August 2004
IMF Country Report No. 04/259

Union of the Comoros: 2004 Article IV Consultation—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 2004 Article IV consultation with the Union of the Comoros, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on February 9, 2004, with the officials of the Union of the Comoros on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 16, 2004. 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 April 30, 2004 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its April 30, 2004 discussion of the staff report that concluded the Article IV consultation.

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

Selected Issues Paper and Statistical Appendix

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

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

Staff Report for the 2004 Article IV Consultation

Prepared by the Staff Representatives for the 2004 Consultation with Comoros

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April 16, 2004

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EXECUTIVE SUMMARY

- A staff team consisting of Messrs. Riechel (head), Camard, Mikhael and Ms. Sancak (all AFR); Mr. Puig (SEC); and Ms. Kebet (Assistant, AFR) visited the Union of the Comoros during January 26–February 9, 2004 to conduct the discussions for the 2004 Article IV consultation.

- The power struggle between the Union and the island governments about the concrete meaning of the new constitution has hampered the conduct of coherent economic policies and undermined economic performance. Real per capita GDP dropped in 2003 for the sixth year in a row and no progress was made toward poverty reduction. The consolidated primary fiscal balance displayed a deficit of 3 percent of GDP, while a move toward sustainability would have required a surplus. The external current account deficit increased to 4.4 percent of GDP, despite a significant improvement in the terms of trade.

- In December 2003, a Transition Agreement on elections, political cooperation, and economic management was brokered by the African Union and spawned the establishment of a donor trust fund in support of its effective implementation. Elections for island parliaments that took place in March 2004 were won by the opposition parties. Elections for the National Assembly will follow in mid-April 2004.

- Discussions on the modalities for the implementation of the Transition Agreement proved to be extremely difficult, but in the end resulted in compromises that were supported, in principle, by all parties concerned. The effective implementation of the agreed arrangements will be a test of the parties' preparedness to cooperate, and an indication of the scope for negotiating a staff monitored program (SMP).

- Given the limited human and financial resources of the country, the decentralization foreseen under the Constitution should aim at management structures that are operationally effective and economically efficient. It must also be guided by the need for coherent and financially sound macroeconomic policies. The achievement of these objectives will require a high degree of cooperation and coordination.

- Fiscal policy under decentralization presents a particular challenge. Mechanisms for effective coordination and expenditure control will need to be established in order to ensure that overall fiscal deficits are kept at levels that are compatible with debt sustainability, and that spending is directed toward development and poverty objectives.

- Membership of the Comoros in the franc zone has served the country well and should be retained. Initiatives to broaden the financial sector must be accompanied by measures to safeguard its soundness and stability.

- Structural rigidities and the poor performance of the public utilities continue to impair the functioning of the economy and must be addressed with urgency.

- There is a strong need to strengthen transparency and accountability at all levels of government, and to move ahead with a broad reform of the data collection and dissemination process to improve statistics.

I. Introduction

1. Discussions for the 2004 Article IV consultation with the Comoros were held in Moroni during January 26-February 9, 2004. Members of the mission also participated as observers in the meetings of the Harmonization Committee, which was created to define implementation modalities for the December 20, 2003 agreement between the Union and island governments on political and economic management in the Comoros during the first half of 2004 (Transition Agreement).[1] In addition, the mission discussed with the authorities the modalities for the negotiation of a staff-monitored program (SMP) needed to establish a track record for a Fund-supported arrangement that could allow the Comoros to benefit from the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

2. **The last Article IV consultation with the Comoros was concluded by the Executive Board on October 30, 2002.**[2] At that time, Directors commended the authorities for their efforts at political reconciliation and urged them to advance speedily with the establishment of by-laws to make power sharing under the new constitution operational, assign responsibilities for macroeconomic policies, and define financial relations between the Union and the three island governments. Directors emphasized the need for a stable economic environment and expressed concern about fiscal developments and the accumulation of additional domestic and external payments arrears. They called for a staff-monitored program to establish a track record of economic policy implementation under the new constitutional arrangements before initiating discussions on a program that could be supported by a PRGF arrangement. Comoros has accepted the obligations of Article VIII and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.[3]

3. **Since the Board meeting in October 2002, the staff of the African Department visited the Comoros on two occasions before the 2004 Article IV consultation mission.** In December 2002, a staff team assisted the authorities with the establishment of a consolidated draft budget for 2003 and participated in a seminar on fiscal decentralization. In May–June 2003, a mission returned to the Comoros but found that the authorities had not yet been able to achieve a consensus on key economic policy and management issues for the negotiation of an SMP. In early October 2003, a Comorian delegation led by Union President Azali Assoumani met with management to explain the country's need for debt relief under the HIPC Initiative and to reiterate its strong interest in a PRGF arrangement at the earliest possible date.

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[1] Under the Agreement (Accord sur les dispositions transitoires aux Comores), the Fund was made a member of the Harmonization Committee. For details, see below.

[2] The Comoros consist of the islands of Ngazidja—formerly Grande Comore—(about 272,000 inhabitants) with the capital Moroni; Anjouan (245,000); and Mohéli (32,000).

[3] Indicative limits for invisible transactions to countries other than France and Morocco exist, but bona fide requests are normally approved. Also, repatriation requirements exist for foreign exchange earnings.

II. RECENT POLITICAL AND ECONOMIC DEVELOPMENTS

4. **A confrontational political environment has hampered the conduct of economic policies.** At the center of the problems is a power struggle between the Union and the island governments about the concrete meaning of the new constitution, which gives wide-ranging but ill-defined powers to the islands, including financial autonomy.[4] A number of attempts in 2002 and 2003 to establish by-laws for critical areas of effective power sharing and economic management failed to produce universally accepted results, notwithstanding the heavy involvement of the international community. However, following intense international pressure, a Transition Agreement on elections and critical arrangements for economic management was reached on December 20, 2003 (Box 1). The agreement is strongly supported by the international community and has given rise to the establishment of a multidonor trust fund for the implementation of the transitional arrangements.[5]

5. **Economic developments during 2003 continued to be adversely affected by the power struggle between the Union and island governments.** The adversarial relationship between these governments prevented the design and implementation of coherent economic policies and brought to a virtual standstill structural reforms that are urgently needed to strengthen the functioning of the economy. In addition, the political struggle undermined confidence at home and abroad, with negative consequences for private investment and foreign aid. As a result, the Comoros's real per capita income declined for the sixth year in a row, and no progress was made toward reducing poverty (Table 1).

6. **Inflation rose and the external current account deficit widened in 2003.** Notwithstanding a sizable strengthening of the Comorian franc (which is linked to the euro), inflation increased from 3.3 percent in 2002 to 4.5 percent in 2003 (Figure 1). The rise was mainly due to increases in import duties on selected commodities introduced by the Union government. At the same time, notwithstanding a marked improvement in the terms of trade, the external current account deficit (including official transfers) widened from 2.3 percent of GDP in 2002 to 4.4 percent in 2003, owing mainly to a fall in tourism and private transfers. The increase in the deficit led to the first decline in net foreign assets in six years. However, at some 11 months of imports of goods and services, the Comoros' reserve position is still at a comfortable level.

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[4] The new constitution was drafted in 2001 following the return of the island of Anjouan to the Union after an attempted breakaway in 1997. The constitution was approved with an overwhelming majority during a referendum in December 2001.

[5] The trust fund's main objectives are the support of (i) elections of a National Assembly during March–April 2004; (ii) the establishment of new political and administrative institutions; (iii) the preparation of a strategic and durable framework for human development; (iv) the preparation and implementation of the 2004 budget(s); and (v) training for the consolidation of national reconciliation. Principal donors are the World Bank, the European Union, and France; the United Nations Development Program (UNDP) is the executing agency. Total pledged resources amount to US$5.4 million. The funds are controlled by the donors outside the budget process.

Box 1. Comoros: International Initiatives on Decentralization Issues

A number of international initiatives sought to assist the Comorian authorities with the establishment of by-laws and arrangements in support of an effective decentralization and increased autonomy for the islands under the new constitution. To this end, two meetings were organized in Paris by the International Organization of the Francophonie (OIF) on the following issues:

- the delineation of competencies of the two levels of government (Union and islands);
- fiscal issues, including revenue sharing, customs administration, and budgets; and
- justice and the Constitutional Court.

While preliminary agreements on several issues were reached by the delegations, other issues remained unresolved, and it was not possible to move ahead with implementation of the agreements. A third meeting in Pretoria, South Africa, under the auspices of the African Union also ended in failure because the Union government questioned a proposed revenue-sharing formula on the grounds that competencies remained unclear. The Union government also called on the Anjouan government to harmonize its customs tariffs with those of the Union, and insisted on greater powers for the Union in the area of national security.

In response to these developments, international pressure for an interim agreement on decentralization and the holding of early elections increased. On December 20, 2003, a Transition Agreement was signed in Moroni between the Union and island governments under the auspices of an African Union delegation led by President Mbeki of South Africa. The agreement includes the following key points:

Political and security provisions

- **Legislative elections** will be held by end-April 2004.
- The **national police** will be placed at the disposition of the island governments.
- **Military and civilian observers** of the African Union will oversee implementation.

Fiscal provisions

- Union President Azali will issue **2004 budgets** for the Union and the islands by decree by early January 2004.
- An independent **customs authority** comprising four Comorians and three international experts will oversee the work of customs.
- All tax and nontax **revenues will be deposited** in a special central bank account to be divided among the governments in agreed shares.
- A onetime transfer will be made to **Ngazidja** for the budget shortfall registered in 2003.
- A special **donor trust fund** will be established to channel aid resources to critical transition projects.

The document called on the international community (including the Fund) to provide financial and technical assistance in support of the effective implementation of the agreement, including through its participation in implementation and monitoring committees (Comité d'harmonisation and Comité de suivi)

7. **Fiscal policies resulted in a primary deficit for the consolidated Union and island government of 3 percent of GDP in 2003, compared with 4 percent in 2002. (Table 2 and Figure 2)** An attempt to agree between the Union and island governments on a prudent consolidated budget failed because of continued disputes about revenue sharing and the delineation of expenditure competencies.[6] In addition, the weak fiscal outturn was influenced

[6] Unless otherwise defined, references to the "Union budget" in this document generally include revenues and expenditures, notably wages and salaries, by the Union government on behalf of Ngazidja and Mohéli. At the same time, as will be explained below, the Ngazidja government incurred its own additional spending.

by an attempt by the Ngazidja government to establish its own administration without an agreement with the Union on the transfer of competencies.

8. **The failure to agree on a consolidated budget delayed the establishment of a Union budget until July 2003.**[7] In view of the limited external financing available, the Union government introduced a number of custom duties and surtaxes on imports and made a substantial effort to reduce current spending, while increasing domestically financed capital outlays. [8] When it became clear that revenues would nevertheless fall short of projections, in mid-November the government issued a supplementary budget to avoid serious overspending. Nevertheless, in 2003 the overall deficit of the Union reached 4.5 percent of GDP on a payment order basis,[9] and entailed a renewed accumulation of domestic and external payments arrears of some CF 1.8 billion each, for the equivalent of 2.6 percent of GDP (Table 3).[10]

9. **Fiscal developments for Ngazidja and Anjouan differed sharply in 2003.** The government of **Ngazidja** took several steps to establish an administration and operations in line with its interpretation of the new constitution. In particular, although it had virtually no revenues, it hired a significant number of contractual employees and incurred spending on goods and services. This resulted in a deficit of about 0.8 percent of GDP on a cash basis, which was financed by accumulating domestic arrears. In contrast to these developments, the public finances in **Anjouan** were in balance in 2003, and the government repaid a substantial amount of domestic salary arrears (Table 4).[11] This positive result was achieved mainly because of (i) a large increase in revenue (22 percent), reflecting in good measure a strengthening of tax administration; and (ii) the trimming of the wage bill as a result of the elimination of "ghost employees."

10. **Monetary policy has remained narrowly circumscribed by the Comoros's membership in the franc zone and the related fixed exchange rate with the euro.** The membership has also imposed a firm and coherent framework for the operations and management of the central bank (Banque Centrale des Comores—BCC), including a strict

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[7] During the first half of the year, discretionary spending was kept broadly in line with that of 2002.

[8] The duties and surtaxes that were introduced comprise CF 750,000 for cars and CF 1 million for buses; 20 percent of c.i.f. value for tobacco and alcohol; and CF 50 per kilo for rice.

[9] The deficit figure is likely to be revised upward because of an unidentified residual item of CF 769 million (about 0.5 percent of GDP).

[10] These arrears come on top of those accumulated during the period 1998-2002 (almost 20 percent of GDP, of which 4¼ percent were domestic and 15½ percent external). External arrears have built up to the African Development Bank (AfDB), the Arab Bank for Economic Development in Africa (BADEA), and some bilateral donors. However, the Comoros has remained current on debt service to the Fund, IDA, the OPEC Fund, and the Islamic Development Bank. The external payments arrears exist despite a very comfortable level of official foreign reserves, the buildup of which is, however, mainly due to private transactions.

[11] Since its attempt to break away from the Comoros in 1997, Anjouan has sought to remain financially and administratively independent.

limit on lending to government. Moreover, the scope for an active monetary management has been limited by the large amount of excess liquidity in the financial system, which mainly reflects large remittances by Comorians living abroad and a conservative lending policy of the sole commercial bank, the BIC-C (Table 5 and Figure 3).[12] Therefore, the BCC in 2003 concentrated mainly on broadening and strengthening financial sector regulation and supervision. The fixed link with the euro resulted in a nominal and real effective revaluation of the Comorian franc during 2003 (Figure 5). There are no indications that this has measurably weakened exports, while it has significantly reduced the costs of imports and debt service.[13]

III. Report on the Discussions

11. Given the importance of the Transition Agreement for domestic political developments and financial support under the multidonor trust fund, the authorities' attention focused on the negotiation, in the Harmonization Committee, of concrete arrangements for a successful implementation of the agreement during the first half of 2004.[14] Discussions on the Article IV consultation built on these negotiations and sought to provide a consistent perspective for macroeconomic management, financial planning, and structural reform for 2004 and beyond.

A. Work of the Harmonization Committee

12. **Discussions in the Harmonization Committee concentrated on the establishment of Union and island budgets for the first half of 2004, the period foreseen under the Transition Agreement.** They revealed the complexity of the issues surrounding the move toward greater autonomy of the islands, especially with respect to revenue sharing, expenditure competencies, and the decentralization of the civil service.

13. **The revenue-sharing formula contained in the Transition Agreement reflected long-term factors and needed adaptation**. The shares under the original formula were based on population and development indicators, as well as proposed competencies for the Union and island governments based on the orientation of the new constitution.[15] However, in view of the so far unresolved decentralization issues, an adaptation of the formula more in line with actual expenditure became necessary for the transition period. This proved to be difficult because expenditure competencies—concentrated within the Union government—

[12] The Banque Industrielle et Commerciale Comores dominates the financial sector.

[13] The Comoros's main export products are vanilla, cloves, and perfume oils from the ylang-ylang tree. The drop in export volumes of vanilla and ylang-ylang observed in 2003 reflected poor harvest conditions rather than a decline in competitiveness, which in fact benefited from significant increases in world market prices.

[14] The discussions of these issues by the Harmonization Committee were chaired by the former Prime Minister of Senegal, Mr. Mamadou Lamine Loum, who acted as the representative of the OIF.

[15] The shares included in the Transition Agreement were as follows: Union, 28 percent; Ngadzija, 32.5 percent; Anjouan, 30.5 percent; and Mohéli, 9 percent.

were being challenged by the island governments. In the event, a compromise was agreed upon calling for only moderate changes to spending competencies relative to the status quo. A fuller examination and rationalization of expenditure competencies and decentralization of the civil service was referred to the political institutions and their representatives after the elections later in the year.[16] Based on this compromise, during the transition period shared revenues would be distributed to special accounts at the central bank, after deductions for debt service to those creditors who have received regular payments in the past.

14. **Agreements were also reached on the joint administration of the customs office and the implementation of expenditure frameworks for individual governments.** The islands insisted that the joint administration of the customs office foreseen under the Transition Agreement be effectively implemented and called for measures that would reduce fraud, the diversion of funds, and discretionary exemptions.[17] To strengthen transparency and accountability in fiscal operations at all levels, Fund and World Bank staff drafted an action plan for establishing collection and dissemination procedures for financial statistics and other critical information.

15. **The deliberations of the Harmonization Committee on budget policy and management issues continued after the departure of the mission.** A summary of the result is presented in Box 2. The recommendations of the committee, including the draft budgets, were accepted by Union President Azali at the end of February 2004. Their effective implementation remains both a political and practical problem, as commitment appears to be uneven and implementation mechanisms have displayed considerable weaknesses.

B. Economic Management Under Decentralized Government

16. **The move toward greater autonomy of the islands will entail significant changes in the policymaking process and institutional structures of government.** Considering the limited human and financial resources of the country and its low level of development, the staff felt that decisions on these changes should be guided not only by the new constitutional arrangements, but also by the need for coherent and financially sound macroeconomic policies. They should also aim at management structures that are operationally effective and economically efficient.

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[16] The related revenue shares agreed by the Harmonization Committee are as follows: Union, 44.5 percent; Ngazidja, 19.1 percent; Anjouan, 29.3 percent; and Mohéli, 7.1 percent. They are the result of a difficult mix of political objectives and practical considerations. Almost all of the wages and salaries for the Ngazidja and Mohéli governments will continue to be paid by the Union government. For a discussion of civil service decentralization, see the selected issues paper on "Civil Service Reform Under Decentralization."

[17] The attention to customs revenues and their administration and collection derives from the fact that they typically amount to some two-thirds of the country's overall revenue.

Box 2. Comoros: Main Agreements of the Harmonization Committee

The Harmonization Committee was charged with operationalizing the transition agreement's provisions for fiscal management. Meeting in almost continuous session from January 26 until March 2, 2004 (with Fund staff participation until February 4), the committee reached agreements in the following main areas:

- **Promulgation of a revised budget for the first half of 2004** for the Union and island governments, with shares for the allocation of revenue based on the centralization of salary administration for the Union, Ngazidja, and Mohéli governments during the transition.
- **Establishment of a system of seven bank accounts for shared revenues**, and of procedures for directing the flow of revenues to meet the agreement's provision for an "automatic" transfer of funds. The established accounts include a central revenue collection account, one "shared" account for each government, and separate accounts for wages and debt service.
- **Establishment of procedures and guidelines for transparent budget execution across governments**, to ensure that budget execution conforms to the agreed budgets. This includes the preparation of detailed budgets and monthly cash plans based on the framework below, as well as commitments not to incur new arrears, employ new staff, or raise salaries. Improved monitoring mechanisms were also agreed.
- **Agreement on the amount of a special allocation for Ngazidja** to cover arrears incurred during 2003. Some donor funding has been pledged toward covering an agreed amount of €1.5 million (against the €2.4 million that had been requested), and additional resources are being sought for the balance.
- **Supervision of the unified Customs Office**, including harmonization between the Union and Anjouan of customs procedures (now completed) and tariff rates (planned for end-April 2004).
- Delegation to a technical committee of work to **strengthen the collection and dissemination of statistics** among the parties to the agreement, with a view to monitoring the transition and preparing for an eventual SMP with the Fund. Fund and Bank staff contributed to the initial stages of this work.
- **Launching of a study on a government employment and wage bill, and agreement on harmonized staffing levels and salaries for the senior levels of the new island administrations.** The terms of reference for the study include (i) a description of the current employment and wage bill situation (levels, organizational charts, etc.); (ii) plans for the rationalization of the civil service under decentralization; (iii) a reform program for managing the civil service, including training needs; and (iv) examination of the need for redeployment of civil service staff in order to increase efficiency. On the basis of this research, the study will then focus on how to divide staff between the Union and island governments.

Comoros: Agreed Budget Framework, January-June 2004[1]
(In billions of Comorian francs)

	Union	Ngazidja	Anjouan	Mohéli	Total
Total revenue	3.6	2.0	2.7	0.6	9.6
Earmarked for debt service	...	...	...	...	0.8
Shared sources	3.6	1.5	2.4	0.6	8.0
Local taxes	...	0.5	0.3	0.0	0.8
Total expenditure	4.4	2.0	2.6	0.6	9.6
Wages and salaries	2.1	1.3	1.9	0.4	5.7
Goods, services, and transfers	1.5	0.7	0.7	0.2	3.1
External debt service	0.8	...	...	...	0.8

Source: Harmonization Committee.

1/ Each budget is a priori balanced, as no domestic financing is envisaged and foreign assistance channeled through the multidonor trust fund does not take the form of budgetary assistance and has been excluded from the budget framework.

Coherent economic policies

17. **The staff argued that uncoordinated economic policies had adversely affected the economy over the past years and underscored the need for coherent policies in the future**. The discussions suggested, however, that achievement of this objective would not be easy. Politically, a satisfactory solution to power sharing is not yet in sight, and the necessary degree of cooperation has not been assured. Administratively, effective economic management procedures based on decentralized government still need to be defined with sufficient clarity and installed in a cooperative spirit.

18. **In the area of fiscal policy, the establishment of consolidated sustainable budgets is critical.** The staff urged the authorities to put in place a budget preparation process that provides early guidance to all governments on prospective macroeconomic developments, their implications for domestic revenues, and the maximum growth of overall expenditure compatible with a national deficit objective.[18] Budgetary arbitrage between the Union and island governments would have to be organized within this framework to avoid a loss of control over the country's public finances.

19. **The prime responsibility of the central bank for monetary and exchange rate policies as well as its operational independence are likely to be confirmed under the new constitutional arrangements.** The staff urged the authorities to ensure that these arrangements also include the full autonomy of the central bank in matters of prudential regulation and supervision, in line with international standards.

20. **Coherent policies are also needed in the areas of trade policy and in the regulation of private sector activities**. The staff indicated that the current differences among islands in their external tariffs vis-à-vis third countries were not compatible with international practices and the country's commitments toward the Common Market for Eastern and Southern Africa (COMESA).[19] Regarding private sector activities, the staff felt that investment incentives and other measures in support of economic development should apply uniformly to the country as a whole, so as to avoid distortions and wasteful competition.

Effectiveness and efficiency

21. **The decentralization foreseen under the new constitution will inevitably entail costs related to the establishment of new government structures.** Given the severe resource constraints of the country, the staff urged the authorities to keep these costs at a minimum by avoiding duplication and overlap, exploiting the scope for economies of scale, and striving for an efficient management of the civil service. In this context, the staff called

[18] The staff encouraged the authorities to seek technical assistance from the Fund in this area.

[19] The main differences arose when Anjouan did not follow the Union government's introduction of surtaxes on rice, alcohol, and tobacco in July 2003.

for the establishment of selected national institutions such as (i) an independent revenue authority that would collect shared and local taxes on the basis of the pertinent national and local laws and regulations; (ii) a National Statistics Bureau for the timely and reliable collection and dissemination of a core set of economic, financial, and social statistics; and (iii) a centralized agency for payments to the country's civil service and the military. Finally, the staff advocated for the administration of the nation's external debt and debt service to remain the responsibility of a single national institution.[20]

C. Economic and Financial Policies

Fiscal policy

22. **There was general agreement among the governments that the fiscal deficits observed over the past four years were not sustainable.** At the same time, the authorities claimed that the development needs of the country made cuts in government expenditure difficult to justify politically. The authorities therefore reiterated the need for external financial assistance, including debt relief under the HIPC Initiative.

23. **The Union government emphasized that during 2003 it had made a serious attempt to curtail the fiscal deficit through revenue and expenditure measures.** However, dissatisfaction with tight fiscal policies and the continued accumulation of salary arrears had resulted in a serious threat of strikes, so that the government had been forced to allow for two administrative step increases in civil service wages (which had been frozen since 1994), implying an almost 9 percent increase in the wage bill of government excluding Anjouan. The authorities stressed that they had rejected more costly demands, and that the freeze on hiring had been maintained. At the same time, the absence of sufficient donor funding had forced the government to finance some critical investment projects from domestic resources. On the revenue side, the introduction of surtaxes had in part been offset by reduced taxes and profit transfers from the state-owned enterprises.[21] As a result of all these factors, the reduction in the deficit had been smaller than projected, and a large accumulation of domestic and external payments arrears had once again been unavoidable. The staff noted that the underlying financial situation of the government was further strained by the growing deficit in the pension system, which suggested an actuarial imbalance that needed to be addressed.[22]

24. **In 2003, the public finances in Anjouan benefited from a number of positive exogenous developments and policy decisions.** Among these, the authorities cited the

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[20] The staff also recommended that consideration be given to the proposals of the technical assistance mission from the Fund's Fiscal Affairs Department ("Comores: Options pour la décentralisation" by Luc Leruth, Giorgio Brosio, and Alain D'Hoore; September 2002).

[21] The financial performance of these enterprises was undermined mainly by higher fuel costs.

[22] The authorities explained that some 10 percent of benefits currently went to former political officeholders who had not been required to make contributions.

increase in economic activity in the island, supported by a stable political situation on the island, and by favorable prices for its main export products. In addition, the government had achieved a substantial improvement in revenue administration and collection, especially at the customs office.

25. **Discussions on fiscal policy for 2004 focused on establishing a consolidated budget compatible with fiscal and external debt sustainability**. Draft budgets of the Union and island governments provided to the staff implied an aggregate primary deficit of 4 percent of GDP, against 3 percent in 2003, and a further large accumulation of payments arrears. Against this background, the staff proposed measures to achieve a small primary surplus, which was needed for sustainability. While the authorities agreed in general that every effort should be made to reduce the deficit, the discussions were complicated by the continued call, especially by the government of Ngazidja, for a swift transfer of expenditure competencies and civil service staff to the islands. In the event, it was agreed that the starting point for any budgetary arbitrage in the course of 2004 should be a prudent consolidated budget, and that decisions about decentralization of fiscal operations and the civil service should be made within this framework. To that end, the staff called on the authorities to establish and maintain a close consultation process.

26. **On the revenue side, reforms are needed in both tax policy and administration.** In the short term, measures should focus on strengthening revenue administration and eliminating discretionary exemptions, especially at the customs office of the Union government. For the longer term, a fundamental tax reform will be needed to simplify and streamline the tax system, which currently comprises 19 tax categories for shared revenues and 14 categories for local taxes. To that end, the staff urged the authorities to seek technical assistance from the Fund. At the same time, the staff recommended that the surtax on rice, which is earmarked to the university project of the Union government, be eliminated in two stages in 2004.[23] Together, these measures are estimated to increase domestic revenue from 15.9 percent of GDP in 2003 to 16.4 percent in 2004.

27. **On the expenditure side, there is a need to improve administrative efficiency, restrain current expenditure, and scale down investment projects.** For the combined Union and Ngazidja/Mohéli governments, the staff proposed to limit the change in the wage bill to the full-year effect of the two step increases granted in 2003. This would require that the additional employment for the establishment of new administrations be fully offset by reductions in the wage bill of the Union government. For Anjouan, a further consolidation of the payroll would be necessary, leading to some additional savings.[24] Moreover, the

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[23] The revenue effects of this action are expected to be compensated by improved tax administration and the introduction of surtaxes on tobacco and alcohol in Anjouan, in line with the practice in the other islands.

[24] The Anjouan authorities agreed that, following the dramatic rise in employment of about 60 percent during 1997-2002, there was scope for efficiency gains and cuts in staff. However, they pointed out that employment increased mainly in the education sector, which was a high priority.

authorities agreed that, in the current financial situation, spending on goods and services would need to be reduced significantly from the initial proposals. Similarly, they concurred with the need to scale down a number of low-priority investment projects of the Union government, and to cover the outlays on the elections and the initial establishment of new political institutions with resources from the donor trust fund. However, they attributed a high priority to the university project, for which the staff had recommended a gradual phase-in, following a thorough evaluation of its viability and longer-term need.

28. **On the basis of the above discussions, an indicative budget for the consolidated government was developed that resulted in a small primary surplus.** Under this budget, the public finances are in balance for the combined Union and Ngazidja/Mohéli governments (Table 3) and display a small surplus for Anjouan (0.4 percent of GDP). The staff recommended using this surplus for the resumption of at least partial debt-service payments to those creditors who have not been paid in recent years.

Monetary and exchange rate policies

29. **There was general agreement that membership of the Comoros in the franc zone had provided the country with a firm nominal anchor and had contributed to low inflation.** Regarding external competitiveness, the recent appreciation of the Comorian franc in step with the euro was not seen as posing a significant problem, particularly taking into account the very strong increases in world market prices for the main export products.[25]

Financial sector development

30. **The financial sector in the Comoros is small and so far has made only a limited contribution to economic development**.[26] This remains an ongoing concern of the authorities and has resulted in a number of initiatives to strengthen competition and broaden the availability of financial services, including in rural communities. In particular, microfinance institutions were introduced in 1997 and have enjoyed a rapid expansion, accounting for a share in deposits and lending of close to 20 percent in 2003. Additional proposals include the granting of commercial banking licenses to the Comoros Development Bank (BDC) and the National Savings Bank (CNE).

31. **The staff welcomed the intentions of the authorities to increase competition and broaden financial services but felt that any actions in these areas should be accompanied by measures to safeguard stability and soundness.** In particular, the staff supported the central bank's decision to (i) issue only a limited license to the BDC for a test period of one year, given that it had failed in the past and concerns persist about its

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[25] Since 1998, export prices for vanilla have increased by more than 200 percent, those for cloves by more than 500 percent, and those for ylang-ylang by about 40 percent. These developments also make it easy to absorb the export taxes imposed on these products.

[26] For a detailed discussion of these issues, see the selected issues paper on "Financial Sector Developments."

management capacity; (ii) insist on a clear separation of the balance sheet and financial operations of the CNE from the postal and telecommunications operations of the National Post Office (SNPT) as a precondition for granting a broader commercial banking license; (iii) require the CNE to comply with the domestic banking law and international prudential standards; and (iv) bring the microfinance institutions under the supervisory authority of the central bank. The central bank has made good progress in establishing a credible regulatory framework, including on money laundering, but requires additional technical assistance and human resources to effectively conduct supervision, including by way of on-site inspections.

External sector policies

32. **While there are virtually no quantitative trade restrictions, tariff levels in the Comoros are relatively high by international and African standards**.[27] At the time of the last evaluation in 2001, the Comoros had an average tariff rate of 38.9 percent and was rated 8 on the 10-point trade restrictiveness scale, with 10 being the most restrictive. The degree of restrictiveness has increased further as a result of the import duties on cars and the surtaxes on rice, tobacco, and alcohol introduced in mid-2003. The authorities explained that virtually all tariffs had been introduced for revenue purposes and had no protectionist character, given the virtual absence of local production of most goods concerned. The staff proposed to eventually replace—within the general tax reform discussed above—most import tariffs by a broad-based consumption tax combined with selected excises. This would simplify the revenue systems and also permit the Comoros to remain in step with the objectives of COMESA.

33. **The authorities confirmed that no new exchange measures on the making of payments and transfers for current international transactions had been introduced since the last consultation.** They doubted that a liberalization of capital transactions would lead to either more foreign investment or large capital outflows.

34. **As noted above, the external debt of the Comoros is not sustainable and has resulted in a continued accumulation of external payments arrears**. An update of a debt sustainability analysis conducted jointly by the Fund and the World Bank in 2001 suggests that the net present value (NPV) of the external debt increased to 503 percent of exports of goods and nonfactor services in 2003, compared with 305 percent envisaged in the original 2001 exercise.[28] In terms of domestic revenue, the ratio improved from 545 percent

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[27] For a detailed analysis of these issues, see the selected issues paper on "External Sector Developments and Policies."

[28] The principal reasons for this increase are the effects on NPV of (i) new loans (US$15.8 million); (ii) the inclusion of previously unknown postal debt (US$7.7 million); (iii) the depreciation of the dollar, which raises the value of nondollar denominated debt (US$14.2 million); and (iv) the decline in the discount rate (US$15 million).

to 420 percent, reflecting mainly the inclusion of the revenues of Anjouan and the effects of the recent appreciation of the Comorian franc against the U.S. dollar.

Structural policies

35. **The functioning of the economy is impaired by structural rigidities and inefficiencies.** The staff reiterated its call for the design of policies to encourage private sector development. In particular, the legal system should be streamlined and existing laws and regulations strictly enforced. In addition, the staff urged the authorities to review producer prices for some key export products, which, despite high world market prices, have not been set at levels sufficiently attractive to expand production; and to foster competition among exporters and intermediaries.

36. **Economic development in the Comoros has often been slowed by the poor performance of the public utilities.** The staff welcomed the increased attention placed by the authorities on this matter, including new investments to expand electricity capacity and recent measures to reduce illegal electricity use and strengthen the collection of bills. However, additional steps are needed to achieve greater efficiency and improve financial performance. Moreover, financial reports and audits should be required of all public enterprises on a regular basis to increase accountability.

37. **The poor state of statistics severely undermines the authorities' capacity to design and implement sound policies;** it also impairs the ability of the private sector to make informed decisions. More generally, there is a need for increased transparency and accountability at all levels of government.

IV. Economic Outlook

38. **The economic outlook for 2004 is expected to be dominated by reduced government spending and a favorable external environment**. The reduction of government spending in line with the objective of a small consolidated primary surplus will result in a substantial withdrawal of fiscal stimulus. However, growth will remain supported by fairly stable demand and high prices for the Comoros's traditional agricultural export products, and the stronger euro will continue to contain imported inflation. Real GDP growth is projected at 1.8 percent in 2004, while inflation is expected to drop to 3.5 percent. The external current account deficit (including official transfers) is projected to narrow to 2.2 percent of GDP, in part because of grant financing under the donor trust fund. There is a risk that the political process will not be without disruptions, and it is unlikely that the outstanding issues of power sharing and economic and financial management competencies will be fully resolved. As a result, the inefficiencies associated with uncoordinated policies will continue to hamper economic growth and development.

39. **The medium-term economic outlook hinges critically on whether confidence can be restored within a stable political environment**. In addition, it depends on the effectiveness of economic policies, which will be conditioned by the specific arrangements for decentralization and the degree of cooperation for their implementation. As a small island

economy dependent on a few export products, the Comoros will remain vulnerable to external shocks. Against this backdrop, the staff prepared two scenarios to illustrate the stakes confronting the authorities at this juncture (Box 3).[29]

40. **The low-growth scenario assumes that the power struggle between the Union and island governments cannot be resolved, and that economic policies remain uncoordinated**. In this case, private sector investment and activities will continue to be affected by the uncertain economic and political environment. Apart from the traditional export products, agricultural production will remain largely concentrated in subsistence activities and the small local markets. Public sector activities would be constrained by the absence of budgetary assistance from the donor community and limited domestic financial resources. As a result, medium-term growth is expected to average 1–2 percent a year, which would imply further reductions in real per capita income. The fiscal balance is likely to be dominated by the constraints imposed by low domestic revenues, and domestic and external payments arrears would continue to build up. The external current account is expected to benefit from the increases in remittances typically associated with hard times. External debt sustainability in terms of exports of goods and nonfactor services will deteriorate again from 2006 onward, when the cyclical effects of the strong improvement in terms of trade wear out. In addition, a large share of fiscal revenues will have to be spent on debt service.[30]

41. **Under the high-growth scenario, cooperative decentralization arrangements and coherent economic policies are assumed to stimulate private investment and donor assistance in support of economic development and poverty reduction**. In this environment, real GDP growth can rise to levels of 4–5 percent a year, thus permitting satisfactory increases in per capita income. At the same time, the fiscal situation will strengthen on account of larger aid flows and a better performance of domestic revenues, owing to reforms in the tax system and its administration. The primary fiscal balance is projected to display surpluses, albeit moderate, which would permit moving toward debt sustainability. In terms of domestic revenues, the debt-service burden would become significantly lighter than under the low-growth scenario, thus allowing for larger government spending on human and physical capital.

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[29] The preparation of a medium-term macroeconomic outlook and the updating of the debt sustainability analysis of 2001 were beset by a number of difficulties, including, in particular, the lack of timely and reliable data.

[30] Even under the low-growth scenario, the ratios of external debt to GDP and external debt and debt service to domestic revenue decline over the medium term because of the extremely limited access to external financing.

Box 3. Medium-Term Scenarios, 2003-09

	2003 Est.	2004	2005	2006 Proj.	2007	2008	2009
Low-growth scenario							
	(Annual percentage change)						
Real GDP	2.1	1.8	1.0	1.0	1.5	1.5	1.5
Consumer price index (annual averages)	4.5	3.5	3.5	2.5	2.0	2.0	2.0
	(In percent of GDP)						
Primary balance 1/	-3.0	0.5	-0.2	-0.3	-0.3	-0.3	-0.4
Overall balance (commitment basis) 1/	-4.0	-0.3	-0.6	-0.7	-0.6	-0.7	-0.8
Excluding grants	-6.2	-3.6	-3.9	-4.0	-4.0	-4.0	-4.1
Current account balance 2/	-4.4	-2.2	0.7	0.4	0.9	0.1	-0.5
Outstanding external debt 3/	77.8	74.3	71.3	69.2	67.1	65.1	63.1
	(In percent of exports of goods and nonfactor services)						
External debt service	13.5	11.8	11.7	12.0	12.8	13.3	13.6
Outstanding external debt (net present value) 3/ 4/	503.1	434.1	390.7	382.9	392.0	401.8	411.2
	(In percent of government revenue)						
External debt service	14.0	12.1	11.6	11.3	11.4	11.3	11.1
Outstanding external debt (net present value) 3/	420.5	382.4	379.4	369.6	358.5	349.6	342.0
High-growth scenario							
	(Annual percentage change)						
Real GDP	2.1	1.8	3.5	4.0	4.5	4.5	5.0
Consumer price index (annual averages)	4.5	3.5	3.5	2.5	2.0	2.0	2.0
	(In percent of GDP)						
Primary balance 1/	-3.0	0.5	0.5	0.3	0.4	0.6	0.5
Overall balance (commitment basis) 1/	-4.0	-0.3	0.2	0.0	0.1	0.3	0.2
Excluding grants	-6.2	-3.6	-3.2	-3.3	-3.2	-3.0	-3.2
Current account balance 2/	-4.4	-2.2	-0.1	-1.4	-1.1	-2.1	-2.6
Outstanding external debt 3/	77.8	74.3	68.7	64.2	60.6	57.4	54.2
	(In percent of exports of goods and nonfactor services)						
External debt service	13.5	11.8	11.5	11.6	12.0	12.0	11.8
Outstanding external debt (net present value) 3/ 4/	503.1	434.1	382.2	372.6	378.3	382.0	382.2
	(In percent of government revenue)						
External debt service	14.0	12.1	10.9	10.2	9.8	9.2	8.9
Outstanding external debt (net present value) 3/	420.5	382.4	350.5	330.4	311.0	294.1	286.5

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

1/ Including grants.

2/ Including official transfers.

3/ Including arrears.

4/ Backward-looking three-year export average.

V. PROGRAM ISSUES

42. **The authorities at all levels of government expressed a strong interest in a Fund-supported program**.[31] The staff explained that the negotiation of a program that could be supported by a PRGF arrangement would have to be preceded by the establishment of a solid record of policy implementation under an SMP.[32] The staff indicated that discussions on an SMP could begin once assurances on the following had been obtained:

- adequate cooperation between governments under the Transition Agreement;
- progress toward the establishment of a consolidated national budget; and
- regular transmittal of key economic information for an appropriate monitoring of an SMP.

VI. STAFF APPRAISAL

43. **The power struggle between the Union and island governments about competencies and resources has created uncertainties that affected adversely economic developments in the Comoros during 2003.** The difficult political environment has prevented the design and implementation of coherent economic policies for the country as a whole; has brought to a virtual standstill structural reforms; and has undermined the confidence of investors and donors alike. As a result, real per capita income has declined, and little progress has been made toward reducing poverty. In addition, the country has incurred fiscal and external balances that are not compatible with the achievement of debt sustainability.

44. **Looking ahead, the Comoros faces the challenge of moving forward with political and economic arrangements conducive to the restoration of confidence.** A first step toward this objective must be the full implementation of the Transition Agreement of December 20, 2003 and the related understandings reached in the context of the Harmonization Committee. This applies in particular to the adjustments in the revenue-sharing formula, the joint administration of the customs office, and the transfer of spending competencies and civil service staff to the island governments. The establishment of a close

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[31] The poverty reduction strategy paper (PRSP) process was launched a few years ago. An Interim-PRSP was presented in July 2002 and received favorable comments in a joint memorandum to the authorities by the Fund, World Bank, UNDP, European Union, and France, regarding the areas of poverty assessment, design of economic reform, and participatory process. The document will have to be updated with respect to the new decentralization arrangements.

[32] The World Bank is not considering program assistance at present. Instead, on March 11, 2004, its Board approved a Transitional Support Strategy, which focuses on limited financial support for local service delivery and assistance by building knowledge and empowering the civil society. The latter is to be fostered through a strengthening of analytical capacity, technical assistance in governance, and support for the PRSP process.

consultation process and a reliable exchange of information will be indispensable in this context.

45. **The objective for 2004 must be to conduct coordinated and coherent fiscal policies that are compatible with debt sustainability**. In particular, the consolidated budget for 2004 should aim at a small primary surplus and the avoidance of additional domestic payments arrears, while limiting the accumulation of external arrears. On the revenue side, this will require a significant strengthening of tax and customs administration, including through the removal of exemptions. On the expenditure side, it will be critically important to avoid overlapping and duplication of spending because of unresolved questions about expenditure competencies and decentralization of the civil service. In case of divergent views, the status quo should prevail, and no new administrative arrangements or institutions should be installed until a permanent decision is taken by the new National Assembly.

46. **In the absence of budgetary assistance, and given the limits for domestic financing, the room for public expenditure increases will be extremely limited in 2004**. Every effort must therefore be made to control the increase in the government wage bill by removing nonpriority staff and maintaining the freeze on hiring and step increases. In addition, spending on goods and services should be tightly controlled, and capital spending should be limited to economic infrastructure, leaving the bulk of spending on democratic institutions and processes to the donor trust fund. While the establishment of a university may be seen as a priority, the project should be phased in gradually following a careful analysis of its viability. Debt service should be resumed vis-à-vis the creditors who have not been paid lately, including the African Development Bank group.

47. **Decisions about decentralization must ensure the conduct of coherent and financially sound economic policies for the country as a whole**. In the area of fiscal policy, this will require the establishment of a budget process for all levels of government that aims to keep the consolidated budget deficit within prudent and sustainable limits. The prime responsibility and independence of the central bank in the areas of monetary, exchange rate, and financial sector policies constitute a key requirement for sound decisions and should be confirmed. In the area of trade policy, the most urgent task is to achieve a full harmonization of external tariff rates between the Union and Anjouan.

48. **An appropriate balance will have to be struck between the decentralization objectives of the constitution and the effectiveness and affordability of institutions**. Given the limited human and financial resources of the Comoros, the country must avoid overlap and duplication, and should seek the full exploitation of economies of scale in economic management. In this regard, consideration should be given to a common independent revenue authority, a National Statistics Office, and, possibly, a joint administration for the monitoring and payment of civil service wages and salaries.

49. **Fiscal reforms are urgently needed on both the revenue and expenditure sides**. The outdated and complex tax system should be replaced by a simple, easy-to-administer system that improves economic incentives, increases collection efficiency, and permits a

smoother revenue-sharing process. In addition, consideration should be given to the replacement of most customs tariffs by a broad-based consumption tax. Budget preparation, implementation, and monitoring mechanisms will need to ensure an effective decentralized government and improved expenditure control, and should achieve greater transparency and accountability. The Fund could provide technical support in both the revenue and expenditure areas. Finally, the actuarial balance of the pension system should be assessed to prevent a further accumulation of contingent liabilities to the government.

50. **Membership of the Comoros in the franc zone has served the country well and should be maintained in the future**. The arrangements in place have provided the country with a firm monetary anchor and tight limits on monetary financing of fiscal deficits, and have contributed to low inflation. These results have been particularly helpful during the frequent periods of political uncertainty.

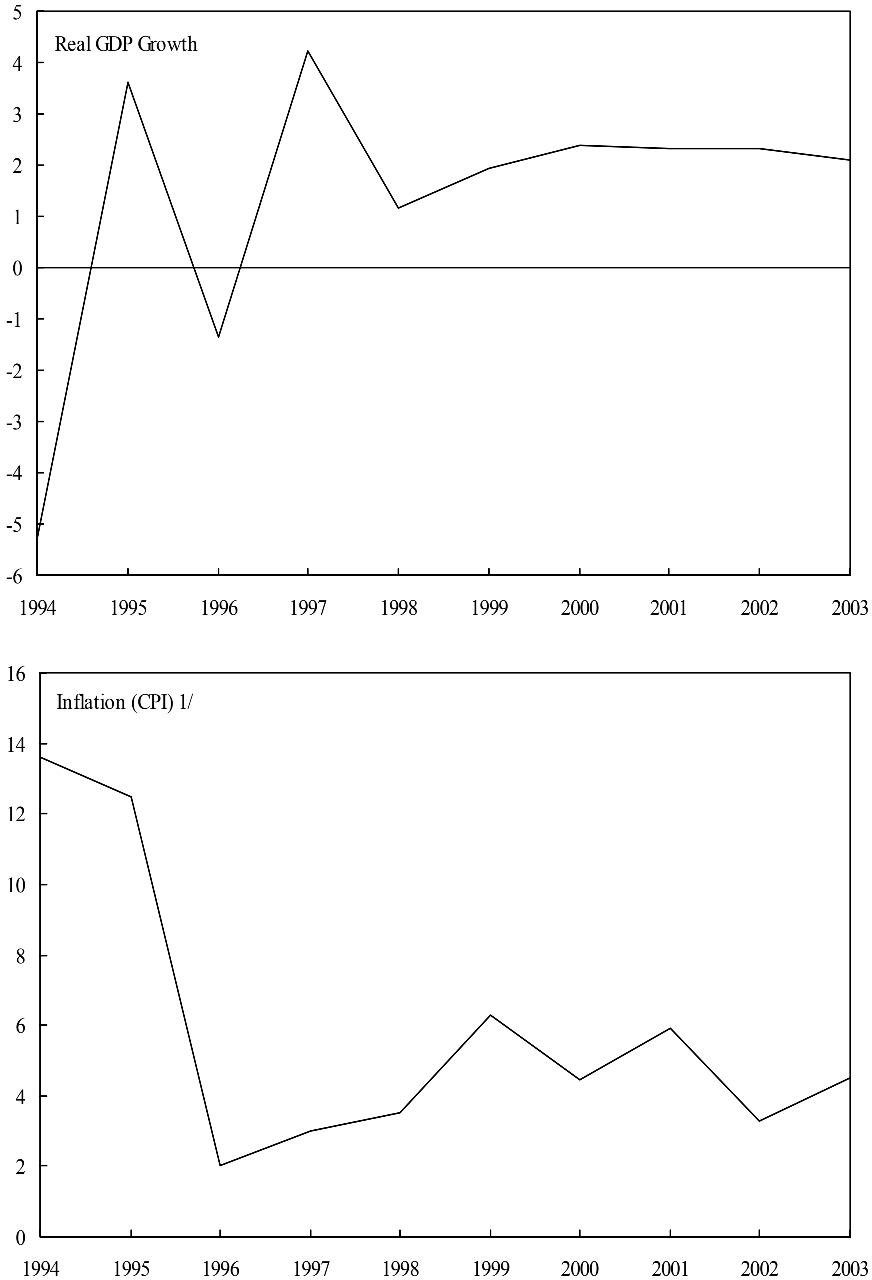
51. **The intentions of the authorities to broaden the availability of financial services and to introduce more competition are welcome.** However, assurances are needed that the new institutions or services will be supported by qualified staff and appropriate capitalization to ensure their stability and viability. In addition, to prevent financial crises and/or the improper conduct of business, international norms of prudential regulation and supervision should be applied and strictly enforced. The central bank should be given supervisory authority over microfinance institutions without delay. The measures taken by the authorities to prevent money laundering appear to be appropriate and should be implemented decisively.

52. **Structural policies need to concentrate on the provision of appropriate incentives for private sector development and the strengthening of the performance of the public enterprises**. A correction of incentives is especially needed in the main export sectors, where remunerative producer prices are essential to raise production to the country's potential and lower production costs through a broader exploitation of economies of scale. In addition, all public enterprises need to substantially strengthen their efficiency and financial performance.

53. **Substantial improvements in statistics and the transparency and accountability of the various governments are urgently needed, including in public enterprises**. Measures to that end will have to underpin better economic and financial management and permit improved decision making in the public and private sectors. They are also indispensable for a cooperative and successful management of decentralized government.

54. It is recommended that the next Article IV consultation with the Comoros be held on the standard 12-month cycle.

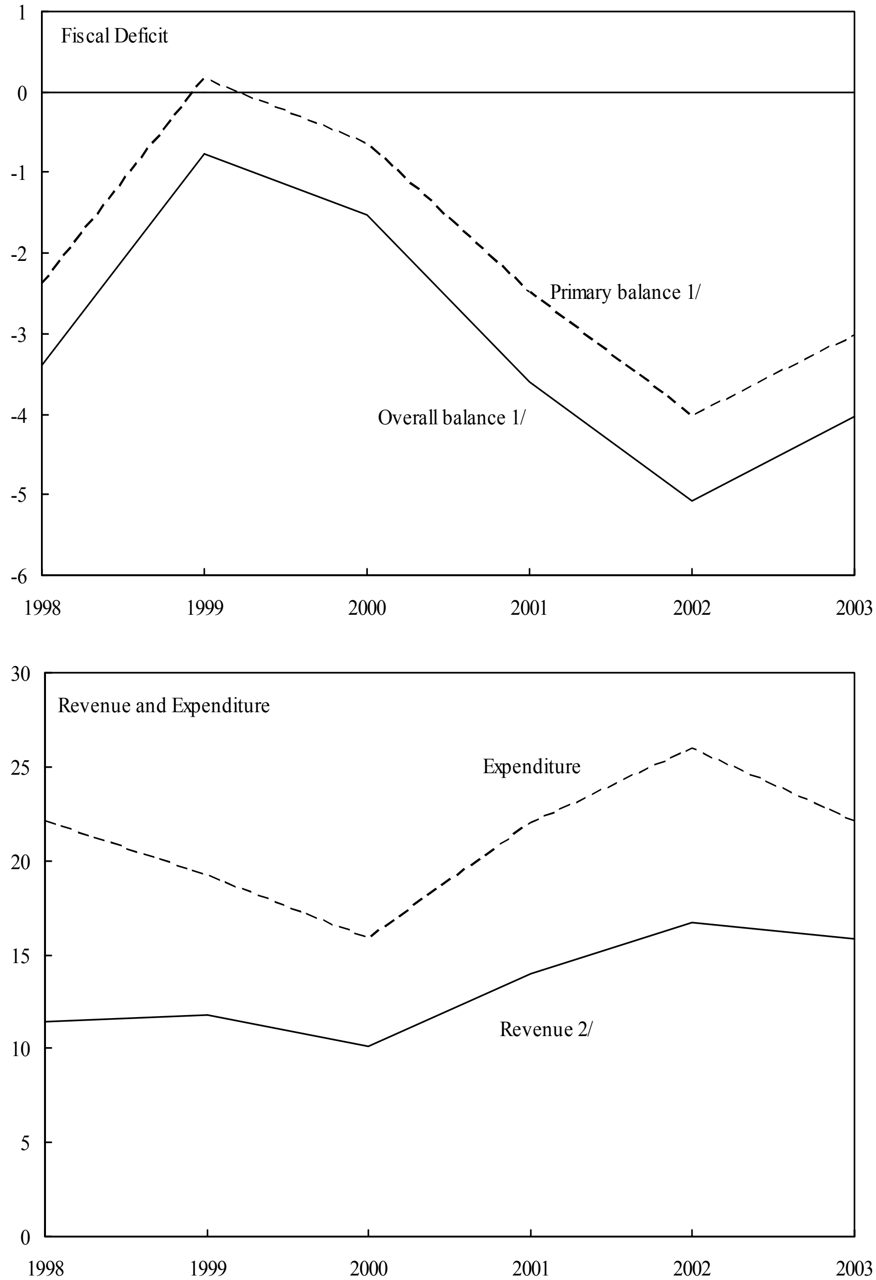
Figure 1. Comoros: Real GDP Growth and Inflation, 1994–2003
(Changes in percent)



Sources: Comorian authorities; and staff estimates.

1/ Period averages.

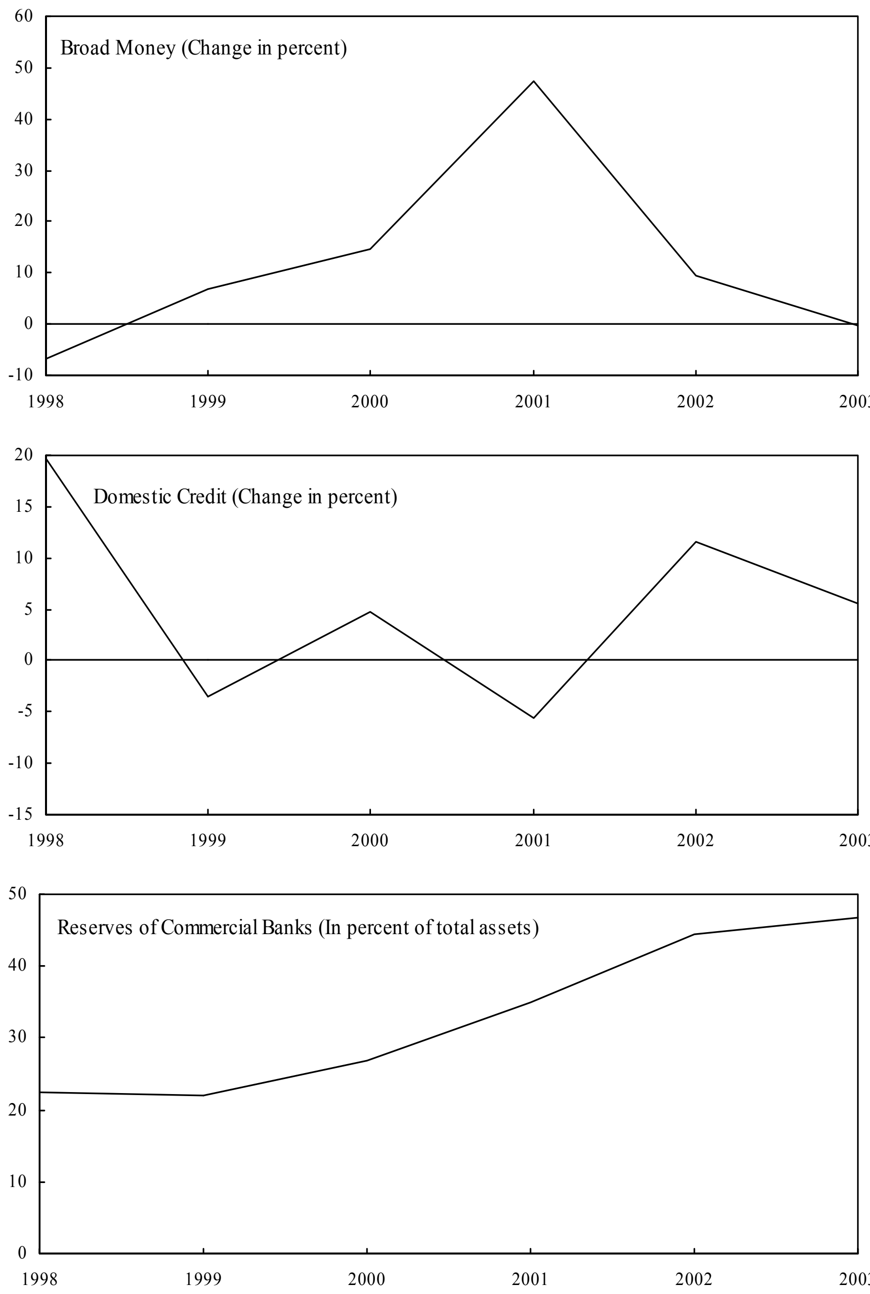
Figure 2. Comoros: Fiscal Indicators, 1998–2003
(In percent of GDP)



Sources: Comorian authorities; and staff estimates.

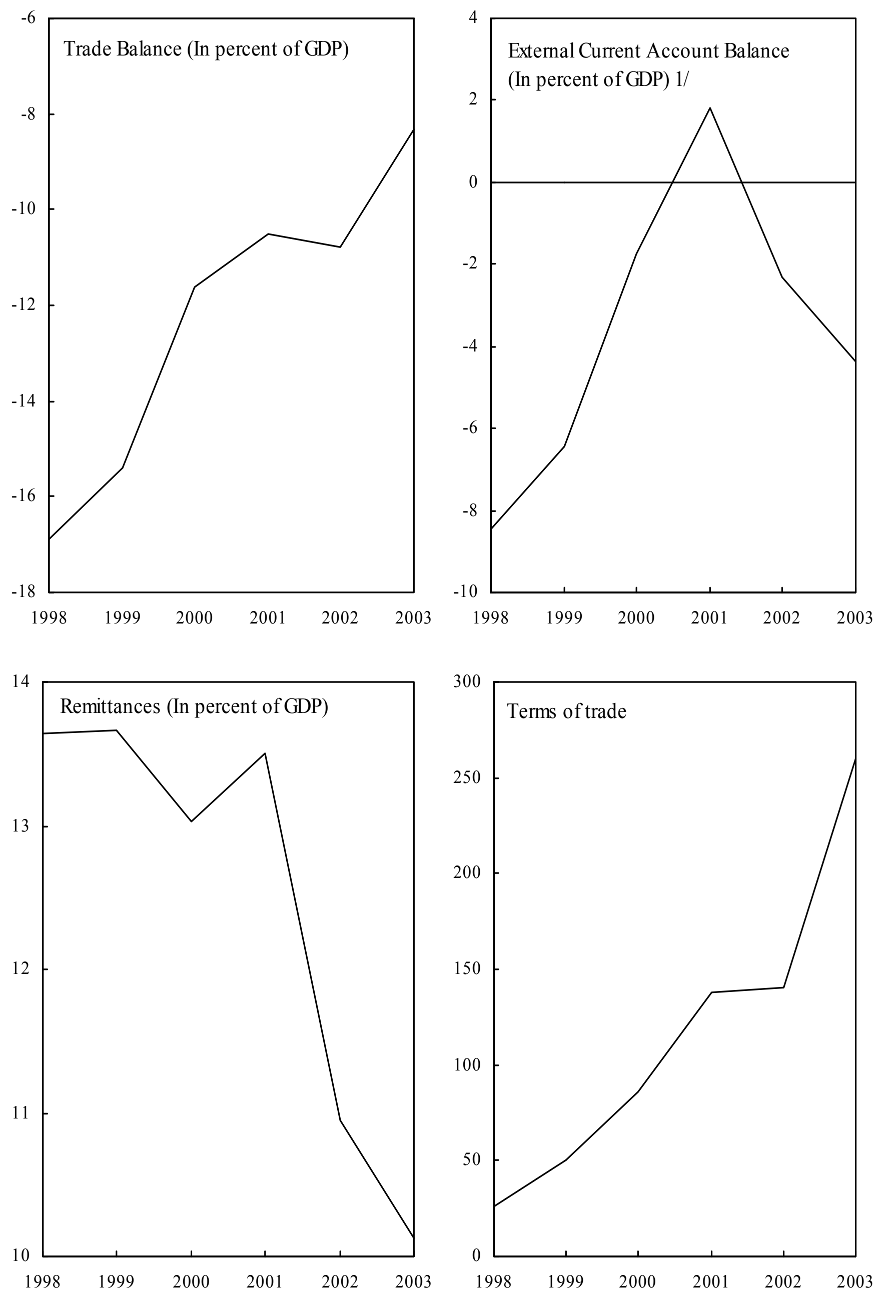
1/ Commitment basis, including grants.
2/ Domestic revenue, excluding grants.

Figure 3. Comoros: Monetary Indicators, 1998–2003



Sources: Comorian authorities; and staff estimates.

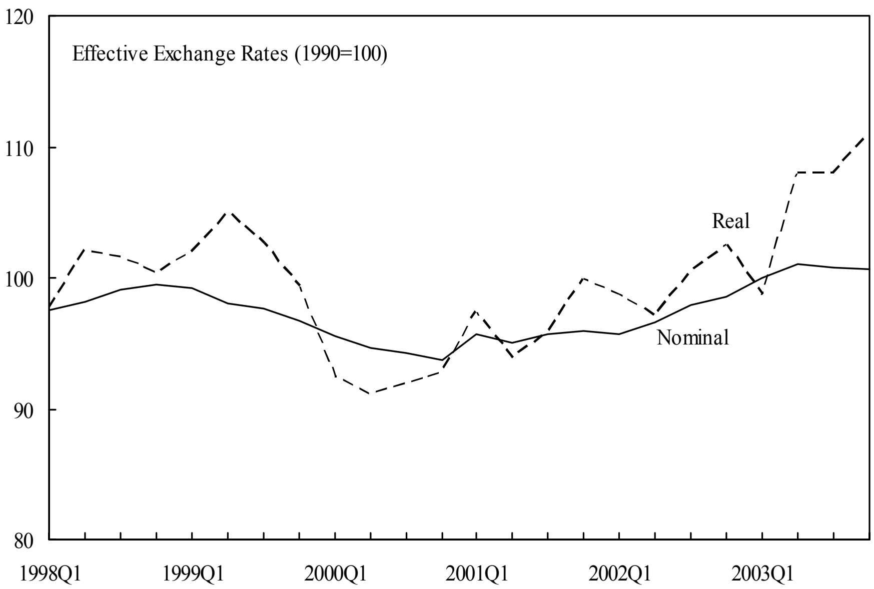
Figure 4. Comoros: Balance of Payments, 1998–2003



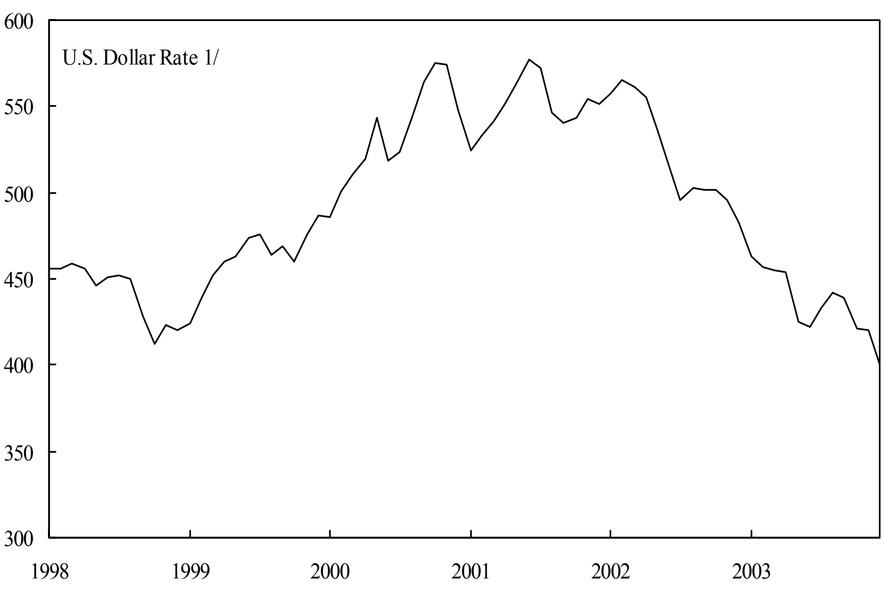
Sources: Comorian authorities; and staff estimates.

1/ Including official transfers.

Figure 5. Comoros: Exchange Rates, 1998–2003



Source: IMF, International Financial Statistics.



Source: IMF, Information Notice System.

1/ Comorian francs per dollar; period averages.

Table 1. Comoros: Selected Economic and Financial Indicators, 1998-2004

	1998	1999	2000	2001	2002	2003 Est.	2004 Proj.
	(Annual percentage change, unless otherwise specified)						
National income and prices							
Real GDP	1.2	1.9	2.4	2.3	2.3	2.1	1.8
Real GDP per capita	-1.5	-0.8	-0.3	-0.4	-0.4	-0.6	-0.9
Nominal GDP (in millions of Comorian francs)	95,303	102,782	108,850	121,003	128,980	140,887	149,140
Nominal GDP (in millions of U.S. dollars)	215.4	222.6	203.8	220.3	247.5	321.9	351.1
Nominal GDP per capita (in U.S. dollars)	400.1	402.6	359.0	377.7	413.2	523.4	555.8
GDP deflator	1.5	5.8	3.4	8.6	4.2	7.0	4.0
Consumer price index (annual averages)	3.5	6.3	4.5	5.9	3.3	4.5	3.5
External sector							
Exports, f.o.b.	0.1	58.9	73.7	25.9	27.5	18.7	11.2
Imports, f.o.b.	-11.1	6.8	-0.5	9.9	16.9	-0.1	-1.5
Export volume	9.5	-22.9	-2.6	-20.1	30.3	-33.5	14.6
Import volume	-17.5	-1.0	-2.3	12.5	21.1	4.0	-0.1
Terms of trade	-15.3	91.0	71.6	61.4	1.4	85.7	-0.2
Government budget 1/							
Domestic revenue	-15.3	11.2	-8.8	53.4	27.3	3.8	9.2
Total expenditure and net lending	-8.8	-6.5	-12.4	54.4	25.9	-6.9	-4.4
Current expenditure	-22.1	3.6	-4.6	57.5	13.7	-5.8	0.3
Capital expenditure and net lending	32.8	-25.2	-24.8	29.3	41.4	-0.2	-8.0
Money and credit							
Net foreign assets	-5.5	12.1	14.7	57.9	9.2	-5.5	2.9
Domestic credit	19.6	-3.5	4.7	-5.6	11.6	5.6	4.3
Credit to government	80.1	-0.6	-9.4	-16.5	15.2	-14.2	7.7
Credit to the rest of the economy	8.7	-6.8	14.4	-1.8	10.5	11.8	3.5
Broad money	-6.6	7.0	14.5	47.4	9.4	-0.4	5.0
Velocity (GDP/average broad money)	5.6	5.6	5.2	3.9	3.8	4.2	4.2
Interest rate (in percent, end of period) 2/	7.0	5.9	5.9	6.4	6.1	6.1	...
	(In percent of GDP, unless otherwise specified)						
Investment and savings							
Gross capital formation	14.7	11.9	10.3	9.3	10.3	9.8	9.3
Public	7.8	5.4	3.8	4.4	5.9	5.4	4.7
Private	7.0	6.5	6.5	4.9	4.4	4.5	4.6
Gross national savings	9.5	8.5	11.4	13.6	9.9	7.2	8.8
Public	4.8	5.0	1.9	0.8	2.1	1.9	4.4
Private	4.7	3.5	9.5	12.8	7.8	5.3	4.4
External current account (incl. official transfers)	-8.4	-6.4	-1.7	1.8	-2.3	-4.4	-2.2
Government budget 1/							
Domestic revenue	11.4	11.8	10.1	14.0	16.7	15.9	16.4
Total grants	7.3	6.6	4.2	4.4	4.2	2.2	3.3
Total expenditure	22.1	19.1	15.8	22.0	26.0	22.1	20.0
Current expenditure	14.3	13.8	12.4	17.6	18.7	16.2	15.3
Capital expenditure	7.8	5.4	3.8	4.4	5.9	5.4	4.7
Primary balance 3/	-2.4	0.2	-0.6	-2.5	-4.0	-3.0	0.5
Overall balance (commitment basis) 3/	-3.4	-0.8	-1.5	-3.6	-5.1	-4.0	-0.3
Overall balance (cash basis) 3/	-3.9	0.3	0.3	-2.2	-4.3	-2.5	-0.1
Total debt 4/	...	...	...	119.8	110.7	95.5	91.2
External sector							
Current account balance (incl. official transfers)	-8.4	-6.4	-1.7	1.8	-2.3	-4.4	-2.2
Current account balance (excl. official transfers)	-10.3	-7.9	-2.7	-0.2	-5.0	-5.4	-2.9
Outstanding external debt (in percent of exports of goods and nonfactor services)	...	...	...	632.3	539.3	475.0	443.8
Outstanding external debt (in percent of GDP)	...	...	...	100.5	91.9	77.8	74.3
External debt service							
In percent of exports of goods and nonfactor services	41.0	38.6	28.4	18.3	13.8	13.5	11.8
In percent of government revenue	43.0	43.4	42.3	20.8	14.1	14.0	12.1
Overall balance of payments (in millions of U.S. dollars)	-13.2	-5.6	2.8	16.8	6.3	-6.8	-3.4
External payments arrears (end of year; in millions of U.S. dollars)	...	...	...	83.3	90.4	100.8	96.1
Gross international reserves (end of period; in millions of U.S. dollars)	39.3	36.7	42.5	65.2	80.9	97.2	88.1
(equivalent months of imports, c.i.f.)	6.0	6.3	8.6	11.9	11.8	11.1	11.3
Exchange rate							
Comorian francs per U.S. dollar (period average)	442.5	461.8	534.0	549.3	521.1	...	...

Sources: Comorian authorities; and staff estimates and projections.

1/ Excludes Anjouan in for the period 1998-2000.
2/ Central bank discount rate.
3/ Including grants.
4/ Sum of external and domestic debt including arrears.

Table 2. Comoros: Consolidated Government Financial Operations, 1998-2004

	1998	1999	2000	2001	2002	2003 Prov.	2004 Proj.
	(In millions of Comorian francs)						
Total revenue and grants	17,812	18,885	15,556	22,235	26,929	25,482	29,362
Revenues	10,865	12,079	11,017	16,904	21,521	22,335	24,389
Tax revenues	9,277	10,509	9,723	14,475	18,038	19,622	21,112
Nontax revenues	1,588	1,570	1,294	2,429	3,483	2,713	3,277
Exceptional revenue	0	0	0	0	0	0	0
External grants	6,947	6,806	4,539	5,332	5,408	3,147	4,973
Budgetary assistance	0	0	0	1,487	1,130	0	0
Project financing (incl. technical assistance	6,947	6,359	4,513	3,689	3,317	3,147	4,973
Other budgetary aid	0	447	26	156	961	0	0
Total expenditure and net lending	24,229	19,174	17,220	26,592	33,473	31,161	29,803
Current expenditure	13,648	14,138	13,493	21,256	24,172	22,769	22,829
Budgetary	11,886	13,055	12,066	18,037	20,323	20,262	21,459
Wages and salaries	7,190	6,430	6,093	9,615	10,703	11,493	11,379
Goods and services	3,121	4,642	4,169	5,391	6,948	5,297	6,322
Transfers	615	1,033	844	1,685	1,338	2,041	2,529
Interest payments	960	950	960	1,345	1,335	1,431	1,230
External debt	890	880	890	1,275	1,265	1,323	1,122
Domestic debt	70	70	70	70	70	108	108
Technical assistance	1,762	1,083	1,427	896	2,887	2,507	1,370
Other expenditures 1/	0	0	0	2,323	961	0	0
Priority rehabilitation expenditures	0	0	0	318	0	0	0
Transition	0	0	0	1,849	961	0	0
Interregional transfers	0	0	0	0	0	0	0
Post-conflict				156	0	0	0
Extrabudgetary	...	...	...	...	0	0	0
Capital expenditure	7,390	5,531	4,157	5,373	7,597	7,578	6,974
Domestically financed investment	360	192	130	584	131	2,785	1,869
Foreign-financed investment	7,030	5,339	4,027	4,789	7,466	4,793	5,105
Priority rehabilitation expenditures	0	0	0	0	0	0	0
Net lending	0	0	-35	-36	-69	0	0
Overall balance (payment order)	-6,417	-289	-1,663	-4,357	-6,544	-5,679	-441
Excluding grants	-13,364	-7,095	-6,202	-9,689	-11,952	-8,826	-5,414
Change in net arrears	2,677	624	1,965	1,743	969	2,226	260
Interest on external debt	887	534	551	916	882	1,001	742
Domestic arrears 2/	1,790	90	1,413	827	87	1,225	-482
Overall balance (cash basis)	-3,740	336	301	-2,614	-5,575	-3,453	-181
Financing	3,740	-336	-4,985	2,614	5,575	3,453	731
Foreign (net)	1,593	-504	-4,575	4,603	6,189	3,333	523
Drawings, PIP (identified)	1,845	63	940	3,395	7,036	4,153	1,502
Drawings, adjustment loans	0	0	0	1,926	0	0	0
Amortization	-3,782	-4,367	-3,766	-2,240	-1,603	-1,638	-1,749
Exceptional financing	0	0	-4,683	285	0	0	0
Arrears (principal)	3,530	3,801	2,933	1,237	755	818	770
Domestic (net)	2,147	168	-410	-1,989	-613	120	208
Bank financing	1,615	-21	-210	-1,596	112	81	208
Deposits and claims on treasury	532	-11	0	-102	-228	-1	0
Nonbank financing	0	200	-200	-290	-498	40	0
Financing gap	0	0	4,684	0	0	0	-550
Unidentified residual 3/	3,191	-495	-395	0	1,774	815	0
Memorandum items:	(In percent of GDP)						
Domestic revenue	11.4	11.8	10.1	14.0	16.7	15.9	16.4
Expenditure	25.4	18.7	15.9	22.0	26.0	22.1	20.0
Primary balance 4/	-5.7	0.6	-0.6	-2.5	-4.0	-3.0	0.5
Overall balance (commitment basis)	-6.7	-0.3	-1.5	-3.6	-5.1	-4.0	-0.3
Overall balance (cash basis)	-3.9	0.3	0.3	-2.2	-4.3	-2.5	-0.1

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

1/ Includes costs of election, rehabilitation expenditures, civil service reform, and interregional transfers.

2/ Net arrears accumulation.

3/ Residual of recorded revenues, expenditures, and financing.

4/ Including grants.

Table 3. Comoros: Government Financial Operations (Excluding Anjouan), 1998-2004

	1998	1999	2000	2001	2002	2003 Prov.	2004 Proj.
			(In millions of Comorian francs)				
Total revenue and grants	17,812	18,885	15,556	17,612	22,088	19,593	22,680
Revenues	10,865	12,079	11,017	13,435	16,680	16,446	17,707
Tax revenues	9,277	10,509	9,723	11,115	13,575	14,206	15,021
Nontax revenues	1,588	1,570	1,294	2,320	3,105	2,240	2,686
Exceptional revenue	0	0	0	0	0	0	0
External grants	6,947	6,806	4,539	4,177	5,408	3,147	4,973
Budgetary assistance	0	0	0	332	1,130	0	0
Project financing (incl. technical assistance)	6,947	6,359	4,513	3,689	3,317	3,147	4,973
Other nonbudgetary aid	0	447	26	156	961	0	0
Total expenditure and net lending	21,038	19,669	17,220	22,441	28,977	25,881	24,153
Current expenditure	13,648	14,138	13,493	17,227	20,620	17,589	17,279
Budgetary	11,886	13,055	12,066	14,008	15,775	15,082	15,909
Wages and salaries	7,190	6,430	6,093	6,319	6,943	7,721	7,554
Goods and services	3,121	4,642	4,169	5,018	6,470	4,640	5,322
Of which: Education	...	...	...	129	125	94	0
health	...	...	...	32	12	28	0
Transfers	615	1,033	844	1,326	1,028	1,290	1,804
Interest payments	960	950	960	1,345	1,335	1,431	1,230
External debt	...	...	890	1,275	1,265	1,323	1,122
Domestic debt	...	...	70	70	70	108	108
Technical assistance	1,762	1,083	1,427	896	2,887	2,507	1,370
Other expenditures 1/	0	0	0	2,323	1,957	0	0
Priority rehabilitation expenditures	0	0	0	318	0	0	0
Transition	0	0	0	1,849	961	0	0
Interregional transfers	0	0	0	0	996	0	0
Retrenchment	0	0	0	0	0	0	0
Post-conflict	0	0	0	156	0	0	0
Capital expenditure	7,390	5,531	4,157	5,250	7,535	7,524	6,874
Budgetary	360	192	130	461	69	2,731	1,769
Financed externally	7,030	5,339	4,027	4,789	7,466	4,793	5,105
Priority rehabilitation expenditures	0	0	0	0	0	0	0
Net lending	0	0	-35	-36	-69	0	0
Overall balance (payment order)	-3,226	-784	-1,663	-4,829	-6,889	-6,288	-1,473
Excluding grants	-10,173	-7,590	-6,202	-9,005	-12,297	-9,435	-6,446
Change in net arrears	2,677	624	1,965	2,100	1,314	2,835	742
Interest on external debt	887	534	551	916	882	1,001	742
Domestic arrears 2/	1,790	90	1,413	1,184	432	1,834	0
Overall balance (cash basis)	-3,740	336	301	-2,729	-5,575	-3,453	-731
Financing	3,740	-336	-4,985	2,729	5,575	3,453	731
Foreign (net)	1,593	-504	-4,575	4,603	6,189	3,333	523
Drawings, PIP (identified)	1,845	63	940	3,395	7,036	4,153	1,502
Drawings, adjustment loans	0	0	0	1,926	0	0	0
Amortization	-3,782	-4,367	-3,766	-2,240	-1,603	-1,638	-1,749
Exceptional financing	0	0	-4,683	285	0	0	0
Arrears (principal)	3,530	3,801	2,933	1,237	755	818	770
Domestic (net)	2,147	168	-410	-1,874	-613	120	208
Bank financing	1,615	-21	-210	-1,596	112	121	208
Of which: IMF (SAF)	0	0	-172	-307	-164	-165	-82
Deposits and claims on treasury	532	-11	0	-102	-228	-1	0
Nonbank financing	0	200	-200	-176	-498	0	0
Asset sales	0	0	0	0	0	0	0
Financing need	0	0	4,684	0	0	0	0
Unidentified residual 3/	3,191	-495	-395	0	892	769	0
Memorandum items:			(In percent of GDP 4/)				
Domestic revenue	11.4	11.8	10.1	11.1	12.9	11.7	11.9
Expenditure	22.1	19.1	15.9	18.6	22.5	18.4	16.2
Overall balance (payment order)	-3.4	-0.8	-1.5	-4.0	-5.3	-4.5	-1.0
Overall balance (cash basis)	-3.9	0.3	0.3	-2.3	-4.3	-2.5	-0.5

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

1/ Includes costs of election, rehabilitation expenditures, civil service reform and interregional transfers.

2/ Net arrears accumulation.

3/ Residual of recorded revenues, expenditures, and financing.

4/ GDP of Comoros; GDP excluding Anjouan not available.

Table 4. Comoros: Anjouan Island - Government Financial Operations, 2001-04

	2001	2002	2003 Prov.	2004 Proj.
	(In millions of Comorian francs)			
Total revenue and grants	4,623	4,841	5,889	6,682
Revenues	3,468	4,841	5,889	6,682
Tax revenues	3,359	4,463	5,416	6,091
Nontax revenues	109	378	473	591
Exceptional revenue	0	0	0	0
External grants	1,155	0	0	0
Budgetary assistance	1,155	0	0	0
Project financing (incl. technical assistance)	0	0	0	0
Other budgetary aid	0	0	0	0
Total expenditure and net lending	4,152	4,496	5,280	5,650
Current expenditure	4,029	3,552	5,180	5,550
Budgetary	4,029	4,548	5,180	5,550
Wages and salaries	3,296	3,760	3,772	3,825
Goods and services	374	478	657	1,000
Transfers	359	310	751	725
Interest payments	0	0	0	0
Technical assistance	0	0	0	0
Other expenditures 1/	0	-996	0	0
of which:	0	0	0	0
Interregional transfers	0	-996	0	0
Capital expenditure	123	62	54	100
Budgetary	123	62	54	100
Financed externally	0	0	0	0
Net lending	0	0	0	0
Overall balance (payment order)	471	345	609	1,032
Excluding grants	-684	345	609	1,032
Change in net arrears	-357	-345	-609	-482
Domestic arrears 2/	-357	-345	-609	-482
Overall balance (cash basis)	114	0	0	550
Financing	-114	0	0	0
Foreign (net)	0	0	0	0
Domestic (net)	-114	0	0	0
Bank financing	0	0	-40	0
of which: IMF (SAF)	0	0	0	0
Deposits and claims on treasury	0	0	0	0
Nonbank financing	-114	0	40	0
Asset sales	0	0	0	0
Financing need	0	0	0	-550
Unidentified residual 3/	0	882	46	0
Memorandum items:	(In percent of GDP 4/)			
Domestic revenue	2.9	3.8	4.2	4.5
Expenditure	3.4	3.5	3.7	3.8
Overall balance (payment order)	0.4	0.3	0.4	0.7
Overall balance (cash basis)	0.1	0.0	0.0	0.4

Sources: Anjouan authorities; and staff estimates and projections.

1/ Includes costs of election, rehabilitation expenditures, civil service reform, and interregional transfers.

2/ Net arrears accumulation.

3/ Residual of recorded revenues, expenditures, and financing.

4/ GDP of Comoros; GDP of Anjouan not available.

Table 5. Comoros: Monetary Survey, 1998-2004

	1998	1999	2000	2001	2002	2003 Est.	2004 Proj.
			(In millions of Comorian francs)				
Net foreign assets	17,737	19,890	22,813	36,019	39,324	37,174	38,260
Central bank	15,398	17,124	22,102	33,486	38,399	37,222	36,758
Assets	16,581	18,295	23,017	34,879	38,796	37,848	37,384
Liabilities	-1,183	-1,171	-915	-1,393	-397	-626	-626
Commercial banks	2,339	2,766	711	2,533	925	-48	1,502
Assets	2,373	3,966	3,009	4,864	3,182	1,690	3,240
Liabilities	-34	-1,200	-2,298	-2,331	-2,257	-1,738	-1,738
Net domestic assets	-579	-1,529	-1,794	-5,036	-5,431	-3,407	-2,805
Domestic credit	12,528	12,087	12,661	11,957	13,348	14,095	14,697
Net credit to government	3,631	3,610	3,272	2,733	3,148	2,700	2,908
Claims on government	4,307	4,368	4,158	3,955	4,231	3,420	3,628
Deposits of government	-676	-758	-886	-1,221	-1,083	-720	-720
Credit to public enterprises	165	335	74	73	86	86	86
Credit to private sector	8,732	8,142	9,315	9,151	10,114	11,309	11,703
Other items (net)	-13,107	-13,616	-14,455	-16,993	-18,780	-17,502	-17,502
Broad money	17,158	18,361	21,019	30,983	33,893	33,767	35,455
Money	10,175	11,662	14,115	22,937	25,305	24,815	26,056
Currency in circulation	5,418	6,310	7,564	12,355	12,503	11,615	12,196
Demand deposits	4,757	5,352	6,551	10,582	12,803	13,200	13,860
Quasi money	6,983	6,699	6,904	8,046	8,587	8,952	9,400
			(Percent change from previous year)				
Net foreign assets	-5.5	12.1	14.7	57.9	9.2	-5.5	2.9
Domestic credit	19.6	-3.5	4.7	-5.6	11.6	5.6	4.3
Net credit to government	80.1	-0.6	-9.4	-16.5	15.2	-14.2	7.7
Credit to public enterprises	-61.3	103.0	-77.9	-1.8	18.9	0.0	0.0
Credit to private sector	8.7	-6.8	14.4	-1.8	10.5	11.8	3.5
Other items (net)	20.6	3.9	6.2	17.6	10.5	-6.8	0.0
Broad money	-6.6	7.0	14.5	47.4	9.4	-0.4	5.0
Money	-4.0	14.6	21.0	62.5	10.3	-1.9	5.0
Quasi money	-10.1	-4.1	3.1	16.5	6.7	4.2	5.0
			(In percent of beginning-of-period money stock; unless otherwise indicated)				
Net foreign assets	-5.6	12.6	15.9	62.8	10.7	-6.3	3.2
Domestic credit	11.2	-2.6	3.1	-3.3	4.5	2.2	1.8
Net credit to government	8.8	-0.1	-1.8	-2.6	1.3	-1.3	0.6
Credit to public enterprises	-1.4	1.0	-1.4	0.0	0.0	0.0	0.0
Credit to private sector	3.8	-3.4	6.4	-0.8	3.1	3.5	1.2
Other items (net)	-12.2	-3.0	-4.6	-12.1	-5.8	3.8	0.0
Broad money	-6.6	7.0	14.5	47.4	9.4	-0.4	5.0
Money	-2.3	8.7	13.4	42.0	7.6	-1.4	3.7
Quasi-money	-4.3	-1.7	1.1	5.4	1.7	1.1	1.3
Memorandum items:							
GDP at current prices (in millions of Comorian francs)	95,303	102,782	108,850	121,003	128,980	140,887	149,140
Velocity (GDP/average broad money)	5.6	5.6	5.2	3.9	3.8	4.2	4.2
M1/M2 (in percent)	59.3	63.5	67.2	74.0	74.7	73.5	73.5

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

Table 6. Comoros: Balance of Payments, 1998-2004
(In millions of Comorian francs unless otherwise indicated)

	1998	1999	2000	2001	2002	2003 Est.	2004 Proj.
Current account							
Including official transfers	-8,051	-6,619	-1,888	2,181	-2,992	-6,188	-3,270
Excluding official transfers	-9,813	-8,149	-2,935	-277	-6,465	-7,671	-4,264
Goods and services	-21,596	-21,281	-15,793	-15,942	-17,553	-17,890	-14,780
Trade balance	-16,099	-15,823	-12,647	-12,731	-13,918	-11,708	-9,764
Exports (f.o.b.)	2,632	4,181	7,263	9,144	11,662	13,839	15,387
Vanilla	1,058	1,835	4,105	5,400	7,189	10,736	12,239
Cloves	180	1,177	2,012	2,433	2,809	2,063	2,105
Ylang-ylang	582	563	887	999	1,351	700	679
Other	812	606	259	312	312	340	364
Imports (f.o.b.)	-18,731	-20,004	-19,910	-21,875	-25,580	-25,547	-25,151
Net services	-5,497	-5,458	-3,145	-3,211	-3,635	-6,182	-5,016
Services, receipts	8,762	9,395	9,119	10,092	10,321	9,241	9,582
Of which: travel	3,500	4,025	4,226	5,000	4,500	4,050	4,253
Services, payments	-14,259	-14,853	-12,265	-13,304	-13,956	-15,423	-14,598
Income (net)	-163	93	178	1,235	-10	-337	-369
Of which: interest payments due	-978	-964	-890	-429	-1,265	-1,323	-1,122
Current transfers (net)	13,708	14,569	13,727	16,888	14,571	12,039	11,879
Government	1,762	1,530	1,046	2,458	3,473	1,483	995
Private	11,946	13,039	12,680	14,430	11,098	10,557	10,885
Capital and financial account	2,194	4,011	3,382	7,051	6,268	3,191	1,843
Capital account	5,185	5,276	3,493	2,873	1,935	1,664	3,978
Of which: capital transfers	5,185	5,276	3,493	2,873	1,935	1,664	3,978
Financial account	-3,104	-4,589	-1,390	1,407	6,208	3,185	-2,135
Direct investment	170	125	50	630	225	252	282
Other	-3,274	-4,714	-1,440	777	5,983	2,933	-2,417
Government	-2,125	-4,305	-2,826	3,081	5,434	2,515	-247
Drawings	1,845	63	940	5,321	7,036	4,153	1,502
Amortization	-3,970	-4,367	-3,766	-2,240	-1,603	-1,638	-1,749
Private sector (net)	-1,149	-409	1,386	-2,304	549	418	-2,170
Of which: banks, net	-412	-427	2,055	-1,822	1,608	973	-1,550
Short-term capital (incl. errors and omissions)	112	3,324	1,279	2,770	-1,875	-1,658	0
Overall balance	-5,857	-2,608	1,494	9,231	3,276	-2,997	-1,426
Financing	5,857	2,608	-1,494	-9,231	-3,276	2,997	1,426
Net foreign assets (increase -)	1,440	-1,727	-4,978	-11,384	-4,913	1,177	464
Use of fund credit (net)	-108	-199	-172	-315	-164	-165	-82
Others (net)	1,548	-1,528	-4,806	-11,070	-4,749	1,342	546
Net change in arrears	4,417	4,335	3,484	2,153	1,637	1,819	1,512
Exceptional financing	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	-549
Memorandum items:							
Arrears (end of period)	37,515	41,850	45,334	44,582	43,328	39,250	40,762
External debt (end of period, incl. arrears & IMF, in millions of U.S. dollars)							
Nominal stock	285	242	225	227	247	281	284
Net present value						215	217
Current account (in percent of GDP)							
Including official transfers	-8.4	-6.4	-1.7	1.8	-2.3	-4.4	-2.2
Excluding official transfers	-10.3	-7.9	-2.7	-0.2	-5.0	-5.4	-2.9
Exchange rate CF/US$ (period average)	442	462	534	549	521	438	425
Gross foreign assets of Central Bank	16,581	18,295	23,017	34,879	38,796	37,848	37,384
In months of imports of goods and nonfactor services, c.i.f	6.0	6.3	8.6	11.9	11.8	11.1	11.3
Nominal GDP	95,303	102,782	108,850	121,003	128,980	140,887	149,140

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

Comoros: Relations with the Fund
(As of February 29, 2003)

I. Membership Status: Joined 09/21/76; Article VIII

II. General Resources Account:	**SDR Millions**	**% Quota**
Quota	8.90	100.00
Fund holdings of currency	8.36	93.91
Reserve position in Fund	0.54	6.11

III. SDR Department:	**SDR Millions**	**% Allocation**
Net cumulative allocation	0.72	100.00
Holdings	0.14	19.06

IV. Outstanding Purchases and Loans:	**SDR Millions**	**% Quota**
Structural Adjustment Facility (SAF) Arrangements	0.14	1.52

V. Latest 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

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

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	0.14	0.00	0.00	0.00	0.00
Charges/interest	0.01	0.01	0.01	0.01	0.01
Total	0.14	0.01	0.01	0.01	0.01

VII. Exchange Rate Arrangements

The currency of the Comoros is the Comorian franc, which is pegged to the euro at €1 = CF 492. The Comoros has accepted the obligations of Article VIII, Sections 2(*a*), 3, and 4 and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

VIII. Article IV Consultation

The Comoros is on the standard 12-month cycle. The 2002 Article IV consultation was concluded on October 30, 2002.

IX. Recent Technical Assistance

Department	Dates	Subject
FAD	May 2001	Follow-up mission on tax and customs administration
FAD	March-Apr. 2002	Mission on options for decentralization
MAE	Sep. 2001	Mission to review central bank internal controls
MAE	Jan.-Feb. 2002	Follow-up on central bank internal controls
MFD	July 2003	Mission to review the role of the central bank in banking supervision and to evaluate technical assistance needs
MFD	Sep.- Oct. 2003	Mission to review the envisaged resumption of activities by the Comoros Development Bank, the possible opening of a postal bank, and the supervision of microfinance institutions

X. Resident Representative

A resident representative post established in September 1991 was closed in December 1995.

Comoros: IMF-World Bank Group Relations
(As of March 17, 2003)

1. The World Bank Executive Board has approved 19 IDA credits totaling US$132.4 million to support the Comoros since the World Bank became active in the country in 1976. The current active portfolio consists of two projects supporting social sectors (health and social fund), with a total commitment of US$19.9 million, and undisbursed balances of US$1.7 million. Both projects are scheduled to close by the end of fiscal year (FY) 04. The Bank presented a Transitional Support Strategy Update (TSSU) to the Board of Directors in March 2004. This strategy update for the next 18 to 24 months has two key objectives: (i) maintaining basic social services; and (ii) supporting the process of national reconciliation and facilitating the transition to a viable institutional structure. A new lending operation was approved in conjunction with the strategy. This community-based Social Services Project (SSP) seeks to maintain service delivery and addresses most urgent health and water sector needs. The SSP is a four-year operation in the amount of US$13.3 million.

2. Together with the IMF and the United Nations Development Program (UNDP), the World Bank assisted the government of Comoros in the official launch of the Poverty Reduction Strategy Paper (PRSP) process in March 2002. Its aim is to formulate a medium-term development strategy for the country. A first draft of the interim PRSP was completed in July 2002 and validated by Comorian stakeholders in all three islands in May 2003. However, the political uncertainty prevailing in the Comoros in the past months has put most reform efforts to a halt, blocked the implementation of the poverty reduction strategy, and undermined its relevance. With the resumption of the peace process and upcoming Initiative for Heavily Indebted Poor Countries (HIPC) Initiative deadlines, the PRSP process should gather renewed momentum. A Joint Staff Assessment (JSA) is to take place in 2004 if the Comoros is to reach the decision point before the initiative's sunset clause.

3. Since the signing of a national reconciliation agreement in December 2003, the Bank has worked in close collaboration with the Fund to support the transition in the Comoros, in particular the creation of viable economic institutions and a consolidated budget. If the reconciliation process proves sustainable, the Bank will continue to work closely together with the Fund in these areas.

4. The Bank has also been supporting the privatization process through a technical assistance project. Port services (SOCOPOTRAM) were privatized in November 2001, and a private operator was installed in the port of Moroni in July 2002, albeit with continuing difficulties.

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

Active Portfolio in Comoros—IDA Lending Operations
(In millions of U.S. dollars)

Purpose	Approved	Committed	Disbursed
	(Fiscal year)	(Less cancellations)	
Number of closed credits (16)		92.2	90
Active credits			
Health	1998	8.4	7.2
Social fund	1998	11.5	11.0
Total active		**19.9**	**18.2**

Source: World Bank staff.

Comoros: IDA Loans and Debt Service FY 1990–FY 2003
(In millions of U.S. dollars)

	FY 96	FY 97	FY 98	FY 99 1/	FY 00	FY 01	FY 02	FY 03
IDA net disbursements	3.9	4.3	5	0.6	0.4	2.9	14.2	8.0
Disbursements	4.1	4.7	5.4	0.6	1.5	3.6	15.1	10.0
Repayments	0.2	0.4	0.4	0	1.1	0.7	0.9	1.0
Interest payment	0.2	0.5	0.5	0	1.1	0.5	0.5	1.0

Source: World Bank

1/ Under IDA suspension of disbursements because of arrears.

Questions may be referred to Aurélien Kruse, Economist in charge of the Comoros. Tel: (261) 20 22 560 00.

Comoros: Statistical Issues

Overview

Although the situation has improved somewhat since end-1998, the statistical database in the Comoros remains seriously deficient in most 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 Statistics Department (STA) multitopic technical assistance mission, which is under consideration, that could lay the groundwork for a thorough revamping of the statistical system.

National accounts data and prices

The main aggregates of the national accounts for 1986–89, as well as the accounts for 1990 and rough estimates for 1991–93, were prepared by the World Bank; the United Nations Development Program (UNDP) assisted with the preparation of the national accounts for 1994 and 1995. Thereafter, the national accounts were computed using extrapolations and contain serious methodological errors. There is little specific information on the level of economic activity, which complicates the formulation of sectoral policies. In addition, no comprehensive consumer price index was compiled during 1990 and 1991. The Statistics Department of the Ministry of Planning resumed price surveys in 1992. An AFRISTAT mission in 1998 has suggested updating 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.

Fiscal data

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 available only on an ad hoc basis and with considerable effort. Data on the financial operations of public enterprises lack transparency and timeliness. The latest data provided for publication in the *Government Finance Statistics (GFS) Yearbook* are for 1987. The Comoros *International Financial Statistics* (*IFS)* page does not contain government finance data.

Monetary data

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 one-two months instead of four months. However, the lag increased to three months over the recent period. In 1997, an 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. Due to serious differences and errors in classification, *IFS* and central bank data differed significantly for major monetary aggregates prior to 1997.

External sector statistics

The latest balance of payments data available to STA pertain to 1995. Balance of payments data are prepared by the central bank with considerable delay. Data relating to capital inflows are sketchy, and the external debt database has not been maintained since 1994.

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 March 26, 2004)

	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	2/04	12/03	12/03	12/03	12/03	12/03	12/02	2002	12/03	2002	2003
Date received	Current	3/04	3/04	3/04	3/04	3/04	1/04		5/03	2/04	5/03	1/04
Frequency of data	Daily	M	M	M	M	O	M	M	A	A	A	A
Frequency of Reporting	Daily	Q	Q	Q	Q	V	V	V	V	V	V	V
Source of data	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	Q	Q	Q	Q	V	V	A	A	V	A	V

Notes:
Frequency of data: M=monthly; Q=quarterly; A=annual; O=irregular.
Frequency of 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.

Comoros: Millennium Development Goals

	1990	1995	2001	2002	2015 Target
Goal 1. Eradicate extreme poverty and hunger					
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than US$1a day.					
1. Population below US$1 a day (percent)	...	...	...	...	...
2. Poverty gap ratio at US$1 a day (percent)	...	...	...	...	...
3. Share of income or consumption held by poorest 20 percent (percent)	...	...	...	...	...
Target 2: Halve, between 1990 and 2015, the proportion of people suffering from hunger					
4. Prevalence of child malnutrition (percent of children under 5)	18.5	25.8	25.0	...	9.3
5. Population below minimum level of dietary energy consumption (percent)	...	...	...	...	...
Goal 2. Achieve universal primary education					
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling					
6. Net primary enrollment ratio (percent of relevant age group)	...	52.0	56.2	...	100
7. Percentage of cohort reaching grade 5	45.5	...	77.1	...	...
8. Youth literacy rate (percent ages 15-24)	56.7	57.7	58.8	59.0	...
Goal 3. Promote gender equality and empower women					
Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education by 2015					
9. Ratio of girls to boys in primary and secondary education (percent)	...	...	...	83.3	100
10. Ratio of young literate females to males (percent ages 15-24)	77.8	78.5	79.4	79.5	...
11. Share of women employed in the nonagricultural sector (percent)	...	...	...	...	...
12. Proportion of seats held by women in the national parliament (percent)	...	...	...	...	...
Goal 4. Reduce child mortality					
Target 5: Reduce by two-thirds between 1990 and 2015 the under-5 mortality rate					
13. Under-5 mortality rate (per 1,000)	120.0	100.0	79.0	77.0	40.0
14. Infant mortality rate (per 1,000 live births)	88.0	74.0	59.0	58.0	...
15. Immunization against measles (percent of children under 12 months)	87.0	69.0	70.0	...	...
Goal 5. Improve maternal health					
Target 6: Reduce by three-fourths between 1990 and 2015 the maternal mortality ratio.					
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	570.0	...	...	...
17. Proportion of births attended by skilled health personnel	...	51.6	61.8	...	...
Goal 6. Combat HIV/AIDS, malaria, and other diseases					
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS					
18. HIV prevalence among females (percent ages 15-24)	...	...	...	...	...
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	21.0	...	...	...
20. Number of children orphaned by HIV/AIDS	...	...	...	...	...
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases					
21. Prevalence of death associated with malaria	...	...	...	...	...
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...	...
23. Incidence of tuberculosis (per 100,000 people)	...	...	63.3	...	...
24. Tuberculosis cases detected under DOTS (percent)	...	60.0	43.0	...	...

Comoros: Millennium Development Goals (concluded)

	1990	1995	2001	2002	2015 Target
Goal 7. Ensure environmental sustainability					
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources					
25. Forest area (percent of total land area)	5.4	...	3.6	...	...
26. Nationally protected areas (percent of total land area)	...	0.0	0.0		
27. GDP per unit of energy use (purchasing power parity dollars per kilogram of oil equivalent (PPP))	...	...	...	...	...
28. CO_2 emissions (metric tons per capita)	0.2	0.1	0.1	...	...
29. Proportion of population using solid fuels	...	...	...	...	...
Target 10: Halve by 2015 proportion of people without access to safe drinking water					
30. Access to improved water source (percent of population)	88.0	...	96.0	...	...
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers					
31. Access to improved sanitation (percent of population)	98.0	...	98.0	...	...
32. Access to secure tenure (percent of population)	...	...	...	...	...
Goal 8. Develop a Global Partnership for Development 1/					
Target 16: Develop and implement strategies for productive work for youth					
45. Unemployment rate of population ages 15-24 (total)	...	...	...	...	...
Female	...	...	...	...	...
Male	...	...	...	...	...
Target 17: Provide access to affordable essential drugs					
46. Proportion of population access with access to affordable essential drugs	...	...	...	...	...
Target 18: Make available new technologies, especially information and communications					
47. Fixed-line and mobile telephones (per 1,000 people)	...	...	...	...	...
48. Personal computers (per 1,000 people)	0.1	0.3	5.5	...	...

Sources: World Bank; and Fund staff estimates.

1/ Targets 12-15 and indicators 33-44 are excluded because they cannot be measured on a country-specific basis. These are related to official development assistance, market access, and the HIPC Initiative.

Statement by the IMF Staff Representative
April 30, 2004

This statement provides additional information that has become available since the circulation of the staff report (April 16, 2004). It includes the results of the recent island and national assembly elections, the implementation of the Transition Agreement of December 20, 2003, and recent economic developments. The new information does not alter the thrust of the staff appraisal.

- Elections for the island assemblies in March 2004 resulted in a large majority for the opposition parties supporting the island presidents, which ran against President Azali Assoumani's coalition of *Coordination pour le renouveau des Comores* (CRC). The opposition also won the elections for the Union Assembly on April 18 and 25, 2004. These results make it probable that the opposition parties will enjoy a 2/3 majority in the Union Assembly, which would permit them to pass the needed by-laws to the constitution, as well as the national budget, with the likelihood of a stronger emphasis on decentralization and financial autonomy of the islands. President Azali's mandate ends in April 2006.

- Implementation of the agreements of the Harmonization Committee described in the staff report appears to have met with considerable difficulty. In its meeting during April 12-14, 2004, the "Follow-Up Committee" (Comité de Suivi) noted that the Union government had "unilaterally circumvented the revenue and expenditure circuits." In response, the government of Anjouan suspended its participation in the Harmonization Committee and stopped its transfers of revenues to the central bank's shared revenue account established for the distribution of these revenues.

- Revenues transferred by the various governments to the central bank's shared revenue account amounted to FC 2.4 billion during the first quarter of 2004. This is substantially less than the amount expected on the basis of projections for the first half of the year. The reasons for this development are not yet clear.

- Very little information has become available on economic developments during the first months of 2004, as the process of organizing a regular flow of information has met with considerable implementation problems. Data on the consumer price index (CPI) indicate that the year-on-year inflation rate has increased to 7.3 percent in March 2004.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 04/55
May 14, 2004

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

IMF Concludes 2004 Article IV Consultation with the Union of the Comoros

On April 30, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Union of the Comoros.[33]

Background

Following a number of secessionist moves since independence in 1974, Comoros[34] overwhelmingly approved a new constitution in December 2001. The constitution provides for wide-ranging autonomy to the islands, but relies on the establishment of by-laws for the definition of specific decentralization arrangements, including on financial autonomy and the civil service. A number of attempts in 2002 and 2003 to establish such by-laws failed to produce universally accepted results. However, on December 20, 2003, a Transition Agreement on elections and critical arrangements for economic management was reached under the auspices of the African Union. The agreement is strongly supported by the international community and has given rise to the establishment of a multidonor trust fund for the implementation of the transitional arrangements.

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[33] 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.

[34] The Comoros consist of the islands of Ngazidja—formerly Grande Comore—(about 272,000 inhabitants) with the capital Moroni; Anjouan (245,000); and Mohéli (32,000).

Implementation of the Transition Agreement has proved to be difficult despite extensive discussions on the modalities and the definition of actions to be taken by the Union and island governments. In addition, the elections held for the island assemblies in March and the national assembly in April 2004 diverted attention from the task of implementing coherent budget policies, including actions on the contentious issue of revenue sharing.

Economic developments during 2003 were adversely affected by the difficult relationship between the Union and island governments. The related disputes about competencies and resources prevented the design and implementation of coherent economic policies, brought to a virtual standstill structural reforms, and undermined confidence at home and abroad, with adverse consequences for private investment and foreign aid. As a result, the Comoros' real per capita income declined for the sixth year in a row. Inflation increased from 3.3 percent in 2002 to 4.5 percent in 2003, notwithstanding a sizable strengthening of the Comorian franc. The rise in inflation was mainly related to increases in import duties on selected commodities introduced by the Union government. The external current account benefited from a sizable improvement in the terms of trade but declines in tourism receipts and official and private transfers in the event led to a widening of the external current account deficit (including official transfers) from 2.3 percent of GDP in 2002 to 4.4 percent in 2003. However, at some 11 months of imports of goods and services, the Comoros' foreign reserves position is still at a comfortable level.

Fiscal policies resulted in a primary deficit for the consolidated Union and island governments of 3 percent of GDP in 2003, compared with 4 percent in 2002, while a primary surplus would have been required for a move toward sustainability. The external debt, at more than 500 percent of exports of goods and services in net present value terms, is not sustainable. It has been accompanied by a continued accumulation of payments arrears. The establishment of a prudent consolidated national budget for 2003 failed because of continued disputes between governments about revenue sharing and the delineation of expenditure competencies. The Union government, being confronted with the threat of strikes, granted two step increases in the salary scales for civil servants, which had been frozen since 1994. It also undertook a number of investments in economic infrastructure. The consolidated fiscal deficit was in part raised as a result of the attempt by the Ngazidja government to establish its own administration without having reached an agreement with the Union on the transfer of competencies. In contrast, fiscal policy in Anjouan produced a small surplus (permitting the repayment of some salary arrears) mainly because of a significant strengthening of revenue administration and collection.

Monetary policy remained narrowly circumscribed by the Comoros' membership in the franc zone and the related fixed exchange rate vis-à-vis the euro. These arrangements have provided a firm monetary anchor for the country and imposed a coherent framework on the management and operations of the central bank, including a strict limit on lending to government.

While there are virtually no quantitative trade restrictions, tariff levels on imports in the Comoros are relatively high by international and African standards, with an average tariff rate of 38.9 percent in 2001. The rate has increased further as a result of the import duties on cars and the surtaxes on rice, tobacco, and alcohol that were introduced in mid-2003. However, given the virtual absence of local production of most goods concerned, virtually all tariffs serve revenue purposes and are not an expression of protectionist policies of the government.

Executive Board Assessment

Directors noted that political tensions between the Union and island governments have disrupted the implementation of macro-economic policies and structural reforms. As a result, the economic performance of the Comoros has remained below its potential, and little progress has been made toward reducing poverty. Directors underscored the urgency of pursuing a coherent strategy for the economic development of the country, and hoped this would be facilitated soon by the resolution of the political difficulties.

Directors urged that the Transition Agreement of December 20, 2003 be fully implemented to achieve the decentralization objectives of the new constitution. They noted that, in the economic area, this would require adherence to the undertakings on revenue sharing, effective joint administration of the customs office, and gradual transfer of competencies and civil service staff to the island governments.

Directors called on the authorities to pursue fiscal policies compatible with debt sustainability. To that effect, they stressed the need for close cooperation between Union and island administrations on the basis of a transparent budget process and information sharing. Directors felt that fiscal policy should aim at achieving a balanced position for the consolidated public finances. In this context, they emphasized the need to advance with structural reforms in tax policy, tax administration, and expenditure management. On the revenue side, this will require a substantial strengthening of revenue administration and widening of the tax base. Directors therefore stressed the need to move toward a simpler and more efficient tax system and to streamline tax administration. In this connection, they encouraged the authorities to eliminate discretionary import tariff exemptions and to consider replacing import tariffs by a broad-based consumption tax. On the expenditure side, Directors urged tight expenditure control to avoid duplication of spending by the different levels of government. They saw no room for increases in wages, and advised the authorities to focus expenditure on areas of high priority with the aim of achieving the Millennium Development Goals.

Directors urged the authorities to ensure that decentralization is consistent with sound economic management for the country as a whole. They noted that, given the country's limited human and financial resources, attainment of this objective will require the development of effective and affordable economic institutions. They therefore encouraged the authorities to establish central economic management institutions to exploit economies of scale, particularly in revenue administration, public administration and statistics. Directors also stressed that institutional arrangements will have to be developed to guide the budget process and ensure the implementation of common external sector policies. In this connection, Directors encouraged the authorities to harmonize external tariffs between the Union and Anjouan. They also supported technical assistance from the Fund to help build capacity in economic management—particularly to establish a well designed and integrated budget process and to implement revenue and expenditure reforms.

Directors were of the view that membership of the Comoros in the franc zone has served the country well and should be maintained. Above all, it has provided a firm monetary anchor, curtailed the scope for inflationary financing, and contributed to low inflation. Directors encouraged trade liberalization in line with the objectives of the regional grouping, COMESA.

Directors welcomed the central bank's efforts to enforce and strengthen prudential regulation and supervision. They supported plans to develop a competitive financial sector, but cautioned that measures taken in this area must not compromise financial sector stability and soundness. Directors urged the authorities to promulgate legislation giving the central bank supervisory authority over microfinance institutions.

Directors believed that economic performance could be significantly improved by relying on private initiative and increasing the efficiency of public enterprises. They called for a review of the process of setting producer prices for the country's main export products to ensure that adequate incentives are in place for increasing production in areas where the country possesses a comparative advantage. Regarding public enterprises, Directors welcomed recent measures to reduce the illegal use of electricity and strengthen the collection of utility bills. Nevertheless, they considered that much more is needed to improve the performance of public enterprises, including better internal controls and the production of regular financial reports.

Directors expressed concern about continued weaknesses in the compilation and dissemination of statistics. They urged the authorities to establish a national statistics office and an efficient statistical system to ensure the production and dissemination of accurate and timely data. In addition, Directors called for increased accountability and transparency at all levels of government.

Directors encouraged the Comorian authorities to make efforts to improve economic management, including the establishment of a consolidated budget and strengthening of data collection and reporting to the Fund, so as to be able to move ahead with early discussion on a staff-monitored program.

Comoros: Selected Economic Indicators

	1999	2000	2001	2002	2003 (Est.)	2004 (Proj.)
	(Annual percentage change)					
National accounts and prices						
Real GDP at market prices	1.9	2.4	2.3	2.3	2.1	1.8
Consumer price index (annual average)	6.3	4.5	5.9	3.3	4.5	3.5
Money and credit						
Domestic credit	-3.5	4.7	-5.6	11.6	5.6	4.3
Broad money	7.0	14.5	47.4	4.4	-0.4	5.0
External trade						
Exports f.o.b.	58.9	73.7	25.4	27.5	18.7	11.2
Imports f.o.b.	6.8	-0.5	9.9	16.4	-0.1	-1.5
Terms of Trade	91.0	71.6	61.4	1.4	85.2	-0.2
	(In percent of GDP, unless otherwise specified)					
Public finance 1/						
Revenues	11.8	10.1	14.0	16.7	15.9	16.4
Expenditures	19.1	15.8	22.0	26.0	22.1	20.0
Overall balance (commitment basis; including grants)	-0.8	-1.5	-3.6	-5.1	-4.0	-0.3
Primary balance	0.2	-0.6	-2.5	-4.0	-3.0	0.5
External sector						
Current account balance (excl. official transfers)	-7.9	-2.7	-0.2	-5.0	-5.4	-2.9
Total external debt outstanding (including arrears)	115.1	109.2	100.5	91.4	77.8	74.3
Gross international reserves (in months of imports of goods and services)	6.3	8.6	11.9	11.8	11.1	11.3

Sources: Comorian authorities' and IMF Staff estimates and projections.

1/ Excludes Anjouan for the period 1998-2000; annual change in 2001 reflects inclusion of Anjouan's accounts in Consolidated Government Accounts.