte and the local population leads to the forced repatriation of the former.	**Medium**	**ST**	**Medium**	• **Enhance revenue mobilization** and **enhance economic competitiveness** to provide economic opportunities for returned migrants.
Weaker-than-expected global growth. A global growth slowdown could be synchronized as weakening outlooks in the U.S., Europe and China feed off each other and impact on earnings, asset prices and credit performance.	**Medium/High**	**ST, MT**	**High**	• **Enhance economic competitiveness** and **reprioritize spending** to unlock potential new export sectors.
Intensification of risks of fragmentation/security dislocation in part of the Middle East, Africa, and Europe, leading to socioeconomic disruptions	**High**	**ST, MT**	**High**	
Sharp tightening of global financial conditions. This causes higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; capital account pressures; and a broad-based downturn.	**Low**	**ST, MT**	**Low**	• **Enhance economic competitiveness** and **reprioritize spending** to unlock potential new export sectors.
Large swings in energy prices. Risks to prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks.	**Medium**	**ST, MT**	**Medium**	Ensure that **subsidies to the state-owned oil importer (SCH) are budgeted for in a transparent manner** to accurately reflect the impact of oil price changes in the fiscal accounts.

Sources of Risk	Relative Likelihood	Time Horizon	Impact on Comoros	Policy Responses
		Domestic Risks		
Inability to mobilize enough external financing to address all the cyclone related needs.	High	ST, MT	High	**Intensify outreach to donors.**
Weak implementation of measures to address impact of cyclone Kenneth. With human and physical capital permanently weakened by substantial margins, economic performance would much below expectations.	High	ST, MT	High	**Forcefully address the need to rebuild, and provide temporary support to affected populations, particularly the poor.**
Political Developments: Lingering political and inter-island tensions in the aftermath of the constitutional changes and Presidential elections hold back private sector activity and fiscal revenue.	High	ST	High	**Resolve political uncertainty as soon as possible** to avoid economic spillovers.
Deterioration of the SOEs' financial situation.	High	ST, MT	High	**Contain associated fiscal risks** and ensure that the largest SOEs will prepare audited annual balance sheets and profit and loss statements by end-2020.
Infrastructure: Failure to consolidate recent hard-won gains in electricity supply stability.	Medium	ST, MT	High	Ensure that **subsidies to the state-owned electricity utility (MAMWE) are sufficiently budgeted for** and **adequate electricity distribution networks are adequately developed**.
Poor investment quality does not yield medium-term growth benefits.	Medium	MT	High	• **Improve project selection** so that only projects with net economic benefits are undertaken.
Natural disasters: Eruption of the Karthala volcano or another hurricane landfall.	Medium	ST, MT	High	• Limited mitigation options. To the extent possible, **enhance revenue mobilization** to increase fiscal space available for disaster recovery.
Financial Sector: Persistently high NPL level continues to weigh on credit provision to the private sector and growth.	High	ST, MT	High	**Strengthen judicial contract enforcement** in the financial sector to reduce lending risk.
Failure to resolve difficulties of SNPSF in an adequate and timely manner.	High	ST, MT	High	**Improve the quality of lending collateral** to reduce lending risk. **Speedily implement a comprehensive resolution plan** for SNPSF and **prepare financial crisis contingency plans**.
Further deterioration of asset bank quality if the reconstruction process is delayed	High	ST, MT	High	**Design and implement cyclone response adequately and in timely manner.**

Annex III. External Stability Assessment

Comoros' external position at end-2018 was somewhat stronger than indicated by fundamentals and desirable policy settings, while foreign reserves coverage was adequate. However, while the regular inflow of large remittances is a stabilizing element, risks to external stability are numerous: reserves are on a declining trend; the external position depends to a high degree on volatile foreign aid, the export base remains narrow, and exposure to disasters is pronounced (as demonstrated by cyclone Kenneth). Finally, Comoros' inhospitable business climate and physical and human capacity constraints continue to impede competitiveness and export growth, creating risk to external stability over the longer term.

A. External Sector—Recent Developments

1. The current account deficit widened in 2018. The deterioration (by 1.6 percentage points to 3.8 percent of GDP), reflected mainly weakening of the trade balance in line with higher imports and disappointing export performance (Figure 1).

2. Cyclone Kenneth is expected to contribute to further, albeit temporary, current account deterioration in 2019-21. On the back of increased imports of goods to support the reconstruction process, and a deceleration of exports of goods, the current account deficit is expected to rise to an average 6.1 percent of GDP. Foreign aid and private transfers are expected to rise, but they will not cover fully the deterioration of the current account, pushing up external debt.

3. A key vulnerability is that Comoros' external position remains highly dependent on volatile foreign aid. While remittances have remained resilient, public transfers fell sharply in 2018 (by 1.9 percentage points to 1.6 percent of GDP). This contributed to a decline in foreign reserves by 1.2 percentage points of GDP (to 17.4 percent of GDP or 7 months of imports of goods and services). These developments illustrate one of the challenges to external stability in Comoros: while remittances are generally thought to be an element of stability, aid flows can be highly volatile.

4. Comoros' narrow export base constitutes another source of vulnerability. Comoros benefits from natural advantages and high potential in three products that constituted more than 80 percent of Comoros' goods exports over 2010-18: cloves (58.1 percent), vanilla (11.6 percent), and ylang-ylang (11 percent). This exposes the country to volatility in its export prices as well as to other shocks such as natural disasters that affect agricultural exports, as seen in the context of cyclone Kenneth. Reforms that would help boost exports of these staple products and their higher-value varieties, while working to also strengthen other promising exports could bring sizeable benefits.

B. External Position Assessment

5. The Union of Comoros is assessed to be "credit constrained" given that it does not regularly borrow from international capital markets and is not rated to be "investment grade."

Borrowing from international capital markets is defined as at least one issuance of bonds per year in the last five years.

6. The revised EBA-lite Current Account (CA) model and Index of the Real Effective Exchange Rate (IREER) were complemented by staff judgment to assess Comoros' external position. The CA and IREER models consist of a positive analysis, using panel regression models to understand the country's recent development, and a normative evaluation based on staff judgement on the appropriate or desirable policy levels. Recent revisions to the CA model and IREER methodologies focused on clarifying the role of remittances and aid in the external balance, incorporating natural disasters and armed militarized conflicts, as well as expanding policy determinants by introducing social insurance policies and revising the financial policy variables. Due to the absence of international investment position (IIP) data for Comoros, the external sustainability (ES) approach is not used.

7. Comoros' external position at end-2018 was found to be somewhat stronger than indicated by medium-term fundamentals and desirable policies (Table 1 and 2).

- The model-based CA approach indicates a CA deficit norm of 6.5-6.6 percent of GDP and a difference with the observed level of the CA (the "CA Gap") of 2.1-2.3 percentage points of GDP. The elasticity of the trade balance with respect to changes in the REER is estimated at -0.14, indicating a REER "misalignment" of -14.8 to -15.9 percent.[1] These results are mainly driven by a sizeable policy gap, for example public health expenditures in Comoros are estimated at 1.4 percent of GDP, while the benchmark ranges between 2 and 3.2 percent of GDP. The CA model implies that Comoros' external position at end-2018 was stronger than suggested by medium-term fundamentals and desirable policies.

- In contrast, the IREER approach suggests that the real effective exchange rate is in line with medium-term fundamentals and desirable policies. Estimations indicate an only small difference between the observed measure of the real effective exchange rate and its norm. In the application to Comoros, staff places greater faith in the CA approach than the IREER approach, as the latter appears more vulnerable to data limitations in the Comoros context. Also, Comoros data were not included in the development of the IREER approach.

[1] Since the Institutional Country Risk Guide index (ICRG) is not available for Comoros, the Worldwide Governance Indicators (WGI) index was used to identify comparators. These are Bangladesh, The Gambia, Liberia, Madagascar, Niger, and Sierra Leone. The ICRG averages for LICs and fragile states were also used.

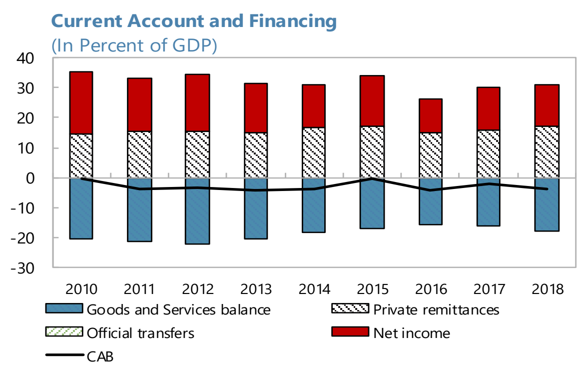
Table 1. Comoros: EBA-lite Exchange Rate Assessment[1]			
CA model (CAB/GDP)			
	Norm	Underlying	CA Gap
ICRG: proxied by WGI of comparators	-6.6	-3.8	2.3
ICRG: LICs average	-6.6	-3.8	2.2
ICRG: Fragile States average	-6.5	-3.8	2.1
IREER (log REER)			
	Norm	Underlying	REER Gap
ICRG: proxied by WGI of comparators	4.61	4.59	-2.4
ICRG: LICs average	4.61	4.59	-2.4
ICRG: Fragile States average	4.61	4.59	-2.1

[1] Since the Institutional Country Risk Guide index (ICRG) is not available for Comoros, the Worldwide Governance Indicators (WGI) index was used to identify comparators. These are Bangladesh, The Gambia, Liberia, Madagascar, Niger, and Sierra Leone. The ICRG averages for LICs and fragile states were also used.

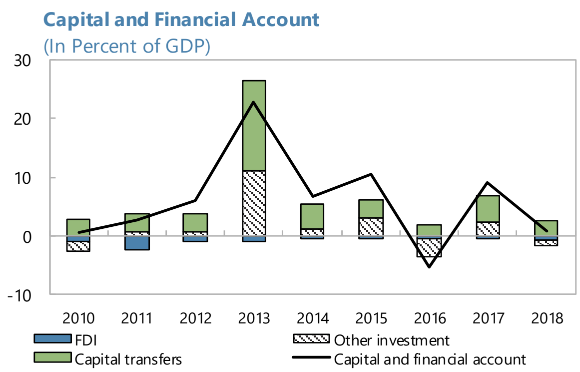
Source: IMF staff estimates.

Figure 1. Comoros: Balance of Payments and External Sector Developments

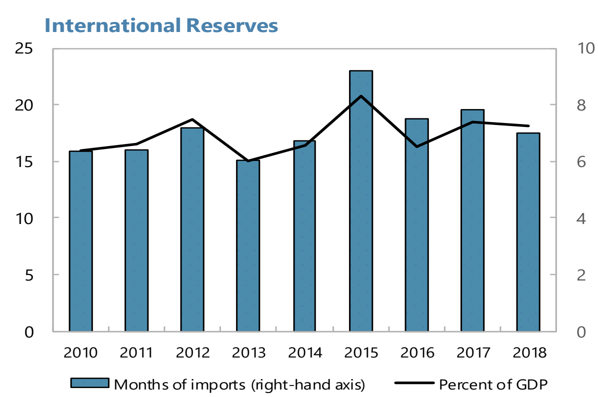
The trade deficit is financed principally by remittances.



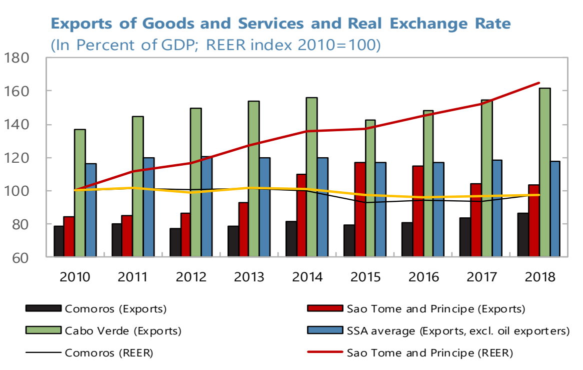
The capital and financial accounts are marked by limited FDI and debt relief.



Foreign exchange reserves are broadly adequate.



Comoros' export volume is largely stagnant.

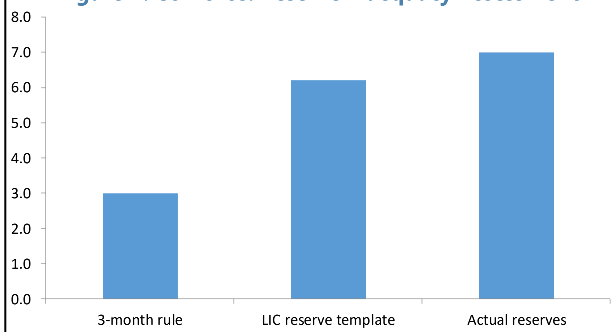


Sources: Country authorities, and IMF staff estimates.

C. Reserves Adequacy

8. International reserve coverage remained adequate at end-2018 (Figure 2). The IMF's reserve adequacy metric for credit-constrained countries compares Comoros' current international reserves level with an estimated adequate level that balances the marginal benefits and costs of holding reserves.[2] The optimal level of international reserves for Comoros was determined at 6.2 months of current-year goods and services imports, slightly lower than the reserves holdings of 7 months of imports at end-2018. International reserves were also equivalent to 62 percent of broad money, providing adequate coverage against resident-based capital flight (20 percent is a typical upper-bound benchmark[3]). This said, with partial use of reserves to fill the financing gap created by Cyclone Kenneth and despite Fund financial support, reserves are projected to fall below the desirable level of 6.2 months of imports in 2019. Over the medium term, import coverage of reserves is expected to slide further, creating a vulnerability the authorities may wish to address.

Figure 2. Comoros: Reserve Adequacy Assessment



D. Structural Competitiveness

9. Comoros' business environment remains inhospitable, which undermines export growth, thereby undermining longer-term prospects for external stability (Figure 3). Comoros ranks 164 out of 190 countries on the 2019 World Bank doing business rankings, with major weakness in enforcing contracts (179 out of 190), resolving insolvency (168th), paying taxes (168th), starting a business (164th) and protecting minority investors (149th). Additionally, Comoros underperforms in the four clusters of the Country Policy and Institutions Assessment (CPIA) of the World Bank against SSA IDA average, Furthermore, Comoros' CPIA scores over 2008-17 suggest little progress in terms of structural reforms and policies for social inclusion and equity. Additionally, Comoros' human development index (HDI) for 2017 ranks the country at 165 out of 189 countries and territories, putting Comoros in the low human development category. The HDI value increased from 0.449 to 0.503 between 2004 and 2017, but this improvement remains among the lowest in SSA countries. These developments and the lackluster export performance highlight the importance of easing the ongoing complexities of doing business in Comoros to enhance competitiveness and achieve faster export growth with a view to safeguarding external stability.

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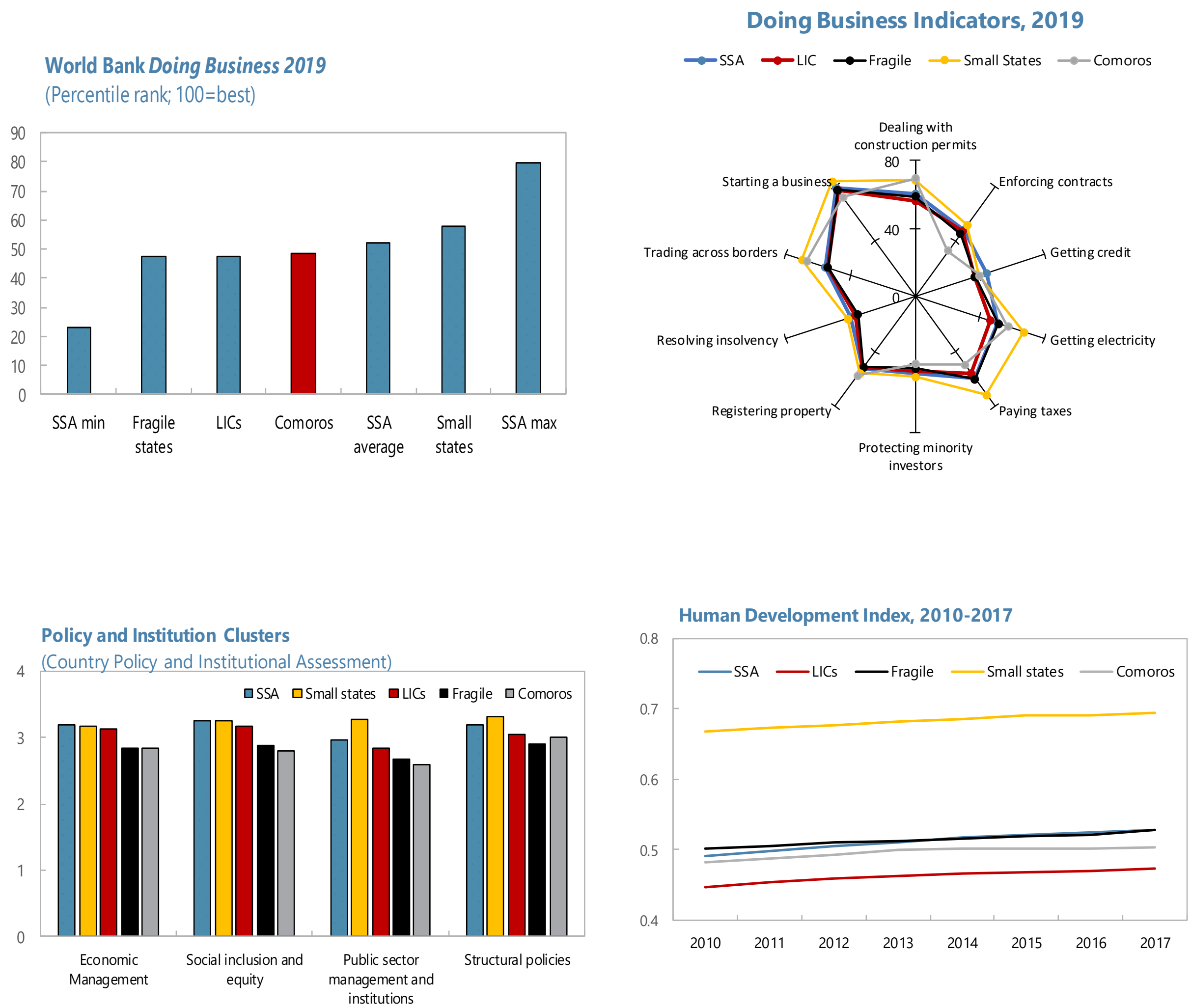
[2] International Monetary Fund, 2013, "Assessing Reserve Adequacy for Low-Income Countries," IMF Policy Paper, November (Washington, D.C.: International Monetary Fund). The framework accounts for the structural characteristics of economies such as Comoros, for example, a high vulnerability to adverse exogenous current account shocks (to the terms of trade, remittances and aid flows) and limited access to capital markets.

[3] See paragraph 59 in Assessing Reserve Adequacy—Specific Proposals.

Figure 3. Comoros: Selected Indicators of Business Environment and Governance



Sources: World Bank, United Nations Development Program, and IMF staff estimates.

Notes: SSA=Sub-Saharan Africa, and LICs=Low-income countries. The rankings used are subject to uncertainty around the point estimate. Rankings reflect the relative, not the absolute, performance of the country. The CPIA index ranks performance of countries on a scale of 1=lowest to 6=highest. A higher value on the UNDP HDI denotes better development.

Appendix I. Letter of Intent

Moroni, Union of the Comoros
July 16, 2019

Mr. David Lipton
Acting Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Lipton,

1. On April 23-24, 2019, Cyclone Kenneth struck the Union of the Comoros. The cyclone caused several casualties, displaced thousands, and damaged substantial parts of the building stock, infrastructure, and crops for local consumption and exports. Transportation, communications, energy provision and commercial activities have been severely disrupted. Humanitarian needs are acute and risks of a food crisis are high.

2. The cost of coping with the cyclone will be very high. Estimates by our international development partners, including the IMF, United Nations system and the World Bank, see humanitarian needs of about US$30 million over the next months, while the cost of rebuilding damaged physical assets could reach US$120 million, bringing total costs to US$150 million (12.5 percent of GDP).

3. The cyclone's short-term economic impact is also expected to be large. Our preliminary projections suggest that real GDP growth in 2019 could slow to 1.3 percent—down from a pre-cyclone projection of 3 percent—owing to agricultural losses and disruptions to transport, communications and services. Growth would accelerate to 4.2 percent in 2020 favored by rebuilding activities. Owing to the adverse shock to food supply, inflation is projected to rise to 3.2 percent in 2019—up from a pre-cyclone projection of 2 percent.

4. The cyclone will affect our fiscal situation, requiring reallocation of budget resources to critical spending on building rehabilitation and infrastructure reconstruction, including schools, as well as food assistance to the affected poor. The additional financing needs for the period 2019 to 2025 would total more than 9 percentage points of 2019 GDP (equivalent to US$124 million).

5. The bulk of the additional spending needs should to be covered by external grants from our development partners. In this connection, we are seeking support of US$287 million over the longer term. The United Nations system and our international and humanitarian partners have been responding rapidly by providing in-kind and financial support. Additional support will still be required,

6. To face the emerging large budgetary and external financing gaps, the Government of the Union of the Comoros requests emergency financing from the IMF. We request financing under the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) equivalent to 50 percent of our quota. Specifically, we request financing of 16.7 percent of quota (SDR 2.9726 million) under the RCF and 33.3 percent of quota (SDR 5.9274 million) under the RFI. We are confident that IMF involvement in the international effort to assist the Union of the Comoros will also play a catalytic role in securing the needed additional external grants.

7. In the following, we will lay out our policy intentions, starting with fiscal policy. Facing increased public spending to carry out emergency response and reconstruction, we are aware of the need to avoid fiscal imbalances that could jeopardize macroeconomic stability and inclusive growth. We are thus keen to ensure that the public debt burden remains sustainable. Specifically, we will conduct fiscal (and other) policies that will maintain the risk of external debt distress, as assessed under the joint Bank-Fund Debt Sustainability Framework, at a moderate level. To this end, we commit to implement the following reforms:

- *Reforms in revenue administration in line with the measures recommended by technical assistance missions*. These measures include, most notably, fully equipping and staffing the large and medium taxpayer unit; systematically reminding delinquent taxpayers of their tax obligations; and strengthening the General Directorate of Customs (strengthened mixed brigade Customs/Tax Department; enhanced controls of valuation by using mirror data, generalized use and strengthened operationalization of the one-stop customs window, and implementation of the International Convention on the Simplification and Harmonization of Customs Procedures).

- *Reforms in public financial management aiming at enhancing credibility, transparency, and accountability*. These measures include notably preparing a realistic supplementary budget for 2019. The Government is committed to improve the functioning of the TSA and ensure that all public revenue and expenditure pass through this account, including spending for domestically-financed investment. We will also ensure that the special regime to provide customs tax relief for humanitarian and reconstruction-related imports be limited to such imports.

- *Spending rationalization to contain the civil service wage bill relative to current projections without affecting the services provided*. Specifically, we aim to realize cumulative savings on the wage bill in the order of a 1.6 percent of 2019 GDP for the period 2019 to 2025, measured in relation to present projections.

- *Reforms in the oversight of state-owned enterprises aiming to shed light on, and contain, associated fiscal risks*. We will ensure that the largest SOEs will prepare audited annual balance sheets and profit and loss statements by end-2020. We also commit to lower cross-arrears between SOEs and the government consistent with IMF staff recommendations. In this context, we will revise pricing policies and billing practices that will allow to reflect the real costs. We also plan to insist on better SOE management and avoiding excess staffing.

- *Prudent borrowing policies to help keep the risk of debt distress at a moderate level*. We commit to seeking grants and concessional loan financing and to prioritize concessional loans while avoiding as much as possible non-concessional borrowing. We also commit to clearing all external debt arrears by end-2020 at the latest.

8. Despite our commitment to pursue prudent fiscal policies, protecting the most vulnerable populations affected by the cyclone is a priority. Emergency relief for the poor is expected to result in additional expenses in the coming months. We are committed to request assistance from our development partners to ensure implementation of a distribution mechanism and its efficient and transparent targeting. Over the medium term, the Government will aim to enhance social protection in favor of the most vulnerable segments of the population, particularly in the most natural disaster-prone areas. We are assessing available means to raise budget allocations for education, health, social protection, and basic infrastructure to advance poverty reduction and achieve our growth objectives, while preserving debt sustainability.

9. Regarding financial sector issues, we commit to accelerate the rehabilitation of banks and financial institutions, among which the SNPSF, on the basis of recommendations from our development partners, to consolidate financial stability and strengthen the financing of the economy. We also commit to improve the conditions under which financial institutions operate. In regulation and supervision, this includes measures to improve classification of, provisioning for, and if necessary the write-off of, uncollectable loans. Strengthening the judiciary will also allow to enforce loan collection and attach collateral, where available.

10. The Government is convinced that enhancing governance, transparency and accountability is crucial. We are keen to ensure that the best possible use will be made of any funds provided for addressing the impacts of the cyclone. We have created an inter-ministerial committee that will guide spending decisions, and the usual budgetary procedures and controls will apply. We commit to report quarterly on the spending of emergency funds and commission an audit of this spending in about a year's time and publish the results. In parallel, our partners could also use channels made available by multilateral agencies, notably the UNDP and the World Bank.

11. Finally, we wish to enhance resilience to natural disasters, pursuing a three-pillar strategy: (i) enhancing structural resilience, which requires infrastructure and other investments; (ii) building financial resilience, which involves creating fiscal buffers and using pre-arranged financial instruments to protect fiscal sustainability; and (iii) preparing quick responses to disasters, which requires contingency planning and investments. We wish to discuss this strategy with Fund staff during the forthcoming Article IV consultation.

12. In line with IMF safeguards policy, we commit to submitting the Central Bank to a safeguards assessment as soon as possible. We will also provide IMF staff with the Central Bank's most recently completed external audit reports and authorize our external auditors to hold discussions with relevant IMF staff. Since the funds obtained under the requested financing arrangement will be used for budget support, we will sign a memorandum of understanding

between the Ministry of Finance and Budget and the Central Bank of Comoros on respective responsibilities for servicing the related financial obligations to the IMF.

13. The Government intends to continue its dialogue with the IMF on the Union of the Comoros' balance-of-payments difficulties and will avoid measures or policies that would compound these difficulties. In this spirit, we will not impose new or intensify existing restrictions on the making of payments and transfers for international transactions, trade restrictions for balance-of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

14. The challenge before us is formidable but we are determined to succeed. Support from the international community will be critical to provide emergency assistance to the most vulnerable and reconstruct our damaged infrastructure, housing stock, and agricultural production capacity. We look forward to an early approval of financial assistance by the IMF.

15. We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RCF and purchase under the RFI.

Sincerely yours,

/s/	/s/
Saïd Ali Saïd Chayhane	Younoussa Imani
Minister of Finance and Budget	Governor, Central Bank of Comoros

INTERNATIONAL MONETARY FUND

UNION OF COMOROS

July 16, 2019

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By
David Owen (IMF) and Marcello Estevao (WB)

Prepared by the staffs of the International Monetary Fund (IMF) and the World Bank (WB)

Union of Comoros Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Moderate*
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Limited Space*
Application of judgement	*No*

Comoros remains at moderate risk of external debt distress, but its space to absorb shocks is "limited." All debt burden indicators exhibit a continual upward trend, with the PV of debt-to-export approaching its threshold at the end of the assessment horizon (2029) under the baseline scenario. (Thresholds reflect "medium" capacity to carry debt). The reduced space to absorb shocks reflects the taking on of a large new loan, a downward revision of projected exports in line with lower export prices and impacts of Cyclone Kenneth on debt accumulation. Shock scenarios indicate vulnerability to a deterioration of export performance, natural disasters, and exchange rate instability. Comoros' overall risk of debt distress remains moderate, given that domestic debt is expected to remain minimal. The authorities need to strengthen policies to improve macroeconomic performance including by making faster progress on domestic resource mobilization and broadening the export base. The authorities should proceed cautiously on taking up any new debt and may wish to largely avoid new non-concessional debt.

PUBLIC SECTOR DEBT COVERAGE

1. The coverage of public sector debt remains unchanged from the most recent DSA. The debt stock covers the central government, as well as government-guaranteed debt of state-owned enterprises (SOEs). SOEs cannot access the debt market on their own, nor can the social security fund. External debt is defined using a residency criterion.

Text Table 1. Public Sector Debt Coverage Under the Baseline Scenario

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

Sources: IMF staff.

2. The contingent liability stress test accounts for the likely costly resolution of the insolvent state-owned postal bank (SNPSF) and associated financial market risk. Accounting for 20 percent of the financial sector deposits, SNPSF is a macro-critical financial institution. The contingent liabilities from financial markets account for the cost of its restructuring, which is added to the standard minimum value of 5 percent of GDP that represents the average cost to the government of a financial crisis in LICs. The contingent liability for SOE debt is set to zero, since all the government-guaranteed debt is included in the DSA. The contingent liability of other elements of the general government is set at 1.8 percent of GDP, the estimated level of domestic arrears at end-2018. Overall, Comoros' total contingent liabilities are estimated at 10.6 percent of GDP.

Text Table 2. Coverage of the Contingent Liabilities' Stress Test

1	The country's coverage of public debt	The central government plus social security, government-guaranteed debt			
		Default		Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0	percent of GDP	1.8	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4	PPP	35	percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	6.8	
	Total (2+3+4+5) (in percent of GDP)			10.6	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

Sources: IMF staff.

BACKGROUND

Recent Debt Developments

3. **Comoros benefited from extensive debt relief at the beginning of this decade.** After reaching the HIPC Completion Point in 2012, Comoros' external debt was reduced by 12.7 percentage points of GDP, to 10.9 percent of GDP at end-2013.

4. **Comoros' external public and publicly guaranteed (PPG) debt is mainly held by official bilateral creditors, and most is on concessional terms.** The debt held by official bilateral creditors more than doubled during 2015-18, increasing its share in total external debt to 60.2 percent. At end-2018, all external debt is on concessional terms, with fixed interest rates, except for a loan from the French export credit insurer COFACE (EUR 3.4 million, 0.3 percent of GDP).

Text Table 3. Nominal Stock of External PPG Debt, 2018[1]
(Millions of U.S. Dollars; end-of-period)

Total External Debt[2]	**224.1**
Multilateral Creditors	**30.3**
IMF	11.0
IDA	19.3
Bilateral Creditors	**145.0**
Saudi Arabia	44.9
India	38.9
China	30.9
Kuwait	25.9
France	3.4
Mauritius [3]	0.9
Others	**48.8**

[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] Excludes $2.72mn of hospital debt owed by Comoros to France that is the subject of ongoing negotiations.
[3] The Mauritius loan and its arrears were canceled in early 2019.
Source: Comorian authorities.

5. **Comoros has continued to take on concessional debt.** Since 2013, Comoros has contracted five new external concessional bilateral loans, totalizing US$158.7 million, to construct a thermal electricity generation plant, rehabilitate the road network, and strengthen telecommunications infrastructure. The newest loan (US$83 million, 7 percent of GDP), contracted with a Chinese bank in late 2018 to strengthen telecommunication infrastructure, has a maturity of 30 years, including a 5-year grace period, and an interest rate of 1 percent, implying a grant element of 44.7 percent. The undisbursed amounts of these loans are included in the DSA baseline scenario on the grounds of disbursement projections provided by the authorities. Domestic borrowing is limited (to 0.1 percent of 2018 GDP) a three-year loan contracted with the local representative of India's EXIMBANK in 2017.

6. **The World Bank (WB) recently did not provide a waiver that would have enabled Comoros to take on a large non-concessional loan.** In 2018, the authorities contracted from the Eastern and Southern African Trade and Development Bank (TDB) a non-concessional loan of (Euro 40 million, 3.7 percent of GDP). Disbursement of this loan requires a non-concessional borrowing waiver from the WB, which the Bank did not provide. Against this backdrop, the present DSA highlights the implications for debt sustainability of contracting the TDB loan, where the authorities will make full use of US$15 million in 2019.

7. The authorities' action plan for clearing external arrears was not fully executed. This plan envisaged gradually and completely clearing arrears by March 2019 and seeking rescheduling or cancelation of debt and arrears where possible. The latest available information indicates that the authorities did not fully implement this plan, and at end-2018 external arrears reached US$5.9 million (0.5 percent of 2018 GDP). Of these, arrears of US$2 million (0.2 percent of GDP) were owed to France, Kuwait, India, and Saudi Arabia. Another US$0.9 million were owed to Mauritius and have been canceled since. The remainder was owed to Arab Bank for Economic Development in Africa (BADEA) and OPEC Fund for Development. The authorities are committed to clearing these arrears and have a credible plan for their clearance.

8. Comoros' domestic arrears stock remains highly uncertain and was tentatively estimated KMF 9.1 billion (1.8 percent of GDP) at end-2018. Waiting for a comprehensive audit of the domestic arrears, staff included this amount in the contingent liability test.

A. Macroeconomic Forecasts

9. The medium to long-term macroeconomic assumptions underlying the present DSA incorporate higher GDP and growth numbers, higher services export and lower revenues. The baseline scenario includes April 2019 WEO assumptions and the latest available information on Comoros' debt.

- **Revised GDP series.** In 2018, Comoros' statistical authorities released the 1993 national accounts standards (SNA1993) with help from the IMF and the WB. The level of GDP was revised up by more than 70 percent, and annual growth was revised up by 1.1 percentage points, over 2007-16. Consequently, the public and publicly guaranteed external debt to GDP ratio has declined by 12.6 percentage points to 18.9 percent of GDP in 2018. These revisions impacted also the levels of public and private investment. Over the medium term, growth is expected to accelerate from 3 percent in 2018 to 3.3 percent over the medium and 3.5 percent over the longer term (a rate of growth slightly higher than in the DSA prepared for the 2018 Article IV consultation). Cyclone Kenneth, which hit Comoros in late April 2019, will bring some volatility around this growth path in 2019 and 2020.

- **Revised inflation numbers.** Inflation rate was revised downward by 0.6 percentage points to 1.6 percent between 2012 and 2018. In the short term, inflation rate is expected to reach 3.2 percent in 2019 due to the supply shocks caused by Cyclone Kenneth, 1.4 percent in 2020, and 2 percent over the medium-to long-term. The level of long-term inflation rate remains similar to the previous DSA's.

- **External sector.** The current account deficit (CAD) remains marked by a large goods and services deficit, partially balanced by public and private transfers. Exports of services projections were revised up in line with stronger performance of travelling and tourism in 2017-18. The CAD is projected to peak at 7.7 percent of GDP in 2019, compared to 3.8 percent of GDP in 2018, reflecting in part the impact of the cyclone. Exports of goods will be affected for some years by the loss of part of agricultural plants as a result of the cyclone, and imports of building and food items will also be higher. The goods and services deficit will be financed through an increase of remittances, aid, and public borrowing.

- **Fiscal.** In 2019, the overall fiscal deficit on a cash basis is expected to widen to 3.3 percent of GDP (from 0.4 percent of GDP in 2018), including grants. The 2019 fiscal situation will be marked by an increase of current and capital spending for reconstruction post-Cyclone Kenneth, which will be partially balanced by an increase of grants. Fiscal revenue is expected to decline by 1.8 percentage points to 9.5 percent of GDP in line with adverse impacts of the cyclone. Starting in 2020, the fiscal situation will gradually normalize, with the deficit converging to 2.3 percent of GDP over the long-run.

- **External borrowing.** As before, the DSA assumes that all contracted-but-undisbursed concessional loans will be fully disbursed over the coming years, as planned by the authorities. New borrowings on concessional terms are also projected to rise over the medium term, however the path will be marked by a larger increase over the reconstruction period. The assumption of increased external borrowing to finance the country's development needs plays a key role in the DSA and explains to some extent the upward slope of the debt burden indicators, particularly for debt level indicators. While this assumption is not based on concrete borrowing plans, it reflects the view that under baseline assumptions, Comoros will wish to borrow into the future to finance productive infrastructure investments. Comoros is also expected to continue to benefit from significant grant financing, leaving the grant element of new borrowing at about 45 percent. Projections include a one-time disbursement of 50 percent of the quota in July 2019, of which 33.3 percent is provided by the Rapid Credit Facility and 66.7 percent by the Rapid Financing Instrument. It includes also a non-concessional financing of US$15 million from the TDB in 2019 (see DSA paragraph 6 above).

- **Domestic borrowing.** As in the previous DSA, domestic borrowing is assumed to remain very limited over the medium-term. Domestic borrowing is expected to reach 4 percent of GDP in 2039, reflecting a gradual deepening of domestic financial markets.

10. The debt sustainability framework's newly-added realism tools suggest that the baseline projections are reasonable (Figures 3 and 4). The difference over 2019-20 between the baseline growth projections and growth projections implied by standard fiscal multipliers reflects the impact of cyclone Kenneth: in 2019, supply constraints lower growth despite a fiscal expansion, and thereafter growth rebounds despite gradual fiscal adjustment as supply constraints recede (see Annex I to this staff report). Similarly, the 3-year adjustment in the fiscal primary balance seems credible, as it does not fall in the upper quartile of the distribution of past adjustments.

B. Country Classification and Determination of Stress Test Scenarios

11. Comoros's debt carrying capacity is assessed as medium (Text Table 4). The April WEO update maintains the Composite Indicator (CI) score at 2.97. The import coverage of reserves constitutes the second largest contributor to Comoros' CI. Under the medium category of debt carrying capacity, the relevant indicative thresholds applicable to the public and publicly guaranteed external debt are 40 percent for the PV of debt-to-GDP ratio, 180 percent for the PV of debt-to-exports ratio, 15 percent for the debt service-to-exports ratio, and 18 percent for the debt service-to-revenue ratio. The benchmark for the PV of total public debt under medium debt carrying capacity is 55 percent.

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

	Initial Score	WEO April 2018	WEO October 2018	WEO April 2019
CPIA	2.80	1.09	1.08	1.08
Real growth rate (in percent)		0.07	0.07	0.07
Import coverage of reserves (in percent)		2.19	2.17	2.17
Import coverage of reserves^2 (in percent)		-1.16	-1.14	-1.14
Remittances (in percent)		0.31	0.31	0.31
World economic growth (in percent)		0.49	0.48	0.48
Composite Indicator Score	2.80	2.99	2.97	2.97
Debt Carrying Capacity	Weak	Medium	Medium	Medium

Sources: Comorian authorities, World Bank, and IMF staff.

12. Stress tests follow standardized settings. The contingent liability stress test is based on the quantification of potential contingent liabilities discussed above. The standardized stress tests apply the default settings. Comoros remains exposed and vulnerable to natural disaster shocks, such as tropical cyclones, storms and, the eruption of the Karthala volcano. Consequently, Comoros qualifies for the natural disaster scenario. Given limited mitigating factors, the size of the shock is fixed at 10 percent of GDP.

DEBT SUSTAINABILITY

C. External Debt Sustainability

13. This update suggests that Comoros maintains its external debt distress rating at moderate (Figure 1). As in the previous DSA, all debt and debt service indicators remain below their respective thresholds. However, all the debt and debt service indicators exhibit in the baseline an upward trend over the long run, highlighting limited GDP growth, a narrowed base of export, and only very limited progress in creating fiscal space.

14. The results of the stress tests and alternative scenarios exhibit vulnerability to natural disasters and shocks on exports. A shock to exports is identified as the most extreme shock for the PV of debt-to-exports and the debt service-to-exports ratio.[1] It results in a sustained breach of the relevant threshold for the PV of debt-to-exports, and a large deterioration without breach of

[1] The most extreme stress test is defined as the test that yields the highest level of debt on or before the tenth year of the projection period.

the debt service-to-exports ratio. The most extreme shock for the PV of debt-to-GDP ratio is natural disaster, for debt service-to-revenue ratio it is a one-time depreciation shock. These results highlight the critical importance of improving external competitiveness and enlarging the export base. They also highlight Comoros' vulnerability to natural disasters, and the critical role of exchange rate stability under the peg to the Euro.

15. Comoros debt capacity has limited space to absorb additional shocks (Figure 5). The granularity analysis of the external debt suggests that the PV of debt-to-exports ratio shows limited space to absorb shocks, while the remaining indicators have substantial space.

D. Total Public Debt Sustainability

16. Public-sector domestic debt remains minimal in Comoros. Domestic debt is projected to rise gradually from 0.1 percent of GDP in 2019 to 4 percent of GDP in 2039 (see above).

17. There are no breaches of the public debt benchmark under the baseline or adverse scenarios, signaling limited risks (Figure 2). The PV of total PPG debt-to-GDP increases gradually from 13.6 in 2019 to 29 percent in 2039 but remains well below the threshold. Natural disasters are identified as the most extreme shock for both the PV of debt-to-GDP and the PV of debt-to-revenue, and a one-time depreciation constitutes the most extreme shock for the debt service-to-revenue ratio.

Authorities' Views

18. The authorities agree on the importance of maintaining the risk of debt distress at "moderate". They commit to seeking grants and concessional financing and to avoid as much as possible non-concessional borrowing.

E. Risk Rating and Vulnerabilities

19. This DSA update maintains Comoros' external debt distress rating at "moderate" but indicates that the space to absorb shocks is limited. Under current policies, Comoros may well slide into high risk of external debt distress in the next few years as a result of a breach of the PV of debt to exports ratio. In addition, the shocks considered continue to highlight Comoros' vulnerability to a deterioration of export performance, natural disasters and exchange rate instability.

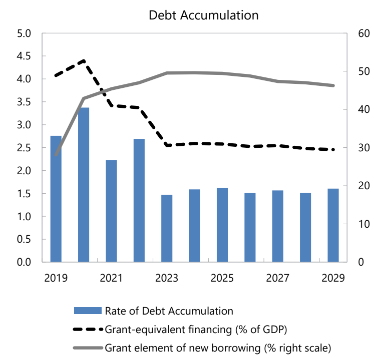
20. These DSA results underscore the need to strengthen both external competitiveness and debt management capacity. Making faster progress on domestic resource mobilization and enlarging the export base are important to improve macroeconomic performance. Also, cautiously seeking for concessional debt contributes not to slide into high risk of external debt distress.

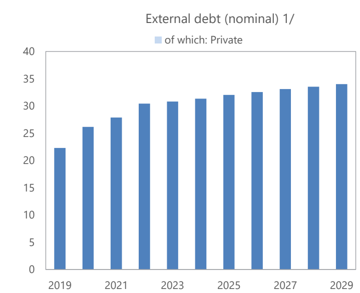
Table 1. Comoros: External Debt Sustainability Framework, Baseline Scenario, 2016-39

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	**15.5**	**17.6**	**18.9**	**22.3**	**26.2**	**27.9**	**30.4**	**30.8**	**31.3**	**34.0**	**37.7**	**19.9**	**30.4**
of which: public and publicly guaranteed (PPG)	**15.5**	**17.6**	**18.9**	**22.3**	**26.2**	**27.9**	**30.4**	**30.8**	**31.3**	**34.0**	**37.7**	**19.9**	**30.4**
Change in external debt	2.0	2.1	1.3	3.4	3.9	1.7	2.6	0.4	0.5	0.5	0.3		
Identified net debt-creating flows	**3.4**	**1.0**	**1.8**	**6.8**	**5.9**	**4.7**	**3.2**	**2.7**	**2.5**	**1.3**	**-0.7**	**1.5**	**3.1**
Non-interest current account deficit	**4.2**	**2.1**	**3.9**	**7.6**	**7.2**	**6.0**	**4.5**	**4.1**	**4.2**	**3.1**	**1.3**	**2.9**	**4.6**
Deficit in balance of goods and services	15.6	16.4	17.7	22.9	21.6	20.0	18.1	17.7	17.8	16.7	15.4	**19.0**	**18.5**
Exports	10.5	11.9	13.2	12.8	12.7	12.8	13.0	13.1	13.1	13.4	14.3		
Imports	26.1	28.3	31.0	35.7	34.3	32.8	31.0	30.7	31.0	30.1	29.6		
Net current transfers (negative = inflow)	-10.7	-13.8	-13.2	-14.7	-13.8	-13.4	-12.9	-12.9	-13.0	-13.2	-13.8	**-15.8**	**-13.3**
of which: official	-1.4	-3.5	-1.7	-2.7	-1.9	-1.7	-1.2	-1.2	-1.2	-1.1	-0.9		
Other current account flows (negative = net inflow)	-0.6	-0.5	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.4	-0.3	**-0.3**	**-0.5**
Net FDI (negative = inflow)	**-0.3**	**-0.4**	**-0.6**	**-0.7**	**-0.7**	**-0.7**	**-0.7**	**-0.7**	**-1.0**	**-1.1**	**-1.2**	**-0.9**	**-0.9**
Endogenous debt dynamics 2/	**-0.4**	**-0.7**	**-1.4**	**-0.1**	**-0.7**	**-0.6**	**-0.6**	**-0.7**	**-0.7**	**-0.8**	**-0.8**		
Contribution from nominal interest rate	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.5		
Contribution from real GDP growth	-0.3	-0.4	-0.5	-0.2	-0.9	-0.9	-0.9	-1.0	-1.0	-1.1	-1.3		
Contribution from price and exchange rate changes	-0.2	-0.3	-1.1	...	...	...	...	...	...	...	...		
Residual 3/	**-1.4**	**1.1**	**-0.6**	**-3.4**	**-2.0**	**-3.0**	**-0.6**	**-2.3**	**-2.0**	**-0.8**	**1.0**	**-3.6**	**-1.7**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**10.9**	**13.5**	**15.9**	**17.0**	**18.6**	**18.9**	**19.3**	**21.5**	**25.1**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**82.5**	**105.9**	**125.2**	**133.0**	**143.2**	**144.6**	**147.2**	**160.2**	**176.1**		
PPG debt service-to-exports ratio	**3.0**	**2.8**	**3.2**	**7.5**	**6.2**	**5.8**	**5.4**	**6.6**	**6.3**	**8.0**	**10.6**		
PPG debt service-to-revenue ratio	**4.0**	**3.5**	**3.9**	**10.9**	**8.8**	**8.2**	**7.5**	**9.1**	**8.6**	**10.7**	**14.2**		
Gross external financing need (Million of U.S. dollars)	43.1	22.3	43.7	94.1	93.1	82.2	64.9	65.4	65.4	65.5	59.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	2.6	3.0	3.0	1.3	4.2	3.6	3.5	3.5	3.5	3.5	3.6	**3.1**	**3.4**
GDP deflator in US dollar terms (change in percent)	1.3	2.1	6.4	-0.3	2.3	2.6	2.6	2.3	2.6	1.9	2.0	**-0.2**	**2.0**
Effective interest rate (percent) 4/	0.5	0.4	0.6	0.7	1.1	1.1	1.1	1.1	1.1	1.1	1.3	**0.5**	**1.1**
Growth of exports of G&S (US dollar terms, in percent)	11.4	18.7	22.0	-2.4	5.6	7.3	7.6	6.9	6.5	6.0	6.6	**8.4**	**5.6**
Growth of imports of G&S (US dollar terms, in percent)	0.2	14.0	20.1	16.3	2.5	1.8	0.3	5.0	6.9	5.3	5.6	**4.1**	**5.2**
Grant element of new public sector borrowing (in percent)	...	...	...	28.1	42.9	45.4	47.0	49.5	49.6	46.2	41.2	**...**	**45.6**
Government revenues (excluding grants, in percent of GDP)	7.9	9.3	11.0	8.8	8.9	9.1	9.3	9.5	9.7	10.1	10.6	**8.6**	**9.6**
Aid flows (in Million of US dollars) 5/	8.5	27.9	12.0	64.3	97.8	74.3	83.0	59.4	64.8	85.6	156.9		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.1	4.4	3.4	3.4	2.5	2.6	2.5	2.3	**...**	**3.0**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	53.1	57.3	62.3	58.4	65.3	64.6	60.6	54.0	**...**	**61.1**
Nominal GDP (Million of US dollars)	1,027	1,080	1,184	1,195	1,274	1,355	1,438	1,523	1,616	2,113	3,641		
Nominal dollar GDP growth	3.9	5.2	9.5	1.0	6.6	6.3	6.2	5.9	6.1	5.5	5.7	**2.9**	**5.4**
Memorandum items:													
PV of external debt 7/	...	...	10.9	13.5	15.9	17.0	18.6	18.9	19.3	21.5	25.1		
In percent of exports	...	...	82.5	105.9	125.2	133.0	143.2	144.6	147.2	160.2	176.1		
Total external debt service-to-exports ratio	3.0	2.8	3.2	7.5	6.2	5.8	5.4	6.6	6.3	8.0	10.6		
PV of PPG external debt (in Million of US dollars)			129.3	161.9	202.2	230.6	267.1	288.2	312.4	453.4	915.3		
(PVt-PVt-1)/GDPt-1 (in percent)				2.8	3.4	2.2	2.7	1.5	1.6	1.6	1.7		
Non-interest current account deficit that stabilizes debt ratio	2.2	0.0	2.6	4.2	3.3	4.3	1.9	3.7	3.7	2.6	1.0		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

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

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

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

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

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

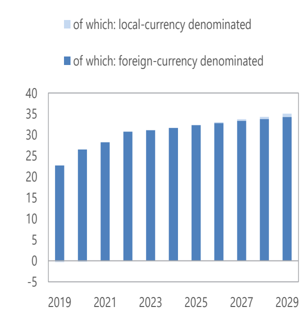
Table 2. Comoros: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016-39

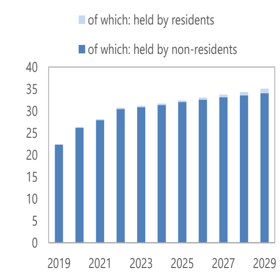
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	15.6	17.8	18.9	22.4	26.3	28.2	30.7	31.2	31.7	35.1	41.7	20.5	30.8
of which: external debt	15.5	17.6	18.9	22.3	26.2	27.9	30.4	30.8	31.3	34.0	37.7	19.9	30.4
Change in public sector debt	1.2	2.2	1.1	3.5	3.9	1.8	2.6	0.4	0.5	0.8	0.6		
Identified debt-creating flows	7.8	3.7	3.6	9.5	7.4	6.4	5.7	5.4	5.6	4.7	4.6	2.0	5.9
Primary deficit	8.3	4.5	5.0	9.7	8.5	7.7	7.0	6.9	7.0	6.2	6.2	2.6	7.1
Revenue and grants	8.7	11.9	12.0	11.5	10.9	10.8	10.6	10.8	10.9	11.1	11.6	12.5	11.0
of which: grants	0.8	2.6	1.0	2.7	1.9	1.7	1.2	1.2	1.2	1.1	0.9		
Primary (noninterest) expenditure	17.0	16.5	16.9	21.2	19.4	18.5	17.6	17.6	17.9	17.3	17.8	15.1	18.1
Automatic debt dynamics	-0.5	-0.8	-1.3	-0.2	-1.1	-1.3	-1.3	-1.4	-1.5	-1.4	-1.6		
Contribution from interest rate/growth differential	-0.5	-0.4	-0.6	-0.2	-0.9	-1.1	-1.1	-1.3	-1.5	-1.4	-1.6		
of which: contribution from average real interest rate	-0.2	0.0	0.0	0.1	0.0	-0.2	-0.2	-0.3	-0.4	-0.3	-0.2		
of which: contribution from real GDP growth	-0.4	-0.4	-0.5	-0.2	-0.9	-0.9	-1.0	-1.0	-1.0	-1.2	-1.4		
Contribution from real exchange rate depreciation	0.0	-0.4	-0.8	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-6.6	-1.5	-2.5	-6.0	-3.7	-4.7	-3.3	-5.1	-5.0	-4.0	-4.0	-4.1	-4.5
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	10.9	13.6	16.0	17.2	18.8	19.2	19.6	22.5	29.0		
PV of public debt-to-revenue and grants ratio	...	...	91.4	118.5	147.0	159.1	178.5	178.7	180.6	201.5	251.2		
Debt service-to-revenue and grants ratio 3/	4.5	4.1	3.6	8.4	7.8	7.9	8.1	9.7	9.5	13.6	23.6		
Gross financing need 4/	8.7	5.0	5.4	10.7	9.4	8.5	7.9	7.9	8.1	7.7	8.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	2.6	3.0	3.0	1.3	4.2	3.6	3.5	3.5	3.5	3.5	3.6	3.1	3.4
Average nominal interest rate on external debt (in percent)	0.5	0.4	0.6	0.7	1.1	1.1	1.1	1.1	1.1	1.1	1.3	0.5	1.1
Average real interest rate on domestic debt (in percent)	-1.5	-0.1	2.3	-5.9	1.8	1.0	1.1	1.1	1.1	1.0	1.0	-1.3	0.5
Real exchange rate depreciation (in percent, + indicates depreciation)	0.1	-2.8	-4.5	...	...	...	...	...	...	...	...	2.3	...
Inflation rate (GDP deflator, in percent)	1.6	0.1	-2.2	7.2	1.2	2.0	1.9	1.9	1.9	1.9	2.0	1.4	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.0	-0.3	5.8	26.6	-4.4	-1.2	-1.6	3.9	5.1	4.2	4.7	4.8	3.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/	7.1	2.3	3.9	6.2	4.6	5.8	4.4	6.4	6.5	5.4	5.6	4.4	5.6
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

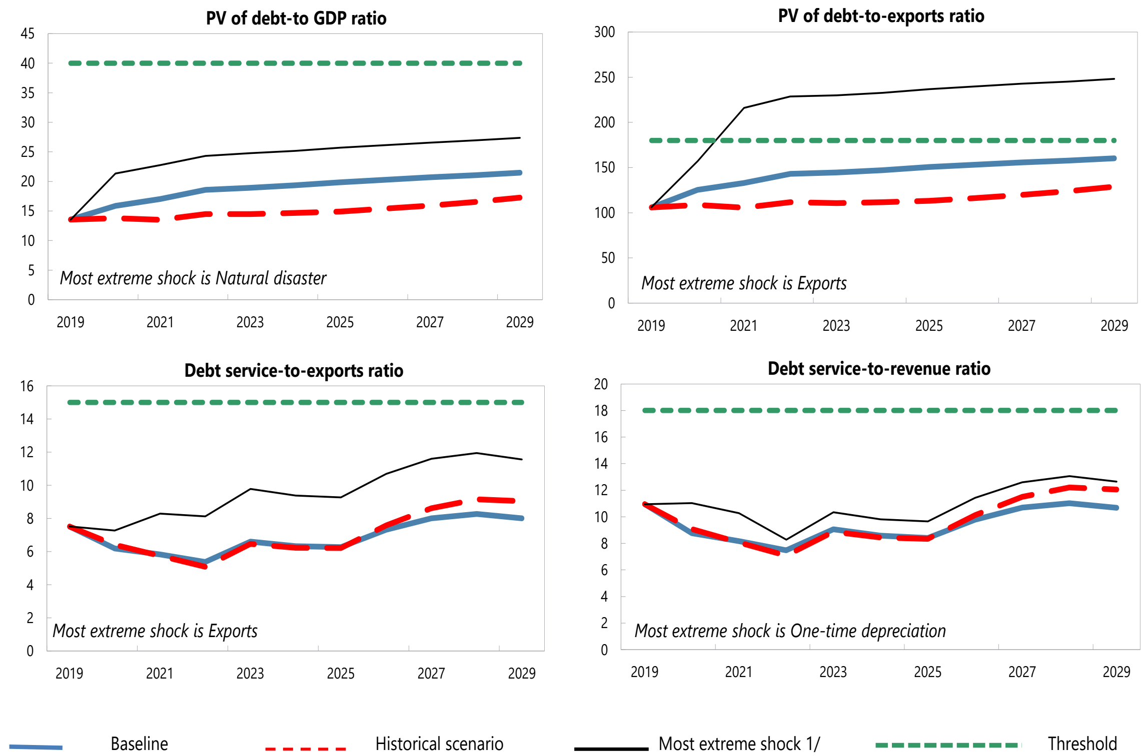
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Comoros: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2019-29 1/



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	No	No
Commodity Prices 2/	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.4%	1.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	9	9

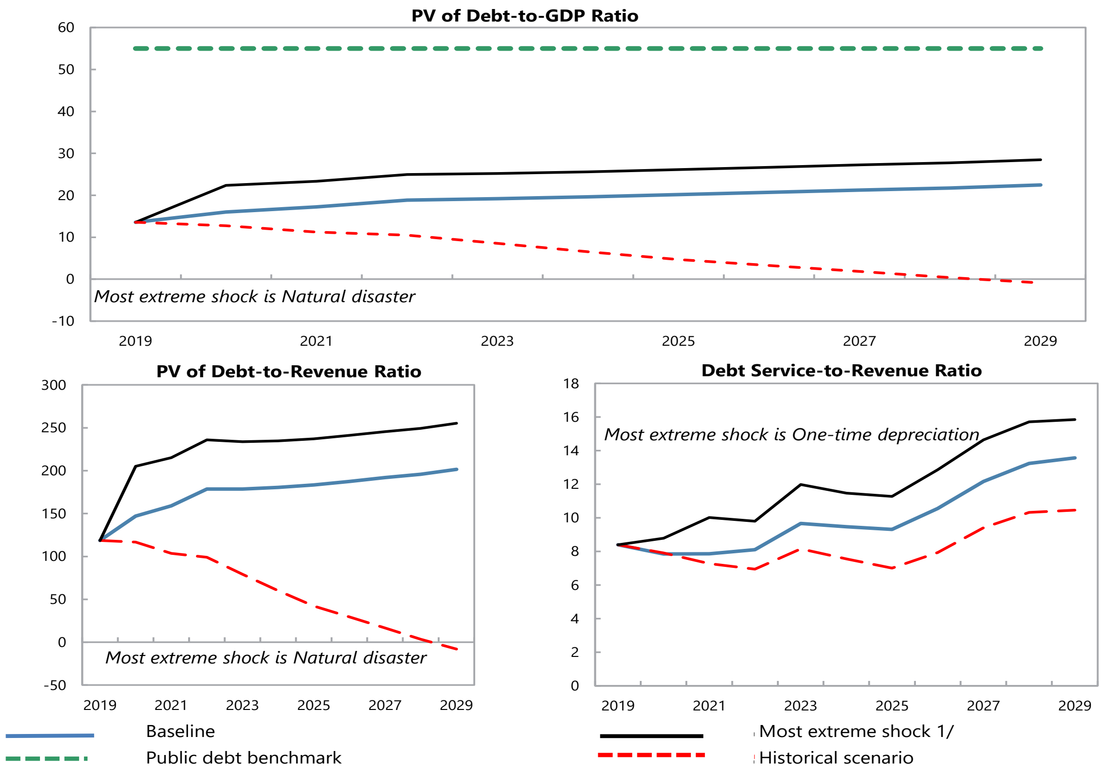
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

Figure 2. Comoros: Indicators of Public Debt Under Alternative Scenarios, 2019-29



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	91%	91%
Domestic medium and long-term	3%	3%
Domestic short-term	6%	6%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.4%	1.4%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	9	9
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.7%	0.7%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019-29 (in percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	13.5	15.9	17.0	18.6	18.9	19.3	19.9	20.3	20.7	21.0	21.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	13.5	13.8	13.5	14.5	14.5	14.7	14.9	15.4	15.9	16.5	17.3
B. Bound Tests											
B1. Real GDP growth	13.5	16.4	18.0	19.7	20.0	20.5	21.0	21.5	21.9	22.3	22.7
B2. Primary balance	13.5	17.9	21.2	22.8	23.2	23.5	24.0	24.4	24.7	25.0	25.4
B3. Exports	13.5	17.1	20.4	21.9	22.2	22.6	23.1	23.4	23.8	24.2	24.6
B4. Other flows 3/	13.5	17.9	21.0	22.5	22.8	23.1	23.6	23.9	24.3	24.6	25.0
B5. One-time 30 percent nominal depreciation	13.5	20.0	16.9	18.9	19.4	20.0	20.8	21.3	21.9	22.4	23.0
B6. Combination of B1-B5	13.5	19.3	20.6	22.3	22.6	23.0	23.6	24.0	24.4	24.8	25.2
C. Tailored Tests											
C1. Combined contingent liabilities	13.5	21.4	22.7	24.1	24.5	24.8	25.3	25.6	26.0	26.3	26.6
C2. Natural disaster	13.5	21.4	22.8	24.3	24.8	25.2	25.7	26.1	26.6	26.9	27.4
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	105.9	125.2	133.0	143.2	144.6	147.2	150.6	153.1	155.7	157.7	160.2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	105.9	108.7	105.6	111.7	110.6	111.7	113.1	116.2	119.8	123.7	128.8
B. Bound Tests											
B1. Real GDP growth	105.9	125.2	133.0	143.2	144.6	147.2	150.6	153.1	155.7	157.7	160.2
B2. Primary balance	105.9	141.6	166.0	175.9	176.9	179.2	**182.1**	**184.1**	**186.2**	**187.7**	**189.6**
B3. Exports	105.9	157.1	**215.9**	**228.7**	**229.8**	**232.7**	**236.8**	**239.8**	**242.9**	**245.2**	**248.1**
B4. Other flows 3/	105.9	141.2	164.3	173.3	173.9	175.9	178.7	**180.7**	**182.9**	**184.4**	**186.4**
B5. One-time 30 percent nominal depreciation	105.9	125.2	104.7	115.8	118.0	121.2	125.1	128.0	131.1	133.5	136.4
B6. Combination of B1-B5	105.9	152.9	147.1	**182.8**	**184.0**	**186.7**	**190.4**	**193.1**	**195.9**	**198.0**	**200.6**
C. Tailored Tests											
C1. Combined contingent liabilities	105.9	168.6	177.3	**186.0**	**187.4**	**189.2**	**191.8**	**193.6**	**195.6**	**196.9**	**198.6**
C2. Natural disaster	105.9	171.8	**181.3**	**191.0**	**192.9**	**195.4**	**198.7**	**201.2**	**203.9**	**205.8**	**208.2**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	7.5	6.2	5.8	5.4	6.6	6.3	6.3	7.3	8.0	8.3	8.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	7.5	6.4	5.7	5.1	6.5	6.2	6.2	7.6	8.6	9.2	9.0
B. Bound Tests											
B1. Real GDP growth	7.5	6.2	5.8	5.4	6.6	6.3	6.3	7.3	8.0	8.3	8.0
B2. Primary balance	7.5	6.2	6.2	6.1	7.3	7.0	6.9	8.0	8.6	8.9	8.6
B3. Exports	7.5	7.3	8.3	8.1	9.8	9.4	9.3	10.7	11.6	11.9	11.6
B4. Other flows 3/	7.5	6.2	6.2	6.1	7.3	7.0	6.9	7.9	8.6	8.8	8.5
B5. One-time 30 percent nominal depreciation	7.5	6.2	5.8	4.7	6.0	5.7	5.7	6.8	7.5	7.8	7.5
B6. Combination of B1-B5	7.5	6.7	7.2	6.6	8.0	7.7	7.6	8.8	9.6	9.9	9.6
C. Tailored Tests											
C1. Combined contingent liabilities	7.5	6.2	6.8	6.3	7.5	7.2	7.1	8.2	8.8	9.0	8.7
C2. Natural disaster	7.5	6.4	7.0	6.5	7.8	7.5	7.4	8.5	9.1	9.4	9.1
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	10.9	8.8	8.2	7.5	9.1	8.6	8.4	9.8	10.7	11.0	10.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	10.9	9.1	8.1	7.1	8.9	8.4	8.3	10.1	11.5	12.2	12.0
B. Bound Tests											
B1. Real GDP growth	10.9	9.1	8.6	7.9	9.6	9.1	8.9	10.4	11.3	11.7	11.3
B2. Primary balance	10.9	8.8	8.7	8.5	10.0	9.5	9.3	10.7	11.5	11.8	11.4
B3. Exports	10.9	8.8	8.6	8.4	9.9	9.4	9.2	10.6	11.4	11.8	11.4
B4. Other flows 3/	10.9	8.8	8.7	8.4	10.0	9.4	9.2	10.6	11.4	11.7	11.3
B5. One-time 30 percent nominal depreciation	10.9	11.0	10.3	8.3	10.3	9.8	9.7	11.4	12.6	13.1	12.6
B6. Combination of B1-B5	10.9	9.4	9.5	8.7	10.4	9.8	9.6	11.1	12.1	12.4	12.0
C. Tailored Tests											
C1. Combined contingent liabilities	10.9	8.8	9.5	8.8	10.3	9.8	9.6	10.9	11.8	12.0	11.6
C2. Natural disaster	10.9	8.8	9.5	8.8	10.3	9.8	9.6	10.9	11.8	12.1	11.7
C3. Commodity price	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
C4. Market Financing	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Threshold	18	18	18	18	18	18	18	18	18	18	18

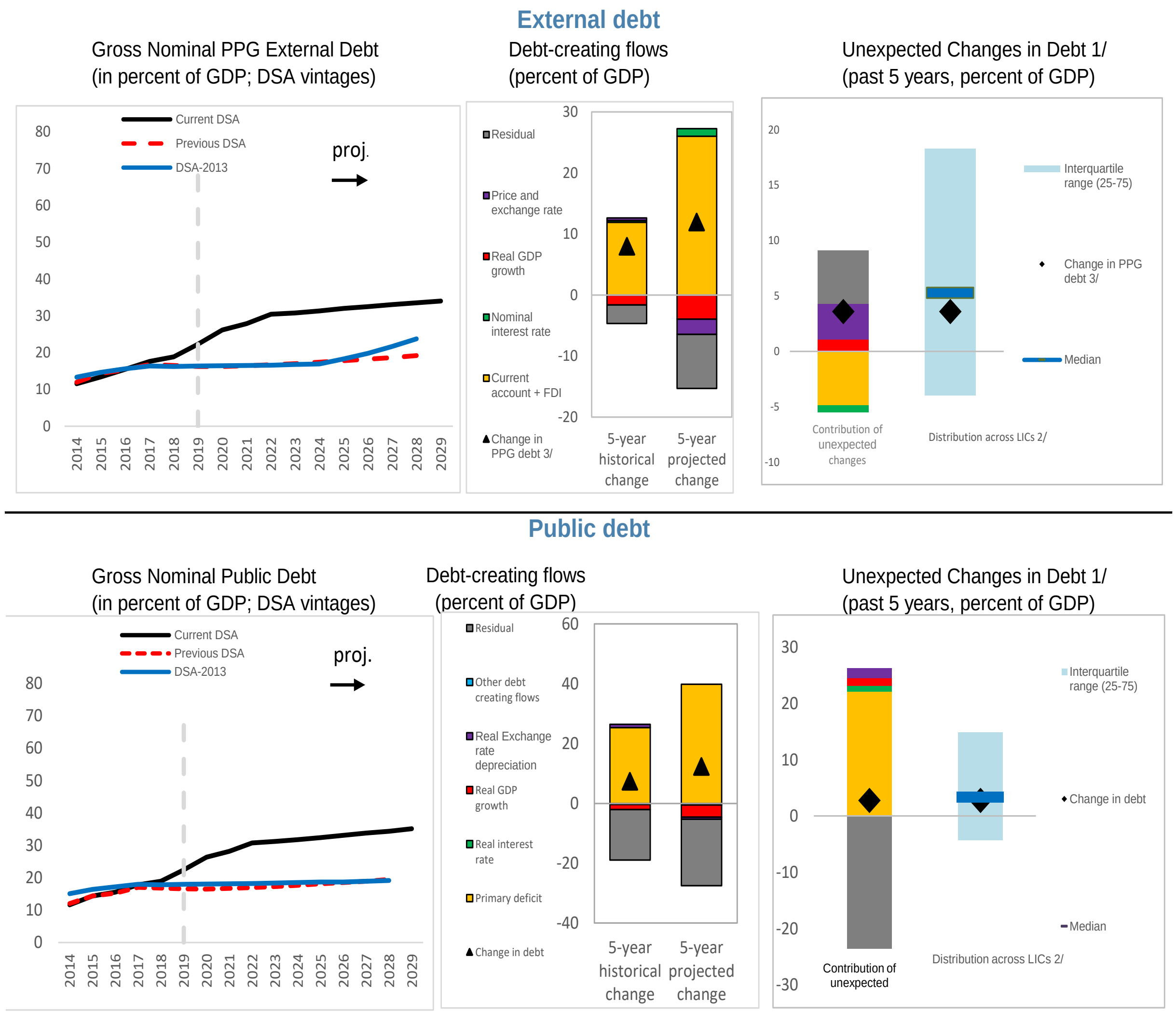
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Comoros: Sensitivity Analysis for Key Indicators of Public Debt, 2019-29
(in percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	13.6	16.0	17.2	18.8	19.2	19.6	20.2	20.7	21.3	21.7	22.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	14	13	11	10	9	7	5	3	2	0	-1
B. Bound Tests											
B1. Real GDP growth	14	17	19	21	22	22	23	24	25	26	27
B2. Primary balance	14	18	22	23	24	24	24	25	25	26	26
B3. Exports	14	17	20	22	22	22	23	23	24	24	25
B4. Other flows 3/	14	18	21	23	23	23	24	24	25	25	26
B5. One-time 30 percent nominal depreciation	14	19	19	19	19	18	18	18	17	17	17
B6. Combination of B1-B5	14	18	19	19	19	19	20	20	21	21	22
C. Tailored Tests											
C1. Combined contingent liabilities	14	22	23	25	25	25	26	26	27	27	28
C2. Natural disaster	14	22	23	25	25	26	26	27	27	28	28
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	118.5	147.0	159.1	178.5	178.7	180.6	183.3	187.4	191.9	195.7	201.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	119	117	103	99	79	60	42	30	17	3	-8
B. Bound Tests											
B1. Real GDP growth	119	153	172	196	199	204	209	216	224	230	239
B2. Primary balance	119	169	203	222	220	220	222	225	229	232	238
B3. Exports	119	157	187	207	206	207	209	213	217	220	225
B4. Other flows 3/	119	166	196	215	214	215	217	220	224	228	233
B5. One-time 30 percent nominal depreciation	119	175	176	183	175	168	164	161	158	155	154
B6. Combination of B1-B5	119	164	177	176	175	177	179	183	188	192	197
C. Tailored Tests											
C1. Combined contingent liabilities	119	206	215	235	232	232	233	237	240	243	248
C2. Natural disaster	119	205	215	236	234	235	237	241	246	249	255
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	8.4	7.8	7.9	8.1	9.7	9.5	9.3	10.6	12.2	13.2	13.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	8	8	7	7	8	8	7	8	9	10	10
B. Bound Tests											
B1. Real GDP growth	8	8	8	9	11	11	11	12	14	15	15
B2. Primary balance	8	8	10	11	12	11	10	11	13	14	14
B3. Exports	8	8	8	9	10	10	10	11	13	14	14
B4. Other flows 3/	8	8	8	9	10	10	10	11	13	14	14
B5. One-time 30 percent nominal depreciation	8	9	10	10	12	11	11	13	15	16	16
B6. Combination of B1-B5	8	8	8	9	10	10	9	10	12	13	13
C. Tailored Tests											
C1. Combined contingent liabilities	8	8	14	10	13	11	10	12	13	14	15
C2. Natural disaster	8	8	14	10	14	11	11	12	14	15	15
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 3. Comoros: Drivers of Debt Dynamics – Baseline Scenario



1/ Difference between anticipated and actual contributions on debt ratios.

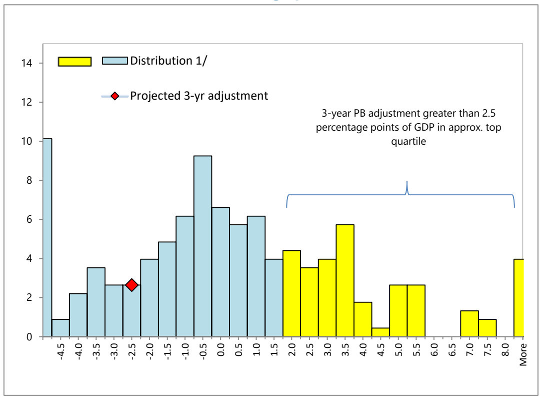
2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

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

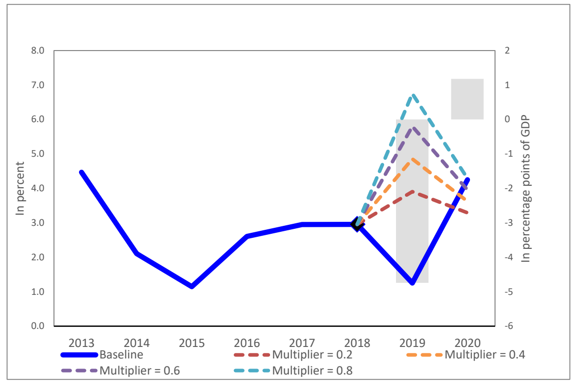
Figure 4. Comoros: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



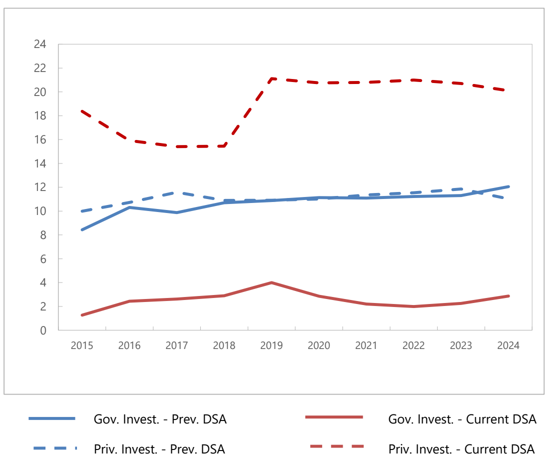
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

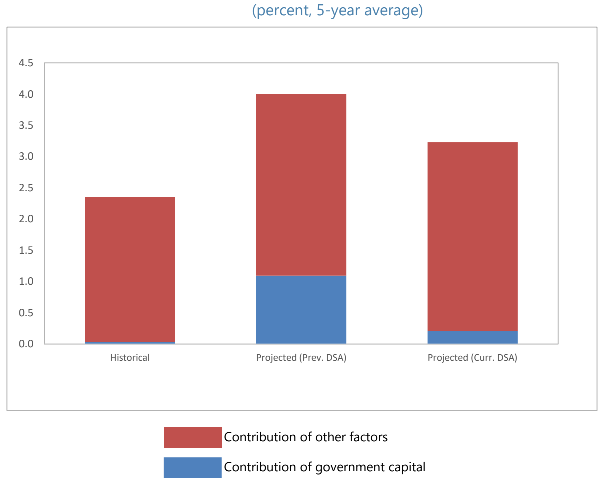


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)

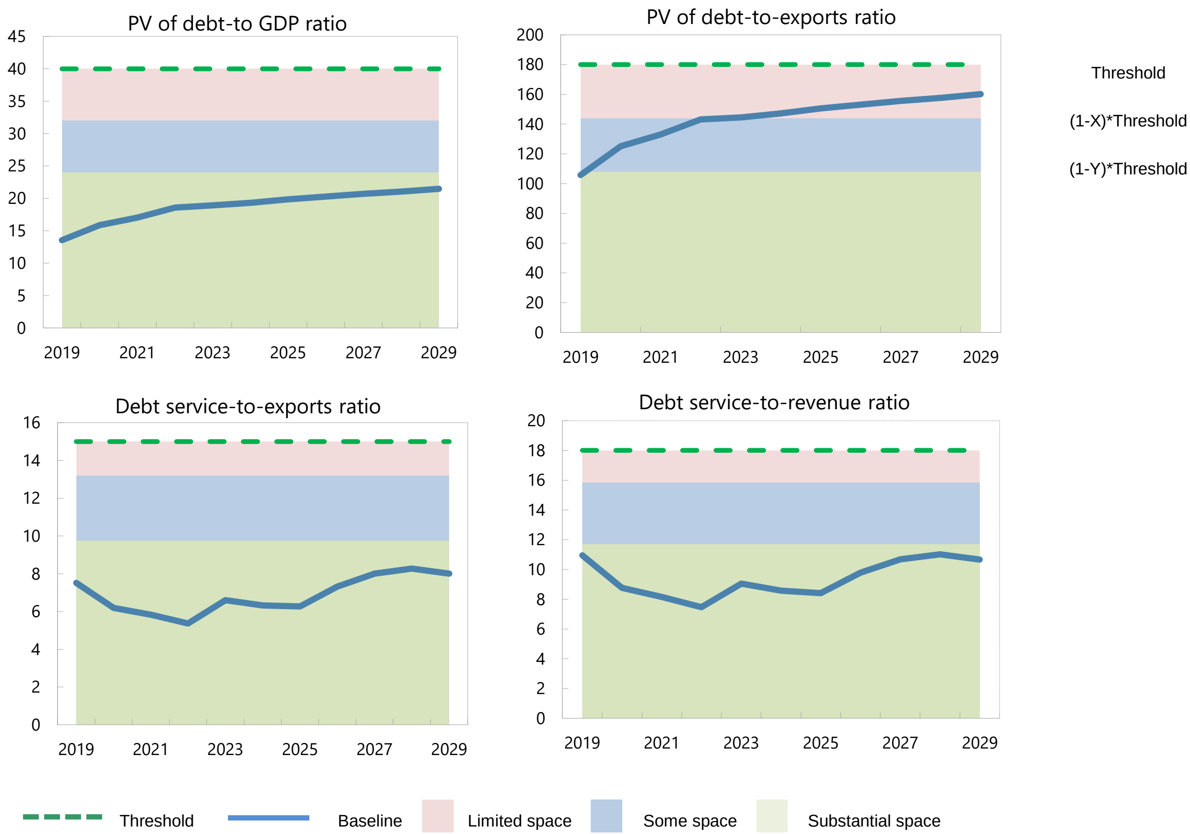


Contribution to Real GDP growth
(percent, 5-year average)



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

Figure 5. Comoros: Qualification of the Moderate Category, 2019-29 1/



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Statement by Mr. Raghani, Executive Director for Comoros, and Mr. Sidi Bouna, Senior Advisor to the Executive Director
July 24, 2019

I. Introduction

1. **My Comorian authorities would like to thank Management and staff for the prompt response to their request for rapid assistance in the wake of the cyclone that hit the Comoro islands in April 2019.** They thank staff for the fruitful policy discussions held in Moroni in June 2019 and for the assistance in the efforts to assess the extent and cost of the damage caused by the cyclone.

2. **Cyclone Kenneth has had a severe and widespread impact on the islands.** It hit a fragile country with immense development needs and caused extensive damage, particularly in rural areas where most of the poor are located. The damage produced by the cyclone is substantial, requiring financing estimated at $150 million (12.5 percent of GDP) of which $120 million are needed for rebuilding infrastructure and $30 million for urgent humanitarian relief.

3. **The authorities are grateful to the international community for its support in these difficult times.** They request the assistance of the Fund under the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) to address the large balance-of-payments and fiscal needs that have arisen from the impact of the cyclone. They intend to use the Fund's financial assistance for budget support given their limited fiscal buffers. The authorities are confident that the Fund's assistance will help mobilize much-needed additional resources from the international community.

II. Recent Economic Developments, Outlook and Risks

A. Economic Developments

4. **The cyclone has had a sizeable impact on the economy.** Growth projections for 2019 have been revised downward to 1.3 percent from an estimate of 3 percent before the cyclone, as many key sectors, particularly agriculture, have been affected. This, coupled with the devastating impact on infrastructure, lowers the country's productive potential. Inflation, as well, has been revised upward to 3.2 percent in 2019 from an initial 2 percent estimate due to the adverse effects of the cyclone on farming and agriculture. The 2019 budget was also immediately impacted, as the authorities have had to reallocate scarce resources to emergency needs, by increasing spending in priority areas, including to repair some

infrastructure and provide emergency relief and assistance to the populations in need. Accordingly, the primary fiscal deficit will widen in 2019 to 5.1 percent of GDP from a relatively modest 1.2 percent in 2018. A supplementary budget for 2019, taking into account the effects of the cyclone on the population and the economy, will be presented to Parliament in October 2019. The current account deficit is also projected to increase further in 2019 to 7.7 percent of GDP from 3.8 percent in 2018, as exports of the country's mains crops decline while cyclone-related food imports increase. As a result, foreign exchange reserves will fall from 7 to 5.6 months of import cover.

B. Outlook and Risks

5. **The country's medium-term outlook remains challenging** and the authorities have now to cope with the effects of the cyclone in addition to enduring issues that have been a drag on growth, in particular electricity shortages and a narrow exports base. Over the medium-term, the impact of the cyclone will continue to weigh on the fiscal and current account balances. However, the increased fiscal spending associated with reconstruction efforts will give a boost to growth to 4.2 percent in 2020, and 3.5 percent annually approximately over the period 2021-24. Inflation will decline in 2020 as farming recovers and will stabilize around 2 percent over the medium-term.

6. **The authorities share the staff's assessment of the risks to the outlook.** Pre-cyclone risks have grown in recent months. These include notably a weaker global growth, a decline in remittances, lower commodity prices, climate-related decline in agriculture production, geopolitical tensions in neighboring regions, financial vulnerabilities, and limited implementation capacity. In addition, the recent natural disaster has reduced even more the country's buffers to absorb future shocks. The authorities reiterate their firm commitment to prudent policies and sound reforms to help mitigate these risks, including on governance. However, sustained support from the international community remains essential, particularly in the current post-cyclone environment. We urge donors to continue to provide the necessary support to Comoros. As noted in the staff report, grant financing below expectations is also an important risk that could affect recovery efforts.

III. Economic Policies and Reforms Going Forward

7. **Immediate measures have been taken to address the needs of the population while ensuring the effectiveness of these measures.** The authorities' key priority has been to protect the poor, and the allocation of budgetary resources were shifted in that regard. Ten percent of public sector wages over two months have been redirected to priority spending. They expect to generate additional savings from the ongoing reform of the administration towards enhanced centralization. They have also sought to strengthen transparency and accountability of budgetary procedures following the financial assistance provided by development partners. Looking forward, the authorities will continue to mobilize both

external financing and domestic resources—through savings notably on the wage bill while preserving service delivery—to support their efforts in addressing the cyclone impact in a focused manner. An inter-ministerial committee has been set up to review emergency spending and rigorous budgetary controls have been introduced. The committee is assisted by the United Nations Development Program (UNDP). The authorities will report every quarter on emergency spending. An audit will be conducted within a year and the results of the audit will be published.

8. Continued support from the international community is necessary to tackle the country's medium-term challenges. Comoros is a small and fragile island with immense challenges that have been hampering growth for many decades. The authorities look forward to discussing these challenges with staff in more details during the next Article IV Consultation. In the meantime, they are determined to make progress in their efforts to address macroeconomic vulnerabilities, including in the fiscal and financial areas.

9. Regarding the fiscal sector, the authorities agree with the necessity to increase significantly domestic revenue mobilization and better control expenditure and contingent liabilities. They intend to accelerate the reform of the revenue administration, in particular the large and medium taxpayer unit and the customs administration, in line with Fund TA recommendations. They will also streamline customs exemptions over time following temporary provision of such customs tax exemptions and expedite procedures to clear imports related to humanitarian relief and reconstruction. Furthermore, they share staff's view that more is needed to improve public financial management and ensure the effectiveness of the Treasury single account. The authorities will strengthen the oversight of SOEs to mitigate potential fiscal risks through a new inter-ministerial committee that has been established to, among other pressing issues, resolving the question of cross-arrears with the government. The largest SOEs will also be required to prepare audited financial statements by end-2020.

10. The authorities reiterate their commitment to maintaining a prudent borrowing strategy in order to keep the country's debt sustainable and the risk of debt distress moderate. In this vein, they will endeavor to give priority to grants and non-concessional loans in finance highly-needed infrastructure. They also intend to clear all external arrears by end-2020.

11. As regards the financial sector, the authorities are aware of the need to find a long-term solution to the situation of the postal bank, SNPSF, in order to preserve financial stability and ensure sound financing of the economy. Also, they will continue to monitor NPLs closely in order to reduce the ratio of NPLs to total lending further in order to encourage the recovery of credit to the economy and support growth.

12. Promoting good governance and fighting corruption rank high in the authorities' reform agenda, with a view to improve the business environment. As stressed by the authorities in their Letter of Intent, they view enhancing governance, transparency and accountability as crucial to improving the perception of development partners and private investors on the country. They are determined to make appropriate use of the funds provided for addressing the effects of the cyclone. Beyond, they would appreciate the support of development partners to strengthen institutions and governance.

IV. Enhancing Resilience to Natural Disasters

13. Cyclone Kenneth has brought at the forefront of the authorities' economic policies the need to enhance resilience to natural disasters. The authorities have devised a three-pillar strategy to address the country's vulnerability to natural shocks. The strategy entails reinforcing structural resilience by investing in infrastructure, building financial resilience through adequate fiscal and external buffers, and preparing rapid responses to disasters through contingency planning. They plan to discuss this strategy further with staff during the next Article IV mission.

V. Conclusion

14. Comoros' difficult economic situation has been further exacerbated by the cyclone and Fund's financial support is urgently needed to meet the country's financing needs and catalyze further external assistance. The authorities are grateful to the rapid support of the international community. They are requesting the financial assistance of the IMF and seek the approval of the Board for a disbursement under the RCF and a purchase under the RFI.