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Comoros: 2001 Article IV Consultation and Discussions on a Staff-Monitored Program—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2001 Article IV consultation with the Comoros, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation, prepared by a staff team of the IMF, following discussions that took place from **March 19-April 2, 2001** and ended on **May 24, 2001,** with the officials of the Comoros on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on July 3, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **July 18, 2001,** updating information on recent economic developments.

- the Public Information Notice (PIN), which summarizes the **views of the Executive Board as expressed during its July 18, 2001 discussion** of the staff report that concluded the Article IV consultation.

The document(s) listed below have been or will be separately released.

Letter of Intent by the authorities of the Comoros*
Memorandum of Economic and Financial Policies by the authorities of the Comoros*
Recent Economic Developments paper
Technical Memorandum of Understanding*
*These documents are also included in Staff Report.

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COMOROS

Staff Report for the 2001 Article IV Consultation and Discussions on a Staff-Monitored Program

Prepared by the African Department

(In consultation with the Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

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July 3, 2001

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EXECUTIVE SUMMARY

- In February 2001, representatives of the federal government, the opposition, and the island of Anjouan reached agreement on reintegrating Anjouan into the Comoros and restoring democratic political institutions by the end of 2001. The government has formulated an economic and financial program for July 2001–June 2002 to address long-standing fiscal imbalances, restore relations with external creditors, and facilitate the political reconciliation process. It has requested the IMF staff to monitor this program, with a view to establishing a track record for possible future support under the Poverty Reduction and Growth Facility and the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative), and as background for a request to donors for financial support. A donor meeting is scheduled for July 5, 2001.

- Following a decline in real GDP in 2000, the authorities have built the macroeconomic framework of the program around modest growth of about 1–2 percent in 2001 and 2002, the maintenance of inflation at 3.0–3.5 percent per year, and a small decline in international reserves over the medium term, from eight months of imports of goods and nonfactor services in 2000 to seven months by 2004.

- The program focuses on addressing long-standing fiscal imbalances. The authorities intend to issue a revised budget for 2001 by end-July. Under the budget, the authorities will decrease expenditures—while protecting the social sectors—to allow the resumption of debt-service payments to all external creditors, with a view to creating the basis for the normalization of relations and possible debt rescheduling in the near future; meanwhile, the residual financing gap will be sharply reduced. The government has also prepared an exceptional expenditure program, including the costs of the political reconciliation process and of economic reforms. This program, amounting to US$12.8 million for 2001–2002, will be submitted to the donors with a request for financial assistance.

- Structural reforms include the strengthening of tax administration and public expenditure management, civil service reform, good governance and transparency, and the strengthening of statistics; for many of these reforms, the government will request donor assistance. The federal government will also assist Anjouan in rebuilding its administration.

- Following an informal meeting with creditors in March 2001, most of the multilateral debt data were reconciled. A preliminary debt sustainability analysis prepared by the staffs of the IMF and the World Bank indicates that the external debt of the Comoros would be unsustainable in the context of the enhanced HIPC Initiative.

I. Introduction

1. The discussions for the 2001 Article IV consultation and on a staff-monitored program (SMP) were held in Moroni during March 19–April 2 and May 21–24, 2001.[1] The last Article IV consultation with the Comoros was concluded on July 12, 2000. On that occasion, Directors noted with concern that the economic performance of the Comoros had continued to deteriorate and that future prospects were clouded by the political crisis. They welcomed recent measures to increase government revenue but stressed that stronger efforts were needed to stabilize the fiscal position and to improve the efficiency and competitiveness of the economy through structural reform. Directors also urged the authorities to improve the statistical database. The Comoros have accepted the obligations of Article VIII, Sections 2(a), 3 and 4, effective June 1, 1996, and maintain an exchange system that is free of restrictions on the making of payments and transfers for current international transfers.

2. In February 2001, the government, the opposition, and representatives of the secessionist island of Anjouan reached agreement on the reintegration of Anjouan into the Comoros and the restoration of democratic political institutions by end-2001 (Box 1). The government has requested monitoring by the staff of the Fund of its economic and financial program for the transition period toward a new Comorian entity, with a view to establishing a track record for possible future support under the Poverty Reduction and Growth Facility (PRGF) and the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative), and as background for a request to donors for financial support. An SMP would allow the authorities to further strengthen their program and implementation capacity, following the completion of the transition period. The Board of the IDA is scheduled to discuss an Emergency Economic Recovery Credit (EERC) on August 2, 2001, and the Bank is assisting the government in organizing a meeting with donors to discuss foreign assistance on July 5, 2001.

3. The letter of intent for the SMP, including the memorandum on economic and financial policies (MEFP) and a technical memorandum of understanding, are presented in Appendix I. Appendix II provides a preliminary debt sustainability analysis (DSA). The Comoros' relations with the Fund and the World Bank are presented in Appendices III and IV. The serious deficiencies in its economic database are discussed in Appendix V, and Appendix VI provides a draft Public Information Notice (PIN).

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[1] The staff team consisted of Messrs. Snoek (head), Cady, and D'Hoore, Ms. Sancak, and Ms. Jouanin (Assistant) (all AFR), and met with the Prime Minister, the Minister of Finance, the Governor of the Central Bank (Banque Centrale des Comoros—BCC), and other senior central government officials, as well as with the authorities on the island of Anjouan. The mission also met with representatives of trade unions and of multilateral and bilateral donors.

Box 1. Comoros: Political Developments and the Reintegration of Anjouan

Political developments in the Federal Islamic Republic of the Comoros, which consists of the islands of Grande Comore (310,000 inhabitants), Anjouan (225,000) and Mohéli (25,000), have been turbulent since independence in 1975, culminating in the secession attempt of Anjouan in September 1997 (followed by internal armed conflict on that island in 1998 and 1999) and a military coup d'état at the level of the federal government in April 1999.

Of the three islands, Anjouan has been the most affected by the secession, and its economic and social situation has deteriorated sharply after 1997. Under a trade embargo imposed on the island by the Organization of African Unity (OAU) in early 2000, exports largely continued but communications with the outside world were interrupted. Before 1998, most government services were paid for by the federal government and the suspension of these payments after 1997 generated large imbalances in the island's fiscal situation, resulting in large wage arrears (amounting to about 15 months of salaries during 1997–2000). Serious capacity constraints have largely undermined public expenditure management and budget control, and the authorities have not been able to provide comprehensive fiscal data.

The agreement of February 2001, which envisages the reintegration of Anjouan and the restoration of democratic institutions on the three islands, was reached with the support of the international community, especially the OAU and the International Organization of the Francophonie. It outlined (i) a calendar for constitutional reform; (ii) the formation of a transitional government of national unity following a referendum on a new constitution; and (iii) elections and the final transition to democratic institutions, under a new structure with broader autonomy for the islands, scheduled for end-2001. A broad-based tripartite commission has been charged with implementing the agreement, with financial and technical assistance provided mainly by the European Union (EU) and the United Nations Development Program (UNDP). In parallel, the federal government will help Anjouan to start rebuilding its administration.

II. Recent Economic Developments[2]

4. **Macroeconomic performance has been poor in recent years.** Large fiscal imbalances led to serious disruptions in government services in 1997–98, which were further exacerbated by the political instability (Figure 1). Against this background, real GDP, which grew by less than the population during much of the 1990s, declined by 1.1 percent in 2000 on account of a slowdown in donor support, mounting disruptions in electricity supply, and the lack of investment in the main agricultural export products (vanilla, cloves, and the natural essence ylang-ylang) (Table 1). Consumer price inflation has been stable at around

[2] The economy of the Comoros and recent developments are described in more detail in the Recent Economic Developments background paper to this report. The national accounts and balance of payments data include estimates for Anjouan.

3 percent per year since 1996, but it is estimated to have accelerated to 4.8 percent, year-on-year, by end-December 2000, mainly because of increases in prices of petroleum products.

5. **Reflecting the poor growth performance, poverty remains widespread in the Comoros.** The 1995 household budget survey indicated that 60 percent of the population lived below the poverty line. The situation is likely to have worsened since then, especially on Anjouan, although the effects of the negative per capita growth rates are estimated to have been mitigated by higher transfers from the Comorian community abroad. Per capita income was estimated at US$356 in 2000.

6. **The fiscal performance of the federal government was mixed in 2000.**[3] Despite increases in tax rates and measures to strengthen tax administration in the second half of 1999, revenue fell from 11.8 percent of GDP in 1999 to 10.2 percent in 2000 (Table 2). This decline was the result of the granting of tax exemptions for the import of personal effects (to encourage the large Comorian community abroad to increase such imports) in July 2000, problems in customs administration, and tax arrears incurred by the parastatal petroleum import company (Société Comorienne des Hydrocarbures—SCH). The SCH's arrears reflected liquidity problems caused by a change in supplier and delays in adjusting domestic prices to higher import costs.

7. **Government policy aimed at limiting additional wage arrears, and, in response to the revenue shortfall, the authorities adopted a revised budget in July 2000, sharply reducing expenditures on goods and services and transfers.** In addition, delays in resolving the problems with Anjouan resulted in savings of about 0.5 percent of GDP compared with the budget, and improved management of the payroll generated a 5 percent reduction in the wage bill compared to 1999. As a result, domestic expenditures decreased from 12.0 percent of GDP in 1999 to 11.3 percent in 2000.[4] Reflecting a decline in donor assistance caused by external arrears and the political situation, capital expenditures declined from 5.4 percent of GDP in 1999 to 3.9 percent in 2000.

8. **The revenue and expenditure developments resulted in an overall domestic deficit (on a commitment basis) of 0.2 percent of GDP in 2000, unchanged from 1999.** Total external debt-service obligations amounted to 4.3 percent of GDP. Reflecting an already fully drawn advance account with the Banque Centrale des Comores (BCC) and the unavailability of other sources, net domestic financing was slightly negative (0.4 percent of GDP). Thus, the total financing need amounted to 4.9 percent of GDP, which was, in the absence of external budget support, mainly met by new wage arrears (of 0.3 percent of GDP,

[3] Because of the lack of reliable data on Anjouan, the discussions on fiscal developments focus on the federal government.

[4] Domestic expenditures and balances exclude foreign-financed current and capital expenditures, and payment of interest on foreign debt.

or about one month of wages, bringing the total outstanding stock of wage arrears accumulated by the federal government since 1995 to 8.1 percent of GDP), and by new arrears to suppliers (1.1 percent of GDP) and to external creditors (3.2 percent of GDP).

9. **The membership of the Comoros in the French franc zone and the shallow financial system limited the options for monetary policy, which remained geared toward maintaining the fixed exchange rate.**[5,6] On account of a sharp increase in exports, credit to the private sector rose by 14 percent in 2000 (compared with a decline of 7 percent in 1999), and broad money growth accelerated from 7 percent in 1999 to more than 14 percent in 2000 (Table 3). Maximum lending and minimum deposit rates, which are set by the BCC based on developments in European markets, remained unchanged at 15 percent and 3 percent, respectively, during 2000.

10. **The balance of payments showed a marked improvement in 2000 (Table 4).** The current account deficit, including current transfers, decreased sharply from 4.1 percent of GDP in 1999 to 0.4 percent as smaller transfers from donors were more than offset by a smaller deficit on goods and services. The latter reflected a sharp improvement in the terms of trade because of record prices for the three export crops, a decline in imports because of weaker donor support and higher food prices, and continued growth in receipts from tourism, mainly from Comorians living abroad. The surplus on the capital and financial account improved slightly, as a decline in capital transfers was more than compensated for by a sharp fall in net foreign assets of the commercial bank. The overall balance of payments recorded a surplus of 1.1 percent of GDP, compared with a deficit of 2.6 percent in 1999. Gross official reserves increased to US$44 million, equivalent to about eight months of imports of goods and nonfactor services; however, reflecting the fiscal problems, external debt service arrears also increased, to US$84 million.

11. **The stock of external debt outstanding at end-2000 is estimated at US$225 million** (111 percent of GDP) (Appendix II, Table 2); virtually all multilateral debt data were reconciled following an informal creditors' conference in March 2001, but the external debt database remains quite weak, with considerable gaps. The government remained current on its obligations to the IMF and the World Bank (following the settlement of arrears to the latter in early 2000), but it accumulated further payment arrears to other multilateral creditors, especially the African Development Bank (AfDB) and the Arab Bank for

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[5] Since January 1, 2000, the exchange rate has been fixed at EUR 1 = CF 492, the equivalent of FF 1 = CF 75, compared with FF 1 = CFAF 100 for other African member countries of the franc zone (Figure 2).

[6] The financial system consists of one commercial bank (with assets amounting to 18 percent of GDP), two microfinance organizations, and a postal savings institution. The insolvent government-owned development bank remains inoperative.

Economic Development in Africa (BADEA), and to its bilateral creditors. Of the external arrears, US$55 million was owed to multilateral creditors, mainly the AfDB and BADEA.

III. Policy Discussions and Staff-Monitored Program for 2001–02

12. **The discussions focused on policies to address the two immediate financial problems facing the authorities: (i) the need to reduce long-standing fiscal imbalances,** with a view to regularizing wage payments, as a first step toward rebuilding government services, and to regularizing relations with external creditors, so as to reacquire access to concessional external financing; and **(ii) the need to find resources to finance the political reconciliation process.** The government's medium-term policies are aimed at reducing the widespread poverty in the Comoros, which it considers to be a key factor contributing to the recent political problems (MEFP, paras. 12–14). With the assistance of the UNDP, the authorities have started preparing a national poverty reduction strategy, which they intend to take through a broad-based consultation process in 2002; an interim poverty reduction strategy paper is expected to be completed by end-2001. In the meantime, the government's present program lays the foundation for reforms to improve efficiency in the public and private sectors; for many of these reforms, the government will seek assistance from the World Bank and other donors.

A. Macroeconomic Policies

13. Following a long period of low or negative economic growth, the government's program envisages a modest resumption of real GDP growth of 1 percent in 2001 and of 2 percent in 2002, stemming from enhanced political stability and a resumption in donor support. Year-on-year inflation is targeted to decline to 3.5 percent by end-December 2001 and to 3 percent by end-2002. Fiscal policies aim at avoiding the accumulation of new domestic arrears and at generating a domestic surplus to facilitate the resumption of normal relations with foreign creditors and start repaying domestic debt, including arrears. Monetary policy will continue to aim at maintaining the fixed exchange rate. The medium-term balance of payments projections indicate a decline in gross official reserves from the present level of about 8 months of imports of goods and nonfactor services to about 7 months.

B. Fiscal Policies

14. **The original budget for 2001 included steps to address the sharp shortfall in revenues in 2000** (MEFP, paras. 16–17), including the withdrawal of the tax exemption for the import of personal effects and, in the context of the ongoing tax reforms, a widening of the base of the consumption tax. In addition, the payment of royalties, equivalent to about 0.5 percent of GDP, from the sale of usage rights to the Comoros's international telephone code has resumed following the resolution of access problems to the international telephone system. The resumption of regular tax payments by the SCH and one-off revenues from the payment of its tax arrears would contribute to a increase in revenues of 1 percent of GDP. As a result, domestic revenues were projected to increase by 28 percent, reaching 12.6 percent of GDP. Meanwhile, domestic expenditures were expected to rise by about 15 percent. Although the domestic balance was projected to improve from a small deficit to a surplus of

1 percent of GDP, the budget included, after taking account of the external debt-service obligations, a residual financing gap of about 1.8 percent of GDP, that threatened further domestic and external arrears. With the budget, expenditure control has been strengthened by ensuring that, under the supervision of a cabinet-level cash management committee, commitments will be strictly limited to available resources in the context of the monthly cash-flow plans, in order to avoid new arrears.

15. **The authorities intend to issue a revised budget for 2001, before end-July, to sharply reduce the residual financing gap, make additional resources available for external debt service, and provide for exceptional expenditures related to the political transition** (Box 2). The authorities considered that the overall revenue effort of the Comoros (including estimates for revenue from Anjouan of about 2.5 percent of GDP) is about average for comparable African countries, indicating that, while increasing the revenue to GDP ratio should remain a long-term priority for the government, the short-term emphasis in addressing the fiscal problems should focus on reducing expenditures. They agreed that the large claim of the wage bill on available resources—amounting to about 70 percent of domestic revenues by the mid-1990s—had been a major cause of the persisting large fiscal imbalances in recent years. However, they pointed out that by strengthening controls, civil service employment in the central administration had already been reduced by about 700 positions, out of a total of about 4,000, since early 1999, whereas there had not been any general wage increase since 1995. The government intends to continue exercising wage restraint and to reduce employment where warranted, but further sizable reductions in staffing would depend on detailed sectoral needs assessments and on available financing for retrenchment (MEFP, para. 27). Therefore, the authorities have decided to reduce domestic expenditures on goods and services and capital (while protecting the social sectors) by 5 percent in real terms to about the same nominal level as in 2000 (MEFP, para. 20). In combination with additional revenue measures (MEFP, para. 19), this would increase the domestic surplus to 2.1 percent of GDP, allowing the payment in full of current obligations toward multilateral creditors and of interest on bilateral debt starting in July 2001 (MEFP para. 21), while reducing the residual financing gap (before exceptional expenditures) to only 0.3 percent of GDP.

16. **In addition to the measures to address the core fiscal problems, the government has prepared a program of exceptional expenditures related to the political transition and to lay the basis for reform**, which will be implemented provided sufficient financing can be found. The program, which was prepared with the assistance of the staff and the World Bank, would include provisions for the reintegration of youth militias in Anjouan, resumption of transfers from the federal government to Anjouan, and urgent rehabilitation expenditures in social sectors and basic infrastructure. The authorities agreed with the staff on the need to make a start with reform policies to support public expenditure management; to this end, the budget would include funds for a reduction in the stock of domestic arrears and a modest reduction in the balance on the statutory advance account of the government at the BCC to ease cash management. The total costs of the program, including the small remaining residual financing gaps for 2001 and 2002, are estimated at CF 6.7 billion (US$12.8 million) for the period July 2001–June 2002, of which CF 4.2 billion

Box 2. Budget Revision under the SMP - Fiscal year 2001: Fiscal Adjustment and Costs of Transition
(In million of Comorian francs, unless otherwise indicated)

	Original 2001 budget	Fiscal adjustment 1/	Budget before costs of transition	Costs of transition 2/	Revised 2001 budget
Revenues	14,079		14,323		14,323
Tax revenues	11,645	323	11,968		11,968
Nontax revenues	2,434	-79	2,355		2,355
Current expenditure	16,005		15,559		17,771
of which:					
Wages and salaries	6,267		6,267		6,267
Goods and services	4,484	-1,017	3,467		3,467
Transfers	1,366		1,366		1,366
Interest payments	716	571	1,287		1,287
Costs of transition	982		982	2,212	3,194
Priority rehabilitation expenditures	--		--	879	879
Transition	982		982	417	1,399
Inter-regional transfers	--		--	500	500
Retrenchment	--		--	260	260
Post-conflict	--		--	156	156
Capital expenditure	5,338		5,338		5,877
of which:					
Budgetary capital expenditures	763		763		763
Priority rehabilitation expenditures	--		--	539	539
Overall balance (commitment basis)	-2,297		-1,606		-4,358
Excluding grants	-7,229		-6,538		-9,290
Change in net arrears	-100		156		-844
Interest on external debt	--	156	156	--	156
Domestic arrears	-100	100	--	-1,000	-1,000
Overall balance (cash basis)	-2,397		-1,450		-5,202
Financing	347		1,154		955
Foreign (net)	54		1,461		1,461
Drawings	2,815		2,815		2,815
Amortization	-2,761	522	-2,239		-2,239
Arrears (principal)	--	886	886		886
Domestic (net)	293		-307		-507
Bank financing	-307		-307	-200	-507
of which: IMF (SAF)	-307		-307		-307
Asset sales	600	-600	--		--
Financing need	2,050	-1,753	296	3,950	4,247
Overall domestic balance before exceptional expenditure	1,164		2,425		2,425
Overall domestic balance (commitment basis)	182		1,443		-1,308
			(In percent of GDP)		
Revenues	12.4	0.2	12.6	--	12.6
Domestic expenditure	11.4	-0.9	10.5	--	10.5
Costs of transition	0.9	--	0.9	1.9	2.8
Overall domestic balance before exceptional expenditure	1.0	1.1	2.1	--	2.1
Overall domestic balance (commitment basis)	0.2	1.1	1.3	-2.4	-1.1
Overall balance (cash basis)	-2.1	0.8	-1.3	-3.3	-4.6
Financing need	1.8	-1.5	0.3	3.5	3.7

Sources: Comorian authorities and staff estimates

1/ Includes adjustments to foreign debt service and to asset sales

2/ Includes repayments of suppliers arrears and statutory advance from central bank

(US$8.1 million, or 3.3 percent of GDP) would fall into the 2001 fiscal year. A further CF 2.7 billion (US$4.7 million) was identified for the second half of 2002. **The World Bank is expected to finance US$6 million under the EERC and special Post-Conflict assistance; the government intends to seek financing for the remainder of the program during the upcoming donors meeting.**

17. **Preliminary estimates for the budget for 2002** indicate a small decline in the domestic surplus (before exceptional expenditure) to 1.8 percent of GDP. Revenue is projected to fall to 12 percent of GDP, owing to the absence of the one-off factors of 2001; this is expected to be partly offset by a decline in expenditure of 2 percent of GDP, reflecting the government's policy to maintain a constant nominal wage bill (MEFP, para. 23). Scheduled external debt service is projected to decline. This outcome, as well as the proceeds from the sale of the cellular phone license—which will be shifted to 2002 in the revised budget for 2001 in view of timing uncertainties—would result in a small residual financing gap (before exceptional expenditures) of 0.2 percent of GDP. Including exceptional expenditures, the residual financing gap would amount to 4.3 percent of GDP (CF 5.2 billion). However, the authorities felt that the budget estimates for 2002 were highly provisional until agreements would be reached about the future financial relations among the islands under a new constitution and also hinged on possible agreements about the rescheduling of external debt and the outlook for donor financing following the donor meeting in July. Therefore, they proposed to examine those estimates in more detail with the staff by end-2001, when these issues should be clearer.

18. The government's efforts to improve the fiscal situation will be supported by additional **fiscal management reforms** (MEFP, paras. 24–30). In the long-run, **reform of the tax system** will aim at reducing import tariffs in line with undertakings under regional agreements (MEFP, para. 25). Initially, the government will focus on strengthening customs administration and the elimination of exemptions; in this regard, it is reviewing the possibilities of replacing, in the budget for 2002, tax exemptions for donor-financed projects with refunds through the budget and of eliminating all tax exemptions on government purchases. **Public expenditure management** will be further strengthened and the **reform of the civil service continued.** Initial emphasis will be placed on the education sector, which accounts for more than half of government employment; in the medium-term, the authorities envisage preparing a comprehensive civil service reform program to determine the optimal size of government employment.

19. **The authorities concurred with the staff on the need for equity and transparency in the management of its domestic debt, which consists mainly of wage and suppliers arrears** (MEFP, paras. 28–29). It has already started repaying suppliers' arrears, based on a partial audit of domestic arrears of 1997; it will seek further assistance in completing an audit of all suppliers' arrears, with a view to formulating a comprehensive reimbursement plan by mid-2002. The authorities have started discussions with the civil service unions on how to address the wage arrears. They agreed with the staff on the necessity of finding a comprehensive solution for this problem, but indicated that it may be necessary to make some initial partial payments to facilitate the negotiations.

C. Monetary and Financial Sector Policies

20. Monetary policy will continue to be formulated within the context of the arrangements of the French franc zone. **The key focus of the authorities will be on improving the efficiency of the still small financial sector** (MEFP, para. 31). In this regard, the BCC agreed with the staff on the need to further strengthen banking supervision, indicating that they were seeking additional training opportunities. They also intend to take steps to extend the financial sector legislation and supervision to the emerging microfinance institutions during 2001, and are preparing prudential guidelines for the postal savings institution; legislation is being drafted to separate the latter from the National Post and Telecommunications Company. The government intends to revive the development bank once a strategic partner has been found.

D. External Sector Policies

21. **The Comoros intends to follow trade policies in line with its undertakings under the Cross-Border Initiative/Regional Integration Facilitation Forum.**[7] However, the authorities stated that international trade taxes account for about 60 percent of all government revenues. In order to avoid sharp revenue losses, they therefore intend to focus first on improving customs administration, based on a recent Fund technical assistance report, following which they will review the feasibility of reducing tariffs (the present high tariffs are not a main impediment to higher economic growth in the Comoros, given the small size of the manufacturing sector).

22. **With regard to external debt, the authorities agreed with the staff on the necessity of resuming at least partial debt service to all creditors to regain access to concessional financing.** However, they felt that the fiscal situation did not allow full payment or the payment of the arrears, indicating their intention to seek debt relief, including under the enhanced HIPC initiative.[8] In this context, they will explore the possibility of rescheduling the arrears until these can be considered within the context of possible assistance under the HIPC Initiative (China announced that it would forgive all outstanding debt). Where this is not feasible, it will seek additional financial assistance from other donors. The authorities will continue their efforts to reconcile all debt with the bilateral creditors and will

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[7] The present tariff system consists of three nonzero rate bands of 20, 30, and 40 percent, special rates for tobacco (180 percent) and alcohol (200 percent), and specific rates on a large number of goods (including petroleum products, rice and cement). The government introduced a temporary 5 percent tax on the exports of vanilla and ylang-ylang from the 2000–01 crop season.

[8] A preliminary DSA, prepared by the staffs of the World Bank and the IMF, indicates that the external debt of the Comoros appears unsustainable in the context of the enhanced HIPC Initiative (Appendix II).

request donor assistance to update the external debt database—which suffered from the general decline in government services at the end of the 1990s—and to strengthen debt management. With regard to the latter, all contracting of official government and government guaranteed debt will require prior approval by the Minister of Finance from end-July 2001. The authorities will also abstain from guaranteeing or contracting nonconcessional debt.

E. Structural Reforms, Governance, and Statistics

23. The government will seek support from the World Bank and other donors for the acceleration of **structural reforms,** including with its divestiture program (MEFP, para. 34). The privatization of the electricity company in 1988 has not yet resulted in improved service: it has serious financial problems, and a large shortfall in generating capacity has led to continuous power cuts. In this context, the authorities will request donor assistance for an urgent review of the sector. They concurred with the staff on the need to improve **governance** in the public sector; to increase transparency and accountability and facilitate informed discussion with social partners on fiscal policies, they will resume the publication of the budget, starting in July with the revised budget for 2001. The government will also resume publication of the official journal and publish the annual reports of public enterprises.

24. **Important weaknesses in the economic database, especially in the areas of national accounts, balance of payments, and government finance statistics, hamper timely and accurate economic analysis**. Available official data have been provided to the Fund, albeit with delays. The government agreed with the staff on the importance of improving the database, indicating that they have already undertaken a number of steps toward improvement. With the assistance of the regional statistical organization (AFRISTAT), the basket for the consumer price index has been updated and the compilation method improved in 2000; the UNDP has assisted with the publication of poverty and other social data from the 1995 household budget survey; and the Directorate of Planning, which is responsible for macroeconomic statistics, has been strengthened. The government has requested technical assistance from the Fund to carry out a broad review of its statistical capacity and methodology that will form the basis for a medium-term action plan.

IV. Medium-Term Outlook

25. After more than a decade of negative per capita growth rates, real GDP growth is projected to gradually increase to about the population growth rate by 2004. This projection assumes the removal of the main impediment to economic growth—political instability—and the implementation of policies to improve the efficiency of the economy—especially with regard to the utilities and government-owned corporations—to create an environment conducive to increasing investment. For this medium-term scenario, donor assistance is assumed to increase only moderately following the exceptional expenditure program in 2001 and 2002.

26. Under these assumptions, the medium-term projections for the federal government budget—based on the present financial relations between the islands but including transfers from the central government to Anjouan—indicate a gradual decline in the residual financing need and the elimination of the large fiscal imbalances of previous years. These projections are based on (i) a modest increase in revenue, reflecting in part a slowing of imports following the completion of the exceptional expenditure program;[9] (ii) continued wage constraint, in which wage increases balance a reduction in employment; and (iii) lower scheduled debt-service liabilities, starting in 2002, owing to reduced borrowing in the second half of the 1990s. However, these projections would not allow any room for an additional elimination of arrears after 2002 and only modest increases in expenditure for poverty reduction.

27. The medium-term balance of payments projections indicate a reoccurrence of higher current account deficits from the exceptionally low level in 2000, driven by an increase in the trade deficit. Export receipts are projected to fall by over 20 percent in 2001 and more gradually thereafter as prices return to more normal levels. Imports are expected to increase, reflecting a rebound from small volumes in 2000 and the impact of the exceptional expenditure related to the transition in 2001 and 2002. As a result, the current account deficit (before grants) is projected to double from 4.6 percent of GDP in 2000 to 9.2 percent in 2001, before falling again to about 6 percent of GDP in the following years. This higher deficit is partly financed by larger capital inflows, reflecting the resumption of project financing following the clearance of arrears owed to the World Bank and additional support from other donors, including the European Union (EU). Gross official reserves are expected to decline to 7.3 months of imports of goods and services in 2001, and to remain at around 7 months over the medium-term. The projections do not assume any new foreign debt service arrears, but the outstanding stock of arrears is assumed to remain constant until financing for the budget for its clearance has been assured. Under these assumptions, financings gaps of US$8 million and US$10 million in 2001 and 2002 reflect the program of exceptional expenditures for the transition, which is expected to be financed by donors.

28. The medium-term projections have a high degree of uncertainty at this time. In addition to the usual economic uncertainties, especially with regard to the future price developments of the main export products, there are no details yet on the financial relations between the islands and the central government in the new Comorian entity. A first donor meeting is yet to take place, and discussions on debt rescheduling have only just begun. Also, there are considerable political risks: the reconciliation process appears to have broad domestic and international support, but there have been slippages in the time table and, even after its establishment, it will take time for the new Comorian entity to firmly establish itself. Solving the long-standing fiscal problems will require a high degree of social consensus after a long period of political instability. In view of the uncertainties, the medium-term

[9] The anticipated reduction in import tariffs will also limit the increase in revenue.

projections will be firmed-up once more information is available at the time of the review of the SMP by end-2001.

V. STAFF APPRAISAL

29. The persistent political instability has been costly to the Comoros. The restrictions imposed by the Comoros' membership in the French franc zone have allowed low single-digit inflation rates and an adequate level of international reserves in recent years, despite large fiscal imbalances (which resulted instead in mounting domestic and external arrears); however, the lack of a stable long-term policy environment has been a major factor behind the persisting negative per capita real growth rates. In this regard, the recent agreement on reconciliation and a return to democratic political institutions has enhanced the prospects for addressing the widespread poverty and deep-rooted economic problems. The government has received broad support for its economic and financial program for 2001–02 from the committees preparing the transition, including those who will be represented in the transitional and, after the elections at end-2001, elected government of the new Comorian entity, thus ensuring the continuity of the policies. The program should be implemented vigorously, thus laying the basis for a resumption of foreign assistance, which is urgently needed in addressing the serious issue of poverty in the country.

30. The core objective of the government's program is improving fiscal sustainability by tackling two long-standing fiscal problems—the large claim of wages on available resources and the burden of external debt. Following disruptions in 1997 and 1998, the authorities have made good progress during the last two years in regaining control over the wage bill and government employment. The staff understands the government's reluctance to implement further drastic measures in this area, but strongly recommends that it proceed quickly with the technical audit for the education sector, followed by other sectors. Such audits would not only allow a better assessment of the possibility of further reducing staffing levels, but would also be first steps in rebuilding critical public services in the context of a comprehensive public sector reform program.

31. The Comoros has continued to reform the tax system in recent years, but so far, progress was mainly in domestic taxes, whereas much remains to be done with regard to improving customs administration. Therefore, the staff recommends that the authorities shift the focus of reforms from domestic taxes to customs and prepare urgently an action program to improve customs administration, based on the recent Fund technical assistance report; strengthening customs is an important condition for the financial feasibility of future import tariff reductions in line with regional agreements.

32. The staff welcomes the government's plans to reestablish the domestic debt commission and to formulate a plan for the clearance of suppliers' arrears on the basis of an external and comprehensive audit of all arrears. It will be important to approach the wage arrears in a similarly transparent, comprehensive, and equitable way—including across islands—within the available resources. Repaying previous years' arrears while incurring new ones will only

perpetuate the problem. In this respect, the staff would urge the authorities and the trade unions to give priority to avoiding new arrears.

33. The new Comorian constitution is expected to feature a larger degree of administrative and fiscal decentralization. The staff welcomes the establishment of an additional subcommittee of the Tripartite Commission to prepare the technical details of this complicated issue, and recommends that the authorities proceed cautiously in designing the future interregional fiscal structure. They should take particular care to ensure that enhanced autonomy does not lead a dilution of already limited capacity and an increase in the cost of a multilayered administration.

34. The Comoros has benefited from its membership in the French franc zone, which provided monetary discipline, a stable exchange rate, and low inflation during a very difficult period. In light of this, the staff supports the fixed exchange rate system, but urges the authorities to improve the country's competitiveness by accelerating structural reforms, especially with regard to the inefficient utility and parastatal sectors. The financial sector remains underdeveloped and the staff concurs with the authorities' strategy of supporting the development of community microfinance organizations and bringing them under the formal regulatory umbrella. In this regard, the staff would urge the authorities to step up efforts to strengthen the central bank's supervisory capacity through ongoing Fund technical assistance.

35. The authorities have made good progress in reconciling the external debt data. This progress has allowed the staffs of the World Bank and the Fund to prepare a provisional DSA, which indicates that the external debt of the Comoros appears to be unsustainable in the context of the enhanced HIPC Initiative. Some creditors have already indicated their willingness to discuss debt relief; a crucial issue is finding a solution for the high level of arrears owed to the AfDB and to other multilateral and bilateral creditors. Provided the Comoros implements successfully the SMP, a request for a PRGF arrangement and a preliminary HIPC document could be submitted to the Board by mid-2002.

36. Deficiencies over a broad range of economic statistics complicate program design and monitoring. Nevertheless, the authorities have committed themselves to providing data required for program monitoring; monetary data are currently received on a timely basis, and budgetary data, although still subject to some delay, have improved, allowing the staff to carry out surveillance. The authorities are attempting to address the statistical weaknesses; the staff agrees with the need for technical assistance to complement their efforts.

37. The government's program, formulated at a time when the country is embarking on a major political transition process, is an indication of its commitment to improve economic management and social conditions. The program focuses on short-term issues, with a view to finding resources and soliciting assistance for the reconciliation process. The medium-term projections entail considerable uncertainties and risks, and will need to be updated once the future structure of the Comoros is known and the political reconciliation process successfully completed. With these caveats, the projections indicate the feasibility of sustainable fiscal

and balance of payments developments, but also show that a lack of additional donor support and the resulting very tight fiscal situation would strain social cohesion and allow only very small increases in spending on the social sectors to alleviate the widespread poverty. In recognition of this, the program contains many elements of structural reform that provide the basis for a medium-term poverty reduction program that could be supported under the PRGF and under the HIPC Initiative, and for financial and technical assistance by multilateral and bilateral donors.

38. It is proposed that the next Article IV consultation with the Comoros be held on the standard 12-month cycle. The authorities have agreed to the publication of the staff report and the letter of intent, including the annexes.

Box 3. Comoros—Structural Conditionality

1. Coverage of Structural Conditionality in the Current Program

The structural benchmarks focus on fiscal transparency (an important condition for improving social relations and resolving the problem of large wage arrears); revenue and expenditure management measures (to improve revenue and avoid arrears); the strengthening of domestic and external debt management (to clear old and avoid new arrears); and financial sector legislation (to strengthen the embryonic financial sector).

2. Status of Structural Conditionality from Earlier Programs

There have been no prior ESAF or PRGF arrangements. The most recent financial arrangement is an arrangement under the Structural Adjustment Facility during 1991–94.

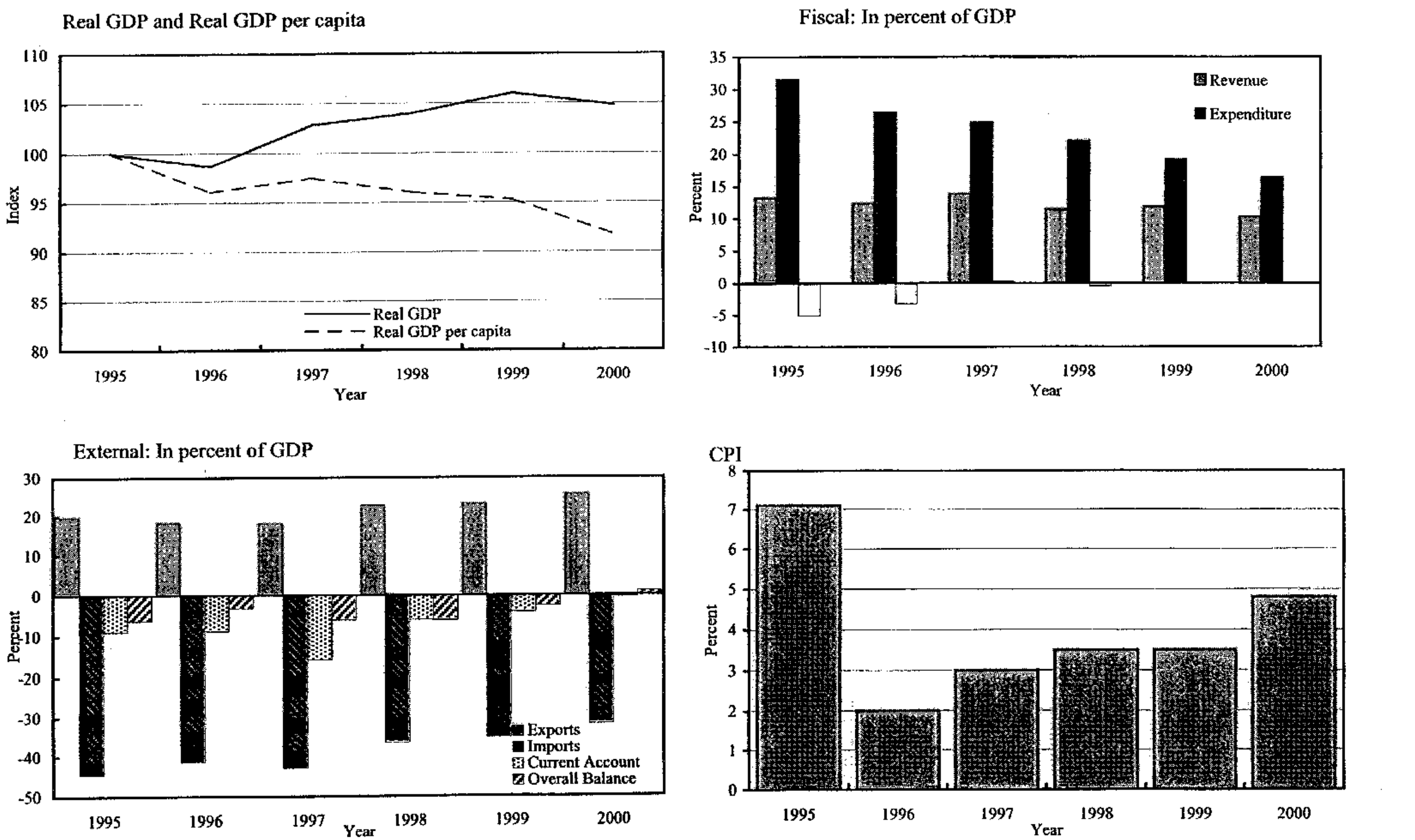
3. Structural Areas Covered by World Bank Lending and Conditionality

The World Bank has presently no adjustment lending to the Comoros (Appendix IV). The proposed IDA Emergency Economic Recovery Credit has no policy conditionality but its disbursement will be subject to monitoring and reviews of agreed use of counterpart funds. The Bank is providing financial and technical assistance to the authorities with the restructuring and privatization of public enterprises, civil service reform, and infrastructure and social policy reforms under existing investment projects. A study on development prospects, which is financed under an IDF grant, will examine structural impediments to growth and poverty reduction, and identify options for reforms, with a view to being integrated in the Comoros' PRSP.

4. Other Relevant Structural Conditions not Included in the Current Program

Other relevant structural issues concern: (i) the future financial relations between the islands and the central authority in the context of the new Comorian entity (no conditionality included since the new constitution is not yet available); (ii) strengthening of the electricity and water sector(s) (macro-relevant, but outside Fund competence; the government will ask donors to finance a study); (iii) strengthening of the statistical database (authorities have requested IMF technical assistance to review needs).

Figure 1. Comoros: Economic Indicators, 1995 - 2000



Source: Comorian authorities and staff estimates

Figure 2. Comoros: Effective Exchange Rates, January 1993-December 2000
(Average 1995=100)

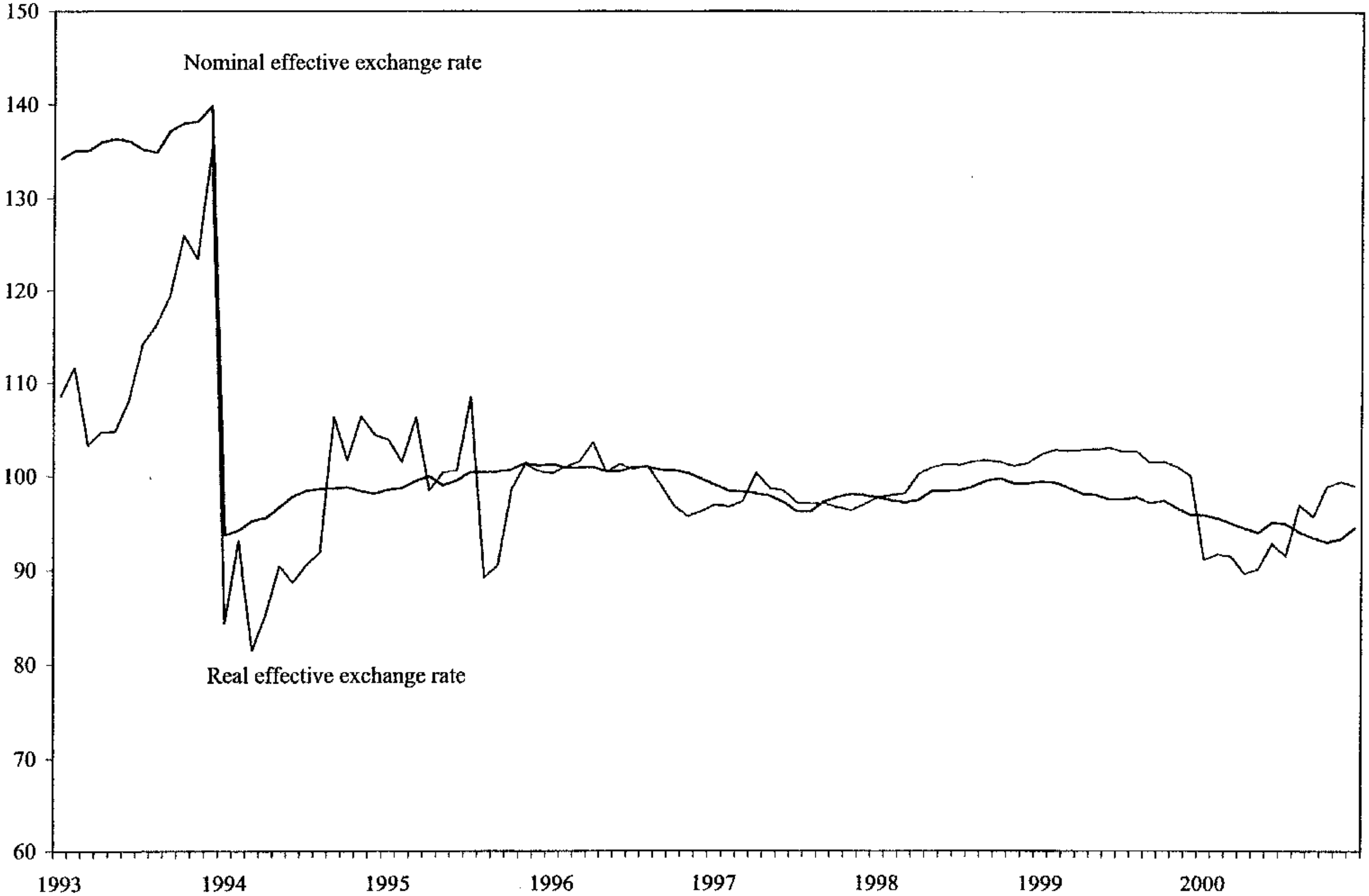


Table 1. Comoros: Selected Economic and Financial Indicators, 1996-2004

	1996	1997	1998	1999	2000 Est.	2001 Prog.	2002 Prog.	2003 Projections	2004 Projections
	(Annual percentage change, unless otherwise specified)								
National income and prices									
Real GDP	-1.3	4.2	1.2	1.9	-1.1	1.0	2.0	2.0	3.0
Real GDP per capita	-3.9	1.5	-1.5	-0.8	-3.7	-1.7	-0.7	-0.7	0.3
Nominal GDP (in billions of Comorian francs)	88.4	92.8	95.3	102.8	107.8	113.8	119.9	125.5	132.7
Consumer price index (annual averages)	2.0	3.0	3.5	3.5	-1.9	3.5	3.0	3.0	3.0
Consumer price index (end of period)	-1.8	3.5	3.5	3.5	4.8	3.5	3.0	3.0	3.0
External sector									
Exports, f.o.b.	-42.5	8.0	0.1	58.9	54.6	-22.5	-9.3	-12.9	-1.1
Imports, f.o.b.	-6.2	12.2	-11.1	6.8	1.8	14.9	2.8	-1.6	3.0
Export volume	-31.9	35.4	9.5	-22.9	-8.0	-8.3	-4.0	3.0	13.1
Import volume	-3.3	5.0	-17.5	-1.0	-2.9	21.6	0.3	-3.6	1.1
Terms of trade	-13.0	-25.4	-15.3	91.0	57.1	-10.6	-6.0	-16.6	-14.2
Government budget									
Domestic revenue	-13.2	15.5	-15.2	6.0	-17.6	23.8	-3.1	6.3	8.7
Total expenditure and net lending	-14.5	-1.2	-8.8	-6.5	-10.4	34.1	-4.3	-1.5	5.0
Current expenditure	-16.2	-4.0	-22.1	3.6	-4.6	31.7	-5.4	-4.8	3.7
Capital expenditure and net lending	-7.8	8.8	32.8	-25.2	-24.8	41.4	-1.6	8.3	8.3
Money and credit									
Domestic credit	-17.4	8.3	19.6	-3.5	4.7	-0.1	-1.1	..	..
Credit to government	-6.1	-1.7	80.1	-0.6	-9.4	-15.5	-32.6	..	..
Credit to the rest of the economy	-14.1	6.9	8.7	-6.8	14.4	5.2	7.8	..	..
Broad money	6.4	3.1	-6.6	7.0	14.5	2.2	5.3	..	..
Velocity (GDP/average broad money)	5.0	5.1	5.6	5.6	5.1	5.3	5.3	..	..
Interest rate (in percent, end of period)	8.5	7.0	7.0	5.9	5.9	5.9	..	..	..
	(In percent of GDP, unless otherwise specified)								
Investment and savings									
Gross domestic investment	13.6	13.4	14.7	11.9	10.4	11.8	11.5	11.7	11.9
Public	5.8	6.0	7.8	5.4	3.9	5.2	4.8	5.0	5.1
Private	7.9	7.4	7.0	6.5	6.6	6.6	6.7	6.7	6.8
Gross national savings	4.9	-2.4	8.7	7.8	10.0	6.9	7.1	9.0	9.8
Public	0.6	4.0	4.8	5.0	1.9	1.3	1.5	3.0	3.7
Private	4.3	-6.4	3.8	2.8	8.1	5.6	5.6	5.9	6.1
External current account (after grants)	-8.7	-15.8	-6.1	-4.1	-0.4	-4.8	-4.3	-2.8	-2.0
Government budget									
Domestic revenue	12.3	13.8	11.4	11.8	10.2	12.6	12.0	12.1	12.5
Total grants	8.2	8.8	7.3	6.6	4.2	4.3	3.6	3.7	3.8
Total expenditure	26.4	24.9	22.1	19.1	16.3	20.7	18.9	17.7	17.6
Overall domestic balance [1]	-3.3	0.3	-0.4	-0.2	-0.2	2.1	1.8	0.0	0.0
Overall balance (commitment basis) [2]	-5.8	-2.2	-3.4	-0.8	-1.9	-3.8	-3.3	-1.9	-1.4
Overall balance (cash basis) [2]	-2.7	-1.8	-3.9	0.3	0.3	-4.6	-5.0	-1.9	-1.4
External sector									
Current external balance	-8.7	-15.8	-6.1	-4.1	-0.4	-4.8	-4.3	-2.8	-2.0
Total external debt outstanding [3]	..	..	..	..	111.3	104.3	99.4	95.7	91.6
External debt service (incl. the Fund)	7.8	5.3	5.3	4.8	4.3	3.4	3.1	2.7	3.1
Including the Fund/Exports (GNFS)	42.7	30.0	23.9	21.7	18.1	15.3	14.4	12.7	14.0
Excluding the Fund/Exports (GNFS)	42.7	29.3	23.4	20.9	16.9	14.2	13.7	12.0	13.7
	(In millions of U.S. dollars, unless otherwise specified)								
Overall balance of payments	-7.3	-13.0	-13.2	-5.9	2.1	-9.2	-7.5	-4.2	-1.2
External payments arrears (end of year) [3]	..	..	..	..	83.7	85.7	85.7	85.7	85.7
Gross international reserves (end of period)	51.3	43.2	36.7	36.7	43.6	45.2	48.0	46.6	46.0
(equivalent in months of imports of goods and nonfactor services, c.i.f.)	6.5	5.5	5.7	6.1	8.0	7.3	7.7	7.5	7.2
Exchange rate									
Comoros franc per U.S. dollar (period average)	383.7	437.8	442.5	461.8	534.0	..	..	..	..

Sources: Data provided by the Comorian authorities; and IMF staff estimates and projections.

[1] On a commitment basis before exceptional expenditures; excludes foreign grants, foreign-funded technical assistance and capital expenditures, and foreign debt service

[2] Including grants.

[3] Reconciled data not available before 2000.

Table 2. Comoros: Consolidated Government Financial Operations, 1996-2004
In millions of Comorian francs, unless otherwise indicated)

	1996	1997	1998 Est.1/ 2/	1999 Est. 1/	2000 Est. 1/	2001 Progr. 1/	2002 Progr. 1/	2003 Progr. 1/	2004 Progr. 1/
Total revenue and grants	18,195	21,011	17,812	18,885	15,557	19,255	18,657	19,829	21,546
Revenues	10,909	12,828	10,865	12,079	11,018	14,323	14,390	15,221	16,570
Tax revenues	9,568	11,968	9,277	10,509	9,724	11,968	11,942	12,768	14,110
Nontax revenues	1,341	860	1,588	1,570	1,294	2,355	2,448	2,453	2,460
Exceptional revenue	--	--	--	--	--	--	--	--	--
External grants	7,286	8,182	6,947	6,806	4,539	4,933	4,267	4,608	4,977
Budgetary assistance	1,380	250	--	--	--	--	--	--	--
Project financing (incl. TA)	5,906	7,932	6,947	6,359	4,513	4,933	4,267	4,608	4,977
Other nonbudgetary aid	--	--	--	447	26	--	--	--	--
Total expenditure and net lending	23,353	23,076	21,038	19,669	17,614	23,613	22,599	22,264	23,370
Current expenditure	18,239	17,512	13,648	14,138	13,493	17,771	16,818	16,004	16,591
Budgetary	13,873	13,012	11,886	13,055	12,066	12,387	12,146	12,403	12,725
Wages and salaries	8,285	8,553	7,190	6,430	6,093	6,267	6,267	6,267	6,267
Goods and services	4,149	3,307	3,121	4,642	4,169	3,467	3,652	3,823	4,041
Transfers	662	265	615	1,033	844	1,366	1,439	1,506	1,592
Interest payments	777	887	960	950	960	1,287	789	806	825
External debt					890	1,217	719	736	755
Domestic debt					70	70	70	70	70
Technical assistance	4,366	4,500	1,762	1,083	1,427	2,190	2,365	2,554	2,759
Other expenditures 3/	--	--	--	--	--	3,194	2,307	1,047	1,107
Priority rehabilitation expenditures	--	--	--	--	--	879	580	--	--
Transition	--	--	--	--	--	1,399	208	--	--
Inter-regional Transfers	--	--	--	--	--	500	1,000	1,047	1,107
Retrenchment	--	--	--	--	--	260	260	--	--
Post-conflict	--	--	--	--	--	156	259	--	--
Capital expenditure	5,115	5,564	7,390	5,531	4,157	5,877	5,781	6,260	6,779
Budgetary	703	400	360	192	130	763	839	923	1,016
Financed externally	4,411	5,164	7,030	5,339	4,027	4,576	4,942	5,337	5,764
Priority rehabilitation expenditures	--	--	--	--	--	539	--	--	--
Net lending	--	--	--	--	-35	-35	--	--	--
Overall balance (payment order)	-5,159	-2,065	-3,226	-784	-2,057	-4,358	-3,943	-2,435	-1,824
Excluding grants	-12,444	-10,247	-10,173	-7,590	-6,596	-9,290	-8,209	-7,043	-6,800
Change in net arrears	2,755	404	2,677	624	1,965	-844	-2,000	--	--
Interest on external debt	590	122	887	534	551	156	--	--	--
Domestic arrears 4/	2,166	281	1,790	90	1,413	-1,000	-2,000	--	--
Others (unidentified residuals) 5/	--	--	-3,191	495	395	--	--	--	--
Overall balance (cash basis)	-2,403	-1,661	-3,740	336	302	-5,202	-5,943	-2,435	-1,824
Financing	2,403	1,661	3,740	-336	-302	955	724	1,097	1,668
Foreign (net)	2,536	1,695	1,593	-504	108	1,461	1,026	1,280	1,759
Drawings, PIP (identified)	2,872	1,731	1,845	63	940	2,815	3,040	3,283	3,546
Drawings, adjustment loans	--	118	--	--	--	--	--	--	--
Amortization	-6,138	-4,045	-3,782	-4,367	-3,766	-2,239	-2,014	-2,003	-1,787
Exceptional financing	3,434	2,220	--	--	--	--	--	--	--
Arrears (principal)	2,369	1,671	3,530	3,801	2,933	886	--	--	--
Domestic (net)	-133	-34	2,147	168	-410	-507	-302	-183	-91
Bank financing 6/	-133	-34	1,615	-21	-210	-507	-902	-183	-91
of which: IMF (SAF)	--	--	--	--	-172	-307	-184	-183	-91
Deposits and claims on Treasury	--	--	532	-11	--	--	--	--	--
Nonbank financing	--	--	--	200	-200	--	--	--	--
Asset sales		--	--	--	--	--	600	--	--
Financing need	--	--	--	--	--	4,247	5,219	1,338	156
Fiscal balances 7/									
Domestic primary current balance	-2,186	703	-61	-26	-88	3,223	3,033	2,578	3,562
Current balance (excluding grants)	-2,964	-184	-1,021	-976	-1,048	1,936	2,244	2,818	3,844
Overall domestic balance before exceptional expenditures	-2,889	303	-421	-218	-253	2,425	2,123		
Overall domestic balance (commitment basis)	-2,889	303	-421	-218	-253	-1,308	-184	1,585	2,477

Sources: Ministry of Finance and staff estimates

1/ Excludes Anjouan (for the second half of 2001 and for 2002, inter-regional transfers reflect an estimate of the financing requirement for the island budget)

2/ December 1998 estimates

3/ Includes costs of election, rehabilitation expenditures, civil service reform and inter-regional transfers

4/ Net arrears accumulation (preliminary estimates)

5/ Unidentified receipts (+)/payments (-)

6/ Financing from BCC and BIC

7/ Domestic balances exclude foreign grants, foreign-funded project spending (TA and capital expenditures), and foreign debt service

Table 2. Comoros: Federal Government Financial Operations, 1996-2004 (concluded)
(In percent of GDP, unless otherwise indicated)

	1996	1997	1998 Est.1/	1999 Est.1/	2000 Prov. 1/	2001 Progr. 1/	2002 Prog.	2003 Projections	2004
Total revenue and grants	20.6	22.6	18.7	18.4	14.4	16.9	15.6	15.8	16.2
Revenues	12.3	13.8	11.4	11.8	10.2	12.6	12.0	12.1	12.5
Tax revenues	10.8	12.9	9.7	10.2	9.0	10.5	10.0	10.2	10.6
Nontax revenues	1.5	0.9	1.7	1.5	1.2	2.1	2.0	2.0	1.9
Exceptional revenue	--	--	--	--	--	--	--	--	--
External grants	8.2	8.8	7.3	6.6	4.2	4.3	3.6	3.7	3.8
Budgetary assistance	1.6	0.3	--	--	--	--	--	--	--
Project financing (incl. TA)	6.7	8.5	7.3	6.2	4.2	4.3	3.6	3.7	3.8
Other nonbudgetary aid	--	--	--	0.4	0.0	--	--	--	--
Total expenditure and net lending	26.4	24.9	22.1	19.1	16.3	20.7	18.9	17.7	17.6
Current expenditure	20.6	18.9	14.3	13.8	12.5	15.6	14.0	12.8	12.5
Budgetary	15.7	14.0	12.5	12.7	11.2	10.9	10.1	9.9	9.6
Wages and salaries	9.4	9.2	7.5	6.3	5.7	5.5	5.2	5.0	4.7
Goods and services	4.7	3.6	3.3	4.5	3.9	3.0	3.0	3.0	3.0
Transfers	0.7	0.3	0.6	1.0	0.8	1.2	1.2	1.2	1.2
Interest payments	0.9	1.0	1.0	0.9	0.9	1.1	0.7	0.6	0.6
External debt	--	--	--	--	0.8	1.1	0.6	0.6	0.6
Domestic debt	--	--	--	--	0.1	0.1	0.1	0.1	0.1
Technical assistance	4.9	4.8	1.8	1.1	1.3	1.9	2.0	2.0	2.1
Other expenditures 3/	--	--	--	--	--	2.8	1.9	0.8	0.8
Priority rehabilitation expenditures	--	--	--	--	--	0.8	0.5	--	--
Transition	--	--	--	--	--	1.2	0.2	--	--
Inter-regional Transfers	--	--	--	--	--	0.4	0.8	0.8	0.8
Retrenchment	--	--	--	--	--	0.2	0.2	--	--
Post-conflict	--	--	--	--	--	0.1	0.2	--	--
Capital expenditure	5.8	6.0	7.8	5.4	3.9	5.2	4.8	5.0	5.1
Budgetary	0.8	0.4	0.4	0.2	0.1	0.7	0.7	0.7	0.8
Financed externally	5.0	5.6	7.4	5.2	3.7	4.0	4.1	4.3	4.3
Priority rehabilitation expenditures	--	--	--	--	--	0.5	--	--	--
Net lending	--	--	--	--	-0.0	-0.0	--	--	--
Overall balance (payment order)	-5.8	-2.2	-3.4	-0.8	-1.9	-3.8	-3.3	-1.9	-1.4
Excluding grants	-14.1	-11.0	-10.7	-7.4	-6.1	-8.2	-6.8	-5.6	-5.1
Change in net arrears	3.1	0.4	2.8	0.6	1.8	-0.7	-1.7	--	--
Interest on external debt	0.7	0.1	0.9	0.5	0.5	0.1	--	--	--
Domestic arrears	2.4	0.3	1.9	0.1	1.3	-0.9	-1.7	--	--
Others (unidentified residuals) 4/	--	--	-3.3	0.5	0.4	--	--	--	--
Overall balance (cash basis)	-2.7	-1.8	-3.9	0.3	0.3	-4.6	-5.0	-1.9	-1.4
Financing	2.7	1.8	3.9	-0.3	-0.3	0.8	0.6	0.9	1.3
Foreign (net)	2.9	1.8	1.7	-0.5	0.1	1.3	0.9	1.0	1.3
Drawings, PIP (identified)	3.2	1.9	1.9	0.1	0.9	2.5	2.5	2.6	2.7
Drawings, adjustment loans	--	0.1	--	--	--	--	--	--	--
Amortization	-6.9	-4.4	-4.0	-4.2	-3.5	-2.0	-1.7	-1.6	-1.3
Exceptional financing	3.9	2.4	--	--	--	--	--	--	--
Arrears (principal)	2.7	1.8	3.7	3.7	2.7	0.8	--	--	--
Domestic (net)	-0.2	-0.0	2.3	0.2	-0.4	-0.4	-0.3	-0.1	-0.1
Bank financing	-0.2	-0.0	1.7	-0.0	-0.2	-0.4	-0.8	-0.1	-0.1
of which: IMF (SAF)	--	--	--	--	-0.2	-0.3	-0.2	-0.1	-0.1
Deposits and claims on Treasury	--	--	0.6	-0.0	--	--	--	--	--
Nonbank financing	--	--	--	0.2	-0.2	--	--	--	--
Asset sales	--	--	--	--	--	--	0.5	--	--
Financing need	--	--	--	--	--	3.7	4.4	1.1	0.1
Fiscal balances	--	--	--	--	--	--	--	--	--
Domestic primary current balance 5/	-2.5	0.8	-0.1	-0.0	-0.1	2.8	2.5	2.1	2.7
Current balance (excluding grants)	-3.4	-0.2	-1.1	-0.9	-1.0	1.7	1.9	2.2	2.9
Overall domestic balance before exceptional expenditures 5/	-3.3	0.3	-0.4	-0.2	-0.2	2.1	1.8	--	--
Overall domestic balance (commitment basis) 5/	-3.3	0.3	-0.4	-0.2	-0.2	-1.1	-0.2	1.3	1.9
Nominal GDP (in millions of comorian francs)	88,432	92,836	95,304	102,781	107,801	113,814	119,872	125,501	132,663
Share of Wage Bill in:									
Revenues	75.9	66.7	66.2	53.2	55.3	43.8	43.6	41.2	37.8
Domestic Expenditures 5/	60.0	68.3	63.7	52.3	54.2	41.6	43.2	46.2	44.7
GDP	9.4	9.2	7.5	6.3	5.7	5.5	5.2	5.0	4.7

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

1/ Reflects the interruption of financial relations between the federal government and the island of Anjouan.

2/ February 2001 budget.

3/ For 2001 and 2002, includes costs of election, rehabilitation expenditures, civil service reform and inter-regional transfers under the exceptional expenditure program.

4/ Unidentified receipts (+)/payments (-)

5/ Domestic balances exclude foreign grants, foreign-funded technical assistance and capital expenditures, and foreign debt service

Table 3. Monetary Survey 1996-2002
(In millions of Comorian francs, unless otherwise indicated)

4:50 PM 25-Jun-01	1996	1997	1998	1999	2000	2001 Prog.	2002 Prog.
Net foreign assets	19,339	18,765	17,737	19,890	22,813	23,327	24,668
Central bank	18,499	16,838	15,398	17,124	22,102	22,616	23,957
Assets	19,950	18,298	16,581	18,295	23,017	23,531	24,872
Liabilities	-1,451	-1,460	-1,183	-1,171	-915	-915	-915
Commercial bank	840	1,927	2,339	2,766	711	711	711
Assets	848	1,927	2,373	3,966	3,009	3,009	3,009
Liabilities	-8	--	-34	-1,200	-2,298	-2,298	-2,298
					--		
Net domestic assets	-1,523	-391	-579	-1,529	-1,794	-1,852	-2,051
Domestic credit	9,674	10,474	12,528	12,087	12,661	12,643	12,508
Net credit to government	2,050	2,016	3,631	3,610	3,272	2,765	1,864
Bank financing	2,050	2,016	3,631	3,610	3,272	2,765	1,864
Claims on government	3,905	3,740	4,307	4,368	4,158	3,651	2,750
Deposits of government	-1,855	-1,724	-676	-758	-886	-886	-886
Claims on public enterprises	107	426	165	335	74	74	74
Claims on private sector	7,517	8,032	8,732	8,142	9,315	9,804	10,571
Other items net	-11,197	-10,865	-13,107	-13,616	-14,455	-14,495	-14,559
Broad money	17,816	18,374	17,158	18,361	21,019	21,474	22,617
Money	11,649	10,603	10,175	11,662	14,115	14,421	15,188
Currency in circulation	5,639	5,433	5,418	6,310	7,564	7,728	8,139
Demand deposits	6,010	5,170	4,757	5,352	6,551	6,693	7,049
Quasi-money	6,167	7,771	6,983	6,699	6,904	7,054	7,429
			(Annual percentage change)				
Net foreign assets	23.2	-3.0	-5.5	12.1	14.7	2.3	5.8
Domestic credit	-17.4	8.3	19.6	-3.5	4.7	-0.1	-1.1
Net credit to government	-6.1	-1.7	80.1	-0.6	-9.4	-15.5	-32.6
Credit to public enterprises	-86.1	298.1	-61.3	103.0	-77.9	--	--
Credit to private sector	-14.1	6.9	8.7	-6.8	14.4	5.2	7.8
Other items (net)	5.0	-3.0	20.6	3.9	6.2	0.3	0.4
Broad money	6.4	3.1	-6.6	7.0	14.5	2.2	5.3
Money	3.1	-9.0	-4.0	14.6	21.0	2.2	5.3
Quasi-money	13.3	26.0	-10.1	-4.1	3.1	2.2	5.3
			(Annual changes in percent of beginning-of-period broad money)				
Net foreign assets	21.8	-3.2	-9.0	12.6	15.9	2.4	6.2
Domestic credit	-12.1	4.5	16.0	-2.6	3.1	-0.1	-0.6
Net credit to government	-0.8	-0.2	8.9	-0.1	-1.8	-2.4	-4.2
Credit to public enterprises	-4.0	1.8	0.3	1.0	-1.4	--	--
Credit to private sector	-7.4	2.9	6.8	-3.4	6.4	2.3	3.6
Other items (net)	-3.2	1.9	-10.7	-3.0	-4.6	-0.2	-0.3
Broad money	6.4	3.1	-3.7	7.0	14.5	2.2	5.3
Money	2.1	-5.9	-8.3	8.7	13.4	1.5	3.6
Quasi-money	4.3	9.0	4.6	-1.7	1.1	0.7	1.7
Memorandum items:							
GDP at current prices (in billions of Comorian francs)	88.4	92.8	95.3	102.8	107.8	113.8	119.9
Velocity	5.0	5.1	5.6	5.6	5.1	5.3	5.3
M1/M2 (in percent)	65.4	57.7	59.3	63.5	67.2	67.2	67.2

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

Table 4. Comoros: Balance of Payments, 1996-2006
(In millions of US dollars, unless otherwise indicated)

5:03 PM 25-Jun-01	1996	1997	1998	1999	2000 Prov.	2001 Prog.	2002 Prog.	2003 Projections	2004	2005	2006
Trade balance	-42.6	-42.1	-36.4	-34.3	-26.0	-35.3	-37.6	-38.1	-39.7	-41.6	-43.8
Exports, f.o.b.	6.3	6.0	5.9	9.1	12.1	9.6	8.8	7.7	7.6	8.0	8.5
Vanilla	2.7	2.6	2.4	4.0	7.7	5.2	4.2	3.4	3.6	3.9	4.1
Cloves	0.5	0.8	0.4	2.5	2.3	2.4	2.5	2.1	1.7	1.8	1.9
Ylang-ylang	1.7	1.6	1.3	1.2	1.7	1.8	1.9	1.9	1.9	2.0	2.1
Other	1.4	1.0	1.8	1.3	0.5	0.2	0.3	0.3	0.3	0.3	0.4
Imports, f.o.b.	-49.0	-48.1	-42.3	-43.3	-38.1	-44.9	-46.4	-45.8	-47.3	-49.6	-52.3
Services balance (net)	-10.1	-10.4	6.3	7.5	13.8	12.3	16.3	19.4	21.8	23.8	26.4
Nonfactor services (net)	-10.5	-10.6	6.7	7.3	13.4	12.5	15.6	18.7	21.1	23.2	25.3
Exports	35.9	32.5	43.1	42.4	39.7	41.9	44.1	47.4	51.0	54.3	57.9
Of which											
Travel receipts	24.5	22.1	31.2	30.7	30.5	32.2	33.9	36.8	39.8	42.7	45.8
Imports	-46.4	-43.1	-36.3	-35.0	-26.2	-29.4	-28.6	-28.7	-29.8	-31.1	-32.6
Factor services (net)	0.4	0.2	-0.4	0.2	0.3	-0.2	0.8	0.7	0.6	0.6	1.2
Of which											
Interest payments	-2.0	-2.0	-2.2	-2.1	-1.7	-2.3	-1.4	-1.4	-1.4	-1.5	-1.5
Private transfers (net)	12.1	--	0.2	2.0	2.9	3.0	3.0	3.1	3.1	3.2	3.2
Official transfers	20.6	19.1	16.7	15.6	8.5	9.5	8.2	8.9	9.7	10.3	10.9
Current account (excl. official transfers)	-40.7	-52.5	-29.8	-24.8	-9.4	-20.0	-18.2	-15.6	-14.8	-14.6	-14.2
Current account (incl. official transfers)	-20.1	-33.4	-13.1	-9.1	-0.9	-10.5	-10.0	-6.7	-5.2	-4.3	-3.3
Direct investment	0.9	0.2	0.4	0.3	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Medium- and long-term borrowing	-7.3	-4.8	-3.8	-6.1	-5.3	1.1	2.0	2.5	3.4	3.8	4.3
Gross borrowing	8.7	4.4	5.1	3.4	1.8	5.4	5.9	6.3	6.9	7.3	7.8
Amortization	-16.0	-9.2	-9.0	-9.5	-7.1	-4.3	-3.9	-3.9	-3.5	-3.5	-3.5
Trade-related credits	0.2	1.6	-1.7	0.0	-0.6	0.2	0.4	-0.1	0.5	0.6	0.7
Commercial banks	-0.1	-2.5	-0.9	-0.9	3.8	--	--	--	--	--	--
Foreign assets	0.1	-2.5	-1.0	-3.4	3.8	--	--	--	--	--	--
Foreign liabilities	-0.2	-0.0	0.1	2.5	--	--	--	--	--	--	--
Short-term capital (including errors and omissions)	19.2	26.0	5.9	10.0	5.0	--	--	--	--	--	--
Capital account	12.9	20.5	-0.2	3.3	3.0	1.4	2.5	2.6	4.0	4.6	5.2
Overall balance	-7.3	-13.0	-13.2	-5.9	2.1	-9.2	-7.5	-4.2	-1.2	0.3	2.0
Financing	7.3	13.0	13.2	5.9	-2.1	9.2	7.5	4.2	1.2	-0.3	-2.0
Central Bank	-9.4	3.8	3.3	-3.7	-9.3	-1.0	-2.6	1.5	0.7	-0.2	-1.9
Foreign assets	-9.2	3.8	3.9	-3.7	-8.8	-1.0	-2.6	1.5	0.7	-0.2	-1.9
Foreign liabilities	-0.2	0.0	-0.6	-0.0	-0.5	--	--	--	--	--	--
Of which											
Use of Fund credit	--	-0.2	-0.2	-0.4	-0.3	-0.6	-0.4	-0.4	-0.2	--	--
Valuation change	--	--	--	--	--	--	--	--	--	--	--
Change in arrears	7.7	4.1	10.0	9.6	7.2	2.0	--	--	--	--	--
Exceptional financing	8.9	5.1	--	--	--	--	--	--	--	--	--
Financing gap	--	--	--	--	--	8.1	10.1	2.7	0.4	--	--
Memorandum items:											
Arrears (end of period) [1]	..	..	..	..	83.7	85.7	85.7	85.7	85.7	85.7	85.7
External debt (end of period, incl. arrears & IMF) [1]	..	..	..	..	224.6	227.7	229.7	232.2	235.6	239.4	243.7
Current account as percent of GDP											
Excluding transfers	-17.7	-24.8	-13.8	-11.1	-4.6	-9.2	-7.9	-6.4	-5.8	-5.3	-4.9
Including transfers	-8.7	-15.8	-6.1	-4.1	-0.4	-4.8	-4.3	-2.8	-2.0	-1.6	-1.1
External debt (including arrears & IMF)(percent of GDP)	90.8	86.1	86.4	79.9	111.3	74.6	72.6	40.8	38.7	36.8	34.8
Exchange rate CF/US$ (period average)	383.7	437.8	442.5	461.8	534.0	..	..	..	..	..	..
Gross foreign assets of the Central Bank	51.3	43.2	36.7	36.7	43.6	45.2	48.0	46.6	46.0	46.3	48.4
In months of imports of goods and nonfactor services, c.i.f.	6.5	5.5	5.7	6.1	8.0	7.3	7.7	7.5	7.2	6.9	6.8
Nominal GDP	230.5	212.1	215.4	222.6	201.9	218.4	231.0	242.6	257.3	273.4	291.0

Sources: Central Bank of the Comoros, and Fund staff estimates and projections.

[1] Reconciled data not available before 2000.

Table 5 . Comoros: Social Indicators, 1998

Total population, mid-year (millions)	530,820
Growth rate (percent annual average)	2.5
Urban population (percent of population)	32.0
Life expectancy at birth *(years)*	
Total	60.2
Male	59.1
Female	61.2
Total fertility rate (births per woman)	4.5
Mortality	
Infant (per thousand live births)	63
Under 5 (per thousand live births)	88
Child malnutrition (percent under 5 years)(1996)	34
Access to safe water *(percent of population)*	
Total	...
Urban	...
Rural	...
Immunization rate *(percent under 12 months)*	
Measles	48
DPT	49
Gross primary enrollment (percent of school-age population)	50
Male	55
Female	45
Gross secondary enrollment (percent of school-age population)	36
Male	39
Female	32
Illiteracy (percent of population age 15+)	42
GNP per capita (US$)	403

Source: World Development Indicators 2000 CD-ROM, World Bank

Moroni, July 1, 2001

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C.20431

Dear Mr. Köhler:

1. The Comoros has gone through a difficult economical and political situation in the past few years. Mounting wage arrears have led to the deterioration of public services. The secession of Anjouan in 1997 and the ensuing political problems led to a collapse of our democratic institutions in 1999 and the loss of donor support. Our efforts during the last two years have resulted in an agreement between all parties involved, in February 2001, to reunite the country and to restore a democratic political system by the end of 2001.

2. With the assistance of the IMF staff, we have formulated a short-term economic recovery program for the period July 2001–June 2002, which is described in the attached memorandum of economic and financial policies. We expect that the monitoring of this program by the IMF staff will enhance its credibility, and help build the government's implementation capacity. In addition, the program should facilitate our dialogue with other multilateral agencies and donors, preparing the way for debt relief and improving access to the much needed concessional financing from donors.

3. After a referendum on a new constitution, scheduled for September 2001, a new government of national unity will be formed to prepare for new presidential elections by the end of the year. In view of ensuring broad support and the continuation of policies, we have discussed the program will all parties concerned in the context of the Tripartite Commission, which has been set-up to prepare the new political arrangements.

4. The Comoros government will take all the necessary steps to provide statistical information on a regular basis as well as all the data required by the IMF staff in order to ensure adequate monitoring of the program. The government will contact the IMF staff on a regular basis in order to inform them on the progress with implementing the social and economical policies. Reviews of the program are scheduled for November 2001 and May 2002.

Sincerely yours,

/s/
Assoumany Aboudou
Minister of Finance, Budget
and Privatization

/s/
Saïd Ahmed Saïd Ali
Governor
Central Bank of the Comoros

Memorandum on Economic and Financial Policies of the Government of the Comoros
July 2001–June 2002

I. Introduction

1. The Comoros has experienced a difficult political and economic situation in recent years. Geographically isolated, with limited natural resources, and a very small and fragmented domestic market, the Comoros is one of the poorest countries in Africa. About 60 percent of the population is estimated to live below the poverty line, and many lack access to safe water and electricity, as well as to basic government services such as education and health care. The situation was further aggravated by the secession of Anjouan in 1997 and the ensuing difficult relations between the islands. Mounting wage arrears resulted in a sharp deterioration in public services up to 1999, and external arrears and the breakdown of our political institutions in 1999 led to a decline in donor assistance.

2. Our main efforts over the past two years have been geared toward resolving the political situation. These efforts resulted in an agreement by all the parties involved in February 2001, to restore democratic political institutions and reunify the country. A Tripartite Commission, made up of representatives of the government, opposition parties, and civil society of the three islands, is drafting a new constitution, to be put to a national referendum by September 2001. Following this, a provisional government of national unity will be formed to administer the country's transition and prepare legislative and presidential elections. In each island and at the central level, new elected institutions should be in place by early 2002.

3. We have also started resolving our economic problems and regularizing our relations with donors. The functioning of the federal administration has improved, and we have taken steps toward fiscal consolidation. In 1999, we took measures—an increase in tax rates and a strengthening of collection efforts, streamlining of the database of government employees—enabling us to clear the arrears to the World Bank in January 2000, allowing the latter to resume its assistance to the Comoros. We also contacted the other creditors to reconcile the debt data and to start discussions on addressing the external arrears. However, much remains to be done.

4. With the assistance of the staffs of the IMF and the World Bank, we have prepared an economic program for the period July 2001–June 2002 to address the most pressing problems. We intend to submit this program to a meeting of "Friends of the Comoros," to be organized with the assistance of the World Bank on July 5, 2001, with a view to obtaining financial support. It will also form the basis for a medium-term program covering the period 2002–04, that will seek to accelerate economic growth and reduce poverty and that can be supported by the IMF, the World Bank, and other donors.

II. RECENT ECONOMIC DEVELOPMENTS

5. **On average, real GDP growth remained well below the population growth rate during the 1990s.** Private sector investment stagnated as a result of the difficult political environment and deep-seated structural problems. The production of our main export products (vanilla, cloves, and ylang-ylang) has not increased, and there has also been no expansion in capacity in the tourism sector since the opening of the only resort hotel on Grande Comore in 1989. Inflation has remained stable around 3 percent per year since 1996, but increased to 4.8 percent in 2000 following a sharp upturn in petroleum product prices.

6. **After considerable progress in 1999, the fiscal position was mixed in 2000.** Total revenue decreased by 9 percent, falling from 11.8 percent of GDP in 1999 to 10.2 percent in 2000 following technical problems in customs, tax arrears incurred by the state-owned petroleum company (*Société Comorienne des Hydrocarbures—SCH*), and the granting, in July 2000, of an exemption from import taxes on personal effects for the benefit of members of the large Comorian community living abroad. **To address the revenue shortfall, the government approved a supplementary budget in July 2000, reducing expenditure on goods and services** by 0.5 percent of GDP compared to 1999. The delay in resolving the political situation with Anjouan resulted in additional savings of about 0.5 percent of GDP compared to the original budget. As a result, domestically financed current expenditure declined from 12.7 percent of GDP in 1999 to 11.2 percent in 2000. Capital expenditure, which was almost entirely financed by foreign grants and loans, declined from 5.4 percent of GDP in 1999 to 3.9 percent in 2000 as a result of the cutback in donor support.

7. **The overall domestic budget deficit on a commitment basis**[1] remained unchanged in 2000 compared to 1999 at 0.2 percent of GDP. Given external debt service obligations equivalent to 4.3 percent of GDP and in the absence of budget support by donors and of domestic financing sources, this deficit resulted in a further net accumulation in wage arrears by one month[2] and new arrears to suppliers (1.1 percent of GDP) and to external creditors (3.2 percent of GDP).

8. **In the context of the French franc zone, monetary policy continued to be aimed at maintaining the fixed exchange rate.**[3] Broad money growth reached 14.5 percent in 2000, while credit to the private sector rose by 14.4 percent. In view of the fact that there is only one commercial bank in the financial system of the Comoros, the monetary authorities continue to set maximum lending and minimum deposit interest rates. Since 1999, interest

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[1] Domestic balances (primary, current, overall) exclude grants, foreign-financed current and capital expenditures, technical assistance, and interest charges on the external debt.

[2] The total stock of wage arrears accumulated during 1995–2000 (excluding Anjouan after mid-1998) is estimated at CF 8.7 billion, equivalent to about 20 months of wages.

[3] Since 1994, the exchange rate is set at FF 1 = CF 75; it is expressed in euro since January 2000 at the rate of EUR 1 = CF 492.

rates have been linked to money market rates in Europe; they remained unchanged in 2000 because of negligible movement in the European reference rates.

9. **The balance of payments showed a significant improvement in 2000** following a substantial strengthening in the terms of trade, contributing to a 55 percent increase in the total value of exports. Imports increased only by 2 percent, as higher petroleum imports were largely offset by a decline in other imports, reflecting lower donor assistance. The improvement in the services balance over the past few years continued in 2000, following an increase of around 15 percent in receipts from tourism (mainly from Comorians living abroad). Private transfers also increased, but this was more than offset by lower official grants. Reflecting these developments, the current account deficit (including grants) declined from 4.1 percent of GDP in 1999 to 0.4 percent in 2000. The surplus on the capital and financial account increased slightly as a decline in donor assistance was more than offset by a large reduction in net foreign assets of the commercial bank. The overall balance rose from a deficit of US$6 million in 1999 to a surplus of US$2 million in 2000. External debt service arrears increased by US$7 million, and gross official reserves increased by more than US$9 million to US$44 million, equivalent to eight months of imports of goods and nonfactor services.

10. **The severe fiscal problems resulted in further external debt service arrears,** especially to the African Development Bank (AfDB) and the Arab Bank for Economic Development in Africa (BADEA) and bilateral creditors. Following an informal meeting with creditors in March 2001, we were able to reconcile most of our multilateral debt and the stock of external debt was estimated at about US$225 million (111 percent of GDP) at end-2000. This included arrears estimated at US$84 million, of which US$55 million was owed to multilateral creditors, mainly the AfDB and the BADEA.

11. **Since the secession crisis in 1997, there has been no systematic collection of macroeconomic data on Anjouan**. Indications are that Anjouan has been able to continue exporting, despite the trade embargo in 2000, benefiting from the significant improvement in the international prices of ylang-ylang, cloves, and vanilla over the past two years. However, the island authorities had to assume responsibility for all 2,100 civil servants on the island (which were previously paid by the federal government) and it hired an estimated 500 additional employees. Although comprehensive fiscal data are not yet available, the Anjouan authorities were able to pay only one month wages in 1999 and six months in 2000, indicating the seriousness of the island's fiscal position. The island authorities resumed preparing a formal budget in 2000, but public expenditure management remains very weak; the embargo prevented access to banking services, and all fiscal transactions are in cash.

III. Economic and Financial Policies for 2001–02

A. Poverty Reduction and Growth

12. **Poverty is endemic in the Comoros**. Per capita income was estimated at US$356 in 2000 and the 1995 household budget survey indicated that 60 percent of the population lived below the poverty line. The incidence of poverty is more widespread on Anjouan than

on Grande Comore or Mohéli and affects mainly households living on subsistence agriculture. Reflecting the negative per capita growth rates, the incidence of poverty is estimated to have increased since 1995, especially on Anjouan, with the effects mitigated on Grande Comore by higher transfers from the large Comorian community abroad.

13. **The government attaches great importance to reducing poverty, which we regard as the root cause of the political problems of recent years.** In the context of the National Reconstruction and Reconciliation Program, prepared in September 2000, and with the assistance of the United Nations Development Programme (UNDP), we have started developing a national strategy for reducing poverty and increasing economic growth. A draft strategy paper will be submitted to broad-based consultations with political representatives, representatives of the society at large, and donors, in 2002. An interim strategy paper describing the extent and the nature of poverty in the Comoros, as well as a detailed timetable for preparing the final paper and the consultation process, will be prepared by end-2001.

14. **The main requirements for reducing poverty are political stability and the acceleration of growth in a stable macroeconomic environment.** The economic and financial program for 2001–02 is designed to start addressing these issues. The World Bank recently approved the financing of a study on the outlook for accelerating growth in the Comoros, which will be completed by end-2001. We are also working with other institutions to develop policies aimed at improving the productivity of the agricultural sector, which employs more than 70 percent of the labor force but contributes only about 40 percent of GDP. With the assistance of the World Bank, the government intends to accelerate its efforts to increase the efficiency of the public sector, including the public enterprises.

B. The Macroeconomic Framework for 2001–02

15. **Our macroeconomic policies are geared toward increasing real GDP growth, while containing inflation and maintaining the fixed exchange rate parity and an adequate level of foreign exchange reserves.** After a prolonged period of decline, it will take time for structural reforms to lead to substantial and sustainable higher growth. Nevertheless, the improvement in the political situation as well as a rebound in the production of cash crops are expected to allow a small increase in real GDP in 2001. With the resumption of donor assistance, our policies will aim at a gradual increase in growth to a level at least equal to the population growth rate of about 3 percent by 2004; inflation will be maintained at about 3 percent per year. Monetary policy will continue to be conducted within the context of the French franc zone; gross official reserves are expected to decline to about 7 months of imports of goods and nonfactor services over the medium-term.

C. Fiscal Policies

16. **The budget for 2001 aimed at addressing the main fiscal difficulties.** Revenues were projected to increase by 28 percent to 12.3 percent of GDP, mainly reflecting measures to reverse the revenue shortfall in 2000: the tax exemption on personal effects was withdrawn, the problems in customs administration were resolved, and the increase in petroleum prices in September 2000 is expected to allow the SCH to avoid further arrears and to pay the

arrears from 2000. In addition, the base of the consumption tax was extended to the wholesale sector. Nontax revenue was projected to increase by 1 percent of GDP, reflecting higher dividends from public enterprises, as well as the resumption of payments of royalties on the leasing of the international telephone access code for the Comoros (equivalent to 0.6 percent of GDP).

17. **Domestic expenditures were projected to increase from 10.5 percent of GDP in 2000 to 11.3 percent of GDP in 2001**, mainly reflecting a 20 percent increase in expenditure on goods and services (about half of the increase was reclassified under capital expenditure in the budget for 2001). The general civil-service wage freeze, in place since 1995, was continued, but the budget provided for a 2.8 percent increase in the wage bill, reflecting the mandatory inclusion in the civil service of some 900 long-term contractual employees. **The budget projected an improvement in the overall domestic balance (on a commitment basis)**, from the small deficit in 2000 to a surplus of 1 percent of GDP in 2001. Nevertheless, external debt service obligations amounted to 3 percent of GDP, and despite projected revenues from the sale of a cellular phone license of 0.5 percent of GDP, the residual financing gap amounted to1.8 percent of GDP, threatening new domestic and external arrears.

18. **With the support of the IMF staff, we reviewed the fiscal outlook for 2001 with the aim to avoid new domestic arrears and regularize relations with external creditors.** In line with this, we intend to issue a revised budget for 2001 by end-July, strengthening the tax effort and readjusting expenditure. This revision will also include an exceptional expenditure program to provide for the costs of the transition and reintegration of Anjouan, as well as making a start with necessary reforms, for which we intend to request donor support.

19. **The revenue effort aims at increasing revenue by 0.3 percent of GDP**. Starting July 1, 2001, we will eliminate the withholding tax on imports for the water and power company (*Compagnie d'Eau et d'Electricité—CEE*). The import taxes on alcoholic beverages will be raised from 200 percent to 250 percent and the effective import tax rates on several goods will also be raised to correct their decline in real terms over the past five years, by changing specific into ad valorem rates. The specific rate on cement will be increased from CF 9 to CF 10 per kilo and the tax benefits granted to the CEE under the Investment Code will not be renewed beyond September 2001. In addition, we decided to postpone until 2002 the budgeting of the revenue from the cellular telephone license, given the uncertainties about the amount and the timing of this revenue. **With regard to expenditure**, we intend to reduce the budget for goods and services by 0.4 percent of GDP, at the same time preserving the allocations for basic education and health, which were increased considerably compared to 2000.

20. **The revised budget will also provide for the payment of all current obligations to multilateral creditors and interest payments for the second half of the year to bilateral creditors**. In anticipation of our eligibility for debt relief under the enhanced HIPC Initiative and unless other sources can be found quickly (the government of China has already indicated its willingness to forgive all outstanding debt, amounting to US$6.3 million), we will propose to our creditors that all arrears be rescheduled until a comprehensive solution can be found at the time of the decision point. On this basis, the overall domestic balance (on a

commitment basis) before exceptional expenditure, would record a surplus of 2.1 percent of GDP, and the financing gap would narrow appreciably to only 0.3 percent of GDP.

21. **The exceptional expenditure program,** which was formulated with the assistance of the staffs of the World Bank and the IMF, aims at increasing transfers to Anjouan, covering the costs of restoring democratic institutions (the referendum and elections) and facilitating the establishment of regional administrations; in addition, it provides for urgent expenditure for rehabilitation in the key sectors of education, health, water, and rural development as well as for a reduction in domestic arrears and in the statutory advance account with the BCC. The cost of this program is estimated at about US$12.8 million for July 2001–June 2002.

22. Taking account of the increase in revenue, the expenditure readjustments, and the program of exceptional expenditure, **the overall domestic balance (on a commitment basis, including exceptional expenditure)** is expected to record a deficit in 2001 of 1.1 percent of GDP. We intend to reduce the stock of domestic arrears by CF 1 billion and the statutory advance at the BCC (in order to improve government cash flow management) by CF 200 million. Thus, including the external debt service obligations, **the exceptional financing requirement** would be CF 5.3 billion (US$8.1 million) for 2001. Although we may incur some additional principal arrears with regard to bilateral debt, we expect that most of the financing need will be met from additional concessional financing—including US$4.3 million from the World Bank under the Emergency Economic Recovery Credit (EERC) and the Post-Conflict Fund for 2001—following the upcoming donor meeting.

23. **Prospects for the federal government budget for 2002 will depend on the results of the ongoing discussions on the structure of the new Comorian entity**; in this context, the Tripartite Commission has created a third subcommittee to address the fiscal issues of decentralization. Provisional estimates based on the current situation indicate a decline in revenue to 12 percent of GDP, owing to the absence of exceptional revenue projected for 2001 and in spite of an increase in regular tax receipts. We plan to maintain the overall wage bill at a constant level until the completion of a review of employment in the government; any upward adjustment in wages will be limited to resources generated by a decline in staffing. Expenditure on goods and services will increase slightly in real terms but overall current domestic expenditure is expected to fall as the transitional process is completed and despite a projected increase in inter-regional transfers. Provisional estimates for the overall domestic balance for 2002 (on a commitment basis), including exceptional expenditure, show a substantial downturn in the domestic deficit amounting to 0.2 percent of GDP. However, including debt service, and a further reduction in domestic debt, resulted in an estimated overall financing requirement of CF 5.2 billion (US$10 million) for the year as a whole, of which CF 2.5 billion (US$4.8 million) in the first half of the year, for which we will also seek donor assistance. We intend to examine the budget for 2002 in more detail with IMF staff at the time of a review of our program, scheduled for the last quarter of 2001.

D. Fiscal Sector Reform

24. **The government is determined to strengthen government finance management** to ensure that expenditure is limited in a sustainable manner to a level consistent with the

country's resources. This would require efforts in reforming the tax system, improving expenditure management, and controlling the wage bill, as well as seeking a long-term solution to the problem of domestic arrears.

25. **We intend to continue the reform of the tax system.** The objectives of the reform are to reduce reliance on import taxes—which accounted for 75 percent of all tax revenue in 2000—and to reduce customs tariffs over the medium-term, in line with our commitments under regional cooperation arrangements such as the Cross Border Initiative/Regional Integration Facility Forum, while maintaining revenue and increasing the efficiency of the tax system. Based on recent recommendations by an IMF technical assistance mission, we intend to implement further reforms in import tariffs—including the general application of ad valorem taxes starting with the budget for 2002—and to take additional measures to strengthen customs administration, including by reinforcing the large taxpayer unit and making it responsible for ex post verification of import duties. We also expect to make further improvements in the structure and administration of domestic taxes. We will revise the respective laws to make the Minister of Finance, following approval by the cabinet, the sole authority to grant tax exemptions. The government has also launched a study with a view to eliminate the tax exemptions for foreign-financed projects and to provide such tax relief through the budget, starting in 2002. The government is also reviewing the possibility of eliminating all exemptions for government institutions in the 2002 budget. It will make every effort to strengthen cooperation between the customs departments of the different islands.

26. **We will also make further improvements in expenditure management for the purposes of improved control and increased transparency.** The Cash Flow Committee, chaired by the Prime Minister or the Minister of Finance, has established a monthly plan for controlling revenue and expenditure; under this plan, implementation of the 2001 budget will have priority over paying arrears. In addition, as of 2001, expenditure can no longer be committed until the availability of resources has been verified in the cash flow plan, so as to avoid any further accumulation of arrears. Next steps will include the computerization of all payroll components and military pay, for which the government will seek support from donors. The Ministry of Finance will draw up a procedures manual by end-2001 with a view to gaining better control of budget execution.

27. **The government attaches great importance to civil service reform**, aimed at improving the efficiency and the quality of government services and maintaining the wage bill consistent with the available resources. For this purpose, since 1999, we have taken measures to stabilize and gain greater control over the wage bill; other measures are under preparation for implementation in 2001, including the introduction of regulations for the Administrative Court. In the medium term, we would like to prepare a comprehensive civil service reform program. First, with World Bank assistance, we intend to complete an assessment of the civil service legal and institutional framework in 2001. More than 53 percent of the civil service is employed in the education sector, and in light of the structural problems faced by this sector in previous years, the government, with the support of the World Bank, will carry out a technical audit of the Ministry of Education; this will be completed in early 2002 and will represent the first phase of a review of education sector policy. We expect to

further reduce the civil service by 100 employees in 2001, and the government is preparing a program for the early retirement of about 400 employees, which will be implemented when financial resources are identified over the 2001–05 period.

28. **The government has entered into negotiations with its social partners to prepare a medium-term strategy for settling the large wage arrears.** This strategy will be based on the following principles: first, a focus on achieving a comprehensive solution to this problem (no payments will be made before an overall strategy has been adopted); second, limitation of the financial impact of the payment plan, given the financial difficulties faced by our country; third, use of an external audit to ensure rigorous verification of the validity of these claims; fourth, comparable treatment on the three islands, to ensure equity; and fifth, efforts to identify possible financing for clearing arrears.

29. **As of October 2000, the government started paying off arrears to domestic suppliers.** The government has decided to restore the commission on domestic debt to prepare a complete inventory and audit of all budgetary arrears, following which a payment plan will be finalized by end-June 2002. The government will call on donors for support in financing and selecting the audit firm and discuss with the authorities of Anjouan on providing them with support in starting a similar process during 2002.

30. **Considerable effort is necessary to re-establish a basic administration and efficient expenditure management in Anjouan.** With the assistance of the central government and donors, the Anjouan authorities expect to make quick progress in this area, with a view to establishing a basic budget and expenditure management system by end-2001. The Anjouan authorities opened an account at the central bank in June 2001, and all major transactions will be carried out through this account, improving control. Since end-May 2001, Anjouan has been preparing monthly reports on its revenue, expenditure, and financing sources; these reports are submitted to the central government to allow monitoring of fiscal developments in the Comoros on a consolidated basis. Since June 1, 2001 all revenues in Anjouan are paid to the Treasury, an audit commission was also created to verify all the expenditures and revenues of the island.

E. Monetary and Financial Sector Policies

31. **The restrictions imposed by our membership in the French franc zone have enabled us to maintain low inflation, a stable exchange rate, and an adequate level of foreign exchange reserves, despite severe fiscal imbalances.** While we intend to remain within this system, we realize that it limits the monetary policy options, which are also hampered by the shallowness of our financial system. Monetary policy will pursue its principal objective of maintaining the fixed exchange rate. It will also seek to improve the efficiency of the financial system and strengthen banking supervision, including by providing further training for staff. A proposal to amend the banking legislation to allow for the regulation of the microfinance institutions will be submitted to the government by end-2001. The government is also drafting a regulation to establish a minimum liquidity ratio for the savings bank and to separate it physically and financially from the national post and telecommunica-

tions company (SNPT). It also expects to recruit a consultant before end-2001 to start searching for a strategic partner for the national development bank.

F. External Sector

32. **The deficit on the current account of the balance of payments (excluding grants) is projected to increase to 9.2 percent of GDP in 2001.** This reflects a decline in export prices from their exceptionally high level in 2000, and a sharp increase in imports because of the government's exceptional expenditure program. However, this higher deficit is expected to be offset to a large extent by higher foreign assistance and a decline in scheduled debt repayments. Consequently, gross official reserves of the BCC are projected to slightly increase to US$45 million, although, in terms of imports of goods and nonfactor services, they are projected to decline to 7.3 months. Over the medium-term, the current account deficit, excluding grants, is projected to remain at about 7 percent of GDP, and gross official reserves at about 7 months of imports of goods and nonfactor services.

33. **The weaknesses in our external debt management system have contributed to the external debt problems**. To improve this situation, all government and government guaranteed external borrowing will be made subject to the prior authorization of the Minister of Finance, as of end-July 2001. In addition, the Ministry of Finance will request donor assistance in setting up a computerized external debt management system and in building up human resource skills devoted to this important function. Finally, throughout the period of the SMP, the government will not contract or guarantee any new external borrowing on nonconcessional terms.

G. Structural Reforms and Governance

34. **The government also intends to continue making progress in the area of structural reforms**. With the assistance of the World Bank and other donors, we intend to pursue the program of government divestiture of public enterprises. Before end-2002, the government intends to complete the privatization of the port and maritime transport company SOCOPOTRAM, restructure the SNPT, and place the SCH in concession; the national airline has been reconstituted, so that it will not require budget financing. The government also plans to review the mechanism used to set domestic prices of petroleum products, with a view to facilitating more automatic adjustments to world market prices, in particular to avoid further arrears in payments of taxes on petroleum products. The improvements expected from the privatization of the water and power sector in 1998 have not yet materialized. The government therefore intends to seek the support of donors to carry out a review of water and power sector policy and identify measures that can improve the efficiency of the sector. To this end, the government will give any support necessary to the CEE to reduce electricity theft and improve collection.

35. **The government attaches great importance to improving governance.** We will relaunch the regular publication of the official journal by end-2001. With World Bank assistance, the government is currently strengthening the courts and the Ministry of Justice. In addition, with a view to improving transparency in government finance, we will resume

publishing the budgets, starting with the supplementary budget for 2001, in July 2001. We also intend, as of 2001, to publish the annual reports of public enterprises.

36. **We realize that a major effort will be needed to improve our macroeconomic and sociodemographic statistical database**. Accordingly, we have decided to strengthen the Planning Directorate by attaching it to the Office of the Head of State and providing it with new structures and experienced staff from other administrations. We plan to ask donors for assistance to finance our contribution to AFRISTAT, and we have requested technical assistance from the IMF to carry out a broad-based review of our statistics system; this review will be used as the basis for a medium-term action plan.

IV. Program Monitoring

37. To monitor progress in the implementation of the program, quarterly quantitative benchmarks were established on: (a) net foreign assets of the BCC; (b) domestic bank financing of the government; (c) government revenue; (d) the wage bill; (e) nonconcessional external public borrowing; and (f) public sector accumulation of external payment arrears to multilateral institutions (Table 1). Structural benchmarks have been established to serve as a guide in the implementation of basic reforms (Table 2). Implementation of the program will be reviewed in November 2001 and May 2002.

Table 1. Comoros: Quantitative Benchmarks under the Staff-Monitored Program 1/
July 2001-June 2002
(In millions of Comorian francs, unless otherwise indicated)

	2001			2002	
	June Stock	September Benchmark	December Benchmark	March Benchmark	June Benchmark
(a) Ceiling on net domestic financing of the government 2/ 3/4/		0	-496	-1,214	-1,214
(b) Ceiling on wage bill 5/		4,900	6,267	1,567	3,134
(c) Floor on total revenues 5/		11,345	14,323	3,482	8,032
(d) Floor on net foreign assets of the central bank 2/ 4/	22,105	308	510	620	730
(e) Ceiling on contracting or guaranteeing of external debt on nonconcessional terms 2/		0	0	0	0
(f) Ceiling on accumulation of debt service arrears towards multilateral creditors 2/		0	0	0	0

1/ The definitions of the benchmarks and the adjusters are provided under the Technical Memorandum of Understanding (TMU).
2/ Cumulative change since end-June 2001.
3/ Excluding IMF.
4/ The benchmark will be asjusted for a short fall in budget support as described in the TMU.
5/ Cumulative change since the beginning of the fiscal year, except where otherwise indicated.

Table 2. Comoros: Structural Benchmarks Under the Staff-Monitored Program, July 2001–June 2002

Sector	Measure	Date to Be Implemented
Governance	Publish supplementary budget for 2001	End-July 2001
	Publish 2002 budget	End-January 2002
Fiscal	Eliminate the exemption for the withholding tax (*Acompte sur Impôts et Taxes, AIT*) for the water and electricity operating company (CEE), and raise rates of specific taxes on cement and alcoholic beverages	End-July 2001
	Prepare and implement new expenditure management procedures manual	January 1, 2002
Domestic debt	Reactivate domestic debt committee and submit request to donors for financing of audit of all domestic supplier arrears, including on Anjouan	End-September 2001
External debt	Computerize and update the external debt database.	End-December 2001
Financial sector	Submit to government amendments to legislation for the regulation of micro-finance institutions	January 1, 2002

COMOROS

Technical Memorandum of Understanding for the Staff-Monitored Program (SMP) July 2001–June 2002

1. This technical memorandum of understanding (TMU) contains the definitions of the quantitative benchmarks of the Comoros staff-monitored program for the period July 2001-June 2002 and describes the reporting requirements under that program. The TMU is an integral part of the documents that govern the IMF's monitoring of the Comoros program.

I. Quantitative Benchmarks [1]

A. Ceiling on Net Domestic Financing of the Government

2. Net domestic financing of the government (NDF) is defined as the sum of (a) the variation in the stock of federal government domestic debt to the Central Bank of the Comoros (BCC) and the commercial bank (BIC) minus its deposits held with those institutions; (b) privatization receipts; and (c) new budgetary arrears. New budgetary arrears are defined as arrears accumulated during the fiscal year on wages, domestic interest, and goods and services. Payments on salaries, wages, and pensions are deemed in arrears when they remain unpaid more than 30 days beyond the due payment date. Interest payments are in arrears when the payment is not made on the due date. Payments to suppliers are deemed to be in arrears if they have not been made within the normal grace period of 30 days or such other period as has been contractually agreed after the verified delivery of the concerned goods or services, unless the amount or the timing of the payment is subject to good faith negotiations between the government and the creditor. Domestic payment arrears include the amount to be recommitted and net payments delays (clearings, items in process of payment, expenditure committed but with no payment order issued), as defined in the table on federal government operations (TOFE).

B. Ceiling on the Wage Bill

3. The wage bill includes all wages and salaries, premiums for social insurance and pensions, indemnities, bonuses and other payments directly related to rewarding employment. Included in the wage bill are the wage expenditures of the civil service, gouvernorats, military, and Caisse de Retraite des Comores (CRC). Under the program, the ceiling on the wage bill in the budgets for 2001 and 2002 amounts to CF 6,267 million in each year.

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[1] The benchmarks refer to the federal government, unless otherwise indicated.

C. Floor on Total Revenues

4. Total revenue consists of all tax and nontax revenue included in the TOFE. Under the program, total revenue for 2001 amounts to CF 14,323 million and in 2002 to CF 8,032 million for the period January-June 2002.

D. Floor on Net Foreign Assets of the BCC

5. For the purpose of the program, net foreign assets of the BCC (NFA) is defined as its usable foreign assets minus its foreign liabilities, converted in Comorian francs at the end-period exchange rates. NFA is defined consistent with the definition of the Operational Guidelines on the *Data Template on International Reserves and Foreign Currency Liquidity* template as external assets readily available to, or controlled by, the BCC. It includes the reserve position with the Fund net of outstanding use of Fund credit, but excludes any pledged or otherwise encumbered reserve assets, including, but not limited to, reserve assets used as collateral or guarantee for third-party external liabilities.

E. Ceiling on Nonconcessional External Borrowing

6. Under the program, the avoidance of nonconcessional external debt contracted or guaranteed by the government or the BCC is a continuous benchmark. Nonconcessional external debt is all debt with a concessionality level of less than 35 percent. For loans with a maturity of at least 15 years, the 10-year average "commercial interest rate reference rate" (CIRR), published by the OECD, should be used to calculate the level of concessionality. For loans with shorter maturities, the 6-month average CIRR should be used. For the purposes of the program through December 31, 2001, the 6-month and 10-year CIRRs published by the OECD in December 2000 will be used. To both the 10-year and 6-month averages, the following margins for differing repayment periods should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more.

7. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 (Executive Board Decision No. 12274 (00/85)) but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the guidelines is as follows:

> "(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by

the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

8. Excluded from this benchmark are (i) debt contracted in the context of rescheduling agreements; and (ii) leases of office space, equipment and housing contracted by representatives of the Comoros abroad.

F. Ceiling on External Payments Arrears to Multilateral Creditors

9. Under the program, the program, the government will not incur new payment arrears to multilateral creditors, starting from January 1, 2001. External payment arrears are defined as nonpayment in full of interest and principal obligations due to each multilateral creditor, excluding arrears resulting from nonpayment of debt service for which rescheduling negotiations are under way. Thus, the stock of arrears to each multilateral creditor should not exceed the stock outstanding as of December 2000, minus any payment of arrears existing before January 1, 2001 minus any arrears resulting from nonpayment of debt service for which rescheduling negotiations are under.

10. The stock of external debt service arrears to multilateral creditors as of end-December 2000 (in millions of U.S. dollars) was: US$0.0 million to the IDA, US$0.0 million to the IMF, US$15.5 million to the African Development Bank (of which US$3.9 million to the African Development Fund), US$0.0 million to the European Union/European Development Fund, US$24.4 million to the Arab Bank for Economic Development in Africa (BADEA), US$0.0 million to the International Fund for Agricultural Development (IFAD), US$3.4 million to the OPEC Fund, and US$11.2 million to the Islamic Development Bank.

G. Periods Covered by the Benchmarks

11. The benchmark concerning the contracting or guaranteeing of external debt is continuous during the program period. The other quantitative benchmarks pertain to end-September 2001, end-December 2001, end-March 2002, and end-June-2002. The ceilings on net domestic financing of the government, net foreign assets of the BCC, and the contracting or guaranteeing of external debt on nonconcessional terms are defined in cumulative changes from end-June 2001. The ceilings on the wage bill and on total revenues are defined in cumulative changes from the start of the fiscal year. The benchmark on no accumulation of debt service arrears toward multilateral creditors is cumulative from January 1, 2000.

II. Monitoring of The Structural Benchmarks

Governance

12. The authorities will provide the Fund a copy of the published supplementary budget for 2001 and the published 2002 budget.

Fiscal

13. The authorities will provide the Fund a statement by the Ministry of Finance indicating that the exemption for the withholding tax (Accompte sur Impôts et Taxes AIT) for the water and electricity operating company (CEE) has been eliminated, and rates of specific taxes on cement and alcoholic beverages have been raised. The authorities will also provide the Fund a copy of the published expenditure management procedures manual.

Domestic Debt

14. The authorities will provide the Fund a statement by the Ministry of Finance indicating that the domestic debt committee has been reactivated, and a copy of the request to donors for financing of audit of all domestic supplier arrears, including on Anjouan.

External Debt

15. The authorities will provide the Fund an Excel file with an updated external debt database.

Financial Sector

16. The authorities will provide the Fund a copy of the amendments to legislation for the regulation of the micro-finance institutions.

III. ADJUSTERS

A. Adjuster to the Benchmarks for NFA of the BCC and NDF of the Government for a Shortfall in Budget Support

17. For the purposes of the program, the benchmarks for NFA and NDF of the government will be adjusted for a shortfall in budget support compared with the projected level. The benchmark for NFA will be adjusted downward and the benchmark for NDF will be adjusted upward for the full amount of the shortfall. Budget support is defined as foreign assistance for the general financing of the federal budget that is provided unconditionally or conditional upon policy actions only, without predetermined additional current of capital expenditure counterpart.

18. Budget support for July 2001-June 2002 is projected (cumulative since July 2001) at CF 0 million by end-September 2001, CF 296 million by end-December 2001; CF 1,109 million at end-March 2002; and CF1,109 million at end-June 2002.

IV. INFORMATION AND DATA TO BE PROVIDED TO THE IMF

19. The Comorian authorities will provide Fund staff with the following information and data according to the schedule provided, either directly (e-mail or facsimile) or my airmail. The monetary data, external debt data, the consumer price index, and any information on important legislative and /or other developments (see paragraph 15) will be provided not later than one month after the date to which they pertain. The fiscal data will be provided not later than two months after the date to which they pertain.

Monthly:

- The monetary survey, and the monthly balance sheets of the BCC and the commercial bank;
- Classification of commercial bank loans by economic sector;
- Interest rates;
- TOFE data on a cash and commitment basis and the related detailed tables on revenue;
- External public debt operations (debt contracted and publicly guaranteed, settlement of external payments arrears, and debt service paid;
- Consumer price index; and
- Imports and exports, production of electricity, tourist arrivals, and any other indicators of economic activity that may be available on a monthly basis.

When available:

- National accounts data
- Balance of payments
- Quarterly production of major products (vanilla, cloves, ylang-ylang)

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

External Debt Sustainability Analysis[1]

I. Introduction

1. This note presents a debt sustainability analysis (DSA) for the Comoros, prepared jointly by the staffs of the IMF and the World Bank with assistance from the Comorian debt authorities. The DSA and related net present value (NPV) calculations are based on external public and publicly guaranteed debt data for end-2000 and on macroeconomic projections through 2020.[2] Information on external debt was provided by the Comorian authorities on a loan-by-loan basis and reconciled with creditors where possible.[3]

II. The Level and Composition of External Debt

2. At end-2000, the external debt of the Comoros, including arrears, amounted to US$225 million. The NPV of this debt was estimated at US$162 million, equivalent to about 80 percent of GDP and 319 percent of exports[4,5] (Tables 1 and 2). Debt service due in 2000 accounted for 18 percent of exports of goods and nonfactor services. About 73 percent of the debt in NPV terms was owed to multilateral institutions and 27 percent to official bilateral creditors (with just over 1 percent owed to the sole Paris Club creditor). Arrears at end-2000 amounted to US$84 million, of which US$54.5 million was due to multilateral creditors; significant arrears were due to the African Development Bank (AfDB), the Arab Bank for Economic Development in Africa (BADEA), as well as to most official bilateral creditors; however, there were no arrears owed to the IMF or World Bank.

3. At end-2000, the African Development Bank represented the largest external creditor, accounting for about 23 percent of total debt in NPV terms and over 30 percent of

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[1] Prepared jointly by the staffs of the IMF and the World Bank

[2] The NPV of debt was calculated using average currency-specific Commercial Interest Reference Rates (CIRRs) for the six-month period ending December 31, 2000, and (as with all nominal debt values) converted to U.S. dollars (Table 2), using end-2000 exchange rates (Table 3).

[3] Reconciliation of end-2000 debt data was completed for most multilateral creditors, Kuwait and France, accounting for about 82 percent of total nominal claims. Islamic Development Bank (IDB) remains partially reconciled, with repayment schedules still outstanding.

[4] NPV of debt-to-exports ratios reported in this note have been measured using a three-year average of exports of goods (i.e., the average for the period 1998–2000 for the year 2000).

[5] In 2000, government revenues and exports of goods and nonfactor services stood at 10.2 and 25.6 percent of GDP, respectively, below the thresholds established for eligibility under the fiscal window of the enhanced HIPC Initiative.

multilateral claims (Table 2 and Figure 1). The World Bank was the second largest creditor, with claims amounting to 20 percent of total NPV of debt, followed by the BADEA with about 16 percent. Claims by the IMF were equivalent to US$1.3 million in NPV terms, amounting to less than 1 percent of the total NPV of debt.

4. The Comoros has had long-standing external debt difficulties. In 1990, the stock of external debt amounted to US$197 million (76 percent of 1990 GDP), including US$44 million (17 percent of 1990 GDP) in arrears. In 1991 debt restructuring and rescheduling operations were concluded with the Islamic Development Bank. The Comoros has never benefited from Paris Club debt reschedulings. However, since 1993, the Comoros has benefited from restructuring and rescheduling operations from bilateral creditors, including from Saudi Arabia, Abu Dhabi, and Kuwait as well as a complete write-off of official French loans in support of the 1994 devaluation of the Comorian franc. With minimal commercial debts, the Comoros has never benefited from London Club reschedulings.

III. Debt Sustainability Analysis

5. This indicative DSA analyzes the debt situation on the basis of the end-2000 status of all external obligations, that is, it makes no specific assumptions regarding arrears clearance or future debt restructurings or debt relief. In the projections, no arrears clearance assumptions have been made and all debt service falling due is assumed to be paid, with the result that arrears remain at their end-2000 levels throughout the projections. The key economic assumptions underpinning the DSA are consistent with the medium-term macroeconomic framework as presented in the Fund staff-monitored program (Tables 1 and 5, and Box 1). As concerns the financing of external financing gap identified in the SMP and new borrowing identified in the balance of payments projections, 80 percent of these amounts has been assumed to be provided by multilateral lenders, including from the IMF and IDA, while the remaining 20 percent has been assumed to be provided by bilateral creditors on highly concessional terms.[6]

6. Based on these assumptions, the NPV of the end-2000 stock of debt increases from US$162 million at end-2000 to US$163 million in 2005 and averages US$165 million for the period 2001–10 and US$177 over the period 2011–20. The NPV of debt-to-exports ratio falls from 319 percent in 2000 to 296 percent in 2005; it averages 315 and 186 percent for the periods 2001–10 and 2011–20, respectively (Figure 2). The debt service ratio is projected to decline from its 2000 level of 18.1 percent, averaging 12.8 percent over the 2001–10 period and just under 8 percent from 2011–20. In terms of government revenue, the NPV of debt falls from 786 percent in 2000 to 477 percent in 2005 and 282 percent at the projection horizon.

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[6] The following bilateral lending terms have been assumed: 5-year grace period, 15-year maturity, and 2 percent interest. At end-2000 CIRRs, these terms and conditions provide a grant element of 41 percent for a U.S. dollar-denominated loan.

IV. Conclusion

7. The results of this DSA indicate that the NPV of debt to-exports ratio for end-2000 significantly exceeds the 150 percent threshold established under the enhanced HIPC Initiative, and, under conservative assumptions concerning debt and balance of payments developments over the medium and longer term, is likely to remain above this level until the end of the projection horizon in 2020. Consequently, and in the absence of debt relief, the external debt situation of the Comoros is not expected to be sustainable. The staffs of the Fund and World Bank therefore intend to include the Comoros in future analytical work on enhanced HIPC Initiative.

Box 1. Main Macroeconomic Assumptions for the DSA

The following macroeconomic assumptions have been maintained in producing the baseline 20-year DSA projections.

- Following a 1.1 percent decline in 2000, annual real GDP growth is expected to pick up to 1 percent in 2000, then, progressively accelerate, reaching 3 percent in 2004; real growth is assumed to remaining at this level until the projection horizon. Enhanced economic growth can be expected to result from increased investment, the sustained implementation of structural reforms, and a gradual, but modest strengthening of exports.

- Inflation is projected to remain low throughout the projection period, at about 2 ½ percent per year, reflecting the Comoros membership in the Franc zone and the maintenance of economic policies supportive of the arrangement pegging the exchange rate to the Euro.

- Following 2 years of export growth in excess of 50 percent in 1999 and 2000, due to largely to commodity price increases, exports values are projected to return to more sustainable levels until 2004, thereafter the nominal value of exports has been assumed to increase at around 5 percent per year, on the assumption of modest growth in traditional exports and increased tourism.

- Import volumes are expected to expand in line with real GDP.

- International reserves are projected to stabilize around 7 months equivalent of imports beginning in 2001.

Figure 1. Comoros: NPV Composition of External Debt at end-2000

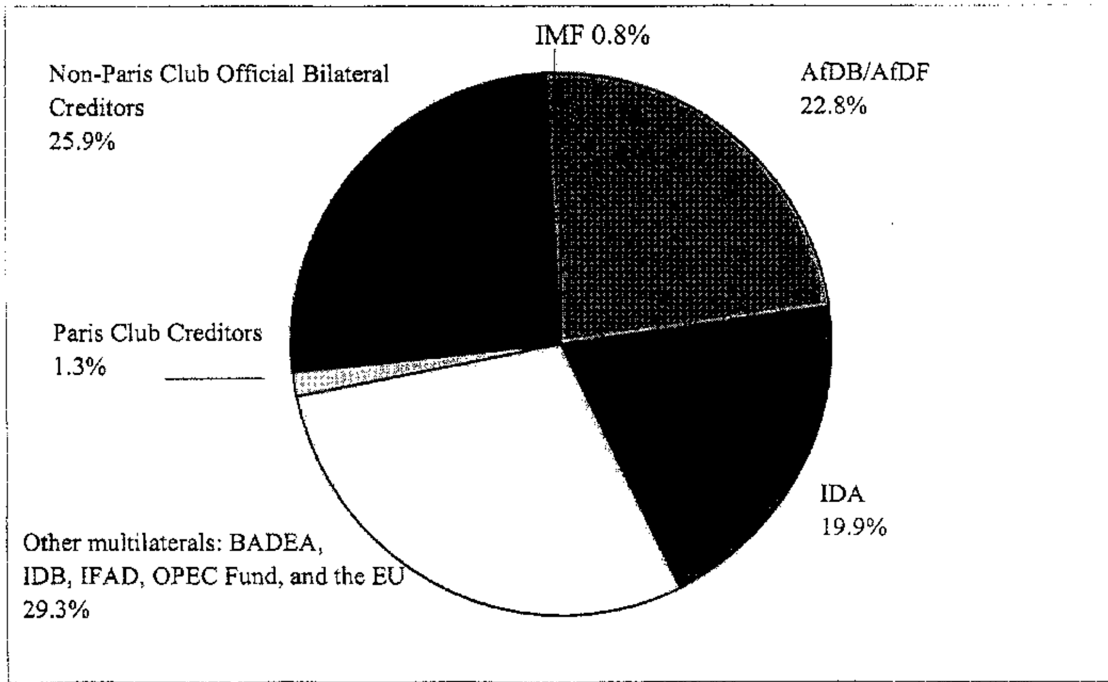
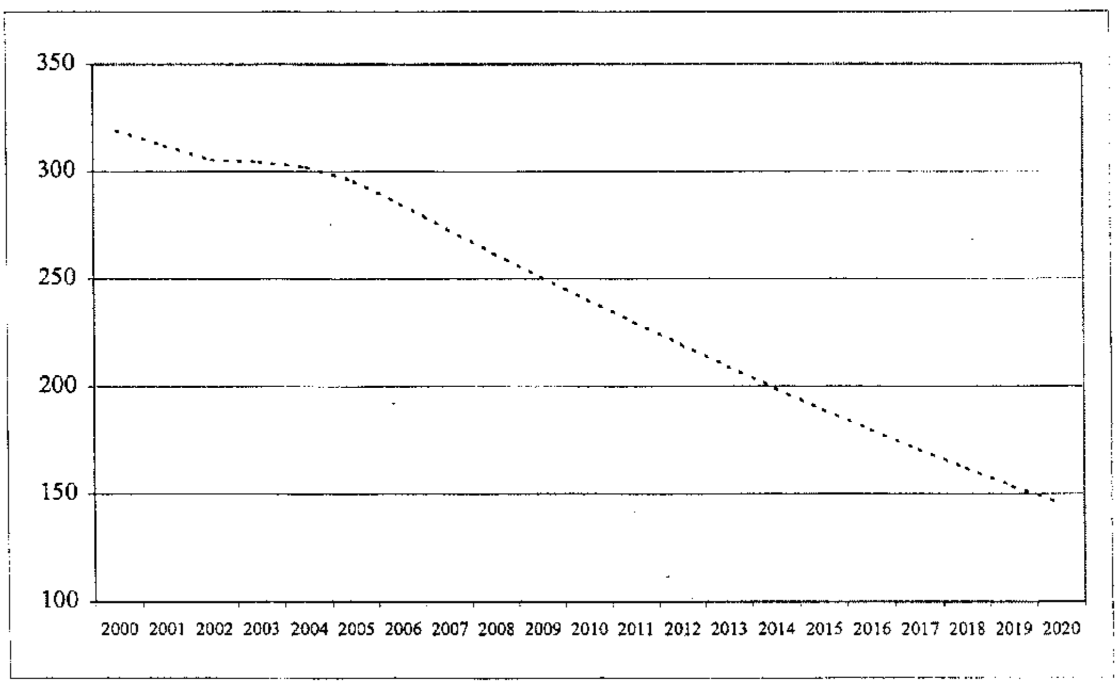


Figure 2. Comoros: NPV of Debt-to-Exports Ratio, 2000-20



Sources: Comorian authorities and staff estimates

Table 1. Comoros: Selected Economic and Financial Indicators, 1996-2004

	1996	1997	1998	1999	2000 Est.	2001 Prog.	2002 Prog.	2003 Projections	2004 Projections
	(Annual percentage change, unless otherwise specified)								
National income and prices									
Real GDP	-1.3	4.2	1.2	1.9	-1.1	1.0	2.0	2.0	3.0
Real GDP per capita	-3.9	1.5	-1.5	-0.8	-3.7	-1.7	-0.7	-0.7	0.3
Nominal GDP (in billions of Comorian francs)	88.4	92.8	95.3	102.8	107.8	113.8	119.9	125.5	132.7
Consumer price index (annual averages)	2.0	3.0	3.5	3.5	-1.9	3.5	3.0	3.0	3.0
Consumer price index (end of period)	-1.8	3.5	3.5	3.5	4.8	3.5	3.0	3.0	3.0
External sector									
Exports, f.o.b.	-42.5	8.0	0.1	58.9	54.6	-22.5	-9.3	-12.9	-1.1
Imports, f.o.b.	-6.2	12.2	-11.1	6.8	1.8	14.9	2.8	-1.6	3.0
Export volume	-31.9	35.4	9.5	-22.9	-8.0	-8.3	-10.8	3.0	13.1
Import volume	-3.3	5.0	-17.5	-1.0	-2.9	21.6	0.3	-3.6	1.1
Terms of trade	-13.0	-25.4	-15.3	91.0	57.1	-10.6	0.5	-16.6	-14.2
Government budget									
Domestic revenue	-13.2	15.5	-15.2	6.0	-17.6	23.8	-3.1	6.3	8.7
Total expenditure and net lending	-14.5	-1.2	-8.8	-6.5	-10.4	34.1	-4.3	-1.5	5.0
Current expenditure	-16.2	-4.0	-22.1	3.6	-4.6	31.7	-5.4	-4.8	3.7
Capital expenditure and net lending	-7.8	8.8	32.8	-25.2	-24.8	41.4	-1.6	8.3	8.3
Money and credit									
Domestic credit	-17.4	8.3	19.6	-3.5	4.7	-0.1	-1.1	..	..
Credit to government	-6.1	-1.7	80.1	-0.6	-9.4	-15.5	-32.6	..	..
Credit to the rest of the economy	-14.1	6.9	8.7	-6.8	14.4	5.2	7.8	..	..
Broad money	6.4	3.1	-6.6	7.0	14.5	2.2	5.3	..	..
Velocity (GDP/average broad money)	5.0	5.1	5.6	5.6	5.1	5.3	5.3	..	..
Interest rate (in percent, end of period)	8.5	7.0	7.0	5.9	5.9	5.9	..	..	..
	(In percent of GDP, unless otherwise specified)								
Investment and savings									
Gross domestic investment	13.6	13.4	14.7	11.9	10.4	11.8	11.5	11.7	11.9
Public	5.8	6.0	7.8	5.4	3.9	5.2	4.8	5.0	5.1
Private	7.9	7.4	7.0	6.5	6.6	6.6	6.7	6.7	6.8
Gross national savings	4.9	-2.4	8.7	7.8	10.0	6.9	7.1	9.0	9.8
Public	0.6	4.0	4.8	5.0	1.9	1.3	1.5	3.0	3.7
Private	4.3	-6.4	3.8	2.8	8.1	5.6	5.6	5.9	6.1
External current account (after grants)	-8.7	-15.8	-6.1	-4.1	-0.4	-4.8	-4.3	-2.8	-2.0
Government budget									
Domestic revenue	12.3	13.8	11.4	11.8	10.2	12.6	12.0	12.1	12.5
Total grants	8.2	8.8	7.3	6.6	4.2	4.3	3.6	3.7	3.8
Total expenditure	26.4	24.9	22.1	19.1	16.3	20.7	18.9	17.7	17.6
Overall domestic balance [1]	-3.3	0.3	-0.4	-0.2	-0.2	2.1	1.8	0.0	0.0
Overall balance (commitment basis) [2]	-5.8	-2.2	-3.4	-0.8	-1.9	-3.8	-3.3	-1.9	-1.4
Overall balance (cash basis) [2]	-2.7	-1.8	-3.9	0.3	0.3	-4.6	-5.0	-1.9	-1.4
External sector									
Current external balance	-8.7	-15.8	-6.1	-4.1	-0.4	-4.8	-4.3	-2.8	-2.0
Total external debt outstanding [3]	..	..	..	..	111.3	104.3	99.4	95.7	91.6
External debt service (incl. the Fund)	7.8	5.3	5.3	4.8	4.3	3.4	3.1	2.7	3.1
Including the Fund/Exports (GNFS)	42.7	30.0	23.9	21.7	18.1	15.3	14.4	12.7	14.0
Excluding the Fund/Exports (GNFS)	42.7	29.3	23.4	20.9	16.9	14.2	13.7	12.0	13.7
	(In millions of U.S. dollars, unless otherwise specified)								
Overall balance of payments	-7.3	-13.0	-13.2	-5.9	2.1	-9.2	-7.5	-4.2	-1.2
External payments arrears (end of year) [3]	..	..	..	..	83.7	85.7	85.7	85.7	85.7
Gross international reserves (end of period)	51.3	43.2	36.7	36.7	43.6	45.2	48.0	46.6	46.0
(equivalent in months of imports of goods and nonfactor services, c.i.f.)	6.5	5.5	5.7	6.1	8.0	7.3	7.7	7.5	7.2
Exchange rate									
Comoros franc per U.S. dollar (period average)	383.7	437.8	442.5	461.8	534.0	..	..	..	..

Sources: Data provided by the Comorian authorities; and IMF staff estimates and projections.

[1] On a commitment basis before exceptional expenditures; excludes foreign grants, foreign-funded technical assistance and capital expenditures, and foreign debt service

[2] Including grants.

[3] Reconciled data not available before 2000.

Table 2. Comoros: Nominal and Net Present Value of External Debt Outstanding at End-2000
(In millions of US dollars, unless otherwise indicated)

	Nominal Debt		NPV of Debt	
	Total, including arrears	Arrears	Total, including arrears	Percent of total NPV
Total	**224.6**	**83.7**	**161.9**	**100.0**
Multilateral creditors	**175.3**	**54.5**	**117.8**	**72.8**
IDA	70.6	0.0	32.2	19.9
IMF	1.5	0.0	1.3	0.8
African Development Bank	51.8	15.5	36.9	22.8
of which: African Development Fund	38.6	3.9	22.2	13.7
EU/EDF	0.9	0.0	0.7	0.4
BADEA	25.2	24.4	25.2	15.5
IFAD	5.8	0.0	3.0	1.8
OPEC Fund	3.6	3.4	3.6	2.2
Islamic Development Bank	15.9	11.2	14.9	9.2
Official bilateral creditors	**49.3**	**29.2**	**44.1**	**27.2**
Paris Club	**2.6**	**0.3**	**2.1**	**1.3**
France	2.6	0.3	2.1	1.3
Non-Paris Club	**46.6**	**28.9**	**42.0**	**25.9**
China	6.3	3.6	5.8	3.6
Kuwait	23.5	10.1	19.7	12.2
Saudi Arabia	15.7	14.1	15.4	9.5
United Arab Emirates	1.1	1.1	1.1	0.7

Sources: Comorian authorities, creditor records, and staff estimates.

Table 3. Discount Rate and Exchange Rate Assumptions [1]

	Discount Rates [1 2] (In percent per annum)	Exchange Rates [2] (Currency per U.S. dollar)
Currency		
Belgian franc	6.25	43.35
Canadian dollar	7.00	1.50
Swiss franc	5.33	1.64
Chinese yuan	6.09	8.28
Deutsche mark	6.25	2.10
Danish kroner	6.25	8.02
Domestic currency: Comorian franc	6.25	528.71
Euro	6.25	1.07
French franc	6.25	7.05
Italian lira	6.25	2080.89
Japanese yen	2.03	114.90
Kuwaiti dinar	6.09	0.31
Netherland guilder	6.25	2.37
Norwegian kroner	8.02	8.85
Saudi Arabian rial	6.09	3.75
Special drawing rights	6.09	0.77
Swedish kroner	6.20	9.54
UAE Dirhams	6.09	3.67
United States dollar	7.19	1.00

Sources: OECD; and IMF, *International Financial Statistics*.

[1] The discount rates used are the average commercial interest reference rates (CIRRs) for the respective currencies over the six-month period ended December 2000.

[2] For all currencies for which the CIRRs are not available, the SDR discount rate is used as a proxy.

Table 4. Comoros: Net Present Value of External Debt and Debt Service Due, 2000-20 [1]
(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2001-10	2011-20
	Estimate										Projections											Averages	
NPV of debt																							
1. NPV of total debt (2+5) [2]	161.9	158.9	159.3	160.3	161.8	163.2	164.7	166.6	168.4	170.2	172.0	173.7	174.9	176.0	176.6	177.0	177.4	177.6	177.8	178.0	178.0	164.5	176.7
2. NPV of outstanding debt (3+4)	161.9	156.7	154.6	152.8	151.2	149.4	147.4	145.9	144.2	142.6	141.1	139.4	137.4	135.5	133.1	130.6	128.3	125.8	123.2	120.7	118.2	164.8	129.2
3. Official bilateral	44.1	43.1	42.0	40.9	40.3	39.4	38.4	37.7	36.9	36.1	35.5	34.9	34.2	33.5	32.8	32.0	31.4	30.8	30.2	29.8	29.4	43.4	31.9
3a. Paris Club	2.1	2.0	1.9	1.9	1.8	1.7	1.6	1.5	1.4	1.3	1.2	1.1	1.0	0.9	0.8	0.7	0.6	0.4	0.3	0.3	0.3	1.8	0.6
3b. Other official bilateral	42.0	41.1	40.1	39.1	38.5	37.7	36.8	36.2	35.5	34.8	34.3	33.8	33.2	32.6	32.0	31.3	30.9	30.4	29.9	29.5	29.1	41.6	31.3
4. Multilateral	137.0	133.1	131.4	129.8	127.9	126.1	124.2	122.5	120.8	119.1	117.4	115.5	113.4	111.3	109.0	106.6	104.1	101.6	99.0	96.3	93.6	138.9	105.0
IDA	32.2	32.9	33.2	33.5	33.5	33.4	33.3	33.0	32.7	32.3	32.0	31.4	30.8	30.1	29.2	28.1	27.1	25.9	24.7	23.4	22.1	36.2	27.3
IMF	1.5	0.9	0.5	0.2	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	0.0	0.0	0.0	0.3	0.0
African Development Bank/Fund	51.8	49.4	48.4	47.6	46.7	45.7	44.8	43.9	42.9	42.0	41.1	40.1	39.0	37.9	36.8	35.7	34.6	33.5	32.4	31.2	30.1	50.4	35.1
BADEA	25.2	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	27.0	24.4
Islamic Development Bank	15.9	15.4	14.9	14.4	13.9	13.4	12.9	12.7	12.6	12.4	12.3	12.2	12.0	11.9	11.9	11.8	11.7	11.7	11.6	11.5	11.4	15.1	11.8
Others	10.4	10.1	9.9	9.6	9.4	9.1	8.8	8.5	8.2	7.9	7.6	7.3	7.1	6.9	6.7	6.5	6.3	6.1	5.9	5.7	5.5	9.9	6.4
5. NPV of new borrowing	0.0	2.2	4.7	7.5	10.6	13.9	17.3	20.7	24.2	27.6	31.0	34.3	37.4	40.5	43.5	46.3	49.1	51.8	54.6	57.3	59.9	16.0	47.5
Debt service due																							
Total debt service, before debt relief	0.0	9.9	6.6	6.1	6.0	6.2	6.3	5.9	6.1	6.3	6.3	6.7	7.2	7.4	7.9	8.3	8.2	8.4	8.5	8.5	8.7	6.6	8.0
Official bilateral	0.0	1.9	1.9	1.9	1.4	1.6	1.6	1.3	1.3	1.3	1.0	1.0	1.0	1.0	1.0	1.0	0.8	0.7	0.7	0.5	0.4	1.5	0.8
Paris Club	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.2	0.1
Other official bilateral	0.0	1.7	1.7	1.7	1.2	1.4	1.4	1.1	1.1	1.1	0.9	0.9	0.9	0.8	0.8	0.9	0.6	0.6	0.6	0.4	0.4	1.3	0.7
Multilateral	0.0	7.9	4.5	4.1	4.4	4.3	4.3	4.1	4.0	4.0	4.0	4.1	4.3	4.2	4.4	4.5	4.4	4.4	4.4	4.4	4.3	4.6	4.3
IDA	0.0	1.3	1.7	1.7	2.1	2.2	2.2	2.4	2.4	2.4	2.3	2.5	2.6	2.6	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.1	2.7
IMF	0.0	0.6	0.4	0.4	0.2	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	0.0	0.0	0.1	0.0
African Development Bank/Fund	0.0	4.2	1.6	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.5	1.3
BADEA	0.0	0.8	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	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Islamic Development Bank	0.0	0.6	0.6	0.6	0.6	0.6	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.1
Others	0.0	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2
New debt	0.0	0.1	0.1	0.2	0.2	0.3	0.4	0.6	0.7	1.0	1.3	1.6	1.9	2.2	2.5	2.8	3.1	3.2	3.4	3.7	3.9	0.5	2.8
Memorandum items:																							
Exports of goods and services [3]	51.8	51.9	52.8	53.2	54.7	57.7	60.9	64.3	67.8	71.5	75.4	79.6	84.0	88.6	93.5	98.6	104.0	109.7	115.8	122.2	128.9	66.2	102.5
Three-year export average [4]	50.7	50.9	52.1	52.6	53.6	55.2	57.8	61.0	64.3	67.8	71.6	75.5	79.7	84.1	88.7	93.6	98.7	104.1	109.9	115.9	122.3	63.8	97.2
Government revenues [5]	20.6	27.6	27.8	29.4	32.3	34.2	36.5	38.7	41.0	43.4	46.0	48.8	51.7	54.8	58.1	61.6	65.3	69.2	73.4	77.8	82.5	31.3	52.5
GDP	201.9	218.8	231.4	243.0	257.7	274.0	291.8	309.3	327.8	347.5	368.4	390.5	413.9	438.7	465.1	493.0	522.5	553.9	587.1	622.4	659.7	307.1	514.7
NPV of debt-to-exports ratio [6]																							
For total debt (2+4)	319.2	312.2	305.4	304.7	302.1	295.7	285.0	273.3	261.9	250.9	240.4	230.0	219.5	209.3	199.2	189.1	179.7	170.6	161.8	153.6	145.6	315.1	185.8
For outstanding debt (3+4) only	319.2	307.9	296.4	290.5	282.3	270.6	255.1	239.3	224.3	210.1	197.1	184.6	172.5	161.1	150.1	139.6	130.0	120.8	112.1	104.2	96.7	289.3	137.2
NPV of debt-to-revenue ratio [7]																							
For total debt (2+4)	786.3	576.4	573.7	545.3	501.6	476.7	451.5	430.9	411.0	391.8	373.6	355.8	338.0	320.8	303.8	287.2	271.5	256.6	242.2	228.8	215.9	551.9	282.1
For outstanding debt (3+4) only	786.3	568.4	556.7	519.9	468.7	436.2	404.1	377.3	352.0	328.2	306.3	285.6	265.6	247.0	229.0	212.0	196.4	181.7	167.9	155.2	143.3	510.4	208.4
Debt service ratio [8]	18.1	19.1	12.4	11.5	11.0	10.7	10.3	9.2	9.0	8.8	8.4	8.4	8.6	8.4	8.5	8.4	7.9	7.7	7.4	7.0	6.7	12.8	7.9

Sources: Comorian authorities and staff estimates and projections.

[1] Refers to public and publicly guaranteed external debt only; no assumptions regarding the clearance of arrears or future debt rescheduling have been made.

[2] Discounted on the basis of the average commercial interest reference rate for the respective currency, derived over the six-month period prior to the latest date for which actual data are available (base date: end-2000). The conversion of currency-specific NPVs into U.S. dollars occurs for all years at the base date exchange rate.

[3] As defined in IMF Balance of Payments Manual, 5th edition, 1993.

[4] Backward-looking average (i.e. average over 1998-2000 for exports in 2000).

[5] Revenues are defined as central government revenues, excluding grants.

[6] NPV of debt in percent of three-year average of exports of goods and services.

[7] NPV of debt in percent of current year government revenues.

[8] Debt service due as a percentage of current year exports of goods and services.

Table 5. Comoros: Balance of Payments, 1996-2006
(In millions of US dollars, unless otherwise indicated)

3:20 PM 27-Jun-01	1996	1997	1998	1999	2000 Prov.	2001 Prog.	2002 Prog.	2003 Projections	2004	2005	2006
Trade balance	-42.6	-42.1	-36.4	-34.3	-26.0	-35.3	-37.6	-38.1	-39.7	-41.6	-43.8
Exports, f.o.b.	6.3	6.0	5.9	9.1	12.1	9.6	8.8	7.7	7.6	8.0	8.5
Vanilla	2.7	2.6	2.4	4.0	7.7	5.2	4.2	3.4	3.6	3.9	4.1
Cloves	0.5	0.8	0.4	2.5	2.3	2.4	2.5	2.1	1.7	1.8	1.9
Ylang-ylang	1.7	1.6	1.3	1.2	1.7	1.8	1.9	1.9	1.9	2.0	2.1
Other	1.4	1.0	1.8	1.3	0.5	0.2	0.3	0.3	0.3	0.3	0.4
Imports, f.o.b.	-49.0	-48.1	-42.3	-43.3	-38.1	-44.9	-46.4	-45.8	-47.3	-49.6	-52.3
Services balance (net)	-10.1	-10.4	6.3	7.5	13.8	12.3	16.3	19.4	21.8	23.8	26.4
Nonfactor services (net)	-10.5	-10.6	6.7	7.3	13.4	12.5	15.6	18.7	21.1	23.2	25.3
Exports	35.9	32.5	43.1	42.4	39.7	41.9	44.1	47.4	51.0	54.3	57.9
Of which											
Travel receipts	24.5	22.1	31.2	30.7	30.5	32.2	33.9	36.8	39.8	42.7	45.8
Imports	-46.4	-43.1	-36.3	-35.0	-26.2	-29.4	-28.6	-28.7	-29.8	-31.1	-32.6
Factor services (net)	0.4	0.2	-0.4	0.2	0.3	-0.2	0.8	0.7	0.6	0.6	1.2
Of which											
Interest payments	-2.0	-2.0	-2.2	-2.1	-1.7	-2.3	-1.4	-1.4	-1.4	-1.5	-1.5
Private transfers (net)	12.1	...	0.2	2.0	2.9	3.0	3.0	3.1	3.1	3.2	3.2
Official transfers	20.6	19.1	16.7	15.6	8.5	9.5	8.2	8.9	9.7	10.3	10.9
Current account (excl. official transfers)	-40.7	-52.5	-29.8	-24.8	-9.4	-20.0	-18.2	-15.6	-14.8	-14.6	-14.2
Current account (incl. official transfers)	-20.1	-33.4	-13.1	-9.1	-0.9	-10.5	-10.0	-6.7	-5.2	-4.3	-3.3
Direct investment	0.9	0.2	0.4	0.3	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Medium- and long-term borrowing	-7.3	-4.8	-3.8	-6.1	-5.3	1.1	2.0	2.5	3.4	3.8	4.3
Gross borrowing	8.7	4.4	5.1	3.4	1.8	5.4	5.9	6.3	6.9	7.3	7.8
Amortization	-16.0	-9.2	-9.0	-9.5	-7.1	-4.3	-3.9	-3.9	-3.5	-3.5	-3.5
Trade-related credits	0.2	1.6	-1.7	0.0	-0.6	0.2	0.4	-0.1	0.5	0.6	0.7
Commercial banks	-0.1	-2.5	-0.9	-0.9	3.8	...	...	...	...	...	...
Foreign assets	0.1	-2.5	-1.0	-3.4	3.8	...	...	...	...	...	...
Foreign liabilities	-0.2	-0.0	0.1	2.5	...	...	...	...	...	...	...
Short-term capital (including errors and omissions)	19.2	26.0	5.9	10.0	5.0	...	...	...	...	...	...
Capital account	12.9	20.5	-0.2	3.3	3.0	1.4	2.5	2.6	4.0	4.6	5.2
Overall balance	-7.3	-13.0	-13.2	-5.9	2.1	-9.2	-7.5	-4.2	-1.2	0.3	2.0
Financing	7.3	13.0	13.2	5.9	-2.1	9.2	7.5	4.2	1.2	-0.3	-2.0
Central Bank	-9.4	3.8	3.3	-3.7	-9.3	-1.0	-2.6	1.5	0.7	-0.2	-1.9
Foreign assets	-9.2	3.8	3.9	-3.7	-8.8	-1.0	-2.6	1.5	0.7	-0.2	-1.9
Foreign liabilities	-0.2	0.0	-0.6	-0.0	-0.5	...	...	...	...	...	...
Of which											
Use of Fund credit	...	-0.2	-0.2	-0.4	-0.3	-0.6	-0.4	-0.4	-0.2	...	...
Valuation change	...	...	...	...	...	...	...	...	...	...	...
Change in arrears	7.7	4.1	10.0	9.6	7.2	2.0	...	...	...	...	...
Exceptional financing	8.9	5.1	...	...	...	...	...	...	...	...	...
Financing gap	...	...	...	...	...	8.1	10.1	2.7	0.4	...	...
Memorandum items:											
Arrears (end of period) [1]	..	..	..	..	83.7	85.7	85.7	85.7	85.7	...	...
External debt (end of period, incl. arrears & IMF) [1]	..	..	..	..	224.6	227.7	229.7	232.2	235.6	100.5	101.4
Current account as percent of GDP											
Excluding transfers	-17.7	-24.8	-13.8	-11.1	-4.6	-9.2	-7.9	-6.4	-5.8	-5.3	-4.9
Including transfers	-8.7	-15.8	-6.1	-4.1	-0.4	-4.8	-4.3	-2.8	-2.0	-1.6	-1.1
External debt (including arrears & IMF)(percent of GDP)	90.8	86.1	86.4	79.9	111.3	74.6	72.6	40.8	38.7	36.8	34.8
Exchange rate CF/US$ (period average)	383.7	437.8	442.5	461.8	534.0	..	..	..	..	514.6	513.5
Gross foreign assets of the Central Bank	51.3	43.2	36.7	36.7	43.6	45.2	48.0	46.6	46.0	46.3	48.4
In months of imports of goods and nonfactor services, c.i.f.	6.5	5.5	5.7	6.1	8.0	7.3	7.7	7.5	7.2	6.9	6.8
Nominal GDP	230.5	212.1	215.4	222.6	201.9	218.4	231.0	242.6	257.3	273.4	291.0

Sources: Central Bank of the Comoros, and Fund staff estimates and projections.

[1] Reconciled data not available before 2000.

Comoros: Relations with the Fund
(As of April 30, 2001)

I. **Membership Status**: Joined 9/21/76; Article VIII

II. **General Resources Account**:	SDR Millions	% Quota
Quota	8.90	100.0
Fund holdings of currency	8.36	93.9
Reserve position in Fund	0.54	6.1

III. **SDR Department**:	SDR Millions	% Allocation
Net cumulative allocation	0.72	100.0
Holdings	0.04	5.0

IV. **Outstanding Purchases and Loans**:	SDR Millions	% Quota
(SAF) Structural Adjustment Facility arrangements	0.90	10.1

V. **Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
SAF	06/21/91	06/20/94	3.15	2.25

IV. **Projected Obligations to Fund**[1] (SDR millions; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	04/30/01	2001	2002	2003	2004	2005
Principal	0.0	0.2	0.3	0.3	0.1	0.0
Total	0.0	0.2	0.3	0.3	0.1	0.0

[1]The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.

VII. Exchange Rate Arrangements

The currency of the Comoros is the Comorian franc, which is pegged to the French franc, the intervention currency, at the fixed rate of CF 1 = F 0.0133. The Comoros has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

VIII. Last Article IV Consultation

The Comoros is on the standard 12-month cycle with regard to Article IV consultations. However, no Article IV consultations were held in 1998 and 1999, due to political unrest and inadequate information. The 2000 Article IV consultation discussions were held in Moroni during the period February 26 – March 10, 2000.

The staff report for the 2000 Article IV consultation SM/00/141, 29/06/00, was discussed by the Executive Board on July 12, 2000 (see SUR/00/58, 14/07/00).

XI. Recent Technical Assistance

Department	Dates	Subject
FAD	July 1991	Follow-up mission on tariff reform.
FAD	July 1991	Mission on budgeting and procedures
FAD	March 1993	Follow-up mission on tariff reform
FAD	Sept.- Oct. 1993	Follow-up mission on customs tariff
FAD	May 1995	Follow-up mission on customs and tax administration, and assistance in preparation of a contract for a preshipment inspection service
FAD	May 2001	Follow up mission on tax and customs administration.
MAE	Aug.-Sept. 1992	Banking sector study
MAE	Sept.-Dec. 1994	Advisor on banking supervision
MAE	May 1995	Mission to review technical assistance needs in banking supervision and banking legislation
MAE	September 1997	Advisor on banking supervision

Comoros: Relations with the World Bank Group
(As of May 31, 2001)

Date of membership (IBRD): October 1976
Capital subscription (IBRD): SDR 2.82 million

1. The World Bank has been engaged in the Comoros since the country cleared arrears to IDA in January 2000. A CPPR mission followed shortly thereafter, making some adjustments to the existing portfolio and responding to the client's needs to institute decentralized project coordinators for each of the three islands, although project management remains with central authorities. In November 2000, an Interim Support Strategy (ISS) was approved by the Board.

2. At the time of Board presentation of the ISS, the Comoros was in a base case scenario. The ISS provides for moving to a high case scenario when Comoros shows tangible and decisive progress towards national reconciliation (which is considered a necessary pre-condition for emergency assistance to be effective) and substantial improvement in public sector management. The high case scenario comprises the preparation of an emergency recovery credit to address urgent social needs and assist in financing the national reconciliation process. Triggers in the ISS for the high case scenario comprise (i) good performance under the base case and (ii) preparation of an integrated budget with better fiscal management and equitable distribution of resources to the three islands.

3. Comoros' performance under the base case has been good: the country has maintained a socioeconomic environment suitable for development, made progress in decentralizing project management to the islands, and has maintained satisfactory portfolio performance, as determined by routine supervision missions. The Comoros has also prepared a budget for the current fiscal year (January 1–December 31, 2000) which integrates transfers between Grande Comore and Anjouan. With additional measures taken to improve financial management, Comoros has moved into the high case scenario.

4. As a result of these improvements, the World Bank is preparing a US$6 million for an Emergency Economic Recovery Credit (EERC) to finance the critical transition out of the secessionist crisis. The proceeds of the credit will finance Comoros' imports in order to support the government's economic recovery program. The recovery program will target urgent public expenditures needed to alleviate distress amongst the poor, particularly in Anjouan, and support the process of national reconciliation. In conjunction with the EERC, the World Bank has made available a grant of its Post-Conflict Fund of US$788,000 to finance the reintegration of young militia and other at-risk youth in the Anjouanese economy.

5. The IFC does not yet have any activity in the Comoros, and the country has not yet joined the MIGA.

Table 1. Comoros: IDA Lending Operations
(In millions of U.S. dollars)

Purpose	Approved (Fiscal Year)	Committed (less cancellations)	Undisbursed
Number of closed credits			
11 IDA credits have been closed		68.9	0.0
Active Credits			
Small Enterprise Development	1994	5.1	0.8
Education III	1997	7.0	5.7
Agriculture Services	1997	1.6	0.7
Health	1998	8.4	7.4
Social Fund	1998	11.5	8.6
Infrastructure, Water, Environment	2001	11.4	11.1
Total		**113.9**	**34.3**
Of which: repaid		4.2	0.0
Total Outstanding		**109.7**	**34.3**

Source: World Bank.

Table 2. Comoros: IDA Loans and Debt Service FY 1990 - FY 2000
(In millions of U.S. dollars)

	FY96	FY97	FY98	FY99[1]	FY00	FY01[2]
IDA net disbursements	7.9	4.4	5.3	0.6	0.4	2.5
Disbursements	8.3	4.8	5.7	0.6	1.5	3.2
Repayments	0.4	0.4	0.4	0.0	1.1	0.7
Interest payment	0.5	0.5	0.5	0.0	1.1	0.5

Source: World Bank

1/ Under IDA suspension of disbursements because of arrears.
2/ Until May 31, 2001 only.

Comoros: Statistical Issues

Overview

1. Although the situation has improved somewhat since end-1998, the statistical database in the Comoros remains seriously deficient in most of the sectors, complicating the formulation and monitoring of economic and financial policies. The situation has been compounded in recent years by disruptions in the civil service, and staffing inadequacies. In view of these difficulties, considerable work is required to improve the statistical base. The authorities have requested a STA multisector technical assistance mission, which is under consideration, that could lay the ground work for a thorough revamping of the statistical system.

National accounts data and prices

2. National accounts are computed using extrapolations, and present serious methodological errors. There is little specific information on the level of economic activity, which complicates the formulation of sectoral policies. Improvements in the methodology in the calculation of real GDP and GDP deflator are urgently required. Staff has made estimates of current year national accounts and projections of future years based on available official data.

3. In addition, no comprehensive consumer price index is available. An AFRISTAT mission in 1998 has suggested to update the consumer basket using a 1995 household survey; however, recent developments in the Comoros have seriously outdated this survey, and the reference prices used in the price index are largely unrepresentative. In 2000, the authorities updated the consumer basket. However, since the authorities did not calculate CPI using both the old and the new basket for an overlapping period, there is a break in the CPI series. The staff has had to make its own estimates of current year national accounts and projections of future years based on incomplete official data.

Fiscal data

4. In the public finance sector, data are now presented on both a commitment and cash basis, but the identification and monitoring of domestic arrears remain difficult. The institutional setup to compile regular, comprehensive overviews of budgetary developments is weak, and such information is only available on ad hoc basis and with considerable effort. Data on the financial operations of public enterprises lack transparency and timeliness. The latest data published in the *GFS Yearbook* are for 1987. Comoros does not report government finance data for publication in *IFS*.

Monetary data

5. There has been improvement in the timeliness of reporting monetary data for publication in *IFS*. The authorities are now reporting data to STA with a lag of 1-2 months

instead of 4 months. In 1997, a STA mission to the Comoros reviewed the compilation and reporting of money and banking statistics, and made several recommendations to improve classification, coverage and reporting procedures. This information is much too outdated to be of use.

Balance of payments

6. Balance of payments data are prepared by the central bank with considerable delay. Data relating to capital inflows are sketchy. External debt database has recently been updated for external debt sustainability analysis. Balance of payments statistics have not been reported to STA in recent years for publication in the *IFS*.

Technical assistance missions in statistics (1986-present)

Subject	Staff Member	Date
Government finance statistics	Vincent Marie	June 1986
Money and banking statistics	Thiet T. Luu	October 1987
Balance of payments statistics	Daniel Daco	May-June 1988
Money and banking statistics	G. Raymond	July 1997

Comoros: Core Statistical Indicators
(as of June 21, 2001)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	Current	03/01	03/01	03/01	03/01	3/00	12/00	10/00	1999	12/00	2000	1999
Date Received	Current	05/01	05/01	05/01	05/01	5/00	2/01	12/00	3/00	12/00	12/00	3/00
Frequency of Data	Daily	M	M	M	M	O	M	M	A	A	A	A
Frequency of Reporting	Daily	M	M	M	M	V	V	V	V	V	V	V
Source of Update	INS	A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting	On-line	C	C	C	C	V	V	V	V	V	V	V
Confidentiality	C	B	B	B	B	B	B	B	B	B	B	B
Frequency of Publication	M	M	M	M	M	V	V	A	A	V	A	V

Notes: Frequency of data: M=monthly; Q=quarterly; A=annual; O=irregular.
Frequency or reporting: M=monthly; Q=quarterly; A=annually; V=irregular, in conjunction with staff visits.
Source of data: A=direct reporting by central bank, ministry of finance, or other official agency.
Mode of reporting: E=electronic data transfer; C=cable or facsimile; V=staff visits.
Confidentiality: B=for use by the staff and the Executive Board; C=for unrestricted use.
Frequency of publication: M=monthly; Q=quarterly; A=annually; V=irregularly in conjunction with staff visits.

Statement by the IMF Staff Representative
July 18, 2001

This statement reports on the meeting of "Friends of the Comoros" that was held in Paris on July 5, 2001, and on information that became available since the issuance of the Board papers.

1. The first (informal) donor meeting after the Comoros' political problems in recent years was very well attended. The donors were supportive of the political reconciliation process and the government's emergency reconciliation and reconstruction program, pledging a total of US$11.5 million in additional assistance for July 2001-June 2002, including US$6.8 million from the World Bank. Most of the aid concerned project assistance, and the total amount was slightly less than the US$12.8 million the government sought. However, the total does not include substantial assistance expected from a US$10 million Comoros Fund that is being established by the Arab League. While some re-prioritizing of expenditure may be needed, the financing gap including the emergency expenditure program for July 2001-June 2002, appears to be covered.

2. The government also made further progress with regard to regularizing its relations with external creditors. Of the two largest bilateral creditors, the Comoros received a rescheduling proposal from the Kuwait Fund for Economic Development of Arab Countries during the donor conference, which the authorities are evaluating, and discussions with the Saudi Fund for Development are expected to start in the coming months. Successful implementation of rescheduling agreements with these creditors would eliminate almost one-third of the external debt payments arrears and allow renewed access to substantial concessionary financing.

3. The government is preparing the revised budget for 2001, including the results of the donor meeting, for issuance by end-July. This may involve the shifting into 2002 of some of the expenditure under the emergency program previously planned for 2001. In addition, the authorities decided to include a number of revenue measures, originally intended to be implemented on July 1, in the package of the revised budget, in order to allow more time for their preparation. Monthly wages were paid regularly through end-June 2001, and the federal government has started making transfers to Anjouan to improve the functioning of the administration on that island.

This information does not change the thrust of the staff appraisal as provided in EBS/01/110.

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 01/76
FOR IMMEDIATE RELEASE
July 31, 2001

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

IMF Concludes 2001 Article IV Consultation with Comoros

On July 18, 2001, the Executive Board concluded the Article IV consultation with Comoros.[1]

Background

Article IV consultations could not be held in 1998-1999 because of disruptions in government services and continuing political turmoil, including the conflict with the separatist movement on the island of Anjouan, but resumed in 2000. In February 2001, with international support, representatives of the federal government, the opposition, and the island of Anjouan reached agreement on reintegrating Anjouan into the Comoros and restoring democratic political institutions by the end of 2001. The federal government has made progress in reducing fiscal imbalances and improving public services. However, the sharp deterioration in public administration has led to large gaps in recent data, and indications are that the fiscal situation on Anjouan is very difficult, as evidenced by large wage arrears.

Macroeconomic performance has been poor in recent years. Large fiscal imbalances led to serious disruptions in government services in 1997-98, which were further exacerbated by the political instability. Against this background, real GDP, which grew by less than the population during much of the 1990s, declined by 1.1 percent in 2000 on account of a slowdown in donor support, mounting disruptions in electricity supply, and the lack of investment in the main agricultural export products (vanilla, cloves, and the natural essence ylang-ylang). The Comoros is a member of the French Franc Zone and under its fixed exchange rate regime inflation was kept at around 3 percent per year since 1996, but it is estimated to have

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the July 18, 2001 Executive Board discussion based on the staff report.

accelerated to close to 5 percent, year-on-year, by end-December 2000, mainly because of increases in prices of petroleum products.

The fiscal performance of the federal government was mixed in 2000 (data on fiscal developments on Anjouan are not yet available). Revenue fell from 11.8 percent of GDP in 1999 to 10.2 percent in 2000, owing to the granting of tax exemptions for the import of personal effects. In response, the authorities sharply reduced expenditures on goods and services and transfers, and improved management of the payroll generated a 5 percent reduction in the wage bill compared to 1999. As a result, the overall domestic deficit (excluding foreign financed expenditure and on a commitment basis) remained at a low level of 0.2 percent of GDP. However, external debt-service obligations amounted to 4.3 percent of GDP and the resulting large financing need was mainly met by new wage arrears (of about one month, bringing the total outstanding stock of wage arrears accumulated by the federal government since 1995 to CF 8.7 billion (8.1 percent of GDP)), and by new arrears to suppliers (1.1 percent of GDP) and to external creditors (3.2 percent of GDP).

Reflecting a sharp increase in export prices, broad money and credit to the economy increased by about 14 percent in 2000. Interest rates for the single commercial bank are set by the central bank; they did not change in 2000, reflecting the stability in rates in the Euro zone, to which they are linked.

The current balance of payments account (including grants) moved, from a deficit of 4 percent of GDP in 1999 to virtual balance in 2000 as a result of a sharp increase in export prices and stagnating imports, which more than offset an almost 50 percent decline in official grants. Gross official reserves increased from 6.1 months of imports of goods and services in 1999 to 8.0 months at end-2000.

Executive Board Assessment

Executive Directors noted that unstable political conditions and weak macroeconomic and structural policies in recent years had resulted in persistent low economic growth, large fiscal imbalances, and mounting domestic and external public sector payments arrears. Directors considered that tackling these problems, as well as the widespread poverty in the country, should be the main priorities of economic policy. Accordingly, they welcomed the recent progress toward political reconciliation and the formulation of a comprehensive staff-monitored program (SMP) for the period July 2001-June 2002 to begin the process of economic rehabilitation.

Directors stressed the need for the authorities to implement the SMP vigorously, as a strong record of policy implementation will be essential to rebuild confidence and mobilize much needed external financial support, including support under the Fund's Poverty Reduction and Growth Facility and the HIPC Initiative. They welcomed the government's intention to begin preparing a comprehensive poverty reduction strategy, with the assistance of the United Nations Development Program.

Directors welcomed the SMP's emphasis on improving fiscal sustainability. They strongly supported a continuation of the tight public sector wage policy, and endorsed the authorities' plans to reduce employment in the public sector as part of a civil service reform program. They encouraged the authorities to complete expenditure reviews in the education and other sectors as soon as possible to determine optimal staffing levels and rebuild critical government services.

While divestiture of public assets could contribute to improved public sector financing, Directors recommended that the timing of such sales should be considered carefully, in view of the uncertain outlook for the global economy. Noting the revenue shortfall in 2000, Directors welcomed the recent reduction in import tax exemptions, stressing the need for further progress in this area, and the planned strengthening of tax and customs administration with a view to improving revenues. Directors stressed, however, that these public sector reforms should be executed in a manner that does not adversely affect social services and the poor.

Directors noted that large domestic and external arrears had been a major factor in the deterioration in government services and the decline in foreign assistance in recent years. They stressed the importance of ensuring that the planned revised budget for 2001 is realistic, avoids new domestic arrears, and includes provisions for resuming debt service payments to external creditors. They strongly recommended that the authorities seek a comprehensive agreement with the trade unions on the stock of wage arrears, taking into account the available resources and the need to adequately provide poverty reduction expenditures.

Directors observed that the Comoros' participation in the French franc zone had contributed to maintaining low inflation and a high level of reserves in recent years. However, high domestic costs, especially due to inefficient utilities, had eroded the country's external competitiveness. Directors urged the authorities to accelerate the implementation of structural reforms to improve the efficiency of the economy.

Directors commended the authorities for the progress in reconciling the external debt data with creditors as a first step toward addressing the external arrears situation. They urged the authorities to complete the reconciliation as soon as possible, to strengthen debt management, and to start discussions with a view to quickly regularizing relations with external creditors. Directors noted that the provisional debt sustainability analysis indicated that the Comoros could be eligible for debt relief under the enhanced HIPC Initiative. They looked forward to discussing a preliminary HIPC document, possibly by mid-2002, provided performance under the SMP is satisfactory.

Directors noted that the macroeconomic database of the Comoros remains weak, despite the authorities' recent efforts to strengthen it, which complicates the design and monitoring of economic policies. They urged the authorities to make further efforts, including by making good use of technical assistance from the Fund.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Comoros: Selected Economic Indicators

	1996	1997	1998	1999	2000	2001 Proj.
	(Annual percentage change, unless otherwise indicated)					
National accounts and prices						
Real GDP at market prices	-1.3	4.2	1.2	1.9	-1.1	1.0
Consumer price index (annual average)	2.0	3.0	3.5	3.5	-1.9	3.5
Money and credit						
Domestic credit	-17.4	8.3	19.6	-3.5	4.7	-0.1
Broad money	6.4	3.1	-6.6	7.0	14.5	2.3
External trade (in terms of Comorian Francs)						
Exports f.o.b.	-42.5	8.0	0.1	58.9	54.6	-22.5
Imports f.o.b.	-6.2	12.2	-11.1	6.8	1.8	14.9
	(In percent of GDP)					
Public finance						
Revenues	12.3	13.8	11.4	11.8	10.2	12.6
Expenditures	26.4	24.9	22.1	19.1	16.3	20.7
Overall balance (including grants; commitment basis)	-5.8	-2.2	-3.4	-0.8	-1.9	-3.8
External sector						
Current account balance	-8.7	-15.8	-6.1	-4.1	-0.4	-4.8
Total external debt outstanding (including arrears)	..	..	..	..	111.3	104.1
Gross international reserves (in months of imports of goods and services	6.5	5.5	5.7	6.1	8.0	7.3

Sources: Data provided by the Comorian authorities; and IMF staff estimates and projections.