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Comoros: 2002 Article IV Consultation and Review of Performance Under a Staff-Monitored Program—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Comoros

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2002 Article IV consultation with Comoros and review of performance under a staff-monitored program, the following documents have been released and are included in this package:

- the staff report for the 2002 Article IV consultation and review of performance under a staff-monitored program, prepared by a staff team of the IMF, following discussions that ended on **July 9, 2002,** with the officials of Comoros on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on October 11, 2002.** 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 Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its October 30, 2002 discussion** of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Comoros.

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

Statistical Appendix

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COMOROS

Staff Report for the 2002 Article IV Consultation and Review of Performance Under a Staff-Monitored Program

Prepared by the African Department

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

Approved by José Fajgenbaum and Shigeo Kashiwagi

October 11, 2002

- The 2002 Article IV consultation discussions and review of developments under a staff-monitored program ((SMP), July 2001-June 2002) were held in Moroni during June 25–July 9, 2002.

- The mission met with the President of the Union of the Comoros, Mr. Azali; the Vice-President of the Union in charge of Finances, Mr. Yachroutu; the Presidents of the islands of Anjouan, Mr. Bacar, of Grande Comore, Mr. El Bak, and of Mohéli, Mr. Fazul, and their respective Ministers of Finance; the interim Governor of the Central Bank of the Comoros, Mr. Mouret; and other senior officials of the Union and island governments. The mission also met with representatives of the private sector and donors. At the end of its stay, the mission met with the press. Messrs. Snoek and Kpodar also met with French officials in Paris on July 11, 2002.

- The staff team consisted of Messrs. Snoek (head), Kpodar, D'Hoore, and Stern, Ms. Nyankiye (all AFR), Ms. Gicquel (PDR), and Miss Jagatsing (Assistant-AFR). Mr. Thornton (World Bank) and Mrs. Dinga-Dzondo (African Development Bank) also participated in the mission. Mr. Kpetigo, Advisor to Mr. Barro Chambrier, Executive Director for Comoros, participated in the policy discussions.

- Comoros is on the standard 12-month consultation cycle. At the conclusion of the last Article IV consultation on July 18, 2001, Executive Directors stated that the main priority of economic policy should be tackling the problems of persistent low economic growth, large fiscal imbalances, and large domestic and external public sector payments arrears. They stressed the need for the authorities to implement the SMP vigorously, thus building the confidence needed to mobilize external financial support, including under the Fund's Poverty Reduction and Growth Facility (PRGF), and debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

- The Comoros' relations with the IMF, including recent technical assistance, are summarized in Appendix I, and its relations with the World Bank Group in Appendix II. Statistical issues are discussed in Appendix III.

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Appendices

Executive Summary

- In December 2001, the country overwhelmingly approved, in a referendum, a new constitution that delegates wide-ranging autonomy to the islands. However, the lack of agreement between the Union and island governments on the allocation of responsibilities and resources has prevented the formulation of a fiscal policy for the remainder of 2002 and in the medium term and, consequently, the extension of the staff-monitored program (SMP).

- Despite the political difficulties, economic developments were broadly positive in 2001 and the first half of 2002. Real GDP growth is estimated to have reached 2 percent in 2001, reflecting the lifting of the embargo on Anjouan, higher domestic demand, and the resumption of donor-financed projects. The balance of payments improved sharply as a result of the strong increase in the terms of trade. The Union government revenues improved in 2001 relative to 2000; however, they dropped in the first half of 2002, primarily because of the diversion of imports to Anjouan and the delay in implementing some tax measures. While the revenues in Anjouan rose both in 2001 and the first half of 2002, partly owing to the tax competition, they were almost fully absorbed by the wage bill.

- Performance under the SMP was mixed. The quantitative benchmarks on net domestic financing of the budget and net international reserves were met, the latter by a large margin, and the wage bill was broadly in line with the program. However, the benchmarks on government revenues and no new arrears to multilateral creditors were missed. There was progress in the structural reform area, although some measures were implemented with delay.

- The medium-term outlook is subject to a high degree of uncertainty owing to the risk of continued disagreement between the Union and island governments. Assuming a stable sociopolitical situation, a coordinated fiscal stance, and accelerated structural reforms, real GDP growth is expected to increase gradually from around 2 percent in 2001 to 4.5 percent by 2006. Gross official reserves are expected to decline from about 12 months of imports of goods and nonfactor services in 2001 to about 9 months by 2006, as export prices return to more normal levels. Total consolidated government revenue is estimated to climb to 14.9 percent of GDP in 2002 and gradually increase further to 16.4 percent by 2006.

Issues highlighted in the staff appraisal

- The staff urges the authorities to define the by-laws of the new constitution to allocate responsibilities and resources between the Union and island governments and emphasizes the importance of agreeing, in the meantime, on a temporary arrangement for power and resource sharing.

- In order to attain a higher rate of growth on a sustained basis, reduce poverty, and raise the living standards, the authorities need to promote and maintain a stable macroeconomic environment through a more disciplined and coordinated fiscal policy and deeper structural reforms, in addition to creating a viable political system. Furthermore, to achieve the revised targets in the medium term, the authorities should pursue wage restraint and accelerate the preparation of a comprehensive plan to reduce public sector employment.

- To start discussions on a PRGF-supported program and debt relief under the enhanced HIPC Initiative, the staff emphasizes the need to establish a track record under a new SMP. The staff further underscores that a new SMP could resume only after all four governments agree on the main principles of decentralization, a time frame for its implementation, and the preparation of 2003 budgets for Union and island governments, consistent with the medium-term macroeconomic framework.

- The staff recommends that a national bureau of statistics be established to collect economic and social data, with a view to ensuring a common and consistent database on the three islands. The staff agrees with the need for technical assistance, especially in the context of decentralization.

I. Overview of Key Issues and Major Medium- and Long-Term Challenges

1. **Over the past two decades, political instability and weak macroeconomic management have resulted in negative real per capita GDP growth rates, which have contributed to widespread poverty and a worsening of social conditions.** Real output growth has averaged 1.6 percent during the last ten years, below the population growth rate of 2.7 percent. The factors noted above, coupled with a deteriorating physical infrastructure, have led to a declining investment rate. In addition, a number of deep-seated structural obstacles—such as limited institutional and administrative capacity, high production and transaction costs, a shallow domestic financial system, and weak governance—have limited the growth potential of the Comoros. Similarly, large fiscal imbalances have resulted in substantial disruptions in government services and an accumulation of sizable domestic and external payments arrears.

2. **The 2001/02 staff-monitored program (SMP), covering the period July 2001-June 2002, sought to establish conditions for the authorities to carry out comprehensive and consistent policies that addressed long-standing fiscal imbalances and promoted macroeconomic stability.** Some measures were implemented to improve revenue mobilization and to contain the increase in public expenditure, while protecting the social sectors. Steps were also taken to strengthen tax administration and public expenditure management, improve governance, and increase transparency in public operations. These measures were not, however, sufficient to enable the authorities to resume debt-service payments to all external creditors, so as to normalize relations and move to undertake a comprehensive debt rescheduling.

3. **During the consultation discussions, the authorities stated that their key objectives in the medium and long term were to attain a higher rate of growth on a sustained basis, reduce the widespread poverty, and raise the living standards of the Comorian population.** While considerable potential exists in the agriculture, fishing, and tourism sectors, achieving these goals is a challenging task. Indeed, for the higher growth rate to materialize, it is crucial to address the issue of political instability and reach a consensus on how to establish a viable social, economic, and institutional structure for the new Comorian state. This is a prerequisite for regaining the confidence of the international community and investors.

4. **In addition to creating a viable political system, continued efforts are needed to promote and maintain a stable macroeconomic environment and to tackle the other main impediments to economic growth.** Achieving this objective will require a more disciplined and coordinated fiscal policy and deeper structural reforms—in particular in the utility and the domestic financial sectors and the governance area—so as to improve the competitiveness of the economy, diversify the production base, promote higher domestic and foreign private investment, and generate the greater donor support needed to finance the reconstruction of physical infrastructure and reduce poverty.

II. Recent Political and Economic Developments and Performance Under a Staff-Monitored Program

5. The political reconciliation is almost complete, following the reintegration of the secessionist island of Anjouan in a new Union of the Comoros and the restoration of democratic institutions in the country. However, since early June 2002, disputes between the Union and island governments over the distribution of responsibilities and resources have opened a new era of turbulence and uncertainty (Box 1).

Box 1. Comoros: Recent Political Developments

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

With the support of the international community, especially the Organization of African Unity (OAU) and the International Organization of the Francophonie, an agreement (Fomboni Accord) was reached in February 2001 that envisaged the reintegration of Anjouan and the restoration of democratic institutions in the three islands. It outlined (i) a schedule for constitutional reform; (ii) the formation of a transitional government of national unity following a referendum on a new constitution; and (iii) elections and the final transition to democratic institutions, under a new structure with broader autonomy for the islands, scheduled for end-2001. A broad-based tripartite commission was charged with implementing the agreement, with financial and technical assistance provided mainly by the European Union (EU) and the United Nations Development Program (UNDP). In parallel, the federal government was to help Anjouan rebuild its administration, which had been affected by the trade embargo imposed on the island by the OAU in early 2000 and the suspension of the federal government transfers.

The reconciliation process culminated with a referendum in December 2001 by which the country overwhelmingly approved a new constitution and the establishment of a transitional government of national unity in January 2002. In April-May, each island elected its president, and former Head of State Colonel Azali was elected President of the Union. The Union presidency will rotate every four years among the islands, starting with a president from Grande Comore. Elections for island parliaments are scheduled for October 2002; these will then elect representatives for the Union parliament.

Under the new constitution, the name of the country changed from the Federal Islamic Republic of the Comoros to the Union of the Comoros. Little progress has been made, however, in working out the details of the new constitution's broad principles for allocating responsibilities between the Union and the island governments. While under the previous constitution the federal government accounted for most public expenditure, the new constitution delegates wide-ranging autonomy to the islands, although many of the details remain to be settled through by-laws (*lois organiques*). The Union, supported by Mohéli, takes the position that the constitution allows for shared competencies, in an attempt to increase its otherwise limited role. Anjouan is following a very independent course, building on the de facto large autonomy that it enjoyed during the years of secession. Grande Comore, whose president is opposed to Union President Azali, is seeking similarly large autonomy, including control over all public assets and revenue sources on the island.

Since early June 2002, discussions have been held between the Union and the island governments, in particular Grande Comore, on power- and resource-sharing until an agreement on decentralization is reached; however, these have been unsuccessful. The uncoordinated intervention by the governments of the Union and of Grande Comore in the management of public enterprises and customs administration in the port of Moroni led to disruptions in the normal functioning of the port, customs operations, and some public enterprises.

6. **The lack of agreement on temporary arrangements, until budgets are prepared on an orderly decentralization scheme, has prevented the formulation of an appropriate**

and consistent fiscal policy for the remainder of 2002, and thus an extension of the SMP. The government of Grande Comore stated in June that it could not postpone starting operations until a final agreement on the future responsibilities between the Union and island governments is concluded; however, it was willing to share revenues and expenditures within the Union budget for 2002.[1] It is presently operating without any budget, and no agreement with the Union government on budget sharing has been reached; implementing any such agreement would be difficult in view of the present mistrust and the lack of technical capacity for expenditure control.

7. **Economic developments were broadly positive in 2001 and the first half of 2002, despite the difficult political situation**. Following more than a decade of stagnation, real GDP growth is estimated to have reached 2 percent in 2001 and continued to increase during the first half of 2002. This increase reflects (i) the lifting of the embargo on Anjouan in March 2001; (ii) higher domestic demand resulting from the sharp increase in the world prices of the main export products, vanilla, cloves, and the essence ylang-ylang; and, (iii) the resumption of donor-financed projects, mainly from the World Bank and the European Union. Consumer price inflation accelerated to 6 percent during 2001, owing to demand pressures, but slowed to 4 percent by June 2002 (Table 1 and Figure 1). In a delayed response to the increase of inflation in 2001, the Central Bank of the Comoros (BCC) tightened monetary policy, increasing interest rates by 0.5 percentage point (the rates on time deposits increased from 3 percent to 3.5 percent) in June 2002.

8. **Performance under the SMP was mixed.** The quantitative benchmarks for end-December 2001, end-March 2002 and end-June 2002 on net domestic financing of the budget and net international reserves were met, the latter with large margins; and the wage bill was broadly in line with the program. However, the benchmarks on revenues and no new arrears to multilateral creditors were missed (Tables 2 and 3). There was progress with regard to the structural benchmarks, although some measures were implemented with delay (Table 4 and para. 14 below).

9. **With regard to public finances, revenues of the Union government largely recovered in 2001 from a sharp drop in 2000, increasing from 10 percent of GDP to 11 percent (Table 5).** [2] However, partly reflecting lower payments of tax arrears by the

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[1] Under the SMP, the authorities (Union and Anjouan) had agreed that the central government budget for 2002 would continue to cover public expenditures in the islands of Grande Comore and Mohéli, until the conclusion of an agreement on the implementation of the new constitutional arrangements that would allow the formulation of separate budgets.

[2] The fiscal situation monitored under the SMP, as shown in Table 5, reflects only the public finances for the former Federal Islamic Republic of the Comoros, and excludes the Anjouan accounts, owing to the unsettled legal situation of this island in 2001, and the lack of reliable data. Recent fiscal developments and prospects in Anjouan, based on provisional data for the

(continued…)

petroleum company (Société Comorienne des Hydrocarbures—SCH) than projected, revenues were lower than targeted by 0.7 percent of GDP. Expenditures on goods and services were higher than envisaged under the program, partly because of outlays related to the political reconciliation effort. As a result, the overall domestic budget surplus (before exceptional expenditure) fell short of the program target by 1.9 percent of GDP, leading to new domestic nonwage arrears equivalent to 1 percent of GDP and to new arrears on external debt service.

10. **During the first six months of 2002, the fiscal situation of the Union government remained very difficult (Table 5).** In contrast to the sharp increase of 2001, revenues are estimated to have dropped, falling short by more than 30 percent of the program benchmark for June 2002. This shortfall is attributed to a combination of factors, including the effects of the political situation on tax administration and on the operations of the port of Moroni, the diversion of imports to Anjouan,[3] and a delay in implementing some tax measures announced in the 2002 budget (see paragraph 12 below). Expenditure management remains weak, and spending on goods and services is estimated to have exceeded the target by 0.5 percent of GDP during the first half of 2002, while the wage bill is estimated to have remained within the program projection. As a result, the overall domestic budget surplus (on a commitment basis) is estimated at 1.2 percent of GDP at end-June 2002, compared with a target of 3.5 percent of GDP, and has thus generated new foreign debt-service arrears.

11. **The strong growth in export earnings and the conversion of French francs in circulation into Comorian francs (CF) ahead of the introduction of the euro** led to an expansion of broad money of about 33 percent in the 12 months to June 2002; the strong growth also led to an increase in the net foreign assets of the BCC to the equivalent of about 11 months of imports of goods and nonfactor services by June 2002. Credit to the private sector declined by 6 percent in the 12 months to June 2002, as the high export earnings allowed traders to self-finance their activities (Tables 9 and 10). The BCC made some progress in strengthening its internal control procedures and completed draft regulations for microfinance institutions; these regulations were approved by its board in June 2002 and submitted to the Union government in July.

12. **A number of important tax measures included in the 2002 budget have been implemented.** In line with the recommendations of a 2001 FAD technical assistance mission, all import duties (except for rice, petroleum products, and meat) were changed from specific to ad valorem, on a revenue-neutral basis. In addition, all tax exemptions for government entities were withdrawn. The authorities have also started improving expenditure manage-

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first half of 2002, are described in paragraph 13 below and presented in Table 6. Consolidated accounts, including Anjouan, are presented in Tables 7 and 8.

[3] Anjouan is diverting customs revenue away from the Union government by applying lower customs duties than in Grande Comore.

ment by ending offset arrangements with public enterprises whereby the latter make payments to the government, offsetting them against their tax liabilities. However, the proposed replacement of import duty exemptions on donor-financed projects by tax refunds from the budget has not yet been implemented, and the envisaged increase in excise tax on cement and rice was not introduced.

13. **While the fiscal situation of Anjouan has improved in 2001 and so far in 2002, partially owing to the tax competition, it is hampered by a sharp increase in the wage bill**. The authorities have made progress in rebuilding the fiscal administration and were able to provide the staff team with both revenue and expenditure data for 2001 and the first six months of 2002 (Table 6). Although all transactions were made in cash until the establishment of an account with the BCC in January 2002, tax collection and the recording of expenditure improved. Revenues—mainly from import duties—amounted to 2.8 percent of GDP in 2001, but were almost fully absorbed by the wage bill and the payment of six months of wage arrears, leaving virtually no resources for goods and services or capital spending for the social sectors.[4] A civil service census completed with World Bank support in July 2002 indicates that the number of government employees grew during the secession period from about 1,800 in 1997 to about 3,300 in 2002.

14. **Progress in implementing the structural reforms included in the SMP has been mixed**. The external debt database was reconciled in 2001, but its computerization is awaiting technical assistance from Debt Relief International. The public expenditure manual has not yet been completed, but all four governments support the preparation of a common civil service charter. The latter is under preparation with technical assistance from the World Bank, which is also helping the authorities set up computerized civil service management systems. The World Bank staff is also preparing a study on restructuring the electricity and water sector. However, the audit of domestic arrears, planned for midyear, has not yet started. With the assistance of the United Nations Development Program (UNDP), the authorities completed an interim poverty reduction strategy paper (PRSP) in July 2002 through a broad-based consultation process. Considerable efforts have been devoted to preparing the interim PRSP, given that the authorities consider the widespread poverty in the Comoros to be a key factor in the recent political problems (Box 2).

[4] Efforts are being made by the Anjouan government to pay wage arrears, which are estimated at 17 months.

Box 2. Comoros: The PRSP Process

Based on a per capita GDP of US$379 in 2001, the Comoros remains one of the poorest countries in the world. According to the United Nations Human Development Index, which includes life expectancy, education, and living conditions, the country is also among the least advanced in terms of human development. The I-PRSP document highlights that each island presents a diverse picture in terms of its level of poverty. The incidence of national poverty is over 47 percent, with a much higher incidence in Anjouan and Mohéli (61 percent and 56 percent, respectively) than in Grande Comore (34 percent). In addition, the incidence of poverty is higher in the rural areas compared to the urban areas.

In 2001, the authorities, with the cooperation of the federal and the three island governments, created coordinating committees on the three islands and a central steering committee to start the poverty reduction strategy paper (PRSP) process, which was later officially launched in March 2002 with wide participation by civil society on all three islands. During the initial discussions, attended also by donors, and the staffs of the World Bank and the Fund, the participants highlighted the importance of improving the infrastructure, namely, roads, the electricity supply, access to long-term credit, and commercial legislation and legal protection, as well as increasing fiscal revenues and the efficiency of the civil service. Participants also focused on the future relations between the islands and the Union government, noting the salary arrears and the budgetary situation as important challenges.

In July 2002, the authorities presented to the staffs of the World Bank and the Fund a comprehensive first draft of the interim PRSP. The document identifies three phases of development of a poverty reduction and growth strategy. Phase I covers the establishment of an institutional steering mechanism, which consists of coordinating committees on all islands, a technical committee with representatives from the civil society, the private sector, national and international consultants, and a central steering committee. Phase II covers a qualitative and quantitative analysis of poverty based on existing studies, an analysis of the recent macroeconomic situation, and an analysis of the performance of, and constraints on, various sectors in the economy. Phase III covers the identification and prioritization of the key strategies to reduce poverty and the priority actions based on these strategies. The interim PRSP document was prepared after the completion of phases I and II and the start of discussions on phase III.

The document describes the objectives, key strategies, and priority actions of the PRSP process. The main objectives of the poverty reduction and growth strategy are defined as promoting a long-term GDP growth rate of at least 5 percent per year and reducing poverty by 50 percent by 2015. To achieve these objectives, the document identifies five key strategies. First, create the macroeconomic conditions that will lead to sustained economic development. Second, revive the private sector, identified as the main source of creation of value added, employment, and income. Third, develop the agricultural sector, identified as the principal sector ensuring the fundamental food supply and providing occupations for the majority of the poor. Fourth, reinforce governance, justice, and security, and the conditions for a development policy characterized by stability, harmony, and a population working together. Fifth, develop human capital to improve the employment, productivity, competitivity, and income of the poor. The document then identifies, for each key strategy, a list of priority actions, providing the justification, objective, and means for each priority action. In the final sections, the document explains the follow-up evaluation process for the PRSP and proposes a timetable for finalizing the PRSP.

The World Bank and Fund staffs have jointly provided comments on the first draft interim PRSP. The Fund staff emphasized in their comments the importance of including a three-year policy matrix consistent with a medium-term macroeconomic framework. The authorities currently envisage that a full PRSP could be completed by end-May 2003.

15. **While some progress has been made, the pace of privatization remains slow.** A private company obtained the concession on port operations for Grande Comore at end-2001 and started working in late July 2002, after several disputes between the Union and Grande Comore governments over the control of the port of Moroni. However, decisions remain to be taken with regard to the privatization of the oil company (SCH) and the telecommunications parastatal (Société Nationale des Télécommunications—SNPT). The contract with the private sector manager of the electricity company was cancelled in December 2001, following a dispute on the lack of government support to combat electricity theft. The World Bank staff is advising the authorities on the terms of a possible new private management contract.

16. **The balance of payments improved sharply in 2001** (Table 11). The external current account deficit (excluding official transfers) narrowed by more than 2 percentage points of GDP to 0.5 percent of GDP in 2001, owing to a considerable improvement in the terms of trade,[5] combined with a decline in the services balance deficit and an increase in private and public transfers. Because of the currency conversion and disbursements under the World Bank's Emergency Economic Recovery Credit (EERC), the capital account turned positive. As a result, the overall balance of payments surplus rose markedly, and net international reserves of the BCC had increased from US$43 million to US$62 million by end-2001. The Comoros is a member of the Franc zone; since January 2000, the exchange rate has been set against the euro at the rate of €1= CF 492. The real effective exchange rate is estimated to have appreciated by 6 percent in 2001, remaining, however, broadly around the average level of the last few years (Figure 2).

17. **External debt arrears are estimated to have increased to US$84 million by end-2001, out of a total debt stock of about US$225 million** (Table 12). There are no arrears to the IMF nor to the World Bank, and payments were made to the OPEC Fund and the Islamic Development Bank. In contrast, new arrears were incurred to the African Development Bank (AfDB), the Arab Bank for Economic Development in Africa (BADEA), and bilateral creditors, including France (the only Paris Club creditor). China forgave part of the debt owed by the Comoros in 2001, and the government is discussing a rescheduling of arrears with the Kuwait Fund for Arab Economic Development Bank.

III. Report on the Policy Discussions

18. **Policy discussions took place against the background of a very tense political situation.** The authorities and the mission devoted considerable effort to developing a temporary arrangement that could limit the disruptions to the economy and make possible a

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[5] In 2001, average prices almost doubled for vanilla and cloves, and increased by about 5 percent for the third main export product, ylang-ylang. This is mainly a result of the lingering effects of hurricane damage in Madagascar and production problems in Indonesia, the main competitors of the Comoros.

consistent fiscal framework for the remainder of 2002. The mission acknowledged the difficult political and economic environment but stressed the need for sustained efforts to address the economic problems facing the country. The mission also stressed the importance of normalizing relations with creditors as soon as possible. The discussions for the 2002 Article IV consultation and review of performance under the SMP focused on the following: (i) the medium-term macroeconomic prospects; (ii) the macroeconomic outlook for the second half and the year 2002 as a whole; (iii) macroeconomic and structural policies needed to foster growth and reduce poverty; and (iv) the conditions for a possible Poverty Reduction and Growth Facility (PRGF) supported program. The latter could eventually help obtain debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative.

A. Medium-Term Outlook and Risks

19. **The mission discussed with the authorities a medium-term macroeconomic scenario based on the following assumptions:** (i) establishment of a viable and stable sociopolitical situation in 2003, paving the way for the restoration of confidence, a resumption of normal relations with external creditors, and an increase in financing to help sustain investment; (ii) a more disciplined and coordinated fiscal stance and a credible plan for settling domestic arrears; (iii) an acceleration and deepening of structural reforms—especially in the utility sector—and a strengthening of the financial sector and the legal system, so as to improve the efficiency of the economy and create an environment fostering private investment; (iv) a reallocation of public expenditure to finance improvement in physical infrastructure and increase spending aimed at reducing poverty; and, on this basis, (v) a new SMP followed by a PRGF-supported program.

20. Under these assumptions, real **GDP growth should gradually increase from about 2 percent in 2001 to 4.5 percent by 2006**, somewhat above the population growth rate (see table below and Figure 3).[6] The rate of inflation would be contained at about 3 percent over the period. The gross domestic investment rate is projected to increase from 10.6 in 2001 to almost 14 percent by 2006.

[6] While the growth rate does not seem to be very ambitious, it is far above the historical economic performance. Addressing the structural impediments to growth would require time. In the long term, higher growth could be expected from agriculture, fishing, and tourism.

Medium Term Prospects, Base Case, 2001-06

	2001 Act.	2002 Proj.	2003	2004 Projections	2005	2006
	(Annual percentage change, unless otherwise specified)					
Real GDP	1.9	3.0	3.2	3.7	4.2	4.5
Real GDP per capita	-0.7	0.3	0.5	1.0	1.5	1.8
Export volume	-22.4	15.5	7.2	4.9	-0.6	0.8
Import volume	12.5	22.8	-8.3	2.4	4.3	4.3
	(In percent of GDP, unless otherwise specified)					
Gross domestic investment	10.6	13.5	12.1	12.1	12.8	13.7
Public	4.4	7.0	5.8	5.3	5.3	5.4
Private	6.2	6.4	6.2	6.8	7.4	8.3
Gross national savings	14.7	12.6	11.2	9.9	10.7	11.7
Public	0.8	1.5	4.1	4.0	4.3	4.7
Private	13.8	11.1	7.1	5.9	6.5	7.0
External current account (incl. official transfers)	4.0	-0.9	-0.9	-2.1	-2.0	-2.0
External current account (excl. official transfers)	-0.4	-5.2	-4.3	-4.9	-4.9	-4.9

21. **The medium-term balance of payments projections point to a decline in gross official reserves from about 12 months of imports of goods and nonfactor services in 2001 to about 9 months by 2006.** Export volume is projected to slow, and export receipts are expected to fall by 9.5 percent a year on average during 2003–04, as vanilla and cloves prices return to more normal levels; export earnings would slightly recover thereafter. Import volume is expected to fall by 8 percent in 2003 and to increase by an average of about 3 percent a year thereafter, reflecting a rebound of investment and foreign-financed project expenditure. With the weakening of the terms of trade, the external current account deficit (excluding official transfers) is projected to stabilize at about 5 percent of GDP during the period. This deficit is to be partly financed by the resumption of project financing by the World Bank, and by additional support from other donors, including the European Union (EU), as well as by a drawdown in international reserves, which will, however, remain at a comfortable level. The residual financing gaps would be covered by debt relief under the HIPC Initiative.

22. **The medium-term projections are subject to a high degree of uncertainty.** The main downside risk to the medium-term scenario is related to the continued political problems, as the framework for financial relations between the islands and the central government in the new Comorian entity has yet to be established. A high degree of social consensus would be also needed to tackle the long-standing fiscal problems. Failing to stabilize the political landscape and achieve social consensus could lead to continued disruptions to economic activity, a further loss of confidence, and a fall in investment. Under these assumptions, it is estimated that the growth rate would be considerably lower than in the base scenario; meanwhile, external current account deficits (excluding official transfers) would increase but eventually would be constrained by the availability of external financing

(see table below). Without the resumption of significant external assistance, large financing gaps will emerge, and new external arrears will correspondingly accumulate.

Medium Term Prospects , Low Case, 2001-06

	2001 Act.	2002 Proj.	2003	2004 Projections	2005	2006
	(Annual percentage change, unless otherwise specified)					
Real GDP	1.9	3.0	2.5	1.5	1.3	1.3
Real GDP per capita	-0.7	0.3	-0.2	-1.2	-1.4	-1.4
Export volume	-22.4	15.5	6.8	3.3	0.6	0.6
Import volume	12.5	22.8	-8.3	-0.2	0.9	0.7
	(In percent of GDP, unless otherwise specified)					
Gross domestic investment	10.6	13.5	12.1	11.2	10.9	10.6
Public	4.4	7.0	5.8	5.0	4.8	4.6
Private	6.2	6.4	6.3	6.2	6.2	6.1
Gross national savings	14.7	12.6	11.0	8.5	8.1	7.7
Public	0.8	1.5	4.1	3.4	3.3	3.5
Private	13.8	11.1	6.9	5.1	4.8	4.2
External current account (incl. official transfers)	4.0	-0.9	-1.1	-2.7	-2.8	-2.9
External current account (excl. official transfers)	4.0	-0.9	-4.2	-5.2	-5.4	-5.6

B. Outlook for 2002

23. **Consistent with the medium-term framework, and taking into account the short-term political tensions, it is estimated that the disruptions in economic activity will cost Comoros about 0.5 percent of GDP in 2002.** However, output growth is expected to reach 3 percent in 2002, mainly owing to the marked improvement in the terms of trade and its positive effect on private income; these developments and an increase in donor-financed projects have led to a boom in the construction sector.

24. The external current account deficit (excluding official transfers) is projected to reach 5 percent of GDP in 2002, reflecting a surge in imports, in particular those that are project related, a deterioration in the services balance deficit, and a stable level of transfers. The capital account is expected to turn into deficit, as the decline in net private capital inflows (reversing in part the effect of the conversions associated with the introduction of the euro) would more than offset the envisaged increase in net official capital. The overall balance of payments is thus expected to turn from a surplus of 6.5 percent of GDP in 2001 into a deficit of around 2 percent of GDP in 2002. The gross international reserves of the BCC would decline from the equivalent of 12 months of imports of goods and nonfactor services at end-2001 to 10 months by end-2002.

C. Fiscal and Public Sector Policies

25. In view of the slippages during the first half of 2002, **the discussions focused on the need to address, at least partially, the revenue shortfall through a combination of**

revenue measures and a reduction in nonpriority expenditures, and thereby contain the accumulation of new domestic and external arrears.

26. **The authorities agreed with the mission that the fiscal outlook for the remainder of the year and for 2002 as a whole remained uncertain.** The lack of agreement on the financial relations between the governments of the islands and the Union under the new constitution threatens fiscal discipline by hampering revenue mobilization, as well as expenditure control. Moreover, the uncoordinated actions by Anjouan and Grande Comore undermine the revenue base, which also depends on a quick resumption of normal operations of the port of Moroni. There are also indications that the new authorities of Grande Comore are hiring additional civil servants. The mission warned the authorities that the hiring of civil servants by Grande Comore, without a corresponding decline in employment by the Union government, would endanger the near-term public finances prospects and the medium-term fiscal sustainability of the country as a whole.

27. **Total consolidated government revenue is now estimated to reach 14.9 percent of GDP in 2002, somewhat below the original projection of 16.0 percent of GDP but 1 percentage point of GDP higher than in 2001 (Tables 7 and 8).**[7] Total expenditure is projected at 24.8 percent of GDP, or 0.8 percent of GDP higher than in the original projection. This rise is due to higher spending on goods and services, and on the priority rehabilitation program, which will be only partially offset by savings on wages and salaries and a cut in domestically financed capital expenditure. As a result, the overall domestic surplus[8] (before exceptional expenditures) would fall to less than 1 percent of GDP—one-half the original projection. The lower domestic surplus will lead to a financing gap equivalent to 2.4 percent of GDP for the year as a whole, despite anticipated budgetary support from Saudi Arabia and Mauritius equivalent to 1 percent of GDP. This gap would be covered by deferring the initially envisaged repayment of the central bank advances, reducing the repayment of domestic arrears, and accumulating new external arrears. The latter action would thwart the program objective of normalizing relations with all external creditors.

28. **The Union government informed the staff that it intended to implement the tax measures announced in the budget for 2002 in order to deal with the current and prospective revenue shortfall.** In particular, the authorities agreed that the 3 percent increase in the tax levied on cement and rice needed to be implemented without delay. The mission stressed that, to stem customs revenue losses on cigarettes and alcohol, the tariff in

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[7] While the SMP focused on the finances of the former Federal Islamic Republic of the Comoros, excluding Anjouan, policy discussions for 2002 and medium-term prospects were based on consolidated fiscal accounts, including the Union government and all three islands.

[8] Defined as total revenue minus total expenditure, excluding foreign-funded project spending (technical assistance and capital expenditures), and foreign debt service.

Anjouan should be raised to the level of the official tariff applied in Grande Comore. Also, steps needed to be taken to strengthen tax administration, with a view to improving the collection from income and profit taxes. In the same vein, customs administration should be strengthened and exemptions further reduced.

29. On the expenditure side, **the Union government stated that, in addition to the postponement of the salary increase planned for mid-2002, it intended to continue exercising wage restraint and to reduce employment in some sectors**. Emphasis will continue to be placed on the education sector, which accounts for more than half of government employment. A technical assistance team, financed by the World Bank, has started reviewing in depth the organization of the civil service and the possible personnel excess; a comprehensive report, expected by year's end, will constitute the basis for an action plan for a civil service reform. Steps are being taken to accelerate the preparation of an integrated civil service management system—a cooperative effort of all three islands and the Union government— and to start its implementation by end-2002, with the assistance of the World Bank staff.

30. **The authorities agreed with the staff on the need for equity and transparency in the management of its domestic debt, which consists mainly of wage and suppliers' arrears.** Repayment of suppliers' arrears has been based on a partial audit of domestic arrears of 1997; however, this audit is now outdated, and further assistance will be required to conclude a new audit, with a view to formulating a comprehensive reimbursement plan by end-2002. The authorities have started discussions with the civil service unions on how to address the wage arrears and agreed with the staff on the need to find a comprehensive solution to this problem.

D. Monetary and Financial Sector Policies

31. **The mission was of the view that the recent increase in interest rates, while appropriate, was long overdue.**[9] While inflation has declined somewhat, and broad money growth is expected to return to a moderate level, the mission advised the authorities to remain vigilant and to take additional measures in the event demand pressures become evident. In particular, it urged that bank excess reserves be converted into remunerated time deposits at the BCC—a measure that the authorities agreed to consider.

32. **The authorities acknowledged that monetary policy should be formulated at the central level, even in a decentralized system that ceded a large amount of autonomy to the islands.** This is consistent with the new constitution, which gives responsibility for policy related to the national currency to the Union government. However, given the pegged exchange rate regime, there is little scope for an independent monetary policy. Moreover, the

[9] The response was made with a six-month delay, as the BCC's board was unable to meet earlier, owing to a lack of support for the Union government's candidate for governor.

Franc zone financial arrangements provide for limited extension of credit to the government, and thereby reduce the risk for inflationary pressures. The mission stressed that the supervision of the financial system and bank licensing had to remain with the BCC. In this regard, the authorities stated their intention to resolve the issue of the appointment of governor of the BCC as soon as possible. The mission welcomed the steps taken by the authorities to implement the recommendations of MAE technical assistance on improving prudential regulations and the internal controls of the BCC.

33. **The authorities stated their determination to improving the efficiency of the still small financial sector.**[10] The only existing commercial bank was in compliance with the prudential ratios stipulated by the BCC. The authorities intend to give priority to further strengthening banking supervision and seeking additional training opportunities for the staff of the BCC. Steps are also being taken to adopt prudential regulations for the microfinance institutions. The authorities expressed the need for deepening the financial system and fostering competition by licensing new banks.[11] The mission agreed with the authorities and encouraged them to look for banks with good international reputations.

E. External Sector Policies

34. **The mission shared the authorities' view that maintaining the fixed exchange rate will provide an anchor for financial stability while the country is building its new institutions.** Despite the recent real effective appreciation of the currency, the staff estimates that most of the gains from the 1994 devaluation have been maintained and that the level of the exchange rate seems appropriate. However, production costs, in particular labor costs, are higher in the Comoros than in some of the neighboring countries, and the long-term balance of payments projections indicate a potential sustainability problem. The authorities are of the view that sustained fiscal consolidation, combined with a deepening of structural reforms—notably in the areas of the civil service, governance, and the regulatory framework—would help reduce costs and thus strengthen the Comoros's external competitiveness. International reserves are at a comfortable level.

35. **The Comoros is a member of the Indian Ocean Commission, the Common Market for Eastern and Southern Africa (COMESA), and the Regional Integration Facility Forum, and it intends to follow trade policies in line with COMESA's free trade**

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[10] The financial system consists of one commercial bank, one inactive development bank, a postal savings bank, and two systems of microfinance institutions.

[11] While some competition already exists among the different types of financial institutions, there is a need to strengthen the prudential regulations and supervision of the nonbank financial institutions.

area.[12] The authorities have requested assistance from the COMESA secretariat in assessing the potential revenue loss from joining the free trade area, as international trade taxes account for about 60 percent of all government revenues. They agreed to discuss with the staff a timetable for tariff reduction and possible revenue-offsetting measures, following the completion of the COMESA study.[13] In the meantime, they will continue to focus on improving customs administration, based on a 2001 Fund technical assistance report.

36. **The authorities also agreed with the mission to keep trade developments under review and eliminate the export tax when prices moved back to their long-term level.** An export tax of 5 percent on vanilla and cloves was introduced in 2001 and extended to essential oils in the 2002 budget. Given their high international prices, the authorities indicated that the export tax on vanilla and cloves was not regarded as a disincentive to producers or as a serious impediment to trade.

37. **The authorities agreed with the staff on the need to normalize relations with external creditors**. They concurred with the view that resuming at least partial debt service to all creditors could help regain access to concessional financing. However, they indicated that the revenue shortfall at the beginning of the year had prevented them from meeting their scheduled debt service in full, as originally envisaged. Furthermore, they stressed that the fiscal situation did not allow full payment of the scheduled debt service or the payment of the arrears, and indicated their intention to seek debt relief, including under the enhanced HIPC Initiative.[14] In this context, they will continue to explore the possibility of rescheduling the arrears until these can be considered for reduction under the HIPC Initiative. The authorities will continue their efforts to strengthen external debt management, for which they have requested assistance from Debt Relief International. They reaffirmed their determination to pursue a prudent debt-borrowing policy and abstain from guaranteeing or contracting nonconcessional debt.

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[12] While foreign trade is generally free, the Comoros has a trade restrictiveness index of 8 on a 10-point scale (with 10 being the most restrictive) because of some very high duty rates, state monopolies for imports of petroleum and low-grade rice, and the taxation of certain exports. Import duties are in three nonzero bands (20, 30, and 40 percent), with special rates (of 250 percent) only for tobacco and alcohol.

[13] The Comoros has until 2004 to harmonize its tariff schedule with that of COMESA countries.

[14] A preliminary debt sustainability analysis (DSA), prepared by the staffs of the World Bank and the IMF, confirms that the external debt of the Comoros is not sustainable (IMF Country Report No. 01/135, 8/8/01).

F. Structural Reforms and Governance Issues

38. **The authorities expressed their resolve to accelerate the pace of structural reform in order to foster private sector development and growth.** They agreed with the mission that recent political developments, in particular the fight over control of publicly owned enterprises, pointed to the urgency of speeding up the divestiture program. In the electricity and water sector, the World Bank, which has the lead in this area, is preparing a study to define possible options.[15] In the meantime, strong efforts are to be made to ensure that the governments of the three islands are implementing measures, based on World Bank staff recommendations, to increase collection rates, which were less than 50 percent of billing in 2001. The mission argued that subsidies should be kept to a minimum,[16] and made transparent in the fiscal accounts.

39. **The authorities agreed with the staff on the need to improve governance.** The mission emphasized that the opportunity to create new legislation under the new constitution should be used to increase transparency. It suggested that the quarterly publication of comprehensive reports on fiscal developments of the Union and island governments could reduce mistrust and promote cooperation. The mission also stressed the importance of implementing transparently the sale of a cellular telephone license through international competitive bidding. The authorities agreed to continue the publication of the budget and of the annual reports of public enterprises, which would facilitate informed discussion with social partners on fiscal policies.

G. Future Fund Relations

40. **The authorities expressed their interest in starting on a program supported by a PRGF arrangement as soon as possible.** The mission noted the need to establish a track record under a new SMP before meaningful discussions on a possible PRGF-supported program could be initiated and debt relief under the HIPC Initiative subsequently received. It indicated that the discussions on a new SMP—which all four governments wanted to start as soon as possible—could resume only after all governments had at least agreed on the main principles for the decentralization, a time frame for its implementation, and the preparation of their respective budgets for all four governments for 2003, consistent with the medium-term macroeconomic framework described above. The mission recommended that, in the meantime, the authorities continue to implement the policies and reforms outlined in the memorandum on economic and financial policies for 2001–02 that underlay the SMP, and maintain close contact with the staff.

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[15] Following the electricity company's return to the public sector, widespread blackouts have continued, seriously impeding growth.

[16] The private manager of the electricity company incurred losses averaging 0.6 percent of GDP a year during 1998-2000.

41. Discussions on a three-year arrangement under the PRGF could follow, provided that (i) a consensus is reached in the Comoros on the modalities of the formulation of macroeconomic policies and intergovernmental financial relations under the new constitution that guarantee central determination of macroeconomic and tax policies and central supervision of the financial system on all islands; (ii) an agreement is reached between the Comoros and its multilateral creditors on the clearance of external debt arrears and the start of good-faith negotiations with bilateral creditors; (iii) and performance under the new SMP is satisfactory.

42. **Upon the authorities' request, the mission conducted several meetings to explain the main recommendations of the recent FAD mission regarding decentralization** (Box 3). There was no major opposition to formulating macroeconomic policy at a common level and maintaining the present role of the central bank in monetary policy and banking supervision. However, there was no consensus with regard to a common revenue authority. The mission explained that, if the Comoros were to opt for a decentralized revenue system—with transfers from the islands to the Union government for its financing—a longer track record would be needed before discussions could start on a possible PRGF arrangement, in order to show that such a system could avoid tax competition and secure the financing of the Union government.

Box 3. Options for Decentralization

In December 2001, the authorities of the former Federal Islamic Republic of the Comoros, in concurrence with the authorities of the autonomous island of Anjouan, requested technical assistance from the Fund to present the lessons of international experience and identify issues raised by, and possible options for, financial and administrative decentralization.

The new constitution, which only lays out fundamental principles for the structure of the new Comorian state, gives wide autonomy to the constituent islands. It limits federal responsibilities to religion, nationality, the currency, external relations, defense, and national symbols. All other matters are the responsibility of the islands. However, the Union, that is, federal, government can intervene if (i) a regulation on one island affects the others; (ii) a matter cannot be addressed by one island alone; or (iii) the legal, economic, and social unity of the country requires central regulation. The constitution also prescribes that the islands be financially autonomous, and that revenue-sharing between the Union and the islands be regulated through by-laws (*lois organiques*) of the constitution, which remain to be drafted, and implemented by the Union's annual finance acts.

In addition to constitutional principles, several physical, political, and economic factors also shape, or constrain, the possible architecture of decentralization in the Comoros. First, since many public services, especially in education, public health, transport, and agricultural support, have a largely territorial character, decentralization of these services may be particularly suited to the Comorian environment. Donors, in particular, supported the previous government's policy of deconcentration of the administration, which provides a natural basis for full decentralization. Second, the heritage of years of internal conflicts, and weaknesses in governance and transparency, have created a climate of deep mistrust that limits the scope for such cooperation. In addition, the starting point for decentralization is strikingly different in each island: Anjouan has been de facto autonomous since 1997; Mohéli, the smallest of the three islands, has virtually no local administrative capacity; and, on the island of Grande Comore, the regional administration, under the previous political structure, was completely subsumed into the central administration, from which it must now be separated. However, the country's small scale, endemic poverty, and critical shortage in human resources all require that the benefits of cooperation be maximized. Moreover, the new fiscal framework must recognize the predominance in government resources of customs revenues, which are not amenable to decentralization.

Reflecting these factors, the FAD technical assistance recommendations, while supporting a large measure of decentralization of most public services, center on the creation of a central, though nonfederal, autonomous revenue agency, under the control of a board on which the governments of the three islands and the Union would be represented, and in charge of collecting all customs and large-taxpayer taxes, as well as redistributing revenues to the government on the basis of preapproved shares. Despite strong political demands in island governments for large control over revenues collected in their ports or airports, and the deep mistrust between governments, centralization of customs revenues is necessary to avoid the risks of tax competition and increased smuggling, the costs to governments and traders of multiple, uncoordinated customs agencies, and the inherent difficulties of financing the Union government from contributions by island governments that would face strong incentives not to transfer monies to the center.

H. Statistical and Technical Assistance Issues

43. **The authorities acknowledged the importance of good-quality statistical data for economic analysis and management.** Serious weaknesses in the macroeconomic database, especially in the areas of national accounts, balance of payments, and government finance statistics, continue to hamper timely and accurate economic analysis (Appendix III). The authorities agreed with the staff on the importance of improving the database, indicating that

they had already taken a number of steps in that direction. With the assistance of the regional statistical organization (AFRISTAT), the basket for the consumer price index has been updated and the compilation method improved in 2000; the UNDP has helped with the publication of poverty and other social data from the 1995 household budget survey; and the Directorate of Planning, which is responsible for macroeconomic statistics, has been strengthened. The mission recommended that the authorities establish a national bureau of statistics that will collect economic and social data, as well as data on poverty indicators, on all three islands to ensure a common and consistent database.

44. **The Comoros is in an urgent need of technical assistance in many areas.** The federal government has made progress in rebuilding a functioning administration—government services virtually collapsed in 1997–98 after mounting wage arrears and the Anjouan crisis—but much remains to be done, and Anjouan has only started the process. The mission advised the authorities to assess, in collaboration with donors, the overall need and possible sources for technical assistance in the areas of public administration, fiscal management, and budget preparation and execution, especially in this new context of decentralization.

IV. Staff Appraisal

45. Persistent political instability and weak macroeconomic management have generated negative real per capita GDP growth rates over the past decade, contributing to widespread poverty and a worsening of social indicators. The nearly completed reconciliation process and the return to democratic political institutions should enhance the prospects for addressing the deep-rooted macroeconomic problems and foster growth. The staff urges the authorities to work out quickly the by-laws of the new constitution, which will define the responsibility for macroeconomic policies and the financial relations between the Union and the three island governments. In the meantime, it is crucial to agree on a temporary arrangement for power and resource sharing that would minimize the disruptions in economic activity.

46. Despite difficult political circumstances and serious capacity constraints, the Comoros has made some progress under the SMP. Economic developments were broadly positive in 2001 and the first half of 2002, spurred by favorable world prices for the main export products and the resumption of donor-financed projects. Consumer price inflation remained under control, and international reserves increased substantially. However, fiscal performance was weak, and the authorities were unable to resume debt-service payments to all external creditors and move toward the normalization of relations with, and the rescheduling of debt to, creditors.

47. The challenges faced by the authorities in the medium and long term are to attain a higher rate of growth on a sustained basis and raise the living standards of the Comorian population. To this end, in addition to creating a viable political system, the authorities must make continued efforts to promote and maintain a stable macroeconomic environment through a more disciplined and coordinated fiscal policy and deeper structural reforms—in particular in the utilities and the domestic financial sectors and the governance area. This

would create an environment conducive to domestic and foreign private investment, as well as greater donor support.

48. The medium-term outlook is subject to a high degree of uncertainty. The main downside risks are related to the continued political problems, as the modalities of the financial relations between the islands and the central government in the new Comorian republic have yet to be established. The authorities are urged to agree on a transitory arrangement, reach some degree of social consensus, and work out swiftly the by-laws of the constitution in order to stabilize the political landscape and start addressing the long-standing fiscal problems and deep-rooted structural impediments. Failing to resolve these problems could lead to continued disruptions in economic activity, a further loss of confidence, and a fall in investment.

49. The fiscal outlook for the remainder of 2002 remains unclear. To achieve the revised targets discussed with the staff, the authorities need to implement a number of measures to improve revenue mobilization and reduce nonpriority expenditures. These actions would help to close the financing gap and contain the accumulation of new domestic and external arrears. In this regard, the staff welcomes the authorities' intention to put in effect—even belatedly—the tax measures announced in the 2002 budget. It is also encouraging that the authorities have taken steps to strengthen the tax and customs administrations, reduce exemptions, and reinforce overall public expenditure management. These efforts need to be pursued with determination in the period ahead. The staff urges the authorities to pursue wage restraint and accelerate the preparation of a comprehensive public sector employment reduction plan; the hiring of additional civil servants in the islands, without a corresponding decline in the Union government personnel, needs to be strictly avoided.

50. The Comoros continues to benefit from its membership in the Franc zone, which provides monetary discipline and an anchor for financial stability. In light of this, the staff agrees with the authorities that maintaining the fixed exchange rate system is appropriate in this period of new institution building. The staff also shares the authorities' view that the level of the exchange rate seems appropriate, and that international reserves are at a comfortable level. However, in view of the relatively high production costs, including labor costs, the staff urges the authorities to implement a very cautious fiscal policy and accelerate structural reforms to strengthen the performance of the utilities and parastatal sectors, and of the civil service, and to improve governance, as these efforts would help reduce costs and increase the Comoros's external competitiveness. There is a need to keep inflation developments under close review and to respond quickly to contain possible demand pressures. The staff welcomes the steps taken by the authorities to improve the prudential regulations and internal controls of the BCC. It agrees with the authorities that competition in the financial system should be fostered by licensing new, but reputable, banks.

51. The authorities have made good progress in reconciling the external debt data. On this basis, staffs of the World Bank and the Fund prepared a provisional debt sustainability analysis (DSA) in 2001, which indicates that the external debt of the Comoros is unsustainable. The staff urges the authorities to make every effort to resume debt-service

payments, especially to the African Development Bank, and to normalize their relations with all external creditors. The staff welcomes the determination of the authorities to pursue a prudent debt-borrowing policy and abstain from guaranteeing or contracting nonconcessional debt; it is also important to continue to strengthen external debt management, with external assistance.

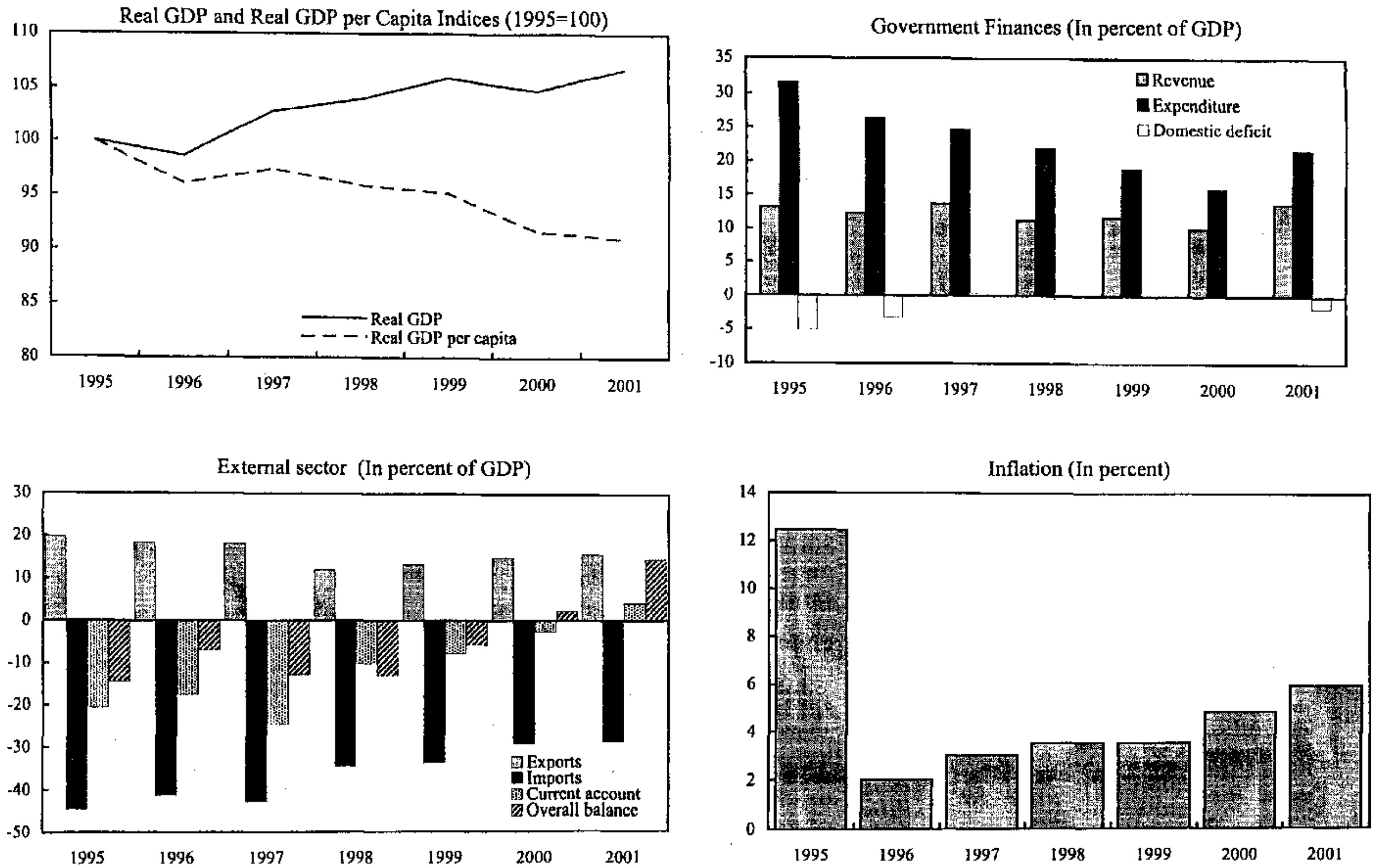
52. The authorities are eager to start negotiations on a possible PRGF-supported program that would support their efforts. The staff has emphasized the need to establish a solid track record under a new SMP before initiating meaningful discussions on a possible program that could be supported by a PRGF arrangement and that could pave the way for eventual debt relief under the HIPC Initiative. Discussions on a new SMP could resume as soon as all governments have at least agreed on the main principles for decentralization, as well as on a time frame for its implementation and the preparation of budgets for all four governments for 2003, consistent with the medium-term projections. The staff commends the authorities for the progress made in preparing an interim PRSP through a broad-based participation process.

53. With regard to decentralization, while there was no major opposition to formulating macroeconomic policy at a common level and maintaining the present role of the central bank in monetary policy and banking supervision, no consensus could be reached among the Union and island governments on establishing a common revenue authority, as recommended by the staff. The staff is of the view that a decentralized revenue system—with transfers from the islands to the Union government for its financing—carries the risk of tax competition and macroeconomic instability.

54. Despite the progress made recently, weaknesses in the economic database continue to hamper timely and accurate economic analysis, program design and monitoring, and effective surveillance. The authorities have agreed to press ahead with their efforts to further strengthen the compilation of macroeconomic and social statistics. To this end, it is recommended that a national bureau of statistics be established to collect economic and social data, as well as poverty indicators, on the three islands, in order to ensure a common and consistent database. A major technical assistance effort, in particular in the new context of decentralization, will need to be planned and implemented.

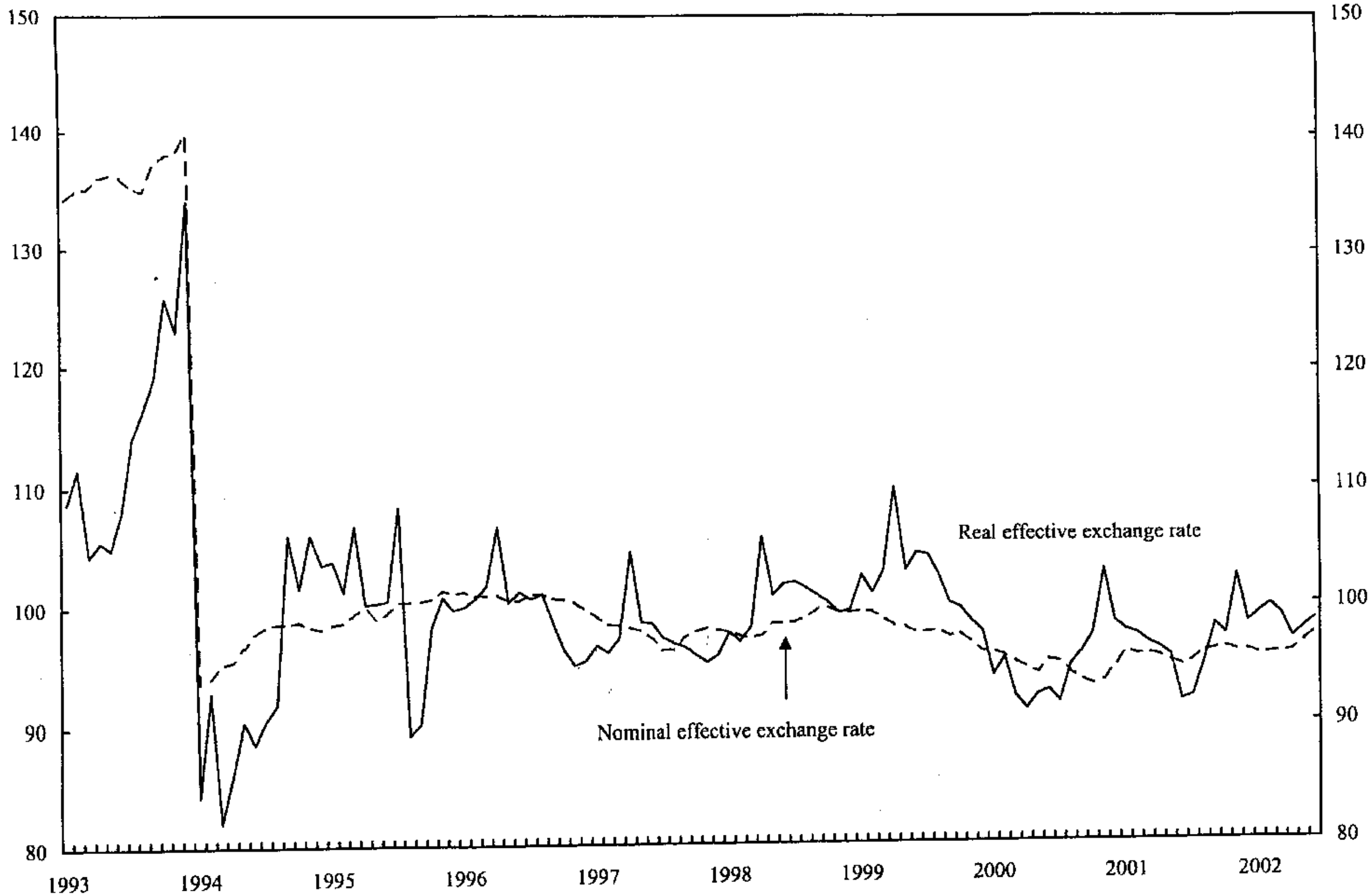
55. It is expected that the next Article IV consultation with the Comoros will be held on the standard 12-month cycle.

Figure 1. Comoros: Economic Indicators, 1995 - 2001



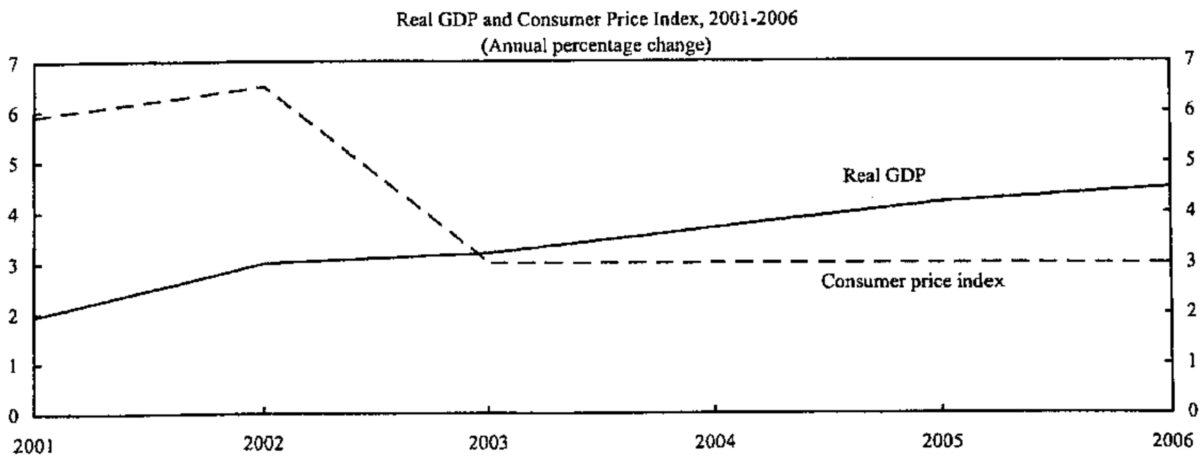
Sources: Comorian authorities; and staff estimates.

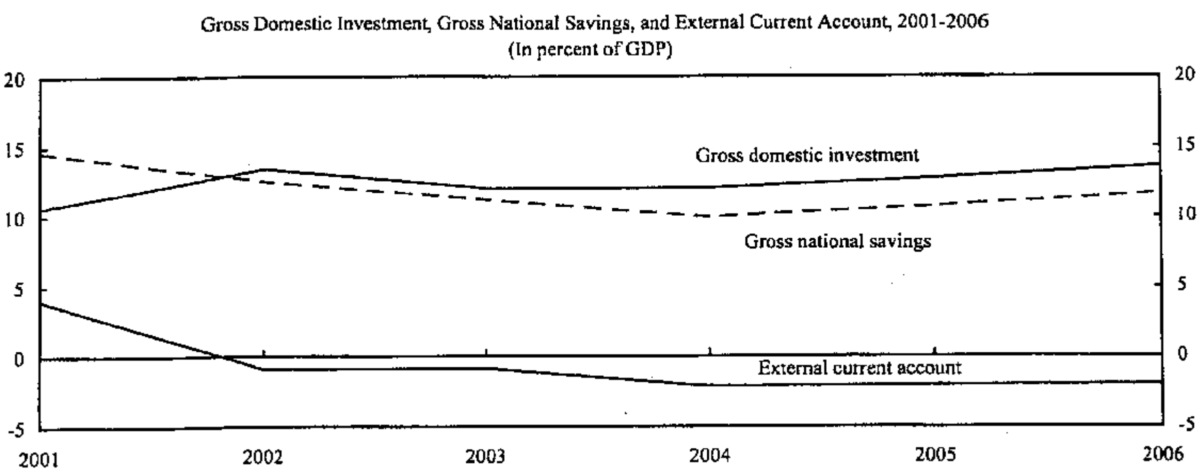
Figure 2. Comoros: Real and Nominal Effective Exchange Rates, January 1993-June 2002
(Index, 1995=100)

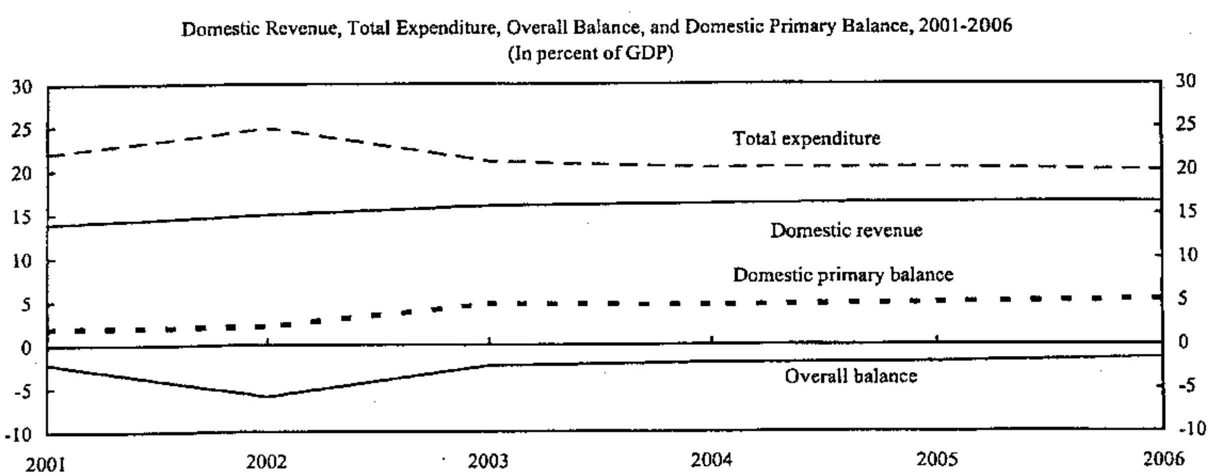


Source: IMF, Information Notice System.

Figure 3. Comoros: Medium-Term Projections, 2001-06







Sources: Comorian authorities; and staff estimates and projections.

Table 1. Comoros: Selected Economic and Financial Indicators, 1998-2006

	1998	1999	2000	2001	2002		2003	2004	2005	2006
			Est.	Est.	SMP	Proj.				
	(Annual percentage change, unless otherwise specified)									
National income and prices										
Real GDP	1.2	1.9	-1.1	1.9	3.5	3.0	3.2	3.7	4.2	4.5
Real GDP per capita	-1.5	-0.8	-3.7	-0.7	0.8	0.3	0.5	1.0	1.5	1.8
Nominal GDP (in millions of Comorian francs)	95,391	102,927	109,136	121,296	130,239	133,758	141,794	150,462	161,355	173,699
Nominal GDP (in millions of U.S. dollars)	215.6	222.9	204.4	220.8	238.3	244.7	260.9	278.2	299.5	323.5
Nominal GDP per capita (in U.S. dollars)	400.4	403.1	359.9	378.7	398.0	408.6	424.2	440.3	461.6	485.6
GDP deflator	1.6	5.9	7.2	9.0	4.0	7.1	2.7	2.3	2.9	3.0
Consumer price index (annual averages)	3.5	3.5	4.8	5.9	4.0	6.5	3.0	3.0	3.0	3.0
External sector										
Exports, f.o.b.	0.1	58.9	73.7	23.4	-19.0	2.3	-3.8	-15.6	-0.6	0.7
Imports, f.o.b.	-11.1	6.8	-0.5	9.9	23.4	23.2	-6.6	4.1	6.2	5.7
Export volume	9.5	-22.9	-2.6	-22.4	9.1	15.5	7.2	4.9	-0.6	0.8
Import volume	-17.5	-1.0	-2.3	12.5	23.5	22.8	-8.3	2.4	4.3	4.3
Terms of trade	-15.3	91.0	71.6	62.8	-24.7	-10.5	-11.3	-20.8	-1.8	-1.5
Government budget 1/										
Domestic revenue	-15.2	6.0	-17.6	42.9	23.1	16.0	6.5	4.3	8.7	7.8
Total expenditure and net lending	-8.8	-6.5	-10.4	51.0	17.5	25.0	-10.2	2.4	7.3	5.9
Current expenditure	-22.1	3.6	-4.6	57.5	8.3	12.2	-9.3	4.6	7.0	5.1
Capital expenditure and net lending	32.8	-25.2	-24.8	29.3	53.9	75.5	-12.3	-3.5	8.1	8.2
Money and credit										
Domestic credit	19.6	-3.5	4.7	-6.5	13.0	-9.1	...	...	...	...
Credit to government	80.1	-0.6	-9.4	-16.5	1.0	-64.4	...	...	...	...
Credit to the rest of the economy	8.7	-6.8	14.4	-3.0	17.1	7.8	...	...	...	...
Broad money	-6.6	7.0	14.5	47.4	9.5	5.3	...	...	...	...
Velocity (GDP/average broad money)	5.6	5.6	5.2	3.9	3.8	4.1	...	...	...	...
Interest rate (in percent; end of period)	7.0	5.9	5.9	5.9	5.9	5.9	...	...	...	...
	(In percent of GDP, unless otherwise specified)									
Investment and savings										
Gross domestic investment	14.7	11.9	10.3	10.6	12.5	13.5	12.1	12.1	12.8	13.7
Public	7.7	5.4	3.8	4.4	6.3	7.0	5.8	5.3	5.3	5.4
Private	7.0	6.5	6.5	6.2	6.2	6.4	6.2	6.8	7.4	8.3
Gross national savings	12.2	11.0	11.8	14.7	8.0	12.6	11.2	9.9	10.7	11.7
Public	4.8	5.0	1.9	0.8	2.9	1.5	4.1	4.0	4.3	4.7
Private	7.4	6.0	9.9	13.8	5.1	11.1	7.1	5.9	6.5	7.0
External current account (incl. official transfers)	-2.5	-0.9	1.5	4.0	-4.5	-0.9	-0.9	-2.1	-2.0	-2.0
Government budget 1/										
Domestic revenue	11.4	11.8	10.1	13.9	16.0	14.9	16.0	16.2	16.4	16.4
Total grants	7.3	6.6	4.2	4.4	4.6	4.3	3.4	2.8	2.9	2.9
Total expenditure	22.1	19.1	16.1	21.9	24.0	24.8	21.1	20.3	20.3	20.0
Overall balance (commitment basis) 2/	-3.4	-0.8	-1.9	-3.6	-3.4	-5.6	-1.7	-1.3	-1.0	-0.7
Overall balance (cash basis) 2/	-3.9	0.3	0.3	-2.2	-4.5	-5.9	-2.4	-2.1	-2.0	-1.6
Domestic primary balance 2/	5.4	5.5	2.8	1.9	3.6	2.1	4.7	4.6	4.8	5.2
External sector										
Current account balance (excl. official transfers)	-10.3	-7.9	-2.7	-0.4	-9.1	-5.2	-4.3	-4.9	-4.9	-4.9
Overall balance of payments (millions of U.S. dollars)	-13.2	-5.9	2.1	14.5	-6.8	-4.3	-1.2	-1.9	-2.0	-1.9
Total external debt outstanding	124.5	115.1	109.2	102.3	98.4	97.8	92.8	88.3	83.3	78.4
External debt service	5.4	5.0	4.6	4.4	2.2	2.3	2.0	1.8	1.7	1.6
Including the Fund/exports 3/	45.5	38.0	30.6	27.8	10.4	15.6	15.1	14.1	13.1	12.6
Excluding the Fund/exports 3/	44.5	36.5	28.6	26.1	9.8	14.6	14.2	13.7	13.1	12.6
External payments arrears (end of year; millions of US$)	78.3	78.9	79.6	84.2	87.0	87.0	87.5	87.9	88.2	88.6
Gross international reserves (end of period; millionsof US$))	36.7	36.7	42.5	63.2	60.8	61.3	65.1	66.8	67.7	67.2
(equivalent months of imports, c.i.f.)	6.0	6.3	8.6	11.9	9.3	9.9	10.5	10.3	9.9	9.3
Exchange rate										
Comorian franc per U.S. dollar (period average)	442.5	461.8	534.0	549.3	...	...	...	...	...	...

Sources: Comorian authorities; and 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.

2/ Including grants.

3/ In percent of goods and nonfactor services.

Table 2. Comoros: Quantitative Benchmarks Under the Staff-Monitored Program, 1/
June-December 2001 2/
(In millions of Comorian francs, unless otherwise indicated)

	June 2001 Stock		September 2001			December 2001		
	Prel.	Actual	Bench.	Actual	Status	Bench.	Prel.	Status
Ceiling on net domestic financing of the government 3/			0			-496		
Adjusted 4/			0	-563	Met	-496	-390	Met
Ceiling on the government wage bill			4,900	4,702	Met	6,267	6,319	Met
Floor on total government revenues			11,345	10,188	Not met	14,323	13,435	Not met
Floor on net foreign assets of the central bank	22,105	25,561	308			510		
Adjusted 4/			308	4,393	Met	510	7,925	Met
Ceiling on contracting or guaranteeing of external debt on nonconcessional terms			0	0	Met	0	0	Met
Ceiling on the accumulation of debt service arrears toward multilateral creditors			0	344	Not met	0	1,160	Not met

1/ The definitions of the benchmarks and the adjusters are provided in the technical memorandum of understanding (TMU) (EBS/01/110, 7/3/01, App. I, Ann. II).
2/ Cumulative change since end-June 2001.
3/ Excluding the IMF.
4/ The program projected budget support, cumulative since end-June 2001, of CF 0 million by September 2001 and CF 296 million by end-December 2001. Actual budget support amounted to CF 143 million by end-September and CF 315 million by end-December 2001.

Table 3. Comoros: Quantitative Benchmarks under the Staff-Monitored Program, 1/
March-June 2002 2/
(In millions of Comorian francs, unless otherwise indicated)

	March 2002			June 2002		
	SMP	Prel.	Status	SMP	Prel.	Status
Ceiling on net domestic financing of the government 3/	-718			-718		
Adjusted 4/	-718	897	Not Met	-718	-257	Not Met
Ceiling on the government wage bill	1,567	1,528	Met	3,134	3,057	Met
Floor on total government revenues	3,482	3,213	Not met	8,032	7,542	Not met
Floor on net foreign assets of the central bank	110			220		
Adjusted 4/	110	2,696	Met	220	3,687	Met
Ceiling on contracting or guaranteeing of external debt on nonconcessional terms	0	0	Met	0	0	Met
Ceiling on the accumulation of debt service arrears toward multilateral creditors	0	551	Not met	0	784	Not met

1/ The definitions of the benchmarks and the adjusters are provided in the technical memorandum of understanding (TMU) (IMF Country Report No. 01/135, App. I, Ann. II).
2/ Cumulative since the beginning of the year; original benchmarks were expressed on a cumulative basis since June 2001.
3/ Excluding the IMF.
4/ The program projected budget support, cumulative since end-December 2001, of CF 0 million by end-March and end-June 2002. Actual budget support amounted to CF 653 million by end-March 2002 and end-June 2002.

Table 4. Comoros: Structural Benchmarks Under the Staff-Monitored Program, July 2001–June 2002

Sector	Measure	Date to Be Implemented	Status
Governance	Publish supplementary budget for 2001.	End-July 2001	The revised budget was published in early August 2001.
	Publish 2002 budget.		The budget was published in January 2002.
Fiscal	Eliminate the exemption for the withholding tax (*Acompte sur Impôts et Taxes*, AIT) for the water and electricity operating company (CEE), and raise rates of specific taxes on cement and alcoholic beverages.	End-July 2001	The exemption for the AIT to the CEE was not eliminated for contractual reasons. Rates on cement and alcoholic beverages were raised in the 2001 revised budget.
	Prepare and implement new expenditure management procedures manual.	January 1, 2002	A draft manual was published in July 2002.
Domestic debt	Reactivate domestic debt committee and submit request to donors for financing of audit of all domestic supplier arrears, including on Anjouan.	End-September 2001	The government issued a Decree in early 2002 to reactivate the Domestic Debt Committee. Request for arrears audits has not yet been submitted.
External debt	Computerize and update the external debt database.	End-December 2001	A request for assistance to Debt Relief International (DRI) has been submitted. DRI's mission was postponed until after elections.
Financial sector	Submit to government amendments to legislation for the regulation of microfinance institutions.	January 1, 2002	Legislation was submitted to government in May 2002.

Table 5. Comoros: Union Government (Grande Comore and Mohéli)--Government Financial Operations, 1998-2002

	1998	1999	2000	2001		2002:Q1		2002:Q2		2002	
				SMP	Prov.	SMP	Prel.	SMP	Est.	Orig. Proj.	Proj.
	(In millions of Comorian francs)										
Total revenue and grants	17,812	18,885	15,557	19,255	17,612	4,547	4,564	10,303	9,557	21,987	21,277
Revenues	10,865	12,079	11,018	14,323	13,435	3,481	3,213	8,170	7,542	16,885	15,470
Tax revenues	9,277	10,509	9,724	11,968	11,115	3,039	2,875	6,605	5,911	14,320	12,743
Nontax revenues	1,588	1,570	1,294	2,355	2,320	442	338	1,564	1,631	2,565	2,727
Exceptional revenue	...	...	...	...	...	...	...	...	...	...	...
External grants	6,947	6,806	4,539	4,933	4,177	1,067	1,352	2,133	2,015	5,102	5,807
Budgetary assistance	...	...	...	...	332	...	653	...	653	...	1,812
Project financing (incl. technical assistance)	6,947	6,359	4,513	4,933	3,689	1,067	594	2,133	1,188	4,832	3,769
Other nonbudgetary aid	...	447	26	...	156	...	104	...	174	270	226
Total expenditure and net lending	21,038	19,669	17,614	23,734	22,441	6,107	7,052	11,972	13,676	27,013	29,157
Current expenditure	13,648	14,138	13,493	17,863	17,227	4,661	5,255	9,082	10,227	18,985	19,969
Budgetary	11,886	13,055	12,066	12,387	14,008	3,055	3,125	6,078	6,506	13,069	13,493
Wages and salaries	7,190	6,430	6,093	6,267	6,319	1,567	1,528	3,134	3,057	6,442	6,267
Goods and services	3,121	4,642	4,169	3,467	5,018	913	986	1,826	2,444	4,203	4,753
Transfers	615	1,033	844	1,366	1,326	360	216	719	451	1,536	1,584
Interest payments	960	950	960	1,287	1,345	216	395	400	553	889	890
External debt	...	...	890	1,217	1,275	199	373	365	510	802	803
Domestic debt	...	...	70	70	70	18	22	35	43	87	87
Technical assistance	1,762	1,083	1,427	2,190	896	591	749	1,183	1,498	2,152	2,262
Other expenditures 1/	...	...	...	3,286	2,323	1,015	1,381	1,821	2,222	3,764	4,215
Priority rehabilitation expenditures	...	...	...	940	318	290	457	580	750	1,529	1,753
Transition	...	...	...	1,421	1,849	208	27	208	166	434	434
Interregional Transfers	...	...	...	500	...	250	793	500	1,133	1,531	1,802
Retrenchment	...	...	...	260	...	130	...	260	...	...	...
Post-conflict	...	...	...	165	156	137	104	273	174	270	226
Capital expenditure	7,390	5,531	4,157	5,906	5,250	1,445	1,801	2,890	3,469	8,068	9,227
Domestically financed investment	360	192	130	763	461	210	392	420	650	1,988	1,688
Foreign-financed investment	7,030	5,339	4,027	4,576	4,789	1,235	1,409	2,471	2,819	6,080	7,539
Priority rehabilitation expenditures	...	...	...	568	...	...	...	...	...	...	...
Net lending	...	...	-35	-35	-36	...	-4	...	-20	-40	-39
Overall balance (payment order)	-3,226	-784	-2,057	-4,479	-4,829	-1,559	-2,488	-1,669	-4,119	-5,026	-7,880
Excluding grants	-10,173	-7,590	-6,596	-9,411	-9,005	-2,626	-3,839	-3,803	-6,134	-10,128	-13,687
Net change in arrears	2,677	624	1,965	-844	2,100	-500	339	-1,000	79	-1,000	336
Interest on external debt	887	534	551	156	916	...	261	...	340	...	535
Domestic arrears 2/	1,790	90	1,413	-1,000	1,184	-500	78	-1,000	-261	-1,000	-199
Others (unidentified residuals) 3/	-3,191	495	395	...	...	...	...	...	...	...	...
Overall balance (cash basis)	-3,740	336	302	-5,323	-2,729	-2,059	-2,149	-2,669	-4,041	-6,026	-7,544
Financing	3,740	-336	-302	955	2,729	47	2,149	309	3,724	2,858	7,544
Foreign (net)	1,593	-504	108	1,461	4,603	256	1,344	519	4,021	2,929	6,327
Drawings, public investment project (identified)	1,845	63	940	2,815	3,395	760	1,564	1,520	3,129	3,400	6,031
Drawings, adjustment loans	...	...	...	...	1,926	...	...	...	1,296	1,296	1,296
Amortization	-3,782	-4,367	-3,766	-2,239	-2,240	-504	-743	-1,001	-1,171	-2,085	-2,085
Exceptional financing	...	...	...	...	285	...	...	...	...	318	...
Arrears (principal)	3,530	3,801	2,933	886	1,237	...	523	...	767	...	1,085
Domestic (net)	2,147	168	-410	-507	-1,874	-210	805	-210	-296	-71	1,218
Bank financing 4/	1,615	-21	-210	-507	-1,596	-810	726	-810	-90	29	1,604
Of which: IMF (SAF)	...	...	-172	-307	-307	-92	-94	-92	-94	-187	-187
Deposits and claims on treasury	532	-11	...	...	-102	...	...	...	...	...	...
Nonbank financing	...	200	-200	...	-176	...	79	...	-207	-100	-387
Privatization proceeds	...	...	...	...	...	600	...	600	...	...	...
Financing gap	...	...	...	4,368	...	2,013	...	2,361	316	3,168	-0
Fiscal balances 5/											
Domestic primary current balance	-61	-26	-88	3,223	773	641	483	2,491	1,589	4,705	2,866
Current balance (excluding grants)	-1,021	-976	-1,048	1,936	-572	425	88	2,091	1,036	3,816	1,977
Overall domestic balance (before exceptional expenditures)	-421	-218	-253	2,425	278	414	73	2,036	915	2,670	1,131
Overall domestic balance (commitment basis)	-421	-218	-253	-1,429	-2,045	-601	-1,308	215	-1,307	-1,094	-3,084

Table 5. Comoros: Union Government (Grande Comore and Mohéli)--Government Financial Operations, 1998-2002 (concluded)

	1998	1999	2000	2001		2002:Q1		2002:Q2		2002	
				SMP	Prov.	SMP	Prel.	SMP	Est.	Orig. Proj.	Proj.
	(In percent of GDP)										
Total revenue and grants	18.7	18.3	14.3	15.9	14.5	3.5	3.5	7.9	7.3	16.9	16.3
Revenues	11.4	11.7	10.1	11.8	11.1	2.7	2.5	6.3	5.8	13.0	11.9
Tax revenues	9.7	10.2	8.9	9.9	9.2	2.3	2.2	5.1	4.5	11.0	9.8
Nontax revenues	1.7	1.5	1.2	1.9	1.9	0.3	0.3	1.2	1.3	2.0	2.1
Exceptional revenue	...	...	...	...	...	...	...	...	...	...	...
External grants	7.3	6.6	4.2	4.1	3.4	0.8	1.0	1.6	1.5	3.9	4.5
Budgetary assistance	...	...	...	...	0.3	...	0.5	...	0.5	...	1.4
Project financing (incl. technical assistance)	7.3	6.2	4.1	4.1	3.0	0.8	0.5	1.6	0.9	3.7	2.9
Other nonbudgetary aid	...	0.4	...	...	0.1	...	0.1	...	0.1	0.2	0.2
Total expenditure and net lending	22.1	19.1	16.1	19.6	18.5	4.7	5.4	9.2	10.5	20.7	22.4
Current expenditure	14.3	13.7	12.4	14.7	14.2	3.6	4.0	7.0	7.9	14.6	15.3
Budgetary	12.5	12.7	11.1	10.2	11.5	2.3	2.4	4.7	5.0	10.0	10.4
Wages and salaries	7.5	6.2	5.6	5.2	5.2	1.2	1.2	2.4	2.3	4.9	4.8
Goods and services	3.3	4.5	3.8	2.9	4.1	0.7	0.8	1.4	1.9	3.2	3.6
Transfers	0.6	1.0	0.8	1.1	1.1	0.3	0.2	0.6	0.3	1.2	1.2
Interest payments	1.0	0.9	0.9	1.1	1.1	0.2	0.3	0.3	0.4	0.7	0.7
External debt	...	...	0.8	1.0	1.1	0.2	0.3	0.3	0.4	0.6	0.6
Domestic debt	...	...	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1
Technical assistance	1.8	1.1	1.3	1.8	0.7	0.5	0.6	0.9	1.2	1.7	1.7
Other expenditures 1/	...	...	...	2.7	1.9	0.8	1.1	1.4	1.7	2.9	3.2
Priority rehabilitation expenditures	...	...	...	0.8	0.3	0.2	0.4	0.4	0.6	1.2	1.3
Transition	...	...	...	1.2	1.5	0.2	0.0	0.2	0.1	0.3	0.3
Interregional Transfers	...	...	...	0.4	...	0.2	0.6	0.4	0.9	1.2	1.4
Retrenchment	...	...	...	0.2	...	0.1	...	0.2	...	...	...
Post-conflict	...	...	...	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2
Capital expenditure	7.7	5.4	3.8	4.9	4.3	1.1	1.4	2.2	2.7	6.2	7.1
Domestically financed investment	0.4	0.2	0.1	0.6	0.4	0.2	0.3	0.3	0.5	1.5	1.3
Foreign-financed investment	7.4	5.2	3.7	3.8	3.9	0.9	1.1	1.9	2.2	4.7	5.8
Priority rehabilitation expenditures	...	...	...	0.5	...	...	...	...	...	...	...
Net lending	...	...	...	...	...	...	...	...	...	...	...
Overall balance (payment order)	-3.4	-0.8	-1.9	-3.7	-4.0	-1.2	-1.9	-1.3	-3.2	-3.9	-6.1
Excluding grants	-10.7	-7.4	-6.0	-7.8	-7.4	-2.0	-2.9	-2.9	-4.7	-7.8	-10.5
Net change in arrears	2.8	0.6	1.8	-0.7	1.7	-0.4	0.3	-0.8	0.1	-0.8	0.3
Interest on external debt	0.9	0.5	0.5	0.1	0.8	...	0.2	...	0.3	...	0.4
Domestic arrears 2/	1.9	0.1	1.3	-0.8	1.0	-0.4	0.1	-0.8	-0.2	-0.8	-0.2
Others (unidentified residuals) 3/	-3.3	0.5	0.4	...	...	...	...	...	...	...	...
Overall balance (cash basis)	-3.9	0.3	0.3	-4.4	-2.2	-1.6	-1.7	-2.0	-3.1	-4.6	-5.8
Financing	3.9	-0.3	-0.3	0.8	2.2	0.0	1.6	0.2	2.9	2.2	5.8
Foreign (net)	1.7	-0.5	0.1	1.2	3.8	0.2	1.0	0.4	3.1	2.2	4.9
Drawings, public investment project (identified)	1.9	0.1	0.9	2.3	2.8	0.6	1.2	1.2	2.4	2.6	4.6
Drawings, adjustment loans	...	...	...	...	1.6	...	...	...	1.0	1.0	1.0
Amortization	-4.0	-4.2	-3.5	-1.8	-1.8	-0.4	-0.6	-0.8	-0.9	-1.6	-1.6
Exceptional financing	...	...	...	...	0.2	...	...	...	...	0.2	...
Arrears (principal)	3.7	3.7	2.7	0.7	1.0	...	0.4	...	0.6	...	0.8
Domestic (net)	2.3	0.2	-0.4	-0.4	-1.5	-0.2	0.6	-0.2	-0.2	-0.1	0.9
Bank financing 4/	1.7	-0.0	-0.2	-0.4	-1.3	-0.6	0.6	-0.6	-0.1	0.0	1.2
Of which: IMF (SAF)	...	...	-0.2	-0.3	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Deposits and claims on treasury	0.6	-0.0	...	...	-0.1	...	...	...	...	...	...
Nonbank financing	...	0.2	-0.2	...	-0.1	...	0.1	...	-0.2	-0.1	-0.3
Privatization proceeds	...	...	...	...	...	0.5	...	0.5	...	...	...
Financing gap	...	...	...	3.6	...	1.5	...	1.8	0.2	2.4	-0.0
Fiscal balances 5/											
Domestic primary current balance	-0.1	-0.0	-0.1	2.7	0.6	0.5	0.4	1.9	1.2	3.6	2.2
Current balance (excluding grants)	-1.1	-0.9	-1.0	1.6	-0.5	0.3	0.1	1.6	0.8	2.9	1.5
Overall domestic balance (before exceptional expenditures)	-0.4	-0.2	-0.2	2.0	0.2	0.3	0.1	1.6	0.7	2.1	0.9
Overall domestic balance (commitment basis)	-0.4	-0.2	-0.2	-1.2	-1.7	-0.5	-1.0	0.2	-1.0	-0.8	-2.4

Sources: Ministry of Finance and staff estimates

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

2/ Net arrears accumulation (preliminary estimates).

3/ Unidentified receipts (+)/payments (-).

4/ Financing from Central Bank of Comoros and Bank for Industry and Commerce.

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

Table 6. Comoros: Anjouan Island - Government Financial Operations, 2001-2002
(In millions of Comorian francs)

	2001	2002:Q2	2002	
	Prov.	Prov.	Orig. Proj.	Proj.
Total revenue and grants	4,623	2,053	4,856	4,516
Revenues	3,468	2,053	3,918	4,516
Tax revenues	3,359	2,053	3,800	4,516
Nontax revenues	109	...	118	...
Exceptional revenue	...	...	...	...
External grants	1,155	...	938	...
Total expenditure and net lending	4,152	1,617	4,242	4,077
Current expenditure	4,029	1,617	4,042	3,876
Budgetary	4,029	2,218	4,476	4,477
Wages and salaries	3,296	1,978	3,326	3,326
Goods and services	374	210	700	700
Of which: Education	...	...	52	52
Health	...	...	21	21
Other	...	...	627	627
Transfers	359	31	450	451
Interest payments	...	...	...	...
External debt	...	...	...	...
Domestic debt	...	...	...	...
Technical assistance	...	...	...	...
Other expenditures 1/	...	-601	-434	-601
Priority rehabilitation expenditures	...	500	1,098	1,169
Transition	...	32	...	32
Inter-regional Transfers	...	-1,133	-1,531	-1,802
Capital expenditure (domestically financed)	123	...	200	201
Net lending				
Overall balance (payment order)	471	436	614	439
Excluding grants	-684	436	-324	439
Change in net arrears	-357	-764	-414	-839
Interest on external debt	...	...	...	...
Domestic arrears 2/	-357	-764	-414	-839
Others (unidentified residuals) 3/	...	...	...	...
Overall balance (cash basis)	114	-328	200	-400
Financing	-114	328	-200	400
Bank financing 4/	...	328	...	400
Nonbank financing	-114	...	-200	...
Financing gap	0	0	0	0
Fiscal balances 5/				
Domestic primary current balance	-561	936	973	1,809
Current balance (excluding grants)	-561	-165	-558	39
Overall domestic balance before exceptional expenditures	-684	936	773	1,608

Sources: Ministry of Finance and staff estimates

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

2/ Net arrears accumulation (preliminary estimates)

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

4/ Financing from BCC and BIC

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

Table 7. Comoros: Consolidated Government Financial Operations, 2001-2006
(In millions of Comorian francs)

	2001	2002		2003	2004	2005	2006
	Prov.	Orig. Proj.	Proj.		Proj.		
Total revenue and grants	22,235	26,844	25,793	27,470	28,662	31,144	33,587
Revenues	16,904	20,803	19,986	22,638	24,430	26,489	28,466
Tax revenues	14,475	18,120	17,259	19,839	21,544	23,500	25,370
Nontax revenues	2,429	2,683	2,727	2,799	2,886	2,989	3,097
Exceptional revenue	...	...	...	...	...	...	...
External grants	5,332	6,040	5,807	4,832	4,232	4,655	5,121
Budgetary assistance	1,487	938	1,812	...	...	...	...
Project financing (incl. technical assistance)	3,689	4,832	3,769	4,832	4,232	4,655	5,121
Other nonbudgetary aid	156	270	226	...	...	...	...
Total expenditure and net lending	26,592	31,256	33,234	29,857	30,562	32,800	34,736
Current expenditure	21,256	23,028	23,845	21,625	22,620	24,211	25,439
Budgetary	18,037	17,545	17,970	19,578	20,682	22,113	23,167
Wages and salaries	9,615	9,768	9,593	10,255	10,882	11,670	12,562
Goods and services	5,391	4,903	5,453	6,188	6,505	6,962	6,890
Of which: Education	129	264	264	504	849	1,202	1,294
Health	32	84	84	192	222	367	395
Transfers	1,685	1,986	2,035	2,328	2,471	2,649	2,852
Interest payments	1,345	889	890	806	825	832	862
External debt	1,275	802	803	736	755	762	791
Domestic debt	70	87	87	70	70	70	71
Technical assistance	896	2,152	2,262	2,047	1,938	2,098	2,273
Other expenditures 1/	2,323	3,331	3,614	...	...	...	...
Priority rehabilitation expenditures	318	2,627	2,922	...	...	...	...
Transition	1,849	434	466	...	...	...	...
Interregional Transfers	...	...	...	...	...	...	...
Capital expenditure	5,373	8,268	9,428	8,272	7,982	8,629	9,336
Domestically financed investment	584	2,188	1,889	2,487	2,508	2,701	2,915
Foreign-financed investment	4,789	6,080	7,539	5,785	5,474	5,928	6,421
Net lending	-36	-40	-39	-40	-40	-40	-40
Overall balance (payment order)	-4,357	-4,412	-7,441	-2,386	-1,900	-1,656	-1,149
Excluding grants	-9,689	-10,453	-13,248	-7,218	-6,132	-6,311	-6,270
Net change in arrears	1,743	-1,414	-503	-1,000	-1,200	-1,500	-1,547
Interest on external debt	916	...	535	...	...	...	...
Domestic arrears 2/	827	-1,414	-1,038	-1,000	-1,200	-1,500	-1,547
Overall balance (cash basis)	-2,614	-5,826	-7,944	-3,386	-3,100	-3,156	-2,696
Financing	2,614	2,658	7,944	814	1,282	1,731	2,052
Foreign (net)	4,603	2,929	6,327	997	1,393	1,763	2,126
Drawings, public inv. project (identified)	3,395	3,400	6,031	3,000	3,180	3,371	3,573
Drawings, adjustment loans	1,926	1,296	1,296	...	...	...	...
Amortization	-2,240	-2,085	-2,085	-2,003	-1,787	-1,608	-1,447
Exceptional financing	285	318	...	...	...	...	...
Arrears (principal)	1,237	...	1,085	...	...	...	...
Domestic (net)	-1,989	-271	1,618	-183	-111	-32	-74
Bank financing 3/	-1,596	29	2,004	-183	-91	...	...
Of which: IMF (SAF)	-307	-187	-187	-183	-91	...	...
Deposits and claims on Treasury	-102	...	...	...	...	...	...
Nonbank financing	-290	-300	-387	...	-20	-32	-74
Privatization proceeds	...	...	...	...	...	...	...
Financing gap	...	3,168	...	2,573	1,818	1,425	644
Fiscal balances 4/							
Domestic primary current balance	212	4,147	2,905	3,867	4,573	5,208	6,162
Current balance (excluding grants)	-1,133	3,258	2,016	3,061	3,748	4,376	5,300
Overall domestic balance (before exceptional expenditures)	-406	1,912	969	1,350	2,035	2,477	3,215
Overall domestic balance (commitment basis)	-2,729	-1,419	-2,465	1,350	2,035	2,477	3,215

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

1/ Includes costs of election, rehabilitation expenditures, civil service reform and post-conflict assistance from the World Bank.

2/ Net arrears accumulation (preliminary estimates).

3/ Financing from Central Bank of Comoros and Bank for Industry and Commerce.

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

Table 8. Comoros: Consolidated Government Financial Operations: Fiscal Indicators, 2001-2006

(In percent of GDP)

	2001	2002		2003	2004	2005	2006
	Prov.	Orig. Proj.	Proj.		Proj.		
Total revenue and grants	18.3	20.6	19.3	19.4	19.0	19.3	19.3
Revenues	13.9	16.0	14.9	16.0	16.2	16.4	16.4
Tax revenues	11.9	13.9	12.9	14.0	14.3	14.6	14.6
Nontax revenues	2.0	2.1	2.0	2.0	1.9	1.9	1.8
Exceptional revenue	...	...	...	...	...	...	...
External grants	4.4	4.6	4.3	3.4	2.8	2.9	2.9
Budgetary assistance	1.2	0.7	1.4	...	...	...	...
Project financing (incl. technical assistance)	3.0	3.7	2.8	3.4	2.8	2.9	2.9
Other nonbudgetary aid	0.1	0.2	0.2	...	...	...	...
		...	...				
Total expenditure and net lending	21.9	24.0	24.8	21.1	20.3	20.3	20.0
Current expenditure	17.5	17.7	17.8	15.3	15.0	15.0	14.6
Budgetary	14.9	13.5	13.4	13.8	13.7	13.7	13.3
Wages and salaries	7.9	7.5	7.2	7.2	7.2	7.2	7.2
Goods and services	4.4	3.8	4.1	4.4	4.3	4.3	4.0
Of which: Education	0.1	0.2	0.2	0.4	0.6	0.7	0.7
Health	0.0	0.1	0.1	0.1	0.1	0.2	0.2
Transfers	1.4	1.5	1.5	1.6	1.6	1.6	1.6
Interest payments	1.1	0.7	0.7	0.6	0.5	0.5	0.5
External debt	1.1	0.6	0.6	0.5	0.5	0.5	0.5
Domestic debt	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Technical assistance	0.7	1.7	1.7	1.4	1.3	1.3	1.3
Other expenditures 1/	1.9	2.6	2.7	...	...	...	...
Priority rehabilitation expenditures	0.3	2.0	2.2	...	...	...	...
Transition	1.5	0.3	0.3	...	...	...	...
Post-conflict	0.1	0.2	0.2	...	...	...	...
Capital expenditure	4.4	6.3	7.0	5.8	5.3	5.3	5.4
Domestically financed investment	0.5	1.7	1.4	1.8	1.7	1.7	1.7
Foreign-financed investment	3.9	4.7	5.6	4.1	3.6	3.7	3.7
Net lending	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0
		...	...				
Overall balance (payment order)	-3.6	-3.4	-5.6	-1.7	-1.3	-1.0	-0.7
Excluding grants	-8.0	-8.0	-9.9	-5.1	-4.1	-3.9	-3.6
	...	...	...	...	...	...	...
Net change in arrears	1.4	-1.1	-0.4	-0.7	-0.8	-0.9	-0.9
Interest on external debt	0.8	...	0.4	...	...	...	...
Domestic arrears 2/	0.7	-1.1	-0.8	-0.7	-0.8	-0.9	-0.9
		...	...				
Overall balance (cash basis)	-2.2	-4.5	-5.9	-2.4	-2.1	-2.0	-1.6
		...	...				
Financing	2.2	2.0	5.9	0.6	0.9	1.1	1.2
Foreign (net)	3.8	2.2	4.7	0.7	0.9	1.1	1.2
Drawings, public inv. project (identified)	2.8	2.6	4.5	2.1	2.1	2.1	2.1
Drawings, adjustment loans	1.6	1.0	1.0	...	...	...	...
Amortization	-1.8	-1.6	-1.6	-1.4	-1.2	-1.0	-0.8
Exceptional financing	0.2	0.2	...	...	...	...	...
Arrears (principal)	1.0	...	0.8	...	...	...	...
Domestic (net)	-1.6	-0.2	1.2	-0.1	-0.1	...	...
Bank financing 3/	-1.3	0.0	1.5	-0.1	-0.1	...	...
Of which: IMF (SAF)	-0.3	-0.1	-0.1	-0.1	-0.1	...	...
Deposits and claims on Treasury	-0.1	...	...	...	...	...	...
Nonbank financing	-0.2	-0.2	-0.3	...	...	...	...
Privatization proceeds	...	...	...	...	...	...	...
Financing gap	...	2.4	...	1.8	1.2	0.9	0.4
Fiscal balances 4/							
Domestic primary current balance	0.2	3.2	2.2	2.7	3.0	3.2	3.5
Current balance (excluding grants)	-0.9	2.5	1.5	2.2	2.5	2.7	3.1
Overall domestic balance (before exceptional expenditure	-0.3	1.5	0.7	1.0	1.4	1.5	1.9
Overall domestic balance (commitment basis)	-2.2	-1.1	-1.8	1.0	1.4	1.5	1.9

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

1/ Includes costs of election, rehabilitation expenditures, civil service reform and post-conflict assistance from the World Bank.

2/ Net arrears accumulation (preliminary estimates).

3/ Financing from Central Bank of Comoros and Bank for Industry and Commerce.

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

Table 9. Comoros: Monetary Survey, 1998-2002

	1998	1999	2000	2001		2002	
				June	December	June	Proj.
			(In millions of Comorian francs)				
Net foreign assets	17,737	19,890	22,813	26,376	36,019	39,044	35,082
Central bank	15,398	17,124	22,102	25,561	33,486	37,173	32,549
Assets	16,581	18,295	23,017	26,413	34,879	37,737	33,942
Liabilities	-1,183	-1,171	-915	-852	-1,393	-563	-1,393
Commercial banks	2,339	2,766	711	816	2,533	1,871	2,533
Assets	2,373	3,966	3,009	3,322	4,864	3,957	4,864
Liabilities	-34	-1,200	-2,298	-2,506	-2,331	-2,086	-2,331
Domestic credit	12,528	12,087	12,661	13,013	11,841	11,950	10,970
Net credit to government 1/	3,631	3,610	3,272	3,121	2,733	2,607	1,186
Claims on government	4,307	4,368	4,158	3,957	3,955	4,231	2,407
Deposits of government	-676	-758	-886	-837	-1,221	-1,623	-1,221
Claims on public enterprises	165	335	74	42	73	42	42
Claims on private sector	8,732	8,142	9,315	9,851	9,035	9,301	9,742
Other items net	-13,107	-13,616	-14,455	-14,805	-16,877	-18,173	-13,428
Broad money	17,158	18,361	21,019	24,585	30,983	32,822	32,624
Money	10,175	11,662	14,115	17,602	22,937	24,586	24,152
Currency in circulation	5,418	6,310	7,564	9,455	12,355	13,510	13,009
Demand deposits	4,757	5,352	6,551	8,147	10,582	11,077	11,142
Quasi-money	6,983	6,699	6,904	6,982	8,046	8,236	8,472
			(Percent change from previous year) 2/				
Net foreign assets	-5.5	12.1	14.7	...	57.9	48.0	-2.6
Domestic credit	19.6	-3.5	4.7	...	-6.5	-8.2	-7.4
Net credit to government	80.1	-0.6	-9.4	...	-16.5	-16.5	-56.6
Credit to public enterprises 3/	-61.3	103.0	-77.9	...	-1.8	-0.2	-42.2
Credit to private sector	8.7	-6.8	14.4	...	-3.0	-5.6	7.8
Other items (net)	20.6	3.9	6.2	...	16.8	22.7	-20.4
Broad money	-6.6	7.0	14.5	...	47.4	33.5	5.3
Money	-4.0	14.6	21.0	...	62.5	39.7	5.3
Quasi-money	-10.1	-4.1	3.1	...	16.5	18.0	5.3
			(In percent of beginning-of-period money stock) 4/				
Net foreign assets	-9.0	12.6	15.9	...	62.8	51.5	-3.0
Domestic credit	16.0	-2.6	3.1	...	-3.9	-4.3	-2.8
Net credit to government	8.9	-0.1	-1.8	...	-2.6	-2.1	-5.0
Credit to public enterprises	0.3	1.0	-1.4	...	0.0	0.0	-0.1
Credit to private sector	6.8	-3.4	6.4	...	-1.3	-2.2	2.3
Other items (net)	-10.7	-3.0	-4.6	...	-11.5	-13.7	11.1
Broad money	-3.7	7.0	14.5	...	47.4	33.5	5.3
Money	-8.3	8.7	13.4	...	42.0	28.4	3.9
Quasi-money	4.6	-1.7	1.1	...	5.4	5.1	1.4
Memorandum items:							
			(In units indicated)				
GDP at current prices (millions of Comorian francs)	95,391	102,927	109,136	...	121,296	...	133,758
Velocity (GDP/Broad money)	5.6	5.6	5.2	...	3.9	...	4.1
M1/M2 (in percent)	59.3	63.5	67.2	...	74.0	...	74.0

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

1/ The central bank does not include in "Net credit to government" the balance of the government account on which the counterpart of the proceeds from the World Bank Emergency Economic Credit is deposited. This account is classified under "Other Items Net."
2/ Except for June 2002: percentage change from June 2001 (from previous 12 months).
3/ Credit expansion indicated in 1998 for public enterprises relates largely to rice import financing.
4/ Except for June 2002: in percent of June 2001 money stock.

Table 10. Comoros: Summary Accounts of the Central Bank, 1998-2002
(In millions of Comorian francs; end of period)

	1998	1999	2000	2001 June	2001 December	2002 June
Foreign assets	16,581	18,295	23,017	26,413	34,879	37,737
Of which						
Operations account with French Treasury	14,847	16,382	20,568	24,613	33,354	34,128
Bank notes (CFA franc area)	1,334	1,367	1,819	1,119	1,664	1,439
Gold	70	82	83	83	83	90
SDR holdings	2	80	87	4	13	6
Correspondents	6	7	76	182	...	...
Reserve position with IMF	320	363	372	390	379	354
Claims on government	3,806	3,814	3,858	3,654	3,654	3,930
Statutory advances	2,226	2,234	2,278	2,074	2,074	2,350
Treasury (IMF account)	1,580	1,580	1,580	1,580	1,580	1,580
Claims on deposit money bank	50	50	50	...	50	50
Other assets	689	523	499	548	582	684
Reserve money	9,323	11,104	13,980	17,611	23,851	25,869
Currency in circulation	5,418	6,310	7,564	9,455	12,355	13,510
Cash in banks	129	99	263	-172	147	141
Bank for Industry and Commerce deposits	3,432	3,729	5,228	6,494	9,722	10,231
Development Bank deposits	309	938	888	1,455	1,565	1,959
Public enterprise deposits	35	28	37	35	62	29
Government deposits	542	518	508	483	712	1,027
Treasury account	30	61	37	32	225	310
Government bodies	386	365	399	379	434	417
Stabilization System for Export Earnings account	81	47	27	27	8	255
Cash at treasury	45	45	45	45	45	45
Counterpart fund for Chinese aid	...	...	...	...	...	...
Foreign liabilities	61	112	128	181	920	201
Other correspondents	56	74	128	162	918	188
Transactions under way	5	38	...	19	2	2
Other liabilities	11,200	10,948	12,808	12,339	13,683	15,304

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

Table 11. Comoros: Balance of Payments, 1998-2006
(In millions of Comorian francs, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
				Est.			Projections		
Current account (excl. official transfers)	-9,813	-8,149	-2,935	-460	-7,014	-6,040	-7,420	-7,931	-8,536
Current account (incl. official transfers)	-2,408	-934	1,604	4,872	-1,207	-1,208	-3,188	-3,276	-3,416
Trade balance	-16,099	-15,823	-12,647	-12,913	-17,772	-16,338	-18,734	-20,401	-21,937
Exports, f.o.b.	2,632	4,181	7,263	8,962	9,170	8,824	7,450	7,404	7,453
Vanilla	1,058	1,835	4,105	5,400	5,475	5,329	4,331	4,238	4,230
Cloves	180	1,177	2,012	2,433	2,520	2,289	1,867	1,863	1,860
Ylang-ylang	582	563	887	999	1,033	1,048	1,074	1,102	1,131
Other	812	606	259	130	142	158	178	201	232
Imports, f.o.b.	-18,731	-20,004	-19,910	-21,875	-26,942	-25,162	-26,184	-27,804	-29,390
Services balance (net)	-5,660	-5,365	-2,968	-1,977	-3,817	-4,714	-4,318	-3,819	-3,570
Nonfactor services (net)	-5,497	-5,458	-3,145	-3,212	-3,573	-4,649	-4,420	-3,912	-3,618
Exports	8,762	9,395	9,119	10,092	10,549	11,210	12,054	12,995	14,016
Of which									
Travel receipts	3,500	4,025	4,226	5,000	5,250	5,670	6,237	6,861	7,547
Imports	-14,259	-14,853	-12,265	-13,304	-14,123	-15,859	-16,474	-16,907	-17,634
Factor services (net)	-163	93	178	1,235	-243	-65	101	94	48
Of which									
Interest payments	-978	-964	-890	-429	-802	-841	-877	-895	-927
Private transfers (net)	11,946	13,039	12,680	14,430	14,574	15,012	15,632	16,288	16,971
Official transfers	7,405	7,216	4,539	5,332	5,807	4,832	4,232	4,655	5,121
Capital account	-3,449	-1,775	-464	3,111	-1,163	532	2,141	2,200	2,377
Direct investment	170	125	50	56	63	70	79	88	99
Medium- and long-term borrowing	-1,698	-2,796	-2,826	4,603	5,242	997	1,393	1,584	1,786
Gross borrowing	2,272	1,571	940	5,321	7,327	3,000	3,180	3,371	3,573
Amortization	-3,970	-4,367	-3,766	-718	-2,085	-2,003	-1,787	-1,787	-1,787
Trade-related credits	-737	18	-669	-436	338	-535	669	528	493
Commercial banks	-412	-427	2,055	-1,822	...	...	...	...	...
Foreign assets	-446	-1,593	2,055	-1,855	...	...	...	...	...
Foreign liabilities	34	1,166	...	33	...	...	...	...	...
Currency conversion	...	...	...	3,500	-2,947	...	...	...	...
Other short-term capital (including errors and omissions)	-772	1,305	926	-2,790	-3,859	...	...	...	...
Overall balance	-5,857	-2,708	1,141	7,983	-2,370	-676	-1,048	-1,077	-1,038
Financing	5,857	2,708	-1,141	-7,983	2,370	676	1,048	1,077	1,038
Central bank	1,440	-1,727	-4,978	-11,384	750	-1,896	-770	-348	441
Foreign assets	1,717	-1,714	-4,722	-11,863	937	-1,896	-770	-348	441
Foreign liabilities	-277	-12	-256	478	-187	...	...	...	...
Of which: use of Fund credit	-108	-199	-172	-315	-186	-186	-92	...	...
Change in arrears	4,417	4,435	3,837	3,402	1,620	...	...	...	...
Financing gap	...	...	...	...	...	2,573	1,818	1,425	644
Memorandum items:									
Arrears (end of period)	35,379	39,282	43,119	46,521	48,141	48,141	48,141	48,141	48,141
External debt (end of period, incl. arrears and IMF)	118,746	118,459	121,469	124,074	130,751	131,558	132,857	134,441	136,227
Current account as percent of GDP									
Excluding transfers	-10.3	-7.9	-2.7	-0.4	-5.2	-4.3	-4.9	-4.9	-4.9
Including transfers	-2.5	-0.9	1.5	4.0	-0.9	-0.9	-2.1	-2.0	-2.0
Exports of goods and nonfactor services	11,394	13,576	16,382	19,054	19,720	20,034	19,504	20,399	21,469
Imports of goods and nonfactor services	32,990	34,857	32,175	35,179	41,065	41,021	42,657	44,712	47,024
Debt-service ratio (percent of exports of goods and nonfactor services)	45.5	38.0	30.6	27.8	15.6	15.1	14.1	13.1	12.6
Debt-service ratio (percent of exports of goods)	196.9	123.5	68.9	59.1	33.5	34.3	37.0	36.2	36.4
External debt (including arrears & IMF)(percent of GDP)	124.5	115.1	111.3	102.3	97.8	92.8	88.3	83.3	78.4
Exchange rate Comorian francs/US$ (period average)	442.5	461.8	534.0	549.3	...	...	...	...	...
Exchange rate Comorian francs/SDR (period average)	600.0	631.2	708.6	699.2	...	...	...	...	...
Gross foreign assets of central bank	16,581	18,295	23,017	34,879	33,942	35,839	36,609	36,957	36,516
In months of imports of goods and nonfactor services, c.i.f.	6.0	6.3	8.6	11.9	9.9	10.5	10.3	9.9	9.3
Nominal GDP	95,391	102,927	109,136	121,296	133,758	141,794	150,462	161,355	173,699

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

Table 12. Comoros: Nominal Debt Outstanding at End-2000 and End-2001
(In millions of U.S. dollars)

	Nominal Debt at End-2000		Nominal Debt at End-2001 1/	
	Total 2/	Arrears	Total 2/	Arrears
Total	224.6	83.7	227.2	83.3
Multilateral creditors	175.3	54.5	183.3	51.2
Of which:				
IDA	70.6	0.0	79.0	0.0
IMF	1.5	0.0	0.8	0.0
African Development Bank	51.8	15.5	53.1	19.8
Of which: African Development Fund	38.6	3.9	13.8	13.8
European Union/European Development Fund	0.9	0.0	2.1	0.0
Arab Bank for Economic Development in Africa	25.2	24.4	24.9	24.9
International Fund for Agricultural Development	5.8	0.0	6.0	0.0
OPEC Fund	3.6	3.4	6.4	3.6
Islamic Development Bank	15.9	11.2	10.9	2.9
Official bilateral creditors	49.3	29.2	43.9	32.1
Of which:				
Paris Club	2.6	0.3	3.1	1.0
Of which: France	2.6	0.3	3.1	1.0
Non-Paris Club	46.6	28.9	40.8	31.1
China 3/	6.3	3.6	4.0	1.8
Kuwait	23.5	10.1	20.1	12.7
Saudi Arabia	15.7	14.1	15.6	15.5
United Arab Emirates	1.1	1.1	1.1	1.1

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

1/ Estimates.
2/ Includes arrears.
3/ China forgave part of outstanding debt in 2001.

Table 13. Comoros: Basic Social and Demographic Indicators [1]

	Comoros	Sub-Saharan Africa
Population		
Total (in millions) (2001)	0.6	642.8
Urban population (percent of total)	34.0	33.8
Population growth (annual percentage)	2.5	2.5
GNP per capita (in U.S. dollars, *World Bank Atlas* method, 2000)	380.0	490
Life expectancy at birth (in years) (1999)		
Overall	60.6	46.8
Women	61.7	47.8
Men	59.5	45.9
Fertility rate (percent) (1999)	4.4	5.3
Infant mortality rate (per 1,000) (2000)	60.0	91.8
Child (under 5 years) mortality rate (per 1,000) (2000)	80.0	161.0
Education		
Illiteracy rate, adult total (percentage of people over 15) (2001)	39.7	38.6
Primary school gross enrollment rate (percentage of relevant age group) (2000)	49.7	78.0
Secondary school gross enrollment rate (percentage of relevant age group) (1998)	36.0	...
Health		
Child immunization (under 12 months, percent) (1999)		
DPT	49.0	53.0
Measles	48.0	58.0

Sources: World Bank, *World Development Indicators,* CD-ROM, 2001; and Comorian authorities.

[1] Most recent estimates available, unless otherwise indicated.

Comoros: Relations with the Fund
(As of August 31, 2002)

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

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

III. SDR Department:	**SDR Millions**	**% Allocation**
Net cumulative allocation	0.72	100.0
Holdings	0.17	23.1

IV. Outstanding Purchases and Loans:	**SDR Millions**	**% Quota**
(SAF) Structural Adjustment Facility arrangements	0.54	6.07

V. Financial Arrangements:

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

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

	Overdue	Forthcoming				
	04/30/01	2002	2003	2004	2005	2006
Principal	0.0	0.1	0.3	0.1		
Total	0.0	0.1	0.3	0.1		

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

VII. Exchange Rate Arrangements

The currency of the Comoros is the Comorian franc, which is pegged to the 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. Last Article IV Consultation

The Comoros is on the standard 12-month cycle with regard to Article IV consultations. The 2001 Article IV consultation was concluded on July 13, 2001 (EBS/01/110, 7/03/01).

XI. Recent Technical Assistance

Department	Dates	Subject
FAD	July 1991	Follow-up mission on tariff reform.
FAD	July 1991	Mission on budgeting and procedures
FAD	March 1993	Follow-up mission on tariff reform
FAD	Sept.- Oct. 1993	Follow-up mission on customs tariff
FAD	May 1995	Follow-up mission on customs and tax administration, and assistance in preparation of a contract for a preshipment inspection service
FAD	May 2001	Follow up mission on tax and customs administration.
FAD	March-Apr. 2002	Mission on options for decentralization
MAE	Aug.-Sept. 1992	Banking sector study

Comoros: Relations with the Fund (concluded)

Department	Dates	Subject
MAE	Sept.-Dec. 1994	Advisor on banking supervision
MAE	May 1995	Mission to review technical assistance needs in banking supervision and banking legislation
MAE	September 1997	Advisor on banking supervision
MAE	June 1999	Advisor on banking supervision
MAE	March 2000	Advisor on banking supervision
MAE	Sept. 2001	Mission to review Central Bank internal controls
MAE	Jan.-Feb. 2002	Follow-up on Central Bank internal controls
STA	June 1986	Government finance statistics
STA	October 1987	Money and banking statistics
STA	May-June 1988	Balance of payments statistics
STA	May 1997	Money and banking statistics
Resident Representative	March 1992	Seminar on public finance statistics for officials of the Ministry of Finance

X. Resident Representative

The resident representative post was closed in December 1995.

Comoros: IMF-World Bank Group Relations Annex

(As of September 10, 2002)

1. The World Bank has been active in Comoros since 1977. The World Bank Executive Board has since approved 18 IDA credits. The World Bank's lending to Comoros to date totals US$119.15 million, of which US$94.6 has been disbursed. The current portfolio consists of 6 projects with a total commitment of US$44.5 million of which US$20 million has been disbursed. Sectors supported by the portfolio include social development (education, health and social fund), rural development, infrastructure and water, and small enterprise development.

2. As part of the Bank's Interim Support Strategy (ISS) approved by the Board in November 2000, an Emergency Economic Recovery Credit (EERC) of US$6 million was approved in August 2001. Its objectives were to help (i) rebuild the economy impacted by the secessionist crisis; (ii) address urgent social needs; and (iii) support the technical dimensions of the national reconciliation process. Performance under the EERC has been satisfactory. The EERC was been fully disbursed in 2002.

3. Together with the IMF and UNDP, the World Bank assisted the government in the official launch of the PRSP process in March 2002. It's aim, given the more stable political environment, is to formulate a medium-term development strategy. As part of this strategy, the World Bank would help Comoros to carry out needed institutional and structural reforms. A first draft of the IPRSP was completed in July 2002.

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 has been installed in the port of Moroni in July 2002. However, lack of clarity in the country's new institutional arrangements and major disagreements on the revenue sharing formula between the country's different executives have put most reform efforts to a halt. New Bank lending and acceleration of the PRSP-HIPC process will depend on the country's ability to overcome the current institutional crisis.

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 (Fiscal Year)	Committed (Less cancellations)	Disbursed
Number of closed credits (12)		**73**	**73**
Active Credits			
Small Enterprise Development	1994	4.9	4.6
Education III	1997	6.8	3.3
Agriculture Services	1997	1.5	1.3
Health	1998	8.3	2.9
Social Fund	1998	11.3	7
Infrastructure, Water, Environment	2001	11.7	0.9
Total Active		**44.5**	**20**

Source: World Bank Staff.

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

	FY96	FY97	FY98	FY99 1/	FY00	FY01	FY02	FY03
IDA net disbursements	3.9	4.3	5	0.6	0.4	2.9	14.2	1.6
Disbursements	4.1	4.7	5.4	0.6	1.5	3.6	15.1	1.8
Repayments	0.2	0.4	0.4	0	1.1	0.7	0.9	0.2
Interest payment	0.2	0.5	0.5	0	1.1	0.5	0.5	0.1

Source: World Bank
1/ Under IDA suspension of disbursements because of arrears.

Questions may be referred to Wolfgang Fengler, Economist in charge of Comoros (Tel: (202) 458-0538).

Comoros: Statistical Issues

Overview

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

National accounts data and prices

2. The main aggregates of the national accounts for 1986-1989, as well as the accounts for 1990 and rough estimates for 1991-1993 were prepared by the World Bank; the UNDP has assisted with the preparation of the national accounts for 1994 and 1995. Thereafter, the national accounts were computed using extrapolations, and present serious methodological errors. There is little specific information on the level of economic activity, which complicates the formulation of sectoral policies. 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 to update the consumer basket using a 1995 household survey; however, recent developments in the Comoros have seriously outdated this survey, and the reference prices used in the price index are largely unrepresentative.

Fiscal data

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

Monetary data

4. There has been improvement in the timeliness of reporting monetary data for publication in *IFS*. The authorities are now reporting data to STA with a lag of 1-2 months instead of 4 months. In 1997, a STA mission to the Comoros reviewed the compilation and reporting of money and banking statistics, and made several recommendations to improve classification, coverage and reporting procedures. Due to serious differences and errors in

classification, *IFS* and central bank data differed significantly for major monetary aggregates prior to 1997.

Balance of payments

5. 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. Balance of payments statistics have not been reported to STA in recent years for publication in the *Balance of Payments Statistics Yearbook* and the *IFS*.

Technical assistance missions in statistics (1986-present)

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

Comoros: Core Statistical Indicators
(As of September 24, 2002)

	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	07/02	07/02	07/02	07/02	3/00	4/02	12/01	12/01	7/02	2001	2001
Date Received	Current	9/02	9/02	9/02	9/02	5/00	7/02	7/02	7/02	9/02	7/02	7/02
Frequency of Data	Daily	M	M	M	M	O	M	M	A	A	A	A
/ Frequency of Reporting	Daily	M	M	M	M	V	V	V	V	V	V	V
Source of Update	INS	A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting	On-line	C/E	C/E	C/E	C/E	V	V	V	V	V	V	V
Confidentiality	C	B	B	B	B	B	B	B	B	B	B	B
Frequency of Publication	M	M	M	M	M	V	V	A	A	V	A	V

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

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 04/9
FOR IMMEDIATE RELEASE
February 13, 2004

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

IMF Concludes 2002 Article IV Consultation with the Comoros

On October 30, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Comoros.[1]

Background

In December 2001, the country overwhelmingly approved, in a referendum, a new constitution, which provides for wide-ranging autonomy to the islands. However, the lack of agreement between the Union and island governments on the allocation of responsibilities and resources has prevented the formulation of a fiscal policy for the remainder of 2002 and in the medium term, and consequently, the extension of the staff-monitored program (SMP).

Despite the political difficulties, economic developments were broadly positive in 2001 and the first half of 2002. Real GDP growth is estimated to have reached 2 percent in 2001, reflecting the lifting of the embargo on Anjouan, higher domestic demand, and the resumption of donor-financed projects. Consumer price inflation accelerated to 6 percent during 2001, owing to demand pressures, but slowed to 4 percent by June 2002.

The Union government revenues improved in 2001 relative to 2000, increasing from 10 percent of GDP to 11 percent, even though they were lower than targeted by 0.7 percent of GDP. Expenditures on goods and services were higher than envisaged under the program,

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

partly due to outlays related to the political reconciliation effort. As a result, the overall domestic surplus (before exceptional expenditure) fell short of the program target by 1.9 percent of GDP, leading to new domestic nonwage and external debt service arrears. The Union government revenues dropped in the first half of 2002, due to a combination of factors, including the effects of the political situation on tax administration and on the operations of the port of Moroni, the diversion of imports to Anjouan and the delay in implementing some tax measures. The overall domestic budget surplus is estimated at 1.2 percent of GDP at end-June 2002, compared with a target of 3.5 percent of GDP, leading to new external debt service arrears. While the revenues in Anjouan improved both in 2001 and the first half of 2002, partly owing to the tax competition, they were almost fully absorbed by the wage bill.

The strong growth in export earnings and the conversion of French francs in circulation into Comorian francs (CF) in connection with the introduction of the euro in January 2002 led to an expansion of broad money of about 33 percent in the twelve months to June 2002 and to an increase in the net foreign assets of the BCC to the equivalent of about 11 months of imports of goods and nonfactor services by June 2002.

The balance of payments improved sharply in 2001. The external current account deficit (excluding official transfers) narrowed by more than 2 percentage points of GDP to 0.5 percent of GDP in 2001, owing to considerable improvement in the terms of trade, combined with a decline in the balance of services and an increase in private and public transfers. Because of the currency conversion and disbursements from the World Bank, the capital account turned positive. As a result, the overall balance of payments rose markedly and net international reserves of the BCC increased from US$43 million to US$62 million by end-2001.

Performance under the SMP was mixed. The quantitative benchmarks on net domestic financing of the budget and net international reserves were met, the latter by a large margin; and the wage bill was broadly in line with the program. However, the benchmarks on government revenues and no new arrears to multilateral creditors were missed. Regarding the structural benchmarks, there was some progress, although some measures were implemented with delay.

Executive Board Assessment

In commending the authorities for their efforts at political reconciliation, Executive Directors indicated that the return to democratic institutions should enhance the prospects for addressing the deep-rooted macroeconomic problems and fostering growth. This was essential to help address the widespread poverty and the challenging social conditions in the country. To this end, Directors urged the authorities to build on the recent progress to work out quickly the by-laws (*lois organiques*) of the new constitution, which will define the responsibilities for macroeconomic policies and financial relations between the Union and the three island governments. They stressed the importance of agreeing in the meantime on a transitory arrangement for power and resource sharing that would minimize disruptions to economic activity.

Directors were encouraged by the broadly positive economic developments in 2001 and the first half of 2002, despite the difficult political circumstances and serious capacity constraints. They noted that performance under the recent staff monitored program was mixed, with consumer price inflation under control and a substantial increase in international reserves. However, the fiscal outcome was weak, and the authorities could not resume debt-service payments to all external creditors, as had been initially envisaged. Directors urged the authorities to pave the way for a new SMP by having all four governments at least agree on the main principles and an implementation schedule for decentralization and the preparation of prudent budgets for all governments for 2003. A solid track record under a new SMP could lead to discussions on a program that could be supported by a Poverty Reduction and Growth Facility arrangement and pave the way for eventual debt relief under the Heavily Indebted Poor Countries Initiative.

Directors emphasized the need for promoting and maintaining a stable macroeconomic environment, in addition to creating a viable political system, in order to nurture an environment conducive to generating domestic and foreign private sector investment and attracting donor support. To this end, it was important to pursue, as part of an effective economic program, a more disciplined and coordinated fiscal policy, maintain tight monetary conditions, and implement deeper structural reforms, in particular in the utility and domestic financial sectors. Strengthening governance was also critical.

Directors encouraged the authorities to pursue with determination in the period ahead their efforts to strengthen the tax and customs administrations, reduce exemptions, and reinforce overall public expenditure management. Wage restraint and a comprehensive public sector employment reduction plan would be key to sustain fiscal discipline. On decentralization issues, Directors were encouraged by the authorities' agreement to formulate macroeconomic policy at the Union level and maintain the present role of the central bank in monetary policy and banking supervision. However, they stressed that an early consensus on a common revenue authority, in line with the Fund technical assistance recommendations, would be important to protect customs revenues by eliminating tax competition.

Directors considered that the Comoros' participation in the franc zone continued to provide an anchor for financial stability. The pegged exchange rate regime would help keep inflation under control, but required the pursuit of prudent financial policies. They stressed the need to accelerate structural reforms to strengthen the performance of the utilities and parastatal sectors and of the civil service, to help reduce costs, and increase the country's external competitiveness.

Directors welcomed the steps taken by the authorities to improve prudential regulations for the banks and internal controls of the central bank. They considered that competition in the financial sector should be fostered by licensing new, reputable banks. Efforts to develop and implement the appropriate legislation on anti-money laundering and combating the financing of terrorism were also highlighted.

Directors urged the authorities to make every effort to resume debt-service payments and normalize their relations with multilateral and bilateral creditors, while continuing to pursue prudent external debt management practices.

Directors commended the authorities for the progress made in preparing an interim Poverty Reduction Strategy Paper through broad-based participation, and they looked forward to the completion of the full PRSP by end-May 2003.

Directors noted that improvements in the Comoros' statistical database were needed for effective economic analysis and surveillance, and they encouraged the authorities to press ahead with their efforts to strengthen further the compilation of macroeconomic and social statistics. Directors recommended that a national bureau of statistics be established to collect economic and social data, as well as poverty indicators, on the three islands, in order to ensure a common and consistent database. In this regard, they urged the authorities to make good use of available technical assistance, which should be planned and coordinated in the context of decentralization.

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

Comoros: Selected Economic Indicators

	1998	1999	2000	2001	2002 Proj.
	(Annual percentage change)				
National accounts and prices					
Real GDP at market prices	1.2	1.9	-1.1	1.9	3.0
Consumer price index (annual average)	3.5	3.5	4.8	5.9	6.5
Money and credit					
Domestic credit	19.6	-3.5	4.7	-6.5	-9.1
Broad money	-6.6	7.0	14.5	47.4	5.3
External trade					
Exports f.o.b.	0.1	58.9	73.7	23.4	2.3
Imports f.o.b.	-11.1	6.8	-0.5	9.9	23.2
	(In percent of GDP, unless otherwise specified)				
Public finance 1/					
Revenues	11.4	11.8	10.1	13.9	14.9
Expenditures	22.1	19.1	16.1	21.9	24.8
Overall balance (including grants; commitment basis)	-3.4	-0.8	-1.9	-3.6	-5.6
External sector					
Current account balance	-10.3	-7.9	-2.7	-0.4	-5.2
Total external debt outstanding (including arrears)	124.5	115.1	109.2	102.3	97.8
Gross international reserves (in months of imports of goods and services)	6.0	6.3	8.6	11.9	9.9

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.

Statement by Alexandre Barro Chambrier, Executive Director for Comoros
October 30, 2002

Introduction

My Comorian authorities are grateful to management and staff for their helpful advice and assistance during the difficult circumstances they have undergone over the past four years.

The Comoros' economic and sociopolitical situation should be assessed against the background of many years of political instability, weak macroeconomic management and very low real output growth. Over the period July 2001-June 2002, the authorities implemented in the context of a staff-monitored program (SMP), comprehensive policies to address the fiscal imbalances and promote macroeconomic stability. The authorities' intention is to create the conditions that will enable the implementation of a Fund–supported program aimed at achieving in the medium and long terms a higher rate of growth, reduce the widespread poverty, and raise the living standard of the population. The authorities recognize that political stability is a pre-requisite to any economic program.

With international support, continuous dialogues have been ongoing among the leaders of the islands and an agreement was reached in February 2001 that envisages the reunification of the country, and the establishment of new political institutions. To this end, in December 2001, the country approved by a referendum a new Constitution for the archipelago, which establishes the Comoros Union and delegates a large autonomy to the three islands that constitute the Union. This was followed by a successful and peaceful presidential election.

The authorities recognize that the creation of a stable macroeconomic environment requires the establishment of clear modalities of the financial relations between the islands and the central government. They are in the process of defining these relations, the absence of which has prevented up to now the formation of fiscal policies. Nevertheless, it should be noted that performance under the SMP has continued to improve. On the positive side, the quantitative benchmarks for end- December 2001, end- March and end-June 2002 related to ceiling on net domestic financing of the government and net international reserves were met, with a large margin for the latter. The wage bill benchmarks as well were met. However, the benchmarks on total government revenues, and non accumulation of debt service arrears toward multilateral creditors were not observed. With respect to the structural benchmarks, significant progress was made although some measures were implemented with delays due mainly to difficult circumstances.

It had been anticipated that the last SMP review by the staff would be followed by a meeting in Paris with the donors' community, in order to reach an agreement on treatment of the Comoros' foreign debts. Unfortunately, the Paris meeting was postponed, owing to the lack of a clear general government budget that could help put in place a sound macroeconomic framework.

Recent economic developments.

Economic developments under the SMP were mixed. Notwithstanding the difficult political situation, the Union authorities endeavored to implement sound policy measures. For the Union as a whole, economic developments were broadly positive during 2001-mid 2002. Following more than a decade of stagnation, the real GDP reached about 2 percent in 2001, while as a consequence of demand pressures, inflation surged to 6 percent in 2001, before slowing down to 4 percent in 2002.

Improvement in the real output growth is a reflection of a surge in domestic demand subsequent to increase in the world prices of the archipelago's main export products, vanilla, cloves and ylang-ylang essence, the resumption of external-financed projects, notably from the World Bank and European Union, and also the lifting of the embargo on Anjouan. This achievement was made possible, partially on account of the authorities' efforts to improve exports, and higher prices for cloves due to hurricane damage effects in Madagascar, and production problems in Indonesia, two main competitors of the Comoros. As a result, there was a sharp improvement in the terms of trade, while the current account deficit contracted by more than 2 percent of GDP to 0.5 percent of GDP in 2001.

Since its secession from the Federation and due to the political and economic embargo, Anjouan has experienced difficult time until the new constitution was approved. Revenue was almost inexistent. The banking system ceased working. All payments were cash. Wage arrears skyrocketed. Anjouan has been so severely hit by the trade embargo imposed by the OAU in 2000 that following the Fomboni Accord, a special program was designed to help rebuild its administration in a bid to achieve a complete reintegration of Anjouan into the Union. Consequently, for the time being, the public financial operations of the Union government cover only Grande Comore and Mohéli, except Anjouan, owing to its high autonomy, and its special situation that calls for more revenue to catch up years of embargo.

Following the approval of the new Constitution, my Comorian authorities are confident that the reconciliation process is proceeding well. They have recently put in place a follow-up committee in charge to make sure that the different points of the agreement are implemented fully and in a timely manner. With the support of the *Organisation Internationale de la Francophonie* (OIF), the discussions on the By-laws *(les Lois organiques)* also are proceeding well, and should clarify revenue collection procedures and the distribution of revenue among the Union and the Island governments.
Presently, they have achieved consensus on 10 By- Laws out of 12. It is also encouraging to note that an agreement has been reached on general principles with respect to the fixation of domains of attribution for revenue collection for the Union and the Island governments, respectively. As regards the specific aspects of these issues, a seminar is scheduled to take place in November 2002, to go into more details on the explicit domain of each government.

The 2002 outlook and beyond.

Due to the difficulties encountered during the recent past years, my Comorian authorities agree that full economic recovery will take time to materialize. Indeed, the medium-term outlook is subject to uncertainties. The staff have underscored the continued political problems as the main downside risk to the medium –term scenario. However, the authorities should be commended for the progress made so far as regards efforts towards the social consensus that will pave the way for a solution to the long-standing fiscal problems. The authorities are determined to combat forcefully any situation that could hamper a rapid process of recovery.

In addition to the agreement achieved on general principles concerning the power sharing with respect to revenue collection and distribution, a follow-up committee was established to monitor the implementation of the remaining aspects of the new constitution and the authorities are confident of additional progress, so that there should be in 2003 a viable and stable sociopolitical situation that will lead to a more disciplined and coordinated fiscal stance. Also, a credible plan to settle domestic arrears is underway, while the acceleration and deepening of structural reforms should help to create the conditions that lead to a PRGF-supported program. In these circumstances, the real output growth is projected to improve during the next years to 4.5 percent in 2006 from 3.0 percent in 2002 with the gross domestic investment likely to increase from 10.6 percent of GDP in 2001 to 14 percent of GDP in 2006. In support of the PRGF program, the federal and the three islands governments officially launched in March 2002, a poverty reduction and growth strategy paper (PRSP) process, with wide participation by civil society on all three islands. Discussions which were also attended by the donors, and the staffs of the Fund and the World Bank underscored the importance of improving the physical infrastructure, access to long-term credit, legal protection, and increasing fiscal revenues and the efficiency of the civil service. The authorities are set to complete a full PRSP by end-May 2003.

On the fiscal front, the authorities expect to achieve a government revenue amounting 14.9 percent of GDP in 2002, 1 percentage point higher than last year. The Union government should be commended for its determination to fully implement the tax measures contained in the 2002 budget to avert the prospective revenue shortfall. To this end, the government will enact a 3 percentage point tax increase on certain basic goods, notably cement and rice, coupled with measures to strengthen tax and customs administrations. Also, a number of exemptions will be eliminated, while favorable special treatment for Anjouan should be terminated, raising its tariffs to the level of that of other Islands.

At the same time, the outlook for expenditure should improve with the postponement of the planned salary increase for 2002 and the continued restraint in wage bill. Meanwhile, a particular attention will be devoted to the improvement of transparency, the management of domestic debts, and the treatment of the wage arrears.

As regards the monetary, financial and external sectors, the government intends to reduce the interest rate, in order to give a boost to the economy in a more promising environment of declining inflation and moderate level of the broad money. The authorities are confident to successfully conduct their monetary policy since all the three Island governments agree that despite the large autonomy granted to them, the monetary policy will be the competency of the Union government. A new governor for the *Banque Centrale des Comores* (BCC) will be appointed. They are also determined to improve the efficiency of the financial sector and bring the commercial banks to comply with the prudential ratios formulated by the BCC. The authorities are of the view that the fixed exchange rate is paying off and provides an anchor for the financial stability, particularly at this time of new institutions. In the trade area, the government is requesting assistance from the COMESA to help assess the potential revenue loss from joining the free trade area, and is determined to normalize its relations with external creditors.

With respect to structural reforms and governance, the authorities are resolved to speed up the divestiture program and accelerate the pace of structural reform, in order to strengthen private sector development and growth. To this end, they are of the view that it is essential that the island governments implement the measures relative to collection rates and make the fiscal accounts transparent. Improvement of governance will also be an important objective of the authorities.

Conclusion

Finally, given that the authorities consider the widespread poverty in the Comoros to be a key factor in the recent political problems, constant efforts have been devoted to the interim PRSP elaboration. The government is well aware that in support of its interest in starting on a program supported by a PRGF arrangement as soon as possible, it needs to establish a track record under a new SMP before qualifying for debt relief under the HIPC Initiative. The authorities hope that such a program can be started soon.