August 2005
IMF Country Report No. 05/299

Union of the Comoros: 2005 Article IV Consultation and First Review Under the Staff-Monitored Program—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Union of the 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 a combined discussion of the 2005 Article IV consultation with Union of the Comoros and the first review under the staff-monitored program, the following documents have been released and are included in this package:

- the staff report for the combined 2005 consultation and first review under the staff-monitored program, prepared by a staff team of the IMF, following discussions that ended on May 10, 2005, with the officials of Union of the Comoros on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 1, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of July 19, 2005 updating information on recent economic developments.

- a Public Information Notice (PIN), summarizing the views of the Executive Board as expressed during its July 18, 2005, discussion of the staff report on issues related to the Article IV consultation and the review under the staff-monitored program.

- a statement by the Executive Director for the Union of the Comoros.

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

Letter of Intent sent to the IMF by the authorities of Union of the Comoros*

*May also be included in Staff Report

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

Staff Report for the 2005 Article IV Consultation and First Review Under the Staff-Monitored Program

Prepared by the African Department

(In consultation with other departments)

Approved by Thomas Krueger and Ambroise Fayolle

July 1, 2005

- **The discussions on the 2005 Article IV consultation and first review under the Staff Monitored Program (SMP) were conducted during April 26-May 10, 2005**, in parallel with a World Bank mission. The staff team consisted of Mr. van den Boogaerde (head), Mr. Yao, Mr. Haacker, and Ms. Duggar (all AFR).

- **The Comoros representatives included** Mr. Ahamadi Abdoulbastoi, Minister of Finance and the Budget of the Union, Mr. Ibrahim Ben Ali, Governor of the Central Bank of the Comoros, the Ministers of Finance of the three island governments, and other Ministers and senior officials. The mission was received by the President of the Union and the Presidents of the three island governments, and met with private sector representatives and civil society, donors, and the media.

- **Comoros has accepted the obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement** and its exchange system remains free of restrictions for current international transactions.

- **At the conclusion of the previous Article IV consultation on April 30, 2004** (Country Report No. 04/259), Executive Directors underscored the urgency of pursuing a coherent economic reform strategy, and hoped this would be facilitated soon by the resolution of the political difficulties. They called on the authorities to pursue fiscal policies compatible with debt sustainability, and to ensure that decentralization is consistent with sound economic management at the national level.

- **A SMP was approved in early February 2005** (Country Report No. 05/77). It covers 2005 and aims at restoring the credibility of economic management, putting public finances on a sound footing, improving financial intermediation, and accelerating structural reforms. Satisfactory performance under the SMP would provide a track record of policy implementation that could lead to a PRGF arrangement in early 2006 and, eventually, to debt relief under the enhanced HIPC initiative. Relations with the IMF and the World Bank are summarized in Appendices I and II, respectively, and statistical issues are discussed in Appendix III.

Contents

Figures

Boxes

Tables

Appendices

EXECUTIVE SUMMARY

- **The political situation has improved** reflecting the enhanced cooperation between the island governments. Following the adoption of the organic laws on the delineation of responsibilities and revenue sharing, the Union parliament is examining the relevant implementing legislation.

- **Economic growth remained lackluster in 2004** due to a depressed world demand for vanilla and crop and cattle diseases. Government revenue stagnated, while wage outlays rose significantly on account of hirings associated with the new constitutional arrangements. Monetary policy remained prudent, but inflation increased slightly. The external current account improved, with a sharp increase in private remittances more than offsetting a worsening of the trade deficit.

- **The authorities and staff expected growth to pick up in 2005** with the successful treatment of agricultural diseases and a rebound in tourism. Staff cautioned that the country's immediate challenge will be to reach an agreement on financing the losses incurred in the vanilla sector during the last two years and on the price structure for the 2005 vanilla crop, in order to remain competitive in the face of depressed world demand.

- **The authorities and the staff agreed that the medium-term challenge is to set the country on a path of sustainable growth and poverty reduction**, in the context of high transport and energy costs, exports prone to price fluctuations, and eroding external competitiveness. This would require continued political cooperation and macroeconomic stability, efficiency improvements in agriculture, the expansion of growth-enhancing sectors such as tourism and fishing, improved financial intermediation, and further development of the private sector. However, significant risks remain to achieving strong medium-term growth, including renewed political infighting and exogenous trade shocks.

- **The staff welcomed the authorities' efforts to improve the poverty reduction strategy** articulated in the 2003 draft I-PRSP, with a view to making progress towards the Millennium Development Goals. The staff called for more involvement of the island administrations and stressed the importance of closely linking the medium-term investment program with the I-PRSP.

- **Performance under the SMP in the first quarter of 2005 was mixed**. Several indicative targets were breached owing to a shortfall in domestic revenue and an overrun in wage outlays. However, the mechanism for the payment and redistribution of shared revenue was adhered to, the authorities kept a tight lid on other spending, the cooperation between the island and the Union governments has improved, and the political will to see the program succeed remains strong. Achieving the end-2005 program targets would require the authorities' constant and unwavering determination.

I. Introduction

1. **After nearly a decade of political turmoil, significant progress has been achieved with national reconciliation and inter-island cooperation**. Following the adoption of the organic laws on the delineation of responsibilities and revenue sharing rules, the Union parliament is examining the relevant implementation legislation. This includes recently adopted legislation detailing the mechanisms for the rotating presidency envisaged in the constitution.

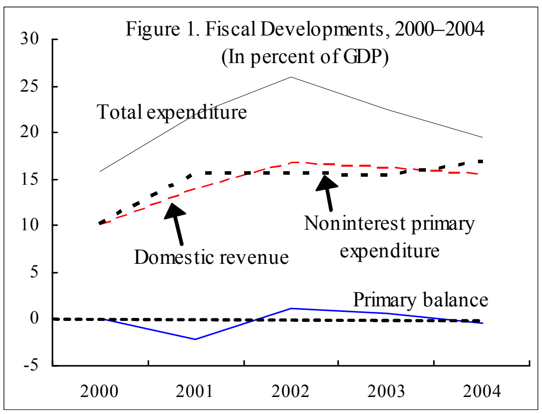
2. **The authorities' response to past Fund advice was severely hampered by political tension and civil strife.** Over the past decade, these factors have largely prevented the implementation of coherent policy reforms. More recently, the authorities have adopted the Fund's recommendations on implementing policies conducive to the restoration of confidence, including the revenue-sharing formula, the joint administration of the customs office, and the transfer of spending competencies to the island governments. However, progress in civil service reform, the budget process, and domestic and external arrears reductions has been very limited. This reflected weaknesses in the fiscal framework, as well as limited institutional capacity and low donor support.

II. Recent Developments

3. **Real GDP growth remained lackluster while inflation rose slightly in 2004**. The weak GDP growth (around 2 percent) implies a further reduction in GDP per capita of 0.8 percent and was primarily due to crop and cattle diseases and to a decline in vanilla production as a result of the collapse in world prices. The increase in inflation to 4½ percent, as measured by the CPI, was due primarily to higher prices for petroleum products and to buoyant domestic demand fueled by a surge in private transfers from abroad.

4. **The fiscal outcome was mixed in 2004.** The primary fiscal balance deteriorated by 1 percent of GDP, to a deficit of 0.5 percent of GDP, because of sluggish revenue growth due to the non-implementation of the revenue-sharing agreements between the islands at the beginning of the year[1] and the limited administrative capacity following the devolution of tax collection competencies to the island governments, and a significant increase in the wage bill (Figure 1). The overall deficit (commitment basis, excluding grants) improved by 2 percent of GDP, to 4.4 percent of GDP, on account of substantially lower foreign-financed investment spending. The deficit was essentially financed by a further accumulation of domestic and external arrears.

Figure 1. Fiscal Developments, 2000–2004
(In percent of GDP)



[1] Revenues are collected by the Union and the three island governments, with the Union accounting for about three quarters of all revenue collected in 2004 (Table 3). Taxes are assigned either to the collecting government or to a common pool for redistribution (48 percent of all revenues in 2004). The shared revenues were allocated according to the following key: debt service and international contributions (17.5 percent), pensions (5.5 percent), outside services (2.6 percent), and to the governments of the Union (27.9 percent), Ngazidja (20.4 percent), Anjouan (19.1 percent), and Mwali (7.0 percent), respectively.

5. **Fiscal developments in the first quarter of 2005 have been characterized by continued low revenues and wage pressures**. Concerning the revenue shortfall, the discussions revealed major seasonality patterns that had not been available to the previous mission and that suggest that revenue performance in the first quarter has historically been weak. These seasonality factors were the main reason behind the revenue shortfall in the first quarter. Moreover, delays in adopting the 2005 Finance law (only in late January) and in implementing the revenue measures, and lower customs receipts because of a delay in the arrival of a rice shipment and shortages of cement also contributed. Delays were also encountered in putting in place the civil service reform, causing wage outlays to be about 10 percent higher than targeted. However, non-wage current expenditures were lower than anticipated, so that total primary current expenditure was below program target. The primary balance, while well below the program target, was positive.

6. **In 2004, monetary developments reflected reduced lending to the vanilla sector**. Since the mid-1990s, broad money has closely mirrored developments in net foreign assets (Figure 2). Despite the sharp increase in remittances, net foreign assets fell, reflecting lower vanilla export receipts and a decline in foreign assistance. In addition, the banking sector reduced its credit to the economy (Figure 3). As a result, broad money fell by about 5 percent. However, net claims on the government increased slightly. These trends of declining net foreign assets and broad money continued during the first quarter of 2005. Because of a lack of lending opportunities, the sole commercial bank held excess reserves equivalent to twice the required level. In a context of difficult access to financial intermediation, microfinance institutions have increased and broadened their activity (Box 1).

7. **The external current account improved in 2004**, as a sharp increase in private remittances more than offset a worsening of the trade deficit. The surge in remittances was due to an increase in emigrant visits as a result of the availability of direct flights to Europe during the summer of 2004.

Figure 2: Net Foreign Assets, Credit and Money, 1990-2004
(In billions of Comorian francs)

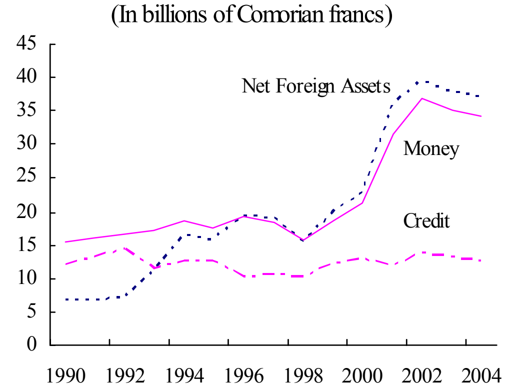
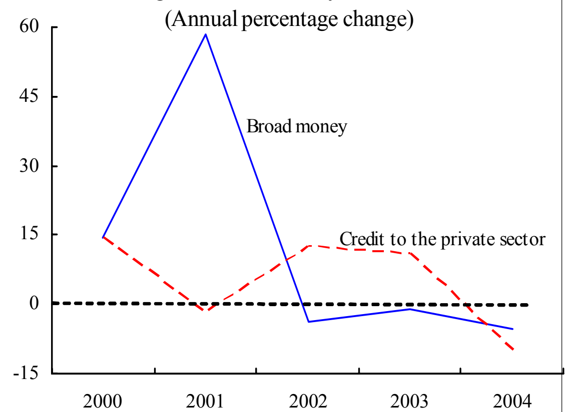


Figure 3. Broad Money, 2000–2004
(Annual percentage change)



Box 1. Comoros: Microfinance Institutions

The Comoros' financial sector is underdeveloped and highly concentrated with only one (foreign-owned) commercial bank (Banque pour l'Industrie et le Commerce-Comores—BIC). As a result, a large segment of the population is excluded from the financial market. In an attempt to broaden financial intermediation, the government, with the financial support of the International Fund for Agricultural Development (IFAD) and the French Development Agency (AFD) set up two microfinance networks in 1997—the Meck and Sanduck.

These microfinance institutions (MFIs) have expanded rapidly. After some initial difficulties due to the country's political instability, they grew in size and diversified their activity. During 2002-2004, both deposits and lending expanded at an average annual rate of 26 percent and 38 percent respectively, while BIC's deposits declined by around 6 percent and its lending stagnated. In addition, lending became more diversified, and small business loans have become a prominent part of the MFIs activity. As a result, the share of MFIs in domestic financial sector deposits grew from 13 percent in 2002 to 20 percent in 2004, and in domestic credit from 16.5 percent to 27.4 percent over the same period. Membership has increased from 30,632 in 2002 to 47,451 in 2004, in both rural and urban areas of all three islands. Loans have covered a range of activities from smoothing consumption to agriculture, including vanilla growing, fishing and commerce.

The MFIs follow the model of financial cooperatives. They rely only on their deposits to fund lending operations. So far, grants from donors have been allocated to training, acquisition of equipment, and operating costs. As a result, emphasis has been placed on protecting depositors. Loan size is limited to FC 5 million (approximately US$12,500) and twice that amount for the vanilla sector. Loan recovery is reportedly high. Collaterals are set at about 40 percent of the loan amount, which is relatively high given the low per-capita income and has constituted barriers to access to financial services provided for the very poor. MFIs have until recently operated with scant supervision. Since June 2005, the Meck is subject to regulatory oversight by the central bank. The Sanduck will be subject to central bank oversight after completing an overhaul of its accounting framework.

The deterioration of the trade deficit was essentially linked to the substantial reversal of the large terms of trade gains recorded in 2003, as vanilla prices collapsed to less than a quarter of their former levels and fuel import prices increased in line with world market developments. The overall deficit was financed by a further accumulation of external arrears and a drawdown in international reserves, which nonetheless remained at about 11 months of imports of goods and services.

III. Report on the Discussions

A. Immediate Policy Challenges and Outlook for 2005

8. **The authorities expected a moderate rebound in economic growth in 2005**. This would reflect the successful treatment of the diseases that affected certain crops and cattle in 2004, and a projected recovery in tourism with the reopening of a major hotel. On inflation, the authorities agreed that price pressures should remain subdued in line with the fixed currency peg.

9. **Staff stressed that this outlook is subject to significant downside risk**. Without an agreement (within the confines of the SMP program) on the financing of the losses incurred by the vanilla sector during the last two crop years and on lowering the domestic pricing structure for 2005 to at least break even in the face of depressed world prices, no credit would be available for the new crop.[2] If so, the 2005 vanilla crop might not be harvested, with dire consequences for growth, rural incomes, and the solvency of the microfinance sector. The authorities stressed that a crisis committee

[2] The banking system is unwilling to finance the new crop unless overdue credits are repaid. Also, exporters would be unwilling to buy the crop if the new domestic price structure entails a loss. For more details on developments in the vanilla sector, see Country Report No. 05/77, p.7.

has been set up to resolve these issues. It is exploring the possibility of obtaining foreign financing for onlending to the farmers, with the repayments subsequently used to restructure the sector.[3] Staff urged that pricing be differentiated according to quality from 2005 onward in order to promote an improvement in quality, to which the authorities concurred.

10. **The mission agreed with the authorities that the transition to a decentralized fiscal system had been reasonably successful so far**. Recognizing that the shortfall in revenues in the first quarter was primarily due to adverse seasonal patterns that should not prevent achieving the end-2005 targets, the mission revised the quarterly targets for June, leaving the end-September targets virtually unchanged. To reverse the overruns on the wage bill, staff and the authorities agreed on the urgency to implement the programmed measures to reduce wage outlays. As an immediate measure, the government of Moheli introduced a salary cut of 20 percent for all supervisory staff. The mission urged the Union and the other island governments to follow suit. Also, staff pointed out that budget implementation remains weak and is hampered by a lack of timely fiscal data. The authorities indicated that an inter-island committee had been set up and was meeting monthly to prepare the fiscal accounts.

B. Medium-Term Prospects and Challenges

11. **Staff and the authorities agreed that the principal medium-term challenge facing the Comoros is to set the country on a path of sustainable growth and poverty reduction.** The Comoros is a small, insular, and essentially dual economy comprised primarily of agriculture and services, with a limited industrial sector. Exports are concentrated in light-weight vanilla, cloves and ylang-ylang perfume essence, which are prone to significant world price volatility. Against the background of years of political instability, waves of emigration of skilled labor, deterioration of infrastructure, high energy and transport costs, and, more recently, low international prices for vanilla, the staff emphasized the need for a coherent strategy for development, and improved coordination and cooperation at the sectoral level.

12. **Primarily due to political instability and lower levels of foreign assistance, investment has fallen over time**. As shown in Box 2, the contribution of physical capital to growth has fallen from about half of GDP growth in the post-independence period (1977-1986) to a negative contribution in recent years. Staff indicated that reaching the medium-term goal of accelerating real growth to 5 percent per year by 2008 would require increasing investment and significantly boosting total factor productivity.

---

[3] The government has no legal obligation to settle the losses from previous years. Moreover, since 2005 it is not intervening anymore in the price setting mechanism. It is trying to intermediate in obtaining foreign financing to avoid a collapse in this vital sector for the Comorian economy, but the authorities insisted that a solution should not involve budgetary resources.

Box 2. Comoros: Sources of Growth

A standard growth accounting framework is used for the analysis of the sources of growth, namely the Cobb-Douglas production function $Y = AL^{0.6} K^{0.4}$, where Y is real GDP, A is total factor productivity (TFP), L is labor, and K is physical capital. The capital stock series was constructed by using the perpetual inventory accumulation method, and assuming a constant depreciation of 6 percent and a capital-output ratio of 1.5 in 1975 (the technical assumptions are in line with those used for African economies, see Akitoby, Ghura, Tahari, and Brou Aka, "Sources of Growth in Sub-Saharan Africa," IMF Working Paper No. 04/176). Population growth was used as a proxy for labor force growth before 1984. The results are fairly robust to small variations in the coefficients underlying the production function, but should be viewed as indicative because of shortcomings in the national accounts.

Comoros: Contribution to GDP Growth, 1977-2008

	1977-2004	1977-1986	1987-1996	1997-2004	2005-2008 Proj.
Real GDP Growth (in percent)	2.4	4.5	0.3	2.3	3.8
Contribution from (in percent):					
Physical capital	0.8	2.0	0.3	-0.3	0.2
Labor Force	1.8	2.2	1.8	1.3	1.7
Total Factor Productivity	-0.2	0.3	-1.9	1.3	1.9

Sources: Comorian authorities and staff projections.

The **main result** is that, since 1977, about two-thirds of the average real GDP growth of 2.4 percent can be attributed to the contribution of labor and about one-third to capital. The contribution of TFP is slightly negative. However, the findings differ over selected sub-periods:

- **The early period after independence**, 1977-1986, was characterized by high investment levels fueled by foreign assistance. Labor and capital contributed about equally and the contribution of TFP was slightly positive, resulting in a relatively high real GDP growth rate.

- **In the period of severe political instability,** 1987-1996, average real GDP growth declined to 0.3 percent per year. As investment levels fell, the contribution of capital fell significantly from the previous decade. The political instability resulted in emigration, leading not only to decline in the contribution of labor, but also to a significant loss of human capital, reflected in the decline in total factor productivity.

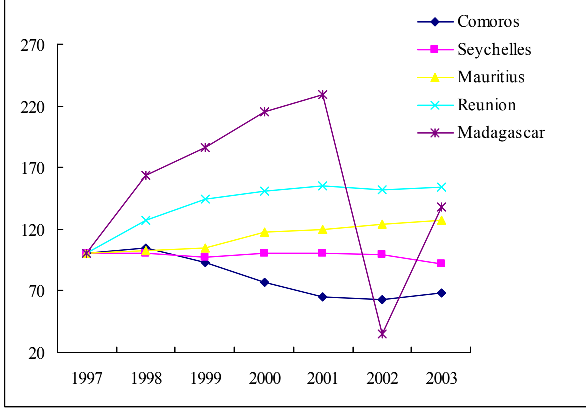
- **In the secession and reconciliation period,** 1997-2004, average real GDP growth improved to 2.3 percent per year. The lingering political instability continued to impair new investment and the contribution of capital to growth continued to decline and became negative. At the same time, the normalization of the economic environment, the slowing down of skilled labor emigration, and the positive supply response to the temporary jump in international vanilla prices led to an increase in total factor productivity.

- **Gradually lifting real GDP growth to about 5 percent per year by 2008 would require either an increase in investment or total factor productivity of about 2 percent per year**. To increase investment, the government would face a trade-off between financing domestic public investment and repaying wage arrears to consolidate social stability and boost private sector investment. To improve total factor productivity could prove even more challenging as it would require ensuring political and macroeconomic stability; implementing efficiency improvements in agriculture; developing strategies to promote new sources of growth (such as tourism and fishing); reducing the role of the government in the economy; improving the business environment (including reforming the judiciary); privatizing public enterprises; expanding financial intermediation; and enhancing human capital by increasing labor force participation and attracting emigrants back to the Comoros.

13. **The authorities and the staff discussed measures to improve the economy's supply response**. The competitiveness of the Comorian vanilla sector has deteriorated as the real effective exchange rate has appreciated, while international vanilla prices have experienced a secular decline with the advent of artificial vanilla flavoring and increased competition. The authorities should aim to take advantage of the Comoros' relatively high-quality vanilla, creating a niche market.

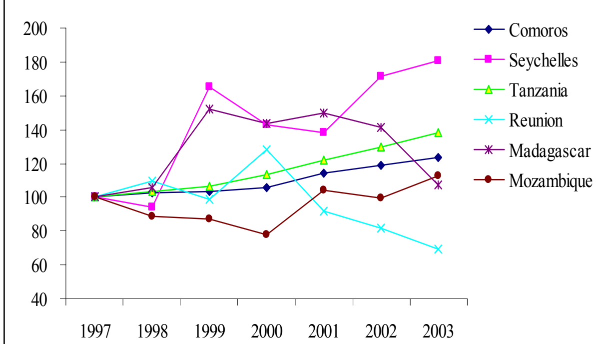
14. **The authorities considered the tourism sector as a potentially important source of higher economic growth.** Tourism in the region has generally increased in recent years, except in the Comoros where it has declined (Figure 4). Re-establishing air links, simplifying visa procedures, and promoting the Comoros as a destination for specialized tourism (as it has been done in Reunion or Madagascar) could elicit a recovery in tourist arrivals and revive the mothballed hotel infrastructure. In this vein, the authorities pointed to the re-opening of a major hotel in Ngazidja and the opening of vacation complexes operated by village cooperatives on the island of Moheli.

Figure 4. Index of the Number of Tourist Nights, 1997–2003



15. **Fishing potential in the Comoros is significant** as catch in its territorial waters significantly falls short of that in neighboring countries[4] (Figure 5). A recent fishing license agreement with the European Union was an important step in this direction and the authorities envisaged expanding into fish processing and farming.

Figure 5. Fishing Volume Index, 1997-2003



16. **Staff and the authorities agreed that the competitiveness of the economy has been eroded over recent years** (Box 3). The competitiveness gains brought about by the 1994 devaluation of the Comorian franc were essentially preserved until 2000. But with the subsequent appreciation of the euro, most of the gains have been lost. In addition, an increase in the price of non-tradable goods, brought about by a buoyant demand from record-high vanilla prices in 2002-2003 and a surge in private remittances in 2004 has further hampered competitiveness. The authorities agreed that the loss in competitiveness would likely impair international reserves and had weakened the prospects for the tradable sector, including tourism. However, they stressed that the exchange rate regime had served the Comoros well overall, by preserving monetary stability and low inflation. The staff concurred with the authorities, but emphasized the need to implement macroeconomic and structural policies to enhance competitiveness.

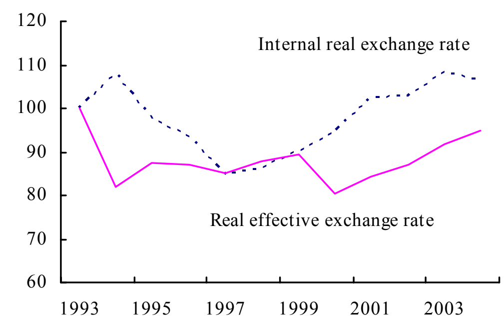
[4] Fishing volume in the Comoros is only 40 percent of the fishing volume in the Seychelles, and only 15 and 4 percent respectively of the fishing volumes of Guinea-Bissau and Senegal, countries with much smaller territorial waters.

Box 3. Comoros: Competitiveness

Comoros is a member of the Franc zone and the Comorian franc is fixed to the euro. Membership in the Franc zone circumscribes monetary policy and imposes a firm and coherent framework for the operations and management of the Central Bank, including a strict limit on lending to the government. In 1994, Comoros devalued the Comorian franc by 33 percent (versus the 50 percent devaluation in the CFA franc zone countries).

A preliminary analysis of external competitiveness was performed, using two traditional indicators of competitiveness (see chart): the external real effective exchange rate (REER, CPI based), and the internal real effective exchange rate (IRER), which measures the relative price ratio of non-tradable to tradable goods. An analysis of the REER rate suggests that the 1994 devaluation substantially strengthened the competitiveness position of the Comoros and that competitiveness gains were preserved until 2000. However, after 2001, most of the competitiveness gains appear to have been lost, primarily due to the appreciation of the euro. By 2004, the Comorian REER was about 95 percent of its pre-devaluation level.

Internal Real Exchange Rate vs.
Real Effective Exchange Rate, 1993-2004



The IRER, here proxied by the ratio of the prices of non-tradable to the prices of tradable goods in the CPI, can be an appropriate measure of competitiveness for small economies where the cost of production is reflected in the price of non-tradable goods, and where the price of imports is determined in the world market. As shown below, the fluctuation in the IRER followed that of the REER, but with wider amplitude. In particular, after 2001, real incomes rose significantly due to the temporary surge in world vanilla prices and in private remittances, which led to an increase in the prices of non-tradable goods, while the increase in prices of tradable goods was countered by the appreciation of the euro.

17. **The authorities concurred that significant risks to achieving strong medium-term growth remained**. On the domestic front, given the lingering mistrust between the island governments, a relapse into political infighting remains a distinct possibility. A renewed power struggle would depress growth, fiscal consolidation, domestic savings and investment, and foreign financing for investment (as illustrated in the low-case scenario of the text table). Risks also lie in the external environment, given the Comoros' vulnerability to terms of trade shocks and its dependence on a narrow export base and on concessional external assistance.

Comoros: Selected Economic Indicators under Two Scenarios, 2004-2008

	2004	2005	2006	2007	2008
	Prel.	Proj.			
Policy-Reform Scenario					
		(Annual percentage change)			
Real GDP	1.9	2.8	3.3	4.1	5.0
Consumer price index (annual averages)	4.5	3.0	3.0	3.0	3.0
		(In percent of GDP)			
Revenue	15.4	16.5	16.5	17.1	17.2
Current expenditure	15.5	15.1	15.2	15.4	15.5
Primary balance 1/	-0.5	1.8	1.8	2.0	1.9
Overall balance (commitment basis) 1/	-1.7	-0.5	-2.9	-1.8	-1.7
Gross investment	10.2	10.9	13.5	13.8	14.0
Gross domestic savings	7.6	4.5	5.4	8.0	8.9
Current account balance 2/	-2.7	-6.4	-8.2	-5.8	-5.1
Low-Case Scenario					
		(Annual percentage change)			
Real GDP	1.9	2.0	2.0	2.1	2.1
Consumer price index (annual averages)	4.5	3.0	3.0	3.0	3.0
		(In percent of GDP)			
Revenue	15.4	15.4	15.4	15.4	15.4
Current expenditure	15.5	15.5	15.6	15.9	16.0
Primary balance 1/	-0.5	0.3	0.4	0.1	-0.1
Overall balance (commitment basis) 1/	-1.7	-2.0	-2.0	-2.1	-2.1
Gross investment	10.2	10.8	10.5	10.1	9.8
Gross domestic savings	7.6	4.5	4.2	5.7	6.0
Current account balance 2/	-2.7	-6.3	-6.3	-4.3	-3.8

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

1/ Including grants.
2/ Including official transfers.

Fiscal policy

18. **The authorities stressed their firm determination to implement fiscal policies geared to supporting domestic and external sustainability**. The overriding goal of the 2005 budget is a primary domestic surplus equivalent to 1.8 percent of GDP, entailing a domestic fiscal adjustment of 2.3 percent of GDP, to be achieved about evenly by revenue and expenditure measures.[5] A financing gap equivalent to US dollar 1.5 million remains that is expected to be covered by a bilateral grant. Staff and the authorities agreed on a medium-term fiscal path that leads to a gradual reduction in the overall deficit after 2006. Compared with previous projections, it accommodates the authorities' projections for somewhat higher foreign financed investment spending, and complementing this, somewhat higher primary current expenditure financed by slightly higher bank credit.

19. **The conduct of fiscal policy is constrained by limited access to domestic or external credit and weaknesses in budget implementation**. As monetary policy is geared towards maintaining the fixed peg, access to domestic credit for the central government is limited. The island governments cannot borrow and operate essentially under a cash constraint. Owing to weaknesses in budget implementation, a lack of timely fiscal data, and an erratic profile of key components of customs revenue, shortfalls in funds cannot adequately be accommodated. This means that fiscal policy is

[5] For more details, see Country Report No. 05/77, paragraph 9.

largely procyclical, and that shortfalls in domestic revenue immediately translate into a build-up of domestic arrears.

20. **The authorities intended to move forward with the reform of customs services, tax policy, and budget management**. Ahead of the planned outsourcing of customs services, all temporary personnel at the customs has been let go and an ambitious and time-bound reform program has been initiated with the assistance of the World Bank. Separately, the authorities have prepared a revised schedule of tariff rates to be adopted in the 2006 Finance law, after review by the FAD tax policy mission scheduled for July. The authorities were also considering concrete steps in view of staff's advice to strengthen budget preparation, implementation, and monitoring to improve expenditure control and achieve greater transparency and accountability.

21. **Looking ahead, the mission advised the authorities to seek ways to diversify fiscal revenues** away from customs duties, which average 35 percent and account for almost half of fiscal revenue. With a limited number of merchandise shipments, the timing of fiscal receipts is highly volatile and the very high tariff levels encourage fraud and hinder trade and competition. Against this background, the authorities agreed that, as the economy recovers, policy efforts should be directed toward gradually lowering customs duties, in line with the Comoros' regional commitments under COMESA, and favoring internal taxation, notably a broad-based consumption tax. They indicated that the proposed tariff reform would generally lower tariffs, and the ensuing loss in revenue would be made up by domestic taxation measures to be agreed on with the FAD technical assistance mission.

22. **The mission expressed concern about the continuing high level of the wage bill**. Boosted by the staffing of the new political institutions, the wage bill reached 56 percent of current expenditure in 2004, well above international levels.[6] Staff and the authorities agreed on the urgency of forcefully pursuing the implementation of the planned reform to streamline the civil service and lower the wage bill.

Monetary and financial policies

23. **The authorities agreed that membership in the Franc zone had provided a firm nominal anchor and limited inflation, but wished to explore ways to increase budgetary financing by the central bank**. They noted that this could help accelerate the settlement of domestic arrears. The mission stressed that the independence of the central bank should be strictly respected, preserving the tight limits on monetary financing of fiscal deficits and low inflation. Staff noted that this is especially necessary since foreign exchange in circulation may be underestimated due to the large share of remittances being channeled through the informal sector, and domestic monetary aggregates may constitute a poor predictor of inflationary pressures. In this respect, the authorities indicated a number of actions being envisaged to lower the cost of transfers through official banking channels.

24. **The authorities underscored that the underdeveloped and uncompetitive financial sector is a major constraint to economic growth**. They indicated that the single commercial bank appears sound and complies with international prudential ratios. In 2004, its level of nonperforming loans was 17.6 percent of total loans, compared with 25.1 percent in 2002, and most of these nonperforming loans have been provisioned. They stressed, however, that it offers a limited range of services, and excludes many economic operators from the financial market. The authorities took comfort that the

---

[6] By comparison, this ratio in the West African Economic and Monetary Union countries averaged 45 percent in the 1999-2004 period.

two microfinance networks have been stepping up their lending to small businesses and households, but admitted that they might have overextended themselves, notably in their exposure to the vanilla sector, and have so far operated with scant supervision. The staff welcomed the recent submission of the Meck to central bank regulatory oversight, and urged that the Sanduck follow suit as soon as its accounting framework has been overhauled.

25. **The authorities and the staff agreed on the need for restructuring the remainder of the financial sector**. The authorities indicated that the financial situation of the Comoros Development Bank (BDC) remained weak as key measures related to the reduction of its operating costs have yet to be implemented. However, the BDC has limited its lending and contained its operating cost in 2004. Staff urged the authorities to take resolute actions for its restructuring before allowing it to expand its lending operations. The authorities pointed out that the postal financial services company has started collecting demand deposits and requested a banking license, following the break-up in 2004 of the Post and Telecommunication Company. The authorities took note of staff's call for separating its financial services from its postal activity and providing banking training to the staff before granting a banking license. Also, staff indicated that, while the measures taken by the authorities to prevent money laundering appear to be appropriate, they should be implemented decisively.

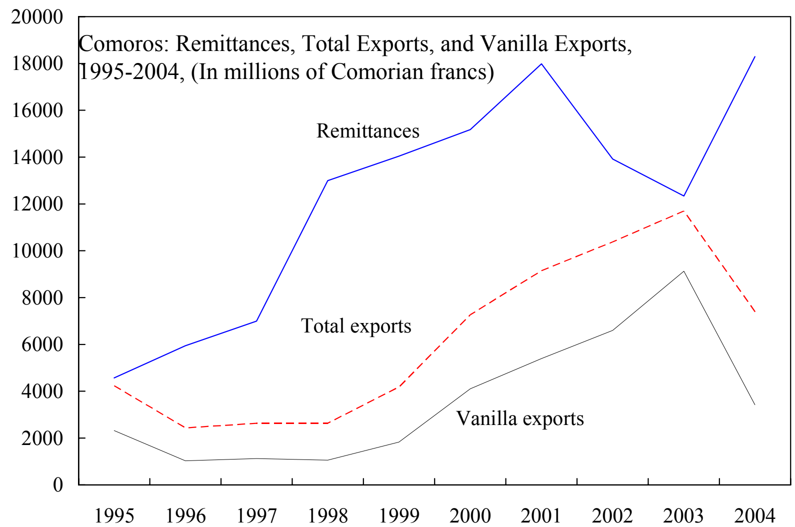
External sector policies and debt

26. **The Comoros external current account is expected to weaken in 2005–06.** The deterioration would reflect continued depressed conditions for vanilla exports, weak competitiveness (as discussed above), and higher-than-projected donor-financed imports. The authorities pointed out that this deterioration in the trade account would be partly offset by expatriates' remittances, that have been a fairly stable source of income and would continue to sustain domestic absorption (Box 4). Staff cautioned, however, that over the medium-term remittances might diminish with a third generation of Comorians overseas having looser ties with the homeland, and with emigration having been limited since the 1990s.

27. **The authorities pointed to their efforts to gradually reduce tariffs and liberalize trade,** noting also their commitments to that end under COMESA. Staff welcomed the elimination of export taxes on cash crops and the harmonization of import duties among the island governments in the 2005 Budget law. However, it indicated that tariff levels remain high by international standards. The authorities explained that these high tariffs were solely for revenue purposes and had no protectionist character, in the absence of local production of most goods concerned. They also pointed out that the proposed new tariff structure, to be adopted at the time of the 2006 Finance law, would lower the average tariff rate. Comoros has applied for membership in the World Trade Organization (WTO), and the Integrated Framework Working Group decided in April 2005 that the World Bank will be undertaking a technical review for the Comoros.

Box 4. Comoros: Workers' Remittances

The Comoros is one of the leading countries in the world in terms of dependence on workers' remittances. Over the period 1995-2004, workers' remittances (mainly from Comorian expatriates in France, Madagascar and Tanzania) grew at a fast pace and constituted the major source of foreign exchange earnings. At 9 percent of GDP, they represented about twice average exports earnings, and are larger than foreign aid inflows.



A recent World Bank study[1/] indicates that the flow of remittances has been driven by: (i) the large size of the Comorian expatriate community, estimated at about 25 percent of the population, (ii) the higher earning capacity of the Diaspora in recent years, and (iii) family ties, altruism, and the desire to acquire real estate in the homeland. The study also reveals that remittances are primarily used to finance consumption. Remittances have helped smooth consumption in the face of volatile export earnings and government salary arrears, thereby contributing to alleviate poverty.

Reflecting the high cost of formal transfers through the financial system, an estimated 80 percent of remittances are sent through informal channels (cash carried by family or acquaintances) or in kind. Although these forms of remittances are not entirely captured by official data, they influence consumer prices, which have been increasing in recent years despite the decline in money supply.

In the long run, the dependence on workers' remittances as a major income source poses risks. The Comorians born overseas are likely to respond differently to family ties than previous generations. In addition, the opportunities for new emigration to Europe have been limited since the 1990s.

[1/] V. Da Cruz, W. Fengler, A. Schwartzman (October 2004) "Remittances to Comoros-Volume, Trends, Impact and Implications", African Region Working paper Series No.75.

28. **The Comoros' external debt burden is unsustainable and has resulted in a continued accumulation of external payments arrears**. A preliminary debt sustainability analysis[7] based on end-2004 data suggests that the net present value (NPV) of external debt in percent of exports reached 406 percent at end-2004. Under an optimistic baseline scenario, the ratio of debt to exports is expected to remain above the HIPC Initiative indicative threshold of 150 percent until 2022. Similarly, the NPV of debt-to-revenue ratio, at 398 percent in 2004, remains above the HIPC threshold of 250 percent in the long term (Appendix IV, Tables 1 and 2). In this context, staff emphasized the importance of adopting policies which would allow reaching the HIPC Decision and Completion Points quickly. The staff urged the authorities to service current debt obligations to multilateral creditors[8] as provided for in the budget, and encouraged them to seek a rescheduling of existing bilateral debt[9] as an interim step to a comprehensive solution under the Enhanced HIPC Initiative.

Structural reforms

29. **The authorities emphasized the importance of reforming the judiciary and improving governance**. A number of implementation laws and decrees are under preparation to streamline the judiciary and strengthen the power of the courts so as to promote the rule of law and its impartial enforcement. The fight against corruption includes a number of actions to combat corruption at customs.

30. **The authorities indicated that they intend to implement their program for public enterprise reform and privatization**. The assistance of IFC has been requested in the preparatory work for the privatization of the Comoros Hydrocarbons Company and Comore Télécom, and the authorities were confident that the agreed timetable will be adhered to. Also, steps have been taken to abolish the ONICOR monopoly on rice imports and to restructure the national pharmacy in an effort to reduce the price of generic drugs. Staff reiterated its call for policies to facilitate private sector development. In particular, the poor performance of public utilities continues to slow economic development. Staff and the authorities agreed on the need to accelerate the restructuring of the electricity company and reinforce the collection of electricity bills.

IV. Statistical Issues

31. **Significant problems remain in the areas of statistics** (Appendix III). Notably, the areas of public finances, the real sector, and balance of payments suffer major weaknesses. Some of the weaknesses in the fiscal area should be alleviated through the inter-island monitoring committee and three advisors to the finance ministry to be provided by the World Bank. Staff urged the authorities to redouble effort to address weaknesses in real sector statistics relating to data quality and coverage, notably by strengthening the statistical unit in the Planning Ministry.

---

[7] A fully updated debt sustainability analysis (DSA), prepared jointly with the Bank, is expected to be carried out before the next Article IV consultation, as Comoros falls in the transition period under the guidelines for the presentation of jointly agreed Fund/Bank DSAs.

[8] Comoros has accumulated significant arrears to some of the multilateral creditors (for details see Country Report No. 05/77, Table 6). Since February 2005, for the first time in many years, the Comoros have started to reduce arrears to the African Development Bank.

[9] Essentially ODA debt owed to China, Kuwait, and Saudi Arabia.

V. THE INTERIM POVERTY REDUCTION STRATEGY PAPER (I-PRSP)

32. **The mission discussed progress in preparing the I-PRSP and in achieving the Millennium Development Goals**. The staff welcomed the authorities' efforts to improve the poverty reduction strategy articulated in the 2003 draft I-PRSP, in light of a recently completed poverty survey. However, staff from the Fund and the World Bank suggested that the poverty reduction strategy should be better targeted to the specific needs of the islands, now that the responsibility for the social sectors has been transferred to them, and that the island administrations become more deeply involved in the preparation of the I-PRSP. Staff also stressed the importance of I-PRSP with a consistent macroeconomic framework, linked, inter alias, to the medium-term investment program. The authorities and the mission underscored the importance of appropriately managing the macroeconomic impact of higher aid flows that are critical in achieving the Comoros' poverty reduction targets.

VI. STAFF-MONITORED PROGRAM REVIEW

33. **Performance under the SMP in the first quarter of 2005 was mixed, but year-end targets remain achievable**. Essentially owing to the shortfall in domestic revenues and the overrun in wage outlays, the end-March 2005 indicative targets for the domestic primary balance, net accumulation of new domestic arrears, and accumulation of multilateral debt service arrears were missed. However, the mechanism introduced with the 2005 Finance law for the payment and redistribution of shared revenue among the islands has been adhered to, and the authorities kept a tight lid on nonwage spending. Reflecting significantly improved treasury management, the ceiling on expenditures made by cash advances was met. Also, the structural indicative target for end-February 2005 on the adoption of the final version of the organic law on the delineation of responsibilities was met. Underpinning this progress, there has been a noticeable improvement in the cooperation between the island and the Union governments, and in the political will to see the program succeed.

34. **The mission emphasized that achieving the overall program objectives would require strengthened policy implementation**. As the end-March outcome was heavily influenced by seasonal developments, staff and the authorities agreed on rephased quarterly targets for end-June and end-September 2005, while preserving the annual targets for December 2005 (Appendix V and Table 7). Agreement was also reached on a set of supplementary measures to secure revenues;[10] on the immediate implementation of the programmed measures to reduce wage outlays, including cutting wages for supervisory personnel and initiating the civil service reform with the assistance of donors in order to achieve the original year-end programmed targets; on a reduction of overseas missions; on the immediate implementation of the action plan to streamline customs; and on the opening of an office of the customs pre-inspection contractor also on the island of Anjouan. To secure the program's zero limit on domestic bank financing, the mission insisted on the need to safeguard the independence of the central bank. It also urged the authorities to initiate the preparatory measures, with the help of the IFC, for the planned privatizations later on in the year (Table 8). Staff indicated that any major slippages from the revised indicative targets would prevent initiating PRGF discussions based on end-September performance, and that satisfactory full-year performance would be needed for Board presentation of the PRGF.

---

[10] Including closing all the accounts outside of the shared revenue redistribution mechanism; application of stamp taxes to all administrative acts; audits of the parastatal entities to ensure that the fees collected are transferred to the treasury; and reinforcement of the cooperation between various tax authorities.

VII. Staff Appraisal

35. **The Comoros faces major challenges to achieve sustained economic growth and poverty reduction, following years of political turmoil**. Per capita income has declined continuously for over a decade and social indicators have deteriorated. In a context of depressed vanilla prices, a loss in external competitiveness, adoption of a decentralized fiscal management, and inefficient financial intermediation, progress will require continued cooperation between the Union and the island governments, significant efforts to improve the supply response and competitiveness of the economy, implementation of fiscal policies geared toward fostering macroeconomic stability, and steadfast commitment to reform.

36. **The risks to faster growth and successful policy reform are significant**. They include renewed political infighting, lack of diversification of the economy and vulnerability to trade shocks, and shortfalls in donors' support. In the important vanilla sector, the immediate urgency is to lower this year's cost structure to remain competitive in the face of depressed world prices, and to differentiate pricing according to quality to improve farmers' production incentives.

37. **The cornerstone for improving macroeconomic performance is continued inter-island cooperation on fiscal policies**. For the medium-term, achieving a sound fiscal policy will depend critically on optimizing the decentralized fiscal arrangement, as institutional weaknesses remain particularly in the island governments, on lessening the dependency on external trade taxation, and on lowering salary outlays to free up resources to bolster domestically-financed investment and social outlays. The government needs to steadfastly pursue the fundamental reform of the customs administration with the assistance of the World Bank, to gradually lower customs duties and replace them by a broad-based consumption tax, and to implement the planned reform to streamline the civil service. Strengthening efforts at budget preparation, implementation, and monitoring are also crucial to improve expenditure control and achieve greater transparency and accountability.

38. **Membership of the Comoros in the Franc zone has provided a firm monetary anchor and contributed to low inflation.** However, competitiveness has weakened considerably and more efforts are needed to strengthen the prospects for the tradable sector. Moreover, sustaining the currency peg requires tight limits on the monetary financing of fiscal deficits, and preserving the independence of the central bank. The monetary authorities should endeavor to lower the cost of transfers of workers remittances so as to promote the use of banking channels, which would also help to better measure monetary aggregates and limit the risk of money laundering.

39. **Further steps are needed to strengthen the financial sector**. Microfinance institutions have grown rapidly over the years in response to the dearth in financial intermediation, but might have overextended themselves, notably in the vanilla sector. Both microfinance networks need to be subject to supervisory oversight as soon as possible. Moreover, the development bank needs to be restructured, and the postal financial services company has to reform its accounting framework and its officers need to undergo training before being granted a banking license.

40. **Strengthening the external accounts will require diversifying the export base and increasing service incomes**. External income based on a more diversified mix of agricultural product exports, tourism receipts, and fishing exports would help limit the effects of exogenous shocks and the possible decline over time in workers remittances. The external debt remains unsustainable, and it will be important for the government to steadfastly pursue reforms so as to gain access to Enhanced HIPC

Initiative relief. The authorities should endeavor to service current debt obligations to multilateral creditors and to seek a rescheduling of existing bilateral debt.

41. **The authorities' efforts to update the 2003 I-PRSP are commendable**. The insular dimension ought to be given greater prominence in the document given that island administrations are now responsible for social sector development. Also, greater coordination between islands is needed to remove bottlenecks and avoid redundancy in social investments.

42. **Statistical data remain very weak, hampering surveillance and effective policy making**. The authorities should redouble effort in this area, notably by strengthening the statistical unit in the Planning Ministry, and draw on technical assistance from STA and donor agencies.

43. **The objectives of the Staff Monitored Program for end-2005 remain achievable**. However, this would require strengthened policy implementation, notably decisive action on the agreed set of supplementary measures to secure revenues and on the programmed measures to reduce wage outlays.

44. **It is proposed that the next Article IV consultation be held on the standard 12-month cycle**.

Table 1. Comores: Selected Economic and Financial Indicators, 2002-2008

	2002	2003	2004	2004	2005	2006	2007	2008
			OldPrel.	Prel.	Prog.		Proj.	
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP	2.3	2.1	1.9	1.9	2.8	3.3	4.1	5.0
Real GDP per capita	-0.4	-0.6	-0.8	-0.8	0.1	0.6	1.4	2.2
Nominal GDP (in millions of Comorian francs)	128,980	138,426	145,425	145,852	150,475	160,310	174,999	189,625
Nominal GDP (in millions of U.S. dollars)	247.5	316.3	367.5	368.6	390.5	410.4	448.4	486.2
Nominal GDP per capita (in U.S. dollars)	413.2	514.2	581.8	583.5	602.0	615.9	655.2	691.8
GDP deflator	4.2	5.1	2.6	3.4	0.3	3.1	4.8	3.2
Consumer price index (annual averages)	3.5	3.8	4.3	4.5	3.0	3.0	3.0	3.0
External sector								
Exports, f.o.b.	7.9	20.7	-37.7	-51.5	-7.1	3.7	4.3	5.1
Imports, f.o.b.	-1.2	10.4	6.1	10.4	14.4	12.4	-1.8	3.3
Terms of trade	1.5	71.1	-59.1	-57.9	-30.0	0.1	10.5	0.8
Government budget								
Domestic revenue	27.3	3.8	-2.1	0.5	10.3	6.8	13.1	9.0
Total expenditure and net lending	25.9	-6.9	-9.8	-7.4	4.8	20.1	7.0	7.4
Current expenditure	13.7	-5.8	-5.3	-1.0	1.1	7.1	10.6	9.0
Capital expenditure and net lending	41.4	-0.2	-13.5	-16.8	18.1	59.9	-0.3	3.9
Money and credit								
Net foreign assets	9.9	-4.8	-1.6	-1.6	-12.0	...	...	...
Domestic credit	13.5	-3.3	-3.9	-3.5	9.1	...	...	...
Credit to government	15.2	-49.1	35.3	35.3	0.0	...	...	...
Credit to the rest of the economy	12.3	10.7	-10.4	-9.9	11.5	...	...	...
Broad money	-3.7	-1.1	-5.8	-5.3	3.2	...	...	...
Velocity (GDP/average broad money)	4.0	4.4	5.0	4.8	4.8	...	...	...
Interest rate (in percent, end of period)	6.1	6.1	6.1	6.1	6.1	...	...	...
	(In percent of GDP, unless otherwise indicated)							
Investment and savings								
Investment	12.2	11.6	10.5	10.2	10.9	13.5	13.8	14.0
Public	5.9	5.5	4.5	4.3	4.9	7.4	6.8	6.5
Private	6.4	6.1	5.9	5.9	6.0	6.1	7.0	7.5
Gross national savings	11.5	6.8	9.0	7.6	4.5	5.4	8.0	8.9
Public	2.1	2.0	2.2	2.7	4.5	4.5	4.9	4.8
Private	9.4	4.8	6.7	4.9	0.1	0.9	3.1	4.2
External current account (incl. official transfers)	-0.7	-4.8	-1.5	-2.7	-6.4	-8.2	-5.8	-5.1
Government budget								
Domestic revenue	16.7	16.1	15.0	15.4	16.5	16.5	17.1	17.2
Total grants	4.2	2.3	2.0	2.7	3.2	3.2	3.3	3.1
Total expenditure	26.0	22.5	19.3	19.8	20.1	22.6	22.2	22.0
Current expenditure	18.7	16.4	14.8	15.5	15.1	15.2	15.4	15.5
Capital expenditure	5.9	5.5	4.5	4.3	4.9	7.4	6.8	6.5
Primary balance	1.1	0.5	-1.1	-0.5	1.8	1.8	2.0	1.9
Overall balance (commitment basis, including grants)	-5.1	-4.1	-2.3	-1.7	-0.5	-2.9	-1.8	-1.7
Overall balance (cash basis, including grants)	-4.3	-2.5	-1.3	-0.3	-0.5	-4.9	-4.1	-2.5
External sector								
Exports, f.o.b.	15.7	17.7	15.1	15.1	15.0	14.9	14.5	14.3
Imports, c.i.f.	26.2	28.5	28.1	28.1	30.4	31.7	28.6	27.4
Current account balance (incl. official transfers)	-0.7	-4.8	-1.5	-2.7	-6.4	-8.2	-5.8	-5.1
Current account balance (excl. official transfers)	-3.4	-5.9	-2.2	-4.1	-6.9	-8.6	-6.3	-5.5
Outstanding external debt (in percent of exports of goods and nonfactor services)	547.7	468.9	472.0	525.8	509.8	497.9	482.6	463.5
Outstanding external debt (in percent of GDP)	85.7	82.9	76.3	79.3	76.4	73.9	69.8	66.2
Net Present Value (NPV) of external debt								
NPV of debt-to-GDP ratio	...	...		61.2	58.4	56.9	52.7	50.0
NPV of debt-to-exports ratio	...	...		406.3	389.4	382.9	364.8	349.8
External debt service								
In percent of exports of goods and nonfactor services	15.0	12.8	13.2	14.6	17.1	16.2	15.0	14.8
In percent of government revenue	14.1	14.0	14.2	14.3	15.6	14.6	12.7	12.3
Overall balance of payments (in millions of U.S. dollars)	6.8	-6.3	-5.2	-4.3	-13.9	-10.0	-3.3	-0.1
External payments arrears (end of year; in millions of U.S. dollars)	65.4	85.1	106.5	88.5	89.9	0.0	0.0	0.0
Gross international reserves (end of period; in millions of U.S. dollars)	80.9	97.2	97.6	96.2	85.4	85.4	89.7	91.4
(equivalent months of imports, c.i.f.)	13.8	11.5	10.6	11.1	8.7	7.9	8.4	8.2
Exchange rate								
Comorian francs per U.S. dollar (period average)	521.1	437.6	395.7	395.7	385.3	...	...	...

Sources: Comorian authorities; and staff estimates and projections.

Table 2. Comoros: Consolidated Government Financial Operations, 2002-2008

	2002	2003	2004	2005	2006	2007	2008
			Rev.	Prog.	Proj.		
	(In millions of Comorian francs)						
Total revenue and grants	26,929	25,482	26,434	29,496	31,643	35,653	38,498
Revenues	21,521	22,335	22,445	24,756	26,451	29,925	32,615
Tax revenues	18,038	19,622	19,407	21,385	22,849	25,904	28,233
Nontax revenues	3,483	2,713	3,162	3,371	3,602	4,021	4,383
External grants	5,408	3,147	3,989	4,740	5,192	5,729	5,882
Budgetary assistance	1,130	0	153	0	0	0	0
Project financing (incl. technical assistance)	3,317	3,147	3,836	4,740	5,192	5,729	5,882
Other budgetary aid	961	0	0	0	0	0	0
Total expenditure and net lending	33,473	31,161	28,848	30,236	36,308	38,857	41,741
Current expenditure	24,172	22,769	22,547	22,796	24,413	26,997	29,415
Primary current expenditures	21,284	20,262	20,659	20,368	22,650	25,277	27,644
Wages and salaries	10,703	11,493	12,631	11,732	12,499	13,944	15,309
Goods and services	7,909	5,297	6,038	6,288	6,699	7,678	8,455
Transfers	1,338	2,041	1,989	2,348	2,501	2,731	2,959
Interest payments	1,335	1,431	1,282	1,414	950	924	921
External debt	1,265	1,323	1,187	1,306	842	815	787
Domestic debt	70	108	95	108	108	109	134
Technical assistance	2,887	2,507	606	1,014	1,763	1,721	1,772
Capital expenditure	7,597	7,578	6,301	7,440	11,894	11,860	12,325
Domestically financed investment	131	2,785	2,539	1,694	1,902	2,110	2,286
Foreign-financed investment	7,466	4,793	3,762	5,746	9,992	9,750	10,039
Net lending	-69	0	0	0	0	0	0
Primary balance	1,441	719	-753	2,694	2,850	3,462	3,606
Overall balance (commitment basis)	-6,544	-5,679	-2,414	-740	-4,664	-3,204	-3,243
Excluding grants	-11,952	-8,826	-6,403	-5,480	-9,856	-8,932	-9,125
Change in net arrears (+: accumulation)	969	2,226	1,862	54	-3,134	-4,050	-1,416
Interest on external debt	882	1,001	665	54	0	0	0
Domestic arrears 2/	87	1,225	1,197	0	-3,134	-4,050	-1,416
Change in the accounts at the Treasury	n.a.	n.a.	125	0	0	0	0
Overall balance (cash basis)	-5,575	-3,453	-427	-686	-7,799	-7,254	-4,659
Excluding grants	-10,983	-6,600	-4,416	-5,426	-12,991	-12,982	-10,541
Financing	5,576	3,453	829	119	3,668	4,307	4,017
Foreign (net)	6,189	3,333	263	119	3,556	3,548	3,479
Drawings	7,036	4,153	1,462	2,020	6,564	6,522	6,708
Drawings, adjustment loans	0	0	0	0	0	0	0
Amortization	-1,603	-1,638	-1,935	-2,195	-3,008	-2,974	-3,229
Exceptional financing	0	0	0	0	34,894	0	0
Arrears (principal)	755	818	735	294	-34,894	0	0
Domestic (net)	-613	120	566	0	113	759	538
Bank financing	514	-258	566	0	113	759	538
Deposits and claims on treasury	-228	-1	0	0	0	0	0
Nonbank financing	-900	379	0	0	0	0	0
Financing gap	0	0	-401	567	4,130	2,947	641
Memorandum items:	(In percent of GDP)						
Domestic revenue	16.7	16.1	15.4	16.5	16.5	17.1	17.2
Noninterest domestic primary expenditure	15.6	15.6	15.9	14.7	14.7	15.1	15.3
Expenditure	26.0	22.5	19.8	20.1	22.6	22.2	22.0
Primary balance	1.1	0.5	-0.5	1.8	1.8	2.0	1.9
Overall balance (commitment basis)	-5.1	-4.1	-1.7	-0.5	-2.9	-1.8	-1.7
excluding grants	-9.3	-6.4	-4.4	-3.6	-6.1	-5.1	-4.8
Overall balance (cash basis)	-4.3	-2.5	-0.3	-0.5	-4.9	-4.1	-2.5
excluding grants	-8.5	-4.8	-3.0	-3.6	-8.1	-7.4	-5.6

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

Table 3: Comoros: Fiscal Operations, December 2004 and March 2005
(In million of Comorian francs, unless otherwise indicated)

	December 2004 (Rev.)					March 2005 (Prel.)				
	Consolidated	Union	Ngazidja	Anjouan	Mwali	Consolidated	Union	Ngazidja	Anjouan	Mwali
Total revenue and grants, after transfers from federation account	26,434	17,600	2,957	4,738	1,139	5,535	3,801	727	818	188
Revenue collected	22,445	17,264	511	4,517	153	4,641	3,732	210	684	15
Taxes	19,407	14,844	372	4,055	136	3,498	2,688	197	603	11
Of which: Taxes on income, profits, and capital gains	3,595	3,281	24	280	10	776	760	9	4	4
Of which: Taxes on goods and services	4,802	3,247	302	1,237	16	969	493	174	295	7
Of which: Taxes on international trade and transactions	10,684	8,042	--	2,534	109	1,715	1,411	--	303	--
Nontax revenues	3,038	2,420	139	462	17	1,143	1,044	13	81	4
Exceptional revenue	124	124	--	--	--	--	--	--	--	--
Distribution of Revenue	22,445					4,641				
Revenue allocated to the Federation		10,383	--	316	31		2,012	--	352	4
Revenue allocated from the Federation		6,883	2,343	507	996		1,187	518	486	178
Available revenue after Federation transfers	22,445	13,764	2,854	4,709	1,119	4,641	2,907	727	818	188
External grants	3,989	3,836	103	30	20	894	894	--	--	--
Budgetary assistance	153	--	103	30	20	894	894	--	--	--
Project financing (incl. technical assistance)	3,836	3,836	--	--	--	894	894	--	--	--
Total expenditures and net lending	28,848	17,746	4,830	5,111	1,162	5,764	3,410	910	1,145	299
Current expenditures	22,547	11,643	4,830	4,912	1,162	4,780	2,441	910	1,130	299
Primary current expenditures	20,659	9,755	4,830	4,912	1,162	4,551	2,211	910	1,130	299
Salary, wages and pensions	12,631	4,456	3,777	3,472	927	3,214	1,133	880	936	266
Goods and services	6,038	3,997	930	881	230	1,075	887	31	123	33
Transfers and subsidies	1,989	1,302	123	559	5	262	191	--	71	--
Interest on debt	1,282	1,282	--	--	--	169	169	--	--	--
Domestic debt	95	95	--	--	--	31	31		--	--
External debt	1,187	1,187	--	--	--	138	138	--	--	--
Technical assistance	606	606	--	--	--	60	60	--	--	--
Capital expenditure	6,301	6,103	--	198	--	985	970	--	15	--
Domestically financed	2,539	2,341	--	198	--	35	20	--	15	--
Externally financed	3,762	3,762	--	--	--	950	950	--	--	--
Net lending	--	--	--	--	--	--	--	--	--	--
Primary balance	-753	1,668	-1,977	-402	-43	56	676	-183	-327	-111
Overall balance (commitment basis)										
Excluding grants	-6,403	-3,982	-1,977	-402	-43	-1,123	-503	-183	-327	-111
Including grants	-2,414	-146	-1,873	-372	-23	-229	391	-183	-327	-111
Repayment of Arrears	-4,205	-3,246	-541	-392	-26	1,746	1,189	434	112	10
Domestic	-4,155	-3,197	-541	-392	-26	1,582	1,026	434	112	10
of which: salaries, wages, and pensions	-818	-1,181	--	385	-22	950	462	434	54	--
External	-50	-50	--	--	--	164	164	--	--	--
Accumulation of Arrears	6,067	3,087	1,854	1,066	60	1,669	807	153	709	--
Domestic	5,353	2,373	1,854	1,066	60	1,665	803	153	709	--
of which: salaries, wages, and pensions	3,829	1,093	1,829	907	--	1,189	598	--	591	--
External	714	714	--	--	--	4	4	--	--	--
Mouvements comptes du Tresor	125	108	--	18	--	2	2	--	--	--
Change in float (+, accumulation of payments due)	--	--	--	--	--	--	--	--	--	--
Overall balance (cash basis)										
Excluding grants	-4,416	-4,033	-664	290	-9	-1,199	-883	-464	270	-121
Including grants	-427	-197	-560	319	11	-305	10	-464	270	-121
Financing	829	829	--	--	--	-74	-74	--	--	--
Domestic	566	566	--	--	--	67	67	--	--	--
Bank	566	566	--	--	--	67	67	--	--	--
Central bank	194	194	--	--	--	701	701	--	--	--
Commercial Banks	372	372	--	--	--	-634	-634	--	--	--
Non bank	--	--	--	--	--	--	--	--	--	--
External	263	263	--	--	--	-141	-141	--	--	--
Drawings	1,462	1,462	--	--	--	210	210	--	--	--
Projects	1,462	1,462	--	--	--	210	210	--	--	--
Program	--	--	--	--	--	--	--	--	--	--
Amortization	-1,935	-1,935	--	--	--	-450	-450	--	--	--
Arrears on principal	735	735	--	--	--	100	100	--	--	--
Repayments	-114	-114				--	--			
Accumulation	849	849				100	100			
Errors and omissions / Financing gap	-401	-632	560	-319	-11	378	63	464	-270	121
Memorandum Items:	(In percent of GDP)					(In percent of GDP)				
Domestic revenue	15.4	9.4	2.0	3.2	0.8	3.2	2.0	0.5	0.6	0.1
Noninterest domestic primary expenditure	15.9	8.3	3.3	3.5	0.8	3.1	1.5	0.6	0.8	0.2
Expenditure	19.8	12.2	3.3	3.5	0.8	4.0	2.3	0.6	0.8	0.2
Primary balance	-0.5	1.1	-1.4	-0.3	0.0	0.0	0.5	-0.1	-0.2	-0.1
Overall balance (commitment basis)	-1.7	-0.1	-1.3	-0.3	0.0	-0.2	0.3	-0.1	-0.2	-0.1
excluding grants	-4.4	-2.7	-1.4	-0.3	0.0	-0.8	-0.3	-0.1	-0.2	-0.1
Overall balance (cash basis)	-0.3	-0.1	-0.4	0.2	0.0	-0.2	0.0	-0.3	0.2	-0.1
excluding grants	-3.0	-2.8	-0.5	0.2	0.0	-0.8	-0.6	-0.3	0.2	-0.1

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

Table 4. Comoros: Monetary Survey, 2002-2005

	2002	2003	2004	2005			
				Mar.	Jun.	Sep.	Dec.
			Prel.	Est.	Proj.	Proj.	Proj.
	(In millions of comorian francs)						
Monetary Survey							
Net foreign assets	39,582	37,666	37,045	36,307	34,827	33,718	32,609
Net domestic assets	-7,500	-5,923	-6,970	-7,091	-4,275	-2,928	-1,581
Domestic credit	13,572	13,118	12,659	12,802	14,125	13,721	13,813
Net credit to government	3,148	1,604	2,170	2,238	2,666	2,170	2,170
Claims on government	4,231	3,420	4,238	4,426	4,854	4,238	4,238
Deposits of government	-1,083	-1,816	-2,068	-2,189	-2,189	-2,068	-2,068
Claims on public enterprises	86	70	167	99	155	148	142
Claims on other financial institutions	58	60	68	86	68	68	68
Claims on private sector	10,280	11,385	10,253	10,378	11,236	11,335	11,433
Other items net	-21,073	-19,041	-19,629	-19,893	-18,400	-16,649	-15,394
Broad money	32,082	31,743	30,075	29,215	30,552	30,790	31,029
Money	23,208	23,206	22,097	21,266	22,447	22,623	22,798
Currency in circulation	12,503	11,505	11,730	10,520	11,916	12,009	12,102
Demand deposits	10,705	11,701	10,367	10,745	10,531	10,613	10,695
Quasi-money	8,874	8,537	7,978	7,949	8,105	8,168	8,231
Central Bank							
Net foreign assets	38,657	37,715	37,409	35,673	35,191	34,082	32,973
Domestic credit	3,479	2,109	2,286	2,991	3,416	2,903	2,686
Net credit to government	3,348	1,994	2,188	2,889	3,317	2,805	2,588
Claims on government	3,930	3,120	3,457	4,046	4,474	4,075	3,858
Deposits of government	-582	-1,126	-1,270	-1,157	-1,157	-1,270	-1,270
Claims on other fin. institutions	50	50	50	50	50	50	50
Claims on private sector	81	65	48	52	48	48	48
Other items net	-13,796	-11,982	-12,200	-11,671	-10,676	-8,837	-7,293
Reserve money	28,340	27,842	27,494	26,994	27,930	28,148	28,366
Currency in circulation	12,503	11,505	11,730	10,520	11,916	12,009	12,102
Bank reserves	13,690	14,222	13,841	13,735	14,061	14,170	14,280
Cash holdings	297	66	120	111	122	123	124
Deposits	13,393	14,156	13,721	13,624	13,939	14,048	14,156
Deposits of other financial institutions	2,097	1,905	1,762	2,154	1,790	1,804	1,818
Deposits of public enterprises	50	211	160	388	163	164	165
Deposit Money Banks							
Net foreign assets	925	-49	-363	633	-363	-363	-363
Bank reserves	12,547	13,214	13,156	13,146	13,365	13,469	13,573
Cash holdings	297	66	120	111	122	123	124
Deposits at the central bank	12,250	13,148	13,036	13,035	13,243	13,346	13,450
Domestic credit	10,093	11,009	10,373	9,811	10,709	10,818	11,127
Net credit to government	-200	-390	-18	-652	-652	-635	-418
Claims on government	301	300	781	380	380	163	380
Deposits of government	-501	-690	-798	-1,031	-1,031	-798	-798
Claims on public enterprises	86	70	167	99	155	148	142
Claims on other financial institutions	8	10	18	36	18	18	18
Claims on private sector	10,199	11,319	10,205	10,326	11,188	11,286	11,385
Other items net	-4,036	-4,147	-4,981	-5,284	-5,238	-5,307	-5,576
Total deposits	19,529	20,027	18,185	18,307	18,473	18,617	18,761
Demand deposits	10,655	11,490	10,207	10,357	10,368	10,449	10,530
Term and savings deposits	8,874	8,537	7,978	7,949	8,105	8,168	8,231
	(In percent of beginning of period money stock, unless otherwise indicated)						
Memorandum items:							
Net foreign assets	10.7	-6.0	-2.0	-2.5	-7.4	-11.1	-14.7
Domestic credit	4.8	-1.4	-1.4	0.5	4.9	3.5	3.8
Net credit to government	1.2	-4.8	1.8	0.2	1.6	0.0	0.0
Credit to public enterprises	0.0	-0.1	0.3	-0.2	0.0	-0.1	-0.1
Credit to private sector	3.4	3.4	-3.6	0.4	3.3	3.6	3.9
Broad money	-3.7	-1.1	-5.3	-2.9	1.6	2.4	3.2
Money	0.8	0.0	-3.5	-2.8	1.2	1.7	2.3
Quasi-money	-4.6	-1.1	-1.8	-0.1	0.4	0.6	0.8
Velocity (GDP/average M2)	4.0	4.4	4.8	...	...	...	4.8
Credit to private sector (percentage change from previous year)	12.3	3.4	-3.6	1.2	9.6	10.5	11.5

Sources: Central Bank of Comoros; and staff estimates.

Table 5. Comoros: Balance of Payments, 2002-2008
(In millions of US dollars, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	2008
			Prel.		Proj.		
Current Account	-1.8	-15.3	-9.8	-25.0	-33.5	-25.8	-24.6
Goods and Services	-26.0	-34.3	-48.2	-60.1	-69.2	-63.4	-64.0
Trade Balance	-21.6	-26.1	-51.6	-62.6	-70.6	-68.5	-70.6
Exports	18.9	27.2	14.6	13.9	14.3	14.9	15.6
Vanilla	12.7	20.8	4.5	3.3	3.4	3.5	3.7
Cloves	4.1	3.6	7.3	7.7	7.8	8.2	8.6
Ylang-ylang	1.6	2.1	2.1	2.2	2.3	2.4	2.5
Other	0.6	0.8	0.7	0.7	0.8	0.8	0.9
Imports	-40.6	-53.3	-66.2	-76.6	-84.8	-83.4	-86.2
Net Services	-4.4	-8.2	3.4	2.6	1.4	5.1	6.6
Services, receipts	19.8	28.7	41.0	44.6	46.7	49.9	53.8
of which: Travel	8.6	11.8	17.7	19.2	20.1	21.6	23.3
Services, payments	-24.2	-36.9	-37.5	-42.0	-45.3	-44.8	-47.2
Income (net)	-0.8	-1.3	-2.2	-1.7	-1.4	-1.0	-0.7
of which: Interest	-2.4	-3.0	-3.0	-2.3	-2.2	-2.1	-2.0
Current Transfers (net)	25.0	20.3	40.6	36.8	37.2	38.6	40.0
Government	6.7	3.4	5.2	1.8	2.0	2.2	2.3
Private	18.3	16.9	35.4	34.9	35.2	36.4	37.8
Capital And Financial Account	8.6	9.0	5.5	11.1	23.4	22.5	24.6
Capital Transfers	3.7	3.8	4.9	10.5	11.3	12.5	12.8
Financial Account	13.4	9.4	3.1	0.7	12.1	10.1	11.7
Direct Investment	0.4	1.0	1.4	1.6	1.8	1.9	2.1
Other	13.0	8.4	1.7	-1.0	10.4	8.1	9.6
Government	10.4	5.7	-1.2	-2.5	9.1	9.1	8.9
Drawings	13.5	9.5	3.7	5.2	16.8	16.7	17.2
Amortization	-3.1	-3.7	-4.9	-7.8	-7.7	-7.6	-8.3
Private Sector (Net)	2.6	2.7	2.8	1.6	1.3	-1.0	0.7
Banks, net	3.1	2.2	0.8	--	--	--	--
Other (incl. Errors and omissions)	-8.6	-4.2	-2.5	--	--	--	--
Overall Balance	6.8	-6.3	-4.3	-13.9	-10.0	-3.3	-0.1
Financing	-6.8	6.3	4.3	13.9	10.0	3.3	0.1
Net Foreign Assets (increase -)	-9.9	2.2	0.8	11.5	-0.6	-4.2	-1.6
Use of Fund credit (net)	-0.3	-0.4	-0.2	--	--	--	--
Others (net)	-9.6	2.5	1.0	11.5	-0.6	-4.2	-1.6
Net Change in Arrears	3.1	4.2	3.5	0.9	--	--	--
Arrears Accumulation	--	--	4.0	--	--	--	--
Arrears Repayments	--	--	-0.4	--	-89.3	--	--
Exceptional Financing	--	--	--	--	89.3	--	--
Rescheduling of Arrears	--	--	--	--	89.3	--	--
Financing Gap	--	--	--	1.5	10.6	7.5	1.6
Memorandum items:							
Arrears (end of period)	65.4	85.1	88.5	89.9	--	--	--
External debt (end of period, incl. arrears & IMF)	231	295	296	296	303.5	312.9	322.1
Current account as percent of GDP							
Excluding transfers	-3.4	-5.9	-4.1	-6.9	-8.6	-6.3	-5.5
Including transfers	-0.7	-4.8	-2.7	-6.4	-8.2	-5.8	-5.1
Exports of goods and nonfactor services	38.7	55.9	55.6	58.5	60.9	64.8	69.5
Imports of goods and nonfactor services	64.8	90.2	103.8	118.6	130.2	128.2	133.4
Debt service ratio (percent of exports of goods and nonfactor services)	15.0	12.8	14.6	17.1	16.2	15.0	14.8
Debt service ratio (percent of exports of goods)	30.7	26.2	55.4	71.9	69.2	65.3	65.8
External debt (including arrears & IMF)(percent of GDP)	85.7	82.9	79.3	76.4	73.9	69.8	66.2
Exchange rate CF/US$ (period average)	521.1	437.6	395.7	385.3	390.6	390.3	390.0
Exchange rate CF/SDR (period average)	674.8	610.9	586.1	578.5	582.6	582.6	582.2
Gross foreign assets of Central Bank	80.9	97.2	96.2	85.4	85.4	89.7	91.4
In months of imports of goods and nonfactor services, c.i.f	13.8	11.5	11.0	8.7	7.9	8.4	8.2
Nominal GDP (In millions of Comorian francs)	128,980	138,426	145,852	150,475	160,310	174,999	189,625

Sources: Central Bank of Comoros and staff estimates.

Table 6: Comoros: Millennium Development Goals

	1990	1995	2001	2002	2015 Target
Goal 1. Eradicate extreme poverty and hunger					
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.					
1. Population below US$ 1 a day (percent)	...	...	...	...	...
2. Poverty gap ratio at US$ 1 a day (percent)	...	...	...	...	...
3. Share of income or consumption held by poorest 20 percent (percent)	...	...	...	...	...
Target 2: Halve, between 1990 and 2015, the proportion of people suffering hunger					
4. Prevalence of child malnutrition (percent of children under 5)	18.5	25.8	25.4	26	9.3
5. Population below minimum level of dietary energy consumption (percent)	...	...	...	...	...
Goal 2. Achieve universal primary education					
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling					
6. Net primary enrollment ratio (percent of relevant age group)	...	52.0	54.7	...	100.0
7. Percentage of cohort reaching grade 5	45.5	...	…	...	100.0
8. Youth literacy rate (percent age 15-24)	56.7	57.7	58.8	59.0	...
Goal 3. Promote gender equality and empower women					
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015					
9. Ratio of girls to boys in primary and secondary education (percent)	71.0	81.3	82.4	…	100.0
10. Ratio of young literate females to males (percent ages 15-24)	77.8	78.5	79.4	79.5	100.0
11. Share of women employed in the nonagricultural sector (percent)	...	...	...	...	...
12. Proportion of seats held by women in the national parliament (percent)	...	...	...	...	...
Goal 4. Reduce child mortality					
Target 5: reduce by two-thirds between 1990 and 2015, the under-five mortality rate					
13. Under-five mortality rate (per 1,000)	120.0	100.0	82.0	79.0	40.0
14. Infant mortality rate (per 1,000 live births)	88.0	74.0	61.0	59.0	...
15. Immunization against measles (percent of children under 12-months)	87.0	69.0	70.0	71.0	...
Goal 5. Improve maternal health					
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.					
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	…	480.0	...	...
17. Proportion of births attended by skilled health personnel	...	51.6	61.8	...	...
Goal 6. Combat HIV/AIDS, malaria and other diseases					
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS					
18. HIV prevalence among females (percent ages 15-24)	...	...	...	...	...
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	21.0	...	...	...
20. Number of children orphaned by HIV/AIDS	...	...	...	...	...
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases					
21. Prevalence of death associated with malaria	...	...	...	...	...
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...	...
23. Incidence of tuberculosis (per 100,000 people)	...	...	61.0	60.7	...
24. Tuberculosis cases detected under DOTS (percent)	...	60.0	43.0	...	...

Table 6: Comoros: Millennium Development Goals (concluded)

	1990	1995	2001	2002	2015 Target
Goal 7. Ensure environmental sustainability					
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources					
25. Forest area (percent of total land area)	5.4	...	3.6	...	...
26. Nationally protected areas (percent of total land area)	...	0.0	0.0		
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	...	...	...	...	...
28. CO2 emissions (metric tons per capita)	0.2	0.1	0.1	...	...
29. Proportion of population using solid fuels	...	...	...	...	...
Target 10: Halve by 2015 proportion of people without access to safe drinking water					
30. Access to improved water source (percent of population)	88.0	...	96.0	...	...
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers					
31. Access to improved sanitation (percent of population)	98.0	...	98.0	...	...
32. Access to secure tenure (percent of population)	...	...	...	...	...
Goal 8. Develop a Global Partnership for Development 1/					
Target 16: Develop and implement strategies for productive work for youth.					
45. Unemployment rate of population ages 15-24 (total)	...	...	...	...	...
Female	...	...	...	...	...
Male	...	...	...	...	...
Target 17: Provide access to affordable essential drugs					
46. Proportion of population access with access to affordable essential drugs	...	...	...	...	...
Target 18: Make available new technologies, especially information and communications					
47. Fixed line and mobile telephones (per 1,000 people)	7.5	7.2	12.2	13.5	...
48. Personal computers (per 1,000 people)	0.1	0.3	5.5	5.5	...

Sources: World Bank; and Fund staff estimates.

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

Table 7. Comoros: Quantitative Indicative Targets Under the Staff Monitored Program 1/
January - December 2005
(In millions of Comorian francs, cumulative since the beginning of the year)

	2005						
	March Indicative Targets	Marc Estimat	Jun Indicative Targets	Jun Indicative Targets revised	September Indicative Targets	Septembe Indicative Targets revised	Decembe Indicative Targets
(a) Floor on the domestic primary balance	2,081	56	2,759	295	2,620	2,620	2,694
(b) Floor on total domestic revenues	7,427	4,641	13,621	10,155	19,082	19,082	24,756
(c) Ceiling on the wage bill	2,933	3,214	5,866	6,268	8,800	9,000	11,732
(d) Ceiling on expenditures made by cash advances	200	128	425	425	665	665	900
(e) Ceiling on the accumulation of new domestic arrears	0	83	0	0	0	0	0
(f) Ceiling on new nonconcessional external debt contracted or guaranteed by the State 2/	0	0	0	0	0	0	0
(g) Ceiling on new short-term external debt contracted or guaranteed by the State 2/	0	0	0	0	0	0	0
(h) Ceiling on accumulation of debt service arrears towards multilateral creditors	0	104	0	0	0	0	0

1/ The definitions of the indicative targets and the adjusters are provided in the Technical Memorandum of Understanding (TMU).
2/ Excluding trade credits.

Table 8. Comoros: Structural Indicative Targets under the 2005 Staff-Monitored Program

Sector	Measure	Deadline	Progress
Fiscal	Transfer of shared revenues to the special account with the Central Bank of the Comoros and strict application of the revenue sharing mechanism based on the quotas.	Continuous	Completed
Legal environment	Adoption by Parliament of the final version of the organic law on the distribution of the competencies.	End-February 2005	Completed
Fiscal	Amend prevailing laws and practices for tendering with a view to strengthen public procurement rules.	End-June 2005	Expected to be completed with the adoption of a new law on Public Procurement.
Fiscal	Preserve the single customs administration and subcontract customs services to a private provider, with performance requirements.	End-June 2005	At the request of the World Bank experts, subcontracting will be delayed until the reform program is fully implemented.
Fiscal	Harmonize all levels of budget nomenclature, and introduce computerized system for real-time monitoring of the expenditures.	End-September 2005	Preparatory work ongoing.
Fiscal	Offset the debts of the government and the public and parapublic enterprises, and clear the balance.	End-December 2005	Preparatory work ongoing.
Structural	Privatize the Comorian Hydrocarbons Company.	End-December 2005	Preparatory work ongoing.
Structural	Privatize Comoros Telecom.	End-December 2005	Preparatory work ongoing.

Comoros: Relations with the Fund

(As of April 30, 2005)

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

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

III. SDR Department:	**SDR Millions**	**% Allocation**
Net cumulative allocation	0.72	100.00
Holdings	0.01	0.74

IV. Outstanding Purchases and Loans: None	**SDR Millions**	**% Quota**
	0.00	0.00

V. Latest Financial Arrangements:

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

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

	Forthcoming				
	2005	2006	2007	2008	2009
Principal					
Charges/interest	0.01	0.02	0.02	0.02	0.02
Total	0.01	0.02	0.02	0.02	0.02

VII. Implementation of HIPC Initiative: Not Applicable

VIII. 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.

IX. Article IV Consultation

The Comoros is on the standard 12-month cycle. The 2004 Article IV consultation was concluded on April 30, 2004 (Country Report No. 04/259).

X. Recent Technical Assistance

Department	Dates	Subject
MAE	Jan.-Feb. 2002	Follow-up on central bank internal controls
MFD	July 2003	Mission to review the role of the central bank in banking supervision and to evaluate technical assistance needs
MFD	Sep.- Oct. 2003	Mission to review the envisaged resumption of activities by the Comoros Development Bank, the possible opening of a postal bank, and the supervision of microfinance institutions
MFD	Feb. 2004	AML/CFT
MFD	Feb. 2004	Internal audit
MFD	March 2004 / Oct. 2004 / March 2005	Bank supervision

XI. Resident Representative

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

Comoros: Relations with the World Bank Group
(As of May 31, 2005)

1. The World Bank Executive Board has approved 19 IDA credits totaling US$132.5 million to support Comoros since the World Bank became active in the country in 1976. The active portfolio consists of one project, which became effective on September 29, 2004. This community-based Social Services Project (SSP) seeks to maintain basic service delivery and addresses most urgent health and water sector needs. The SSP is a four-year operation in the amount of US$13.3 million. The Bank presented a Transitional Support Strategy Update (TSSU) to the Board of Directors in March 2004. This Strategy Update for the following 18 to 24 months has two key objectives: (i) maintaining basic social services; and (ii) supporting the process of national reconciliation and facilitating the transition to a viable institutional structure.

2. Together with the IMF and the United Nations Development Program (UNDP), the World Bank assisted the government of Comoros in launching the Poverty Reduction Strategy Paper (PRSP) process in March 2002. A first draft of the interim PRSP was completed in July 2002 and validated by Comorian stakeholders in all three islands in May 2003. The process came to a virtual halt for months as the political environment remained uncertain. Positive developments in recent months, though, including the agreement on the repartition of competencies and the resumption of the SMP, have resulted in renewed momentum for the PRSP process. The Comorian authorities have started to update the I-PRSP and a Joint Staff Assessment (JSA) of the IPRSP is to take place in FY06 if Comoros successfully implements the Fund's SMP for 2005 and hereunder established a track record with a view to HIPC debt relief.

3. Since the signing of the national reconciliation agreement in December 2003, the Bank has worked in close collaboration with the Fund to support the transition in Comoros, focusing notably on improving the overall economic management and strengthening institutions responsible for revenue collection and budget execution. The Bank will continue to work closely together with the Fund in these areas.

4. The IFC does not have any activity in Comoros, and the country has not yet joined the MIGA. The Government of Comoros has recently requested technical advice from the IFC with respect to the envisaged privatization of the oil and telecom companies.

Active Portfolio in Comoros—IDA Lending Operations
As of May 31, 2005
(In millions of U.S. dollars)

Purpose	Approved	Committed	Disbursed
	(Fiscal year)	(Less cancellations)	
Number of closed credits (18)		106.1	109.2
Active credits			
Services Support Project	FY2004	13.3	2.0
Total active		**13.3**	**2.0**

Source: World Bank staff.

Comoros: Statistical Issues

Overview

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

National accounts data and prices

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

Fiscal data

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

Monetary data

There has been improvement in the timeliness of reporting monetary data for publication in *IFS*. The authorities are now reporting data to STA with only a one-month lag. In 1997, an

STA mission to the Comoros reviewed the compilation and reporting of money and banking statistics, and made several recommendations to improve classification, coverage, and reporting procedures. Due to serious differences and errors in classification, *IFS* and central bank data differed significantly for major monetary aggregates prior to 1997.

External sector statistics

The latest balance of payments data available to STA pertain to 1995. Balance of payments data are prepared by the central bank with considerable delay. Data relating to financial account inflows are sketchy, and the external debt database has not been maintained since 1994. An STA mission in April 2005 provided training in the Fund's *Balance of Payments Manual*, fifth edition (*BPM5)* methodology, and worked with the authorities in converting their 2003 balance of payments data to *BPM5* format. The Central Bank of Comoros have undertaken to resume data reporting to STA by July 2005. In reviewing the data sources, the mission found the need for expanding the coverage of survey respondents.

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
Balance of payments and international investment position statistics	M. Dessart	March-April 2005

COMOROS: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF JUNE 21, 2005

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	Current	Current	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]					
Reserve/Base Money	Mar 2005	Apr 2005	M	Q	Q
Broad Money	Mar 2005	Apr 2005	M	Q	Q
Central Bank Balance Sheet	Mar 2005	Apr 2005	M	Q	Q
Consolidated Balance Sheet of the Banking System					
Interest Rates[2]	Mar 2005	Apr 2005	O	V	V
Consumer Price Index	Mar 2005	Apr 2005	M	V	V
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]					
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government					
Stocks of Central Government and Central Government-Guaranteed Debt[5]					
External Current Account Balance	2004	Apr 2005	A	V	A
Exports and Imports of Goods and Services					
GDP/GNP	2004	Apr 2005	A	V	A
Gross External Debt	2004	Apr 2005	A	V	V

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)

External Debt Sustainability Analysis (DSA)[11]

This appendix assesses the sensitivity of the Comoros' external debt dynamics under the staff's baseline scenario to a number of standardized shocks in the debt sustainability framework developed for Low-Income Countries (LIC DSA).

Underlying DSA Assumptions

The assumptions underlying the DSA are based on the program's medium-term macroeconomic framework and the June *World Economic Outlook (WEO)* forecast. The baseline scenario (Figure 1, Tables 1 and 2) for the analysis assumes:

Real annual GDP growth of 2.8 percent in 2005, gradually accelerating to 5 percent in the long term, inflation (GDP deflator) of around 3 percent, exports of goods and services of around 14 percent of GDP, imports of goods and services of around 25 percent of GDP, and a current account deficit of about 6 percent of GDP in 2005, gradually improving over time.

A gradual strengthening of the fiscal position, with revenue increasing to about 17 percent of GDP, and total expenditure slightly decreasing to about 20 percent of GDP. New borrowing is assumed to be on concessional terms, with a grant element of about 30 percent[12]. Debt service payments do not assume debt relief.

The Baseline Scenario

Important downside risks remain to the baseline scenario as assumptions are based on continued political cooperation, a stable macroeconomic environment, and a favorable export environment.

Under the baseline scenario, the net present value (NPV) of external debt in percent of exports is projected at 389 percent in 2005, at 318 percent in 2010, and is expected to remain above the HIPC threshold of 150 percent until 2022. The NPV of external debt relative to GDP is projected at 58 percent in 2005 and declines only to 45 percent in 2010. The debt service as a percentage of export ratio is projected at 18 percent in 2005 and remains unsustainably high at 13 percent in 2010 (Tables 1 and 2, and Figure 1).

---

[11] In Comoros, domestic public sector and private external debt are marginal. According to the guidelines on the presentation of DSAs, Table 1 presents all relevant indicators, including NPV of PPG debt relative to revenues and the debt service-to-revenue ratio.

[12] The remaining financing gaps (Table 5) are assumed to be financed by grants.

Similarly, the NPV of debt-to-revenue ratio is at 398 percent in 2005 and is projected to remain above the HIPC indicative threshold of 250 percent until 2010. The debt service-to-revenue ratio is at 16 percent in 2005 and remains unsustainably high at 11 percent in 2010.

External Sustainability

The stress testing assesses the country's vulnerability to alternative macroeconomic assumptions and exogenous shocks. The DSA results show deterioration in the external debt position if there was a worsening in borrowing conditions, or if real GDP growth and the external current accounts were projected at historical averages. Under the stress scenario external debt would remain unsustainable for the duration of the projected period, until 2025, and debt service-to-exports ratio would remain high (Table 2 and Figure 1). These results attest to the need for prudent debt management policies and measures to foster diversification and export growth.

Table 1. Comoros: External Debt Sustainability Framework, Baseline Scenario, 2002-2025 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Estimate	Projections								
	2002	2003	2004			2005	2006	2007	2008	2009	2010	2005-10 Average	2015	2025	2011-25 Average
External debt (nominal) 1/	**99.7**	**88.5**	**81.4**			**74.8**	**69.3**	**61.6**	**55.0**	**49.2**	**43.9**	59.0	**24.9**	**7.8**	19.8
o/w public and publicly guaranteed (PPG)	99.7	88.5	81.4			74.8	69.3	61.6	55.0	49.2	43.9	59.0	24.9	7.8	19.8
Change in external debt	-3.7	-11.2	-7.1			-6.6	-5.6	-7.6	-6.6	-5.9	-5.3	-6.3	-3.0	-1.0	-2.4
Identified net debt-creating flows	-7.5	-16.1	-10.1			4.0	5.6	2.9	2.0	1.9	1.8	3.0	1.5	0.7	1.3
Non-interest current account deficit	**3.7**	**6.0**	**1.5**	**5.6**	**6.3**	**5.8**	**7.6**	**5.3**	**4.6**	**4.2**	**3.9**	5.2	**2.7**	**1.1**	2.2
Deficit in balance of goods and services	14.6	13.5	12.8			15.4	16.9	14.1	13.2	12.5	11.8	14.0	9.0	5.0	7.8
Exports	16.0	17.4	15.1			15.0	14.9	14.5	14.3	14.2	14.1	14.5	13.6	13.0	13.4
Imports	30.6	30.9	27.9			30.4	31.7	28.6	27.4	26.6	25.9	28.4	22.6	17.9	21.2
Net current transfers (negative = inflow)	-10.9	-7.7	-11.0	-11.1	3.4	-9.4	-9.1	-8.6	-8.2	-7.9	-7.6	-8.5	-6.1	-3.8	-5.4
Other current account flows (negative = net inflow)	0.0	0.2	-0.3			-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.1	-0.1
Net FDI (negative = inflow)	**-0.2**	**-0.3**	**-0.3**	**-0.2**	**0.2**	**-0.3**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	-0.2	**-0.1**	**-0.1**	-0.1
Endogenous debt dynamics 2/	**-11.1**	**-21.8**	**-11.4**			**-1.6**	**-1.8**	**-2.1**	**-2.4**	**-2.2**	**-1.9**	-2.0	**-1.1**	**-0.4**	-0.9
Contribution from nominal interest rate	0.3	0.2	0.8			0.6	0.5	0.5	0.4	0.4	0.3	0.5	0.2	0.0	0.1
Contribution from real GDP growth	-2.1	-1.6	-1.5			-2.2	-2.4	-2.6	-2.8	-2.5	-2.3	-2.5	-1.3	-0.4	-1.0
Contribution from price and exchange rate changes	-9.2	-20.4	-10.8			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**3.9**	**5.0**	**3.1**			**-10.6**	**-11.1**	**-10.6**	**-8.6**	**-7.8**	**-7.1**	-9.3	**-4.5**	**-1.7**	-3.7
o/w exceptional financing	-1.3	-1.3	-1.0			-0.2	-43.5	0.0	0.0	0.0	0.0	-7.3	0.0	0.0	0.0
NPV of external debt 4/	...	...	61.2			58.4	56.9	52.7	50.0	47.4	44.8	51.7	33.3	15.2	27.6
In percent of exports	...	...	406.3			389.4	382.9	364.8	349.8	334.1	318.4	356.6	244.0	117.3	204.0
NPV of PPG external debt	**...**	**...**	**61.2**			**58.4**	**56.9**	**52.7**	**50.0**	**47.4**	**44.8**	51.7	**33.3**	**15.2**	27.6
In percent of exports	...	...	406.3			389.4	382.9	364.8	349.8	334.1	318.4	356.6	244.0	117.3	204.0
In percent of revenue	...	...	397.9			354.8	344.6	308.4	290.5	275.5	260.7	305.1	193.3	88.4	160.3
Debt service-to-exports ratio (in percent)	5.9	4.7	15.1			17.6	16.9	15.6	15.5	14.6	13.3	15.6	7.9	2.9	6.5
PPG debt service-to-exports ratio (in percent)	5.9	4.7	15.1			17.6	16.9	15.6	15.5	14.6	13.3	15.6	7.9	2.9	6.5
Debt service-to-revenue ratio (in percent)	5.7	5.1	14.8			16.0	15.2	13.2	12.8	12.1	10.9	13.3	6.2	2.2	5.1
Total gross financing need (billions of U.S. dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-interest current account deficit that stabilizes debt ratio	7.4	17.2	8.6			12.4	13.2	12.9	11.2	10.1	9.2	11.5	5.7	2.1	4.7
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.3	2.1	1.9	2.0	0.4	2.8	3.3	4.1	5.0	5.0	5.0	4.2	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	9.8	25.7	13.8	6.6	11.5	3.0	1.7	4.9	3.3	3.1	3.1	3.2	3.0	2.9	2.9
Effective interest rate (percent) 5/	0.3	0.3	1.1	0.4	0.3	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.7	0.5	0.6
Growth of exports of G&S (US dollar terms, in percent)	13.4	39.5	0.3	7.5	21.8	5.4	4.1	6.3	7.2	7.4	7.5	6.3	7.4	7.6	7.5
Growth of imports of G&S (US dollar terms, in percent)	18.4	29.6	4.5	3.1	18.0	15.5	9.8	-1.5	4.1	5.1	5.3	6.4	5.3	5.8	5.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	29.9	42.6	36.8	30.3	30.3	30.3	33.4	30.3	30.3	30.3
Memorandym item:															
Nominal GDP (billions of US dollars)	0.2	0.3	0.4			0.4	0.4	0.4	0.5	0.5	0.6		0.8	1.8	

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

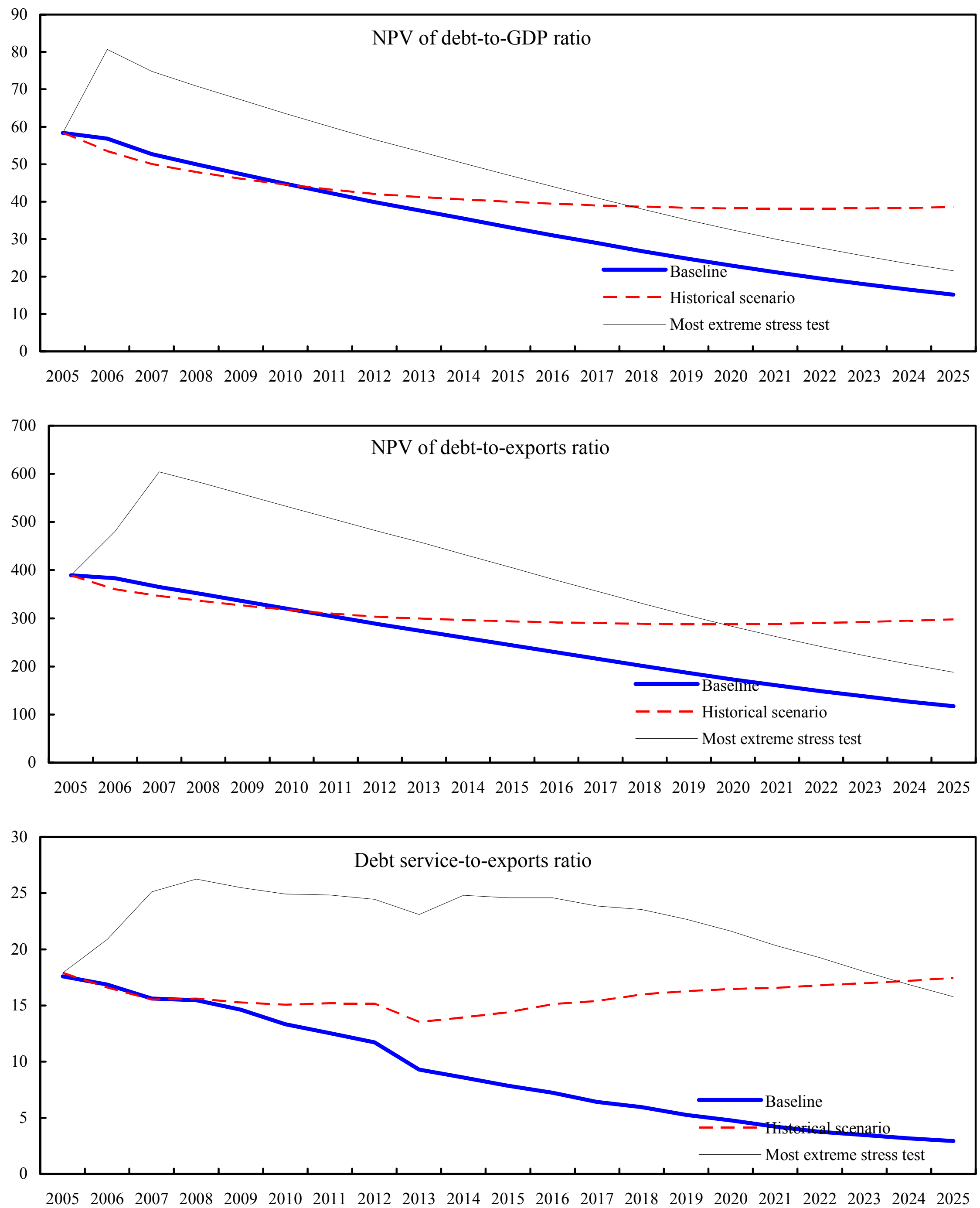
Table 2. Comoros: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2005-25
(In percent)

	Estimate	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
NPV of debt-to-GDP ratio								
Baseline	58	57	53	50	47	45	33	15
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	58	54	50	48	46	45	40	39
A2. New public sector loans on less favorable terms in 2006-25 2/	58	58	54	52	50	48	38	21
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	58	58	55	52	49	47	35	16
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	58	59	58	55	52	49	37	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	58	61	62	59	56	53	39	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	58	58	54	52	49	46	34	15
B5. Combination of B1-B4 using one-half standard deviation shocks	58	59	60	57	54	51	38	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	58	81	75	71	67	64	47	22
NPV of debt-to-exports ratio								
Baseline	389	383	365	350	334	318	244	117
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	389	360	346	336	325	317	294	298
A2. New public sector loans on less favorable terms in 2006-25 2/	389	390	375	365	354	342	281	164
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	389	383	365	350	334	318	244	117
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	389	480	604	580	555	530	405	188
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	389	383	365	350	334	318	244	117
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	389	390	376	361	345	329	252	120
B5. Combination of B1-B4 using one-half standard deviation shocks	389	417	450	432	413	394	301	143
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	389	383	365	350	334	318	244	117
Debt service ratio								
Baseline	18	17	16	15	15	13	8	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	18	17	16	16	15	15	14	17
A2. New public sector loans on less favorable terms in 2006-25 2/	18	17	16	17	17	16	15	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	18	17	16	16	16	16	14	9
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	18	21	25	26	26	25	25	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	18	17	16	16	16	16	14	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	18	17	17	17	16	16	15	10
B5. Combination of B1-B4 using one-half standard deviation shocks	18	19	19	20	19	19	18	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	18	17	16	16	16	16	14	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	29	29	29	29	29	29	29	29

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 1. Comoros: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2005-2025 (In percent)



Source: Staff projections and simulations.

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington DC 20431

Dear Mr. de Rato,

Further to our letter dated February 2, 2005, we would like to inform you of developments in the implementation of Comoros' Staff Monitored Program (SMP). We share your staff's view that the outcomes for the first review, based on quantitative and structural targets for end-March 2005, were mixed. Notwithstanding significant progress with inter-island revenue sharing and coordination, the delay in adopting the 2005 Budget law (only in January 2005) and a non-foreseen seasonality in fiscal revenues, namely with customs revenues that underscored seasonally low imports of rice and concrete mix, resulted in a shortfall in tax revenue relative to the end-March 2005 program targets. In addition, wages and salaries were higher than projected due to the delays in putting in place the intended civil service reform, and, given a tight liquidity situation, external and domestic arrears accumulated.

To achieve the program objectives, a number of remedial measures have been taken to boost revenue and reduce the wage bill in the context the civil service reform. In addition, the government has reduced the budget for official travel during 2005, a World Bank-supported customs reform program was launched, and the customs pre-inspection company opened another office in the island of Anjouan.

We believe that these actions demonstrate the government's determination to successfully implement the SMP and restore sound macroeconomic conditions, which are a necessary requirement for sound and sustainable economic growth. However, to compensate the weak performance at end-March while taking into account the better understanding of the seasonal factors influencing fiscal revenue, we have agreed with the staff to rephase program targets (see attached Table 1). Specifically, we have rephased fiscal revenue, salaries, and the primary balance for end-June and end-September 2005, while keeping the end-December targets unchanged.

Sincerely Yours

/s/
Aboulbastoj Ahamadi
Minister of State
Minister of Finance and the Budget

/s/
Ibrahim Ben Ali
Governor
Central Bank of the Comoros

Table 1. Comoros: Quantitative Indicative Targets Under the Staff Monitored Program 1/
January - December 2005
(In millions of Comorian francs, cumulative since the beginning of the year)

	2005						
	Marc Indicative Targets	March Estimat	Jun Indicative Targets	Jun Indicative Targets revised	Septembe Indicative Targets	September Indicative Targets revised	Decembe Indicative Targets
(a) Floor on the domestic primary balance	2,081	56	2,759	295	2,620	2,620	2,694
(b) Floor on total domestic revenues	7,427	4,641	13,621	10,155	19,082	19,082	24,756
(c) Ceiling on the wage bill	2,933	3,214	5,866	6,268	8,800	9,000	11,732
(d) Ceiling on expenditures made by cash advances	200	128	425	425	665	665	900
(e) Ceiling on the accumulation of new domestic arrears	0	83	0	0	0	0	0
(f) Ceiling on new nonconcessional external debt contracted or guaranteed by the State 2/	0	0	0	0	0	0	0
(g) Ceiling on new short-term external debt contracted or guaranteed by the State 2/	0	0	0	0	0	0	0
(h) Ceiling on accumulation of debt service arrears towards multilateral creditors	0	104	0	0	0	0	0

1/ The definitions of the indicative targets and the adjusters are provided in the Technical Memorandum of Understanding (TMU).
2/ Excluding trade credits.

Statement by the IMF Staff Representative
July 18, 2005

1. This statement contains information on recent political developments that has become available since the Staff Report was circulated to the Executive Board. The information does not alter the thrust of the staff appraisal.

2. A new Union government was formed on July 4, 2005. It includes the former Director General of Customs and National Coordinator of the Program Follow-up Committee as the new Minister of Finance. The new government includes fewer representatives of the small islands and is more heavily tilted toward representatives of the President's party. Inter-island cooperation is progressing normally. The new authorities have confirmed to the staff their commitment to the Staff-Monitored Program—and this was also reiterated by President Azali in his Independence Day speech of July 6. At the same time, the President declared that he will step down at the end of his term in April 2006 and that the presidency will be rotated in favor of the island of Anjouan, as envisaged under the constitution.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 05/112
FOR IMMEDIATE RELEASE
August 12, 2005

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

IMF Executive Board Concludes 2005 Article IV Consultation with the Union of the Comoros

On July 18, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Union of the Comoros.[1]

Background

Following a number of secessionist moves since independence in 1975, Comoros[2] overwhelmingly approved a new constitution in December 2001. The constitution provides for wide-ranging autonomy to the islands, but relies on the establishment of by-laws for the definition of specific decentralization arrangements, including on financial autonomy and the civil service. After a number of failed attempts, on December 20, 2003, a Transition Agreement on elections and critical arrangements for economic management was reached under the auspices of the African Union. The agreement was strongly supported by the international community gave rise to the establishment of a multidonor trust fund for the implementation of the transitional arrangements. Elections for the island assemblies and the national assembly were held in March and April 2004.

Significant progress has been achieved with national reconciliation and with inter-island cooperation. In early 2005, the Union Assembly adopted the organic law on the delineation of responsibilities and the law containing the revenue-sharing rules, as well as a consolidated

[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.

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

budget for 2005. The rotation of the Union Presidency envisaged, in the constitution, is due in 2006.

Economic growth during 2004 remained lackluster, with real GDP per capita declining a further 0.8 percent, due primarily to crop and animal diseases, and to a decline in vanilla production as a result of the collapse on world prices. Inflation increased to 4.5 percent, from 3.8 percent in 2003 essentially due to higher prices for petroleum products and to buoyant domestic demand fueled by a surge in private transfers from abroad. The sharp increase in private remittances, due to an increase in emigrant visits following the availability of direct flights to Europe in the summer of 2004, also more than offset a worsening of the trade deficit, and contributed to an improvement in the external current account in 2004. The deterioration of the trade deficit was essentially linked to a fall in vanilla exports and the higher fuel import prices. The Comoros' foreign reserve position remained at 11 months of imports of goods and services.

Fiscal policies resulted in a primary deficit for the consolidated Union and island governments of 0.5 percent of GDP in 2004, a deterioration of one percent of GDP. The non-implementation of the revenue-sharing agreements between the islands at the beginning of the year, and the lack of administrative capacity following the devolution of tax collection competencies to the island governments, contributed to a decline in domestic revenue as a percent of GDP. Moreover, the wage bill increased significantly due to hirings associated with the new Union institutions, and outlays for goods and services increased as well. The overall deficit (commitment basis, excluding grants) improved by 2 percent of GDP, to 4.4 percent of GDP, on account of substantially lower foreign-financed investment spending. The deficit was financed by a further accumulation of domestic and external arrears. The external debt, at more than 400 percent of exports of goods and services in net present value terms, is not sustainable. It has been accompanied by a continued accumulation of payments arrears.

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

While there are virtually no quantitative trade restrictions, tariff levels on imports in the Comoros are relatively high by international and African standards. However, given the virtual absence of local production of most goods concerned, virtually all tariffs serve revenue purposes and are not an expression of protectionist policies of the government.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They were encouraged by the consolidation of political stability in the Comoros, and stressed that continued inter-island cooperation will remain key to improving macroeconomic performance and social conditions, as envisaged under the staff-monitored program. Directors underscored the importance of a successful implementation of the program for establishing the conditions for strong economic growth and progress towards the Millennium Development Goals, and laying the basis for a PRGF-supported program and eventual participation in the Enhanced HIPC Initiative.

Although the growth outlook has improved, Directors were disappointed at the lackluster performance of Comoros' economy in 2004 and early 2005, and the continued low level of most social indicators. They acknowledged the adverse impact of the plunge in international vanilla prices, which has resulted in a major terms of trade loss that has been further aggravated by the rise in prices for imported fuel products and led to a deterioration in the external trade balance. Directors stressed that addressing the daunting challenges, which the Comoros faces, will require decisive reform efforts to diversify the economy and take advantage of Comoros' potential in agriculture, tourism, and fishing, along with sound fiscal policies.

Against this backdrop, Directors observed that implementation of the staff-monitored program has been mixed so far. They took note of the fiscal requirements of the new constitution as well as the impact of oil price increases and the decline in the international price of vanilla. While progress has been made in a number of important areas, Directors expressed concern about the early fiscal policy slippages, in particular the failure to keep the wage bill within the program envelope and the accumulation of sizeable arrears. They also noted the seasonally low level of revenues in the early part of the year. Directors welcomed the authorities' decision to take corrective actions in order to observe the fiscal targets, and urged their full implementation, including the containment of wage pressures and arrears, to ensure a satisfactory performance under the program. While recognizing that the program will remain subject to a number of risks, Directors noted the strengthening of ownership at both the central and island level which should also help mobilize increasing support of the international community.

Directors welcomed the progress made on fiscal reforms that will help set the public finances on a sound footing. In particular, they commended the adoption of the revenue sharing mechanism between the islands. To consolidate the fiscal position, Directors encouraged the authorities to work toward the early completion of their reforms of customs administration, public procurement, and strengthening expenditure control. Efforts to strengthen and diversify fiscal revenue, including the introduction of a broad-based consumption tax, will also need to be continued.

Directors underscored the importance of faster progress on structural reforms that will be key to enhancing the supply response and competitiveness of the economy, and supporting economic diversification. They urged the authorities to step up implementation of their program for public enterprise reform and privatization, and to enhance efforts to improve the business environment in order to foster private sector development and investment. Directors supported the priority accorded by the authorities to reforming the judiciary and improving governance. They looked forward to close cooperation between island governments to accelerate structural reforms.

Directors commended the authorities on their endeavors to update the 2003 Interim Poverty Reduction Strategy Paper (I-PRSP), and stressed its importance as a means to consolidate national dialogue and island cooperation. They noted that the Strategy Paper would benefit from better coverage of social indicators and tracking of pro-poor public expenditure. Better targeting to the specific needs of the islands will also be important.

Directors noted that Comoros' membership in the Franc zone has provided a firm monetary anchor and contributed to low inflation. At the same time, however, they stressed that the loss of external competitiveness over recent years underscores the need for consistently prudent macroeconomic policies, as well as progress with structural reforms. Directors also underscored the importance of preserving the independence of the central bank, including by maintaining tight limits on monetary financing of the budget.

Directors called for further steps to strengthen and develop the financial sector. The high loan concentration to the vanilla sector should be monitored carefully, and Directors emphasized, in this connection, that regulatory supervision should be extended to the two microfinance institutions. Directors also were of the view that the Postal Company should extend its financial services only after proper training of its staff. They stressed the need to act expeditiously on restructuring the Comoros Development Bank. Directors also encouraged the authorities to ensure implementation of anti-money laundering laws, and to consider steps to facilitate the transfer of remittance flows through the financial system.

Directors underscored the importance of continued efforts to address the country’s heavy external debt burden and its vulnerability to external shocks. This will require particular attention to prudent debt management policies, including a strategy to clear external arrears, and measures to foster export growth and diversification. Directors urged the authorities to persevere in their efforts to strengthen their track record of policy implementation with a view to prospective debt relief under the Enhanced HIPC Initiative.

Directors encouraged the authorities to maintain strong efforts to improve the quality and timeliness of statistical data, including by drawing on technical assistance.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Comoros: Selected Economic Indicators

	2000	2001	2002	2003	2004 (Prel.)	2005 (Proj.)
	(Annual percentage change)					
National accounts and prices						
Real GDP at market prices	2.4	2.3	2.3	2.1	1.9	2.8
Consumer price index (annual average)	5.9	5.6	3.5	3.8	4.5	3.0
Money and credit						
Domestic credit	4.7	-5.6	13.5	-3.3	-3.5	9.1
Broad money	14.5	58.6	-3.7	-1.1	-5.3	3.2
External trade						
Exports f.o.b.	73.7	26.0	7.9	20.7	-51.5	-7.1
Imports f.o.b.	-11.1	20.3	-1.2	10.4	10.4	14.4
Terms of Trade	49.8	61.5	1.5	71.1	-57.9	-30.0
	(In percent of GDP, unless otherwise specified)					
Public finance 1/						
Revenues	10.1	14.0	16.7	16.1	15.4	16.5
Expenditures	15.8	22.0	26.0	22.5	19.8	20.1
Overall balance (commitment basis; including grants)	-1.5	-3.6	-5.1	-4.1	-1.7	-0.5
Primary balance	0.2	-2.2	1.1	0.5	-0.5	1.8
External sector						
Current account balance (excl. official transfers)	0.8	1.0	-3.4	-5.9	-4.1	-6.9
Total external debt outstanding (including arrears)	90.8	85.7	85.7	82.9	79.3	76.4
Gross international reserves (in months of imports of goods and services)	9.4	12.1	13.8	11.5	11.1	8.7

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

1/ Excludes Anjouan for the period 1998-2000.

Statement by Damian Ondo Mañe, Executive Director for Union of the Comoros
July 18, 2005

My Comorian authorities welcome the staff report for the Article IV consultation and the first review under the Staff-Monitored Program (SMP). As Directors are aware, the Comoros went through a very difficult process of political changes over the past decade. The political and social situation is now improving, and is marked by a process of national reconciliation and inter-island cooperation. Taking opportunity of this improvement, my authorities, with staff's support, have put in place a set of policies aimed at reestablishing macroeconomic stability. The SMP has been instrumental in the authorities' efforts. Significant progress is being made in the fiscal area, where important changes have occurred, especially as regards the adoption of organic laws delineating responsibilities and revenue sharing rules among the islands. Given the same performance tempo my authorities expect further progress during the year.

Social and economic background

The recent years were characterized by two notable developments:

First, following the national reconciliation materialized by the country's first parliamentary elections held in March/April 2004, the political situation has improved leading to enhanced cooperation between the Union and island governments. The implementation of policies adopted with the Fund assistance and covering the revenue-sharing formula, the joint administration of the customs office, and the transfer of spending competencies to the island governments, were key to the administrative improvement.

Second, the agriculture sector has been experiencing a severe setback, due to crop and cattle diseases and a decline in vanilla production fueled by the collapse of the international prices.

Recent Economic Developments

Lower vanilla export, combined with the poor performance of the rest of the agricultural sector, adversely affected real GDP, which grew by about 2 percent. Inflation was about 4.5 percent, due to high oil prices and strong domestic demand fueled by private transfers and remittances.

In the fiscal sector, despite unfavorable exogenous shocks, the government has taken a number of revenue enhancing measures through upward revision in customs rates as part of the inter-land harmonization, higher dividend receipts, fishing royalties, and privatization receipts. As a result, for 2005 the authorities are expecting to increase a combined revenue for the three island governments and the Union by about 1 ¼ percent of GDP over the 2004 level to 16.2 percent of GDP. Regarding expenditures, the government is determined to reverse the rapid growth in primary spending to a level in line with the resources of the Union. It was agreed that the combined total of primary expenditure be contained to 14.4 percent of GDP compared with 16.3 percent of GDP in 2004. The saving is supposed to come from a cut in the wage bill, notably by not renewing the contracts of temporary personnel. Also a freeze will apply on new hiring, except for the social sectors. Furthermore, the government is determined to reform and strengthen fiscal management. Although the primary balance was reduced from 4.1 percent of GDP to 2.3 percent, mainly on account of lower foreign financed investment spending, overall my authorities have demonstrated their strong commitment to the program and are requesting to move without delay to a PRGF program that will help them to take advantage of the HIPC Initiative.

Monetary policy has remained tight, as the banking sector, consisting of only one foreign-owned bank, reduced its credit to the economy, mainly because of reduced lending to the vanilla sector. Net foreign assets to the economy fell, in spite of the increase in remittances. However, activity (lending and deposits) at the two microfinance institutions increased significantly. These institutions also diversified their activity. One of the microfinance institutions, the Meck, is now subject to regulatory oversight by the central bank. The other one, the Sanduck, will be subject to central bank oversight once its accounting system has been revised and made to conform to the required standards.

In the external sector, the collapse of vanilla prices to less than a quarter of their former prices and high fuel import prices led to a sharp increase in the trade deficit. Due to an increase in workers' remittances, the current account recorded an improvement over the level in 2003. Nevertheless, as I have stressed during previous Board discussions, the current skyrocketing oil prices are adversely affecting low-income oil importing countries, including the Comoros. This impact needs to be ascertained and an accommodative instrument put in place.

Outlook for the year 2005

The authorities expect real output to increase slightly in 2005, with inflation falling to 3 percent. In the fiscal sector, the objective of the government is to achieve a primary domestic surplus of 1.8 percent of GDP, resulting from the measures being implemented. My authorities are keen to pursue steadfastly the fiscal decentralization process, in order to advance speedily the power sharing under the new constitution. Moreover, the authorities are determined to reduce the wage bill. The process has already begun in Moheli Island, and the two other Islands are prepared to step up with the reform, so as to make sure that the end-2005 targets are met.

The medium-term policies

The main objective of the authorities over the medium term is to raise economic growth to a higher level, to about 5 percent per year. The country faces a number of challenges, which they will need to overcome. It is their expectation that with the stabilization of the political situation, they will receive the full assistance of multilateral institutions and of donors to put in place a comprehensive program of reforms. They are hopeful that following the SMP, the Fund will support their ongoing efforts with a PRGF arrangement, which will help them to address the constraints facing the economy, and put in place the policies necessary to achieve the higher rate of economic growth. The authorities view this as crucial to reduce the high incidence of poverty prevailing in the islands.

In the fiscal sector, while the government is confident to reduce the overall deficit after 2006, one of the serious handicaps facing the authorities in the conduct of fiscal policy is the context of limited access to domestic and external credit for the central government. As the fiscal policy is already tight, shortfalls in domestic revenue lead to a build-up of domestic arrears. My authorities intend to accelerate the structural reforms in the area of customs services, tax policy, and budget management. Many actions are being undertaken, with the assistance of the World Bank. These include the preparation and adoption of tariff rates for the 2006 Financial law, strengthening expenditure control through better preparation, implementation and monitoring of the budget. Also very important on the authorities' agenda are transparency and accountability aspects of financial management, as well as diversification of fiscal revenue, which should rely less on customs duties. The high level of the wage bill will also be addressed.

As regards **monetary policy,** this will remain prudent. My authorities highly value their membership in the Franc zone and the benefits it has procured them, namely a firm nominal anchor and low inflation. The authorities are well aware of the importance of workers' remittances to the economy, and intend to take measures to lower the cost of transfers through official channels.

The authorities agree that the limited development of the financial sector acts as major constraint to the development of the economy. They expect the development of the two microfinance institutions to help to a certain extent, but more will need to be done. Until other banks show interest in doing business in the Comoros, the authorities will need to rely on existing financial institutions. In this regard, following the restructure of the Post and Telecommunication Company, the postal financial services have requested a banking license and have started collecting deposits.

In the external sector, it is the intention of the authorities to reduce gradually external tariffs and liberalize trade, especially in the context of regional trade agreement. However, in view of limited domestic production and a narrow taxable base, the country has had to rely mostly on custom tariffs for revenue. The external sector will also continue to depend on developments in the vanilla sector, and on workers' remittances, which have been a fairly stable source of income for the Comoros. Owing to adverse exogenous oil price shocks and drastic decline in world market prices for vanilla, the external debt situation remains unsustainable, and the Comoros has continued to accumulate external payments arrears.

Conclusion

The authorities of the Comoros have implemented important **structural reforms** in key sectors, notably the fiscal, judiciary and public enterprises, and they have taken steps to improve governance. The authorities are making progress under the SMP. Already, a number of targets have been met. These include improvement in treasury management, the ceiling on expenditures made by cash advances, and the structural indicative target on delineation of responsibilities in line with the organic law. The authorities have also made an important progress in the preparation of the I-PRSP. However, much more needs to be done to put the Comoros on the path of sustainable growth. In this regard, given the performance they have made under difficult circumstances, my Comorian authorities are of the view that they deserve an immediate move to a PRGF program which would enable them to benefit more substantial support from the international community. This support is critical to help the Comoros achieve a sustainable debt situation, and also put in place the policies needed to achieve a higher level of growth and reduce poverty.

.