INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/4

UNION OF THE COMOROS

January 2024

2023 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND MODIFICATIONS OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; DEBT SUSTAINABILITY ANALYSIS; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNION OF THE COMOROS

In the context of the 2023 Article IV Consultation, First Review Under the Extended Credit Facility Arrangement, Requests for Waivers of Nonobservance of Performance Criteria, and Modifications of Performance Criteria, 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 and summarizing the views of the Executive Board as expressed during its December 15, 2023 consideration of the staff report on issues related to the Article IV Consultation and the Extended Credit Facility Arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 15, 2023, following discussions that ended on October 31, 2023, with the officials of the Union of the Comoros on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 1, 2023.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for the Union of the 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.

Copies of this report are available to the public from
International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090

International Monetary Fund
Washington, D.C.

Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

PRESS RELEASE

PR23/457

IMF Executive Board Completes the First Review Under the Extended Credit Facility Arrangement and Concludes the 2023 Article IV Consultation with the Union of the Comoros

FOR IMMEDIATE RELEASE

- The IMF Executive Board today completed the first review under the Extended Credit Facility Arrangement and the 2023 Article IV Consultation with the Union of the Comoros. Approval of the first review enables the immediate disbursement of SDR 3.56 million (about US$4.77 million).
- Performance under Comoros's economic reform program has been broadly satisfactory, despite a challenging context and the authorities remain committed to the ECF Arrangement.
- Policy priorities under the program aim to preserve medium-term fiscal and debt sustainability, improve public financial management by monitoring fiscal risks from SOEs, enhance financial sector stability through strengthening supervision and resolution capacities, and improve the governance architecture.

Washington, DC – **December 15, 2023:** The Executive Board of the International Monetary Fund (IMF) completed today the First review under the Union of the Comoros's Extended Credit Facility (ECF) arrangement. The Executive Board's decision allows for an immediate disbursement of SDR 3.56 million (about US$4.77 million). The 4-year ECF arrangement was approved on June 1, 2023, with access of SDR 32.04 million (about US$43 million).

In completing the first review, the Executive Board also approved the authorities' request for a waiver for nonobservance of the end-June 2023 performance criteria on the ceiling on the accumulation of new domestic payments arrears and continuous performance criterion on the ceiling on new external arrears.

The Union of the Comoros's economic reform program supported by the ECF arrangement seeks to reduce fragility and increase economic resilience by building fiscal buffers, reducing debt vulnerabilities, and strengthening the financial sector and governance. Key policy priorities under the program include: (i) mobilizing domestic revenue supported by reforms to strengthen tax and customs administration and streamline tax exemptions; (ii) completing the restructuring of the state-owned postal bank SNPSF and enhancing the Central Bank's banking supervision and resolution capacities; and (iii) strengthening governance through public financial management and anti-corruption reforms.

The authorities' commitment to the ECF-supported program remains strong and program performance has been satisfactory, despite a challenging external environment. Seven of eight structural benchmarks (SBs) were met as of end-October 2023; and four of six quantitative performance criteria (QPCs) for end-June 2023 were observed.

700 19th Street NW
Washington, DC 20431
USA

The Executive Board also concluded the 2023 Article IV consultation[1] with the Union of the Comoros.

Signs of economic recovery are visible, supported by a rebound in tourism and ongoing public investment projects. Inflation has declined, in line with normalization in international oil and food prices. The fiscal outturn in the first half of 2023 has been better than expected thanks in part to strong revenue mobilization efforts. The current account deficit is projected to deteriorate over the short term on account of strong import demand and elevated international fuel and food prices, while international reserves remain adequate. However, risks to the outlook remain elevated due to the fragile domestic context and global uncertainty. Dependence on imports, remittances, and foreign aid means the economy remains highly vulnerable to external shocks.

Following the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director and acting Chair, issued the following statement:

"The Comorian authorities' commitment to macroeconomic stability and the broadly satisfactory performance under the ECF arrangement are commendable. Economic recovery has strengthened, although substantial risks remain due to the elevated global uncertainty and Comoros's fragility and capacity constraints. The authorities are focused on measures to strengthen resilience, reduce fragility, and promote inclusive private sector-led growth.

"Continued fiscal consolidation, including through improved domestic revenue mobilization, will gradually reduce financing needs and create the fiscal space necessary for the considerable social and investment spending priorities. Promptly addressing the bottlenecks in fiscal reform implementation, which are largely rooted in Comoros' weak public financial management system is critical. Important measures include prioritizing improvements in the budget process, addressing external arrears and completing the audit exercise on domestic arrears, and improving the performance and oversight of state-owned enterprises.

"The focus on strengthening the monetary policy toolkit is welcome and the fixed exchange rate regime has provided an effective anchor for monetary policy and ensured sufficient external buffers for Comoros. Monetary policy should maintain its focus on safeguarding the peg and ensure price stability. Efforts by the Central Bank of Comoros to address credit quality in the banking sector while strengthening supervision and resolution capacities are important. Measures to align the AML/CFT framework with international standards are necessary.

'The authorities are committed to reforms to strengthen institutions and reduce fragility. Implementing the anti-corruption law, adopted in June, would be an important step. The law has strengthened the frameworks for asset declaration and the Anti-Corruption Chamber. Over the medium term, reforms to enhance public sector governance and transparency will help to improve the business environment and attract greater private sector investment. These reforms will also boost the credibility of the state, strengthen the population's willingness to pay taxes, and increase the confidence of international donors and investors.

"Sound program implementation would help to ensure economic resilience and support social and developmental objectives. Comoros' program will continue to be complemented by

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

capacity development support, including in strengthening statistical capacity for effective economic surveillance as well as policy analysis and implementation."

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the broadly satisfactory performance under the ECF arrangement and the authorities' commitment to the reform agenda. While noting the positive outlook, Directors cautioned that risks remain high, given elevated global uncertainty and Comoros's fragility and capacity constraints. They underscored that continued strong policy implementation is essential to strengthen resilience, reduce fragility, and promote inclusive private sector-led growth. Directors highlighted the critical role of well-prioritized capacity development support from the Fund and other development partners.

Directors welcomed the strong fiscal performance, particularly on domestic revenue mobilization. Noting the high risk of debt distress, they recommended further fiscal consolidation to build fiscal buffers and secure debt sustainability. Fiscal reforms in revenue administration and tax policy, budget execution and reporting, and cash management are important. Directors also encouraged efforts to enhance the performance and oversight of state-owned enterprises to reduce fiscal risks. While urging the authorities to accelerate efforts to address existing arrears, Directors stressed the need to develop a sound debt monitoring system to avoid new arrears. Progress on Sustainable Development Goals is critical and will require prioritization of social and infrastructure spending.

Directors welcomed the focus on strengthening the monetary policy toolkit and highlighted that the fixed exchange rate regime has served as an effective anchor for monetary policy. Noting the continued fragility of the financial sector, Directors underscored the need to improve banking supervision, address high NPLs, and proceed cautiously to complete the restructuring of the systemic postal bank. They emphasized the importance of implementing the banking resolution framework and welcomed ongoing work to upgrade prudential regulations, in line with international standards. Directors encouraged measures to strengthen the effectiveness of the AML/CFT framework, including to support greater transparency.

Directors welcomed the focus on structural reforms to strengthen institutions and reduce fragility. They called for progress on implementing the anti-corruption law, including establishing the Anti-Corruption Chamber. They welcomed Comoros' progress towards the WTO accession, highlighting the potential benefits for trade. Noting the significant vulnerability to climate change, Directors welcomed the authorities' commitment to prioritize adaptation and mitigation efforts. Improving data collection and dissemination is essential to enable better policymaking.

It is expected that the next Article IV Consultation with the Union of the Comoros will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

---

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

Comoros: Selected Economic Indicators (2021-24)

	2021	2022 est.	2023 proj.	2024 proj.
Output				
Real GDP growth (%)	2.0	2.6	3.0	3.5
Employment				
Unemployment (%)	n.a.	n.a.	n.a.	n.a.
Prices				
Inflation, period average (%)	0.0	12.4	9.2	2.2
Central government finances				
Revenue and grants (% GDP)	17.1	14.3	17.4	17.2
Expenditure (% GDP)	20.0	18.3	21.8	20.5
Fiscal balance (% GDP)	-2.8	-3.6	-4.4	-3.3
Public debt (% GDP)	25.6	27.5	32.6	34.8
Money and Credit				
Broad Money (% change)	20.1	8.0	9.2	7.3
Credit to private sector (% change)	9.7	15.0	9.6	6.8
3-month Treasury bill interest rate (or similar) (%)	1.2	1.2	1.2	1.2
Balance of Payments				
Current account (% GDP)	-0.3	-0.5	-5.8	-5.7
FDI (% GDP)	0.3	0.3	0.4	0.5
Reserves (months imports)	8.2	6.6	6.9	7.7

External debt (% GDP)	25.4	27.3	32.4	34.6
Exchange rate				
KMF/US$ (period average)	415.7	466.8	…	…

Sources: country authorities; and IMF staff's estimates

UNION OF THE COMOROS

December 1, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND MODIFICATIONS OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. Economic recovery is underway, supported by the resumption of social activities, tourism, and ongoing public investment projects. Inflation has decelerated, in line with normalizations in international oil and food prices thus far in 2023. However, risks to the outlook are elevated due to the fragile context and global uncertainty; dependence on imports, remittances, and foreign aid means the economy remains highly vulnerable to external shocks. In this context, the economic reform program supported by the Extended Credit Facility (ECF) seeks to reduce fragility and increase economic resilience by building fiscal buffers, reducing debt vulnerabilities, strengthening the financial sector, and mitigating corruption risks.

Program performance. Performance under the ECF program has been broadly satisfactory. The authorities met four of six quantitative performance criteria (QPCs) for end-June 2023. The continuous QPC on the non-accumulation of new external arrears, the QPC on non-accumulation of net domestic arrears and the indicative target (IT) on household cash transfers were missed. There was good progress on the implementation of structural reforms, with seven of eight structural benchmarks (SBs) achieved as of end-October. The authorities are requesting waivers for the missed QPCs and modifications of the end-December 2023 QPC on net international reserves (NIR) and end-June 2024 QPCs on fiscal revenue, domestic primary balance, and NIR to reflect the latest macroeconomic projections. The authorities are also requesting the modification of the QPC on net domestic arrears into an IT, to reflect the weak capacity to monitor domestic arrears in real time and align the treatment of this target with that in similar developing and fragile states. Prior actions for the first ECF review include (i) the submission to Parliament of the 2024 budget proposal that is aligned with program parameters and (ii) a signed memorandum of understanding among the Debt Directorate, General Budget Directorate, Treasury Payer General, and the BCC, specifying the amounts and schedule of all external debt service payments due in 2024.

Policy discussions. Policy discussions for the 2023 Article IV Consultation and the first review under the ECF focused on preserving medium-term fiscal and debt sustainability, improving public financial management including monitoring fiscal risks from SOEs; boosting financial sector stability through strengthening supervision and resolution capacities and completing the restructuring of the systemic postal bank SNPSF; advancing structural reforms to ensure against corruption and improve judicial efficiency, which can contribute to improving the business climate. Discussions also covered the need to step up investments in health, education, and infrastructure. These reforms would help attract donor as well as private financing to help progress towards Sustainable Development Goals (SDGs) and more inclusive and resilient growth.

Staff views. Based on the envisaged policies and reforms, corrective actions, and political assurances for the program, staff supports the completion of the first review under the ECF arrangement, waivers of nonobservance of two QPCs, the modifications of end-December QPC on the NIR and end-June 2024 QPCs on fiscal revenue, domestic primary balance, and NIR, as well as the modification of the QPC on net domestic arrears into an IT.

Approved By
Costas Christou (AFR) and S. Jay Peiris (SPR)

The mission met with President Azali in Moroni and held discussions during October 18-31, 2023, with Minister of Finance Chanfiou, Central Bank Governor Imani, Minister of Economy Bazi, Secretary General of the Ministry of Finance Houmadi, and other senior officials and representatives of the private sector. The staff team comprised Suchanan Tambunlertchai (mission chief), Laila Drissi Bourhanbour, Guy Dabi Gab-Layba, Pegdewende Nestor Sawadogo, Kwame Gyesaw (all AFR), Anna Belianska (MCM), Ibrahim Ahamada (local economist), and Rima Turk (Resident Representative). Haya Abu Sharar, Mason Stabile and Roberta Guarnieri (all AFR) assisted in the preparation of this report. Mr. Mbuyamu Matungulu (OED) also participated in meetings.

CONTENTS

ANNEXES

APPENDICES

CONTEXT

1. **Since the last Article IV in 2020, Comoros has weathered several external shocks that durably impacted growth.** After Cyclone Kenneth in 2019, expectations of an economic rebound were blunted by successive shocks: the COVID-19 pandemic, the great lockdown during 2020-21, and Russia's war in Ukraine in 2022 and the surge in commodity prices. Historically high inflation and oil and rice shortages in 2022 eroded living standards and threatened food security. These disruptions have set back the government's ambitions to transform Comoros into a dynamic emerging market over the next decade, as originally laid out in the 2019 national development plan, *Plan Comores Emergent*. The revised plan, *Plan de Relance*, launched in 2022, sets out a more focused vision, aimed at socioeconomic recovery and strengthening foundational sectors such as agriculture, transport, energy, and education. Presidential elections will take place in early 2024. If re-elected, President Azali Assoumani, who has been in office since 2016, would remain in power until 2029.

2. **Comoros is a fragile, small developing state that continues to face development challenges rooted in economic and institutional weaknesses.[1]** The country exhibits typical challenges of a fragile and a small developing state including limited capacity and economic diversification, low fiscal revenue, and dependency on imports, remittances, and external aid. The small size, relative isolation, and the absence of basic infrastructures such as warehouses or reliable electricity and water supply make it difficult to attract investments. These constraints have trapped Comoros in a cycle of low growth and dependence on external aid, undermining resilience against external shocks. Annual growth averaged below 3 percent over the past decade. Over 35 percent of the population live in poverty (African Development Bank, 2022). Progress towards achieving the Sustainable Development Goals (SDGs) remains unsatisfactory, with Comoros ranking last among small developing states. The large estimated cost of achieving SDGs by 2030—18.8 percent of 2030 GDP—underscores the exceptionally low starting point.[2]

3. **These challenges are compounded by natural disaster risks, including those related to climate change (Annex 2).** Tropical cyclones represent the most significant risk. Given the lack of climate-adapted infrastructure and housing, the damage from cyclones can be very significant. Comoros is also vulnerable to the more slow-moving aspects of climate change including sea level rise and warmer temperatures of sea water which could lead to coral bleaching and reduced fishing productivity. Possible volcanic activity from Mount Karthala on the main island is an ever-present threat.

4. **The implementation of the 2020 Article IV recommendations has been uneven (Annex 3).** The authorities made some progress in broadening the tax base. Progress in PFM reforms has been limited, but improved budget realism in recent years has been welcome. There has been no

[1] See Annex 1 for a summary of the Country Engagement Strategy which explains the main drivers of fragility and recommendations to guide Fund engagement.

[2] See Selected Issues Paper, "Costing and Financing of Social Development Goals in Comoros."

progress on the treasury single account (TSA) reform. The Central Bank of Comoros (BCC) is strengthening banking supervision, but limited resources, chronic understaffing and frequent staff rotations hamper these efforts. Progress on restructuring the state-owned postal bank SNPSF has been slow but steady, supported by the Fund, World Bank (WB), and the French development agency, L'Agence française de développement (AFD). The authorities have taken steps to remove "ghost workers" but broader civil service reforms have not advanced. Implementation of the new anti-corruption law, which mandates the creation of the autonomous Anti-Corruption Chamber and improved the framework for addressing conflict of interest and asset declaration by public officials, will be key. Timeliness and quality of economic data continue to be a challenge.

5. **In June 2023, the Executive Board approved a four-year arrangement under the Extended Credit Facility (ECF).** The arrangement is Comoros' first financing engagement with the Fund in 10 years. The program aims to support economic recovery and secure medium-term macroeconomic stability and debt sustainability based on a credible fiscal consolidation plan and structural reforms to address vulnerabilities in the banking sector, reduce corruption risks, and improve public sector governance and transparency. In September, the WB's Executive Board also approved a US$20 million Development Policy Financing (DPF) for the country.

RECENT ECONOMIC DEVELOPMENTS

6. **Economic activity has picked up while inflation and credit growth have started to cool.** Real GDP is estimated to have grown by 2.6 percent in 2022. Domestic activity has continued to rebound in 2023 as post-pandemic travels and social activities such as the "Grands Mariages" (Great Weddings) are sustained. Amidst normalizing commodity prices, inflation has declined, registering 1.0 percent (y/y) in September after reaching 20.6 percent in December 2022. Domestic credit growth (y/y) decelerated from 29.8 percent in January to 15.4 percent in September. Growth in credit to the private sector declined from an average of 18.9 percent in 2022 to 11.9 percent in September. Over 2023H1, the share of credit to the public sector gradually declined from 13.3 percent to 11.7 percent.

7. **In October, the BCC lowered the reserve requirement ratio—its main policy tool—from 15 to 12.5 percent.** The decision reflected the declining inflation and credit growth. It also took into account the liquidity pressure on smaller banks from the higher reserve requirement since July 2022. The now-regular liquidity absorption operations, implemented with Fund technical assistance (TA), have allowed the BCC to address liquidity surpluses at larger banks and, combined with the reserve requirement ratio, better finetune systemwide liquidity management.

8. **Tax revenue in the first half of the year rose by 33 percent (y/y) (Text Table 1)**, driven by significant increases in excises and taxes on goods and services. The increase in tax on goods and services is mainly explained by the removal of tax exemptions on cement and increased revenue administration efforts. Excise collection surged 264 percent to KMF 9,349 million compared to KMF 2,568 million in June 2022, with the domestic tax collections on petroleum products gaining 95 percent.

9. Stabilizing commodity prices have reduced losses at key SOEs, although their financial situations remain worrisome. Lower international oil and rice prices have improved performance at ONICOR and SCH (respectively, rice and oil importers) as the government has maintained administered prices at the same levels as last year. Earlier this year, the government restructured the state-guaranteed debt owed by ONICOR to domestic commercial banks to help smooth the company's debt service. The electricity company SONELEC, however, continues to face large losses and growing operational challenges that have led to recurrent power cuts across the country.

Text Table 1. Union of the Comoros: Fiscal Developments

(In millions of CF, except as noted otherwise)

	Jan-Jun 22	Jan-Jun 23	Percent Change
	Est.		
Total revenue and grants	**40,568.5**	**34,355.0**	**-15.3**
Revenues	**24,118.8**	**29,580.8**	**22.6**
Tax revenue	18,844.7	25,052.8	32.9
Nontax revenue	5,274.1	4,528.1	-14.1
External grants	**16,449.7**	**4,774.1**	**-71.0**
Total expenditure	**45,386.7**	**42,118.6**	**-7.2**
Current expenditure	**37,703.9**	**32,708.9**	**-13.2**
Primary current expenditures	26,731.2	29,944.4	12.0
Wages and salaries	14,125.1	15,466.0	9.5
Goods and services	6,247.6	7,910.2	26.6
Transfers and pensions	6,358.5	6,568.3	3.3
Interest payments	719.9	494.7	-31.3
Capital expenditure	**7,682.8**	**9,409.6**	**22.5**
Domestically financed investment	3,192.5	4,172.9	30.7
Foreign-financed investment	4,490.3	4,869.9	8.5
Domestic primary balance	**-5,804.8**	**-4,536.5**	**-21.8**
Overall balance (commitment basis)	-4,818.2	-7,763.6	61.1
Change in net arrears	2,426.5	1,857.7	-23.4
External arrears	0.0	997.1	
Domestic arrears	2,426.5	860.6	-64.5
Overall balance (cash basis)	**-2,391.7**	**-5,905.9**	**146.9**

Source: Comoros Ministry of Finance; and IMF staff calculations.

10. International reserves declined in the first half of the year, primarily driven by the substantial increase in imports. Import growth of 20 percent (y/y) was fueled by heightened demand for food and oil. In contrast, exports grew by only 4 percent, largely from cloves. Notably, remittances fell by 7 percent, from a high base, and possibly due to increased remittances through informal channels as inbound travels by the diaspora normalize. The delay in disbursement of project grants and loans also contributed to the decline in foreign reserves. The latest External Sector Assessment (Annex 4) shows the external position of Comoros in 2022 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.

Text Table 2. Union of the Comoros: Financial Soundness Indicators for the Banking Sector, 2016-2022

(In percent)

	2016	2017	2018	2019	2020	2021 [1]	2022 [1,2]
Capital Adequacy							
Regulatory Capital to Risk-weighted Assets [2]	20	21	22	28	25	8	11
Asset Quality							
Non-performing loans to total gross loans	22	25	24	23	24	17	14
Non-performing Loans net of Provisions to Capital	39	49	41	29	35	23	29
Earning and Profitability							
Return on Equity	9	-1	0	-1	-8	-1	n.a.
Liquidity							
Liquid Assets to Short-term Liabilities		85	94	89	104	n.a.	n.a.
Customer Deposits to Total (non-interbank) Loans		123	132	135	155	163	136

Sources: Central Bank of Comoros and IMF staff calculations.

[1] IMF staff estimates and calculations based on Central Bank of Comoros' data. Due to understaffing at the Supervision Department, BCC has not reported FSIs since end-June 2021

[2] Not including all deposit-taking institutions due to inconsistencies in the reporting of some institutions.

11. The financial sector remains vulnerable, with weak institutions and rule of law contributing to the poor asset quality and constraining lending to the real economy. The financial system is composed of nine credit institutions (five banks and four decentralized microfinance networks), where three hold about 70 percent of the system's assets and deposits as of June 2023. Total assets and total credit represent 33 and 19 percent of 2023 GDP, respectively. Seven credit institutions have been making losses, and six are in breach of capital requirements, according to the preliminary supervisory data. The nonperforming loan (NPL) ratio appears to have stabilized at around 15 percent (as of June 2023) since the notable improvement during 2021-22 (Text Table 2), mostly thanks to a designated Commission composed of the Central Bank, Ministry of Finance, and Ministry of Justice, which resumed its work in the beginning of 2023. NPL coverage ratio stood at 57 percent at end-June 2023, lower than the recommended level by the BCC. NPL overhang is mainly due to poor judicial enforcement of contracts and claims against delinquent debtors, as well as inadequate underwriting and risk management practices.

12. External and overall debt are sustainable, including over the medium-term, but Comoros remains at high risk of debt distress. Three of the four external debt burden indicators continue to breach their respective thresholds under the baseline. The modest improvements in fiscal balances from higher-than-programmed revenues in 2023H1 and lower financing needs over 2023-25 have led to improvements in the debt burden and liquidity indicators compared to the DSA of the ECF request (May 2023). The limited magnitude and duration of the breaches are expected to improve over the medium term. Factors that mitigate the mechanical risk signals include the authorities' commitment to the economic reform program supported by the ECF, and the consistently strong performance of remittances, which supports external sustainability. (See Debt Sustainability Analysis (DSA) accompanying this report.)

13. The authorities accumulated new external and net domestic arrears, largely due to shortcomings in the debt payment process. New external arrears were incurred to the following multilateral, official bilateral, and other creditors: Arab Bank for Development in Africa (BADEA) of US$0.34 million, Bpifrance Assurance Export of US$0.39 million, OPEC Fund for International Development of US$0.06 million, Kuwait Development Fund of US$1.1 million, Saudi Fund for Development of US$0.3 million, AfDB of US$0.2 million, Exim Bank India US$0.13 million, and two payments to TDB of around US$1.3 million each. Of these new arrears, the authorities have repaid all but those to BADEA and Exim Bank India, for which discussions are ongoing. The authorities are seeking an alternate creditor for the BADEA loan.[3] As of end-June, net domestic arrears of KMF 860 million were accumulated due to delays in the payments for transfers and domestically financed investments.

[3] Comoros is a shareholder of BADEA. As the institution has become focused on serving non-shareholder countries, the bank has requested that its loan to Comoros be transferred to a new creditor.

OUTLOOK AND RISKS

14. Growth is projected at 3 percent for 2023 amidst a widening current account deficit while inflation would continue to subside. Growth projections are unchanged from the ECF request, with continued recovery in the near term driven by ongoing investment projects such as the El Maarouf Hospital and the Galawa Hotel. Medium-term growth projection of around 4½ percent remains contingent on the implementation of sound macroeconomic policies and structural reforms. Remittances are projected to decline from prior years' record levels amid lower Eurozone growth. Total exports would decline slightly by 2.2 percent (y/y) in 2023 as corrections in the strong cloves exports in 2022 offset the projected recovery in tourism (service exports to grow by 10.2 percent y/y). Imports would continue to grow, reflecting increased demand and still-high global prices, and normalize over the medium term in line with international price developments and completion of major investment projects. Foreign reserves would remain above 7.5 months of imports over the medium term. Average inflation in 2023 has been revised down to 9.2 percent (10.3 percent at ECF request) and to converge to around 2 percent over the medium term.

15. The balance of risks is tilted to the downside (Annex 5)**.** Renewed volatility in food and fuel prices would undermine social and economic stability. A more abrupt global slowdown and intensification of regional conflicts could disrupt trade, remittances, and FDI. A stall in the tourism rebound could lower service exports. Policy slippages and social tensions could occur in the run-up to the presidential elections. Intensifying power outages could cripple economic activity. On the upside, stronger-than-expected revenue mobilization could improve the fiscal outlook while a faster execution of investment projects could lead to higher overall growth.

Authorities' Views

16. The authorities agreed with staff's assessment of the medium-term outlook and risks but stressed the potential for positive growth surprises in the short term. They noted that continued reform efforts as well as infrastructure investments, such as the planned inter-island connectivity project, will be critical for lifting growth over the medium term. The BCC pointed to the strong imports as evidence of increased private and public demand which could lead to higher-than-expected growth outturns in 2023 and 2024. The authorities view the projected gross international reserves as appropriately prudent while remaining adequate at above 6.8 months of prospective imports of goods and services. They also shared staff's debt sustainability assessment, emphasizing that reducing debt vulnerabilities is a key priority for their development agenda.

PROGRAM PERFORMANCE

17. Four of the six end-June quantitative performance criteria (QPCs) were met and the indicative target (IT) on social cash transfer was missed (Text Table 3).

- Tax revenues and the domestic primary balance overperformed the QPCs, driven by strong collections of taxes on goods and services.

- The QPC on NIR accumulation was met.
- The QPC on non-concessional borrowing was also met.
- The authorities missed the QPCs on the accumulation of net new domestic payment arrears and new external arrears (see ¶s13 and 28).

Text Table 3. Union of the Comoros: Quantitative Performance Criteria and Indicative Targets, June 2023 - December 2024

(In millions of Comorian Francs, cumulative since end of previous year unless otherwise specified)

	2023						2024			
	End-June				End-September	End-December	End-March	End-June	End-September	End-December
	Performance Criteria				Indicative target	Performance Criteria	Indicative target	Performance Criteria	Indicative target	Performance Criteria
	Proj.	Adjusted	Outturn	Status	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Quantitative Performance Criteria[1]										
1. Floor on Tax Revenues	22,194.4		25,052.8	Met	36,990.6	49,320.8	11,347.6	25,532.1	42,553.5	56,737.9
2. Floor on the Primary Domestic Fiscal Balance	-10,517.5	-9,250.1	-4,536.5	Met	-11,268.5	-15,024.7	-5,354.8	-8,210.7	-8,657.0	-8,924.7
3. Floor on the Level of Net International Reserves	82,608.9		99,620.1	Met	106,211.4	107,929.7	108,570.9	109,639.4	111,776.5	112,204.0
4. Ceiling on the Accumulation of New Domestic Payments Arrears, Net	0.0		860.0	Unmet	0.0	...	...	...	...	...
5. Ceiling on New Nonconcessional External Debt Contracted or Guaranteed by the Government[2]	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
6. Ceiling on New External Arrears[2]	0.0		3.1	Unmet	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets[1]										
7. Ceiling on the Accumulation of New Domestic Payments Arrears, Net	...		...	...	...	0.0	0.0	0.0	0.0	0.0
8. Floor on Social Cash Transfers	1,550.2		0.0	Unmet	2,325.4	4,131.9	264.7	264.7	264.7	264.7
9. Floor on Cash-for-work, Livelihood Grants, and Technical Training				...	...	...	632.0	3,210.7	3,919.9	4,333
Memorandum Items										
Ceiling on Contracting and Guaranteeing of New External Concessional Borrowing by the Government[3]	23		0.0	...	47	70	14	14	27	78

- The IT on social cash transfers was not met due to delays in the WB disbursement for which the authorities did not compensate through a timely spending reallocation towards the program (see ¶21).

18. Progress on structural reforms has been good, with seven of eight SBs through end-October having been met (Table 1).

- The authorities established the Large and Medium Taxpayer Office (Direction des Grandes et Moyennes Entreprises, DGME) in June and are working with support from the IMF's Fiscal Affairs Department (FAD) to operationalize it.
- The BCC established in June its bank resolution and regulatory unit, which is structurally separate from the banking supervision department, and which will report separately to the Governor and the BCC Board.
- In August, the application for the BPC's banking license was submitted to the BCC, and the managing director of the Banque Postale des Comores (BPC) was appointed. However, the selected managing director had not taken up full-time duties. Staff underscored the importance of having a dedicated, full-time managing director in place to oversee the entire transition

process. The authorities are taking necessary actions to ensure her full-time involvement in the operationalization of the BPC and the restructuring process.

- The anti-corruption law was adopted by Parliament in June. At end-June, the authorities also published the audit report of spending financed by the IMF emergency support in 2020.[4]

- In September, the authorities removed the fee for getting a tax ID (Numero d'Identification Fiscale, NIF) as well as the requirement to renew it every three years and sought to ensure that taxpayers have NIFs that are adapted to the SIGIT platform.

- The authorities did not meet the end-September SB on the *de jure* transfer of the management of fuel products taxes to customs administration. When the SB was set at the ECF request, it was not understood that the change would require an amendment to the Customs Code, which in turn would require Parliamentary approval. The authorities propose resetting this SB for end-June 2024 to coincide with the first Parliamentary session in 2024 which would begin in April.

POLICY DISCUSSIONS

Policy discussions under the ECF were centered on securing fiscal and debt sustainability, strengthening the financial sector, and improving institutional frameworks to enhance accountability and reduce corruption. Discussions on the medium term in the context of the Article IV consultation focused on structural reforms to support the authorities' medium-term objectives of reducing fragility, increasing human and physical capital, and achieving higher and more inclusive growth.

A. Fiscal Policy

Balancing Fiscal Consolidation with Ongoing Recovery

19. The fiscal stance in the first half of 2023 was tighter than envisaged at the ECF approval. Strong tax revenues and slower-than-expected public investment execution contributed to the over-performance of the domestic primary balance at end-June. Performance in the second half of the year, however, is subject to significant uncertainty as the strong revenue mobilization efforts thus far may prove difficult to sustain in this period given the post-festival slowdown in goods and service imports and lower oil prices. The risks of spending overruns are high. The African Union presidency has weighed on the budget, with the government reportedly having already spent KMF 1.8 billion from own resources in 2023H1 (against the planned KMF 1 billion and the

[4] The audit report, which also covers Cyclone-related emergency financing in 2019, is available here: Rapport D'observation Definitives Sur Les Depenses D'urgence en Reponse a la Pandemie du Covid-19 a la Reparation des Degats Cause Par le Cyclone Lenneth/ Financement du Fonds Monetaire International (2019-2021)

commitment to mobilize grants to cover spending above this amount). Intensifying elections campaign efforts will likely put pressure on spending through the end of the year while a resurgence in commodity prices will raise expenditure. The pace of construction of the El Maarouf Hospital and the Galawa Hotel has also reportedly accelerated during the second half of the year. Staff advocated saving the overperformance in H1 as a buffer and advised maintaining revenue mobilization efforts as well as vigilance over spending. Notwithstanding the uncertainty, the domestic primary deficit for 2023 is expected to improve to 1.8 percent of GDP (2.4 percent projected at the ECF request) from 1.9 percent of GDP in 2022.

20. The 2024 budget aims to support growth while continuing fiscal consolidation to ensure the steady reduction of financing needs and debt sustainability risks. The domestic primary balance target for 2024 is proposed at -1.4 percent of GDP (QPC). The target takes into account (i) revenue gains of around 6½ percent from the implementation of revenue administration reforms under the program and the residual impact from the removal of tax exemptions on construction materials earlier this year; (ii) continued efforts to stabilize the wage-to-GDP ratio, but with nominal wages rising by 3.4 percent reflecting higher pension contribution rates; (iii) phasing out of one-time expenses related to the 2024 presidential elections and the 2023 African Union presidency; and (iv) strong public investment execution reflecting the authorities' aim to complete the construction of the El Maarouf Hospital in 2024. Achieving the target would mean a consolidation of 0.5 pp of GDP since the start of the program, compared to the 0.1 pp of GDP envisaged at the ECF request. Over the medium-term, the consolidation path remains anchored on returning Comoros to moderate risk of debt distress by 2028. It assumes a steady increase in tax revenue of around 0.3 percent of GDP per year, supported by structural reforms in tax policy and revenue administration, and reducing investment spending to pre-pandemic levels once committed spending is phased out (see Memorandum of Economic and Financial Policies, MEFP ¶5). These strategies are expected to improve the domestic primary balance to -0.1 percent of GDP by 2027.

21. Social spending includes transfers to the health and education sectors, while cash transfers to vulnerable households continue to take place through the WB-sponsored program. Health and education spending accounts for around 33 percent of transfers in the 2023 budget. The social safety net project (Projet de Filets Sociaux de Sécurité, PFSS) funded by the WB, had been responsible for direct cash transfers to the most vulnerable. With delayed disbursements from the WB in the first half of the year, and no reallocation towards the program from other expenditures, the IT on social cash transfers was missed. Delays in disbursement were due to the ongoing reorganization of the PFSS into a similar unit (Projet de Filets Sociaux de Sécurité Résilient et Réactif aux Chocs, PFSS-RRC) tasked with broader social spending initiatives. Under the PFSS-RRC, direct household cash transfers would be phased out in 2024 in favor of new initiatives such as cash for work, livelihood grants, and vocational training. A new IT reflecting the scope of the new social safety net project is proposed for monitoring the project's execution (Text Table 3). Despite the intention to reallocate expenditure towards the social safety net project in case of delayed disbursement, the authorities were unable to do so given limited liquidity management capacity and the inability to monitor the project's execution in real time. Going forward, staff proposes including an adjuster for WB disbursements on this IT (see Technical Memorandum of Understanding, TMU ¶16).

Fiscal Structural Reform

22. Revenue administration reforms are underway, with close support from FAD. The establishment of the General Directorate of Taxes (Direction Générale des Impôts, DGI) in June has helped accelerate revenue mobilization efforts. FAD experts are supporting the operationalization of the DGME, including the identification of short-term revenue mobilization measures and improvement of tax compliance. As of end-October, these efforts have allowed the DGME to identify 66 taxpayers to add to its database, putting the authorities on track to achieving the year-end SB (increasing the number of active taxpayers by 10 percent from the base of 543 at end-March 2023, and sending them requests to file tax declarations). The authorities are working towards the integration of customs and DGI databases through the interconnection of the SIGIT and SYDONIA platforms (end-December 2023 SB). Following the interconnection, the DGI should begin publishing monthly detailed reports of data exchanges with customs and the audit results showing tax adjustments.

23. The authorities are undertaking various customs reforms under the ECF and as part of their accession to the World Trade Organization (WTO). They intend to submit for approval the amendments to the Customs Code to complete the transfer of the management of fuel products taxes to Customs Administration during the next Parliamentary session which begins in April 2024. As such, they also requested that the SB on the finalization of the regulations to implement the Customs Code be deferred from March 2024 deadline to June 2024. Other customs reform being implemented, with support from FAD, include strengthening risk management in border customs clearance, e.g., by focusing inspection efforts on shipments with the highest compliance risks, deploying an internal control system, and developing a decision-making information system. The authorities are also working to accede to the WTO by 2024. As part of the process, they have committed to gradually unwinding border taxes that fall under "Other Duties and Charges" (ODCs) to simplify the customs' tariff structure and undertaking legislative reforms to bring its trade regime into conformity with WTO rules, including in the areas of copyright and customs procedures. The fiscal implications from the WTO accession have been factored into the baseline projections—the elimination of most ODCs constitutes shifting from collection at the border to direct administration by the DGI or a replacement of an existing ODC with a WTO-compatible tax, thus maintaining the associated revenues in the tax base. The authorities are committed to continuing to strengthen revenue administration to maintain the revenue mobilization objective under the program.

24. Due to capacity constraints and the numerous reforms already in train, it is proposed that the SB on establishing a Tax Policy Unit (TPU) be postponed from December 2023 to September 2024. The ECF engagement and the reform agenda under the WB's DPF are pushing the limits of the authorities' implementation capacity. At present, the authorities are not prepared to establish and staff a new unit at the Ministry of Finance in the very near term. Delaying the establishment of the TPU would allow the authorities scope to focus on revenue and customs administration reforms in the coming period. The new timeline would also allow the authorities time to identify and/or develop key personnel that can undertake the analytic and strategic policy role (e.g., developing a medium-term tax reform strategy, including possible consumption tax reforms, and conducting stakeholder consultations) required for the TPU.

25. The bottlenecks in fiscal reform implementation are largely rooted in Comoros' weak public financial management (PFM) system. The WB's 2022 Public Expenditure Review assesses that the country's PFM system is inadequate to effectively implement government policies, with no overall improvement observed between 2016 and 2022. The International Budget Partnership (IBP) ranks Comoros among the worst-performing countries in terms of fiscal transparency, public participation, and budget oversight.[5] The adoption and promulgation of the new organic finance law (LOFE) in 2022 was a first step towards a better PFM process. However, while its implementation is ongoing, significant information gaps across the fiscal process, from the budget proposal to the reporting of budget execution, continue to persist. To address these challenges, staff urged the authorities to prioritize the following:

- *Appoint a Director to the General Directorate of Public Accounting and the Treasury (DGCPT)* (new SB). The absence of a head at this key function since December 2021 has significantly hindered progress in Treasury reforms including fiscal reporting and TSA (see ¶26).

- *Finalize and promulgate the decree on the general budget management and public accounting regulations* (new SB), which would define the accounting functions and responsibilities of the public accountants and authorizing officers. A draft decree has been elaborated since 2016 and recently revised with support from FAD to align with the 2018 constitution.

- *Improve the budget process over time by:*

    - ***Ensuring budget proposals include basic information*** such as expenditures and revenues at level two of the GFS classification; information on deficit financing; and the debt stock for the current fiscal year. While the 2022 LOFE requires the budget documents to contain multi-year economic programming, such documents would only be feasible with the development of macroeconomic forecasting capacity. As this capacity is developed over the medium term, budget documents should incorporate other essential elements such as tax expenditure estimates, medium-term fiscal forecasts, and impact analyses of new policy initiatives or large projects on revenues and expenditures.

    - ***Improving budget execution reporting.*** Despite extensive TA, the production of the quarterly table of government fiscal operations (TOFE) continues to face quality issues, reflecting low capacity, difficulty coordinating across various data sources, and lack of accountability. To improve coordination and accountability, staff advised the authorities to

[5] See Selected Issues Paper, "Promoting Fiscal Governance in Comoros by Enhancing Transparency and Citizen Participation."

establish a TOFE Committee charged with compiling the quarterly fiscal tables. The Committee should comprise representatives from the main entities with data needed for the compilation of fiscal accounts (Treasury, Debt Directorate, Budget Directorate, General Commission of Planning, and the BCC) and report to the Minister of Finance.

  - ***Publishing documents supporting the budget process***, starting with the annual 2024 budget approved by Parliament (new SB for April 2024) and annual budget execution report. Other documents such as the in-year execution report and financial audit by the Supreme Audit Institution (SAI) are also required by the organic finance law, although none are currently published.

- *Ensure completion of the audit exercise of domestic arrears (end-December SB).* The exercise, already in its second year, has revealed that certain arrears cannot be corroborated due to missing documentation and a lack of agreement between counterparties. While the quality of the exercise is compromised by the large amount of missing information, staff nevertheless urged the authorities to complete the exercise based on arrears that can be validated. This would avoid further delays in moving to the next step of formulating a domestic arrears clearance strategy (end-March 2024 SB).

26. The authorities urgently need to ensure the effectiveness of the TSA and strengthen cash management capacity. A proliferation of accounts outside of the TSA perimeter has reversed progress previously made in consolidating government accounts. The limited coverage of the TSA obscures visibility over the overall liquidity position. The TSA reform is therefore critical for improving the authorities' cash management capacity which would also reduce domestic and external arrears accumulation. Staff recommended that the authorities request targeted capacity development (CD) support in this area as quickly as possible, including through extended short-term experts or a resident PFM advisor. Meanwhile, the Treasury should undertake a simple analysis of TSA inflows and outflows to identify opportunities for synchronization, which could alleviate intra-year liquidity constraints.

27. Efforts to improve the performance of SOEs and their oversight are being accelerated. The COVID-19 crisis and soaring commodity prices have exposed the financial fragilities and governance weaknesses in SOEs. Public support through guarantees, subsidies, tax exemptions, and forfeiture of dividends highlights the risks these entities pose on the budget.[6] Many SOEs do not have boards of directors while most do not follow OHADA accounting rules. With support from FAD, the authorities have prepared a draft SOE law that seeks to upgrade the legal framework governing SOEs to take into account international standards in governance and corporate law. Improved financial reporting and accounting practices would also ensure better documentation of SOEs' transactions, which had been a key challenge for domestic arrears clearance (¶25). In October, the draft law was presented to key stakeholders, including SOEs, their line ministries, and the private sector. The authorities expect to submit the law for adoption by Parliament before the end of the

[6] See Selected Issues Paper, "State-Owned Enterprises: Oil and Gas in Comoros."

year. Staff encouraged the authorities to look ahead and prepare for the implementation of the law, including by staffing the directorate to be charged with SOE supervision.

Debt Issues

28. The authorities undertook corrective actions and repaid all new external arrears, except those under renegotiation with creditors. As of mid-November, all new external arrears had been paid, except to BADEA and Exim Bank India which remain under discussion (¶13). The accumulation of new external arrears is symptomatic of PFM weaknesses which oftentimes exacerbate the liquidity constraints. The current external debt service payment system constitutes several ad hoc steps. Each debt service payment during the year currently needs to be requested by the Debt Directorate and validated by the General Budget Directorate (GBD) before approval by the Treasury. The Treasury then sends the payment order to the BCC for execution. The multiple steps and lack of accountability at each step make this system prone to delays and coordination failures. These problems are compounded by complex external debt repayment schedules which have resulted from multiple debt relief initiatives over the years. Discussions focused on the need to establish a system of settling external debt service through automatic deductions from the TSA, with the GBD validating these payments within the expenditure process (commitment, liquidation, and authorization). Such a mechanism is already in place for debt repayments to the IMF and the WB, and the authorities should consider generalizing it to debt repayments to other creditors. Meanwhile, as part of the corrective action, the authorities will produce a Memorandum of Understanding (MoU) specifying the amounts and schedules of external debt service during 2024, which will be signed by the various entities involved in external debt repayment (prior action, PA). Staff noted the authorities' ongoing efforts to seek an alternate creditor to take over the BADEA loan as a credible arrears clearance strategy and urged the authorities to resolve their outstanding official arrears to Exim Bank India as soon as possible.

29. The authorities expect the net domestic arrears accumulated during 2023H1 to be temporary in nature, and request to modify the QPC into an IT. The authorities are in the process of paying down the accumulated net domestic arrears, with no expected adverse impact on the overall implementation of the program. The QPC had been formulated based on the authorities' achievement of a similar target under the Staff Monitored Program (SMP). However, recent domestic arrears accumulation has shed light on the weaknesses in the payments system and arrears monitoring capacity. Under the current system, the Treasury operates on a semi-digital basis, with no integrated software that connects the various steps of budget execution. The monitoring of domestic arrears, therefore, cannot be done in real time. While the authorities are requesting support to upgrade their IT system, the current system is grossly inadequate and susceptible to mistakes and thereby misreporting. In light of this, the authorities are requesting the modification of the QPC to an IT, to better align the treatment of this target with their monitoring capacity as well as the practice in other LICs/FCS.

Authorities' Views

30. The authorities reiterated their commitment to gradual fiscal consolidation and agreed with the need to accelerate the various areas of fiscal structural reforms. The completion of the El Maarouf Hospital in 2024, supported by concessional financing, is a priority for the authorities. They have been satisfied with their revenue mobilization efforts and reaffirmed their readiness to continue advancing tax and customs administration reforms to ensure a more sustainable and robust tax base for the country. They proposed deferral of the establishment of the TPU to next year to allow prioritizing revenue and customs administration reforms and filling the several vacancies in various directorates of the Ministry of Finance. The authorities acknowledged their capacity constraint in addressing several competing fiscal structural reforms priorities and agreed that PFM reforms and the implementation of the 2022 LOFE are the critical next steps under the program while welcoming the recommendation to request TA on TSA reform. They highlighted ongoing efforts to involve citizens in the fiscal process, including the engagement with the private sector and civil societies in the elaboration of the 2024 budget and the recently adopted agreement between Customs Administration and the private sector to improve the public-private dialogue. The authorities also expressed their disappointment at the missed QPCs and agreed with the appropriateness of the related corrective measures and PA.

B. Monetary Policy and Operations

31. Monetary policy is focused on safeguarding the peg. The fixed exchange rate regime has provided an effective anchor for monetary policy and ensured sufficient external buffers. Staff agreed that the recent loosening of the reserve requirement ratio was appropriate given recent inflation and credit growth developments and encouraged the BCC to continue to closely monitor monetary developments. The BCC should stand ready to defend the peg should it observe large outflows of reserves. While international reserves remain comfortable, their accumulation has been slower than previously expected on account of the strong public and private demand for imports. As such, the end-September IT on NIR accumulation (target of KMF106,211.6 million against actual of KMF104,176.9 million) was missed by a small margin. Discussions touched on the need to modify the end-December QPC on NIR to reflect these developments. Staff confirmed no changes to the exchange system covered by Article VIII of the IMF's Articles of Agreement.

32. Structural reforms are gradually strengthening the monetary policy toolkit. With MCM's support, the authorities are developing the interbank market, the collateral framework, marginal lending facility, and the framework for emergency liquidity assistance. Staff welcomed the progress in these areas while emphasizing that these efforts would need to be accompanied by financial sector reforms as weak banks have been the key impediment to financial deepening and monetary policy transmission.

Authorities' Views

33. The BCC reiterated its commitment to the monetary cooperation agreement that guaranteed free convertibility between the Comorian franc and the euro. They appreciate the IMF TA support on different areas to strengthen the monetary policy framework which in turn enhances the BCC's capacity to maintain the peg. Given strong imports and expected FX flows in the remaining months, the authorities are requesting to modify the NIR target to reflect the currently narrow margin and the still-strong import demand. They agree that gross international reserves of around 6.8 months of prospective imports of goods and services remain an appropriate anchor for reserve adequacy for Comoros.

C. Financial Sector Stabilization

34. The authorities are executing the SNPSF restructuring strategy in line with SBs under the program. They are currently on track to meet the year-end SB on the BCC's issuance of the BPC's banking license and are taking necessary actions to ensure full-time involvement of the BPC's new managing director in the BPC's operationalization and restructuring process. The main challenge appears to be the timely acquisition and operationalization of the management information system (MIS). A banking license will be conditional if the MIS is not fully operational by end-December 2023. Conditionality will be lifted once the MIS is operationalized, which is expected to be no later than end-June 2024. The BCC will withdraw the banking license of the SNPSF as soon as the BPC starts operating. The authorities will ensure that the liquidation of the SNPSF's remaining assets is completed within the next three years through the residual entity. The BCC will monitor and provide supervisory reports on the BPC's compliance with phase 1 of its business plan (new SB), which limits BPC's lending operations to existing customers with individual limits of KMF 5 million for at least 2 years.

35. A new resolution and regulation department (DRRB) was established in June to improve BCC's resolution powers and complement the work of the supervision department (DSB). TA from the IMF's Legal Affairs Department (LEG) and MCM will support the operationalization of the DRRB, starting with the amendments to the resolution framework as recommended by the 2022 MCM TA report, in particular the recommendations relating to the resolution authority's liquidation powers, introducing depositor preference, and creating a resolution funding mechanism. Constructive work with the authorities is ongoing and progressing well, but some additional time to finish the amendments is required, and an IMF LEG TA mission will take place during 2024Q1. As such, staff is proposing that the SB on the submission to Parliament of the amended resolution framework be moved from end-December 2023 to end-May 2024. The authorities are considering strategic options for the two loss-making banks that were under public administration in 2020 (which was lifted for one of the banks in June 2022). These strategic options should be credible – in the case of divestitures, these should be preceded by a thorough restructuring and recapitalization, supported by fiscal resources and robust governance reforms. Staff urged the DSB to resume on-site inspections of banks with a view to completing them by June 2024 (SB). Due to understaffing at the BCC, two staff members were transferred from DSB to DRRB, and two new ones were hired in DSB. Staff stressed that the authorities should address the understaffing, both at the DSB and at the BCC as a whole, and that personnel rotations should be carefully managed, especially in connection with the resumption of on-site inspections.

36. Staff emphasized the importance of upgrading regulatory capacity and addressing the NPL overhang in the banking system. Work is ongoing, supported by AFRITAC-South, to align prudential regulations with the Basel II and Basel III frameworks, upgrade supervisory processes, and implement a risk-based supervision (RBS) system. Support is also being provided for the BCC to develop guidelines on the credit management process for credit institutions and align accounting standards for credit institutions with the OHADA system. The NPL Commission, which had played an active role in resolving NPLs during 2021-22, has been reactivated. Discussions with commercial banks confirm that weak asset quality, and low resource mobilization due to lack of financial education in general, are the main impediments for lending activity. Some banks reported success in asset recovery after working with the NPL Commission. The supervisory requirement on banks to consult a recently established credit registry ahead of loan originations may have also contributed to the recent improvement in credit quality. Staff encouraged continued work of the NPL Commission and noted that broader judicial reforms are needed to reinforce the effectiveness of the Commission through better enforcement of contracts and claims.

Authorities' Views

37. The authorities acknowledged the many challenges in the financial sector while also pointing to progress being made. They noted the collaboration among the BCC, the Ministry of Finance, and the SNPSF restructuring team to ensure the timely operationalization of the BPC and the wind-down of the SNPSF. Addressing asset quality by reducing NPLs and resuming on-site inspections are priorities for the DSB. The BCC noted that participation of the Ministry of Justice in the NPL Commission helps advance judicial decisions, although the small size and interconnectedness of the Comorian population presents challenges for judicial enforcement. The authorities confirmed their commitment to operationalizing the DRRB, noting the already ongoing engagement with LEG and MCM on the resolution statutes. They also acknowledged the problem with understaffing at the BCC and pointed to the difficulty in competing with the financial sector in recruiting qualified personnel.

D. Structural Reforms to Strengthen Institutions and Reduce Fragility

38. The authorities will need to implement a medium-term strategy that strengthens both institutions and economic policies to build resilience. While the national development strategies, *Plan Comores Emergent* and *Plan de Relance*, focus on economic diversification and inclusive growth, concomitant institutional reforms to enhance public sector governance and transparency will also improve the business environment and attract greater private sector investment. Success in these reforms will also boost the credibility of the state, strengthening the population’s willingness to pay taxes and increasing the confidence of international donors and investors.

39. The authorities should begin implementing the anti-corruption law that was adopted in June. The law has strengthened the frameworks for asset declaration (AD) and the Anti-Corruption Chamber (ACC). In line with LEG recommendations, the AD reporting requirement focuses on top officials most exposed to corruption risks and the ACC is empowered with the mandate to enforce the AD requirement. Although the criminalization of asset declaration publication without consent continues to limit full transparency, it is welcome that the ACC would be required to publish the list of officials who submitted the AD while citizens have the right to access the ADs as well as file complaints to challenge their accuracy.[7] The ACC has a clearly defined mandate with operational and budgetary independence, and a selection process that ensures independence of its members. However, the pool of potential candidates is limited to non-judicial advisors of the Supreme Court (Art. 145) which constrains membership to the existing bureaucracy. Discussions focused on the next steps in setting up the ACC (end-December SB). Staff advised the authorities to accelerate the process to ensure a timely start to the work of the ACC, which will likely require TA in implementing the AD framework.

40. Other reforms to combat corruption and increase transparency are underway.

- *A recent presidential decree instituted the online tender management system for awarding public contracts.* Staff emphasized that the collection and publication of information on public procurement contracts including beneficial ownership information, in line with the roadmap published in 2021, would further strengthen the integrity of the system (new continuous SB).

- *Comoros' AML/CFT frameworks is being assessed by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), with the onsite held in July.* The recommendations from the assessment, which is expected to be available in the first half of next year, will feed into the ongoing work to align the AML/CFT law with international standards.

41. An update safeguards assessment of the BCC was completed in October 2023. The assessment found that the BCC has enhanced its transparency with the adoption of the International Financial Reporting Standards (IFRS) and timely publication of the annual audited financial statements. The assessment also found that the BCC continues to face capacity challenges across several functions, in particular internal audit and will continue to need technical assistance to strengthen its operations. The Comorian and French authorities are working, in consultation with IMF staff, to amend the 2008 BCC Statutes to strengthen the BCC's autonomy. It is envisaged that, following finalization of the amendments by the BCC in line with staff's recommendation, the amended Statutes would be submitted for promulgation by the president by September 2024 (new SB). Staff also advised the BCC to initiate discussions with the Ministry of Finance to establish a repayment plan for the long-term loan that the BCC extended to the government in connection with the 2021 IMF SDR allocation.

---

[7] AD reporting is required of top officials within three months of assuming and leaving the office and every two years while in office. The rules for citizens' consultation of the ADs will be defined by a Ministerial Decree, but the law already provides that copies of ADs cannot be made, and information therein cannot be publicized without consent.

42. Maintaining and gradually enhancing social spending will be critical to protect the most vulnerable and ensure inclusive growth. Given budget constraints, social spending in Comoros has been modest, with priority for the education and health sectors. However, social protection should also include arrears clearance vis-à-vis the pension fund and an eventual parametric reform to address the persistent shortfall in pension payments. Meanwhile, the increased pension contribution planned in the 2024 budget is welcome. As reforms under the ECF help create fiscal space, the authorities should gradually expand social spending. Meanwhile, the authorities must continue mobilizing donor support to address gaps in basic infrastructures and basic services such as water, electricity, sanitation, and road networks, which have been the main bottlenecks in progress towards SDGs and economic inclusion of the population.

43. Promoting the rule of law and improving the judiciary and civil service will improve the quality of public service and the business environment. The reforms aim at ensuring independence, integrity, and efficiency of the judiciary. This requires aligning the current system of appointment and dismissal of judges with international standards to address the existing shortcomings and enhance judicial accountability. Improving the judiciary and civil service also requires a more transparent hiring process, e.g., through exam-based competition, performance evaluations, and the removals of "ghost workers" that bloat the system. In this regard, the recent introduction of examinations for the selection of judicial clerks and ongoing efforts to digitalize and interconnect public sector personnel databases are welcome developments. The authorities are receiving technical support on some of these reforms from development partners such as the European Union (EU) and the AFD.

44. Greater participation in global trade would be beneficial for exports, investment, and growth diversification. Comoros' small export base implies significant untapped opportunities. Successful accession to the WTO and the associated reforms to the trade and business legal frameworks could help open doors to foreign investments. The authorities should, however, be mindful of the potential revenue loss that could arise from aligning border taxation—an important revenue source for Comoros given the tax administration challenges on inland goods—with international practices.[8] Staff highlighted the need to step up revenue mobilization reforms while starting to formulate trade tax replacement strategies. Staff also noted that reducing non-tariff barriers through improving the customs clearance process, upgrading ports and storage facilities, and reducing corruption opportunities would also foster trade and its associated benefits such as technology transfers, FDI, and participation in the global value chain, all of which have been associated with productivity gains and higher growth.

45. Investments in green energy could help enhance energy security while providing economic opportunities. Low production efficiency, financial losses despite high tariffs, and frequent power outages characterize the diesel-based electricity market in Comoros. A pivot towards renewable energy provides significant upsides, including addressing power shortages, reducing greenhouse gas emissions, and better insulating the country against oil price volatility.

[8] See Selected Issues Paper, "Trade Liberalization and Tax Revenue Mobilization in Comoros."

Supported by the WB, the authorities are undertaking initiatives in renewable sources, e.g., the Comoros Solar Energy Access Project. A presidential decree was signed in August to strengthen the legal framework for opening the energy market to the private sector for the production and marketing of electricity produced from renewable energy sources. Greater private sector participation can help accelerate green investments, boost the role of the private sector in the economy, and create employment.

46. The strengthening of statistical capacity remains crucial. Data provision across all sectors—real, fiscal, external, and financial—has serious shortcomings that significantly hamper surveillance. In the ECF context, weak data production capacity also creates misreporting risks. While the authorities have received extensive CD support for various statistical compilations (see Annexes 1 and 6), progress has been slow due to understaffing and frequent turnovers in the statistical functions.

Authorities' Views

47. The authorities agreed with the need to strengthen the governance in public institutions and undertake structural reforms to promote economic resilience. They reiterated their commitment to anti-corruption reforms, including through the digitalization of various government processes to reduce rent-seeking opportunities. They noted that the ACC, once set up, would require substantial training, particularly with regards to the operationalization of the AD framework. As for social and economic inclusion, the authorities emphasized the alignment of their vision of economic prosperity under the *Plan Comores Emergent* with the achievement of SDGs. They also expressed optimism that the successful accession to the WTO would confer benefits in the form of increased exports and foreign investments. The authorities agreed that green energy presents a viable alternative for a small and insular state like Comoros and acknowledged that efforts in this area could be greatly accelerated. They also noted their continuous efforts to improve data quality, with the support of partners such as the Fund, the WB, and AFD.

PROGRAM MODALITIES

48. The program is fully financed with firm commitments over the next 12 months and good prospects for the remaining program period. Disbursement for the first review will be used for budget support, which is linked to Comoros' protracted BOP needs. As illustrated in the SMP second review, without the ECF arrangement, elevated fiscal financing needs and associated external debt service would draw down international reserves over the medium term to well-below adequate levels. By financing the fiscal gap, Comoros will be able to implement the program and resolve these challenges. In addition to Fund support, financing in the first and second year of the ECF is being provided through budget support from development partners and multinational development institutions, including the World Bank, the AFD, and the African Development Bank. The WB's 2023 DPO of US$20 million was approved in September and discussions for the 2024 DPO have begun. Disbursements from AFD were also made during 2023.

49. Performance under the ECF has been broadly satisfactory. The authorities met four of six QPCs for end-June 2023 (Text Table 3). They request waivers for the missed QPCs on the accumulation of net domestic arrears and the accumulation of new external arrears. The request is supported by corrective measures to pay down net domestic arrears and clear all external arrears accumulated during 2023 except for the two loans under renegotiation as well as to sign a MoU among the Debt Directorate, General Budget Directorate, Treasury Payer General, and the BCC, specifying the amounts and schedule of all external debt service payments due in 2024. They also request a modification of the end-December 2023 QPC on NIR accumulation—reflecting a decline in external buffers following a temporary strengthening of FX demand—and the conversion of the QPC on net domestic arrears to an IT starting with the December 2023 test date. Reflecting the updated fiscal projections, the authorities request modifications to the end-June 2024 QPCs on tax revenues, primary domestic fiscal balance, and NIR. The IT on household cash transfers was missed. Seven of eight SBs through end-October were met.

50. To support the continued implementation of the authorities' reform program, the following prior actions and new SBs are proposed (Text Table 4) while some SBs are postponed (Table 1):

- **Prior actions** include (i) the submission to Parliament of the 2024 budget in line with program parameters and (ii) the signing of a MoU among the Debt Directorate, General Budget Directorate, Treasury Payer General, and the BCC, specifying the amounts and schedule of external debt service payments due in 2024. Staff considers these PAs critical for program success as the budget underpins the planned fiscal consolidation while the MoU would ensure against coordination failures that could lead to a repeat of external arrears accumulation.

- **New SBs** aim to extend progress already started on domestic revenue mobilization, strengthening the banking sector, and governance and anti-corruption reforms. The proposed measures preserve parsimony in reform areas while continuing to sequence granular reform steps to account for the authorities' implementation capacity.

- **Postponement of SBs** reflects capacity constraints and the numerous reforms already under implementation, staff propose that due dates for three SBs be postponed. This strategy will allow for the deployment of the requisite Fund-supported TA as well as provide the authorities with time to identify and/or develop key personnel for certain functions. The date for the missed SB on the de jure transfer of the management of taxes on petroleum products is also proposed to be reset.

Text Table 4. Union of the Comoros: Proposed Prior Actions and New Structural Benchmarks, 2024-25

Proposed Measures	Proposed Timing
A. Prior Actions	
Submit to Parliament a 2024 budget proposal in line with program projections, in consultation with staff	Prior to ECF 1st Review

Text Table 4. Union of the Comoros: Proposed Prior Actions and New Structural Benchmarks, 2024-25 (concluded)	
Proposed Measures	**Proposed Timing**
Sign Memorandum of Understanding among the Debt Directorate, General Budget Directorate, Treasury Payer General, and the BCC, specifying the amounts and schedule of all external debt service payments due in 2024, in consultation with staff	Prior to ECF 1st Review
B. Fiscal Structural Reforms	
Appoint Director of the General Directorate of Public Accounting and the Treasury	March 2024
Finalize and promulgate the presidential decree on the Budgetary and Accounting Management Regulations	April 2024
Publish the annual 2024 budget approved by Parliament	April 2024
C. Financial Sector Reforms	
BCC to provide supervisory reports on the compliance of BPC with the phase 1 of the business plan (limit lending operations to existing customers with individual limits of KMF 5 million for the first two years of operation), including quantitative information on the number of new customers and maximum lending per customer, in line with ¶15 of the MEFP of the ECF Request	Every July and January, starting on July 31, 2024, to January 31, 2026
D. Institutional, Governance, and Anti-Corruption Reforms	
Publish online information on public procurement contracts including beneficial ownership information, in line with the roadmap published in 2021	Continuous, starting on May 1, 2024
Promulgation by the President of the Union of Comoros of the amended statutes of the BCC in line with IMF staff advice	September 2024

51. Comoros' capacity to repay the Fund is adequate, but subject to significant risks (Table 6). Fund credit outstanding is projected to peak in 2027 at SDR 34.72 million, equivalent to 2.7 percent of GDP. Debt service to the IMF would peak in 2024 at 5.4 percent of revenue and 4.8 percent of exports of goods and services. Risks are exacerbated by Comoros' high risk of debt distress, external arrears, and uneven track record of reform implementation. Risks are mitigated by policy measures envisaged under the program, the phasing of Fund disbursements, and consistent track record of servicing debt to the Fund.

52. Program risks are elevated. Remaining uncertainty in the global macroeconomic outlook, the authorities' capacity constraints, and the 2024 elections that may divert attention from reforms may lead to policy slippages, which in turn could cause delays in disbursements from partners. The gradual pace of reforms embedded in the program design and a close dialogue with the authorities, as well as international partners, and the authorities' commitment to undertaking additional measures as necessary to safeguard the objectives of the economic reform program (LOI ¶ 5) help mitigate these risks. Support for the program from the incumbent president also provides the necessary political assurances. Capacity development support continues to play a critical role in the successful implementation of the program.

Table 1. Union of the Comoros: Status of Structural Benchmarks, 2023-24		
	Date	**Status**
A. Fiscal Structural Reforms		
Measures to Boost Tax Revenue		
Establish the Large and Medium Taxpayer Office (Direction des Grandes et Moyennes Entreprises)	July 31, 2023	Met
Raise the number of active taxpayers by 10 percent at the Large and Medium Taxpayer office (from 543 at the large taxpayer office and the medium and small taxpayer office, as of March 31, 2023) and send all these taxpayers requests to file tax declarations.	December 31, 2023	
Remove the fee for getting a NIF (Numero d'Identification Fiscale) and the requirement to renew it every 3 years and ensure that all taxpayers have a NIF adapted to the SIGIT platform	September 30, 2023	Met
Interconnect the SIGIT and SYDONIA platforms to enable automated exchange of data between DGI and customs	December 31, 2023	
Customs Reforms		
Complete the de jure transfer of the management of fuel products taxes to the customs administration after already having completed the transfer de facto	September 30, 2023	Not met, reset for June 30, 2024
Issue ministerial decrees to implement the customs code	March 31, 2024	Proposed for June 30, 2024
Tax Policy Measures		
Establish a Tax Policy Unit that reports to the Minister of Finance, with TA from FAD	December 31, 2023	Proposed for September 30, 2024
PFM Measures		
Complete the audit of domestic arrears, including cross-arrears between SOEs and the government	December 31, 2023	
Develop a medium-term action plan to clear domestic arrears	March 31, 2024	
B. Financial Sector Reforms		
SNPSF Restructuring		
Appoint managing director at BPC with management expertise and experience in banking and credit risk management to operationalize the BPC according to the business plan developed under the SMP	August 31, 2023	Met
Submit to BCC an application for a banking license for the Banque Postale des Comores, which would specify a business plan, a management team, and a capital injection plan that are in line with MEFP ¶15 of the ECF Request	August 31, 2023	Met
BCC to issue a banking license which complies with the conditions set out in SMP MEFP ¶15 of the ECF Request	December 31, 2023	
Measures to Enhance BCC's Supervision and Resolution Capacity		
BCC to set up a resolution unit which is structurally separated from the Supervision Department, and reports separately to the BCC Board	June 30, 2023	Met
Submit to Parliament the statutory resolution framework that includes the three points recommended in the MCM TA report, "Operationalization of the Bank Resolution Act of September 2022," to align with international standards	December 31, 2023	Proposed for May 31, 2024
BCC to complete on-site inspections to assess the quality of credit portfolios	June 30, 2024	

Table 1. Union of the Comoros: Status of Structural Benchmarks, 2023-24 (concluded)

	Date	**Status**
Approval by the BCC of a formal timebound recapitalization plan to be adopted by each Comorian deposit-taking institution in breach of capital adequacy requirements	December 31, 2024	
C. Governance and Anti-Corruption Reform		
Adopt into law the draft anti-corruption law that was aligned with the SMP objectives to enhance preventive measures against corruption, strengthen the rules related to conflicts of interest, and improve the asset declaration system for senior public officials, while providing for the creation of an operationally independent and autonomous Anti- Corruption Chamber with the mandate to set up and coordinate implementation of the country's anti-corruption policy priorities	June 30, 2023	Met
C. Governance and Anti-Corruption Reform		
Adopt into law the draft anti-corruption law that was aligned with the SMP objectives to enhance preventive measures against corruption, strengthen the rules related to conflicts of interest, and improve the asset declaration system for senior public officials, while providing for the creation of an operationally independent and autonomous Anti- Corruption Chamber with the mandate to set up and coordinate implementation of the country's anti-corruption policy priorities	June 30, 2023	Met
Operationalize an independent and autonomous anti-corruption agency in line with the draft anti-corruption law	December 31, 2023	
Publish the full audit report of spending financed by the IMF emergency support in 2020	June 30, 2023	Met

STAFF APPRAISAL

53. Comoros faces the typical challenges of a small developing state including limited economic diversification, low fiscal revenue, and external dependence. The country's small size, relative isolation, and the absence of basic infrastructures make it difficult to attract investments. These constraints have trapped Comoros in a cycle of low growth and dependence on imports, remittances, and external aid, undermining resilience against external shocks. Weak institutions and government's capacity undermine citizens' willingness to pay taxes and domestic and foreign agents' willingness to invest, constraining the country's ability to increase human and physical capital. However, with the right strategy and sustained support by partners, Comoros could reduce fragility, achieve more inclusive growth, and limit risks within the constraints set by the country's small size. Steadfast implementation of economic reforms, including those set out in the FCS Country Engagement Strategy (Annex 1) and incorporated in the ECF program supported by well-aligned CD, will be critical to address the impediments to higher and more inclusive growth.

54. Economic recovery is well underway, but challenges remain. After years of successive shocks, signs of economic stabilization are emerging. Growth is expected to accelerate to 3 percent this year on the back of buoyant demand and strengthening tourism activities. Risks to food security and social peace have receded in line with normalizing international oil and food prices. However, the country continues to face large fiscal and balance of payments needs, driven by sizeable debt service obligations and costly reforms of the banking sector. Heightened uncertainty around global commodity prices exposes the economy to possible renewed external shocks given its dependence on imports, remittances, and foreign aid.

55. Staff welcomes the good fiscal performance and the authorities' commitment to continued fiscal consolidation. The stronger-than-expected performance in the first half of 2023 has been due to the combination of robust revenue collection and slow execution of public investment. With the boost from the removal of tax exemption on construction materials dissipating and the expected acceleration in public investment, the planned fiscal consolidation in 2024 hinges on continued domestic revenue mobilization efforts and spending controls in non-priority areas. Comoros' external and overall debt are assessed to be sustainable but at high risk of debt distress while its external position is assessed as moderately weak. Over the medium term, the planned fiscal consolidation path underpinned by reforms to broaden the tax base remains appropriate for building up buffers and reducing the debt sustainability risks.

56. PFM reforms are critical for ensuring that the limited fiscal resources are transparently and efficiently deployed. Improvements in the budget process, including the ongoing implementation of the 2022 LOFE, are welcome. Publication of the approved budget and budget executions will further increase transparency and public engagement in the fiscal process. The systems of external debt monitoring, and repayments are inadequate and merit an overhaul. The authorities should accelerate their efforts to clear the existing stock of external arrears while avoiding further accumulations. Ensuring proper functioning of the Treasury Single Account and enhancing liquidity management capacity at the Treasury will allow visibility over the government's consolidated liquidity position, enable more efficient utilization of resources, reduce borrowing needs, and eliminate recurrent arrears. Direct and indirect subsidies to SOEs constitute a drain on fiscal resources, with the largest benefits typically accruing to the wealthiest households with the highest energy consumption. The new SOE law is an appropriate first step to increase oversight of public enterprises and improve their governance structures, but SOEs' financial viability will take time to achieve, given deep-rooted challenges and the broad-based reforms—including mechanisms for price adjustments—required to address them.

57. The financial sector continues to face considerable challenges. Staff is encouraged by the steady progress in the various financial sector reforms under the program. The authorities are working to ensure a smooth launch of the BPC and an orderly wind-down of the SNPSF, which would mark an important milestone in the decade-long effort to resolve the systemic bank. Efforts to improve financial stability by reducing NPLs, strengthening regulations and prudential tools, and developing resolution capacity will facilitate greater financial inclusion. Chronic understaffing at the BCC, however, presents considerable operational risks and steps should be taken to step up recruitment of new staff.

58. Anti-corruption and governance reforms will improve the business climate, increase trust in the government, and foster private sector investment. The creation and operationalization of the Anti-Corruption Chamber will set the stage for the anti-corruption agenda in the country. The authorities should seek the necessary TA—from the Fund or other partners such as the EU—to support the sound implementation of the anti-corruption law. The digitalization of the public tender process and publication of information on public procurement contracts, including beneficial ownership information, will significantly improve transparency in public procurement. Ongoing efforts to generalize the use of software and digitalization in tax and customs administrations as well as public personnel management are welcome developments that should be accelerated.

59. Social and infrastructure spending needs support from donors. To reduce economic fragility, it is critical that the Comorian government addresses gaps in the quality of education and healthcare as well as access to basic infrastructures such as clean water and reliable electricity. Given very low domestic resources and limited borrowing capacity, such investments will require financing, as well as technical, support from international partners. To better coordinate such support, the Comorian authorities are encouraged to strengthen their engagement framework with international partners, particularly in the prioritization of projects and systematic following-throughs of project implementations.

60. Staff supports the completion of the first review under the ECF arrangement. Based on the policy and reform commitments under the MEFP and the planned corrective actions, staff also supports the waivers of nonobservance of two end-June 2023 QPCs, the proposed modifications of the end-December 2023 QPC, and the conversion of one QPC to an IT. Staff also recommends that the next Article IV consultation be held on the 24-month cycle in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Table 2. Union of Comoros: Selected Economic and Financial Indicators, 2021-28

	2021	2022		2023		2024		2025	2026	2027	2028
		Est.[1]	ECF req.		ECF req.		ECF req.	Proj.[1]			
National Income and Prices	(Annual percentage change, unless otherwise indicated)										
Real GDP	2.0	2.6	2.6	3.0	3.0	3.5	3.5	4.0	4.3	4.5	4.3
GDP Deflator	-1.2	5.3	5.3	3.3	4.3	2.1	1.8	2.3	2.2	2.0	1.9
Consumer Price Index (annual average)	0.0	12.4	12.4	9.2	10.3	2.2	2.0	2.3	2.2	1.9	1.9
Consumer Price Index (end period)	7.1	20.6	20.6	-0.9	0.4	2.9	2.2	2.2	1.9	1.9	1.9
Money and Credit											
Net Foreign Assets	11.5	-9.3	-9.3	4.1	20.0	17.3	13.1	8.3	6.1	3.4	5.5
Domestic Credit	22.1	12.7	12.7	11.8	12.2	1.3	2.3	-2.3	11.3	5.2	-1.0
Credit to the Private Sector	9.7	15.0	15.0	9.6	11.1	6.8	8.1	6.4	6.6	6.5	6.3
Broad Money	20.1	8.0	8.1	9.2	9.2	7.3	7.3	5.8	5.7	7.3	5.8
Velocity (GDP/end-year broad money)	2.7	2.7	2.7	2.6	2.7	2.6	2.6	2.6	2.6	2.6	2.6
External Sector											
Exports, f.o.b.	58.7	73.7	76.7	-28.8	-20.0	3.7	8.2	7.8	8.7	11.8	10.2
Imports, f.o.b.	2.4	20.3	16.6	11.9	17.4	3.1	4.5	3.0	8.5	6.8	6.7
Export volume	70.0	102.1	38.3	-14.8	-17.4	1.8	5.1	5.0	5.7	7.8	6.8
Import volume	-5.8	-4.0	-10.1	0.4	3.0	4.0	3.7	4.2	1.0	2.8	2.8
Terms of trade	-15.1	-21.4	-4.4	20.1	22.1	1.2	2.8	3.7	7.3	3.8	3.0
	(In percent of GDP, unless otherwise indicated)										
Investment and Savings											
Gross Fixed Capital Formation	15.9	16.9	16.7	17.5	17.3	17.8	17.6	17.9	18.1	18.2	18.3
Public	5.4	5.0	5.0	6.8	7.1	6.7	6.8	4.7	4.8	4.8	4.9
Private	10.5	11.9	11.7	10.7	10.2	11.0	10.7	13.2	13.3	13.4	13.3
Gross National Savings	15.5	16.4	14.3	11.7	12.1	12.1	12.5	12.6	12.6	13.0	13.8
Public	-0.3	-0.8	-0.8	-0.1	0.2	1.8	1.5	1.5	0.9	1.3	1.5
Private	15.9	17.1	15.1	11.8	11.9	10.2	10.9	11.1	11.7	11.7	12.4
External Savings	0.3	0.5	2.4	5.8	5.2	5.7	5.1	5.3	5.5	5.2	4.4
Total Revenue and Grants	17.1	14.3	14.2	17.3	17.0	17.2	14.8	15.7	16.1	16.8	16.8
Total Revenue	10.4	9.9	9.8	10.3	9.7	10.4	9.9	10.9	11.2	11.6	11.8
Tax Revenue	8.6	7.8	7.7	8.6	8.0	8.8	8.3	9.2	9.6	9.9	10.2
Non-tax Revenue	1.8	2.1	2.1	1.7	1.7	1.6	1.6	1.7	1.7	1.7	1.67
Total Grants	6.7	4.5	4.5	7.0	7.3	6.8	5.0	4.9	4.9	5.3	5.0
Total Expenditure and Net Lending	20.0	18.3	18.2	21.8	21.8	20.5	19.4	18.1	18.3	18.2	18.4
Current Expenditure	12.9	11.3	11.2	12.7	12.5	11.5	10.3	11.5	11.6	11.6	11.6
Capital Expenditure	7.0	6.9	6.9	9.1	9.3	9.0	9.1	6.6	6.7	6.7	6.8
Domestic Primary Balance[2]	-3.4	-1.9	-1.9	-1.8	-2.4	-1.4	-1.8	-0.2	-0.2	-0.1	-0.1
Overall Balance (cash basis)	-2.8	-3.6	-3.6	-4.4	-4.9	-3.3	-4.6	-2.4	-2.2	-1.4	-1.6
Excluding Grants	-9.6	-8.1	-8.1	-11.5	-12.1	-10.1	-9.6	-7.3	-7.1	-6.7	-6.6
Net Financing	2.7	3.6	3.6	3.7	4.2	2.7	3.1	1.0	0.3	0.1	0.5
Foreign	1.5	2.5	2.5	4.6	5.0	3.8	4.2	1.6	0.6	0.2	0.5
Domestic	1.2	1.1	1.1	-0.9	-0.9	-1.2	-1.2	-0.6	-0.3	-0.1	-0.1
Of which : Net acquisition of assets	-0.1	-0.4	-0.4	-0.5	-0.5	-0.3	-0.3	-0.4	-0.2	0.0	0.0
Financing Gap/Errors and Omissions [3] (+ = underfinancing)	0.1	0.0	0.0	0.7	0.7	0.7	1.5	1.4	1.9	1.3	1.1
External Sector											
Exports of Goods and Services	10.1	13.6	13.3	12.1	11.9	11.7	12.1	12.2	12.6	12.8	13.1
Imports of Goods and Services	32.8	39.3	37.3	37.9	37.7	36.5	36.5	34.8	34.8	34.4	34.2
Current Account Balance	-0.3	-0.5	-2.4	-5.8	-5.2	-5.7	-5.1	-5.3	-5.5	-5.2	-4.4
Excl. Official and Private Transfers	-22.1	-25.3	-23.7	-25.5	-25.4	-24.7	-23.8	-22.5	-21.9	-21.4	-20.9
Private Remittances, Net[4]	20.0	21.5	20.6	17.8	17.4	16.0	16.6	15.0	15.1	14.9	15.2
External Debt	26.6	27.3	27.1	32.5	33.6	34.6	37.4	35.3	35.5	34.9	34.6
External Public and Publicly Guaranteed Debt	25.4	27.3	27.1	32.4	33.7	34.6	37.4	35.3	35.5	34.9	34.6
External Debt, in Percent of Exports of Goods and Services	121.5	132.9	86.5	177.3	82.2	188.2	66.4	181.4	175.8	169.5	164.3
External Debt Service[5]	2.1	1.9	2.1	3.5	3.6	5.1	4.5	5.7	5.5	5.3	4.8
Overall Balance of Payments (in millions of U.S.$)	62.4	-24.0	-24.0	-2.1	51.1	32.5	42.1	1.1	-12.9	-12.4	-2.9
Official Grants and Loans	8.6	7.1	7.1	12.1	12.8	11.5	10.0	7.9	7.1	7.0	6.9
Gross International Reserves[6]											
In Millions of U.S. Dollars	329.3	281.8	281.8	298.4	325.8	341.2	359.3	366.0	383.9	392.0	408.5
In Months of Imports of Goods & Services	8.2	6.6	6.7	6.9	7.6	7.7	8.2	7.8	7.8	7.5	7.5
Gross International Reserves, Including Fiscal Gap											
In Millions of U.S. Dollars	329.3	281.8	281.8	298.4	341.8	341.2	403.4	366.0	383.9	392.0	408.5
In Months of Imports of Goods & Services	8.2	6.6	6.7	6.9	8.0	7.7	9.2	7.8	7.8	7.5	7.5
Exchange Rate CF/US$ (period average)	415.7	466.8	466.8								
Memorandum Items:											
Public External Debt (in Percent of GDP)[7]	26.6	27.3	27.1	32.5	33.6	34.6	37.4	35.3	35.5	34.9	34.6
Public Debt (in Percent of GDP)		34.0	33.7	38.2	40.7	39.1	43.8	38.7	38.3	37.5	37.0
GDP (nominal, in billions of CF)	529.2	571.7	577.3	608.3	620.1	642.7	653.6	683.8	728.8	776.4	825.4
GDP per capita (nominal, in US Dollars)	1,382	1,282	1,294	1,358	1,352	1,391	1,363	1,430	1,471	1,504	1,534

[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, excluding the World Bank-financed spending to combat the COVID epidemic and the cost of restructuring SNPSF.

[3] For 2022-23, includes unmet financing needs for restructuring SNPSF

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

[5] In percent of government revenue

[6] End of period. From 2021, includes new SDR allocation of $24 million.

[7] Coverage of debt: The central government, the central bank and government-guaranteed debt. Definition of external debt is Residency-based.

Table 3a. Union of Comoros: Consolidated Government Financial Operations, 2021-28

(In Millions of Comorian Francs)

	2021	2022		2023		2024		2025	2026	2027	2028
		Est.[1]	ECF req.		ECF req.		ECF req.		Proj.1		
Total Revenue and Grants	90,693	81,778	82,120	105,250	105,164	110,423	96,960	107,539	117,576	130,799	138,829
Revenues	54,982	56,326	56,326	62,593	60,102	66,739	64,449	74,195	81,668	89,756	97,747
Tax Revenues	45,695	44,357	44,357	52,131	49,321	56,738	54,056	62,908	69,634	76,829	83,993
Nontax Revenues	9,288	11,970	11,970	10,461	10,782	10,001	10,394	11,286	12,034	12,927	13,754
External Grants	35,710	25,452	25,793	42,658	45,062	43,683	32,511	33,344	35,908	41,042	41,082
Budgetary Assistance	7,426	1,782	1,782	8,971	13,810	14,457	8,173	9,955	4,483	4,475	4,475
Projects (incl. techn. assist.)	28,284	23,670	24,012	33,687	31,252	29,226	24,337	23,389	31,425	36,568	36,607
Total Expenditure and Net Lending	105,583	104,496	104,838	132,404	135,342	131,911	126,885	123,911	133,489	141,672	152,065
Current Expenditure	68,277	64,854	64,876	77,211	77,558	74,216	67,558	78,785	84,388	89,748	95,823
Primary Current Expenditures	62,436	61,433	61,433	70,779	70,921	66,885	60,386	71,338	77,682	82,552	88,542
Wages and Salaries	28,465	28,631	28,631	31,808	31,822	32,881	32,288	35,354	38,218	41,027	43,956
Goods and Services	11,765	13,876	13,876	16,033	16,075	15,745	14,765	16,908	18,434	19,585	21,599
Transfers and Pensions[2]	22,206	18,926	18,926	22,938	23,024	18,259	13,333	19,075	21,029	21,940	22,986
Interest Payments	1,608	1,134	1,134	1,914	2,030	2,556	2,317	2,367	1,565	1,786	1,507
Foreign-Financed Project Maintenance	2,646	572	577	1,507	1,536	1,592	1,619	1,694	1,806	1,902	2,045
Technical Assistance	1,588	1,715	1,732	3,011	3,070	3,181	3,235	3,385	3,336	3,508	3,729
Capital Expenditure	37,305	39,642	39,961	55,192	57,785	57,695	59,327	45,126	49,101	51,923	56,242
Domestically Financed Investment	11,119	7,055	7,055	14,434	16,238	14,634	15,537	6,152	7,561	8,059	10,018
Foreign-Financed Investment	26,186	32,587	32,906	40,758	41,547	43,060	43,791	38,974	41,540	43,864	46,224
Domestic Primary Balance[3]	-18,073	-11,013	-11,013	-10,730	-15,025	-8,925	-11,474	-1,521	-1,453	-522	-813
Overall Balance (commitment basis)	-14,890	-22,718	-22,718	-27,153	-30,178	-21,488	-29,925	-16,372	-15,913	-10,873	-13,236
Change in Net Arrears	-164	1,860	1,860	119	0	0	0	0	0	0	0
External Arrears	0	299	299	119	0	0	0	0	0	0	0
Domestic Arrears	-164	1,562	1,562	0	0	0	0	0	0	0	0
Overall Balance (cash basis)	-15,054	-20,858	-20,858	-27,034	-30,178	-21,488	-29,925	-16,372	-15,913	-10,873	-13,236
Financing	14,385	20,645	20,645	22,723	25,783	17,196	20,050	6,695	1,890	958	3,792
Foreign (net)	8,100	14,320	14,320	28,040	31,185	24,720	27,702	11,129	4,310	1,682	4,521
Drawings	9,884	15,392	15,392	30,806	34,271	30,347	32,687	20,664	15,528	13,025	15,748
Amortization	-1,784	-1,617	-1,617	-3,079	-3,086	-5,627	-4,985	-9,535	-11,218	-11,343	-11,227
Change in Net Arrears (principal)	0	545	545	313	0	0	0	0	0	0	0
Domestic (net)[4]	6,285	6,325	6,325	-5,317	-5,402	-7,525	-7,652	-4,434	-2,420	-724	-729
Bank Financing	6,989	9,255	9,255	-2,237	-2,322	-5,733	-5,872	-1,434	-720	-724	-729
Central Bank	8,820	10,403	10,403	-2,237	-2,322	-3,127	-3,266	-1,434	-720	-724	-729
Of which: IMF (net)	-738	0	0	-2,975	-3,060	-3,127	-3,266	-1,434	-720	-724	-729
Commercial Banks	-1,831	-1,148	-1,148	0	0	-2,606	-2,606	0	0	0	0
Net Acquisition of Assets	-704	-2,500	-2,500	-3,080	-3,080	-1,792	-1,780	-3,000	-1,700	0	0
of which recapitalization of SNPSF	0	-1,500	-1,500	-2,600	-2,600	-1,300	-1,300	-1,300	0	0	2
Errors and Omissions/Financing Gap (+ = underfinancing)	670	213	213	4,311	4,395	4,292	9,875	9,678	14,024	9,915	9,444
Memorandum Items:											
GDP (nominal)	529,195	571,698	577,298	608,334	620,099	642,693	653,590	683,756	728,766	776,357	825,424
Wages in Percentage of Revenues	51.8	50.8	50.8	50.8	52.9	49.3	50.1	47.7	46.8	45.7	45.0

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] Include World Bank cash transfers spending to households.

[3] Domestic revenues minus current primary expenditures and domestically financed capital expenditures, excluding the World Bank-financed spending to combat COVID and the cost of restructuring SNPSF.

[4] The difference between the fiscal and the monetary tables is due to the item Net Acquisition of Assets in the fiscal table.

Table 3b. Union of Comoros: Consolidated Government Financial Operations, 2021-28

(In percent of GDP)

	2021	2022		2023		2024		2025	2026	2027	2028
		Est.[1]	ECF req.		ECF req.		ECF req.	Proj.[1]			
Total Revenue and Grants	17.1	14.3	14.2	17.3	17.0	17.2	14.8	15.7	16.1	16.8	16.8
Revenues	10.4	9.9	9.8	10.3	9.7	10.4	9.9	10.9	11.2	11.6	11.8
Tax Revenues	8.6	7.8	7.7	8.6	8.0	8.8	8.3	9.2	9.6	9.9	10.2
Nontax Revenues	1.8	2.1	2.1	1.7	1.7	1.6	1.6	1.7	1.7	1.7	1.7
External Grants	6.7	4.5	4.5	7.0	7.3	6.8	5.0	4.9	4.9	5.3	5.0
Budgetary Assistance	1.4	0.3	0.3	1.5	2.2	2.2	1.3	1.5	0.6	0.6	0.5
Projects (incl. techn. assist.)	5.3	4.1	4.2	5.5	5.0	4.5	3.7	3.4	4.3	4.7	4.4
Total Expenditure and Net Lending	20.0	18.3	18.2	21.8	21.8	20.5	19.4	18.1	18.3	18.2	18.4
Current Expenditure	12.9	11.3	11.2	12.7	12.5	11.5	10.3	11.5	11.6	11.6	11.6
Primary Current Expenditures	11.8	10.7	10.6	11.6	11.4	10.4	9.2	10.4	10.7	10.6	10.7
Wages and Salaries	5.4	5.0	5.0	5.2	5.1	5.1	4.9	5.2	5.2	5.3	5.3
Goods and Services	2.2	2.4	2.4	2.6	2.6	2.4	2.3	2.5	2.5	2.5	2.6
Transfers and Pensions[2]	4.2	3.3	3.3	3.8	3.7	2.8	2.0	2.8	2.9	2.8	2.8
Interest Payments	0.3	0.2	0.2	0.3	0.3	0.4	0.4	0.3	0.2	0.2	0.2
Foreign-Financed Project Maintenance	0.5	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Technical Assistance	0.3	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Capital Expenditure	7.0	6.9	6.9	9.1	9.3	9.0	9.1	6.6	6.7	6.7	6.8
Domestically Financed Investment	2.1	1.2	1.2	2.4	2.6	2.3	2.4	0.9	1.0	1.0	1.2
Foreign-Financed Investment	4.9	5.7	5.7	6.7	6.7	6.7	6.7	5.7	5.7	5.7	5.6
Domestic Primary Balance[3]	-3.4	-1.9	-1.9	-1.8	-2.4	-1.4	-1.8	-0.2	-0.2	-0.1	-0.1
Overall Balance (commitment basis)	-2.8	-4.0	-3.9	-4.5	-4.9	-3.3	-4.6	-2.4	-2.2	-1.4	-1.6
Change in Net Arrears	0.0	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External Arrears	0.0	0.1	0.1	0	0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Arrears	0.0	0.3	0.3	0	0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance (cash basis)	-2.8	-3.6	-3.6	-4.4	-4.9	-3.3	-4.6	-2.4	-2.2	-1.4	-1.6
Financing	2.7	3.6	3.6	3.7	4.2	2.7	3.1	1.0	0.3	0.1	0.5
Foreign (net)	1.5	2.5	2.5	4.6	5.0	3.8	4.2	1.6	0.6	0.2	0.5
Drawings	1.9	2.7	2.7	5.1	5.5	4.7	5.0	3.0	2.1	1.7	1.9
Amortization	-0.3	-0.3	-0.3	-0.5	-0.5	-0.9	-0.8	-1.4	-1.5	-1.5	-1.4
Change in Net Arrears (principal)	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)[4]	1.2	1.1	1.1	-0.9	-0.9	-1.2	-1.2	-0.6	-0.3	-0.1	-0.1
Bank Financing	1.3	1.6	1.6	-0.4	-0.4	-0.9	-0.9	-0.2	-0.1	-0.1	-0.1
Central Bank	1.7	1.8	1.8	-0.4	-0.4	-0.5	-0.5	-0.2	-0.1	-0.1	-0.1
Of which: IMF (net)	-0.1	0.0	0.0	-0.5	-0.5	-0.5	-0.5	-0.2	-0.1	-0.1	-0.1
Commercial Banks	-0.3	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Acquisition of Assets	-0.1	-0.4	-0.4	-0.5	-0.5	-0.3	-0.3	-0.4	-0.2	0.0	0.0
of which recapitalization of SNPSF	0.0	-0.3	-0.3	-0.4	-0.4	-0.2	-0.2	-0.2	0.0	0.0	0.0
Errors and Omissions/Financing Gap (+ = underfinancing)	0.1	0.0	0.0	0.7	0.7	0.7	1.5	1.4	1.9	1.3	1.1
Memorandum Items:											
GDP (nominal)	529,195	571,698	577,298	608,334	620,099	642,693	653,590	683,756	728,766	776,357	825,424
Wages in Percentage of Revenues	51.8	50.8	50.8	50.8	52.9	49.3	50.1	47.7	46.8	45.7	45.0

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] Include World Bank cash transfers spending to households.

[3] Domestic revenues minus current primary expenditures and domestically financed capital expenditures, excluding the World Bank-financed spending to combat COVID and the cost of restructuring SNPSF.

[4] The difference between the fiscal and the monetary tables is due to the item Net Acquisition of Assets in the fiscal table.

Table 4. Union of Comoros: Monetary Survey, 2021-28

(In Millions of Comorians Francs, unless otherwise indicated)

	2021	2022		2023		2024		2025	2026	2027	2028
		Est.[1]	ECF req.		ECF req.		ECF req.		Proj.[1]		
Net Foreign Assets	120,222	109,083	109,083	113,552	130,948	133,173	148,083	144,268	153,001	158,178	166,845
Central Bank Assets [1]	143,309	130,950	130,950	134,296	151,561	153,186	167,920	163,816	172,075	176,411	184,546
Central Bank Liabilities [2]	-27,523	-26,380	-26,379	-25,547	-25,461	-25,086	-24,947	-24,946	-24,827	-24,362	-24,217
Commercial Banks Assets	8,319	12,149	12,149	12,928	13,050	13,658	13,755	14,531	15,487	16,499	17,541
Commercial Banks Liabilities	-3,883	-7,636	-7,636	-8,126	-8,203	-8,585	-8,646	-9,133	-9,734	-10,370	-11,025
Net Domestic Assets	76,121	103,029	103,070	118,155	100,759	115,480	100,571	118,751	125,047	140,207	148,778
Domestic Credit	110,438	124,482	124,482	139,121	139,679	140,949	142,949	137,695	153,301	161,272	159,708
Net Credit to Government	17,038	24,744	24,744	29,797	28,850	24,215	23,141	13,502	20,933	20,260	9,783
Of which: Treasury	27,173	34,822	34,822	31,920	31,096	26,188	25,225	24,754	24,034	23,310	22,581
Bank Financing	17,038	24,744	24,744	29,797	28,850	24,215	23,141	13,502	20,933	20,260	9,783
Claims on Government	41,393	40,244	40,244	36,605	36,519	30,872	30,647	29,438	28,718	27,994	27,265
Deposits of Government	-24,356	-15,500	-15,500	-6,808	-7,669	-6,657	-7,506	-15,936	-7,786	-7,734	-17,482
Claims on Public Enterprises	6,651	16,379	16,379	16,380	16,380	16,381	16,381	16,382	16,383	16,384	16,385
Claims on Other Financial Institutions	-43	-43	-43	-43	-43	-43	-43	-43	-43	-43	-43
Claims on Private Sector	86,728	99,738	99,738	109,325	110,829	116,735	119,808	124,193	132,368	141,012	149,925
Other Items Net	-34,317	-21,452	-21,411	-20,966	-38,920	-25,469	-42,378	-18,944	-28,253	-21,066	-10,930
Broad Money	196,343	212,112	212,154	231,707	231,707	248,654	248,654	263,019	278,048	298,385	315,623
Money	135,663	148,702	148,744	165,562	165,562	181,322	181,322	196,756	208,927	228,023	246,378
Currency in Circulation	48,120	54,856	54,856	64,640	64,640	64,642	64,642	62,536	73,690	73,692	71,291
Demand Deposits	87,544	93,846	93,887	100,922	100,922	116,680	116,680	134,219	135,237	154,331	175,086
Quasi-Money	60,679	63,410	63,410	66,145	66,145	67,331	67,331	66,263	69,121	70,361	69,245
				(in percent of beginning period broad money)							
Net Foreign Assets	7.6	-5.7	-5.7	2.1	10.3	8.5	7.4	4.5	3.3	1.9	2.9
Net Domestic Assets	12.4	13.7	13.7	7.1	-1.1	-1.2	-0.1	1.3	2.4	5.5	2.9
Domestic Credit	12.2	7.2	7.2	6.9	7.2	0.8	1.4	-1.3	5.9	2.9	-0.5
Net Credit to Government	4.4	3.9	3.9	2.4	1.9	-2.4	-2.5	-4.3	2.8	-0.2	-3.5
Credit to Public Enterprises	3.2	5.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to Private Sector	4.7	6.6	6.6	4.5	5.2	3.2	3.9	3.0	3.1	3.1	3.0
Other Items (net)	0.2	6.6	6.6	0.2	-8.3	-1.9	-1.5	2.6	-3.5	2.6	3.4
Broad Money	20.1	8.0	8.1	9.2	9.2	7.3	7.3	5.8	5.7	7.3	5.8
Money	15.2	6.6	6.7	7.9	7.9	6.8	6.8	6.2	4.6	6.9	6.2
Quasi-Money	4.9	1.4	1.4	1.3	1.3	0.5	0.5	-0.4	1.1	0.4	-0.4
Velocity (GDP/end-year broad money)	2.7	2.7	2.7	2.6	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Credit to private sector (percent change)	9.7	15.0	15.0	9.6	11.1	6.8	8.1	6.4	6.6	6.5	6.3

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

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

[2] From 2021, includes new SDR allocation of $24 million.

Table 5a. Union of Comoros: Balance of Payments, 2021-28
(In Millions of Comorian Francs, unless otherwise indicated)

	2021	2022		2023		2024		2025	2026	2027	2028
		Est.[1]	ECF req.		ECF req.		ECF req.	Proj.[1]			
Current Account	-1,695	-3,090	-13,896	-35,540	-32,454	-36,686	-33,504	-36,534	-40,009	-40,301	-36,557
Goods and Services	-119,643	-146,973	-138,221	-156,669	-160,094	-159,355	-159,443	-154,745	-161,457	-167,307	-174,163
Trade Balance	-90,394	-100,680	-97,424	-123,311	-123,998	-127,071	-128,823	-129,889	-140,917	-149,316	-158,370
Exports	15,164	26,347	25,614	18,770	20,496	19,464	22,178	20,979	22,804	25,496	28,098
Imports (f.o.b.)	-105,559	-127,026	-123,037	-142,081	-144,494	-146,536	-151,001	-150,868	-163,721	-174,813	-186,468
Services (net)	-29,249	-46,293	-40,797	-33,358	-36,096	-32,284	-30,620	-24,856	-20,540	-17,991	-15,794
Receipts	38,533	51,350	51,329	54,815	53,096	55,983	57,017	62,181	69,004	74,200	79,630
Payments	-67,782	-97,643	-92,126	-88,174	-89,191	-88,267	-87,637	-87,037	-89,545	-92,190	-95,423
Income (net)	2,619	2,616	1,155	1,284	2,786	578	4,113	1,091	1,781	1,443	1,611
Current Transfers (net)	115,329	141,267	123,170	119,846	124,854	122,092	121,826	117,121	119,668	125,563	135,995
Government	9,473	18,281	4,091	11,562	16,795	19,261	13,028	14,557	9,624	9,885	10,249
Private [1]	105,856	122,986	119,079	108,284	108,059	102,831	108,798	102,563	110,044	115,677	125,746
Capital and Financial Account	32,562	-8,032	27,714	34,590	56,126	51,313	53,129	37,010	34,243	34,723	35,248
Capital Account	12,458	12,083	17,514	18,912	16,275	19,046	19,016	18,310	26,012	30,839	30,475
Capital Transfers	12,458	12,083	17,514	18,912	16,275	19,046	19,016	18,310	26,012	30,839	30,475
Transfer of Fixed Assets	9,988	12,083	17,514	18,912	16,275	19,046	19,016	18,310	26,012	30,839	30,475
Financial Account	20,104	-20,116	10,200	15,679	39,851	32,267	34,113	18,700	8,232	3,884	4,772
Direct Investment	1,674	1,794	2,108	2,251	2,480	3,213	3,268	4,103	4,373	4,658	4,953
Net Portfolio and Other Investment	18,430	-10,998	8,092	26,521	37,371	27,764	30,845	14,097	3,359	-1,274	-680
Amortization	-1,784	-2,219	-2,343	-3,079	-3,086	-5,627	-4,985	-9,535	-11,218	-11,343	-11,227
Private Sector (net)	3,068	-12,549	-4,970	-3,659	-4,958	-5,619	-4,885	-5,661	-4,922	-5,250	-5,240
Banks, Net	2,197	-2,243	-77	-779	-335	-730	-262	-873	-957	-1,011	-1,043
Other	871	-10,307	-4,893	-2,880	-4,623	-4,889	-4,623	-4,789	-3,965	-4,239	-4,197
Currency and Deposit	...	-10,911	...	-13,093	...						
Errors and Omissions	-4,926	-94	-25,034	0	0	0	0	0	0	0	0
Overall Balance ("+" indicates a surplus)	25,941	-11,216	-11,216	-950	23,672	14,627	19,625	476	-5,765	-5,578	-1,309
Financing	-25,941	11,216	11,216	950	-23,672	-14,627	-19,625	-476	5,765	5,578	1,309
NFA of Central Bank (increase -)	-25,941	11,216	11,216	-12,332	-41,878	-33,377	-37,673	-20,108	-12,741	-8,812	1,309
Foreign Assets	-25,203	12,359	12,359	3,925	-20,612	-11,500	-16,359	958	6,485	6,302	2,039
Foreign Liabilities	-738	-1,143	-1,143	-2,975	-3,060	-3,127	-3,266	-1,434	-720	-724	-729
Of which: Net IMF Credit (excl. 2023 ECF)	-738	-1,143	-1,143	-3,034	-3,034	-3,233	-3,233	-1,516	-780	-805	-837
Program Financing				13,282	18,205	18,750	18,048	19,632	18,507	14,390	0
2023 ECF				4,311	4,395	4,292	4,428	4,301	4,311	2,168	0
Official Budget Support				8,971	13,810	14,457	8,173	9,955	4,483	4,475	0
Concessional Borrowings from Other Donors				0	0	0	5,447	5,376	9,712	7,747	0
Memorandum Items:											
Current Account (percentage of GDP)	-0.3	-0.5	-2.4	-5.8	-5.2	-5.7	-5.1	-5.3	-5.5	-5.2	-4.4
Excluding Transfers	-22.1	-25.3	-23.7	-25.5	-25.4	-24.7	-23.8	-22.5	-21.9	-21.4	-20.9
Exports of Goods and Services (percentage of GDP)	10.1	13.6	13.3	12.1	11.9	11.7	12.1	12.2	12.6	12.8	13.1
Imports of Goods and Services (percentage of GDP)	32.8	39.3	37.3	37.9	37.7	36.5	36.5	34.8	34.8	34.4	34.2
Gross International Reserves (end of period) [2]											
In Millions of U.S. dollars	329.3	281.8	281.8	298.4	325.8	341.2	359.3	366.0	383.9	392.0	408.5
In Months of Imports of Goods & Services	8.2	6.6	6.7	6.9	7.6	7.7	8.2	7.8	7.8	7.5	7.5
Nominal GDP (CF millions)	529,195	571,698	577,298	608,334	620,099	642,693	653,590	683,756	728,766	776,357	825,424
Nominal GDP (millions of U.S. dollars)	1,273	1,225	1,237	1,346	1,340	1,429	1,401	1,525	1,629	1,728	1,830

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] From 2021, includes new SDR allocation of $24 million.

Table 5b. Union of Comoros: Balance of Payments, 2021-28

(In Millions of USD, unless otherwise indicated)

	2021	2022		2023		2024		2025	2026	2027	2028
		Est.[1]	ECF req.		ECF req.		ECF req.		Proj.[1]		
Current Account	-4.1	-6.6	-29.8	-78.6	-71.8	-81.6	-74.5	-81.5	-89.4	-89.7	-81.1
Goods and Services	-287.8	-314.8	-296.1	-346.6	-354.2	-354.3	-354.5	-345.2	-360.8	-372.5	-386.2
Trade Balance	-217.5	-215.7	-208.7	-272.8	-274.3	-282.5	-286.4	-289.8	-314.9	-332.4	-351.2
Exports	36.5	56.4	54.9	41.5	45.3	43.3	49.3	46.8	51.0	56.8	62.3
Of which: Vanilla	4.7	4.3	4.3	3.6	4.8	3.8	5.1	4.1	4.3	4.6	4.9
Cloves	13.7	36.7	36.7	18.8	19.0	22.0	20.5	23.3	24.8	26.4	28.1
Ylang-ylang	6.3	2.5	2.5	3.1	5.8	3.3	6.3	3.5	3.7	4.0	4.2
Other	11.8	12.9	11.4	16.1	15.8	14.2	17.4	15.9	18.1	21.8	25.1
Imports (f.o.b.)	-253.9	-272.1	-263.6	-314.3	-319.6	-325.8	-335.7	-336.6	-365.9	-389.2	-413.5
Services (net)	-70.4	-99.2	-87.4	-73.8	-79.8	-71.8	-68.1	-55.4	-45.9	-40.1	-35.0
Receipts	92.7	110.0	110.0	121.3	117.5	124.5	126.8	138.7	154.2	165.2	176.6
Payments	-163.1	-209.2	-197.4	-195.1	-197.3	-196.3	-194.9	-194.2	-200.1	-205.2	-211.6
Income (net)	6.3	5.6	2.5	2.8	6.2	1.3	9.1	2.4	4.0	3.2	3.6
Current Transfers (net)	277.4	302.6	263.9	265.1	276.2	271.5	270.9	261.3	267.4	279.5	301.6
Government	22.8	39.2	8.8	25.6	37.2	42.8	29.0	32.5	21.5	22.0	22.7
Private [1]	254.7	263.5	255.1	239.5	239.0	228.6	241.9	228.8	245.9	257.5	278.8
Capital and Financial Account	78.3	-17.2	59.4	76.5	124.2	114.1	118.1	82.6	76.5	77.3	78.2
Capital Account	30.0	25.9	37.5	41.8	36.0	42.3	42.3	40.8	58.1	68.7	67.6
Capital Transfers	30.0	25.9	37.5	41.8	36.0	42.3	42.3	40.8	58.1	68.7	67.6
Transfer of Fixed Assets	24.0	25.9	37.5	41.8	36.0	42.3	42.3	40.8	58.1	68.7	67.6
Financial Account	48.4	-43.1	21.8	34.7	88.2	71.7	75.8	41.7	18.4	8.6	10.6
Direct Investment	4.0	3.8	4.5	5.0	5.5	7.1	7.3	9.2	9.8	10.4	11.0
Net Portfolio and Other Investment	44.3	-23.6	17.3	58.7	82.7	61.7	68.6	31.4	7.5	-2.8	-1.5
Public Sector	37.0	3.3	28.0	66.8	93.6	74.2	79.4	44.1	18.5	8.9	10.1
Disbursement	65.1	33.0	33.0	73.6	100.5	86.7	90.5	65.3	43.6	34.1	35.0
Of which: Drawings (excl. IMF)	41.3	33.0	33.0	73.6	100.5	86.7	90.5	65.3	43.6	34.1	35.0
Of which: SDR Allocations	23.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-4.3	-4.8	-5.0	-6.8	-6.8	-12.5	-11.1	-21.3	-25.1	-25.3	-24.9
Private Sector (net)	7.4	-26.9	-10.6	-8.1	-11.0	-12.5	-10.9	-12.6	-11.0	-11.7	-11.6
Banks, Net	5.3	-4.8	-0.2	-1.7	-0.7	-1.6	-0.6	-1.9	-2.1	-2.3	-2.3
Other	2.1	-22.1	-10.5	-6.4	-10.2	-10.9	-10.3	-10.7	-8.9	-9.4	-9.3
Currency and Deposit	…	-23.4	…	-29.0	…						
Errors and Omissions	-11.9	-0.2	-53.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance ("+" indicates a surplus)	62.4	-24.0	-24.0	-2.1	52.4	32.5	43.6	1.1	-12.9	-12.4	-2.9
Financing	-62.4	24.0	24.0	2.1	-52.4	-32.5	-43.6	-1.1	12.9	12.4	2.9
NFA of Central Bank (increase -)	-62.4	24.0	24.0	-27.3	-92.6	-74.2	-83.8	-44.9	-28.5	-19.6	2.9
Foreign Assets	-60.6	26.5	26.5	8.7	-45.6	-25.6	-36.4	2.1	14.5	14.0	4.5
Foreign Liabilities	-1.8	-2.4	-2.4	-6.6	-6.8	-7.0	-7.3	-3.2	-1.6	-1.6	-1.6
Of which: Net IMF Credit (excl. 2023 ECF)	-1.8	-2.4	-2.4	-6.7	-6.7	-7.2	-7.2	-3.4	-1.7	-1.8	-1.9
Program Financing	0.0	0.0	0.0	29.4	40.3	41.7	40.1	43.8	41.4	32.0	0.0
2023 ECF	0.0	0.0	0.0	9.5	9.7	9.5	9.8	9.6	9.6	4.8	0.0
Official Budget Support	0.0	0.0	0.0	19.8	30.6	32.1	18.2	22.2	10.0	10.0	0.0
Concessional Borrowings from Other Donors	0.0	0.0	0.0	0.0	0.0	0.0	12.1	12.0	21.7	17.2	0.0
Memorandum Items:											
Current Account (percentage of GDP)	-0.3	-0.5	-2.4	-5.8	-5.2	-5.7	-5.1	-5.3	-5.5	-5.2	-4.4
Excluding Transfers	-0.1	-0.1	-23.7	-0.1	-25.4	-0.1	-23.8	-0.1	0.0	0.0	0.0
Exports of Goods and Services (percentage of GDP)	0.0	0.0	13.3	0.0	11.9	0.0	12.1	0.0	0.0	0.0	0.0
Imports of Goods and Services (percentage of GDP)	0.1	0.1	37.3	0.1	37.7	0.1	36.5	0.1	0.1	0.1	0.1
Gross International Reserves (end of period) [2]						42.7					
In Millions of U.S. Dollars	329.3	281.8	281.8	298.4	325.8	341.2	359.3	366.0	383.9	392.0	408.5
In Months of Imports of Goods & Services	8.2	6.6	6.7	6.9	7.6	7.7	8.2	7.8	7.8	7.5	7.5
Nominal GDP (CF millions)	529,195	571,698	577,298	608,334	620,099	642,693	653,590	683,756	728,766	776,357	825,424
Nominal GDP (millions of U.S. dollars)	1,273	1,225	1,237	1,346	1,340	1,429	1,401	1,525	1,629	1,728	1,830

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] From 2021, includes new SDR allocation of $24 million.

Table 5c. Union of Comoros: Balance of Payments, 2021-28

(In percent of GDP, unless otherwise indicated)

	2021	2022		2023		2024		2025	2026	2027	2028
		Est.[1]	ECF req.		ECF req.		ECF req.		Proj.[1]		
Current Account	-0.3	-0.5	-2.4	-5.8	-5.2	-5.7	-5.1	-5.3	-5.5	-5.2	-4.4
Goods and Services	-22.6	-25.7	-23.9	-25.8	-25.8	-24.8	-24.4	-22.6	-22.2	-21.6	-21.1
Trade Balance	-17.1	-17.6	-16.9	-20.3	-20.0	-19.8	-19.7	-19.0	-19.3	-19.2	-19.2
Exports	2.9	4.6	4.4	3.1	3.3	3.0	3.4	3.1	3.1	3.3	3.4
Of which: Vanilla	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3
Cloves	1.1	3.0	3.0	1.4	1.4	1.5	1.4	1.5	1.5	1.5	1.5
Ylang-ylang	0.5	0.2	0.2	0.2	0.4	0.2	0.4	0.2	0.2	0.2	0.2
Other	0.9	1.1	0.9	1.2	1.2	1.0	1.2	1.0	1.1	1.3	1.4
Imports (f.o.b.)	-19.9	-22.2	-21.3	-23.4	-23.3	-22.8	-23.1	-22.1	-22.5	-22.5	-22.6
of which oil	-7.0	-9.9	-8.9	-7.3	-7.1	-6.8	-6.7	-6.3	-5.9	-5.6	-5.3
Services (net)	-5.5	-8.1	-7.1	-5.5	-5.8	-5.0	-4.7	-3.6	-2.8	-2.3	-1.9
Receipts	7.3	9.0	8.9	9.0	8.6	8.7	8.7	9.1	9.5	9.6	9.6
Payments	-12.8	-17.1	-16.0	-14.5	-14.4	-13.7	-13.4	-12.7	-12.3	-11.9	-11.6
Income (net)	0.5	0.5	0.2	0.2	0.4	0.1	0.6	0.2	0.2	0.2	0.2
Current Transfers (net)	21.8	24.7	21.3	19.7	20.1	19.0	18.6	17.1	16.4	16.2	16.5
Government	1.8	3.2	0.7	1.9	2.7	3.0	2.0	2.1	1.3	1.3	1.2
Private [1]	20.0	21.5	20.6	17.8	17.4	16.0	16.6	15.0	15.1	14.9	15.2
Capital and Financial Account	6.2	-1.4	4.8	5.7	9.1	8.0	8.1	5.4	4.7	4.5	4.3
Capital Account	2.4	2.1	3.0	3.1	2.6	3.0	2.9	2.7	3.6	4.0	3.7
Capital Transfers	2.4	2.1	3.0	3.1	2.6	3.0	2.9	2.7	3.6	4.0	3.7
Transfer of Fixed Assets	1.9	2.1	3.0	3.1	2.6	3.0	2.9	2.7	3.6	4.0	3.7
Financial Account	3.8	-3.5	1.8	2.6	6.4	5.0	5.2	2.7	1.1	0.5	0.6
Direct Investment	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.6
Net Portfolio and Other Investment	3.5	-1.9	1.4	4.4	6.0	4.3	4.7	2.1	0.5	-0.2	-0.1
Public Sector	2.9	0.3	2.3	5.0	6.8	5.2	5.5	2.9	1.1	0.5	0.6
Disbursements	5.1	2.7	2.7	5.5	7.3	6.1	6.2	4.3	2.7	2.0	1.9
Of which: Drawings (excl. IMF)	3.2	2.7	2.7	5.5	7.3	6.1	6.2	4.3	2.7	2.0	1.9
Of which: SDR allocations	1.9										
Amortization	-0.3	-0.4	-0.4	-0.5	-0.5	-0.9	-0.8	-1.4	-1.5	-1.5	-1.4
Private Sector (net)	0.6	-2.2	-0.9	-0.6	-0.8	-0.9	-0.7	-0.8	-0.7	-0.7	-0.6
Banks, net	0.4	-0.4	0.0	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1
Other	0.2	-1.8	-0.8	-0.5	-0.7	-0.8	-0.7	-0.7	-0.5	-0.5	-0.5
Currency and Deposit	...	-1.9	...	-2.2	...						
Errors and Omissions	-0.9	0.0	-4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	4.9	-2.0	-1.9	-0.2	3.8	2.3	3.0	0.1	-0.8	-0.7	-0.2
Financing	-4.9	2.0	1.9	0.2	-3.8	-2.3	-3.0	-0.1	0.8	0.7	0.2
NFA of Central Bank (increase -)	-4.9	2.0	1.9	-2.0	-6.8	-5.2	-5.8	-2.9	-1.7	-1.1	0.2
Of which: Net IMF Credit (excl. 2023 ECF)	-0.1	-0.2	-0.2	-0.5	-0.5	-0.5	-0.5	-0.2	-0.1	-0.1	-0.1
Program Financing				2.2	2.9	2.9	2.8	2.9	2.5	1.9	0.0
2023 ECF				0.7	0.7	0.7	0.7	0.6	0.6	0.3	0.0
Official Budget Support				1.5	2.2	2.2	1.3	1.5	0.6	0.6	0.0
Concessional Borrowings from Other Donors				0.0	0.0	0.0	0.8	0.8	1.3	1.0	0.0
Memorandum Items:											
Current Account (percentage of GDP)	-0.3	-0.5	-2.4	-5.8	-5.2	-5.7	-5.1	-5.3	-5.5	-5.2	-4.4
Excluding Transfers	-22.1	-25.3	-23.7	-25.5	-25.4	-24.7	-23.8	-22.5	-21.9	-21.4	-20.9
Exports of Goods and Services (percentage of GDP)	10.1	13.6	13.3	12.1	11.9	11.7	12.1	12.2	12.6	12.8	13.1
Imports of Goods and Services (percentage of GDP)	32.8	39.3	37.3	37.9	37.7	36.5	36.5	34.8	34.8	34.4	34.2
Gross International Reserves[2]											
In Millions of U.S. dollars	329.3	281.8	281.8	298.4	325.8	341.2	359.3	366.0	383.9	392.0	408.5
In Months of Imports of Goods & Services	8.2	6.6	6.7	6.9	7.6	7.7	8.2	7.8	7.8	7.5	7.5
Nominal GDP (CF millions)	529,195	571,698	577,298	608,334	620,099	642,693	653,590	683,756	728,766	776,357	825,424.0
Nominal GDP (millions of U.S. dollars)	1,273	1,225	1,237	1,346	1,340	1,429	1,401	1,525	1,629	1,728	1,830

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] End of period. From 2021, includes new SDR allocation of $24 million.

Table 6. Union of Comoros: Indicators of Capacity to Repay the Fund, 2022-38

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Fund Obligations Based on Existing Credit																	
(SDR millions)																	
Principal	1.8	4.2	5.2	2.4	1.2	1.2	1.6	1.9	1.0	0.7	0.7	0.4	0.0	0.0	0.0	0.0	0.0
Charges and Interest	0.2	0.7	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Fund Obligations Based on Existing and Prospective Credit																	
(SDR millions)																	
Principal	1.8	0.2	5.2	2.4	1.2	1.2	1.6	3.0	3.5	4.6	6.1	6.1	4.6	3.2	1.8	0.4	0.0
Charges and Interest	0.2	0.0	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total Obligations Based on Existing and Prospective Credit																	
SDR millions	2.0	0.2	6.0	3.0	1.8	1.8	2.1	3.5	4.1	5.2	6.6	6.6	5.2	3.8	2.4	0.9	0.6
In millions of CF	1,273.0	96.9	3,605.1	1,788.1	1,065.7	1,071.6	1,300.4	2,171.4	2,496.5	3,189.7	4,060.7	4,060.7	3,189.7	2,312.5	1,441.5	570.5	349.6
In Percent of Government Revenue	2.3	0.2	5.4	2.4	1.3	1.2	1.3	2.0	2.2	2.5	3.0	2.8	2.0	1.3	0.8	0.3	0.2
In Percent of Exports of Goods and Services	1.6	0.1	4.8	2.2	1.2	1.1	1.2	1.9	2.0	2.4	2.8	2.6	1.9	1.3	0.7	0.3	0.2
In Percent of Debt Service	29.3	1.2	32.3	13.5	7.9	7.7	9.7	25.8	26.7	28.5	30.0	26.5	19.8	14.0	8.8	3.6	2.2
In Percent of GDP	0.2	0.0	0.6	0.3	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.3	0.2	0.1	0.0	0.0
In Percent of Gross International Reserves	1.0	0.1	2.4	1.1	0.6	0.6	0.7	1.1	1.2	1.5	1.8	1.8	1.3	0.9	0.5	0.2	0.1
In Percent of Quota	11.5	0.9	33.6	16.6	9.9	9.9	11.9	19.9	22.9	29.2	37.2	37.2	29.2	21.2	13.2	5.2	3.2
Outstanding Fund Credit and Prospective Credit																	
In Millions of SDRs	17.5	19.7	21.7	26.4	32.3	34.7	33.2	30.2	26.7	22.1	16.0	10.0	5.3	2.1	0.4	0.0	0.0
In Millions of CF	10,820.4	11,877.9	13,074.0	15,968.1	19,624.7	21,214.6	20,411.3	18,583.7	16,430.0	13,580.9	9,858.0	6,135.1	3,286.0	1,316.9	221.5	0.0	0.0
In Percent of Government Revenue	19.2	19.0	19.6	21.5	24.0	23.6	20.9	17.5	14.2	10.8	7.3	4.2	2.1	0.8	0.1	0.0	0.0
In Percent of Exports of Goods and Services	13.9	16.1	17.3	19.2	21.4	21.3	18.9	16.3	13.4	10.2	6.9	4.0	2.0	0.7	0.1	0.0	0.0
In Percent of Debt Service	249.1	151.4	117.0	120.9	145.4	153.2	151.6	221.1	176.0	121.3	72.8	40.0	20.4	8.0	1.4	0.0	0.0
In Percent of GDP	1.9	2.0	2.0	2.3	2.7	2.7	2.5	2.1	1.8	1.4	1.0	0.6	0.3	0.1	0.0	0.0	0.0
In Percent of Gross International Reserves	8.3	8.8	8.5	9.7	11.4	12.0	11.1	9.7	8.1	6.4	4.5	2.7	1.4	0.5	0.1	0.0	0.0
In Percent of Quota	98.5	110.8	121.7	148.4	181.7	195.1	186.3	169.7	150.0	124.0	90.0	56.0	30.0	12.0	2.0	0.0	0.0
Memorandum Items																	
Nominal GDP (millions of CF)	571,698.2	608,334.4	642,693.2	683,756.2	728,765.7	776,357.5	825,424.0	873,695.4	924,809.1	978,933.7	1,035,943.9	1,096,294.3	1,160,181.9	1,227,815.2	1,299,414.8	1,375,214.9	1,455,463.1
Exports of Goods and Services (millions of CF)	77,696.5	73,585.4	75,447.9	83,160.2	91,808.6	99,696.2	107,727.9	114,247.9	122,957.8	132,828.4	143,319.1	154,506.7	166,435.9	183,933.4	196,838.3	210,540.6	225,088.2
Government Revenue (millions of CF)	56,326.2	62,592.8	66,739.4	74,194.6	81,667.8	89,756.3	97,747.4	106,209.8	115,453.4	125,427.1	134,910.4	146,139.8	158,343.2	171,601.3	185,975.7	200,184.2	215,298.9
Debt Service (millions of CF) [1]	4,343.1	7,842.9	11,176.7	13,203.2	13,500.5	13,850.1	13,460.5	8,406.3	9,333.0	11,194.0	13,549.8	15,343.8	16,144.9	16,483.9	16,394.2	15,933.0	15,945.1
CF/SDR (period average)	624.2	605.5	602.9	604.1	605.5	608.9	613.4	613.4	613.4	613.4	613.4	613.4	613.4	613.4	613.4	613.4	613.4
CF/SDR (end period)	617.4	602.0	603.3	604.6	606.8	611.0	615.4	615.4	615.4	615.4	615.4	615.4	615.4	615.4	615.4	615.4	615.4

Sources: IMF staff estimates and projections.

[1] Total external debt service includes IMF repurchases and repayments

Table 7. Union of Comoros: External Financing Needs and Sources, 2023-27
(In millions USD)

	2023	2024	2025	2026	2027
Financing Needs	**92.1**	**101.3**	**106.1**	**116.2**	**116.8**
Current Account Deficit	78.6	81.6	81.5	89.4	89.7
Public Debt Amortization	13.5	19.7	24.7	26.8	27.0
Financing Sources	**92.1**	**101.3**	**106.1**	**116.2**	**116.8**
Capital Account	41.8	42.3	40.8	58.1	68.7
Financial Account (excl. amortization)	41.5	84.3	63.0	43.5	33.9
Of which: Public Debt (excl. amortization)	73.6	86.7	65.3	43.6	34.1
Change in Reserves (+ = decrease)	8.8	-25.3	2.3	14.6	14.2
Fiscal Financing Needs	**29.4**	**41.7**	**43.8**	**41.4**	**32.0**
Budget Support from Partners (WB, AfDB, France, China)	19.8	32.1	22.2	10.0	10.0
IMF Financing[1]	9.5	9.5	9.6	9.6	4.8
in percent of BoP/Fiscal Needs	32.5	22.9	21.9	23.3	15.1
Concessional Borrowings from Other Donors[2]	0.0	0.0	12.0	21.7	17.2
Remaining Financing Gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Sources: Comorian authorities, and IMF staff projections.

[1] Proposed ECF access of 180 percent of quota over 4 years.

[2] This line reflects potential concessional borrowings; additional budget support would reduce needed borrowings.

Table 8. Union of Comoros: Schedule of Disbursements 2023-27

Availability Date[1]	Disbursement Conditions	SDR Amount	Percent of Quota
05/31/23	Board approval of arrangement.	3,560,000	20.00
09/30/23	Observance of continuous and end-June 2023 PCs and completion of the first review.	3,560,000	20.00
03/30/24	Observance of continuous and end-December 2023 PCs and completion of the second review.	3,560,000	20.00
09/30/24	Observance of continuous and end-June 2024 PCs and completion of the third review.	3,560,000	20.00
03/30/25	Observance of continuous and end-December 2024 PCs and completion of the fourth review.	3,560,000	20.00
09/30/25	Observance of continuous and end-June 2025 PCs and completion of the fifth review.	3,560,000	20.00
03/30/26	Observance of continuous and end-December 2025 PCs and completion of the sixth review.	3,560,000	20.00
09/30/26	Observance of continuous and end-June 2026 PCs and completion of the seventh review.	3,560,000	20.00
03/30/27	Observance of continuous and end-December 2026 PCs and completion of the eigth review.	3,560,000	20.00
	Total	32,040,000	180.0

Source: International Monetary Fund.

[1] Based on Board approval upon completion of each review.

Annex I. Country Engagement Strategy—Summary

A. Context

1. The Union of the Comoros is a small island nation in East Africa plagued by political conflict and instability since gaining independence from France in 1975. The country consists of four islands—Grandes Comores (also called Ngazidja), Anjouan (Ndzuani), Moheli (Mwali), and Mayotte (Maoré)[1]—with a total population of approximately 850,000. In its short time as a sovereign nation, Comoros has seen more than 20 coups or attempted coups. The turbulent political history and persistent inter-island tensions have hindered progress in institution building.

2. Comoros faces the typical challenges of a small developing state including limited economic diversification, low fiscal revenue, and dependency on imports, remittances, and external aid. The country's small size, relative isolation, and the absence of basic infrastructures make it difficult to attract investments. These constraints have trapped Comoros in a cycle of low growth and dependence on external aid, undermining resilience against external shocks.

3. Compounding the challenges of the country's small size, Comoros' fragility stems from two interlocking vicious circles of institutional and economic weaknesses.

- The circle of institutional weakness results from the limited periods of stability which precluded sustained nation-building reforms following the end of the colonial period.
    - *Weak governance and corruption* contribute to the general lack of accountability and transparency. The weak capacity and frequent turnovers of public officials also undermine their ability/willingness to undertake reforms.
    - *Lack of a coherent development strategy*. The 2019 national development plan, *Plan Comores Emergent*, presented an idealized vision of Comoros that required vast amounts of financing. Under the plan, the government undertook outsized hospital and hotel projects using non-concessional borrowings which increased debt sustainability risks. The 2022 revised *Plan de Relance* more appropriately focuses on priority sectors such as agriculture, transport, energy, and education, although it would still require very large investments.
    - *Weak public financial management (PFM)*. Weak capacity and coordination challenges contribute to poor fiscal planning and execution. SOEs suffer from inefficiency and weak governance, creating large fiscal contingent liabilities. They are also not subject to an oversight body, lending themselves to possible rent extraction activities.
    - *Weak debt management*. The Ministry of Finance does not have central oversight of borrowings contracted by the government due to the lack of coordination among the

[1] RAPPORT ANNUEL 2022 NATIONS UNIES COMORES_0.pdf. At the time of independence, Mayotte opted to remain a French territory.

parties involved in debt negotiations. Moreover, because of recurring external arrears, many debt contracts have been renegotiated multiple times, while the external public debt database remains outdated, resulting in occasional surprises in external debt figures.

- The circle of economic weakness arises from two mutually reinforcing factors:
  - *Limited diversification.* The agricultural sector (32 percent of GDP) comprises subsistence activities and cultivation for exports (vanilla, cloves, and ylang-ylang). The secondary sector (basic agroindustry and construction) is small (12 percent of GDP). The tertiary sector (small commerce and public-sector services) accounts for around 50 percent of GDP, while tourism, at 3 percent of GDP, remains below potential. About 75 percent of the labor force is in the informal sector.
  - *Dependence on remittances.*[2] At 12-16 percent of GDP, remittances are an important source of income and social safety net. However, they also induce a Dutch Disease effect, which manifests in the relative importance of consumption and the non-traded sector and an uncompetitive export sector. Consistent with the literature, remittances also reduce the incentives to work, with labor force participation rate at around 50 percent (World Bank).

B. Strategy to Escape Fragility

4. In the economic domain, efforts should focus on:

- **Mobilizing domestic revenue to create fiscal space**, particularly by strengthening revenue administration and tax policy, to gradually raise investment in human and physical capital.
- **Improving debt management practices**. In the short-term, this includes eliminating gaps in the public debt database, centralizing debt information, and improving the external debt repayment process. Over the medium term, capacity must include developing and executing borrowing plans, assessing debt contracts, and performing debt sustainability analyses.
- **Improving the performance of SOEs and their oversight** by aligning the legal framework governing SOEs with international standards in governance and corporate law.
- **Maintaining and gradually enhancing social spending** to protect the most vulnerable from economic hardship. This should entail higher spending allocated to education, health, sanitation, and rural development. Higher social spending may also help unlock further donor support.

5. In the institutional domain, key priorities include:

- **Strengthen public governance.** It will be critical to implement the new anti-corruption law, which includes, setting up the autonomous anti-corruption chamber responsible for setting the

[2] The Comorian diaspora is estimated at between 150,000 to 200,000 people, living mainly in France (Comoros - the World Fact Book)

national anti-corruption agenda and overseeing asset declaration of high-ranking public officials. Other reforms include modernizing public procurement and reporting framework.

- **PFM reforms** starting with improvements in budget preparation and execution. Over time, regular fiscal reporting, TSA reforms, and SOE oversight will need to be tackled.

- **Promote rule of law and strengthen the judiciary and civil service**. Judiciary reforms should include aligning the current system of appointment and dismissal of judges with international standards and enhancing judicial accountability and transparency of the hiring process.

C. Fund Engagement Strategy

6. The ECF program design incorporates lessons from the SMP.

- **The program prioritizes a selected set of urgent reform areas**, which include revenue mobilization and PFM, stabilization of the banking system, and reducing corruption vulnerabilities. This approach relies on close coordination with other partners who would cover other important reforms, e.g., climate adaptation, economic diversification, social safety nets.

- **The pace of reform implementation** must account for the limited capacity. Reforms are specified as single-action SBs with clear allocations of responsibilities to help ensure against coordination failures.

- **Engagement with other stakeholders** should leverage partners such as the World Bank, AFD, and the EU, given their more extensive local presence in the country and comparative advantages in areas such as private sector development, climate adaptation, and civil service reform. Frequent communication with the authorities, civil societies, and the broader public would also ensure good understanding of IMF engagement.

7. A long-term program engagement with the IMF would be beneficial for ensuring the depth and breadth of reforms needed to overcome fragility. While the current ECF will serve to launch and push forward the most urgent reforms, subsequent engagements will be needed to sustain them. Areas such as digitalization, financial deepening, social safety net expansion, and climate adaptation are potential additional reforms that could be tackled in the follow-on engagement from the ECF.

8. Capacity development (CD) has been an integral part of Fund engagement with Comoros, and coordination across CD providers will be required to ensure effectiveness. Comoros receives CD support from FAD, MCM, LEG, STA, and ICD, as well as extensive CD support from other partners. CD coordination across multiple stakeholders has been challenging due to the sheer volume of CD support being provided. Although each CD project aims to account for the authorities' limited capacity, the overall amount of CD delivery significantly outstrips the absorption capacity of the country. This has led to CD "waste" where most TA reports go unread, and many recommendations become outdated before they can be implemented. Efforts to streamline CD support, in coordination with the authorities and other partners, will be vital to ensure the most efficient use of CD resources and maximize implementation. In-person TA has proven the most effective form of CD delivery. CD provisions in areas where implementation has stalled or not started should be halted until the authorities are ready to re-engage or progress has been made.

9. Risks to the ECF engagement include political disruption, lack of reform ownership, and external shocks that could derail reform efforts. The ECF accounts for these risks in the program design. The ECF would support maintaining macroeconomic stability, a precondition for furthering other reforms. The granular conditionality should allow for reform continuity even with changes in key counterparts. Institutional reforms under the program and the greater coordination with other development partners will gradually strengthen the potential for deeper structural changes going forward. Good engagement with the IMF would boost the authorities' credibility and help unlock further budget and project financing by the broader international donor community.

Annex II. Climate Change and Natural Disasters in Comoros[1]

1. **Natural disasters and effects of climate change pose a serious threat for Comoros.** Without ambitious measures to mitigate the effects of natural disasters, the cost of such impacts could rise to a cumulative amount of USD 836 million by 2050 (an annual average of 1.9 percent of 2022 GDP).[2] Comoros is particularly susceptible to storms in the form of tropical cyclones. Storms accounted for 50 percent of all natural disasters recorded during 1980-2020 and 40 percent of the population was affected by this type of disaster in 2019 alone. Volcanic activity was the second most common type of natural disaster and affected more than 46 percent of the population in 2005. Floods, although only representing 13 percent of reported disasters, generated losses of almost 0.5 percent GDP in 2012.[3] According to the *Regional Economic Outlook for SSA*, with every event of flood or drought there is an increase in food insecurity of 5 – 20 percentage points.[4]

2. **Agriculture and the population in Comoros are highly vulnerable to climate change and face limited adaptation capacity.** Comoros is the 36th most vulnerable country to climate change among 185 assessed in the ND-GAIN Country index1 and the 27th least prepared to improve resilience among 192. The agricultural sector is a key contributor to the economy and the most exposed to climate change. It is adversely impacted by rising temperatures and subsequent increases in salinity levels of ground water that affect crop growth cycles. In terms of affected population, Comoros was the 27th SSA country most affected by natural disasters between 2000 and 2018 and the 5th most affected by storms.

3. **Adaptation and mitigation are the main priorities in Comoros' Nationally Determined Contributions (NDC) albeit capacity constraints prevent the country from effectively responding to climate-change-related shocks**. Some of the proposed actions to increase resilience include programs for vulnerable areas, implementing building standards, as well as improving early-warning systems and the effectiveness of emergency responses. Comoros has also made some progress in developing an environmental legal framework including the National Environmental Policy (PNE), and the National Environmental Action Plan (NEAP). However, its effectiveness is hampered by institutional inefficiencies, insufficient resources, and lack of data.1 A recent review of these by the World Bank suggests updates to redefine priorities and incorporate lessons learned through a monitoring system that strengthens and evaluates the implementation of environmental laws and policies.1 According to the OECD DAC External Development Finance Statistics, between 2007 and 2020 Comoros received USD 602.8 million for adaptation (35 percent), mitigation (19 percent), and climate-related development (46 percent), where 47 percent of all financing was provided by MDBs.1

---

[1] Prepared by Roberta Guarnieri.

[2] Intended Nationally Determined Contributions (INDC) of the Union of Comoros, 2015.

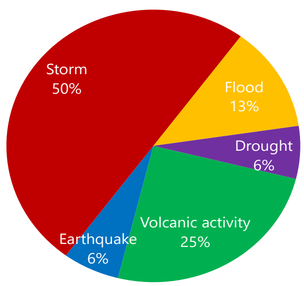
[3] EM-DAT, CRED / UCLouvain, Brussels, Belgium – www.emdat.be

[4] IMF, 2020, "Regional Economic Outlook, Adapting to Climate Change in Sub-Saharan Africa," Regional Economic Outlook, April (Washington).

4. **Comoros is committed to reducing its greenhouse gas emissions by 23 percent by 2030. The** cost for this commitment is estimated at 902 million euros (an annual average of 31.1 million euros or 2.5 percent of 2022 GDP) of which 5 percent are unconditional contributions. The country is counting on international cooperation to achieve this goal through the Green Climate Fund or other existing funding mechanisms.

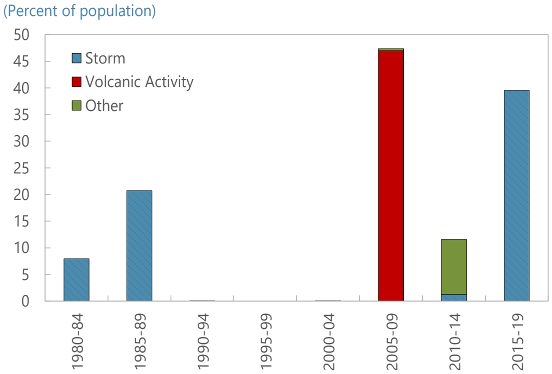
Text Figure 1. Occurrence and Impacts of Natural Disasters in Comoros

Prevalence of Natural Disasters (1980 - 2021)
(Percent of natural disasters)



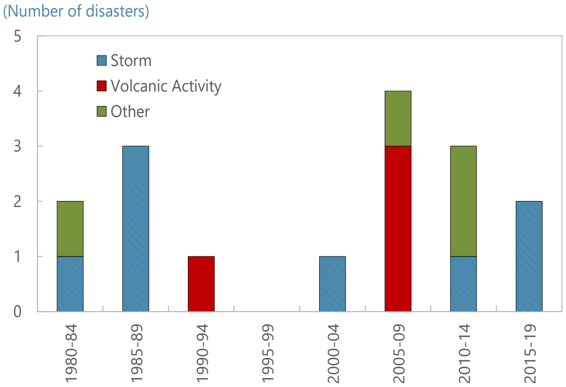
Sources: EM-DAT; and IMF staff calculations.

Population Affected
(Percent of population)



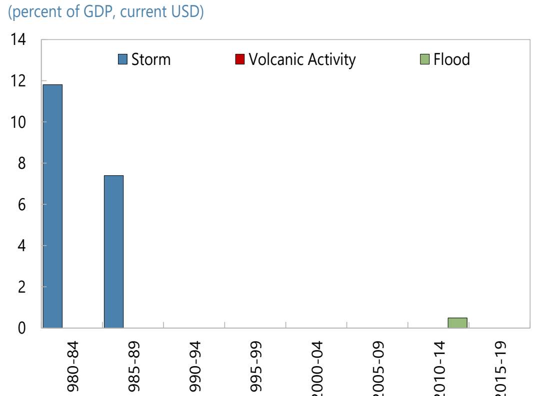
Sources: EM-DAT; and IMF staff calculations.

Frequency of Natural Disasters
(Number of disasters)



Sources: EM-DAT; and IMF staff calculations.

Total Damages
(percent of GDP, current USD)



Sources: EM-DAT; and IMF staff calculations.

Annex III. Implementation of Key Recommendations from the 2020 Article IV Consultation

Recommendations	Implementation
Fiscal Structural Reforms	
Strengthen tax and customs policy and administration to increase domestic revenue mobilization and create fiscal space for infrastructure investment.	The authorities have made some progress in broadening the revenue base by removing exemptions and strengthening administration. The creation of the Direction Générale des Impôts dedicated to core tax issues is expected to further strengthen data collection, compliance, coordination with Customs, and overall revenue mobilization efforts.
Transfer the management of oil taxes to Customs from the oil-importing SOE (SCH) to strengthen customs administration.	The *de facto* transfer has taken place while work is ongoing to complete the *de jure* transfer.
PFM reforms to improve budget credibility and strengthen transparency of budget execution through use of the Treasury Single Account (TSA) and regular budget execution reports to Parliament.	Budget laws of recent years have shown improved realism. Spending transparency remains a work in progress—the roadmap for the TSA was developed in 2021, but without implementation. There is no budget execution report.
Undertake audit of domestic payment and cross arrears and prepare a strategy for clearing verified arrears while avoiding accumulation of new arrears.	Work is ongoing, with support from external consultants funded by AFD, to complete the audit of domestic arrears up to 2020. The report is expected to be completed by end-2023. Arrears continue to be recurrent, reflecting at times financing constraints and at times weaknesses in the debt service payment process.
Strengthen investment execution to make full use of donor aid commitments and improve project appraisal and prioritization.	Investment execution continues to be slow, and the country lacks a clear public investment strategy in the prioritization, appraisal, and selection of the often-sizable public investment projects listed in the authorities' national plan (*Plan Comores Emergent*).
Improve SOEs' performance and transparency through financial reporting, avoidance of cross-arrears, and reforming administered prices to ensure cost recovery.	Work is ongoing to upgrade the legal framework governing SOEs which aim to improve oversight over SOEs. The authorities raised oil, electricity, and rice prices in 2022, for the first time in several years, to help stem losses from surging global commodity prices. However, SOEs continue to face chronic financial stress.
Financial Sector Reforms	
Transition to risk-based financial sector supervision and create bank resolution and liquidity assistance frameworks to strengthen the banking sector and enhance the financial safety net.	There has been some progress in strengthening bank supervision, but limited resources and chronic understaffing at the Banking Supervision Department of the BCC hamper these efforts. The BCC is working, with TA support from MCM and LEG, to amend, and upgrade the resolution framework and create the liquidity assistance framework.

Recommendations	Implementation
Restructure the state-owned postal bank (SNPSF) which weighed on public finances.	The authorities have undertaken steps to split the SNPSF into a postal and a banking operation. With support from the Fund, the World Bank, and the AFD, work is ongoing to set up and capitalize the new postal bank (Banque Postale des Comores) and implement a business plan that would limit fiscal risks.
Institutional and Governance Reforms	
Strengthen civil service.	The authorities have stepped up efforts to identify and remove "ghost workers" from the public sector and recover wages paid to them. However, plans to strengthen the quality of civil servants through an entrance examination system, administration training, and performance review have not been implemented.
Enhance effectiveness of the judicial system in protecting property rights and enforcing contracts.	There has been limited progress in strengthening the judicial system.
Address corruption risks by strengthening the asset declaration regime for high-level officials, including by requiring publication of the declarations and operationalizing the anti-corruption commission to promote investigations of acts of corruption.	The new anti-corruption law promulgated in June 2023 enhances preventive measures against corruption, strengthens the rules related to conflicts of interest, and improves the asset declaration system for senior public officials. The law also provides for the creation of an operationally independent Anti-Corruption Chamber with the mandate to set up and coordinate the implementation of the country's anti-corruption policy priorities. However, the law provides for access to asset declarations, it falls short of requiring their publication.
Address persistent and severe shortcomings in economic data provision.	Comoros has received extensive capacity development support in statistics for the national accounts and prices. Price data quality and timeliness has improved. National accounts statistics are only available on an annual basis, and with a long lag. More work is needed to improve the accuracy and timeliness of BOP statistics.
Develop a natural disaster resilience strategy to ensure infrastructure resilience, financial resilience, and post-disaster resilience including through a buildup of cash buffers.	The authorities are receiving support from the World Bank to enhance infrastructure resilience. Ongoing fiscal reform aims to create fiscal buffers which would improve financial and post-disaster resilience. Without a cash buffer, the authorities would need to continue predominantly to rely on donor support in the event of natural disasters.

Annex IV. External Sector Assessment

Overall Assessment: *Staff assesses that the external position of Comoros in 2022 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. Based on 2022 data, the real effective exchange rate is overvalued by around 13.7 percent. Comoros' external position is vulnerable to natural disasters.*

Potential Policy Responses: Staff's projection shows a near-term degradation of the external position, mainly driven by ongoing major public investment projects. Tightening actions already taken by the BCC and the authorities' planned fiscal consolidation under the ECF will help stabilize the external situation, as would boosting and diversifying exports over the medium term and building resilience to climate change.

Foreign Assets and Liabilities: Position and Trajectory

Background. The Union of Comoros does not produce international investment position (IIP) data.

Current Account

Background. Preliminary data for 2022, showed that imports rose by more than 20 percent (y/y) following the surge in food and oil prices and the appreciation of the USD. The current account deficit is projected to have widened slightly to 0.5 percent of GDP in 2022, as the terms of trade deteriorated by around 20.1 percent.

Assessment. There is a divergence in the estimates from the EBA-lite models of the current account gap. The current account deficit widened slightly to 0.5 percent of GDP in 2022, reflecting rising fuel and food prices and a strong export performance which did not offset the higher imports. The current account is adjusted to –1.1 percent of GDP to account mainly for natural disasters. Compared to the estimated current account norm of –3.8 percent of GDP, the current account gap is 2.6 percent of GDP, stronger than the level consistent with fundamentals and desirable policies.

Text Table 1. Union of the Comoros: Model Estimates for 2022
(In percent of GDP)

	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**-0.5**	
Cyclical contributions (from model) (-)	-0.5	
COVID-19 adjustors (-) 2/	1.7	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.5	
Adjusted CA	**-1.1**	
CA Norm (from model) 3/	**-3.8**	
Adjusted CA Norm	**-3.8**	
CA Gap	**2.6**	**-1.8**
o/w Relative policy gap	0.4	
Elasticity	-0.14	
REER Gap (in percent)	**-19.6**	**13.7**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on remittances.
3/ Cyclically adjusted, including multilateral consistency adjustments.

In contrast, the REER index model finds a current account gap of –1.8 percent of GDP in 2022 (varying between –1 and -2) which is insignificant compared to the size of measurement errors of the Balance of Payments data. Staff assess the external position to be moderately weaker than the level consistent with fundamentals and desirable policies.

Real Exchange Rate

Background. The real effective exchange rate appreciated by 9.4 (y/y) in June 2023 as average inflation in Comoros over the prior 12 months exceeded that in trading partners by around 1½ percent.

Assessment. Data quality limit the precision of external account analysis for Comoros. The REER model is assessed to be a more accurate assessment of exchange rate misalignment given the measurement errors surrounding the BoP statistics in Comoros, especially the recording of in-kind grants and the breakdown of grants between the capital and current accounts. The model is based on a panel regression of the real effective exchange rate which generates an estimated "norm" consistent with medium-term fundamentals.

and desirable policies. As the REER regression model indicates a small overvaluation lower than 15 percent, staff does assess the REER as misaligned.

Capital and Financial Accounts: Flows and Policy Measures
Background. Comoros receives substantial project grants, which are recorded in the capital account. They reflect predominantly grants by donors to finance their projects. While there is data weakness, the last available information puts inflows at a 4.1 percent of GDP in 2022. This ratio is declining after the peak of 6.7 percent of GDP in 2020, reflecting the Kenneth storm and the pandemic. **Assessment.** Comoros' heavy reliance on volatile foreign aid is a source of vulnerability but at the same time theses flows are an important non-debt-creating resource to cover CA deficit.
FX Intervention and Reserves Level
Background. Following the unfavorable evolution of the current account in 2022, the foreign reserves declined by 14 percent from the very high levels of 2020-21 when they were boosted by pandemic-related remittances. **Assessment.** Comoros' reserves declined from a coverage of 8.2 months of import in 2021 to 6.6 in 2022. The optimal level of international reserves for Comoros using the small states classification was determined at 6.8 months of goods and services imports.

Annex V. Risk Assessment Matrix[1]

Sources of Risk	Relative Likelihood	Time Horizon	Impact on Comoros	Policy Responses
		Global Risks		
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	High	ST, MT	High	**Improve domestic production and prepare contingency plans,** including measures to protect the most vulnerable in case of renewed commodity price increases or shortages. Conduct structural reforms to enhance Comoros' private-led agricultural production.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	High	ST, MT	High	**Improve domestic production and prepare contingency plans,** including measures to protect the most vulnerable in case of renewed commodity price increases or shortages. Conduct structural reforms to enhance Comoros' private-led agricultural production.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation.	High	ST, MT	Medium	**Maintain prudent macroeconomic policies.** Implement reforms to open fiscal space by enhancing revenue and reducing inefficient spending. Diversify supply routes and provide relief to vulnerable people.

[1] Based on the July 21, 2023 G-RAM. The Matrix shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Sources of Risk	Relative Likelihood	Time Horizon	Impact on Comoros	Policy Responses
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	ST, MT	Low	**Diversify supply routes and prepare contingency plans,** including measures to protect the most vulnerable in case of renewed supply disruptions. Conduct structural reforms to enhance Comoros as a destination for investment.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	MT	High	**Implement climate adaptation strategies** including through investment in climate resilient infrastructure, with assistance from international partners.
Domestic Risks				
Policy slippages. In particular, delayed structural reforms could undermine revenue mobilization, adding pressures on public finances. The taking up of additional non-concessional debt could quickly undermine debt sustainability	Medium	ST, MT	High	**Implement macroeconomic policies and structural reforms as described in the ECF program**, particularly those related to raising fiscal revenue.
Social discontent, and political instability. Tensions could erupt in a context of rising inflation, declining incomes, worsening inequality, and political uncertainty ahead of the 2024 presidential elections, slowing economic growth, and giving rise to economically damaging populist policies (e.g., preserving fossil fuel subsidies).	Medium	ST, MT	High	**Provide support to the most vulnerable and enhance governance, transparency, and the rule of law.**
Deterioration of SOEs' financial situation and ensuing increase of government liabilities.	High	ST, MT	High	**Improve supervision of SOEs as described in the ECF program.**

Annex VI. Capacity Development Strategy

A. Context

1. Country profile. Comoros is a fragile, small developing state marked by political instability, weak institutions, and government implementation capacity that is substantially weaker than the sub-Saharan African average.

2. Program engagement. Comoros received RCF/RFI support in July 2019 following Cyclone Kenneth and again in April 2020 following the outbreak of the COVID-19 pandemic. Comoros also benefitted from CCRT relief (through April 2022). A Staff Monitored Program (SMP) was approved in September 2021 to help Comoros contain and recover from the pandemic and start to overcome fragility, boost inclusive growth, and limit risks. Despite delays in some structural benchmarks, the SMP was completed in April 2023, paving the way to a discussion on a financing arrangement under the ECF.

3. Fund capacity development (CD) efforts of recent years. The Comoros authorities have benefitted from intense CD efforts for a number of years with the goal of alleviating their severe capacity constraints. The bulk of missions of recent years took place in the fiscal domain, mainly on revenue administration and public financial management, in line with the country's most critical weaknesses. Substantial CD has also been provided on financial sector issues, where the implementation of recommendations has been a bit better, perhaps reflecting in part the stronger capacity of staff at the Central Bank than at the Ministry of Finance. LEG provided CD to support drafting of the new anti-corruption law focused on creating legal framework for autonomous and effective anti-corruption agency and the system for conflict of interest and asset declaration of senior officials. CD is fully aligned with the FCS Country Engagement Strategy.

4. Impact of Fund-provided CD. The authorities consider that Fund CD has improved their capacity and helped implement several reforms. Achievements include enhancing the tax base, strengthening the use of the SIGIT software, adoption of new Tax and Customs codes and a revised PFM organic law, creation, and limited operation of the Single Treasury Account; and migration to a more modern customs data system. The ongoing CD has assisted the Central Bank in reinforcing prudential regulations in line with Basel II and III, liquidity management through identifying collateral eligible for refinancing, and operationalizing bank resolution framework. Nonetheless, staff assesses that implementation of CD recommendations has been slow overall. Fund CD, particularly on fiscal policy implementation, has been recommending only basic improvements that the authorities should be able to implement despite their extremely low capacity. Thus, the key obstacles to quicker implementation of recommendations appear to be lack of ownership at the highest levels and insufficient oversight by the Minister of Finance and senior officials.

B. Macroeconomic Objectives and CD Priorities

5. Macroeconomic objectives. Key macroeconomic objectives for the coming years are to (i) create fiscal space and use it for public investment in human and physical capital; (ii) strengthen financial sector stability and financial intermediation; and (iii) improve data collection and dissemination to enable better economic policy making. In addition, Comoros will need to strengthen investment into human and physical capital, enhance its judicial system, and strengthen management of its civil service.

6. Resulting priorities for Fund-provided CD. To help the authorities reach goal (i) above, the Fund will provide CD on revenue administration, tax policy and public financial management (PFM), including at SOEs. To help with goal (ii), the Fund will provide CD on financial sector regulation and supervision as well as central bank's liquidity management, government debt market development and bank resolution framework. To help the authorities reach goal (iii), the Fund will continue to provide CD on national accounts, government finance statistics, and external sector statistics. Text Table 1 provides an overview of policy priorities, objectives of Fund CD, and the challenges to ensuring progress. Text Table 1 lists CD priorities by Fund Department.

Text Table 1. Union of the Comoros: Policy Priorities, Objectives of Fund CD, and Related Challenges

Priorities	Objectives	Challenges
Reducing corruption vulnerabilities through strengthening transparency and accountability	Introduce legal framework and operationalize effective system for conflict of interest and asset disclosure by senior officials, including mandatory disclosure of beneficially owned assets, publication of asset declarations, and removing current criminal liability for publication	Apparent lack of ownership by the authorities.
Tax and customs policy and administration	Mobilize revenue by broadening the tax base and strengthening tax and customs administration	Apparent lack of ownership and weak managerial oversight; limited public trust in government
Public Financial Management, including governance aspects	Raise the efficiency and transparency of public spending by improving budget preparation, enhancing spending execution and reporting, improving oversight of, and relations with, SOEs, and reducing vulnerability to corruption	Apparent lack of ownership and weak managerial oversight, and clientelism and vested interests particularly where SOEs are concerned
Financial sector supervision	Strengthen financial stability by enhancing regulation and supervision, including developing financial resolution frameworks	Limited ability of the BCC to absorb CD
Central bank operations / public debt management	Improve interbank market liquidity management and promote credit growth by developing debt market infrastructure	Limited ability of the BCC to absorb CD,
Priorities	**Objectives**	**Challenges**
Statistics	Enhance data provision, including national accounts and price statistics (INSEED), fiscal data (Ministry of Finance), and external data (BCC, customs)	High staff turnover at INSEED, weaknesses in fiscal accounting and insufficient communication between MoF and Comissariat au Plan, and use of unclear methodologies at BCC

C. Coordinating CD Delivery with Development Partners

7. Other CD-providing partners. In addition to receiving CD from the Fund, Comoros benefits from CD delivery by several other partners, including notably the World Bank, the African Development Bank, the European Union, and France.

8. Minimizing gaps and overlaps in CD provision. To minimize gaps and overlaps, staff will propose to these partners that the Fund take the lead on CD in the areas that are key for surveillance and where we have strong expertise (i.e., on fiscal policy, monetary policy, financial sector regulation and supervision, and data issues), while other partners could usefully (i) focus on other areas that are important for economic development and/or (ii) provide CD that supports implementation of Fund recommendations. For (i), partners would help the authorities strengthen infrastructure (electricity, water, transport) investment and social spending (health, education, social insurance/assistance) in line with the authorities' national development strategy *Plan Comores Emergent*; reinforce the judicial system; and enhance civil service management. For (ii), partners could provide supporting CD in areas covered by the Fund, for example helping the authorities introduce computer systems in tax and customs administration.

9. Meetings with other partners. Staff will invite partners at least once a quarter to coordinate CD delivery.

D. Incentivizing Quicker Implementation of Fund CD Recommendations

10. To help incentivize faster implementation of Fund-provided CD, staff will do the following:

- Discuss with the authorities and CD providing departments the most impactful modalities of CD delivery. Specifically, would the authorities appreciate having one or more long-term advisors at the cost of (much) fewer HQ or AFRITAC South-based missions? In this context, staff will highlight that implementation of CD recommendations was slow even during the time of Resident Representative Michel Bua, who provided substantial hand-on assistance on fiscal policy implementation.

- Suggest to the authorities to include the most essential CD recommendations as commitments/conditionality in future Fund-supported programs and highlight that failure to meet these commitments would risk delaying Fund financial support.

- Conduct regular discussions with the authorities on progress in implementing CD recommendations, based on a rolling stocktaking of recommendations and their implementation. In these discussions, staff will highlight that implementation is not difficult but requires strong managerial oversight by senior officials.

Appendix I. Letter of Intent

Moroni, Union of the Comoros
November 30, 2023

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Madame Managing Director,

1. The Government of the Union of the Comoros has been implementing the Four-Year Extended Credit Facility (ECF) arrangement since it was approved in June 2023.

2. Despite signs of recovery, the economic and financial environments have continued to be difficult, and the outlook is subject to large uncertainties. Although inflation has started to come down from high levels after successive shocks (Cyclone Kenneth, COVID-19, and the Russia-Ukraine war), fiscal pressures from the high prices of recent years will persist while Comoros remains exposed to continued volatility in global commodity prices. As with many other countries in the region, Comoros also faces constraints from elevated financing needs at a time when fiscal space has been exhausted and tighter global financing conditions have reduced budgetary aid.

3. Because of these difficulties and capacity constraints as the government works to implement reforms on multiple fronts, we were unable to achieve some of the objectives set under the program. We met the quantitative performance criteria (QPCs) on tax revenue, domestic primary balance, non-concessional external debt, and net international reserves at end-June 2023. However, the QPCs on the accumulation of net new domestic arrears and external arrears and the indicative target (IT) on household cash transfers were missed. We would like to assure you, however, that corrective actions are being undertaken to ensure that the program remains on track: (i) we have repaid all new external arrears that are not subject to renegotiation, and are in active discussions on the arrears clearance strategy on the remaining two (amounting to about US$0.47 million) and (ii) we commit to, as a prior action for the first review, signing a Memorandum of Understanding among the Debt Directorate, General Budget Directorate, Treasury Payer General, and the BCC, specifying the amounts and schedule of all external debt service payments due in 2024. We expect the breach of the ceiling on net domestic arrears to be temporary, with no impact on the overall program implementation, and we are in the process of paying down these arrears with a view to achieving zero net accumulation by end-2023 as envisaged at the ECF request. We are also pleased to inform you that there has been good progress on structural reforms supported by structural benchmarks (SBs) under the program. As of end-October, all SBs except one, were completed on time.

4. Looking ahead, we remain committed to fully implementing our economic program supported by the ECF, to secure medium-term macroeconomic stability and debt

sustainability, reduce vulnerabilities in the banking sector, and improve public sector governance and transparency. We will also continue pushing forward other reform fronts, including strengthening public financial management and tax policy capacities, and banking system liquidity management together with the reform of the operational framework for monetary policy. The draft 2024 budget, which has been aligned with program parameters (prior action) seeks to continue fiscal consolidation while protecting economic recovery. We commit to continuing close engagement with the IMF team as we finalize the budget and monitor its execution.

5. Building on the Memorandum of Economic and Financial Policies (MEFP) elaborated during the ECF negotiation, the attached MEFP sets out our plans in more detail. We also stand ready to take any additional measure that may prove necessary to safeguard the objectives under our economic reform program. We will consult with IMF staff on the adoption of any additional measures prior to any revisions to the policies contained in the MEFP, in accordance with Fund policies on such consultations. To facilitate program monitoring and assessment, the government undertakes to provide all necessary information to IMF staff on a regular basis and in a timely manner, pursuant to the attached Technical Memorandum of Understanding (TMU).

6. To support our continued efforts to foster economic resilience, the Government requests that the IMF Executive Board approves the completion of the first review under the ECF-supported program. The Government requests waivers for the nonobservance of the end June 2023 QPC on the non-accumulation of net domestic arrears and the continuous QPC on the non-accumulation of external arrears, as well as the modifications of the end-December 2023 and end-June 2024 criteria to align them with the revised macroeconomic projections. We also request the modification of the QPC on net domestic arrears accumulation into an IT, to reflect our limited capacity to monitor domestic arrears in real time and align the treatment of this target with that in similar developing and fragile states.

7. In line with our commitment to transparency, we agree to the publication of this letter, attached MEFP, the related staff report, and the debt sustainability analysis (DSA), and the Selected Issues Papers prepared by the IMF and the World Bank.

Sincerely yours,

/s/	/s/
Mzé Abdou Mohamed Chanfiou	Younoussa Imani
Minister of Finance and Budget	Governor, Central Bank of Comoros

Attachments:

- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies (MEFP) updates and supplements the MEFP of June, 2023. It describes recent economic developments, the progress made in implementing the policies and reforms to which we committed under the ECF-supported program, the macroeconomic outlook, as well as the government's objectives and economic policy plans over the coming years. The ECF program seeks to foster economic resilience and reduce fragility by: (i) supporting a credible medium-term fiscal consolidation plan to increase fiscal space and reduce debt sustainability risks; (ii) reducing risks in the financial sector; and (iii) advancing anti-corruption and governance reforms.

A. Recent Economic Developments and Outlook

1. Economic activity continues to rebound in 2023 as post pandemic activities are sustained. With the normalization of commodity prices, inflation has come down, registering 1.0 percent (y/y) in September after reaching 20.6 percent in December 2022. Growth is projected at around 3 percent for 2023 while inflation is expected to continue to subside. The current account is expected to widen due to declining exports, strong import demand, and still-high import prices and remittances inflows reverting to the pre-pandemic average amid lower Eurozone growth.

2. Both fiscal revenue and domestic primary balance were above expectations in the first half of 2023. Tax revenue in the first half of the year rose by 33 percent (y/y), driven by significant increases in taxes on goods and services and excises. This outturn is in line with our increased revenue mobilization efforts, including the removal of tax exemptions on construction materials earlier this year, and slower-than-expected primary current spending. The fiscal overperformance is providing important buffers in the second half of the year as spending execution picks up and the government undertakes corrective actions to pay down the accumulated net domestic arrears and external arrears. Despite the resumption of activity, taxes and dividends from state-owned enterprises have also declined due to their financial difficulties stemming from high commodity prices in recent years.

3. While growth is expected to accelerate in 2024, the outlook is subject to large uncertainties. The war in Ukraine and geopolitical conflicts in the Middle East are likely to impact global commodity prices. The slowdown in grants and budgetary aid to Sub-Saharan Africa, including Comoros, has tightened financing constraints. Meanwhile, any delay in the execution of investment projects such as the El Maarouf Hospital and the Galawa Hotel could have a growth impact. Over the medium term, Comoros continues to face many development challenges, including limited capacity and economic diversification, low fiscal revenue, and dependency on imports, remittances, and external aid. These challenges are compounded by natural disaster risks, including those related to climate change.

B. Economic and Financial Policies Supported by the ECF

Fiscal Policy

4. Our fiscal program is predicated on sustained consolidation effort over the medium term in order to decrease debt sustainability risks and reduce financing needs over time. Consolidation would be driven by (i) a steady increase in tax revenue of at least 0.3 percent of GDP per year (QPC) through comprehensive structural reforms in tax policy (reducing tax exemptions, streamlining customs' tariff system) and revenue administration (broadening tax base, improving large taxpayers' compliance, collecting main tax debts, ensuring proper application of customs' tariff, and improving customs' audit performance) ; (ii) a set of targeted current spending measures (publishing the result of the domestic arrears' audit and the associated clearance plan, keeping stabilized the wage-to-GDP ratio, continuing the work to improve the management of civil employees, eliminating the transfers and subsidies introduced in 2021-22 to mitigate the effects of the recent shocks, and key structural PFM system's reform (improving the budget process, securing the TSA and expanding its coverage, continuing SOE's restructuration and supervision efforts ; and (iii) reducing investment spending to pre-pandemic levels once already committed spending is phased out. The envisaged fiscal path strikes a balance between enabling growth and lowering debt risks and is in line with our objective to bring all debt burden indicators below their higher risk thresholds by 2028. Overall, these policies are expected to improve the domestic primary balance, from -1.8 percent of GDP in 2023 to around -0.1 percent of GDP by the end of the program.

5. Our 2023 budget has been executed in line with the fiscal plan and targets under the ECF, while the 2024 budget submitted to Parliament has been aligned with program parameters (prior action). In 2023, we ended one-time subsidies and tax exemptions introduced in 2022 and reintroduced the sales tax on construction material. The Large and Medium Taxpayers' Office has been established and efforts to strengthen tax and customs administration are underway with support from the IMF's Fiscal Affairs Department (FAD). These efforts have led to a strong revenue performance in the first half of the year, and we are committed to maintaining the momentum in the remaining months of the year. Overall expenditures have been in line with our program objectives, although pressures stemming from elections preparations and the African Union presidency have led to overruns in those categories vis-à-vis the budget plan. The 2024 budget aims to continue fiscal consolidation and is predicated on (i) revenue gains of around 6½ percent from revenue administration reforms under the program and the residual impact from the removal of tax exemptions on construction materials in 2023; (ii) continued efforts to stabilize the wage-to-GDP ratio, but with nominal wages rising by 3.4 percent reflecting higher pension contribution rates; (iii) phasing out of one-time expenses related to the 2024 presidential elections and the 2023 African Union presidency; and (iv) strong public investment execution reflecting the authorities' aim to complete the construction of the El Maarouf Hospital in 2024.

6. Despite the planned consolidation, we anticipate fiscal and corresponding external financing needs persisting over the medium term. The needs reflect several factors including the food and fuel price increase, recapitalization of the postal bank and the Federal Bank of the Comoros (BFC), and debt service obligations for the 2019 and 2020 emergency financing and previously contracted non-concessional borrowing. We commit to obtaining grants and concessional financing to fill these needs, and we are aware that further uptakes of non-concessional debt would quickly undermine debt sustainability. We therefore commit to avoiding contracting any non-concessional borrowing over the program period (QPC).

7. The government is committed to protecting social spending and priority investments and will aim to increase such expenditures as reforms help create more fiscal space. The 2023 budget allocated KMF 4.69 billion for health and KMF 1.45 billion for education. These allocations accounted for about one third of transfers, and we commit to maintaining at least these levels in the 2024 budget. With support from the World Bank, we have been implementing the social safety net project (Projet de Filets Sociaux de Sécurité, PFSS) which has been providing unconditional cash transfer to the most vulnerable households. In July, this project was replaced with the Projet de Filets Sociaux de Sécurité Résilient et Réactif aux Chocs (PFSS-RRC), with an expanded mandate to support transfers related to cash for work, livelihood grants, and technical training. We will continue to partner with the World Bank on this important social project and will aim to ensure the timely disbursements for the project. We will also continue to work with development partners to prioritize and implement investment projects envisaged under our national development strategy, *Plan Comores Emergent*, to ensure continued growth and shared prosperity for the Comorian population.

8. We have accumulated new external and net domestic arrears because of the slow grant disbursements by partners and shortcomings in the debt payment process. New external arrears were incurred to the following multilateral, official bilateral, and other creditors: BADEA of US$0.34 million, Bpifrance Assurance Export of US$0.39 million, OPEC Fund for International Development of US$0.06 million, Kuwait Development Fund of US$1.1 million, Saudi Fund for Development of US$0.3 million, AfDB of US$0.2 million, Exim Bank India US$0.13 million, and two payments to TDB of around US$1.3 million each. As a corrective action, we have already repaid all of these new arrears except those owed to BADEA and Exim Bank India—these are being discussed within the broader arrears clearance strategy vis-à-vis these institutions. We envisage the clearance of arrears with BADEA by seeking an alternate creditor and are engaged in discussions with potential institutions. Discussions are also ongoing regarding the arrears to Exim Bank India for a power plant project which is under dispute, and we intend to find a solution shortly. As part of the corrective action and to avoid accumulating new external arrears in 2024, a Memorandum of Understanding will be signed among the Debt Directorate, General Budget Directorate, Treasury Payer General, and the Central Bank of Comoros (BCC) specifying the amounts and schedule of all external debt service payments due in 2024, in consultation with IMF staff (prior action). As of June, net domestic arrears of KMF 860 million have accumulated. As a corrective action, we are in the process of paying down these arrears and commit to bringing net domestic arrears to zero by the end of 2023 as envisaged at the beginning of the program. To reflect weakness in monitoring domestic arrears in real time and the treatment of this target in similar developing and fragile countries, we are also requesting a modification of the QPC on domestic arrears accumulation into an IT.

Fiscal Structural Reforms

9. We recognize that Comoros' fiscal revenue is the lowest among all small island states and commit to raising revenue steadily over time to enable higher public investment in human and physical capital. Work will continue to strengthen tax and customs administration and policies. We will continue to seek technical assistance support from the IMF on revenue administration and tax policy to raise revenue over the medium term. Our priorities include the following:

- On domestic tax administration, we intend to (i) raise the number of active taxpayers by 10 percent at the Large and Medium Taxpayer office, (from 543 at the large taxpayer office and the medium and small taxpayer office, as of March 31, 2023) and send all these taxpayers requests to file tax declarations (end-December 2023 SB); (ii) integration of customs and DGI databases through the interconnection of the SIGIT and SYDONIA platforms (end-December SB); and (iii) applying the same tax administration on SOEs as other taxpayers; and intensifying efforts to recover unpaid taxes.

- At Customs administration, we have not yet completed the *de jure* transfer of the management of domestic taxes on petroleum products (TIPP) to the customs administration (end-September 2023 SB), and we are committed to doing so during the first parliamentary session of 2024 (SB reset to end-June 2024). We intend to: (i) strengthen risk management, including by inspecting a far smaller number of shipments based on compliance risks; (ii) deploy an internal control system and develop a decision-making information system; and (iii) issue ministerial decrees to implement the customs code by end June 2024 (SB).

- We intend to establish the Tax Policy Unit that reports to the Minister of Finance by end-September 2024 (SB). The unit would be responsible for spearheading tax policy related reforms. Ahead of the establishment of this unit, we plan to request support from FAD to undertake a tax expenditure assessment to identify avenues for streamlining exemptions.

10. The government will continue efforts to strengthen public financial management (PFM) and enhance spending efficiency and transparency to ensure the best possible use of our scarce resources. Key measures include:

- Appointing the Director of the General Directorate of Public Accounting and the Treasury (DGCPT) (end-March 2024 SB) who will oversee the finalization and promulgation of the presidential decree on the Budgetary and Accounting Management Regulations by end-April 2024 (SB).

- Publishing the 2024 budget approved by Parliament by end-April 2024 (SB) as a key step to improving budget transparency.

- Reinvigorating the reform of the Treasury Single Account (TSA), including by requesting Fund capacity development support to assist with the implementation of the roadmap developed at the end of 2021 for extending the coverage of the Treasury Single Account (TSA) to all transactions relating to extrabudgetary entities, public administrative bodies, and foreign-financed projects. The roadmap includes a number of key reforms needed to improve the functioning of the TSA, e.g., the creation of a centralized accounts function within DGCPT, before the TSA can be extended.

- Strengthening wage bill management in line with the recommendations of IMF capacity building efforts, building on the recent merger of three separate island payroll databases into one national database, the improvement of the information system at the Ministry of Finance, and the strengthening of the physical control of civil servants within the purview of the Committee set up by decree.

- Completing the audit of domestic arrears by December 2023 (SB). The completion of this audit exercise is a critical first step for quantifying the problem in order to articulate a domestic arrears clearance strategy by March 2024 (SB).

11. We will continue strengthening the oversight of SOEs. We are finalizing the draft SOE law which will align the SOE legal framework with international best practices. We intend to centralize the supervisory function within the new department in charge of public enterprises, the Direction Générale du Portefeuille de l'État (DGPE), ensuring collaboration with the other departments involved in the Ministry of Finance. We will conclude performance contracts with major SOEs to ensure improved service provision quantity and quality, as well as define financial targets. Further, we intend to require public companies to prepare certified annual balance sheets and income statements, ensuring the homogenization of financial information and documents, and using the OHADA chart of accounts. We will seek adjustments in SOEs’ staffing levels and compensation packages. Additionally, we will end cross-arrears settlement between the State and the SOEs to enable greater transparency, starting with the state-owned oil company SCH.

Monetary and Financial Sector Policies

12. Monetary policy will continue to safeguard the peg. Amidst historically high inflation in 2022, the BCC tightened monetary policy by increasing the reserve requirement ratio. Against the backdrop of the recent fall in inflation and the weakness of financial institutions, the BCC reduced the reserve requirement ratio (RRR) from 15percent to 12.5percent on October 24, 2023. Nevertheless, the BCC will maintain vigilance over the evolution of inflation and foreign currency reserves and stands ready to tighten monetary policy in case of a resurgence in inflation or large outflows of reserves. We will also intensify supervision of the banking system and continue our efforts to strengthen the monetary policy toolkit.

13. The government is committed to preserving external stability. Though net reserves fell in 2022, due in part to the higher costs of oil and food imports, they are expected to increase to comfortable levels over the next few years. Recognizing the importance of preserving reserves at a level that can effectively cushion shocks, we will monitor balance of payments developments and engage with the IMF on any emerging difficulties and will avoid measures or policies that would give rise to or compound such difficulties.

14. Our banking system is facing substantial challenges:

- **Weak institutional and judicial enforcement continue to constrain lending to the economy and undermine the quality of financial assets.** Financial institutions have weak underwriting and risk management processes, often significant credit risk concentration, while shortcomings in the judicial system inhibit attaching collateral. The Non-Performing Loans (NPLs) Commission, established in 2021, helped to reduce the level of NPLs significantly during its first phase of operation in 2021-2022 (see below). After a pause in its activity, the Commission resumed in January 2023, focusing on the largest NPLs holders.

- **The financial safety net is not yet fully developed, which has limited the government's choices in dealing with problem banks.** For example, an emergency central bank liquidity assistance facility remains to be created. Work is ongoing with the technical assistance of the Monetary and Capital Markets Department of the IMF which has allowed the identification of a list of collateral eligible for refinancing at the BCC, and in particular within the emergency liquidity assistance framework, which is in the process of being established.

- **Further, a lack of financial infrastructure inhibits the development of the interbank market.** Banks cannot easily borrow from, or lend to, other banks and the BCC as there is no organized market and no readily available lending instruments and collateral (neither the government nor the central bank issue securities). However, as part of the ongoing work on the operational framework of monetary policy and liquidity management, the BCC has put in place a mechanism for absorbing monthly liquidity as well as a marginal lending facility. Two institutions with the sufficient liquidity regularly subscribe to this facility via calls for tender, and now have high-quality collateral (term deposits at the central bank) enabling them to refinance themselves at BCC's marginal lending window. The very recent adoption of the Public Debt Management Law contributes to the improvement of guarantee and refinancing instruments.

15. To strengthen the financial sector, the government intends to do the following:

- **Improve the operating environment for banks,** including by strengthening the judicial system to ensure that banks can realize pledged collateral and avoiding arrears owed to suppliers by the State and public enterprises. In this context, a commission on NPLs, established in 2021 and comprising the Ministry of Finance, the Ministry of Justice, and the BCC, delivered recommendations on accelerating the drafting of court decisions, with initial positive results during its first phase of 2021-2022 reflected by the improvement in the ratio of NPLs to total gross loans, from 23.7 percent in 2020 to 14 percent at the end of June 2023. After taking a break from its activities, the Commission resumed its work in January 2023, focusing on the largest holders of NPLs, and will hold meetings at least once a quarter, and will report to the President of the Union.

- **Strengthen supervision of the banking sector and the financial sector safety net.** The BCC has established in June 2023 a bank resolution and regulation unit, structurally separated from the supervision unit and reporting separately to the Governor and the board BCC. The establishment of this unit is a first step toward updating the Financial Institutions Resolution and Recovery Act of 2020 (LRIF) through legislative adjustments. We will submit the LRIF with the legislative adjustments to Parliament by end-May 2024 (structural benchmark), delayed from the end-December 2023 deadline initially planned, due to ongoing discussions with regards to the technical assistance (TA) from the IMF Legal Department that will enable us to complete these adjustments. These legislative adjustments were recommended in the MCM Technical assistance report of September 2022 and include establishing a statutory depositor preference, introducing a resolution funding mechanism, and solidifying the power to liquidate an entity in default. The BCC aims to complete onsite inspections of financial institutions to assess the quality of credit portfolios by June 2024 (SB). We will be hiring additional staff in the BCC and particularly in the DSB, given a shortage of inspectors. Over the medium term, the BCC will operationalize its emergency liquidity assistance function.

- **Stabilizing the financial sector.** We are considering strategic options for both banks—one under resolution since July 2022, and another entirely state-owned as public administration was lifted in June 2022. We will prepare contingency plans including estimates of fiscal costs in case of liquidation of one of the two banks and the recovery or takeover of the other. Over the medium term, the BCC will require time-bound recapitalization plans from all deposit-taking institutions in breach of capital adequacy requirements and the union of microfinance institutions will present to the BCC the plan to address problems in their affiliated microfinance institutions. Those institutions unable to comply with these time-bound recapitalization plans, or that are insolvent or unviable, will be resolved. Any provision of funding by the government would be subject to strict conditions that minimize the risk of moral hazard, and include determinations that (i) the provision of temporary funding is necessary to protect financial stability and will facilitate a resolution option that is best able to achieve resolution objectives; (ii) private sources of funding have been exhausted or cannot achieve these objectives; and (iii) losses are first allocated to shareholders and, as appropriate, to unsecured and uninsured creditors and the industry at large.

- **Strengthen financial infrastructure**, including by establishing a government securities market. With technical assistance from the IMF, we aim to set up a government securities market in coordination with the Treasury, strengthen liquidity management, and create an emergency liquidity assistance framework.

- **Execute the restructuring of the SNPSF.** We are advancing the reform to ensure that the new postal bank (Banque Postale des Comores, BPC) will implement a business plan which minimizes fiscal risks and is supported by a strong governance and risk management framework, to promote financial inclusion while limiting fiscal contingent liabilities. In May 2023, the government issued debt instruments amounting to KMF 7.36 billion to the BPC to ensure it had sufficient assets to submit an application for a banking license in August 2023. In August 2023, we appointed the managing director of the BPC, who has been in a close communication with the specially designated restructuring team. We will ensure that the new director takes up the duties as soon as possible and is actively involved in overseeing the BPC's operationalization. The recapitalization plan, the BPC business plan drawn up as part of the SMP (see below), and the dossier of the BPC director selected through an open competition were included in the application for banking license. The securities would be repaid in cash according to the schedule defined in the recapitalization plan, first in four installments of KMF 1.3 billion, including interest, between 2023 and 2025 (two installments in 2023), then in 2025 for the remaining amount. The French Treasury has committed to providing grants, via the AFD, towards the restructuring process, to be disbursed as agreed milestones are met. To ensure that BPC is fully prepared to start operations as soon as banking approval is granted, we will: (i) carry out a due diligence of SNPSF's balance sheet to update the valuation of its assets and liabilities, which will make it possible to identify by the end of December 2023 the allocation of assets and liabilities between BPC, the postal entity, and the residual bad-asset structure; (ii) set up a banking management information system for BPC by end-June 2024 at the latest. We are in the process of selecting a supplier through a call for tenders. The next steps for the reform are:

- Issuance by the BCC by end-December 2023 of a banking license to BPC (SB). At the same time, the BCC will withdraw SNPSF's right to grant credit and complete the transfer of SNPSF's banking activities to BPC. The banking license granted to BPC will be conditional in the event that BPC's new information system is not fully operational by end-December 2023. The conditionality of BPC's banking license will be lifted upon, among others, completion of the operationalization of BPC's new information system, i.e., by June 2024 at the latest. BCC undertakes to withdraw SNPSF's banking license as soon as BPC becomes operational. In applying the banking law, the BCC will ensure that the liquidation of SNPSF's remaining assets is completed within the next 3 years through the residual entity resulting from the separation of SNPSF's postal and banking activities. Thus, the residual entity will be subject to the control of the BCC until the recovery and liquidation of assets.

- Implementation of the business plan of BPC developed under the SMP, which envisages three phases of operation. The BCC will monitor and provide supervisory reports on the BPC's compliance with the business plan every July and January, starting on July 31, 2024 until January 31, 2026 (new SB). In phase 1, risk taking will be contained by limiting loans to existing customers, with a limit on new loans to any customer of KMF 5 million. In phase 2, BPC will expand credits to new customers, including individual entrepreneurs (but no other businesses), with credit per customer limited to KMF 5 million. In phase 3, BPC will provide credit to new customers, including small businesses with fewer than fifty employees, with credit per customer limited to KMF 7.5 million. Phases 1 and 2 will each last at least 2 years. The conditions to move from phase 1 to phase 2 will include full payment of the agreed BPC capitalization schedule in cash, the establishment of improved risk management capacities with the support of AFD, and the fact that BPC has made profits during at least the previous two years. The conditions for moving to phase 3 will be the establishment of improved risk management capabilities incorporating procedures for small business credit risk and the fact that BPC has been profitable for at least the previous two years. The transition from each phase to the next will be subject to evaluation and authorization by the BCC.

Strengthening Governance and Reducing Vulnerabilities to Corruption

16. The government will continue to take measures to enhance governance and lower the vulnerability to corruption:

- **Rule of law:** Our judicial system struggles to ensure property rights and enforce contracts, which undermines private sector development. We have undertaken steps to strengthen judicial efficiency, including by enhancing its equipment. These efforts have resulted in an acceleration of court cases. We will continue to strengthen the integrity and efficiency of the system further.

- **Fiscal transparency.** Measures discussed above on strengthening public financial management and enhancing oversight of SOEs will make an important contribution to strengthening governance, as will our efforts to enhance fiscal accounting and reporting. We have published in June 2023 the results of the audit of the spending of IMF emergency financing provided under the RCF/RFI of April 2020. To strengthen fiscal transparency further, we intend to begin regularly publishing comprehensive information on all public procurement contracts, including beneficial ownership information starting on May 1, 2024 (SB). We have laid the basis for such publications by issuing a circular regarding the submission to a nominated procurement agency of documentation on all public procurement contracts along with the names of awarded companies and the name(s) of their beneficial owner(s).

- **Anti-corruption**. We remain committed to anti-corruption reforms. We adopted the new anti-corruption law in June 2023, which met the objectives under the program (SB). As provided by the law, we are working towards the creation of an operationally independent and autonomous public entity with investigative capacity and powers and the mandate to set up the country's anti-corruption policy priorities, manage an effective asset declarations system, and maintain a public anti-corruption complaints platform.

- **Management of the civil service**. Our civil service is facing capacity constraints, and we are taking steps to strengthen it. We will continue our efforts to address absenteeism and recover wages that were paid to "ghost workers." We are also exploring the option of strengthening hiring using a competition/entrance exam in all parts of the civil service, as is already the case at the central bank; strengthening the training of civil servants by creating a school of national administration; and introducing performance management. We will avoid election-related hiring.

17. The government will strengthen effectiveness of the AML/CFT framework. We will align the AML/CFT law with the international standards set by the Financial Action Task Force and adopt it. In the meantime, the BCC will reach out to commercial banks to raise awareness of AML/CFT requirements and enhance risk-based supervision including by conducting onsite inspections to assess compliance with existing AML/CFT regulations. Further, the assessment of the Comoros' AML/CFT frameworks by the Inter-Governmental Action Group against Money Laundering in West

Africa (GIABA) is underway and the onsite assessment was conducted in July 2023. The recommendations from the assessment, when available, will inform ongoing efforts to strengthen AML/CFT framework.

18. The Central Bank will continue working on implementing recommendations of the IMF's 2023 safeguards assessment. To that end, steps are being taken to amend the 2008 central bank statutes to strengthen the BCC's autonomy in line with the safeguards recommendations. We are committed to working closely with the French authorities, under the monetary cooperation framework, and the IMF in the coming months to finalize the amendments and towards the promulgation of the revised central bank statutes by September 2024 (new SB). Further, the BCC will strengthen the internal audit function and enhance risk reporting on ongoing modernization projects. Government is also working to establish a repayment plan for the long-term loan that the BCC extended to government in connection with the IMF SDR allocation.

Data Enhancement

19. The government recognizes that Comoros' economic data have serious shortcomings in almost all sectors that hamper economic analysis, policy formulation and implementation. The government is committed to ensuring that INSEED will have sufficient human and capital resources to collect timely price data and update the national accounts, in line with the statistical capacity support project of the World Bank, the IMF and other partners.

Program Monitoring

20. The program will be monitored through prior actions, quantitative performance criteria, indicative targets, and structural benchmarks as listed in Text Tables 1 and 2. The program will be monitored with reviews at semi-annual frequency. The second, third, and fourth reviews will be on or after March 30, 2024, September 30, 2024, and March 30, 2025, and based on end-December 2023, end-June 2024, and end-December 2024 test dates, respectively. The Technical Memorandum of Understanding describes the definitions of key indicators as well as data provision requirements.

Text Table 1. Union of the Comoros: Quantitative Performance Criteria and Indicative Target, June 2023 - December 2024[1/]

(In millions of Comorian Francs, cumulative since end of previous year unless otherwise specified)

	2023						2024			
	End-June				End-September	End-December	End-March	End-June	End-September	End-December
	Performance Criteria				Indicative target	Performance Criteria	Indicative target	Performance Criteria	Indicative target	Performance Criteria
	Proj.	Adjusted	Outturn	Status	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Quantitative Performance Criteria										
1. Floor on Tax Revenues	22,194.4		25,052.8	Met	36,990.6	49,320.8	11,347.6	25,532.1	42,553.5	56,737.9
2. Floor on the Primary Domestic Fiscal Balance	-10,517.5	-9,250.1	-4,536.5	Met	-11,268.5	-15,024.7	-5,354.8	-8,210.7	-8,657.0	-8,924.7
3. Floor on the Level of Net International Reserves	82,608.9		99,620.1	Met	106,211.4	107,929.7	108,570.9	109,639.4	111,776.5	112,204.0
4. Ceiling on the Accumulation of New Domestic Payments Arrears, Net	0.0		860.0	Unmet	0.0	...	...	...	...	...
5. Ceiling on New Nonconcessional External Debt Contracted or Guaranteed by the Bovernment[2]	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
6. Ceiling on New External Arrears[2]	0.0		3.1	Unmet	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets[1]										
7. Ceiling on the Accumulation of New Domestic Payments Arrears, Net	...		...	...	...	0.0	0.0	0.0	0.0	0.0
8. Floor on Social Cash Transfers	1,550.2		0.0	Unmet	2,325.4	4,131.9	264.7	264.7	264.7	264.7
9. Floor on Cash-for-work, Livelihood Grants, and Technical Training				...	...	...	632.0	3,210.7	3,919.9	4,333
Memorandum Items										
Ceiling on Contracting and Guaranteeing of New External Concessional Borrowing by the Government[3]	23		0.0	...	47	70	14	14	27	78

Sources: IMF Staff.

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

[2]Continuous performance criteria, in millions USD.

[3]Cumulative since the start of the program, in millions USD.

Table 1. Union of the Comoros: Proposed New Prior Actions and Structural Benchmarks, 2024-25

Proposed Measures	Proposed Timing
A. Prior Actions	
Submit to Parliament a 2024 budget proposal in line with program parameters, in consultation with IMF staff	Prior to ECF 1st Review
Sign Memorandum of Understanding among the Debt Directorate, General Budget Directorate, Treasury Payer General, and the BCC, specifying the amounts and schedule of all external debt service payments due in 2024, in consultation with IMF staff	Prior to ECF 1st Review
B. Fiscal Structural Reforms	
Appointment of the Director of the General Directorate of Public Accounting and the Treasury.	March 2024
Finalize and promulgate the presidential decree on Budgetary and Accounting Management Regulations	April 2024
Publish the annual 2024 budget approved by Parliament	April 2024
C. Financial Sector Reforms	
BCC to provide supervisory reports on the compliance of BPC with the phase 1 of the business plan (limit lending operations to existing customers with individual limits of KMF 5 million for the first two years of operation), including quantitative information on the number of new customers and maximum lending per customer, in line with ¶15 of the MEFP of the ECF Request.	Every July and January, starting on July 31, 2024, to January 31, 2026.
D. Institutional, Governance, and Anti-Corruption Reforms	
Publish online information on public procurement contracts including beneficial ownership information, in line with the roadmap published in 2021	Continuous, starting on May 1, 2024
Promulgation by the President of the Union of Comoros of the amended statutes of the BCC in line with IMF staff advice	September 2024

Table 2. Union of the Comoros: Status of Structural Benchmarks, 2023-24		
	Date	**Status**
A. Fiscal Structural Reforms		
Measures to Boost Tax Revenue		
Establish the Large and Medium Taxpayer Office (Direction des Grandes et Moyennes Entreprises)	July 31, 2023	Met
Raise the number of active taxpayers by 10 percent at the Large and Medium Taxpayer office (from 543 at the large taxpayer office and the medium and small taxpayer office, as of March 31, 2023) and send all these taxpayers requests to file tax declarations.	December 31, 2023	
Remove the fee for getting a NIF (Numero d'Identification Fiscale) and the requirement to renew it every 3 years and ensure that all taxpayers have a NIF adapted to the SIGIT platform	September 30, 2023	Met
Interconnect the SIGIT and SYDONIA platforms to enable automated exchange of data between DGI and customs	December 31, 2023	
Customs Reforms		
Complete the de jure transfer of the management of fuel products taxes to the customs administration after already having completed the transfer de facto	September 30, 2023	Not met, reset for June 30, 2024
Issue ministerial decrees to implement the customs code	March 31, 2024	Proposed for June 30, 2024
Tax Policy Measures		
Establish a Tax Policy Unit that reports to the Minister of Finance, with technical assistance from FAD	December 31, 2023	Proposed for September 30, 2024
PFM Measures		
Complete the audit of domestic arrears, including cross-arrears between SOEs and the government	December 31, 2023	
Develop a medium-term action plan to clear domestic arrears	March 31, 2024	
B. Financial Sector Reforms		
SNPSF Restructuring		
Appoint managing director at BPC with management expertise and experience in banking and credit risk management to operationalize the BPC according to the business plan developed under the SMP	August 31, 2023	Met

Table 2. Union of the Comoros: Status of Structural Benchmarks, 2023-24 (concluded)		
	Date	**Status**
Submit to BCC an application for a banking license for the Banque Postale des Comores, which would specify a business plan, a management team, and a capital injection plan that are in line with MEFP ¶15 of the ECF Request	August 31, 2023	Met
BCC to issue a banking license which complies with the conditions set out in SMP MEFP ¶15 of the ECF Request	December 31, 2023	
Measures to Enhance BCC's Supervision and Resolution Capacity		
BCC to set up a resolution unit which is structurally separated from the Supervision Department, and reports separately to the BCC Board	June 30, 2023	Met
Submit to Parliament the statutory resolution framework that includes the three points recommended in the MCM TA report, "Operationalization of the Bank Resolution Act of September 2022," to align with international standards	December 31, 2023	Proposed for May 31, 2024
BCC to complete onsite inspections to assess the quality of credit portfolios	June 30, 2024	
Approval by the BCC of a formal timebound recapitalization plan to be adopted by each Comorian deposit-taking institution in breach of capital adequacy requirements	December 31, 2024	
C. Governance and Anti-Corruption Reform		
Adopt into law the draft anti-corruption law that was aligned with the SMP objectives to enhance preventive measures against corruption, strengthen the rules related to conflicts of interest, and improve the asset declaration system for senior public officials, while providing for the creation of an operationally independent and autonomous Anti- Corruption Chamber with the mandate to set up and coordinate implementation of the country's anti-corruption policy priorities	June 30, 2023	Met
Operationalize an independent and autonomous anti-corruption agency in line with the draft anti-corruption law	December 31, 2023	
Publish the full audit report of spending financed by the IMF emergency support in 2020	June 30, 2023	Met

Attachment II. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) defines the concepts, adjustment mechanisms, and data reporting requests relating to the quantitative targets provided in Text Table 1 of the Memorandum on Economic and Financial Policies (MEFP).

A. Definitions and Computation Methods

1. For the purposes of this TMU, **external** and **domestic** are defined on a residency basis, and **the program exchange rate** is the average rate projected in 2023 as of end-April 2023, specifically 462.8 KMF per U.S. dollar, 491.97 KMF per euro, 617.32 KMF per SDR, and 612.44 KMF per AfDB Accounting Unit.

2. Unless otherwise indicated, the term **government** refers to the government of the Union of the Comoros. Local governments, the Central Bank of Comoros (BCC), and any public entity with independent legal status, including state-owned enterprises, are excluded from the definition of government.

3. Government **domestic revenue** comprises all tax and non-tax revenue of the government as reported in the Table of Government Financial Operations (TOFE) prepared by the Ministry of Finance, Budget and the Banking Sector. Revenue is assessed on a cash basis. It includes any tax revenue withheld by Treasury at the source (such as on the salaries of civil servants) but not tax revenue withheld by SOEs in compensation for services provided to, or debt owed by, the government. Revenue includes recovered tax arrears but excludes outstanding tax arrears. Proceeds from grants, loans, and asset sales do not count as domestic revenue.

4. Government **domestically financed expenditure** comprises all government spending including spending financed by budget support grants or loans, non-concessional loans, and loans contracted for spending on El Maarouf hospital, but excludes expenditure financed by all other project-specific external grants or concessional loans (such as technical assistance, project maintenance, vaccines, World Bank financing for strengthening the social safety net, external funding related to the AU presidency, or investments in fixed assets). Recapitalization and restructuring costs of state-owned enterprises, such as the SNPSF, are also excluded from expenditure; recapitalization costs are instead recorded as acquisition of assets under “financing” (i.e., “below the line”). Spending is assessed on a payment-order basis but includes also spending executed before payment authorization and not yet regularized.

5. The **domestic primary fiscal balance** is defined as domestic revenue less domestically financed expenditure, defined above, excluding interest payments.

6. **Net international reserves (NIR) of the BCC** are defined for program-monitoring purposes as reserve assets of the BCC minus short-term external liabilities at remaining maturities and all credit outstanding from the IMF. Reserve assets are defined as external assets readily available to, and controlled by, the BCC and exclude pledged or otherwise encumbered external assets, assets used as collateral or guarantees for third-party liabilities, or assets that are not fully convertible. Securities whose market value on the last day of the year differs by over 20 percent from their original nominal issue price will be assessed at their market value as reported by the BCC. When calculating NIR, all values are to be converted to the actual mid- point market exchange rates prevailing at the test date.

7. **Debt** is defined as in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020). "Debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract."

8. A debt is considered **concessional** if it includes a grant element of at least 35 percent, and non-concessional otherwise. The grant element is the difference between the nominal value of the debt and its net present value, expressed as a percentage of the nominal value. The net present value of the debt at the date on which it is contracted is calculated by discounting the future stream of debt service payments due using a 5 percent discount rate.

9. **Domestic (external) payment arrears** of the government are defined as any of the following: (i) invoices that a spending ministry has received from a resident (non-resident) supplier of goods and services and for which payment has not been made within 90 days from the date the payment order (*ordonnancement*) was cleared, unless it can be ascertained that the goods and services in question were not delivered; (ii) in the case of specific contracts between resident (non- resident) parties and the government, any **obligations (including debt service) that have not been paid at the time** stipulated in the contracts, including any applicable grace period; (iii) tax credits confirmed by the proper authorities after review, and not paid within 90 days from the date when the payment order was issued; or (iv) wages and salaries and any payments to a government employee that were due to be paid in a given month but remained unpaid on the 30th day of the following month. Arrears exclude debt service **that the creditor has forgiven or rescheduled to a later date.**

10. **Social cash transfers** refer to cash **transfers** supporting vulnerable households that have a direct effect on reducing poverty, including those financed by international development partners. **Transfers related to cash for work, livelihood grants, and technical training** refer to cash transfers that support vulnerable households in livelihood and income-generating activities supported by the World Bank's Shock Responsive and Resilient Social Safety Net Project (PFSS-RR) in Comoros.

B. Quantitative Performance Criteria and Indicative Target

11. Unless otherwise stated, all quantitative targets (MEFP Text Table 1) will be assessed cumulatively from the beginning of the calendar year.

12. The **floor on tax revenue** is the tax portion of government domestic revenue described in paragraph 3. Thus, the sought-after increase in tax revenue specified in Text Table 1 of the MEFP will have to be realized entirely in the cash portion of domestic revenue.

13. The **floor on the domestic primary fiscal balance** (as defined in ¶5) will be adjusted as follows:

- The end-2023 floor on the domestic primary fiscal balance will be fully adjusted downward (i.e., more negative) for unexpected spending on COVID-19 vaccinations that is not financed by support for vaccinations from development partners such as the World Bank. It will be adjusted upward (i.e., less negative) for lower-than-expected spending from domestic resources on health support to the most vulnerable (KMF 800 million), the 2024 presidential election (KMF 800 million), or the AU presidency (KMF 1,000 million).

- The quarterly floor on the domestic primary fiscal balance will be adjusted upward (i.e., less negative) by one half of the amount by which domestic revenue (tax and non-tax) exceeds expectations. As a result, the authorities will be able to spend half of any excess revenue. For reference, domestic revenue in 2023 is projected to reach KMF 27,046 million, KMF 45,077 million, and KMF 60,102 million at end-June, end-September, and end-December 2023, respectively. For 2024, domestic revenue is projected to reach KMF 13,347.9 million, KMF 26,695.8 million, KMF 46,717.6 million, and KMF 66,739.4 million at end-March, end-June, end-September, and end-December, respectively.

- Given the definition of domestic revenue (¶3) the floor on the domestic primary fiscal balance will not be adjusted for unexpected changes in budget grants and loans. This implies that any additional budget support above expectations must be saved or used to reduce debt, while any shortfall in budget support would not require raising revenue or cutting spending to offset the lower budget support. Note that the previous bullet continues to apply even if budget support is lower than expected.

14. The **floor on net international reserves of the BCC** will not be adjusted for unexpected changes in budget grants and loans. The reason is that the current level of reserves is adequate, hence significant further accumulation is not needed, but their level should not fall below the floor of 6.8 months of imports that is assessed be adequate for Comoros.

15. The **ceiling on domestic arrears** applies to the net accumulation of domestic arrears from the beginning of the calendar year. This accumulation will be assessed by subtracting clearance of arrears incurred in the current year or earlier from gross accumulation of new arrears in the current year. The **ceiling on external arrears** applies continuously to the gross accumulation of new external arrears from the beginning of the calendar year. (In other words, there should be no new external arrears accumulated at any point in time) Starting from January 1, 2024, the program definition of new external arrears exclude debt to the Arab Bank for Economic Development in Africa (BADEA), for which an alternate creditor is being sought, and debt to Exim Bank India, which relates to a power plant project under dispute and for which the Comorian authorities are seeking solutions with the Indian government. These exclusions are made on a temporary basis for these specific loans that are under discussion/dispute. For reference, the net accumulation of domestic arrears up to the end of June 2023 is estimated at 860 million KMF, total external arrears at end-December 2022 stood at USD 7.2 million. This continuous performance criterion will be monitored continuously by the authorities and any nonobservance will be reported promptly to the Fund.

16. The floors on social cash transfers and transfers related to cash for work, livelihood grants, and technical training (as defined in ¶10) will be adjusted downward for shortfalls in the disbursements of World Bank grants for these projects. Similarly, they will be adjusted upward for disbursements above the projected amounts. For reference:

- The cumulative amount expected for social cash transfers at end-March 2024, end-June 2024, end-September 2024, and end-December 2024 is 571,920 U.S. dollars (or 264.7 million KMF at the program exchange rate defined in ¶1); in other words, final disbursements for this program are expected by end-March 2024.
- The cumulative amounts expected for transfers related to cash for work, livelihood grants, and technical training are as follows:

Text Table 1. Union of the Comoros: Disbursements by the World Bank for the PFSS-RR Transfers for Cash for Work, Livelihood Grants, and Technical Training
(Cumulative since start of the year)

	U.S. dollars	Millions KMF at the program exchange rate defined in ¶1
End-March 2024	1,365,671	632.0
End-June 2024	6,937,508	3,210.7
End-September 2024	8,469,874	3,919.9
End-December 2024	9,362,020	4,332.7

17. The ceiling on the contracting or guaranteeing of new non-concessional debt by the government or the BCC will be assessed continuously and excludes IMF credit. Normal short-term import and supplier credits (e.g., revolving credit lines) are also excluded, these being self-liquidating operations, because the sales of imports are used to repay the debt. Debt being rescheduled or restructured is excluded from this ceiling to the extent that such non-concessional debt is used for debt management operations that improve the overall public debt profile. A debt is considered contracted on the signature date of the contract. This continuous performance criterion will be monitored continuously by the authorities and any nonobservance will be reported promptly to the Fund.

18. Standard continuous performance criteria include prohibitions on (1) the imposition or intensification of restrictions on making of payments and transfers for current international transactions; (2) the introduction or modification of multiple currency practices; (3) the conclusion of bilateral payments agreements that is inconsistent with Article VIII; and (4) the imposition or intensification of import restrictions for balance of payments reasons.

C. Reporting Requirements

19. The authorities will report to Fund staff the information and data in the form mutually agreed with the reporting agency and the frequency described in the table below. The authorities will transmit promptly to Fund staff any data revisions and consult Fund staff regarding any and all information or data not specifically addressed in this TMU but necessary for monitoring the program.

Table 2. Union of the Comoros: Periodic Data Required for the Extended Credit Facility

	Real Sector		
Agency	**Data**	**Frequency**	**Deadline**
INSEED	Consumer Price Index.	Monthly	1 month
INSEED	National accounts, including GDP deflator (historical data and projections).	Annually	9 months
INSEED/BCC	Economic bulletin / note, including data in Excel file.	Quarterly	3 months
SONELEC/INSEED	Electricity production and consumption.	Quarterly	1 month
SONOLEC	Financial statement	Annually	3 months
SCH	Financial statement	Annually	3 months
ONICOR	Financial statement	Annually	3 months
	Monetary Sector		
Agency	**Data**	**Frequency**	**Deadline**
BCC	Monetary statistics, government net position, BCC accounts and consolidated accounts of other depository corporations, and reserve position.	Monthly	45 days
CREF	TOFE (including a file detailing social spending: education, health, support for the most vulnerable)	Quarterly	3 months
Treasury	Treasury cash flows	Monthly	2 weeks

Table 2. Union of the Comoros: Periodic Data Required for the Extended Credit Facility (concluded)

Agency	Data	Frequency	Deadline
Fiscal Sector			
Agency	**Data**	**Frequency**	**Deadline**
Debt Directorate	Monitoring of public debt (contracted debt, disbursed debt, interest payments, principal repayment) due to external creditors and domestic financial institutions.	Quarterly	1 month
Debt Directorate	External debt arrears	As soon as incurred	As soon as incurred
Debt Directorate	Debt arrears with domestic financial institutions.	Monthly	1 month
Debt Directorate	Debt bulletin	Quarterly	3 months
Customs	Imports in detail (volume, value and corresponding revenue for each tax and duty)	Monthly	1 month
Customs	Exports in detail (volume, value and corresponding revenue for each tax and duty)	Monthly	1 month
General Planning Commission (CGP)/CREF	Monitoring of projects by donor, specifying the terms of project financing (loans or grants) and their nature (investment or current expenditure)	Quarterly	45 days
External Sector			
Agency	**Data**	**Frequency**	**Deadline**
BCC	Imports including all petroleum products (volume, value)	Quarterly	2 months
BCC	Exports (volume, value)	Quarterly	2 months
BCC	Balance of payments	Annually	4 months
BCC/Banking supervision	Financial soundness indicators of the banking system	Quarterly	1 month
BCC/ Banking supervision/ Banking Resolution	Monitoring reports of SNPSF, BDC and BFC	Quarterly	1 month

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

December 1, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND MODIFICATIONS OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By The African Department (in consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of October 31, 2023)

Membership Status: Joined: September 21, 1976

General Resources Account	SDR Million	%Quota
Quota	17.80	100.00
IMF's Holdings of Currency (Holdings Rate)	21.33	119.83
Reserve Tranche Position	3.14	17.66

SDR Department	SDR Million	%Allocation
Net cumulative allocation	25.56	100.00
Holdings	12.23	47.85

Outstanding Purchases and Loans:	SDR Million	%Quota
RCF Loans	5.95	33.40
Emergency Assistance[1]	6.67	37.46
ECF Arrangement	3.72	20.88

Latest Financial Commitments

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jun. 01, 2023	May 31, 2027	32.04	3.56
ECF [2]	Sep. 21, 2009	Dec. 23, 2013	13.57	13.57
SAF	Jun. 21, 1991	Jun. 20, 1994	3.15	2.25

Outright Loans

Type[3]	Date of Commitments	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Apr. 22, 2020	Apr. 24, 2020	2.97	2.97
RFI	Apr. 22, 2020	Apr. 24, 2020	5.93	5.93
RCF	Jul. 24, 2019	Aug. 01, 2019	2.97	2.97

[1] Emergency Assistance may include ENDA, EPCA, and RFI.

[2] Formerly PRGF.

[3] Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e. Board approval date.

Overdue Obligations and Projected Payments to Fund (SDR Million; based on existing use of resources and present holdings of SDRs)[4]

	Forthcoming				
	2023	**2024**	**2025**	**2026**	**2027**
Principal	0.16	5.19	2.37	1.19	1.19
Charges/ Interest	0.24	0.79	0.59	0.56	0.56
Total	0.40	5.97	2.96	1.75	1.75

Implementation of HIPC Initiative	
Commitment of HIPC assistance	
Decision point date	July 2010
Assistance committed	
by all creditors (US$ Million) [5]	144.80
Of which: IMF assistance (US$ million)	4.27
(SDR equivalent in millions)	2.89
Completion point date	December 2012
Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	2.89
Interim assistance	-
Completion point balance	2.89
Additional disbursement of interest income [6]	0.07
Total disbursements	**2.97**

Implementation of Multilateral Debt Relief Initiative (MDRI)

Not applicable

[4] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

[5] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[6] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR Million)	Amount Disbursed (SDR Million)
N/A	Apr. 13, 2020	0.97	0.97
N/A	Oct. 02, 2020	0.81	0.81
N/A	Apr. 01, 2020	0.65	0.65
N/A	Oct. 06, 2020	0.64	0.64
N/A	Dec. 15, 2020	0.02	0.02

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessments

An update safeguards assessment for Comoros was completed in October 2023. The assessment found that the Banque Centrale des Comores (BCC) has enhanced its transparency with the adoption of the International Financial Reporting Standards (IFRS) and is drafting amendments to the central bank legal framework, in consultation with IMF staff to strengthen its autonomy. Major modernization initiatives related to IT systems, human resources, and lending operations at the BCC are also in progress. A new external auditor was recently appointed in line with the BCC external audit selection policy. Progress in internal audit remains limited due to capacity challenges which permeate across other functions and the BCC will continue to need external technical assistance to address the challenges. Staff also advised the BCC to work with the Ministry of Finance to establish a repayment plan for the long-term loan that the BCC extended to the government in connection with the SDR allocation; the repayment plan should balance the government's limited resources and repayment capacity with the need to mitigate risks to the BCC's balance sheet from this operation.

Exchange Rate Arrangement

The currency of Comoros is the Comorian franc, which is pegged to the Euro at €1 = CF 491.97. The de facto and de jure exchange rate arrangements are classified as "conventional peg. Comoros has accepted the obligations of Article VIII, Sections 2(a), 3, and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultations

Comoros is currently on the standard 24-month cycle for Article IV consultations for program countries. The last Article IV consultation was concluded on March 18, 2020

Resident Representative

Rima A. Turk, since April 2023

Table 1. Comoros: Fund Technical Assistance

Department	Date	Subject
AFS	20-Jan	Customs regional seminar on data analysis
FAD	20-Feb	Improving the management and governance of SOEs
AFS	20-Jul	Large taxpayers office's audit capacity
FAD, AFS	20-Sep	Financial management of COVID-19 related operations
AFS	20-Sep	Customs risk-based compliance management program
AFS	20-Oct	Tax arrears collection
AFS	20-Nov	Tax administration information system management
AFS	20-Nov	Tax administration database (ISORA)
AFS	20-Dec	Customs management and control of excise duties on oil products
AFS	21-Jan	Taxpayer registration
AFS	21-Mar	Customs regional seminar on business continuity and recovery plan
FAD	21-Apr	Tax administration reforms
AFS, LEG	21-Apr	Customs regulatory framework of new customs clearance procedures
AFS	21-Apr	Customs regional seminar on leadership and management development
FAD, AFS	21-May	PFM organic Law on State Finances (LOFE)
AFS	21-Jun	Tax compliance improvement plan
FAD	21-Jun	Tax Policy: towards a simple and efficient tax system
AFS	21-Jun	Customs goods valuation
FAD, AFS	21-Jun	PFM organic Law on State Finances (LOFE)
AFS	21-Sep	Customs risk-based compliance management program
AFS	21-Sep	Taxpayer registration
FAD	21-Sep	Customs management and control of exemptions
AFS	21-Oct	Treasury Single Account (TSA)
AFS	21-Nov	Tax administration database (ISORA)
FAD, AFS	22-Jan	Wage bill management
AFS	22-Jan	Tax compliance improvement plan
FAD	22-Jan	Customs risks analysis, offences central database and key performance indicators
AFS	22-Feb	Tax administration information system management
AFS, LEG	22-Feb	Customs regulatory framework of new customs clearance procedure
FAD	22-Apr	State’s financial operations and SOEs' oversight
AFS	22-Apr	Customs post-clearance audit
MCM	22-Apr	Supervision Reform - Prudential Reporting
MCM	22-Apr	Basel II/III Reform Implementation - Regulation Development
MCM	22-Apr	Local Currency Bond Markets (LCBM)
MCM	22-Apr	Liquidity Management, Collateral and ELA Frameworks

Table 1. Comoros: Fund Technical Assistance (concluded)

Department	Date	Subject
FAD	22-Jul	State's financial operations and SOEs' oversight
AFS	22-Jul	Customs goods valuation
MCM	22-Jul	Monetary Policy Implementation Follow Up
FAD	22-Aug	Customs clearance procedures standard operations plan
FAD	22-Sep	Tax administration reforms
FAD	22-Oct	State's financial operations and SOEs' oversight
FAD	22-Oct	Customs' administration reforms
AFS, LEG	22-Nov	Customs regulatory framework of control of excise duties on oil products
AFS	22-Dec	Treasury Single Account (TSA)
AFS	22-Dec	Budget preparation and execution user's guide
AFS	22-Dec	Tax administration organizational arrangement
MCM	22-Dec	Collateral/ELA
FAD, AFS	23-Jan	SOEs supervision and fiscal risks
AFS, LEG	23-Jan	Customs regulatory framework of new customs clearance procedures
FAD, AFS	23-Feb	Customs risk-based compliance management program
FAD, STA	23-Apr	Table of Statement of Financial Operations (TOFE) and public finance statistics (GFS)
STA	23-May	National Accounts Rebasing
MCM, AFS	23-May	Government Securities Issuance Follow-Up
FAD	23-Jun	Management of customs offences and control of exemptions
FAD	23-Jun	Public enterprises legal framework
FAD	23-Jun	Customs clearance procedures, special regimes and exemptions controls
MCM	23-Jun	Basel II/II Reform Implementation - Regulation and guideline reform
AFS, LEG	23-Jul	Customs regulatory framework of control of excise duties on oil products
MCM	23-Aug	Monetary Policy Implementation
AFS	23-Sep	General account of financial information (CGAF)
FAD	23-Sep	Tax administration strategic reform plan and Large and medium taxpayers office
MCM, AFS	23-Sep	Basel II/II Reform Implementation - Regulation and guideline reform
STA	23-Sep	National Accounts Rebasing
AFS	23-Oct	Customs risk-based compliance management program
FAD	23-Nov	SOEs governance and legal framework

WORK PROGRAM WITH PARTNER INSTITUTIONS

1. The Fund and partner institutions collaborate closely. Staff from the World Bank and other development institutions regularly participate in IMF missions. The World Bank's analyses and advice on growth-enhancing structural reforms, including those related to poverty reduction, health, education, and energy, informs the Fund's recommendations. The Fund coordinates its capacity building and technical assistance with development partners, with whom the Fund holds regular meetings in Moroni.

2. The World Bank work program can be found on the following website: https://www.worldbank.org/en/country/comoros

3. The African Development Bank work program can be found on the following website: https://www.afdb.org/en/countries/east-africa/comoros

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General:. Data provision across all sectors—real, fiscal, external, and financial—has serious shortcomings that significantly hamper surveillance. Recent Fund-supported capacity development has aimed to improve these severe capacity constraints largely around national accounts and price, fiscal and external sector statistics. The capacity development strategy will continue to strengthen these areas to improve the quality of data.
National accounts. The national statistical office lacks adequate financial resources, staff capacity, and institutional environment. There is no capacity to produce quarterly estimates. Recent TA missions have focused on the rebasing of national accounts. Lack of institutional arrangements to produce official statistics on agriculture still hinders the quality of national accounts. The mission recommended that the national statistical office collect business data yearly. **Consumer prices**. Comoros adopted the Common Market for Eastern and Southern Africa (COMESA) Harmonized Consumer Price Index (HCPI) as its national consumer price index (CPI) from January 2017. The results are of superior quality to those produced with the previous methodology. The base year is 2011, and the expenditure weights are based on the 2014 household survey results. A mission in February 2019 addressed issues of duplication, misclassification, and seasonality; and assisted in the compilation of an improved consumer price index (CPI) series from August 2012 to December 2018 with the base year 2011. Follow-up missions in February 2023 have been provided to update the consumer basket and update questionnaires for collecting price data.
Government finance statistics. Although fiscal statistics currently compiled only include the Union and the three autonomous Islands, they represent a significant share of general government operations in the Comoros. Fiscal statistics compiled are aggregated for the Union and the Islands into a "Tableau des Operations Financières de l'Etat" (TOFE) in a presentation broadly aligned to the analytical framework of the *Government Finance Statistics Manual (GFSM) 1986*. The data suffers from comprehensiveness and accuracy issues as the source data used for compilation of the TOFE are scattered and not from the Union or Islands' general ledgers (Balance Générale des Comptes du Trésor). No data are compiled on stock positions of financial assets and liabilities, although some information is available for the Union. Further improvements to data quality, and compilation of fiscal statistics consistent with the latest methodological standards, the *GFSM 2014,* requires strengthening the legal and institutional frameworks in support of GFS compilation.
Monetary and financial statistics. The Central Bank of Comoros (BCC) produces adequate monetary statistics on its own accounts, for the commercial banks, the development bank, the deposits collected by the Société nationale des postes et des services financiers (chèques postaux and saving passbooks), and for two microfinance networks. The Franc Zone arrangement has established accounting and prudential standards that prevent data disruptions. A major shortcoming is the absence of data on the large amount of Euro cash in circulation, handicapping surveillance. In June 2009, the BCC started reporting monetary and financial statistics to the IMF using Standardized Report Forms (SRFs). The current presentation and content of monetary statistics accords largely with the methodology in the IMF's Monetary and Financial Statistics Manual 2000.

External sector statistics. Despite technical assistance and some improvements over the past few years, shortcomings in coverage, data sources, compilation and dissemination continue to affect accuracy and reliability. An STA-panned external sector/BOP capacity development mission scheduled for early 2024 will be beneficial to improving capacity challenges. Annual balance of payments data are published in BOPSY. However, data on international investment position (IIP) are not compiled and external debt statistics are not reported to the World Bank's Quarterly External Sector Database (QEDS).

II. Data Standards and Quality

Comoros has participated in the enhanced General Data Dissemination System (eGDDS) since February 2013 and disseminates metadata for 11 of the 15 recommended data categories, as well as one supplementary category (industrial production index).	No data ROSC is available.

III. Reporting to STA

National accounts: Comoros is not reporting any national accounts data to STA.

Consumer prices: In July 2015 Comoros delivered to STA a set of monthly consumer price indexes covering period January 2000 – October 2014. Since then, no further reporting has been made.

Government finance statistics: There is no regular compilation and dissemination of fiscal data (TOFE). No GFS data are reported to GFSY or IFS. Data are compiled on GFSM 1986 / TOFE basis, only when it is requested by the African Department; this data is incomplete (both transactional and institutional coverage) and thus data do not accurately reflect the fiscal position.

Monetary and financial statistics: The Central bank of Comoros (CBO) compiles monetary statistics for the central bank and other depository corporations (ODCs) using the standardized report forms (SRFs), which are published in the International Financial Statistics (IFS). The CBO does not compile the SRFs for the other financial corporations.

Financial Soundness Indicators: Comoros compiles eleven of the twelve core Financial Soundness Indicators for deposit takers. Reporting to the Statistics Department of the IMF is irregular. The latest reported data refers to end-June 2021.

External sector statistics: Only annual BOP data are reported to STA. Data on IIP and External Debt are not reported.

Comoros: Table of Common Indicators Required for Surveillance
(As of November 9, 2023)

	Date of Latest Observation (mm/yy)	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Sep. 2023	Oct. 2023	I	I	I
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep. 2023	Nov. 2023	M	M	M
Reserve/Base Money	Sep. 2023	Nov. 2023	M	M	M
Broad Money	Sep. 2023	Nov. 2023	M	M	M
Central Bank Balance Sheet	Oct. 2023	Nov. 2023	M	M	M
Consolidated Balance Sheet of the Banking System	Sep. 2023	Nov. 2023	M	M	M
Interest Rates[2]	Sep. 2023	Nov. 2023	M	M	M
Consumer Price Index	Aug. 2023	Oct. 2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	June 2023	August 2023	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	June 2023	August 2023	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 21	Dec. 2022	I	I	I
External Current Account Balance	Dec. 21	Dec. 2022	I	I	I
Exports and Imports of Goods and Services	Dec. 21	Dec. 2022	I	I	I
GDP/GNP	2021	Oct. 2023	A	A	A
Gross External Debt	2021	Dec. 2022	I	I	I
International Investment Position[6]	NA	NA	NA	NA	NA

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise
short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

December 1, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND MODIFICATIONS OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

Approved By
Costas Christou and S. Jay Peiris (IMF); Manuela Francisco and Hassan Zaman (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

Risk of external debt distress	*High*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgement	*No*

Comoros external and overall debt are sustainable including in the medium term but remain at high risk of debt distress[1]*. Three of the four external debt burden indicators continue to breach their respective thresholds under the baseline. However, mild improvements in fiscal balances from higher-than-expected revenues in 2023H1 as well as the lower-than-anticipated financing needs over 2023-25 have led to improvements in the external debt burden and liquidity indicators compared to the DSA of the ECF request (May 2023). Factors that mitigate the mechanical risk signals include the authorities' reform plans supported by the IMF's Extended Credit Facility (ECF) and the World Bank's Development Policy Operations (DPOs), as well as the consistently strong performance of remittances, which supports external sustainability. This overall assessment is contingent on: (i) progress on domestic resource mobilization and gradual but sustained fiscal consolidation over the medium term, (ii) no additional non-concessional borrowing, and (iii) enhanced financial oversight of SOEs. The DSA suggests that Comoros' external debt is susceptible to export and contingent liability shocks.*

[1] Comoros' debt carrying capacity is assessed as medium, given a Composite Indicator of 2.82 based on October 2023 WEO projections and the 2022 Country Policy and Institutional Assessment (CPIA) rating.

PUBLIC DEBT COVERAGE

1. **Public debt coverage includes all financing from the central bank to the Treasury.** The coverage of external debt includes the entire public sector, namely external debt of the central government, the central bank borrowing on behalf of the government, and government-guaranteed debt of SOEs. Subnational government entities cannot take up external debt on their own, and they have not taken on domestic debt. SOEs cannot access the external debt market without a government guarantee. Domestic debt includes central government, SOE's guaranteed debt from domestic banks, and on-lending from the Central Bank of Comoros (BCC) to the government, including statutory advances and loans connected to the IMF SDR allocation.

Text Table 1. Union of the Comoros: Public Debt Coverage

	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)	X
8	Non-guaranteed SOE debt	

Sources: Comorian authorities, and IMF staff

Text Table 2. Union of the Comoros: Coverage of the Contingent Liabilities Stress Test

1	The country's coverage of public debt	The central government, central bank, 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	4.5	Reflects unaudited estimates of domestic arrears.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	3	SOEs growing debt
4	PPP	35 percent of PPP stock	0	
5	Financial market (the default value of 5 percent of GDP is the minimur	5 percent of GDP	5	
Total (2+3+4+5) (in percent of GDP)			12.5	

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: Comorian authorities, and IMF staff

2. **Contingent liabilities have built up significantly and the likelihood of their materialization is growing.** The magnitude of the contingent liabilities shock is 12.5 percent of GDP reflecting: (i) preliminary outcomes of an ongoing audit pointing to a higher-than-expected level of domestic arrears[1] and (ii) difficulties encountered by the SOEs involved in importing food and oil in rolling over their trade loans in 2022 following the deterioration of their cash flows due to higher commodity prices (1 percent of GDP added to the default 2 percent of GDP to capture unknown cross-debts of SOEs), and (iii) the average cost to the government of a financial crisis in low-income countries since 1980—5 percent of GDP also captures about 1/3 of banking sector assets in Comoros (Text Table 2).

[1] These domestic arrears represent unpaid bills for goods and services and are included as contingent liabilities as the figures are still preliminary. It includes arrears from the treasury to the pension system. Audit of domestic arrears are ongoing. Once completed, an arrears clearance strategy will be identified.

BACKGROUND

A. Recent Debt Developments

3. **Public debt ratio has been on an upward trend, rising from 30.6 percent of GDP in 2021 to 34.0 in 2022.** External public debt, which constitutes around 80 percent of total public debt, reached 27.3 percent of GDP in 2022 and is expected to rise further to 32.5 percent of GDP by end-2023, up from 20.4 percent of GDP prior to the pandemic. Domestic public debt jumped from 5.2 percent of GDP in 2021 to 6.8 percent of GDP in 2022, reflecting the BCC's lending to the government in connection to the SDR allocation and a higher uptake of publicly guaranteed domestic debt by the SOEs involved in food and energy supply. Recent stabilization of commodity prices during 2023 has reduced losses at key SOEs; as such, domestic debt is expected to decline to 6 percent of GDP (vs. 7.2 percent projected in the previous DSA).[2] The authorities have made progress in public debt management with the promulgation of a debt management law which is a FY23 public policy action (PPA) of the sustainable development policy financing (SDFP), and a prior action under the World Bank's DPO approved on September 29, 2023.

4. **The composition of external public debt is dominated by non-Paris Club lenders, and especially China.** At end-2022, disbursed debt owed to official bilateral creditors accounted for 61 percent of public external debt, debt to multilateral creditors for 19 percent, and debt to regional lenders for 20 percent. The share of non-concessional debt stood at 10 percent of external debt at end-2022 and is expected to grow in the next few years as the non-concessional loan for the construction of the Galawa Hotel is disbursed.

5. **External arrears would increase from USD7.2 million at the end-2022 to 8.2 million at end-2023 (0.6 percent of the GDP).[3]** A large part of the outstanding stock is accounted for by the loan from the Arab Bank for Economic Development in Africa (BADEA), for which the authorities are seeking an arrears clearance strategy. The authorities have an arrears clearance agreement with Bpifrance Assurance Export, covering a partial amount (USD 0.18 million), while negotiations are underway for the remaining amount (USD 0.6 million). Discussions are also ongoing for the arrears to Exim Bank India which concern a disputed power plant project.

6. **The authorities are mobilizing concessional loans for the construction of the El Maarouf Hospital**. The latest estimated cost to complete the hospital has been lowered from USD 70 million to USD 55 million, which is included in this baseline.

---

[2] Domestic debt to SOEs decreased by 8 percent (q/q) in June 2023.

[3] Projections of debt service payments to clear the arrears are included in macroeconomic assumptions underlying this exercise. The arrears represent an amount lower than 1 of GDP and hence do not trigger an in-debt distress rating on a de minimis basis.

B. Macroeconomic Forecasts

7. The current DSA baseline reflects the latest macroeconomic developments and an active policy scenario under the ECF. It assumes a moderate fiscal consolidation driven mainly by a higher tax revenue following reforms in tax and customs administrations. It also reflects gradual improvements in the external situation due to the normalization of oil and other commodities prices:

- Growth is projected to rise to 3.0 percent in 2023 and then to an average of 4.1 percent in 2024-28, driven by large investment projects, including hospital expansion, the construction of a hotel complex, and the refurbishment of roads, while remittances are expected to decline from their earlier record levels during the COVID-19 pandemic amid lower growth in the eurozone, albeit remaining strong. In the long run, the boosting effect of those investment projects will dissipate, and growth will come back to an average of 3.8 percent. The growth path is similar to the one underlying the DSA for the ECF request; the impact on growth of the fiscal consolidation programmed under the ECF is expected to be muted due to the relatively small size of the public sector, the households' reliance on remittances, and the significant contribution of external grants to investment. Moreover, reforms under the DPOs and the ECF are expected to have a long-lasting effect while helping catalyze support from other development partners. The long-term growth projections are driven by a projected gradual increase in productivity and private capital accumulation as the country is projected to benefit from the completion of transport and energy projects, while financial intermediation is projected to improve and support private investment.

- Inflation will fall from an average of 12.4 percent in 2022 to 9.2 percent in 2023 (vs. 10.3 percent projected at the ECF request). After 2023, inflation will gradually stabilize at around 2 percent reflecting the peg of the exchange rate to the Euro.

- The fiscal sector assumptions reflect the policy adjustment scenario under the ECF program during 2023-27 built on the following:

    - An average increase in tax revenue of 0.3 percent of GDP per year from 2023 to 2027. Improvements will stem mainly from tax administration reforms aiming to raise the number of taxpayers, strengthen the use of the IT system, improve tax recovery from the SOEs and recover unpaid taxes. From the tax policy side, the authorities recently reintroduced the sales tax on construction material especially cement and end one-time subsidies and tax exemption introduced in 2022 as commodity prices stabilize.

    - The paring back of transfers and subsidies introduced in 2021-22 to mitigate the effects of the recent shocks, containing current spending while phasing out some one-offs (e.g., domestic outlays on the AU presidency and spending on elections); and reducing investment spending to pre-pandemic levels following the completion of some significant projects particularly El Maarouf Hospital.

- The domestic primary deficit is expected to improve from 1.9 percent of GDP in 2022 to 1.8 percent in 2023 and narrow further to 1.4 percent in 2024 reflecting the path of public investment spending, with fiscal consolidation (on domestic primary balance basis) during 2024-27 averaging 0.4 percent of GDP per year.

- Between 2023-2027, the overall fiscal consolidation is equivalent to 3 percent of GDP. It essentially reflects an increase in domestic revenue (1.3 percent) and a drop in domestic investment (2.4 percent). The rest stems from containing one-off current spending. The fiscal financing gap starting in 2023 mainly reflects the cost of the postal bank recapitalization, investments in the El Maarouf Hospital, and increased debt service obligations and lower revenues from key state-owned enterprises that need to recoup their earlier losses. Under the ECF, the gaps are expected to be filled by grants and concessional loans (see below). Outstanding arrears to external creditors of USD 8.2 million are assumed to be cleared over time. The long-term primary fiscal deficits are expected to average around 0.2 percent of GDP between 2033-2043, as fiscal adjustments and the mobilization of grant financing under the ECF reduce fiscal financing needs over the medium term and fiscal structural reforms sustainably increase revenues.

Text Table 3. Union of the Comoros: Factors Underpinning Fiscal Consolidation, 2023-27

Total revenues	-0.3
Domestic revenue	1.3
Tax administration	0.8
Customs Administration	0.4
Grants	-1.6
Primary Spending	-3.4
Transfers	-0.9
Investments	-2.4
Change in Primary deficit	-3.1

Sources: Comorian authorities, and IMF staff

- The external sector assumption worsened moderately compared to the DSA at the ECF request, reflecting strong imports. The external current account deficit is expected to be around 5.8 percent of GDP in 2023 (vs. 5.0 percent projected at the ECF request) before gradually declining to 5.3 percent in 2025. Exports of goods are projected to continue recovering while tourism has already been recording a stronger performance compared to pre-COVID-19 levels. Comoros would benefit from the projected increase in exports of tourism services as the quality of lodging services improves and the destination becomes more attractive with the implementation of the tourism sector strategy. Imports jumped to a high level amid soaring prices as a result of the war in Ukraine and will continue to be spurred by substantial public investment in 2023-24. Remittance inflows are expected to remain strong despite the correction from the COVID-19 levels, given the expected continued importance of the Comorian diaspora. With sustained import growth and increased interest payments from previously contracted non-concessional debt, the current account deficit is projected to remain at around 5½ percent of GDP over the next two years before settling at around 3.3 percent of GDP on average over the long term. Foreign exchange reserves coverage is projected to improve over the horizon while the fiscal financing gap translates into an external financing gap of the same size as the government faces tight domestic and external borrowing constraints.

8. **This DSA assumes that the authorities will adopt a prudent borrowing strategy.** The assumption is that the government mobilizes mostly external financing, with an average borrowing mix of 95 percent for external borrowing over the projected horizon.

- **Foreign financing**: Staff assumes that disbursement from already contracted loans will continue over the coming years in line with the authorities' plans. IDA financing, including through investment projects, is projected at USD 20.4 million per year on average during the period 2023-2026. The baseline includes around USD 50 million from AfDB, USD 12.8 million from Saudi Arabia over 3 years, and the Galawa Hotel loan. The baseline also includes around USD 20 from the ISDB for the financing of the El Maarouf Hospital with the remaining financing expected from other multilateral partners over the medium-term. For the purposes of this DSA, staff further assumes that the fiscal financing gap during 2023-26 would be filled with grants and concessional loans. These assumptions reflect financing under the ECF and DPO programs, which catalyzes multilateral and bilateral partners' financing, as well as Comoros' commitment to limiting non-concessional borrowing under the ECF and as a PPA under the SDFP.[4] The average grant element of new borrowing is 49.1 percent.

Text Table 4. Union of the Comoros: Summary Table of Projected External Borrowing Program

PPG external debt	2023		2024		2025		2026	
	USD million	Percent	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	**116.7**	**100**	**79.2**	**100.0**	**81.0**	**100.0**	**65.4**	**100**
Concessional debt, of which	**64.1**	**54.9**	**69.7**	**88.0**	**71.5**	**88.3**	**55.9**	**85.5**
Multilateral debt	59.8	51.3	47.9	60.5	36.5	45.1	5.9	9.0
Bilateral debt	4.3	3.6	9.4	11.8	9.3	11.5	5.1	7.8
Other	0.0	0.0	12.5	15.8	25.7	31.7	44.9	68.7
Non-concessional debt, of which	**52.6**	**45.1**	**9.5**	**12.0**	**9.5**	**11.7**	**9.5**	**14.5**
Semi-concessional[1]	9.5	8.1	9.5	12.0	9.5	11.7	9.5	14.5
Commercial terms	43.1	36.9	0.0	0.0	0.0	0.0	0.0	0.0
By Creditor Type	**116.7**	**100.0**	**79.2**	**100.0**	**81.0**	**100.0**	**65.4**	**100.0**
Multilateral debt	69.3	59.4	57.4	72.4	46.0	56.8	15.4	23.5
Bilateral debt	4.3	3.6	9.4	11.8	9.3	11.5	5.1	7.8
Commercial terms	43.1	36.9	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	12.5	15.8	25.7	31.7	44.9	68.7
		0.0		0.0		0.0		0.0
Uses of debt financing	**116.7**	**100.0**	**79.2**	**100.0**	**81.0**	**100.0**	**65.4**	**100.0**
Infrastructure	64.1	54.9	57.2	72.3	45.8	56.6	34.1	52.1
Budget Financing	9.5	8.1	9.5	12.0	9.5	11.7	9.5	14.5
Other	43.1	36.9	12.5	15.8	25.7	31.7	21.8	33.4

1/ Projected ECF disbursements

- **Domestic financing:** the increase of the domestic financing in 2023 reflects mainly disbursement in 2023 for ONICOR, the SOE in charge of the rice import. However, since the overall financial situation of the SOEs, altogether generally improved, the domestic debt trajectory, declines from an average (2023-2028) 6.3 percent of GDP (in the previous DSA) to 5.0 percent of GDP. Overall, domestic borrowing in this DSA reflects the rollover of SOE debt, which is assumed as medium-term debt at an average nominal interest rate of 6 percent.

[4] The ECF access is proposed at 180 percent of quota (SDR 32.04 million) disbursed over four years. The 2023 DPO is USD 20 million.

Text Table 5. Union of the Comoros: Assumptions for DSA

	2020	2021 Prel.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	Long Term[1]
GDP Growth Rate (percent)										
Previous DSA	-0.2	2.1	2.6	3.0	3.5	4.0	4.3	4.5	4.3	3.8
Current DSA	-0.2	2.0	2.6	3.0	3.5	4.0	4.3	4.5	4.3	3.8
Inflation, average (percent)										
Previous DSA	0.8	0.0	12.4	10.3	2.0	2.1	2.0	1.9	1.9	1.9
Current DSA	0.8	0.0	12.4	9.2	2.2	2.3	2.2	1.9	1.9	1.9
Government Revenues (percent of GDP)										
Previous DSA	9.2	10.3	9.8	9.7	9.9	10.3	10.7	11.0	11.3	13.6
Current DSA	9.2	10.4	9.9	10.3	10.4	10.9	11.2	11.6	11.8	13.9
Overall Fiscal Balance (percent of GDP)										
Previous DSA	-1.4	-3.4	-1.9	-2.4	-1.8	-1.1	-0.2	0.0	-0.1	0.0
Current DSA	-1.4	-3.4	-1.9	-1.8	-1.4	-0.2	-0.2	-0.1	-0.1	0.0
FDI (percent of GDP)										
Previous DSA	0.3	0.3	0.4	0.4	0.5	0.6	0.6	0.6	0.6	0.6
Current DSA	0.3	0.3	0.3	0.4	0.5	0.6	0.6	0.6	0.6	0.6
Current Account Deficit (Percent of GDP)										
Previous DSA	-1.9	-0.5	-2.4	-5.0	-5.1	-4.5	-4.5	-4.3	-4.3	-4.3
Current DSA	-1.8	-0.3	-0.5	-5.8	-5.7	-5.3	-5.5	-5.2	-4.4	-3.7
Export of Goods and Services (annual percentage growth)										
Previous DSA	-48.3	62.4	76.7	-20.0	8.2	8.7	9.1	13.2	8.3	6.5
Current DSA	-44.7	58.7	73.7	-28.8	3.7	7.8	8.7	11.8	10.2	7.5
Import of Goods and Services (annual percentage growth)										
Previous DSA	-2.5	2.4	16.6	17.4	4.5	3.8	6.7	6.7	6.3	6.8
Current DSA	-2.5	2.4	20.3	11.9	3.1	3.0	8.5	6.8	6.7	6.4
Investment (percent of GDP)										
Previous DSA	15.6	15.7	16.7	17.3	17.6	17.7	17.9	18.0	18.1	18.7
Current DSA	15.6	15.9	16.9	17.5	17.8	17.9	18.1	18.2	18.3	18.9
Net Current transfers (percent of GDP)										
Previous DSA	20.2	21.6	21.3	20.4	18.6	18.3	17.6	17.0	16.5	15.1
Current DSA	20.2	21.8	24.7	19.7	19.0	17.1	16.4	16.2	16.5	15.1

1 Covers the period 2029-42 for current DSA, and 2029-41 for the previous DSA.

Source: IMF staff

9. Realism tools do not flag issues (Figures 3 and 4). The 3-year adjustment in the primary balance puts Comoros in the mid-range of adjustments seen in other LIC program countries. The projected GDP growth in 2023 is compatible with a range of plausible fiscal multipliers. The growth forecast for 2024 exceeds the fiscal multiplier expectation due to positive spillover effects from the ECF program's structural reforms and the anticipated recovery in global demand conditions which is expected to boost exports. The projected contribution of government investment over the medium term is in line with historical experience. The projected contribution from the other factors reflects the recovery from the multiple successive shocks during 2019-22, and the gradual increase in private sector and export activities, reflecting improvements in the business climate due to reforms under the ECF. The residual shown in the public debt dynamics for 2023 (Table 3) captures the higher uptake of commercial bank loans by SOEs and the Galawa loan.[5] Similarly, most of the medium-term decline in debt is explained by the residual that captures repayments of the Galawa hotel loan as well as the Comores Telecom loan. Most of the unexpected changes in the public debt ratio over the past five years reflected the expansion in the debt coverage. Trends in debt indicators under the historical scenarios (both for public external and overall public debt) mimic those of the baseline scenario providing credibility to the baseline macroeconomic scenario.

C. Country Classification and Determination of Stress Test Scenarios

10. Comoros is assessed to have medium debt carrying capacity, unchanged from the May 2023 DSA (Text Table 6), with a Composite Indicator (CI) of 2.82 based on October 2023 WEO

[5] The Galawa loan is a balance of payment transaction and therefore not captured by the primary deficit variable in Table 3.

projections and the 2022 Country Policy and Institutional Assessment (CPIA) rating. As a result, this DSA continues to use the same external debt burden thresholds and total public benchmarks for countries with medium debt carrying capacity (Text Table 6). The relevant thresholds indicating high risk 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. These thresholds are applicable to public and publicly guaranteed external debt. For the PV of total public debt-to-GDP ratio, the benchmark is 55 percent.

11. Standardized stress tests use default settings. In addition, Comoros qualifies for the natural disaster scenario given that it is exposed and vulnerable to natural disaster shocks, such as cyclones and eruptions of the Karthala volcano. The tailored stress test assumes a one-off natural disaster shock of 10 percent of GDP to external PPG debt-GDP ratio in the second year of the projection period. The financing cost of all shocks is set to the default values of the models.

Text Table 6. Union of the Comoros: Calculation and Contribution of the CI Score Components

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 2.82	Medium 2.83	Medium 2.85

Applicable Thresholds

External debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

Total public debt benchmark	
PV of total public debt in percent of GDP	55

Source: LIC DSF

DEBT SUSTAINABILITY

A. External Debt Sustainability

12. Three out of four external debt burden indicators breach their respective thresholds under the baseline macroeconomic assumptions underlying this exercise (Figure 1). As in the DSA for the ECF request, breaches are temporary and not of significant importance. Compared with the ECF request DSA, the breaches are smaller reflecting the reduced financing needs from the stronger-than-expected fiscal consolidation and the lower estimated cost of completing the El Maarouf Hospital construction. Results of the external debt sustainability assessment can be summarized as follows:

- The PV of external debt-to-GDP ratio is still below the threshold and is expected to decline along the same trajectory of the ECF request DSA. Similarly, the breach of the PV of debt-to-export ratio persists during 2023-25 before declining below the threshold.

- The debt service-to-exports ratio and the debt service-to-revenue ratio continue to breach their respective thresholds. However, the magnitude of the breaches during 2024-28, identified in the previous DSA for the ECF request, have been mitigated due to the stronger-than-expected revenue mobilization in 2023H1 as well as an improvement in the external environment.

13. The stress tests suggest that the export shock has the largest negative impact on the debt trajectory. The export shock would cause threshold breaches for three of four indicators (PV of debt-to-export, debt service-to-export, and debt service-to-revenue). The PV of debt-to-export ratio is the most sensitive indicator as it would see prolonged breaches of its threshold under most of the shock scenarios.

B. Total Public Debt Sustainability

14. Overall public debt is projected to peak by 2024 before declining progressively, remaining well below its indicative benchmark under the baseline and stress tests (Figure 2). Under the current baseline, domestic debt accumulation would continue to decrease due to the fiscal space resulting from the proposed fiscal consolidation and the moderate improvement of the financial situation of SOEs from less adverse international commodity prices. The results of the stress tests indicate that the most significant negative effects on the debt trajectory are caused by the other flows[6] shock. The other flows shock would impact the present value of the debt-to-revenue ratio by 22 percent in the second period after the shock and it will persist over the projection period (2024-2043) . The most significant shocks on the debt service-to-revenue ratio are the depreciation and the other flows shocks. The former is mitigated by Comoros' fixed exchange rate while the latter would increase debt service-to-revenue ratio by an average of 1.1 percentage points over 2024-2043.

C. Risk Assessment and Vulnerabilities

15. Comoros external and overall debt are sustainable but remain at a high risk of debt distress. Both ratings on the external public debt and overall public debt are determined by the levels and trajectories of debt, together with any breaches of the debt indicators. The levels and trajectories continue to be assessed as sustainable. The magnitude of the breaches of the external debt indicators is limited and the projected debt burden metrics have improved over the forecast horizon as a result of the envisaged fiscal consolidation. Additional considerations that mitigate the mechanical risk signals in support of the analysis include the authorities' economic reform program supported by the ECF and the World Bank's DPOs, which are expected to catalyze grant and concessional financing. Another factor is the consistently strong performance of remittances, which supports external sustainability. This overall assessment is contingent on: (i) progress on domestic resource mobilization and gradual but sustained fiscal consolidation over the medium term, (ii) no additional non-concessional borrowing, and (iii) enhanced financial oversight of SOEs.

[6] Includes official and private transfers and FDI.

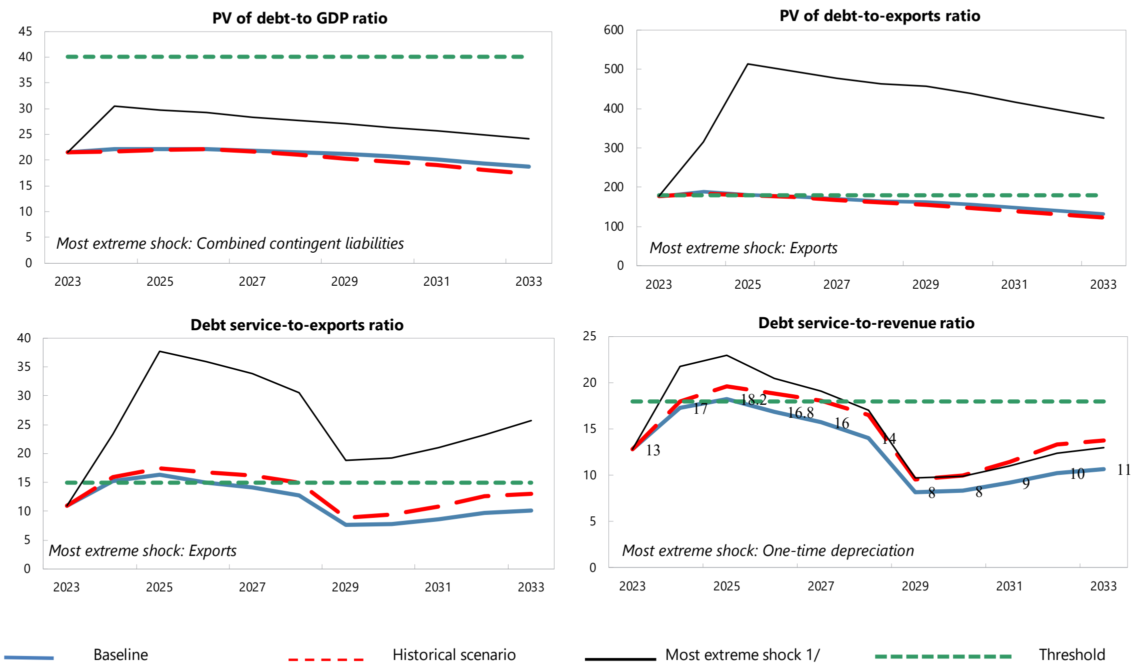
16. Risks to the baseline are tilted to the downside. Delays in implementing the needed fiscal adjustment and structural reforms, compounded with delays in the needed external financing and deterioration in global conditions may lead to a weakening of the macroeconomic situation. Contracting of further debt, particularly non-concessional, would elevate debt sustainability risks.

17. Mitigating risks to public debt requires several policy actions: Reforms under the ECF program that will help mitigate risks to public debt via (i) making faster progress on domestic resource mobilization and ensuring gradual but sustained fiscal consolidation over the medium term, (ii) avoiding additional non-concessional borrowing, (iii) enhancing financial oversight of SOEs, which should help reduce the size of a contingent liability shock should it materialize. Risks could also be mitigated through the implementation of reforms under the World Bank's DPOs and the SDFP as follows: (i) the compulsory reporting of SOE financial performance and the audit of financial statements; and (ii) the enhanced regulatory framework for the issuance of public guarantees and on-lend credit. Additional measures related to the diversification of the export base could help further lessen debt vulnerabilities as underscored by the sensitivity analysis.

Authorities' Views

18. The authorities generally shared staff's assessment of debt sustainability and reaffirmed their commitment to continuing the strong implementation of the IMF-supported program. They reiterated that fiscal consolidation, supported by fiscal structural reforms, will be needed to preserve debt sustainability, and gradually reduce the risk of debt distress to moderate over the medium term. The authorities are committed to prudent borrowing policies and noted that budget support, including that from the IMF and the WB, has been critical for containing borrowing needs.

Figure 1. Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2023-2033



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price 2/	n.a.	n.a.
Market financing	n.a.	n.a.

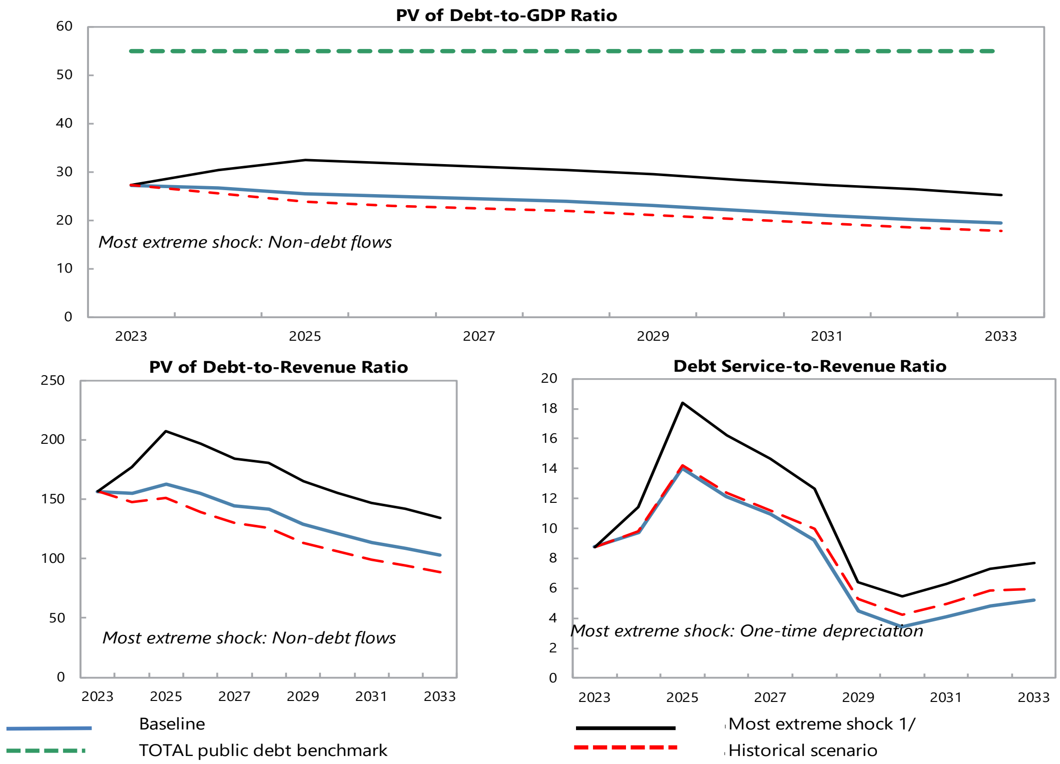
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the 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	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	33	33
Avg. grace period	8	8

* 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 yield the highest ratio in or before 2033. 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 extreme 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. Indicators of Public Debt Under Alternative Scenarios, 2023-2033



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	130%	130%
Domestic medium and long-term	-30%	-30%
Domestic short-term	-1%	-1%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
Avg. maturity (incl. grace period)	33	33
Avg. grace period	8	8
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.0%	4.0%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-3.3%	-3.3%

* 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.

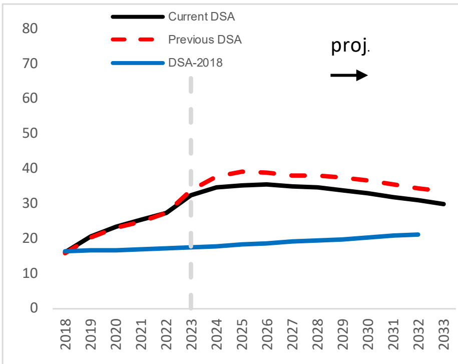
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. 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.

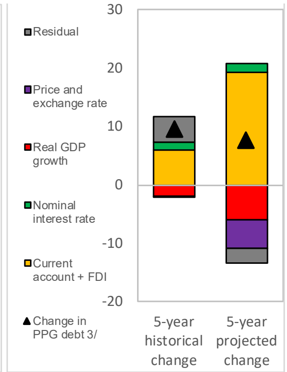
Figure 3. Drivers of Debt Dynamics – Baseline Scenario External Debt

External Debt

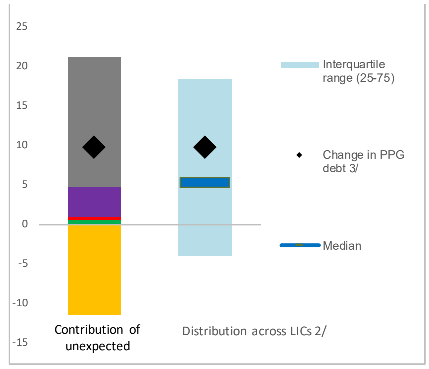
Gross Nominal PPG External Debt
(In percent of GDP, DSA vintages)



Debt-creating Flows
(Percent of GDP)

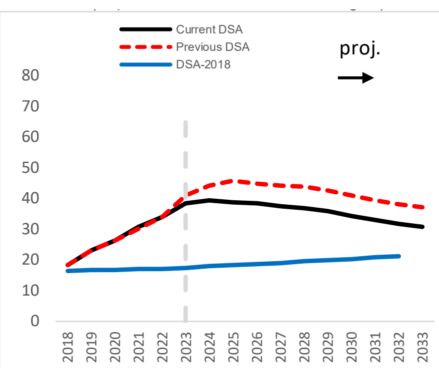


Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

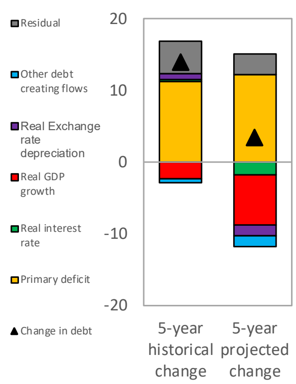


Public Debt

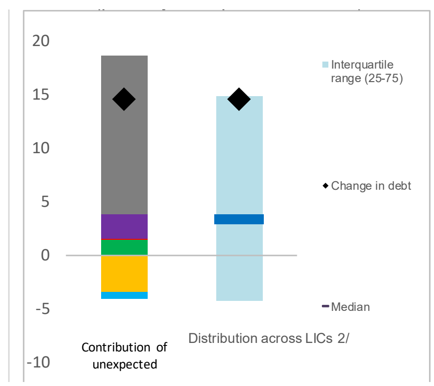
Gross Nominal PPG External Debt
(In percent of GDP, DSA vintages)



Debt-creating Flows
(Percent of GDP)



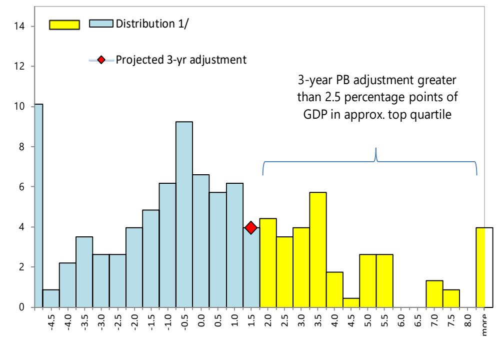
Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)



Sources: Country authorities; and staff.
1/ Difference between anticipated and actual contributions on debt ratios.
2/ Distribution across LICs for which LIC DSAs were producted.
3/ Given the relatively low priavte external debt for average lowincome countries, a ppt change in PPG external debt should be largely explained by the drivers of the eternal dynamic equation.

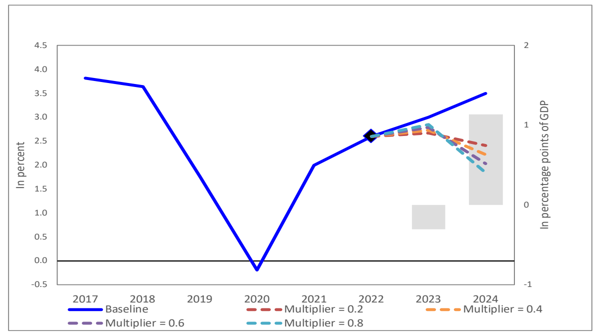
Figure 4. Realism Tools

3-year Adjustment in Primary Balance
(Percentage Points of GDP)



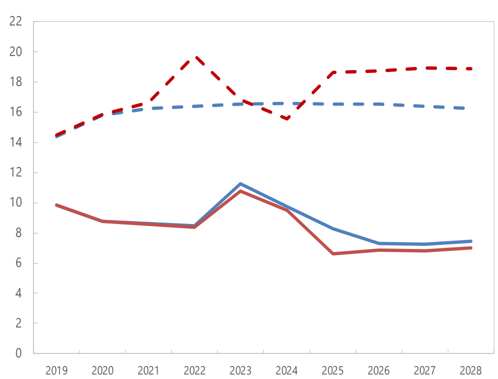
1/ Date cover Fund-supported programs for LICS (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths[1]

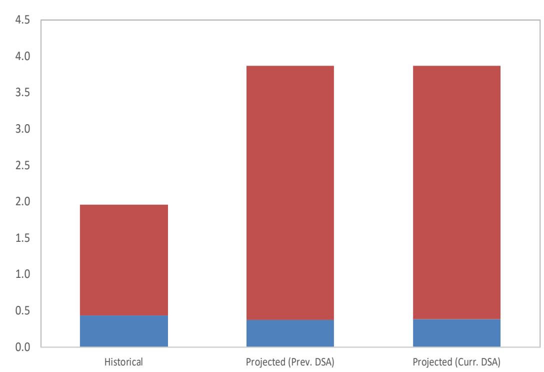


1/ Bars refer to annual projected fiscal adjustment (right-hand scale), and lines show possible real GDP growth paths under fiscal multipliers (left-hand scale).

Public and Private Investments Rates
(Percent of GDP)



Contribution to Real GDP Growth
(Percent, 5-year average)



Sources: Country authorities; and staff estimates and projections.
The significant difference between ‘Prev. DSA’ and ‘Curr. DSA’ lines in the ‘public and private investment rates’ chat is predominaly due to calculation error in the previous DSA. Specifically, foreign foreign financed public investment was errounsly included in prvate investment rather than public investment, hence artificially inflating the former and deflating the latter. The sum of private and public investment in the two DSA versions is boradly similar.

Table 1. Union of the Comoros: Decomposition of Public Debt 2020-22[1]

	2020	2021	2022	2020	2021	2022
		Million USD			% GDP	
Total	320.0	388.8	416.3	26.3	30.5	34.0
External	284.5	322.5	333.5	23.4	25.3	27.2
Multilateral creditors[2]	106.4	123.0	131.1	8.7	9.7	10.7
IMF	28.7	27.6	23.4	2.4	2.2	1.9
World Bank	20.2	28.4	39.2	1.7	2.2	3.2
ADB/AfDB/IADB	2.5	7.1	8.2	0.2	0.6	0.7
Other Multilaterals	55.1	60.0	60.2	4.5	4.7	4.9
o/w: BADEA	28.3	28.0	28.0	2.3	2.2	2.3
o/w: TDB	13.2	18.3	17.4	1.1	1.4	1.4
o/w: IsDB	7.5	7.5	6.9	0.6	0.6	0.6
Bilateral Creditors	178.1	199.4	202.5	14.6	15.7	16.5
Paris Club	2.1	2.1	2.5	0.2	0.2	0.2
o/w: France	2.1	2.1	2.5	0.2	0.2	0.2
Non-Paris Club	176.0	197.4	200.0	14.5	15.5	16.3
o/w: China	91.1	112.1	110.8	7.5	8.8	9.0
o/w: Saudi Arabia	33.7	33.7	38.0	2.8	2.6	3.1
o/w: India	26.4	26.4	26.4	2.2	2.1	2.2
o/w: Kuwait	24.8	25.1	24.8	2.0	2.0	2.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	35.5	66.3	82.7	2.9	5.2	6.8
Held by residents, total[3]	35.5	66.3	82.7	2.9	5.2	6.8
SOEs debt[4]	N.A	23.0	19.2	N.A	1.8	1.6
Memo items:						
Collateralized debt[5]	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Related	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Unrelated	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities[6]	107.2	159.1	153.1	8.8	12.5	12.5
o/w: Public guarantees	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Other explicit contingent liabilities[7]	107.2	159.1	153.1	8.8	12.5	12.5
External arrears	N.A	6.0	7.2	N.A	0.5	0.6
Nominal GDP	1218	1273	1225			

Source: Country authorities and staff estimates and projections

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial.

2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3/ Inludes central bank on lending related to the SDR allocation.

4/ SOEs debt in Comoros is guarantee debt.

5/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt.

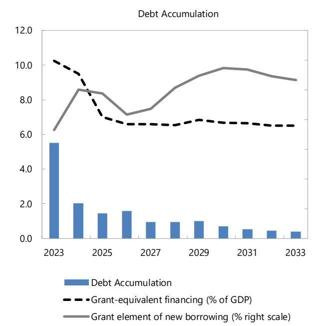
6/ As defined in the customized contingent liabilities stress test of the last three published DSAs.

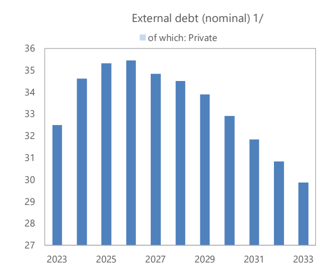
7/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Table 2. Union of the Comoros: External Debt Sustainability Framework, Baseline Scenario, 2020-2043

	Actual			Projections												Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2043	Historical	Projections
External debt (nominal) 1/	23.5	25.4	27.3	32.5	34.6	35.3	35.4	34.8	34.5	33.9	32.9	31.8	30.8	29.9	20.6	**17.9**	**33.3**
of which: public and publicly guaranteed (PPG)	23.5	25.4	27.3	32.5	34.6	35.3	35.4	34.8	34.5	33.9	32.9	31.8	30.8	29.9	20.6	**17.9**	**33.3**
Change in external debt	3.0	2.0	1.9	5.2	2.1	0.7	0.1	-0.6	-0.3	-0.6	-1.0	-1.1	-1.0	-1.0	-0.9		
Identified net debt-creating flows	1.0	-1.0	1.2	4.7	3.6	2.0	2.3	2.2	2.3	3.0	2.3	2.0	2.2	2.1	1.7	**1.5**	**2.6**
Non-interest current account deficit	1.6	0.1	-0.1	5.5	4.8	3.5	4.0	4.0	4.1	4.6	3.8	3.5	3.7	3.6	2.9	**2.2**	**4.1**
Deficit in balance of goods and services	22.5	22.6	25.7	25.8	24.8	22.6	22.2	21.6	21.1	20.8	19.9	19.7	19.3	19.1	18.3	**19.5**	**21.5**
Exports	5.7	10.1	13.6	12.1	11.7	12.2	12.6	12.8	13.1	13.1	13.3	13.6	13.8	14.1	16.1		
Imports	28.2	32.8	39.3	37.9	36.5	34.8	34.8	34.4	34.2	33.9	33.2	33.3	33.1	33.2	34.4		
Net current transfers (negative = inflow)	-20.2	-21.8	-24.7	-19.7	-19.5	-18.5	-17.6	-17.0	-16.5	-15.7	-15.7	-15.7	-15.1	-15.1	-14.9	**-16.7**	**-16.9**
of which: official	-3.4	-1.8	-3.2	-1.9	-3.0	-2.1	-1.3	-1.3	-1.2	-1.9	-1.9	-1.9	-1.7	-1.7	-1.5		
Other current account flows (negative = net inflow)	-0.7	-0.8	-1.1	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	**-0.6**	**-0.5**
Net FDI (negative = inflow)	-0.3	-0.3	-0.3	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	**-0.4**	**-0.6**
Endogenous debt dynamics 2/	-0.3	-0.8	1.6	-0.4	-0.6	-0.9	-1.2	-1.2	-1.2	-1.0	-0.9	-0.9	-0.8	-0.8	-0.6		
Contribution from nominal interest rate	0.2	0.3	0.6	0.3	0.4	0.4	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.2		
Contribution from real GDP growth	0.0	-0.4	-0.7	-0.7	-1.1	-1.3	-1.4	-1.5	-1.4	-1.2	-1.2	-1.2	-1.1	-1.1	-0.8		
Contribution from price and exchange rate changes	-0.5	-0.6	1.7	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	2.1	3.0	0.6	0.5	-1.5	-1.3	-2.1	-2.8	-2.6	-3.7	-3.2	-3.1	-3.2	-3.1	-2.6	**-1.2**	**-2.4**
of which: exceptional financing	0.1	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	0.0		
Sustainability indicators																	
PV of PPG external debt-to-GDP ratio	**...**	**...**	**18.1**	**21.5**	**22.1**	**22.1**	**22.1**	**21.8**	**21.4**	**21.2**	**20.7**	**20.0**	**19.4**	**18.7**	**12.4**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**132.9**	**177.3**	**188.2**	**181.4**	**175.8**	**169.5**	**164.3**	**162.1**	**155.5**	**147.6**	**139.9**	**132.3**	**77.3**		
PPG debt service-to-exports ratio	**12.3**	**7.3**	**8.9**	**10.9**	**15.3**	**16.3**	**15.0**	**14.2**	**12.7**	**7.6**	**7.8**	**8.6**	**9.6**	**10.1**	**5.6**		
PPG debt service-to-revenue ratio	**7.4**	**7.1**	**12.4**	**12.8**	**17.3**	**18.2**	**16.8**	**15.7**	**14.0**	**8.2**	**8.3**	**9.1**	**10.2**	**10.7**	**5.6**		
Gross external financing need (Million of U.S. dollars)	24.1	6.1	10.0	87.1	86.8	75.2	86.7	90.1	94.6	97.4	86.2	88.7	101.5	106.5	135.2		
Key macroeconomic assumptions																	
Real GDP growth (in percent)	-0.2	2.0	2.6	3.0	3.5	4.0	4.3	4.5	4.3	3.8	3.8	3.8	3.8	3.8	3.8	**2.5**	**3.9**
GDP deflator in US dollar terms (change in percent)	2.7	2.5	-6.2	6.7	2.6	2.6	2.3	1.6	1.5	2.0	2.0	2.0	2.0	2.0	2.0	**-0.3**	**2.5**
Effective interest rate (percent) 4/	1.1	1.2	2.3	1.3	1.4	1.1	0.8	0.8	0.7	0.8	1.0	1.0	1.0	1.0	1.1	**0.8**	**1.0**
Growth of exports of G&S (US dollar terms, in percent)	-51.1	87.2	28.8	-2.2	3.1	10.6	10.6	8.2	7.6	6.1	7.6	8.0	7.9	7.8	6.0	**12.1**	**6.8**
Growth of imports of G&S (US dollar terms, in percent)	-2.9	21.4	15.4	5.8	2.5	1.7	6.6	5.0	5.2	5.0	3.8	5.9	5.3	6.2	5.8	**5.0**	**4.8**
Grant element of new public sector borrowing (in percent)	...	...	...	36.4	50.1	48.8	41.7	43.6	50.8	54.8	57.3	56.9	54.6	53.3	53.9	**...**	**49.8**
Government revenues (excluding grants, in percent of GDP)	9.4	10.4	9.7	10.3	10.4	10.9	11.2	11.6	11.8	12.2	12.5	12.8	13.0	13.3	16.1	**10.1**	**11.8**
Aid flows (in Million of US dollars) 5/	107.7	85.9	56.0	143.3	143.1	111.1	131.1	137.9	147.0	150.2	151.2	159.4	168.4	179.5	277.8		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	10.2	9.5	7.0	6.6	6.6	6.5	6.8	6.7	6.7	6.5	6.5	6.0	**...**	**7.2**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	65.0	78.0	75.3	73.8	79.7	81.3	88.1	90.6	90.6	88.9	88.2	93.0	**...**	**81.8**
Nominal GDP (Million of US dollars)	1,218	1,273	1,225	1,346	1,429	1,525	1,629	1,728	1,830	1,937	2,051	2,171	2,297	2,431	4,287		
Nominal dollar GDP growth	2.5	4.5	-3.8	9.9	6.2	6.7	6.8	6.1	5.9	5.8	5.9	5.9	5.8	5.8	5.8	**2.1**	**6.4**
Memorandum items:																	
PV of external debt 7/	...	...	18.1	21.5	22.1	22.1	22.1	21.8	21.4	21.2	20.7	20.0	19.4	18.7	12.4		
In percent of exports	...	...	132.9	177.3	188.2	181.4	175.8	169.5	164.3	162.1	155.5	147.6	139.9	132.3	77.3		
Total external debt service-to-exports ratio	12.3	7.3	8.9	10.9	15.3	16.3	15.0	14.2	12.7	7.6	7.8	8.6	9.6	10.1	5.6		
PV of PPG external debt (in Million of US dollars)			221.2	288.7	315.8	336.5	360.7	376.3	392.4	410.6	424.1	434.8	444.7	453.4	532.2		
(PVt-PVt-1)/GDPt-1 (in percent)				5.5	2.0	1.4	1.6	1.0	0.9	1.0	0.7	0.5	0.5	0.4	0.2		
Non-interest current account deficit that stabilizes debt ratio	-1.5	-1.9	-1.9	0.3	2.7	2.8	3.9	4.6	4.4	5.2	4.7	4.6	4.7	4.5	3.7		

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 - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) 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.

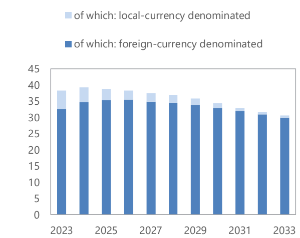
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

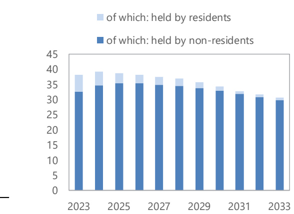
Table 3. Union of the Comoros: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020-2043

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	**26.4**	**30.6**	**34.0**	**38.2**	**39.2**	**38.7**	**38.2**	**37.4**	**36.9**	**30.6**	**20.0**	**20.5**	**35.8**
of which: external debt	**23.5**	**25.4**	**27.3**	**32.5**	**34.6**	**35.3**	**35.4**	**34.8**	**34.5**	**29.9**	**20.6**	**17.9**	**33.3**
Change in public sector debt	3.3	4.3	3.4	4.2	0.9	-0.4	-0.5	-0.8	-0.5	-1.1	-1.0		
Identified debt-creating flows	**-0.3**	**1.7**	**4.7**	**2.4**	**1.1**	**-0.2**	**-0.3**	**-0.9**	**-0.6**	**-1.0**	**-0.5**	**-0.3**	**-0.4**
Primary deficit	**0.0**	**2.5**	**3.8**	**4.1**	**2.9**	**2.1**	**2.0**	**1.2**	**1.4**	**0.5**	**0.1**	**0.1**	**1.4**
Revenue and grants	18.3	17.1	14.3	17.4	17.2	15.7	16.1	16.8	16.8	18.9	21.6	**17.7**	**17.5**
of which: grants	8.8	6.7	4.6	7.1	6.8	4.8	4.9	5.3	5.0	5.5	5.5		
Primary (noninterest) expenditure	18.2	19.6	18.1	21.5	20.1	17.8	18.1	18.0	18.2	19.3	21.7	**17.8**	**18.9**
Automatic debt dynamics	**-0.2**	**-0.7**	**1.4**	**-1.2**	**-1.5**	**-1.9**	**-2.1**	**-2.1**	**-2.0**	**-1.5**	**-0.6**		
Contribution from interest rate/growth differential	0.2	-0.7	-0.7	-1.2	-1.5	-1.9	-2.1	-2.1	-2.0	-1.5	-0.6		
of which: contribution from average real interest rate	0.1	-0.2	0.1	-0.2	-0.2	-0.4	-0.4	-0.4	-0.5	-0.4	0.1		
of which: contribution from real GDP growth	0.0	-0.5	-0.8	-1.0	-1.3	-1.5	-1.6	-1.6	-1.5	-1.2	-0.8		
Contribution from real exchange rate depreciation	-0.4	0.0	2.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**-0.1**	**-0.4**	**-0.5**	**-0.3**	**-0.4**	**-0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**-0.1**
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	-0.1	-0.4	-0.5	-0.3	-0.4	-0.2	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	**3.6**	**2.6**	**-1.3**	**1.9**	**-0.2**	**-0.2**	**-0.2**	**0.1**	**0.1**	**0.0**	**-0.4**	**1.3**	**0.1**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**24.8**	**27.2**	**26.7**	**25.5**	**24.9**	**24.4**	**23.9**	**19.4**	**11.9**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**173.5**	**156.6**	**155.1**	**162.9**	**154.6**	**144.6**	**141.9**	**102.8**	**54.9**		
Debt service-to-revenue and grants ratio 3/	**4.2**	**4.8**	**9.6**	**8.8**	**9.7**	**14.0**	**12.1**	**10.9**	**9.2**	**5.2**	**1.4**		
Gross financing need 4/	0.7	3.2	4.7	5.1	4.3	3.8	3.7	3.0	2.9	1.4	0.4		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-0.2	2.0	2.6	3.0	3.5	4.0	4.3	4.5	4.3	3.8	3.8	**2.5**	**3.9**
Average nominal interest rate on external debt (in percent)	1.1	1.2	2.3	1.3	1.4	1.1	0.8	0.8	0.7	1.0	1.1	**0.8**	**1.0**
Average real interest rate on domestic debt (in percent)	1.7	4.2	-2.4	-1.3	-0.5	-1.6	-2.3	-2.5	-1.9	-10.4	18.4	**0.8**	**-3.8**
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.9	0.0	8.4	...	...	...	...	...	...	...	...	**1.6**	**...**
Inflation rate (GDP deflator, in percent)	0.8	-1.2	5.3	3.3	2.1	2.3	2.2	2.0	1.9	2.0	2.0	**1.5**	**2.1**
Growth of real primary spending (deflated by GDP deflator, in percent)	-6.6	9.9	-5.6	22.2	-2.9	-8.1	6.2	4.0	5.6	5.3	4.5	**5.1**	**4.7**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-3.3	-1.7	0.4	-0.1	2.0	2.5	2.5	2.0	1.9	1.6	1.0	**-1.6**	**1.7**
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, central bank, 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.

Table 4. Union of the Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023-2033

	Projections 1/										
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
						PV of debt-to GDP ratio					
Baseline	20	21	21	21	21	20	20	20	19	19	18
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	20	20	19	19	18	17	16	16	15	14	13
B. Bound Tests											
B1. Real GDP growth	20	21	23	23	22	22	22	22	21	20	20
B2. Primary balance	20	23	25	25	24	24	24	23	23	22	21
B3. Exports	20	23	27	27	27	27	27	26	25	25	24
B4. Other flows 3/	20	24	27	27	26	26	26	25	25	24	23
B5. Depreciation	20	26	22	22	22	21	21	21	20	20	19
B6. Combination of B1-B5	20	26	28	28	27	27	27	26	26	25	24
C. Tailored Tests											
C1. Combined contingent liabilities	20	27	27	26	26	26	25	25	24	24	23
C2. Natural disaster	20	26	26	26	25	25	25	25	24	24	23
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	165	176	170	166	160	156	155	149	142	135	128
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	165	169	159	150	140	133	126	118	110	101	93
B. Bound Tests											
B1. Real GDP growth	165	176	170	166	160	156	155	149	142	135	128
B2. Primary balance	165	**193**	**205**	**197**	**190**	**185**	**183**	176	168	160	152
B3. Exports	165	**297**	**489**	**472**	**457**	**444**	**439**	**423**	**404**	**385**	**365**
B4. Other flows 3/	165	**206**	**219**	**212**	**205**	**199**	**197**	**190**	**181**	173	163
B5. Depreciation	165	176	141	138	134	130	130	125	118	112	106
B6. Combination of B1-B5	165	**254**	**204**	**285**	**276**	**268**	**265**	**256**	**244**	**232**	**219**
C. Tailored Tests											
C1. Combined contingent liabilities	165	**230**	**219**	**210**	**203**	**197**	**195**	**187**	179	171	163
C2. Natural disaster	165	**226**	**216**	**208**	**202**	**197**	**196**	**189**	**181**	174	166
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	11	15	**16**	15	13	12	7	7	8	9	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	11	**15**	**17**	**16**	**15**	14	8	8	10	11	12
B. Bound Tests											
B1. Real GDP growth	11	15	**16**	15	13	12	7	7	8	9	10
B2. Primary balance	11	15	**16**	**15**	14	13	7	8	9	9	11
B3. Exports	11	**22**	**37**	**35**	**32**	**29**	**17**	**18**	**20**	**22**	**25**
B4. Other flows 3/	11	15	**16**	**15**	14	13	8	8	9	10	11
B5. Depreciation	11	15	**16**	14	13	12	6	7	8	9	9
B6. Combination of B1-B5	11	**18**	**24**	**22**	**20**	**18**	11	11	12	14	**16**
C. Tailored Tests											
C1. Combined contingent liabilities	11	15	**17**	**15**	14	13	8	8	9	10	10
C2. Natural disaster	11	**15**	**17**	**16**	14	13	8	8	9	10	10
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	13	17	18	16	15	13	7	8	9	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	13	17	**19**	**18**	17	15	8	9	10	12	12
B. Bound Tests											
B1. Real GDP growth	13	17	**19**	18	16	14	8	8	9	11	11
B2. Primary balance	13	17	**18**	17	15	14	8	8	9	10	11
B3. Exports	13	17	**19**	**18**	16	15	9	9	10	11	12
B4. Other flows 3/	13	17	**18**	17	16	14	8	8	9	10	12
B5. Depreciation	13	**21**	**22**	**20**	18	16	9	9	10	12	12
B6. Combination of B1-B5	13	18	**21**	**19**	17	15	9	9	10	11	13
C. Tailored Tests											
C1. Combined contingent liabilities	13	17	**19**	17	16	14	8	8	9	10	11
C2. Natural disaster	13	17	**19**	17	16	14	8	8	9	10	11
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 5. Union of the Comoros: Sensitivity Analysis for Key Indicators of Public Debt, 2023-2033

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	PV of Debt-to-GDP Ratio										
Baseline	27	27	26	25	24	24	23	22	21	20	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	27	26	24	23	22	22	21	20	19	19	18
B. Bound Tests											
B1. Real GDP growth	27	28	28	28	28	28	27	27	26	26	25
B2. Primary balance	27	28	29	28	28	28	27	26	25	24	23
B3. Exports	27	29	31	30	30	29	28	27	26	25	24
B4. Other flows 3/	27	30	32	32	31	30	29	28	27	26	25
B5. Depreciation	27	31	29	27	25	23	22	20	19	17	16
B6. Combination of B1-B5	27	28	28	24	24	23	22	21	21	20	19
C. Tailored Tests											
C1. Combined contingent liabilities	27	31	30	30	30	29	29	28	26	26	25
C2. Natural disaster	27	31	30	29	29	29	28	27	26	25	25
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.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	157	155	163	155	145	142	129	121	113	109	103
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	157	148	151	139	130	126	113	106	99	94	88
B. Bound Tests											
B1. Real GDP growth	157	159	175	169	160	160	148	142	137	135	131
B2. Primary balance	157	165	184	176	166	164	151	143	135	130	122
B3. Exports	157	167	198	188	176	173	157	148	140	135	128
B4. Other flows 3/	157	177	207	197	184	181	165	156	147	142	134
B5. Depreciation	157	189	188	170	153	143	126	115	104	95	85
B6. Combination of B1-B5	157	166	176	149	140	138	126	118	111	107	101
C. Tailored Tests											
C1. Combined contingent liabilities	157	181	194	186	176	174	160	152	143	137	130
C2. Natural disaster	157	178	190	182	172	171	157	149	141	136	130
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	9	10	14	12	11	9	4	3	4	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	9	10	14	12	11	10	5	4	5	6	6
B. Bound Tests											
B1. Real GDP growth	9	10	15	12	11	9	4	3	3	4	5
B2. Primary balance	9	10	12	9	9	7	3	2	4	6	6
B3. Exports	9	10	14	13	12	10	5	4	5	5	6
B4. Other flows 3/	9	10	14	13	12	10	5	4	5	5	7
B5. Depreciation	9	11	18	16	15	13	6	5	6	7	8
B6. Combination of B1-B5	9	10	14	11	10	8	4	3	4	5	5
C. Tailored Tests											
C1. Combined contingent liabilities	9	10	9	9	8	7	3	2	5	6	6
C2. Natural disaster	9	10	10	10	9	7	3	2	5	5	6
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 benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Statement by the Staff Representative on the Union of the Comoros
Executive Board Meeting
December 15, 2023

The following information became available after the issuance of the staff report. These updates do not alter the thrust of the staff appraisal.

1. **The authorities completed the two prior actions for the first review of the Extended Credit Facility (ECF) arrangement.** The 2024 Budget proposal that is aligned with program parameters was submitted to the Comorian Parliament and was adopted on November 27, 2023. The Memorandum of Understanding (MoU) among the Debt Directorate, General Budget Directorate, Treasury Payer General, and the Central Bank of Comoros, specifying the amounts and schedule of all external debt service payments due in 2024 was signed on Friday, December 8, 2023.

2. **Preliminary 2023 Q3 data indicate that the fiscal revenue and domestic primary balance overperformed their end-September indicative targets (ITs).** Fiscal revenue at end-September was KMF 37,487.4 million against the IT of KMF 36,990.6 million while the domestic primary deficit was KMF 5,209.8 against the IT of KMF 11,268.5 million. Net domestic arrears were reduced from KMF 860.6 million in June to KMF 703.3 million in September, as the authorities started working towards eliminating net domestic arrears by year-end.

Statement by Mr. Sylla, Executive Director, Mr. Matungulu, Alternate Executive Director, and Ms. Yahya, Advisor to Executive Director on Union of the Comoros Executive Board Meeting December 15, 2023

On behalf of our Comorian authorities, we would like to thank Management and Staff for the constructive policy dialogue, and the valuable technical assistance provided. Our authorities broadly share staff's analyses and the thrust of their policy recommendations.

Comoros faces significant structural challenges, many of which are exacerbated by relative isolation and distance from world markets, small size of the economy and limited institutional capacity, all combined with very high investment needs and costs. Despite the challenging context and recent overlapping exogenous shocks to which Comoros has been subjected, the authorities' strong commitment to their reform program, backed by sound policy priorities set in the 2022 Plan de Relance, has helped promote economic growth and keep inflation in check, while also advancing critical structural reforms.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

The economy has been severely impacted by multiple shocks, but recovery is underway, and inflation has decelerated. Headwinds emanated from the powerful Cyclone Kenneth that ravaged the country's infrastructure in 2019, the COVID-19 pandemic, the war in Ukraine, and high commodity prices. The gradual rebound, underway, is underpinned by strong public investment and domestic activity, and a marked pick up in tourism. Credit growth has been strong, and real GDP growth is projected at 3 percent for 2023, from 2.6 percent in 2022 and 2 percent in 2021. In 2022, reflecting high import prices, inflation accelerated, to a peak of 20.6 percent in December, deepening the cost-of-living crisis and food insecurity. The normalization of international oil and food prices has helped contain inflation, which has fallen to 1.0 percent year-on-year at end-September 2023.

Fiscal performance in 2022 strengthened and the outturn in 2023 has been better than expected. Despite a challenging external environment, the domestic fiscal balance improved in 2022 and performance to date in 2023 has exceeded expectations, reflecting strong revenue mobilization efforts. Tax revenue rose by 33 percent this year, and the domestic primary deficit for 2023, initially projected at 2.4 percent of GDP, is now expected at 1.8 percent of GDP, associated in part with the phasing out of subsidies and tax exemptions introduced in 2022 and reduced losses at key state-owned enterprises (SOEs). However, the execution of public investment, which was slower than expected in the first half of the year is expected to accelerate and could bring the deficit closer to initial projections.

The current account deficit has widened, and international reserves have fallen. In 2022, the current account deficit widened slightly and is expected to expand further in 2023 as a result of a higher imports bill. International reserves fell slightly in the first half of 2023, given large import needs associated with ongoing investment projects, high import prices, and delayed disbursements of projects loans and grants.

The economic outlook is favorable, despite uncertainties. Growth remains on the recovery path and is expected to accelerate in 2024 to 3.5 percent from 3 percent in 2023. Over the medium-term growth should reach 4.5 percent, predicated on the implementation of sound macroeconomic policies under the ECF-supported program as well as key public infrastructure investments, and vibrant private activity. Over the medium term, inflation should converge around 2 percent after averaging at 9.2 percent in 2023. Foreign reserves should remain around 7.5 months of imports, above the optimal level of 6.8 months for small states such as Comoros.

Risks to the outlook are tilted to the downside. Comoros is vulnerable to the volatility of international commodity prices associated with the war in Ukraine and geopolitical conflicts in the Middle East. It is also susceptible to a slowdown in donor funding, weaker remittances, and more frequent natural disasters. On the domestic front, economic performance could be adversely affected by policy slippages and social tensions. Upside risks could emanate from sustained strong policy implementation and a faster pace of execution of public investment projects.

PROGRAM PERFORMANCE

Performance under the ECF program has been broadly satisfactory with four out of six end-June 2023 quantitative performance criteria (QPCs) met. The continuous QPCs on the non-accumulation of new external arrears and the non-accumulation of net domestic arrears and the indicative target (IT) on household cash transfers were missed. Corrective measures have been implemented and almost all external arrears were cleared, except new arrears to BADEA and Exim Bank India, which are being discussed together with existing arrears to these two institutions for their resolution. Given capacity constraints and a largely manual debt payment execution chain, a memorandum of understanding has been signed between relevant entities of the ministry of Finance and the *Banque Centrale des Comores* (BCC) specifying amounts and timing of external debt service falling due in the near term with a view to enhancing administrative accountability and ensuring timely payment. Other short-term measures are also being considered to minimize risks of debt default. In addition, as called for under the ECF-supported program, the government is committed to clear recently accumulated domestic arrears by end-2023.

Implementation of structural reforms has been progressing well overall, with seven of eight structural benchmarks met. The only missed benchmark pertains to the de jure transfer of oil taxes management to customs administration. The transfer requires Parliament's approval, which the authorities expect to secure when Parliament resumes sitting in April 2024.

POLICY PRIORITIES FOR THE MEDIUM TERM

Fiscal Policy and Reforms

Fiscal consolidation is central to the country's macroeconomic reform agenda. As demonstrated by the positive fiscal developments in 2023, the actions in train to strengthen domestic revenue mobilization and broaden the tax base have begun to bear fruit. The objective of increasing the number of active taxpayers by 10 percent has already been achieved and requests sent for all taxpayers to file declarations. This should help increase fiscal space in the near-term and establish sustainable revenues for the country in the medium term, as revenue mobilization efforts are continued.

The 2024 budget, approved by Parliament, is in line with program fiscal consolidation

objectives containing the domestic primary deficit at 1.4 percent of GDP. This will be backed by continued revenue mobilization efforts, rationalizing of expenditure, notably through the removal of ghost-workers and phasing out of one-time expenses related to the 2024 presidential elections and Comoros' 2023 African Union presidency.

The pace of reforms to boost tax revenue has been encouraging and will support increasing tax revenues by 0.3 percent of GDP per year from 2023 to 2027. Despite capacity constraints delaying some public financial management (PFM) reforms, considerable progress has been made. Notable reforms implemented include the establishment of the Large and Medium Taxpayer Office in July 2023, with technical assistance from the Fund; the removal of the fiscal identification fee to ensure all taxpayers are identified in September; and the remarkable increase in the number of active taxpayers achieved in 2023. Digitalizing tax procedures has also helped improve the efficiency of Comoros' tax system. In particular, the adoption of an integrated tax management system (SIGIT) in 2019, with support from the African Development Bank, has improved the efficiency of taxpayer management. Also, preparations to interconnect SIGIT to the customs administration information system are well underway with support from the United Nations Conference on Trade and Development (UNCTAD).

The Comorian authorities will continue their efforts to strengthen public financial management (PFM) to ensure the best use of scarce resources. They will seek to enhance spending efficiency and transparency**,** including by implementing the recommendations of the 2022 Public Expenditure Review. Spending priorities aim to improve quality of life through better health, education, and access to basic services, while maintaining macroeconomic stability**.** Due to its remote-isolated small island character, investment needs in Comoros are extremely high, including for health, education, and public infrastructure necessary to promote growth. Increasing the efficiency of public investment spending remains a top priority.

The cost of achieving SDGs by 2030 is estimated at 18.8 percent of GDP per year, well beyond the country's limited resources. Recent climate shocks have exacerbated these needs, particularly with Cyclone Kenneth in 2019, destroying over a third of the country's education infrastructure. Health outcome indicators have improved but remain well below their thresholds. With a poverty rate of 36 percent, Comorians often must pay for expensive health costs abroad. The completion of the ongoing national hospital project will be a much- needed addition to Comoros' healthcare facilities and a significant contribution to improving Comorians' living standards.

Strengthening oversight of SOEs will be essential to limiting related budget risks and improving the performance of these entities. A draft SOE law has been prepared to align the legal framework with international standards and the authorities intend to sign performance contracts with major SOEs. Moreover, all public companies will be required to produce annual certified accounts.

The authorities are committed to reducing Comoros' risk of debt distress to moderate by 2028 and will continue to improve public debt management following the promulgation of the debt management law in 2023. The memorandum of understanding signed between the BCC and the Ministry of Finance ensures appropriate debt service management in the short-term and lays the foundations for stronger coordination throughout the administrative debt-payment management processes. The audit of domestic arrears has also been completed and will serve as a starting point to develop an arrears clearance strategy for the period ahead.

Monetary and Financial Sector Policies and Reforms

The BCC will continue monitoring developments in inflation and foreign exchange reserves and stand ready to adjust its policy to safeguard the peg. The authorities remain committed to their monetary cooperation agreement with France, which guarantees free convertibility between the Comorian Franc and the Euro. Given the decline of inflation and credit growth and increasing liquidity pressures on smaller banks from higher reserves requirement, the BCC reduced the reserve requirement ratio back to 12.5 percent in October 2023, from 15 percent since July 2022, but stands ready to further tighten its stance as appropriate.

With substantial support from the Fund, the BCC will continue to strengthen its monetary policy toolkit, building on recent technical assistance and progress. The recent safeguards assessment found that the BCC has enhanced its transparency with the adoption of the International Financial Reporting Standards (IFRS) and timely publication of the annual audited financial statements. The Comorian authorities are also undertaking actions to establish the interbank market, the collateral framework, the marginal lending facility, and the framework for emergency liquidity assistance. Ongoing work to update the 2008 BCC Statutes to strengthen its autonomy is also progressing well, with support from the French authorities.

The authorities are committed to reducing financial sector vulnerabilities. The BCC is working towards aligning prudential regulations with the Basel II and Basel III frameworks, upgrading supervisory processes, and implementing a risk-based supervision (RBS) system with technical support from AFRITAC-South. In June, the BCC created a new bank resolution and regulatory unit, which will complement the banking supervision department, and report separately to the Governor and the BCC Board. The authorities will prepare contingency plans including estimates of fiscal costs in case of liquidation of problem banks. The Non-Performing Loans (NPLs) commission has also helped reduce the level of NPLs significantly during its first phase of operation in 2021-2022 and will continue its work while focusing on the largest NPLs holders. Over the medium term, the government intends to improve the operating environment for banks, including by lowering the frequency of government arrears to suppliers and further strengthening the judicial system to ensure that banks can realize pledged collateral. Also, progress is underway on the prerequisites to issue a banking license to the new postal bank (*Banque Postale des Comores*, BPC) in the context of the restructuration of the SNPSF, with the BCC and MoF closely collaborating for a timely implementation.

Governance

The authorities are advancing anti-corruption and governance reforms to strengthen public governance and the rule of law. Efforts to establish the Anti-Corruption Chamber (ACC) are progressing well, in line with the new anti-corruption law that was adopted in June 2023. The ACC has a clear and autonomous mandate, and its selection process ensures the independence of its members. Ongoing work will be furthered to ensure its operationalization. To further improve transparency in public procurement, a new integrated online tender management system for public contracts will be developed. The presidential decree signed in august set the basis for the overall aims and implementation principles for the project and defined institutional responsibilities throughout the process. In the same vein, ongoing efforts to digitalize government processes, particularly in the fiscal administration, will contribute to improving governance and transparency. These digitalization efforts, combined with ongoing work to strengthen statistical capabilities, will also complement fiscal and monetary reforms, and help improve data quality and timeliness.

Strengthening the effectiveness of the AML/CFT framework remains a priority for Comoros.

An assessment of Comoros' AML/CFT framework was conducted in July 2023 by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA).

The recommendations from the assessment, expected in the first half of 2024, will inform ongoing efforts to strengthen AML/CFT framework, including the adoption of a new AML/CFT law in line with international standards as set by the FATF. The BCC is also working to enhance risk management frameworks and supervision, including through a better understanding of AML/CFT in commercial banks and inspections to assess compliance with existing AML/CFT regulations.

Climate Change

Conscious of Comoros' high exposure to climate change, particularly tropical cyclones and the persistent risk from active volcanoes, the authorities set adaptation and mitigation as priorities in their Nationally Determined Contributions (NDC). While limited resources and institutional capacity have stalled implementation to some extent, progress has been made to develop the environmental legal framework through the National Environmental Policy (PNE), and the National Environmental Action Plan (NEAP). Ongoing projects supported by the UN and other partners also aim to increase climate resilience, including through institutional capacity development.

The authorities are committed to reducing greenhouse gas emissions by 23 percent by 2030. To accelerate green investment and increase private sector participation in the energy transition, a presidential decree was signed in August to strengthen the legal framework and open the clean energy market to the private sector. Similarly, the Comoros Solar Energy Access Project, supported by the World Bank, aims to bolster the national energy grid, while increasing use of solar energy and storage capacity. With estimated costs at 2.5 percent of GDP per year, significant financing gaps remain to achieve the country's climate agenda, and the authorities are actively engaged with partners to mobilize needed resources, including though the Green Climate Fund.

CONCLUSION

The Comorian authorities remain committed to pursue their reform agenda to ensure sustainable and inclusive development while maintaining macroeconomic stability and debt sustainability. The support of the current ECF program will remain critical to ensure steadfast implementation of underpinning policies. Despite considerable capacity constraints, satisfactory program implementation thus far is encouraging and demonstrates our Comorian authorities' strong commitment to the objectives of the ECF-supported program. The extensive CD support from various IMF departments, which has nurtured the successful implementation of several reforms, is essential to our authorities who are grateful for Fund engagement. The authorities also appreciate continued support from Comoros' other bilateral and multilateral development partners.

In view of the authorities' progress and strong commitment to the program objectives, we would appreciate Executive Directors' support for their requests for waivers of nonobservance of performance criteria, modifications of performance criteria, and completion of the first review under the ECF-supported program.