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Union of the Comoros: 2008 Article IV Consultation and Request for Emergency Post-Conflict Assistance and for Disbursement Under the Rapid-Access Component of the Exogenous Shocks Facility—Staff Report; Staff Supplement; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the 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 2008 Article IV consultation with the Union of the Comoros and request for emergency post-conflict assistance and for disbursement under the rapid-access component of the Exogenous Shocks Facility, the following documents have been released and are included in this package:

- The staff report for the combined 2008 Article IV Consultation and Request for Emergency Post-Conflict Assistance and for Disbursement Under the Rapid-Access Component of the Exogenous Shocks Facility, prepared by a staff team of the IMF, following discussions that ended on August 8, 2008, with the officials of the Union of the Comoros on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 2, 2008. 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 supplement on the joint IMF/World Bank debt sustainability analysis.

- A staff statement of December 15, 2008 updating information on recent economic developments.

- A public information notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its December 15, 2008, discussion of the staff report that conclude the Article IV consultation and completed the request, respectively.

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

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

Letter of Intent sent to the IMF by the authorities of the Union of the Comoros*
Memorandum of Economic and Financial Policies by the authorities of the Union of the Comoros *
Technical Memorandum of Understanding*
Selected Issues and Statistical Appendix
*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

Staff Report for the 2008 Article IV Consultation and Requests for Emergency Post-Conflict Assistance and for Disbursement Under the Rapid-Access Component of the Exogenous Shocks Facility

Prepared by the African Department
(in consultation with other departments)

Approved by Emilio Sacerdoti and Anthony Boote
December 2, 2008

Discussions. Discussions on the 2008 Article IV consultation and on a six-month Emergency Post-Conflict Assistance (EPCA) program were initiated in Moroni during July 25−August 8, 2008, and finalized in Washington DC during October 10–13, 2008. The mission team consisted of Messrs. Matungulu (head), Baldini, Benicio and Hartley (all AFR). It held meetings with the President of the Union, HE Ahmed A. M. Sambi; the Presidents of Ngazidja, Anjouan and Moheli Islands; the Union Finance and Budget Minister, Mr. Mohamed Ali Soilihi; the Governor and Deputy Governor of the Central Bank of the Comoros (BCC), Messrs. Abdoulbastoi and Chanfiou; and other senior officials of the government. Other mission interlocutors were members of the donor community, the private sector and civil society. The team also worked closely with staffs of the AfDB, World Bank and EU.

EPCA and Rapid-Access ESF assistance. The authorities are requesting assistance under the EPCA (SDR 1.1 million, or 12.5 percent of quota) to address the immediate post-conflict challenges of reestablishing inter-island cooperation, initiating restoration of fiscal viability, and beginning to address core economic distortions to gradually put the economy on a path of stronger and sustainable growth. The EPCA-supported program lays the ground for possible resumption of Fund assistance under the Poverty Reduction and Growth Facility (PRGF), eventually leading to debt relief under the HIPC and MDRI. To address the impact of higher fuel and food prices on the balance of payments in 2008, the authorities have also requested a disbursement under the Rapid-Access Component of the Exogenous Shocks Facility (ESF) in an amount equivalent to SDR 2.2 million or 25 percent of quota.

Comoros, a member of the Franc Zone, has accepted the obligations under Article VIII and maintains an exchange system free of restrictions on payments and transfers for current international transactions.

Last Executive Board discussion. October 13, 2006: conclusion of the 2006 Article IV consultation and extension of the staff-monitored program (SMP) through end-December 2006.

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EXECUTIVE SUMMARY

- **In a tenuous political situation, the authorities have recently taken steps to begin addressing core economic vulnerabilities.** In recent years, real GDP growth has been well below the regional average and per capita income has steadily declined. Moreover, rising food and energy costs have worsened the external position; and the external debt burden is far above the HIPC threshold. To reverse the deteriorating trend, the authorities have initiated measures in 2008 to contain the fiscal deficit and begin addressing macroeconomic and structural impediments to growth. Membership in the franc zone, the main anchor of stability, is helping contain pressures on domestic prices.

- **Efforts are made to restore fiscal sustainability.** The authorities have resumed inter-island cooperation in budget and economic management, and are endeavoring to strengthen the fiscal position through revenue enhancement and better control of the wage bill. A Union-based revised budget has been submitted to parliament and the authorities have reestablished the revenue-sharing mechanism. They are endeavoring to achieve the 2008 fiscal targets to provide confidence to donors and to the private sector regarding government readiness to put the budget on a sustainable path. Fiscal gaps should be filled with grants, in order to maintain debt sustainability.

- **There is no evidence that the real exchange rate is misaligned.** However, Comoros faces a current account disequilibrium giving rise to an unstable external position prior to the receipt of debt relief; there is a need to stem persistent erosion of competitiveness with growth-supporting structural reforms.

- **The authorities have started tackling structural impediments to growth.** They have upwardly revised petroleum products prices and electricity tariffs and intend to establish a flexible-pricing mechanism for these products; this is critical to making power supply more reliable, a key growth-supporting ingredient. The authorities also plan to accelerate preparations for reforms of state-owned enterprises with World Bank support, and to ensure an early completion of the final PRSP.

- Staff recommends Board approval of the authorities' request for assistance under the EPCA and Rapid-Access Component of the ESF. While the proposed reform agenda appears appropriate, the main risk is that implementation could be hampered by difficulties in mustering the necessary domestic political consensus.

I. BACKGROUND

1. **Comoros is emerging from a long period of political instability punctuated by at least twenty violent transfers of presidential powers since independence from France in 1975.** Progress in nation building and political reconciliation has been slow. In 2001, a new constitution created the Union of the Comoros, providing for each of the three islands to have its own president and parliament. This was followed by the landmark election of the first Union president in May 2006. However, a crisis emerged in June 2007 when alleged irregularities in the election of Anjouan island president Bacar prompted the Union government, backed by the African Union (AU) and the Arab League, to reject the ballot's results. Colonel Bacar refused to heed international calls for new elections, becoming de facto a rebel leader. Inter-island cooperation disintegrated as a result, preventing Board consideration of a PRGF-supported program that had been negotiated by staff, with adverse effects on economic management, donor support, and growth.

2. **Colonel Bacar was removed from power in March 2008, and a new island president was successfully elected on Anjouan on June 29.** In this new context, the authorities intend to take steps to rekindle growth and enhance the effectiveness of their poverty reduction strategy. They face daunting challenges, including weakened human and administrative capacity and dilapidated economic and social infrastructure.

3. **Comoros growth record is poor.** Real GDP growth has been well below the regional average and per capita income has steadily declined in recent years (see Box 1). Economic activity is largely confined to subsistence agriculture, three export crops, import-related commerce, and government services. Fiscal policy is constrained by erratic fiscal revenues, a bloated civil service wage bill, and an external debt that is far above the HIPC threshold. Membership in the franc zone, the main anchor of stability, has nevertheless helped contain pressures on domestic prices.

Box 1. Comoros: Protracted Road to Recovery: Challenges to Macroeconomic Stability and Faster Growth

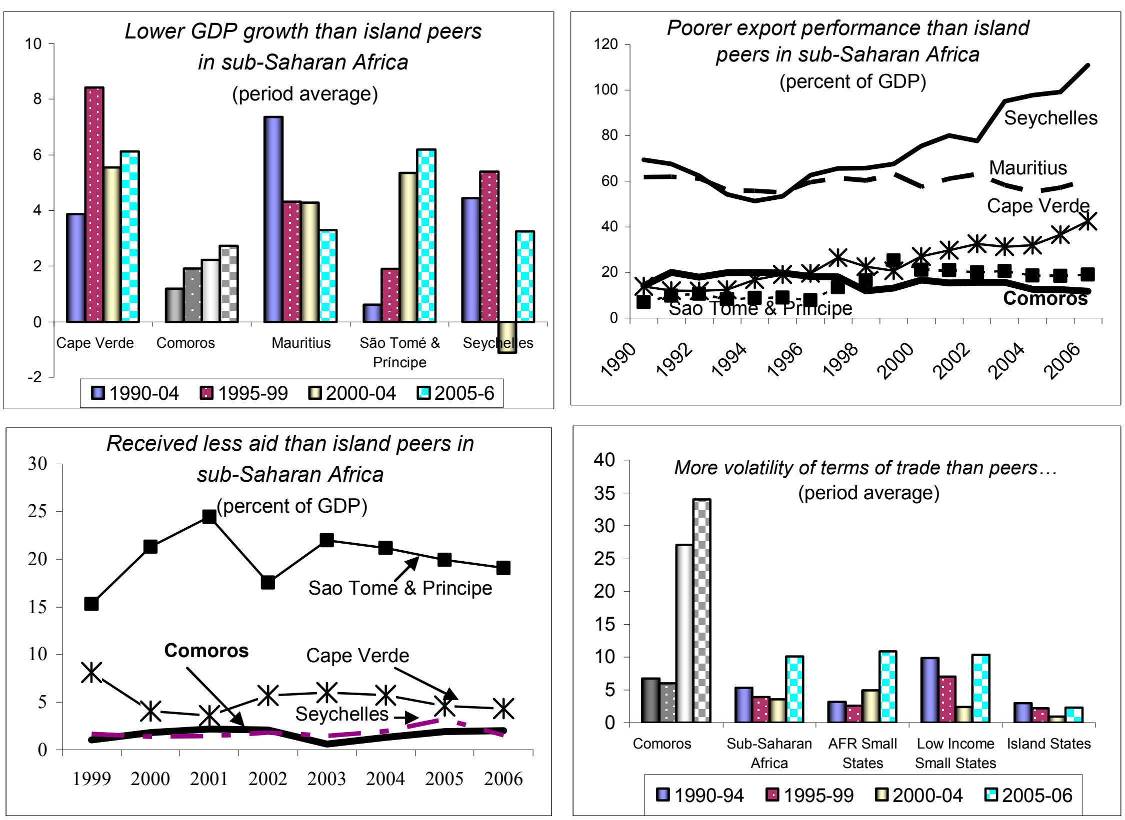
A very narrow export base, with vanilla and cloves accounting for more than ¾ of total export receipts, makes the economy highly vulnerable to international price swings, although large inflows of remittances have provided a buffer to consumption and imports, while the exchange rate peg under the Franc Zone arrangement has helped keep inflation low and official reserves relatively strong.

Dilapidated economic and social infrastructure and a poor business environment have discouraged private sector initiative and kept foreign direct investment at bay.

Against this background, long periods of political and economic instability have undermined institutional capacity, prevented effective implementation of reform policies, and contributed to weak growth and declining per capita incomes.

In the fiscal area, driven by volatile revenue collection efforts and weak public expenditure management, the country has experienced marked concentration of spending on politically-driven wage settlements, chronic external and domestic payments arrears, and a debt burden well above the HIPC thresholds. Donor support has remained low.

Text Figure 1. Comoros: Growth and Macroeconomic Challenges



Sources: Comorian authorities; and IMF staff estimates.

Box 2. Comoros: Recommendations from the 2006 Article IV Consultation

Advice	Status
National reconciliation process	
• Restore inter-island cooperation	The revenue-sharing mechanism has been reestablished, and a revised Union-based budget for 2008 has been approved by parliament.
Public finances and fiscal sustainability	
• Strengthen public finances and improve fiscal governance	Improved inter-island cooperation in customs and tax administration, implementation of ASYCUDA++ and other revenue-enhancing measures, including the introduction of a single taxpayer identification number system, are improving revenue collection and tax compliance. However, further improvements in PFM are needed.
• Address the unsustainable debt burden and garner additional donor assistance	Arrears clearance agreements were reached with key creditors in December 2007. However, the external debt continues to be unsustainable, pending eligibility to debt relief under the HIPC and MDRI. Unlocking additional donor assistance will be facilitated by Fund reengagement under the EPCA and, eventually, the PRGF.
Enabling growth	
• Reform public monopolies and begin implementing the strategy.	The long political crisis has delayed reform of public monopolies, with difficulties notably in privatizing the state-owned telecommunications company. Under the EPCA, the authorities plan to seek World Bank assistance in the design and implementation of a public enterprise reform strategy.
• Address competitiveness and develop the financial sector.	The cost of doing business is still very high, even by regional standards. More reforms are needed in this area. Financial intermediation is expanding with the establishment of two new commercial banks.
• Improve transport and communications infrastructure	Poor expenditure management and faltering donor support continue to limit investment spending and frustrate infrastructure rehabilitation efforts.
• Revise the poverty reduction strategy to explicitly link growth and poverty reduction.	In a difficult political environment, progress in implementing the 2006 I-PRSP and finalizing the full PRSP has been slow, exacerbated by weak institutional capacity. The full PRSP is now scheduled to be completed by end-2008, with support from the World Bank.

II. Economic Developments in 2007 and 2008

4. **In a precarious political environment, economic conditions have dramatically deteriorated in the Comoros since the last Article IV report was issued in 2006** (Figure 1). In 2007, real GDP grew a scanty ½ percent, compared with an annual average of 2½ percent during 1999–2006**.** Business activities, especially imports, were hard hit by political tensions with Anjouan and limited credit availability—as the country's sole commercial bank curtailed operations in the wake of a disputed lawsuit. A modest up tick in construction and retail sales in the final quarter was not sufficiently robust to lift the economy out of a deep mid-year decline. Economic activity remained subdued in the first half of 2008, and real GDP growth is likely to stagnate at ½ percent in 2008. In addition to a further decline in the terms of trade, growth is held back by a difficult energy situation following cancellation in April 2008 of a long-standing fuel supply contract with France's TOTAL.

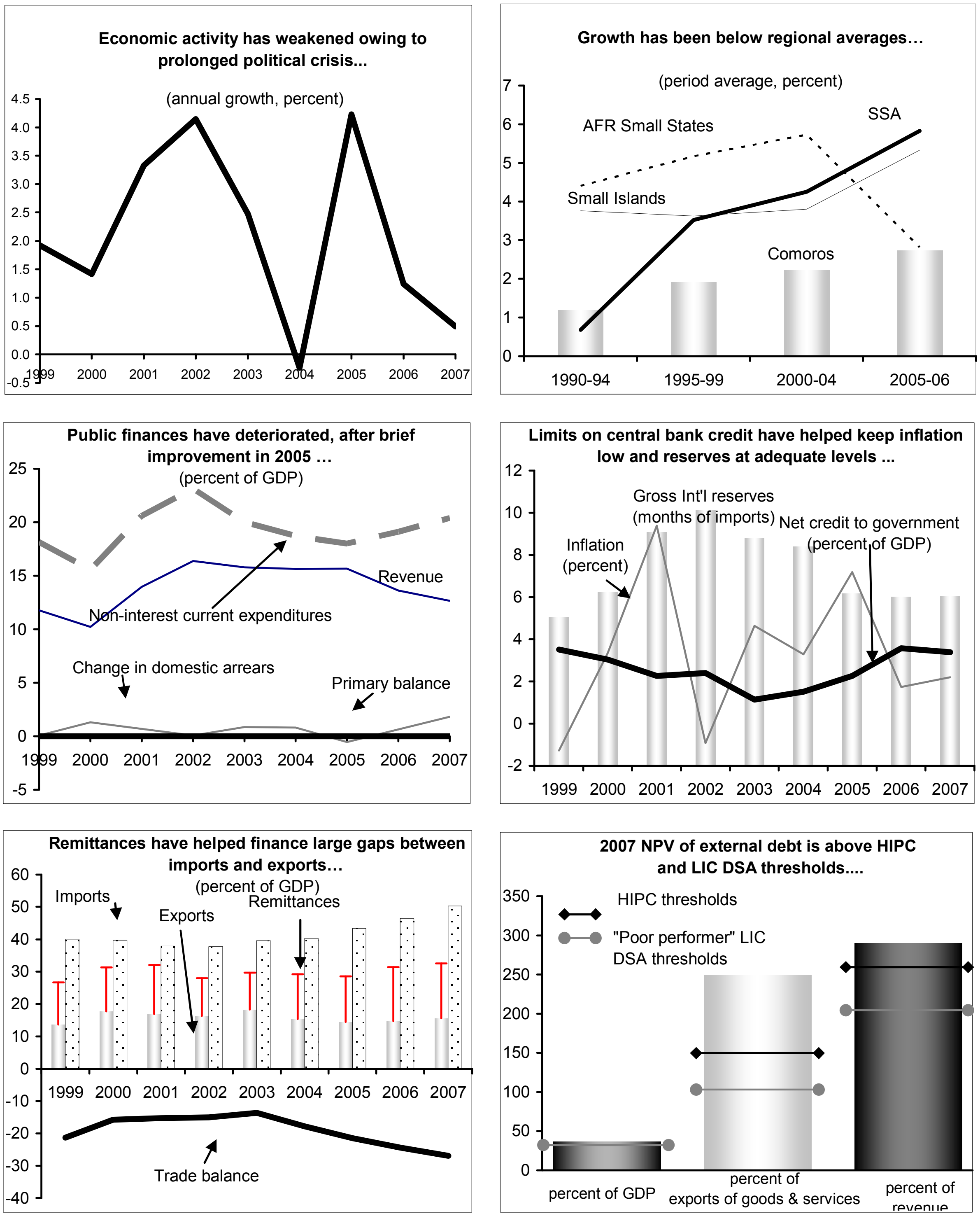
5. **In 2007, inflation rose sharply to 4.5 percent driven by higher food and fuel prices.** This prompted the government to issue ordinances regulating retail prices for key basic foodstuffs late in the year, and to extend a 1995 freeze on domestic fuel prices. End-year inflation is projected to accelerate to 9.6 percent in 2008, spurred by continuing pressures from rising world food and fuel prices in the initial 9 months of the year.

6. **Fiscal performance has weakened further in 2007–08, although corrective measures are being taken for 2009 and the medium term.** The domestic primary fiscal deficit increased to 2.2 percent of GDP in 2007. Third-quarter revenue and current spending outturns for 2008, including for wages, appear to be as targeted under the revised 2008 budget, suggesting that the domestic primary fiscal deficit will further rise to 2.7 percent of GDP in 2008. In the absence of adequate aid disbursements, new domestic and external payment arrears are being accumulated as sizable external debt service obligations fall due.

7. **Monetary conditions remain appropriately tight**. Broad money increased by a modest 1.1 percent in 2007, with declining domestic credit offsetting gains in net foreign assets. Reflecting increased financial intermediation, broad money growth is to accelerate to around 7 percent in 2008, matching that of nominal GDP.

8. **External conditions have considerably deteriorated.** In the face of steady real appreciation of the Euro-pegged Comoros franc, and with the terms-of-trade declining by an annual average of 16 percent in the last three years, the external current account deficit hit the equivalent of 6.7 percent of GDP in 2007. The deficit is projected to widen further to 8.7 percent of GDP in 2008—mostly on account of higher energy and food prices in the initial months of the year. At a projected 236 percent of exports in NPV terms at end-2008, Comoros' external debt is unsustainable.

Figure 1. Comoros: Recent Economic Developments,1999–2007



Sources: Comorian authorities; and IMF staff estimates.

III. Policy Discussions Under the Article IV Consultation

9. **Against a backdrop of improved prospects for a return of political stability, the authorities stressed the urgent need to initiate growth-supporting reforms to address poverty more effectively over the medium to long term.** They concurred on the need for a policy agenda that seeks to urgently begin strengthening public finances and tackling core economic vulnerabilities. Accordingly, the Article IV discussions were centered around three main topics:

- Medium-term macroeconomic prospects and objectives;
- Fiscal policy and key revenue-enhancing and expenditure-reducing measures to kick off fiscal consolidation, and policies to secure debt viability;[1]
- Structural policies to address eroding economic competitiveness, with a focus on the energy and financial sectors and on economic diversification to foster private sector development.

Discussions also addressed several Article IV-specific issues, including measures to improve the quality and timeliness of economic statistics.

A. Medium-Term Macroeconomic Prospects and Objectives

10. **Comoros' medium-term prospects will be shaped by the authorities efforts to** (i) achieve gradual fiscal consolidation while increasing pro-poor and pro-growth spending and enhancing institutional capacity; (ii) attract higher donor financial and technical assistance; and (iii) promote private sector development by addressing core economic distortions and energy and financial sector bottlenecks. In the absence of major investment in agriculture, which represents over 50 percent of total value added, growth will likely remain relatively subdued despite some revival of activity in tourism and donor-funded public works. In this context, the main elements of the medium-term macroeconomic framework would be as indicated below (Text table 1):

- An annual average real GDP growth of 1½ percent during 2008–11, underpinned by subsistence agriculture's supply response to higher food prices, some pick up in private sector activity, including investment in tourism, and a modest rebound in donor-funded public works. After an initial uptick sparked by rising world food and fuel prices, inflation is projected to decline to a trend 3-percent annual average during the period, anchored by the exchange rate peg.

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[1] See Joint IMF/World Bank Debt Sustainability Analysis (DSA) 2008, which assesses Comoros' external public debt dynamics based on the conclusions of an updated joint World Bank-Fund LIC-DSF for 2008.

- A widening of the external current account deficit to 10–11 percent of GDP, reflecting limited export volume gains and stronger worker remittances-funded imports following the end of the political conflict. FDI is expected to increase in line with identified investment projects in banking and tourism, including major revamping of some vacation resorts on the island of Ngazidja. As a result of these developments, external reserves are projected to decline to 5–6 months of imports. Assuming good performance under both the EPCA-supported program and a possible successor arrangement under the PRGF, broad external stability would be achieved over the next three years, when debt relief under the enhanced HIPC Initiative and MDRI is eventually delivered. As a result, the NPV of debt-to-exports ratio would decline to sustainable levels, from an annual average of 223 percent during 2008–11.

- A gradual reduction of the deficit on the domestic primary balance to about 1 percent of GDP by 2011 (2.2 percent in 2007), accommodating some increase in pro-growth spending thanks to a concomitant decline in the wage bill.

Text Table 1. Comoros: Selected Macroeconomic Indicators, Adjustment Scenario 2006–13

	2006	2007	2008	2009	2010	2011	2012	2013
			Prog.	Prog.		Proj.		
Real GDP growth (percent)	1.2	0.5	0.5	1.0	2.0	3.0	3.5	4.0
Inflation (annual change, average)	3.4	4.5	5.9	4.9	1.5	2.9	3.1	3.1
Domestic revenue (percent of GDP)	13.6	12.7	12.4	12.7	13.0	13.4	13.9	14.3
Domestic primary balance (percent of GDP)	-1.2	-2.2	-2.7	-1.6	-1.3	-0.8	-0.3	0.3
Current account balance (percent of GDP)	-6.1	-6.7	-8.7	-10.5	-10.3	-11.0	-10.4	-10.6
International reserves (months of imports of goods and services)	7.2	7.3	5.8	6.3	6.0	5.6	5.2	4.8
Terms of trade (annual percentage change)	-6.9	-20.3	-21.2	17.1	-3.1	-1.4	0.3	0.7
Official grants and loans (percent of GDP)	5.9	8.3	9.1	6.1	6.3	6.5	6.7	6.9

Sources: Comorian authorities and IMF staff estimates and projections.

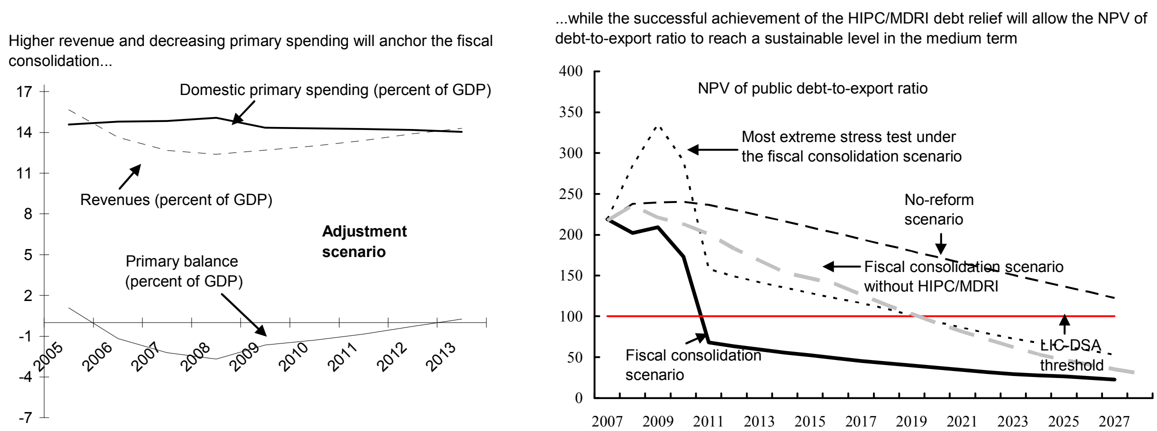
11. **There are considerable risks to the medium-term macroeconomic outlook.** Key downside factors include continued political fragility, inadequate and delayed donor disbursements, as well as weak policy implementation capacity. The absence of donor support could lead to the accumulation of more wage arrears, reigniting political instability, and to delays in effecting reforms crucial to restoring fiscal sustainability. Also, persistent tensions in the global economy add risks to the outlook, with any further deterioration in the terms of trade negatively affecting real domestic incomes, prices, and competitiveness. Strict adherence to proposed budgetary and structural reforms will be key to mitigate these risks.

B. Medium-Term Fiscal Strategy

12. **The mission discussed the outline of a fiscal program aimed at achieving fiscal sustainability, broader macroeconomic stability, and stronger growth over the medium term.** Under the strategy, revenue is to rise by an annual average of ½ percentage point, to 13½ percent of GDP by 2011. Together with restrained wage payments, this would allow moderate strengthening of pro-poor and pro-growth spending, as the government endeavors

to restore macroeconomic stability by keeping demand-induced inflationary pressures in check. The strategy seeks to achieve modest surpluses on the primary budget balance by 2013, from a deficit equivalent to an annual average of 1½ percent of GDP during 2008–11. The overall fiscal deficit (cash basis, including already identified grants) would be contained to an annual average of 2 percent of GDP during the latter period; and the residual financing gap would have to be filled mostly with additional grants, consistent with recommendations from the 2008 DSA. However, in the absence of comprehensive debt relief under the enhanced HIPC Initiative, the NPV of debt (domestic and external) would remain close to 30 percent of GDP by 2011 (Text Figure 2).

Text figure 2. Comoros: Fiscal Stance and Public Debt Sustainability



Source: Comorian authorities and IMF staff estimates.

13. **The mission discussed the specifics of the above medium-term fiscal strategy, with a focus on revenue, expenditure, the treatment of domestic arrears payments, and public expenditure management (PEM).**

- **Revenues**. The key revenue measures are aimed at expanding the tax base and strengthening the efficiency of tax and customs administration. Recent measures already taken include (i) introduction of a single taxpayer identification number system, (ii) implementation of ASYCUDA++ for customs revenue management, (iii) completion of a census of large taxpayers and a refocusing of the large taxpayer unit's activities, and (iv) efforts to reduce ad hoc customs and tax exemptions. Other revenue-enhancing measures, under review, would be considered in the context of the budget law for FY 2009.

Box 3: Comoros: Debt Status and Prospects

The African Development Bank's arrears clearance operation of December 2007 greatly reduced Comoros' debt burden (Tables 5 and 6). The external public debt-to-GDP ratio fell to 56.7 percent in 2007 from 67.4 percent in 2006. At end-2007, domestic public debt stood at an estimated 3.3 percent of GDP—including outstanding short-term Central Bank advances to the Treasury.

Comoros is in debt distress. The 2008 DSA shows that in the absence of HIPC and MDRI debt relief most debt indicators would remain above the relevant policy-dependent thresholds even in the absence of shocks (Joint IMF/World Bank DSA 2008). After an assumed completion point in the next three years, Comoros' debt becomes sustainable, including under a variety of shock scenarios. Fiscal sustainability analysis confirms these results. As expected, the analysis notes that the authorities could also improve debt sustainability through determined implementation of growth-enhancing structural reforms (including measures to achieve fiscal consolidation, improve the business environment, and promote private sector development).

- **Expenditures**. Projected at 73 percent of total revenue and 60 percent of primary current expenditure in 2008, wage outlays are the single most important spending item in the budget (Text Figure 4). Their rapid increase in recent years has weakened government savings and crippled its ability to support public investment and growth. In the face of erratic and weak revenue performance, increasing wage expenditures have caused the accumulation of large payments arrears, hampering macroeconomic stability. Going forward, the authorities concurred that reining in the wage bill would be the single most important element of their spending policy. Under the latter, the wage bill is to be reduced to below 8 percent of GDP by 2013 (9 percent of GDP in 2008). Corrective measures introduced and/or envisaged include (i) a freeze on civil service recruitments, effective August 8, 2008; (ii) a reduction of government ministerial portfolios from 35 to 26, effective November 2008; (iii) full computerization of the civil service payment roster by end-December 2008; (iv) implementation of a computer-based, integrated, payroll management system by end-December 2008; and (v) adoption of organic frameworks setting the appropriate structure and optimal level of civil service staffing, by end-June 2009. Following the full implementation of the management system for wages, the authorities are expected to introduce additional reforms to improve civil service operations and reduce staffing levels, with technical assistance from donors.

- **Public Expenditure Management.** To improve expenditure execution and monitoring, the authorities are issuing monthly budget execution reports—as from September 2008, and holding quarterly meetings of the Budgetary Committee made up of representatives from the Union and the three islands. They will consult with the Public Expenditure and Financial Accountability (PEFA) working group and relevant donors (EU, World Bank) to finalize a framework for implementing and monitoring recent PEFA recommendations.[2]

- **Domestic arrears.** Provisional data put outstanding domestic payments arrears at 18 percent of GDP at end-December 2007, about half of which to private suppliers (8 percent of GDP) and one third in unpaid salaries (5 percent of GDP, Text Figure 4). The authorities intend to conduct an audit of these arrears and, to that effect, have committed to hiring a firm of international repute which will also prepare a comprehensive arrears clearance strategy before end-June 2009.[3]

C. Exchange Rate, Monetary Policy, and Financial Sector Developments

Exchange rate policy

14. **The mission discussed the suitability of the current exchange rate peg under the Franc Zone arrangement.**[4] This has provided the main anchor for stability and has been effective in keeping inflation low (Text Figure 5). Thus, the authorities continue to view the arrangement as appropriate, notwithstanding pending pressures on the external position.

15. **Staff reviewed Comoros' lackluster economic competitiveness as evidenced by weak export performance and growing external imbalances** (Figure 2)**.** It drew attention to developments in the real effective exchange rate, which appreciated by an estimated 29 percent during 2000–07, mainly due to the strengthening of the Euro vis-à-vis the U.S. dollar. The mission noted that while poor data quality argues for caution in interpreting the results, analysis suggests that the real exchange rate is nevertheless broadly in line with fundamentals (Box 3 and related selected issues paper). The mission stressed, and the authorities concurred on, the need to implement structural reforms, including measures to reduce factor costs, to diversify the economic and export base, and to improve the business environment; these are key to stemming the erosion of competitiveness, boosting exports, and reducing external imbalances (¶¶20–21; 29–30). The authorities pointed out and the staff agreed that in addition to much needed strengthening of fiscal policy and implementation of reforms under Fund-supported programs, debt relief would be critical in helping restore

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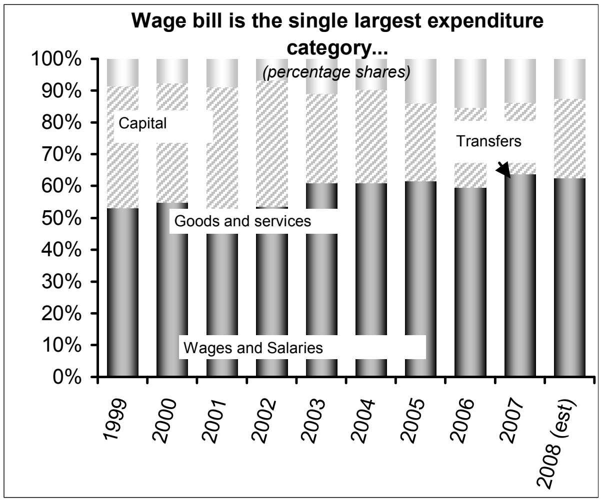
[2] With the support of the EU, a PEFA assessment mission identified in September 2007 a number of weaknesses in the country's public financial management (PFM) system. A final PEFA report was issued in February 2008.

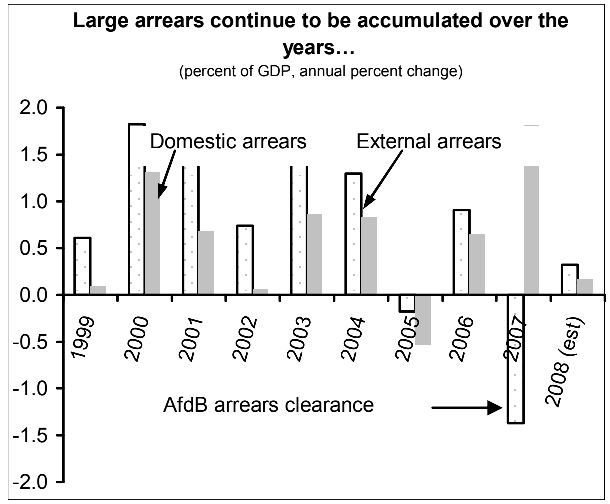
[3] Pending confirmation of related data by the audit, the fiscal program and DSA update currently exclude outlays for these arrears.

[4] In 1979 the Comoros signed a monetary cooperation agreement with France, making the country part of the Franc Zone, but with its own currency and central bank, rather than using the CFA franc and regional bank. In 1994, the Comorian Franc devalued by 33 percent in foreign currency terms, compared with the CFA franc devaluation of 50 percent.

external viability over the medium to long term. Comoros faces indeed a current account disequilibrium giving rise to an unstable external position prior to the receipt of debt relief.

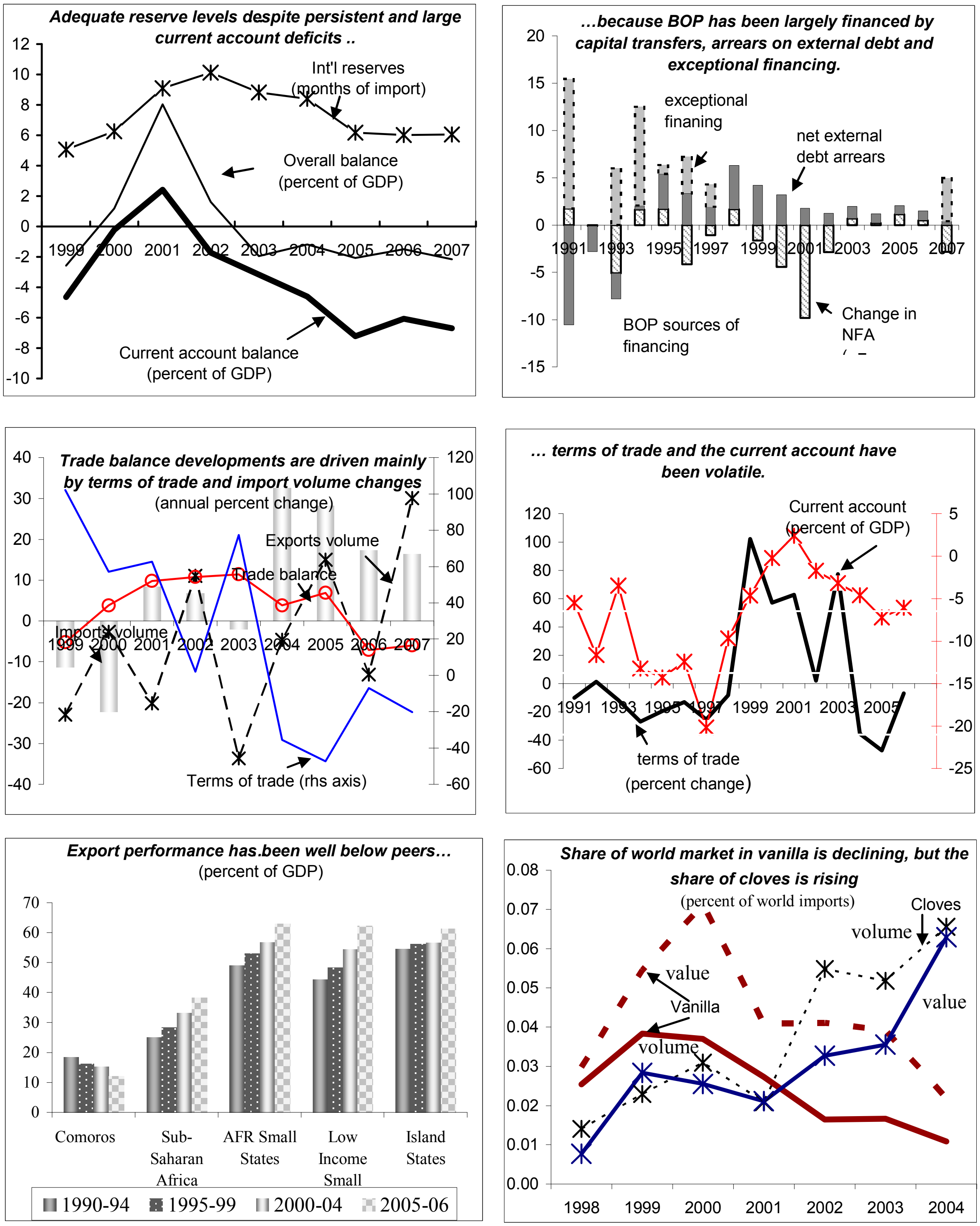
Text Figure 3. Comoros: Public Spending and Arrears, 1999–2008





Sources: Comorian authorities and IMF staff estimates.

Figure 2. Comoros: External Developments,1999–2007



Sources: Comorian authorities; and IMF staff estimates.

Box 4. Comoros: Actual and Equilibrium Real Effective Exchange Rate

The mission shared with the authorities the results of a preliminary assessment of Comoros' competitiveness, which indicates that while the real effective exchange rate was broadly in line with economic fundamentals at end-2007, Comoros fares poorly on structural competitiveness grounds compared to other low-income small states in the region.[1]

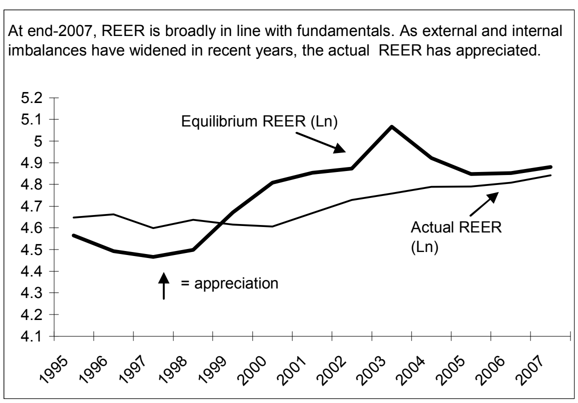
- Equilibrium Exchange Rate (REER) estimates were obtained using an Autoregressive Lag Modeling (ARDL) approach for the period 1980-2007, with the following set of fundamentals (i) terms of trade (TOT), (ii) economic openness (OPEN), (iii) total factor productivity (FTP) proxied by real per capita GDP, and (iv) government consumption (GOV). All variables exhibited the expected sign, but only the terms of trade variable was statistically significant.

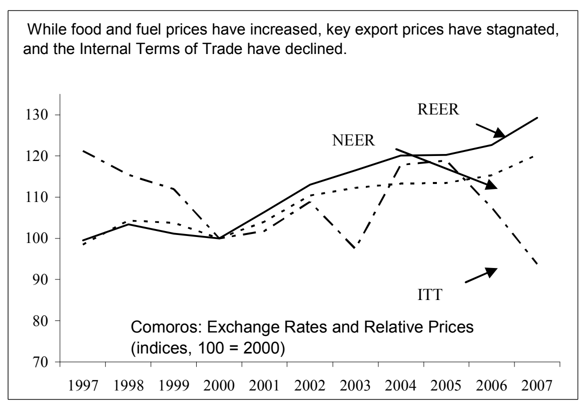
$$\ln(REER) = \underset{[3.18]}{0.24}\ln(TOT) + \underset{[0.11]}{0.08}\ln(OPEN) + \underset{[0.85]}{1.77}\ln(TFP) - \underset{[0.82]}{0.28}\ln(GOV)$$

- The 2009 World Bank Doing Business Report suggests that Comoros ranks low (155 out of 181) in the quality of the business environment, with one of the highest cost of trading cross border in the SSA region.

- The external sustainability approach yields an average current account deficit norm of about 3 percent of GDP, compared with an outturn of 6.7 percent of GDP in 2007. Available REER-elasticities of the current account for Comoros suggest that closing the gap would require a REER adjustment of 6 percent—a rough estimate of rather limited exchange rate misalignment. This result should be interpreted with caution, as the choice of the benchmark level for net foreign assets is arbitrary to some extent.

Text Figure 4. Actual and Equilbrium Exchange Rate: 1995–2007





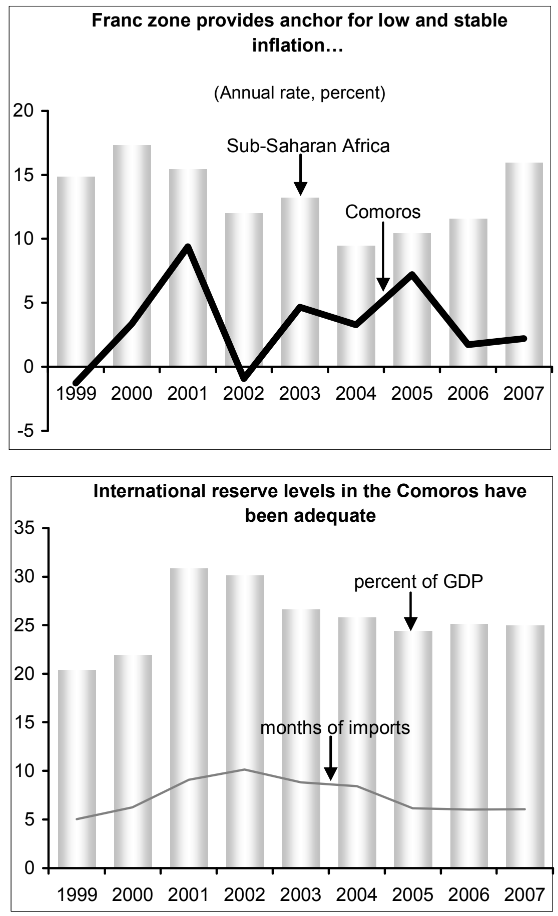
[1] See the Selected Issue Paper "Assessing the External Competitiveness of the Comoros".

Monetary policy and financial sector developments

16. **Monetary Policy.** Conducted within the Franc Zone framework, monetary policy remains mostly passive. The authorities stressed that it will remain prudent and geared to ensuring price stability and preservation of a sustainable external position.

17. **Enhancing financial intermediation is critical to fostering private sector development and supporting growth.** The authorities noted that progress was being made to that end, pointing to the recent establishment of two new foreign banks: the EXIMBANK of Tanzania and the BFC (Banque Fédérale des Comores). They concurred, however, that many challenges lay ahead, which must be addressed to ensure that expanded financial intermediation is effective in fostering growth over the medium term. They stressed the need to strengthen bank supervision and licensing, and to improve micro finance institutions (MFIs) regulation. To address weaknesses in these areas, the authorities have (i) asked for IMF technical assistance in bank supervision and (ii) initiated negotiations with the central banks of Madagascar and Tanzania, aimed at securing technical support in critical bank supervision functions.

Text Figure 5. Inflation and Reserves 1999–2007



Source: Comorian authorities and IMF staff estimates.

18. **Staff discussed the oversight of MFIs, and the full integration of these institutions into the supervisory network to ensure adequate inspections and monitoring of prudential indicators.** It reviewed the status of implementation of the 2007 safeguards assessment recommendations; actions already carried out include: (i) joint French-Comoros government approval of new statutes for the Central Bank of Comoros (BCC) and (ii) completion of the audit of BCC operations for FY 2007. Staff also explained that EPCA would require an update assessment to be completed prior to the approval of a subsequent PRGF arrangement, and stressed the critical importance of ensuring full implementation of all outstanding 2007 safeguards recommendations by that time.

D. Promoting Structural Reforms to Improve the Investment Climate

19. **The mission reviewed key structural constraints to external competitiveness,** which have hampered export growth and diversification (Text Tables 2 and 3). The authorities indicated that measures to address these would feature prominently in the reform agenda under a future PRGF arrangement—with a focus on state-owned enterprises (SOEs), business licensing requirements, investors' protection, and the legal system. They are already seeking World Bank/IFC assistance in developing a reform strategy for the petroleum-importing, telecommunications, and electricity parastatals; and have introduced critical price and structural measures to begin addressing widespread distortions in the energy sector (para. 27 below).

Text Table 2. Comoros and selected Sub-Sahara African Countries: Business Environment

	Comoros	Madagascar	Mozambique	Tanzania	Seychelles	Kenya	Mauritius
Ease of doing business (rank out of 181) [1]	**155**	**144**	**141**	**127**	**104**	**82**	**24**
Starting business	160	58	144	109	68	109	7
Dealing with licenses	64	102	153	172	56	9	36
Registering property	93	145	149	142	55	119	127
Getting credit	163	172	123	84	163	5	84
Protecting investors	126	53	38	88	53	88	11
Paying taxes	55	92	88	109	40	158	11
Trading across borders	129	109	140	103	90	148	20
Enforcing contracts	150	153	124	33	62	107	76
Closing business	181	181	133	111	181	76	70
GNI per capita (US$)	680	320	320	400	8,960	680	5,450
Population (thousands)	626	19,670	21,372	40,432	85	37,531	1,263

Source: World Bank Doing Business Survey 2009 report.
[1] Bottom ranking (181) equals worst business climate, top (1) equals best business climate.

Trade reform and FDI

20. **The authorities concurred that enhanced international trade and foreign direct investment (FDI) would facilitate economic diversification and boost growth.** In discussing recommendations from the recently concluded Diagnostic Trade Integration Study (DTIS), they underscored the need to develop Comoros' significant tourism potential by attracting FDI into the sector. Inward FDI could increase from an annual average of 0.4 percent of GDP during 2000–07 to about 2 percent of GDP over the medium term, fuelled mainly by tourism investments from the Gulf States (Kuwait and the AE).

Text Table 3. Comoros: Cost of Trading Cross Border

	Documents (number)		Time (days)		Cost (US$ per container)	
	Export	Import	Export	Import	Export	Import
Cape-verde	4	9	18	16	533	533
Comoros	**9**	**8**	**28**	**22**	**1,481**	**1,481**
Mauritius	5	7	16	16	683	683
Sao-Tome & Principe	8	10	27	29	490	577
Seychelles	6	7	17	19	1,842	1,842
Small Island states	6	8	17	18	945	1,099
Low income AFR small Sates	7	9	23	27	1,311	1,370
SSA	8	12	40	52	1,561	1,947

Source: World Bank Doing Business Survey (2008).

IV. The EPCA-Supported Program and Disbursement Under the Rapid-Access Exogenous Shocks Facility

A. Overview

21. **The mission reached understandings with the authorities on a set of macroeconomic and structural policies that could be supported under an EPCA.** At present time, the EPCA is the most appropriate instrument for Fund reengagement with the Comoros, and the country appears to have met all four eligibility criteria.

- First, the already weak institutions and public administration have been severely affected by a protracted political crisis and the recent armed conflict, posing significant risk to the implementation of a comprehensive program that could be supported by an upper credit tranche-standard arrangement (i.e., PRGF).

- Second, the country faces an urgent balance of payments need beyond the impact of the recent food and fuel price shock. As is the case for currency union countries, it is difficult to disentangle the external financing gap and the fiscal financing gap for the Comoros, a member of the Franc Zone, since any Fund financing of the former contributes to fill the latter by the same amount. Under the circumstances, the proposed EPCA purchase (SDR 1.1 million or 12.5 percent of quota) is to contribute to meeting balance of payments financing needs equivalent to a residual fiscal gap estimated at 2.4 percent of GDP for 2008.

- Third, sufficient capacity exists for minimum policy planning and implementation.

- Finally, concerted international support for Comoros has emerged, including assistance from the World Bank, the African Development Bank, the European Union, and France, in the context of an EPCA-supported program which is catalyzing the assistance. Immediate resumption of donor financing is partly contingent upon an IMF-supported macroeconomic framework and financial assistance package being put in place.

22. **In the fiscal area, the EPCA-supported program focuses on revenue mobilization and containing the wage bill** (¶¶24–26, below).**The structural agenda seeks to gradually restore inter-island cooperation, tackle selected structural impediments to medium-term expenditure viability, and begin addressing core economic distortions** (¶¶27–29 below)**.** If successfully implemented, the program could count as track record toward the HIPC decision point, thus creating conditions for longer-term donor reengagement in strengthening the authorities' capacity to implement macroeconomic policies.

23. **The authorities have requested IMF support under the RAC-ESF to help smooth adjustment to a sizable terms of trade shock in 2008 resulting from higher food and fuel**

prices in the first nine months. The shock has caused a severe weakening of the external current account position (Table 4). When volumes are maintained at their 2007 levels, the import bill for food and fuel rises by an estimated CF 12 billion (6.8 percent of GDP) in 2008, which is equivalent to SDR 22.9 million or 257 percent of quota. To address the shock, the authorities have initiated critical expenditure- reducing and switching measures. Especially noteworthy are a tightening of fiscal policy (Table 2a) and the gradual introduction of market-based prices for key import and export commodities, including petroleum products (¶28 below); all of which should contribute to a narrowing of the country's external imbalances over time. An increasing number of donors are showing readiness to assist Comoros in this endeavor (¶26 below).

Box 5. The IMF and Comoros: Leading the Donor Reengagement Process

The last Fund financial arrangement with instability-prone Comoros, in the amount of SDR 3.15 million, veered off track in 1994 after SDR 2.25 million had been drawn. With the gradual return of political stability since mid-2008, the government intends to rekindle growth-supporting reforms that had since been put on hold. In this context, the staff team that visited Moroni during July 25–August 8, 2008, reached understandings with the government ad referendum on the outline of a program that could be supported under the EPCA. Board consideration had however been delayed because of difficulties in promptly securing adequate financing assurances from donors.

In recent months, key development partners have intensified preparations for policy reengagement with Comoros. In light of the improved financing prospects, there is merit in going ahead with the proposed EPCA. Further delays would cause the postponement of several anticipated aid disbursements, incurrence of more external arrears, and, even more seriously, a weakening of the momentum for reforms. The authorities expect the Fund to play a leading role at this initial stage of the efforts to get their reform agenda moving again.

B. Macroeconomic Policies Under the EPCA-Supported Program

24. **Against a background of low growth, the fiscal program for 2008 focuses on restoring inter-island cooperation and initiating much needed consolidation of the budgetary position**. Last November, parliament approved a revised, Union-based, budget for 2008. The latter incorporates revenue and spending lines pertaining to the hitherto excluded island of Anjouan (MEFP ¶11). Under the new budget, total revenue is projected to reach 12.4 percent of GDP. In a lackluster economic environment, a modest rebound in customs revenue—despite lack of access to the port of Anjouan in the conflict-afflicted first half of the year—is unlikely to fully offset a decline in domestic tax revenue[5]. Total expenditure is

[5] Customs revenue performance is notably sustained by the recent introduction of ASYCUDA+++ (see paragraph 12 above).

projected at 21.7 percent of GDP, with wages rising to 9 percent of GDP (8.2 percent in the initial budget) following the integration of Anjouan in the Union budget, but also reflecting pre-election civil service and military recruitments in mid-year. To contain the wage bill within the budgeted envelope, the authorities have frozen civil service recruitments and intend to reduce government ministerial portfolios from 34 to 26 (MEFP ¶14). Other non wage recurrent expenditures are projected to increase by 0.8 percentage point of GDP; they include one-off military and island presidential elections outlays relating to the resolution of the Anjouan crisis. Foreign-financed capital spending on road rehabilitation is to rise by 1 percent of GDP, while domestically funded investment outlays are projected to stagnate at 0.7 percent of GDP. With support from the EU, the government settled CF 995 million in wage arrears from FY 2007. However, faced with a tight budgetary situation, the authorities introduced only limited and time-bound measures to address rising food and fuel prices, at a fiscal cost of 0.14 percent of GDP in 2008 (Box 6). Also, because of the difficult cash-flow position, the authorities have taken the following steps:

- They have initiated discussions with the civil service trade unions on delaying to 2009 payment of an estimated one month of wages (CF 1.3 billion or 0.7 percent of GDP; Text Table 4 and para. 25 below); and

- Under the program, Comoros is assumed to remain current on debt service to the World Bank and AfDB. The arrears situation (including new external arrears to official creditors accumulated under the EPCA; see Text Table 4) will be addressed comprehensively ahead of the expected request for a PRGF-supported program in 2009. In this regard, the authorities have been in regular contact with their external creditors to prepare for this normalization of relations.

Box 6. Comoros: Policy Response to Rising Food and Fuel Prices in 2008

To mitigate the impact of rising food and fuel prices on the poor, the Comorian authorities have: (i) reduced import duty rates on wheat flower and yeast, with an estimated revenue loss of CF 39.3 million; and (ii) provided low-priced fuel to the state-owned electricity company MA-MWE to help limit the impact of the higher fuel prices on electricity tariffs, at the cost of CF 210 million. The total fiscal cost of these measures is equivalent to 0.14 percent of GDP.

The authorities concurred that international price increases are likely to be permanent and should, over the medium term, be passed through to consumers. Staff urged introduction of social targeted measures for the most vulnerable social groups, and encouraged the authorities to seek donor assistance in the design of related social safety nets.

25. **The fiscal financing needs for 2009 require stepped-up donor support.** The fiscal financing requirements for 2008 are currently estimated at $21.2 million (3.9 percent of GDP),

for which $8.3 million in budget support has so far been identified. Taking account of $5.3 million in combined EPCA-ESF Fund assistance, still leaves a residual financing gap of $7.6 million (1.4 percent of GDP). As a result, some domestic and external payments are delayed to 2009 (para. 24 and Text Table 4). In 2009, the authorities are expected to stay the course with the revenue efforts and expenditure control measures initiated in 2008. However, in view of the greater debt service obligations falling due, the fiscal financing requirements for the 12 months to end-December 2009 are expected to rise to the equivalent of US$25.1 million (4.8 percent of GDP). A donors conference in the coming months would provide a venue for securing resources to cover a residual gap, before IMF assistance, currently estimated at US$11.5 million (2.2 percent of GDP) for the year (Text Table 4 below).With several key donors—including the World Bank and EU—due to restart extending direct budget support, prospects for enlisting needed assistance appear broadly favorable, provided the authorities stick to their adjustment program.

Text Table 4. Comoros: Strategies for Filling the 2008–09 Financing Gap

	2008			2009		
	CF billions	pct of GDP	US$ million	CF billions	pct of GDP	US$ million
I. Gross Financing requirements before budget support [1]	7.1	3.9	21.2	9.2	4.8	25.1
II. Identified financing sources	2.8	1.5	8.3	5.0	2.6	13.6
AfDB	0.8	0.4	2.4	1.1	0.6	3.0
France	1.0	0.5	3.0	1.1	0.6	3.0
World Bank	...	...	...	1.1	0.6	3.0
Kuwait	1.0	0.6	3.0	…	…	…
European Union	...	...	...	1.2	0.6	3.2
China	...	...	...	0.5	0.3	1.4
III. Financing requirements before IMF assistance	4.3	2.4	12.8	4.2	2.2	11.5
IV. International Monetary Fund [2]	1.8	1.0	5.3	0.0	0.0	0.0
V. Financing gap after IV (+ = financing needs)	2.5	1.4	7.6	4.2	2.2	11.5
VI. 2008 payments delayed to 2009 (gross)	2.5	1.4	7.6	…	…	…
external debt service[3]	1.2	0.7	3.6	…	…	…
domestic (wages)	1.3	0.7	4.0	…	…	…
VII. Financing gap after arrears	0.0	0.0	0.0	…	…	…
Memorandum items:						
GDP (nominal)	179.9			192.8		

Source: IMF staff estimates and projections.

[1] Assuming no new arrears on external debt. Gross financing requirements for 2009 include arrears accumulated in 2008.

[2] Assuming EPCA (12.5 percent of quota) and ESF (25 percent of quota) in 2008.

[3] In 2008, the change in net arrears amounts to 0.5 percent of GDP.

26. **Most donors have expressed readiness to extend technical assistance, provided reforms under the EPCA are adhered to and implemented satisfactorily**. The mission discussed the most urgent TA needs, with a focus on revenue and expenditure management—where early French and World Bank involvement is expected; and on debt and data management capacity building, two areas that are likely to be taken up by the African Development Bank. Staff stressed the importance of donor coordination in the provision of identified TA (Box 7).

Box 7. Comoros: Technical Assistance Provision

Area	Provider [1]
PFM, Institution building	European Union (EU)[2], World Bank (WB), AfDB*
Central Banking Supervision	International Monetary Fund (IMF)*
Statistics	IMF[3], WB
Revenue Administration, and Tax Policy	IMF*
Customs administration	COMESA, African Development Bank (AfDB)
Agriculture	WB[4]
Trade	United Nations Development Programme (UNDP)
Transports, Governance	EU, WB
External Debt	AfDB*
Privatization of SOEs	International Finance Corporation (IFC)*
PRSP	WB, UNDP

Notes

[1] An asterisk (*) indicates provision under consideration.

[2] The EU has allocated euro 45 mn for the period 2008-13 under the 10th European Development Fund.

[3] On monetary and financial statistics.

[4] Includes financing to foster agricultural sector supply in response to higher international prices.

C. The Structural Reform Agenda under the EPCA-Supported Program

27. **The EPCA's structural agenda focuses on issues pertaining to inter-island cooperation, structural impediments to medium-term expenditure viability, and core economic distortions.** After reestablishing the revenue-sharing mechanism and securing parliamentary approval of a supplementary budget for 2008 that integrates the island of Anjouan and is consistent with the macroeconomic framework under the proposed EPCA (two prior actions), the authorities will implement the following measures as structural benchmarks: (i) issuance of quarterly Union-based fiscal accounts, starting December 1, 2008; (ii) full computerization of the civil service wage payments before December 1, 2008; and (iii) recruitment, before January 31, 2009, of a firm to audit domestic payment arrears and prepare an arrears clearance strategy.

28. **The authorities are upwardly revising petroleum products prices and electricity tariffs**—which have been frozen since 2005 and 1994, respectively. They raised retail prices for gasoline and gas oil by an average of 18 percent in early August, and adjusted electricity tariffs in mid-October. Going forward, they intend to seek World Bank assistance in assessing the financial health of state-owned enterprises to inform a reform strategy for the sector. Authorities also plan to dismantle the loss-making state-owned rice import monopoly (MEFP ¶25), and are expected to complete the final PRSP before end-March 2009.

29. **Other structural reforms are aimed at enhancing the efficiency of public administration**. These include the adoption of organic frameworks that set the appropriate structure and optimal level of staffing for the civil service (MEFP ¶¶23–24). Once the organic frameworks are in place, the authorities intend to discuss with World Bank staff a

comprehensive civil service reform to improve public service delivery while reducing staffing to levels compatible with medium-term budget viability.

D. EPCA and ESF Access, Capacity to Repay the Fund, and Program Monitoring

30. **The proposed EPCA and ESF access levels are equivalent to 12.5 percent of quota (SDR 1.1 million or about US$ 1.7 million) and 25 percent of quota (SDR 2.2 million or about US$3.4 million), respectively**. The disbursements are to be made in full upon Board approval of the program, for the period October 2008–March 2009. Over the program period (2008–09), debt service to the Fund would average 0.1 percent of exports of goods and services—after assumed EPCA subsidies and subject to availability of subsidy resources (Table 6). Depending on progress made during the period, staff would assess the possibility of moving to a PRGF arrangement. If progress is not deemed sufficient to that end, the authorities would likely request a second purchase of EPCA, with Board approval. With the proposed first EPCA purchase and ESF disbursement, Comoros's credit outstanding to the Fund would increase from nil to 37.5 percent of quota.

31. **All prior actions for approval of the EPCA have been met (MEFP, paragraph 34) and program monitoring will be effected through several quantitative and structural indicators (MEFP, Tables 1 and 2)**. Especially noteworthy are the full restoration of the Revenue Sharing Agreement (RSA) and parliamentary approval of the revised budget for 2008.

32. **The risk to Fund resources is considered low as Comoros, a member of the Franc zone, has had an excellent record of honoring its past debt service obligations to the IMF.**

V. PRSP and Other Issues

33. **The full PRSP is expected to be completed by end-March 2009.** Comoros' Interim PRSP (I-PRSP, 2006–09) was considered by the Boards of the IMF and World Bank in May 2006.[6] Following a long period of political crisis and limited donor support, the authorities intend to finalize the full PRSP by end-March 2009. Staff urged prioritization of envisaged PRSP reform measures across strategic axes and sectors, with due consideration given to capacity constraints and anticipated external assistance.

34. **The mission discussed the quality and availability of key statistical data for program monitoring and surveillance purposes.** The coverage of fiscal data is being extended to include all Union and islands budgetary operations; data reporting in standard tables of government financial operations needs strengthening. Staff discussed preparation of the authorities' data management modernization program; a donor supported comprehensive

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[6] Country Report No. 06/191 and Country Report No. 06/192.

review, most notably for fiscal and balance of payment statistics, will serve as a basis for setting up a medium-term action plan for data collection, treatment and distribution. In this context, a STA mission has been fielded to provide TA to the BCC on monetary data treatment methodologies.

35. **The mission met with members of the donor community and representatives of trade unions and NGOs.** It spelled out proposed Fund's involvement in efforts to boost economic growth and reduce poverty in Comoros, and sought civil society's views on IMF policy dialogue with the government. Staff issued a concluding statement at the end of the mission.

VI. Staff Appraisal

36. **Following a long period of instability, the Union of the Comoros is painstakingly making its way toward national reconciliation and economic normalcy.** The new political context provides a window of opportunity for the authorities to rekindle economic activity and enhance the effectiveness of their poverty reduction strategy. To reinvigorate growth, the authorities are keen on implementing growth-supporting reforms with donor assistance, starting with an EPCA for the 6-month period to end-March 2009. In the fiscal area, the program is appropriately focused on revenue mobilization and containing the wage bill; and its structural agenda would seek to gradually restore inter-island cooperation, tackle selected structural impediments to medium-term expenditure viability, and begin addressing core economic distortions. Staff commends the authorities for steadfast implementation of all agreed prior actions and strongly urges them to ensure successful implementation of the EPCA-supported program. This would open the way to comprehensive reforms and donor support under the PRGF, and to much needed debt relief under the HIPC and MDRI.

37. **The authorities recognize that putting the economy on a path of strong and sustainable growth requires preservation of macroeconomic stability over the medium term and, in particular, of budgetary discipline.** It therefore is of utmost importance that the 2008 fiscal targets be observed. This would provide confidence to donors and to the private sector regarding the government's determination to put the budget on a sustainable path. In this context, staff welcomes recent measures to improve customs and tax administration, including the introduction of ASYCUDA ++, a freeze on civil service recruitments, and the streamlining of government ministerial portfolios. In the period ahead, close monitoring of personnel expenditures, the single most important item in the budget, will remain a critical ingredient of macrobudgetary stability; the authorities will need to intensify program reforms in this area.

38. **The exchange rate peg under the Franc Zone arrangement will remain an important anchor for macroeconomic stability, and there is no evidence that the real exchange rate is misaligned.** However, sustained real appreciation of the Comoros franc in recent years underscores the need for structural reforms to stem the erosion of competitiveness and promote private sector development. Staff welcomes the reform of the

Central Bank's statutes that strengthens the bank's independence and should help minimize the impact on monetary developments of a still fragile fiscal situation. Staff encourages the BCC to ensure full implementation of the recommendations of the 2007 safeguards assessment, and to provide Fund staff with all information requested to complete the update assessment required in connection with EPCA.

39. **The authorities should be commended for steps taken to begin addressing entrenched structural impediments to growth**. Last August and November, the government upwardly revised petroleum products prices and electricity tariffs—which had been frozen since 2005 and 1994, respectively. Staff urges the authorities to forge ahead with establishing a flexible-pricing mechanism for these utilities, with donor technical assistance. This is critical to making power supply more reliable, and to preventing a repeat of the severe energy shortages experienced in July. Staff also encourages the government to accelerate preparations for reforms of state-owned enterprises, and to secure needed World Bank support at an early date. Staff urges the authorities to ensure timely completion of the final PRSP, which will provide more focus to their reform agenda going forward.

40. **Comoros' reform ambitions face major risks,** including uncertain energy prospects and negative terms of trade shocks. Further, a reemergence of domestic socio-political instability, as well as weak implementation capacity, could undermine implementation of the reform agenda. However, the recent progress in strengthening democracy with support from the African Union and other key bilateral partners, and better coordinated capacity building support by development partners, are expected to mitigate program risks.

41. **In view of government commitment to agreed program reforms and steadfast implementation of related prior-actions, the staff recommends Board approval of the authorities' request for assistance under the EPCA and ESF**. With respect to the latter, the staff welcomes early phase-in of market based prices of key traded products combined with fiscal restraint. Delays in putting the program in place would lead to further postponement of aid disbursements, the incurrence of more external and domestic payment arrears, and a weakening of the momentum for reforms.

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

Table 1. Comoros: Selected Economic and Financial Indicators, 2006–13

	2006	2007	2008	2009	2010	2011	2012	2013
			Prog.		Proj.			
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP	1.2	0.5	0.5	1.0	2.0	3.0	3.5	4.0
GDP deflator	2.0	5.2	7.1	6.1	1.4	3.1	3.5	3.5
Consumer price index (annual averages)	3.4	4.5	5.9	4.9	1.5	2.9	3.1	3.1
Consumer price index (end period)	1.7	2.2	9.6	0.3	2.7	3.1	3.1	3.1
Money and credit								
Net foreign assets	6.3	5.0	0.8	0.8	0.4	0.8	1.0	1.1
Domestic credit	5.0	6.0	11.9	-0.4	2.7	4.2	5.1	6.1
Credit to government	63.9	-0.2	31.6	-3.5	0.6	2.3	3.5	4.2
Broad money	4.3	1.1	7.1	7.2	5.5	8.3	9.3	7.7
Velocity (GDP/end-year broad money)	4.9	5.2	5.2	5.2	5.1	5.0	4.9	4.9
External sector								
Exports, f.o.b.	-17.3	21.4	6.4	7.6	6.2	6.6	4.6	5.1
Imports, f.o.b.	7.9	17.7	13.9	2.0	4.6	7.3	6.7	9.0
Export volume	-13.1	30.1	5.8	7.5	5.7	6.2	4.8	5.2
Import volume	-7.1	-19.0	-12.0	70.7	0.9	5.4	7.2	9.9
Terms of trade	-6.9	-20.3	-21.2	17.1	-3.1	-1.4	0.3	0.7
	(Percent of GDP, unless otherwise indicated)							
Investment and savings								
Investment	9.2	10.4	10.5	12.8	13.9	14.5	15.1	15.8
Public	5.0	6.1	6.2	6.4	6.7	6.9	7.2	7.5
Private	4.3	4.2	4.2	6.4	7.2	7.6	8.0	8.3
Gross national savings	3.2	3.7	1.8	2.2	3.6	3.5	4.7	5.2
Public	1.2	1.4	1.6	-0.6	-0.1	0.4	1.0	1.8
Private	2.0	2.3	0.2	2.8	3.8	3.1	3.7	3.5
Government budget								
Domestic Revenue	13.6	12.7	12.4	12.7	13.0	13.4	13.9	14.3
Total grants	5.0	7.6	8.9	5.9	6.1	6.3	6.5	6.7
Total expenditure	21.2	22.3	21.7	21.2	21.3	21.4	21.6	21.6
Current expenditure	16.3	16.2	15.4	14.8	14.6	14.5	14.4	14.1
Domestic primary balance	-1.2	-2.2	-2.7	-1.6	-1.3	-0.8	-0.3	0.3
Change in arrears	0.9	-1.4	0.3	-0.8	-0.3	-0.4	-0.5	-0.5
External interest	0.3	-3.2	0.2	-0.1	0.0	0.0	0.0	0.0
Domestic	0.6	1.8	0.2	-0.7	-0.3	-0.4	-0.5	-0.5
Overall balance (cash basis)	-1.7	-3.4	0.0	-3.4	-2.5	-2.2	-1.7	-1.2
Excluding grants	-6.7	-11.0	-8.9	-9.3	-8.6	-8.4	-8.2	-7.8
Financing	1.7	3.3	0.0	-1.4	-1.0	-0.9	-1.1	-1.0
Foreign (net)	0.3	2.9	-0.8	-1.1	-1.0	-1.0	-1.2	-1.1
Domestic (net)	1.4	0.3	0.9	-0.3	0.0	0.1	0.1	0.1
Financing gap [1]	0.0	0.1	0.0	4.8	3.5	3.1	2.9	2.1
External sector [2]								
Exports of goods and services	14.2	14.8	14.4	14.5	14.7	14.8	15.0	15.0
Imports of goods and services	38.6	41.6	43.1	41.0	41.8	42.3	42.3	42.8
Current account balance	-6.1	-6.7	-8.7	-10.5	-10.3	-11.0	-10.4	-10.6
Excl. official and private transfers	-24.3	-26.5	-28.4	-26.6	-27.1	-27.4	-27.3	-27.9
External debt (end of year), percent of GDP	67.4	57.6	52.2	47.2	44.4	40.7	36.5	32.7
Of which: arrears	26.5	3.2	0.3	0.0	0.0	0.0	0.0	0.0
NPV In percent of GDP	55.3	36.8	34.0	31.5	30.5	28.6	26.3	24.0
NPV of external debt (end-year) in percent of exports of goods & services	390	249	236	218	208	193	175	160
External debt service (percent of exports of goods and services)	13.1	11.4	12.6	10.7	10.5	10.4	13.2	11.8
Overall balance of payments (millions of U.S. dollars)	-8.0	-6.0	-10.0	-2.8	-23.6	-19.0	-17.8	-17.8
Official grants and loans (percent of GDP)	5.9	8.3	9.1	6.1	6.3	6.5	6.7	6.9
Gross international reserves (end of period)								
Millions of U.S. dollars	94.1	118.2	113.1	113.6	114.1	114.6	114.6	114.6
Months of imports of goods & services	7.2	7.3	5.8	6.3	6.0	5.6	5.2	4.8
Real effective exchange rate (2000=100)	134	129	...	...	...	...	...	...
Exchange rate CF/US$ (period average)	391.8	358.9	...	...	...	...	...	...
Memorandum items:								
GDP (nominal, bilions of CF)	158.1	167.1	179.9	192.8	199.5	211.8	227.0	244.4

Sources: Comorian authorities; and IMF staff estimates and projections.

[1] Errors and omissions for 2006–07. The program financing gap for 2009–11 could be covered by conditional grants, emergency assistance, Fund financing, and HIPC and MDRI debt relief.

[2] Balance of payments revised in accordance with new official historical data.

Table 2a. Comoros: Consolidated Government Financial Operations, 2006–13

(Millions of Comorian francs, cumulative, unless otherwise indicated)

	2006	2007	2008		2009	2010	2011	2012	2013
			Sep	Dec					
			Prel.	Prog.	Prog.		Proj.		
Total revenue and grants	29,534	33,945	26,304	38,332	35,803	38,051	41,683	46,247	51,247
Revenues	21,555	21,160	15,941	22,301	24,477	25,936	28,393	31,554	34,939
Tax revenues	17,260	16,678	12,085	16,467	18,307	19,618	21,682	24,364	27,199
Nontax revenues	4,295	4,482	3,856	5,834	6,170	6,318	6,710	7,189	7,740
External grants	7,978	12,785	10,363	16,031	11,326	12,114	13,290	14,693	16,308
Budgetary assistance[1]	738	2,122	2,438	5,464	0	0	0	0	0
Projects (incl. techn. assist.)	7,240	9,285	7,925	10,567	11,326	12,114	13,290	14,693	16,308
Total expenditure and net lending	33,599	37,314	28,775	38,978	40,801	42,480	45,395	49,034	52,840
Current expenditure	25,766	27,040	19,901	27,735	28,498	29,183	30,798	32,773	34,485
Primary current expenditures	22,165	23,596	18,498	25,876	26,626	27,257	28,779	30,478	32,065
Wages and salaries	13,205	15,052	11,929	16,198	16,897	17,085	17,601	18,484	19,129
Goods and services	5,568	5,327	5,065	6,430	6,247	6,403	6,801	7,286	7,845
Transfers and Pensions	3,392	3,217	1,504	3,248	3,482	3,769	4,378	4,709	5,091
Interest payments	1,144	820	708	932	879	864	855	1,010	996
External debt	926	653	543	752	690	666	647	791	766
Domestic debt	218	168	164	180	189	198	208	219	230
Foreign-financed project assistance	1,024	1,390	242	323	346	369	403	445	492
Technical assistance	1,433	1,234	453	604	648	693	760	840	933
Capital expenditure	7,832	10,274	8,874	11,243	12,303	13,297	14,597	16,261	18,355
Domestically financed investment	1,250	1,227	1,362	1,228	1,031	1,251	1,407	1,708	2,232
Foreign-financed investment	6,182	7,669	7,511	10,015	10,735	11,469	12,569	13,882	15,393
Counterpart funds-financed	401	1,378	0	0	536	577	621	672	730
Domestic primary balance	-1,859	-3,662	-3,919	-4,803	-3,180	-2,572	-1,794	-633	643
Overall balance (commitment basis)	-4,065	-3,369	-2,471	-646	-4,998	-4,429	-3,712	-2,787	-1,593
Excluding grants	-12,043	-16,153	-4,909	-16,677	-16,324	-16,544	-17,003	-2,787	-1,593
Change in net arrears	1,436	-2,289	2,315	578	-1,574	-638	-847	-1,135	-1,222
Interest on external debt	413	-5,317	309	274	-274	0	0	0	0
Domestic arrears	1,023	3,029	2,006	304	-1,300	-638	-847	-1,135	-1,222
Overall balance (cash basis)	-2,628	-5,657	-156	-68	-6,572	-5,068	-4,560	-3,922	-2,815
Excluding grants	-10,607	-18,442	-10,519	-16,099	-17,898	-17,182	-17,850	-18,615	-19,123
Errors and omissions	-63	213	827	0	0	0	0	0	0
Financing	2,691	5,444	-671	68	-2,650	-1,897	-1,939	-2,569	-2,332
Foreign (net)	445	4,867	-1,119	-1,478	-2,151	-1,942	-2,107	-2,825	-2,654
Drawings, PIP (identified)	1,399	1,009	281	375	402	416	442	473	510
Amortization	-2,024	-2,169	-1,673	-2,515	-2,255	-2,358	-2,549	-3,299	-3,164
Exceptional financing (AfdB arrears clearance)	0	12,190	0	0	0	0	0	0	0
External debt in discussion (bilateral)[2]	0	0	273	364	0	0	0	0	0
Arrears (principal)	1,070	-6,162	0	298	-298	0	0	0	0
Domestic (net)	2,247	577	448	1,546	-499	45	168	256	322
Bank financing	1,742	101	-379	1,783	-261	45	168	256	322
Central bank	1,742	-10	-379	1,783	-261	45	168	256	322
Of which: IMF	0	0	0	1,762	0	0	0	0	0
Of which: Advances	1,742	-10	-379	21	-261	45	168	256	322
Nonbank financing	504	476	827	-238	-238	0	0	0	0
Financing gap[3] (+ = underfinancing)	0	0	0	0	9,221	6,965	6,499	6,491	5,147
Memorandum items:									
GDP (nominal)	158,114	167,126	179,891	179,891	192,824	199,452	211,836	226,957	244,355

Sources: Ministry of Finance; and IMF staff estimates.

[1] The amount to be disbursed in 2008 Q4 (CF 2.8 billion) Is nearly equally distributed between France, the AfDB, and Kuwait.

[2] Includes France, China, and Mauritius.

[3] The program financing gap for 2009–11 could be covered by conditional grants, emergency assistance, Fund financing, and HIPC and MDRI debt relief.

Table 2b. Comoros: Consolidated Government Financial Operations, 2006–13

(Percent of GDP, cumulative, unless otherwise indicated)

	2006	2007	2008		2009	2010	2011	2012	2013
			Sep	Dec					
			Prel.	Prog.	Prog.		Proj.		
Total revenue and grants	18.7	20.3	14.6	21.3	18.6	19.1	19.7	20.4	21.0
Revenues	13.6	12.7	8.9	12.4	12.7	13.0	13.4	13.9	14.3
Tax revenues	10.9	10.0	6.7	9.2	9.5	9.8	10.2	10.7	11.1
Nontax revenues	2.7	2.7	2.1	3.2	3.2	3.2	3.2	3.2	3.2
External grants	5.0	7.6	5.8	8.9	5.9	6.1	6.3	6.5	6.7
Budgetary assistance[1]	0.5	1.3	1.4	3.0	0.0	0.0	0.0	0.0	0.0
Projects (incl. techn.assist.)	4.6	5.6	4.4	5.9	5.9	6.1	6.3	6.5	6.7
Other budgetary aid	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	21.2	22.3	16.0	21.7	21.2	21.3	21.4	21.6	21.6
Current expenditure	16.3	16.2	11.1	15.4	14.8	14.6	14.5	14.4	14.1
Primary current expenditures	14.0	14.1	10.3	14.4	13.8	13.7	13.6	13.4	13.1
Wages and salaries	8.4	9.0	6.6	9.0	8.8	8.6	8.3	8.1	7.8
Goods and services	3.5	3.2	2.8	3.6	3.2	3.2	3.2	3.2	3.2
Transfers and Pensions	2.1	1.9	0.8	1.8	1.8	1.9	2.1	2.1	2.1
Interest payments	0.7	0.5	0.4	0.5	0.5	0.4	0.4	0.4	0.4
External debt	0.6	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Domestic debt	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign-financed project assistance	0.6	0.8	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Technical assistance	0.9	0.7	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Capital expenditure	5.0	6.1	4.9	6.2	6.4	6.7	6.9	7.2	7.5
Domestically financed investment	0.8	0.7	0.8	0.7	0.5	0.6	0.7	0.8	0.9
Foreign-financed investment	3.9	4.6	4.2	5.6	5.6	5.8	5.9	6.1	6.3
Counterpart funds-financed	0.3	0.8	0.0	0.0	0.3	0.3	0.3	0.3	0.3
Domestic primary balance	-1.2	-2.2	-2.2	-2.7	-1.6	-1.3	-0.8	-0.3	0.3
Overall balance (commitment basis)	-2.6	-2.0	-1.4	-0.4	-2.6	-2.2	-1.8	-1.2	-0.7
Excluding grants	-7.6	-9.7	-2.7	-9.3	-8.5	-8.3	-8.0	-1.2	-0.7
Change in net arrears	0.9	-1.4	1.3	0.3	-0.8	-0.3	-0.4	-0.5	-0.5
Interest on external debt	0.3	-3.2	0.2	0.2	-0.1	0.0	0.0	0.0	0.0
Domestic arrears	0.6	1.8	1.1	0.2	-0.7	-0.3	-0.4	-0.5	-0.5
Overall balance (cash basis)	-1.7	-3.4	-0.1	0.0	-3.4	-2.5	-2.2	-1.7	-1.2
Excluding grants	-6.7	-11.0	-5.8	-8.9	-9.3	-8.6	-8.4	-8.2	-7.8
Errors and omissions	0.0	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Financing	1.7	3.3	-0.4	0.0	-1.4	-1.0	-0.9	-1.1	-1.0
Foreign (net)	0.3	2.9	-0.6	-0.8	-1.1	-1.0	-1.0	-1.2	-1.1
Drawings, PIP (identified)	0.9	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Amortization	-1.3	-1.3	-0.9	-1.4	-1.2	-1.2	-1.2	-1.5	-1.3
Exceptional financing (arrears clearance)	0.0	7.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External debt in discussion (bilateral)[2]	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Arrears (principal)	0.7	-3.7	0.0	0.2	-0.2	0.0	0.0	0.0	0.0
Domestic (net)	1.4	0.3	0.2	0.9	-0.3	0.0	0.1	0.1	0.1
Bank financing	1.1	0.1	-0.2	1.0	-0.1	0.0	0.1	0.1	0.1
Central bank	1.1	0.0	-0.2	1.0	-0.1	0.0	0.1	0.1	0.1
Of which: IMF	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Of which: Advances	1.1	0.0	-0.2	0.0	-0.1	0.0	0.1	0.1	0.1
Nonbank financing	0.3	0.3	0.5	-0.1	-0.1	0.0	0.0	0.0	0.0
Financing gap[3] (+ = underfinancing)	0.0	0.0	0.0	0.0	4.8	3.5	3.1	2.9	2.1
Memorandum items:									
GDP (nominal)	158,114	167,126	179,891	179,891	192,824	199,452	211,836	226,957	244,355

Sources: Ministry of Finance; and IMF staff estimates.

[1] The amount to be disbursed in 2008 Q4 (CF 2.8 billion) is nearly equally distributed between France, the AfDB, and Kuwait.

[2] Includes France, China, and Mauritius.

[3] The program financing gap for 2009–11 could be covered by conditional grants, emergency assistance, Fund financing, and HIPC and MDRI debt relief.

Table 2c. Comoros: Consolidated Government Financial Operations, 2008–09

(Millions of Comorian francs, cumulative, unless otherwise indicated)

	2008				2009			
	Jun	Sep	Sep	Dec.	Mar.	Jun.	Sept.	Dec.
	Prel.	Proj.	Prel.	Prog.	Prog.	Proj.	Proj.	Proj.
Total revenue and grants	17,414	31,134	26,304	38,332	9,474	16,869	25,969	35,803
Revenues	10,794	18,133	15,941	22,301	6,441	10,803	16,871	24,477
Tax revenues	8,277	13,174	12,085	16,467	5,300	7,390	12,346	18,307
Nontax revenues	2,516	4,959	3,856	5,834	1,142	3,413	4,525	6,170
External grants	6,620	13,002	10,363	16,031	3,033	6,065	9,098	11,326
Budgetary assistance	1,337	2,060	2,438	5,464	0	0	0	0
Projects (incl. techn.assist.)	5,283	10,567	7,925	10,567	2,932	5,864	8,796	11,326
Total expenditure and net lending	18,902	30,359	28,775	38,978	8,766	19,499	29,195	40,801
Current expenditure	13,246	19,424	19,901	27,735	5,744	13,146	19,666	28,498
Primary current expenditures	12,321	17,762	18,498	25,876	5,276	12,210	18,262	26,626
Wages and salaries	7,846	11,910	11,929	16,198	4,219	8,195	12,424	16,897
Goods and services	3,586	4,334	5,065	6,430	883	2,982	4,211	6,247
Transfers and Pensions	890	1,517	1,504	3,248	174	1,033	1,627	3,482
Interest payments	462	735	708	932	220	439	659	879
External debt	298	564	543	752	172	345	517	690
Domestic debt	164	171	164	180	47	95	142	189
Foreign-financed project assistance	162	323	242	323	86	173	259	346
Technical assistance	302	604	453	604	162	324	486	648
Capital expenditure	5,656	10,936	8,874	11,243	3,021	6,352	9,529	12,303
Domestically financed investment	649	921	1,362	1,228	103	516	774	1,031
Foreign-financed investment	5,008	10,015	7,511	10,015	2,784	5,569	8,353	10,735
Counterpart funds-financed	0	0	0	0	...	...	...	536
Domestic primary balance	-2,176	-550	-3,919	-4,803	1,062	-1,922	-2,164	-3,180
Overall balance (commitment basis)	-1,488	775	-2,471	-646	709	-2,630	-3,225	-4,998
Excluding grants	-2,825	-12,227	-4,909	-16,677	-2,324	-8,695	-12,323	-16,324
Change in net arrears	1,119	0	2,315	578	0	0	0	-1,574
Interest on external debt	55	0	309	274	0	0	0	-274
Domestic arrears	1,064	0	2,006	304	0	0	0	-1,300
Overall balance (cash basis)	-369	775	-156	-68	709	-2,630	-3,225	-6,572
Excluding grants	-6,989	-12,227	-10,519	-16,099	-2,324	-8,695	-12,323	-17,898
Errors and omissions	748	0	827	0	0	0	0	0
Financing	-379	-966	-671	68	-709	-1,325	-1,987	-2,650
Foreign (net)	-162	-1,014	-1,119	-1,478	-538	-1,075	-1,613	-2,151
Drawings, PIP (identified)	188	375	281	375	101	201	302	402
Amortization	-1,028	-1,887	-1,673	-2,515	-564	-1,127	-1,691	-2,255
External debt in discussion (bilateral)[1]	182	273	273	364	0	0	0	0
Arrears (principal)	497	224	0	298	-75	-149	-224	-298
Domestic (net)	-218	48	448	1,546	-171	-250	-374	-499
Bank financing	-249	16	-379	1,783	-111	-131	-196	-261
Central bank	-249	16	-379	1,783	-111	-131	-196	-261
Of which: IMF	0	0	0	1,762	0	0	0	0
Of which: Advances	-249	16	-379	21	-111	-131	-196	-261
Nonbank financing	32	32	827	-238	-59	-119	-178	-238
Financing gap [2] (+ = underfinancing)	0	192	0	0	0	3,955	5,213	9,221
Memorandum items:								
GDP (nominal)	179,891	179,891	179,891	179,891	192,824	192,824	192,824	192,824

Sources: Ministry of Finance; and IMF staff estimates.

[1] The amount to be disbursed in 2008 Q4 (CF 2.8 billion) Is nearly equally distributed between France, the AfDB, and Kuwait.

[2] Includes France, China, and Mauritius.

[3] The program financing gap for 2009 could be covered by conditional grants, emergency assistance, and Fund financing.

Table 3. Comoros: Monetary Survey, 2006–09

(Millions of Comorian francs)

	2006	2007 Est.	2008 Prog.	2009 Proj.
Net foreign assets	39,758	41,727	42,074	42,426
Central bank Assets	35,024	39,879	41,630	41,630
Central bank Liabilities	-103	-209	-1,960	-1,960
Commercial Banks Assets	6,321	4,541	4,888	5,240
Commercial Banks Liabilities	-1,484	-2,484	-2,484	-2,484
Net domestic assets	-7,794	-9,417	-7,480	-5,344
Domestic credit	14,475	15,347	17,167	17,099
Net credit to government [1]	5,652	5,642	7,426	7,164
Bank financing	4,736	5,148	7,260	6,999
Claims on government	5,877	5,982	8,074	7,813
Deposits of government	-1,142	-835	-814	-814
Claims on private sector	9,382	9,794	9,696	9,890
Other items net	-22,269	-24,764	-24,647	-22,443
Broad money	31,964	32,310	34,594	37,082
Money	23,950	24,494	26,181	28,064
Currency in circulation	12,760	13,493	14,447	15,486
Demand deposits	11,190	11,001	11,734	12,578
Quasi-money	8,014	7,816	8,413	9,018
	(Percent of beginning period broad money)			
Net foreign assets	7.7	6.2	1.1	1.0
Net domestic assets	-3.4	-5.1	6.0	6.2
Domestic credit	2.3	2.7	5.6	-0.2
Net credit to government	7.2	0.0	5.5	-0.8
Credit to private sector	-2.8	1.3	-0.3	0.6
Other items (net)	-5.7	-7.8	0.4	6.4
Broad money	4.3	1.1	7.1	7.2
Money	3.7	1.7	5.2	5.4
Quasi-money	0.5	-0.6	1.8	1.7
Velocity (GDP/end-year broad money)	4.9	5.2	5.2	5.2
Credit to private sector (percent change)	-8.3	4.4	-0.8	2.0

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

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

Table 4. Comoros: Balance of Payments, 2006–13

(Millions of Comorian francs, unless otherwise indicated)

	2006	2007	2008	2009	2010	2011	2012	2013
			Prog.	Prog.		Proj.		
Current Account	-9,581	-11,188	-15,652	-20,311	-20,509	-23,386	-23,649	-25,813
Goods and Services	-38,600	-44,932	-51,549	-51,177	-54,112	-58,347	-61,988	-68,071
Trade Balance	-35,419	-41,540	-47,691	-48,355	-50,482	-54,222	-57,971	-63,459
Exports (f.o.b.)	4,090	4,965	5,283	5,682	6,034	6,431	6,726	7,067
Of which: Vanilla	1,009	1,274	1,371	1,470	1,499	1,544	1,598	1,662
Cloves	2,054	2,866	3,085	3,307	3,544	3,799	3,932	4,090
Ylang-ylang	913	711	705	776	853	938	1,032	1,136
Imports (f.o.b.)	-39,509	-46,505	-52,974	-54,037	-56,516	-60,652	-64,696	-70,526
Of which: Petroleum products	-9,888	-10,649	-10,408	-10,417	-11,622	-12,595	-13,035	-13,557
Services (net)	-3,181	-3,392	-3,858	-2,822	-3,630	-4,125	-4,017	-4,611
Receipts	18,358	19,707	20,700	22,234	23,254	24,921	27,260	29,530
Of which: travel	10,521	10,864	11,219	11,780	12,958	14,254	15,679	17,247
Payments	-21,539	-23,099	-24,558	-25,056	-26,884	-29,046	-31,277	-34,142
Income (net)	163	716	519	-93	68	228	3	-61
Current Transfers (net)	28,856	33,028	35,378	30,958	33,535	34,732	38,336	42,319
Government	2,457	4,734	6,391	994	1,061	1,163	1,285	1,425
Private	26,399	28,293	28,987	29,965	32,474	33,569	37,051	40,894
Capital and Financial Account	7,376	1,885	14,715	11,662	13,544	16,888	17,158	20,666
Capital Account	7,240	41,790	9,640	10,333	11,053	12,127	13,408	14,883
Financial Account	136	-39,904	5,076	1,330	2,491	4,761	3,749	5,783
Direct Investment	324	2,704	2,896	4,025	3,770	3,876	3,913	5,737
Net Portfolio and Other Investment	-188	-42,608	2,180	-2,695	-1,279	885	-164	46
Government	-625	-42,635	-2,140	-1,852	-1,942	-2,107	-2,825	-2,654
Drawings	1,399	1,009	375	402	416	442	473	510
Amortization	-2,024	-2,169	-2,515	-2,255	-2,358	-2,549	-3,299	-3,164
MDRI & HIPC	0	0	0	0	0	0	0	0
Arrears Clearance Operations [1]	0	-41,475	0	0	0	0	0	0
Private Sector (net)	437	27	4,320	-843	663	2,993	2,662	2,700
Banks, net	3,157	-2,780	347	351	180	337	411	473
Other	-2,720	2,807	3,973	-1,194	483	2,656	2,251	2,227
Errors and Omissions	-154	5,729	0	0	0	0	0	0
Overall Balance	-2,358	-3,574	-936	-8,649	-6,965	-6,499	-6,491	-5,147
Financing	2,358	3,574	937	-572	0	0	0	0
NFA of central bank (increase -)	797	-4,750	0.0	0.0	0.0	0.0	0.0	0.0
Net Change in Arrears	1,561	710	572	-572	0	0	0	0
Exceptional Financing [1]	0	7,614	364	0	0	0	0	0
Financing Gap [2]	0	0	0	9,221	6,965	6,499	6,491	5,147
Memorandum items:								
Current Account (percentage of GDP)	-6.1	-6.7	-8.7	-10.5	-10.3	-11.0	-10.4	-10.6
Excluding Transfers	-24.3	-26.5	-28.4	-26.6	-27.1	-27.4	-27.3	-27.9
Exports of goods and services (percentage of GDP)	14.2	14.8	14.4	14.5	14.7	14.8	15.0	15.0
Imports of goods and services (percentage of GDP)	38.6	41.6	43.1	41.0	41.8	42.3	42.3	42.8
External public debt (Millions of U.S. dollars)	286.3	285.0	254.9	248.3	243.0	237.2	228.2	219.7
Of which: arrears	106.8	2.1	1.6	0.0	0.0	0.0	0.0	0.0
Percent of GDP	67.4	57.6	52.2	47.2	44.4	40.7	36.5	32.7
Debt service ratio (percentage of exports of goods and services)	13.1	11.4	12.6	10.7	10.5	10.4	13.2	11.8
Gross international reserves (Millions of U.S. dollars)	94.1	118.2	113.1	113.6	114.1	114.6	114.6	114.6
Months of imports of goods and services	7.2	7.3	5.8	6.3	6.0	5.6	5.2	4.8

Sources: Comorian authorities, and IMF staff estimates and projections.

[1] Reflects arrears clearance operations in 2007 with multilateral creditors and ongoing discussions with bilaterals in 2008.

[2] The program financing gap for 2009–11 could be covered by conditional grants, emergency assistance, Fund financing, and HIPC and MDRI debt relief.

Table 5. Comoros: External Debt and Arrears, Official Creditors, 2007–08

	2007				2008
	Stocks		Flows		Flows
Creditors	Total Debt	*of which Arrears*	Debt service due	Change in arrears	Debt service [1] due
			(Millions of U.S dollars)		
Total	276	15.7	7.4	2.0	9.8
Multilaterals	225	12.1	6.1	1.0	8.1
AfDB Group	42.6	0.0	1.7	0.0	2.0
BADEA	32.0	0.1	0.3	0.1	0.3
EIB	0.7	0.2	0.0	0.0	0.3
IDB	12.0	7.0	0.8	0.8	1.0
OPEC	3.6	3.6	0.0	0.0	0.0
IFAD	8.7	0.0	0.4	0.0	0.4
IDA	124.3	0.0	3.0	0.0	4.2
ARAB MONETARY FUND	1.2	1.2	0.0	0.0	0.0
Bilaterals	50.9	3.6	1.3	1.0	1.7
UAE (Abu Dhabi)	1.3	1.3	0.0	0.0	0.0
France	5.2	0.7	0.7	0.7	0.7
China	1.4	1.5	0.2	0.2	0.3
Kuwait Fund	27.7	0.0	0.3	0.0	0.3
Saudi Fund	14.2	0.0	0.0	0.0	0.3
Mauritius	1.0	0.0	0.1	0.0	0.1

Source: Comorian authorities. Data not reconciled with creditor statements.
[1] Includes service on rescheduled arrears.

Table 6. Comoros: Indicators of Capacity to Repay the Fund, 2006–15 [1]

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Projections							
Fund obligations based on existing credit										
(Millions of SDRs)										
Principal	-	-	-	-	-	-	-	-	-	-
Charges and interest	0.02	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.01
Fund obligations based on existing and prospective credit [1]										
(Millions of SDRs)										
Principal	-	-	-	-	-	-	0.56	0.56	0.45	0.45
Charges and interest	0.02	0.03	0.04	0.06	0.07	0.07	0.06	0.05	0.03	0.02
Total obligations based on existing and prospective credit [1]										
Millions of SDRs	0.02	0.03	0.04	0.06	0.07	0.07	0.62	0.61	0.48	0.47
Millions of CF	14.40	16.15	21.73	33.43	38.92	38.83	343.95	338.40	266.28	260.74
Percent of government revenue	0.07	0.08	0.10	0.14	0.15	0.14	1.09	0.97	0.70	0.64
Percent of exports of goods and services	0.06	0.07	0.08	0.12	0.13	0.12	1.01	0.92	0.68	0.61
Percent of debt service [2]	0.49	0.57	0.67	1.14	1.29	1.21	8.41	8.61	6.42	6.12
Percent of GDP	0.01	0.01	0.01	0.02	0.02	0.02	0.15	0.14	0.10	0.09
Percent of quota	0.28	0.33	0.46	0.67	0.79	0.79	6.97	6.85	5.39	5.28
Outstanding Fund credit [1]										
Millions of SDRs	-	-	3.34	3.34	3.34	3.34	2.79	2.23	1.78	1.34
Millions of CF	0.0	0.0	1763.3	1861.1	1857.1	1852.9	1547.8	1237.1	987.5	743.4
Percent of government revenue	0.0	0.0	7.9	7.6	7.2	6.5	4.9	3.5	2.6	1.8
Percent of exports of goods and services	0.0	0.0	6.8	6.7	6.3	5.9	4.6	3.4	2.5	1.8
Percent of debt service [2]	0.0	0.0	54.0	63.2	61.4	58.0	37.8	31.5	23.8	17.5
Percent of GDP	0.0	0.0	1.0	1.0	0.9	0.9	0.7	0.5	0.4	0.3
Percent of quota	0.0	0.0	37.5	37.5	37.5	37.5	31.3	25.1	20.0	15.1
Net use of Fund credit (millions of SDRs)	-	-	3.34	-	-	-	-0.56	-0.56	-0.45	-0.45
Disbursements	-	-	3.34	-	-	-	-	-	-	-
Repayments and Repurchases [3]	-	-	-	-	-	-	0.56	0.56	0.45	0.45
Memorandum items (billions of Comorian Francs)										
Charges and interest, after assumed subsidies [3]	0.02	0.03	0.04	0.04	0.05	0.05	0.04	0.04	0.03	0.02
Nominal GDP (millions of Comorian Francs)	158,114	167,126	179,891	192,824	199,452	211,836	226,957	244,355	263,248	283,465
Exports of goods and services (millions of Comorian Francs)	22,448	24,672	25,983	27,916	29,288	31,352	33,985	36,598	39,403	42,444
Government revenue (millions of Comorian Francs)	21,555	21,160	22,301	24,477	25,936	28,393	31,554	34,939	38,049	40,684
Debt service (millions of Comorian Francs) [2]	2,950	2,822	3,267	2,945	3,024	3,196	4,090	3,930	4,145	4,257
CF/SDR (period average)	576.50	549.50	527.94	557.20	556.02	554.76	554.76	554.76	554.76	554.76

Sources: IMF staff estimates and projections.

[1] Assumes (i) disbursement under the Rapid Access Component (RAC)/ESF of 25 percent of quota (SDR 2.225 million), and (ii) an EPCA purchase of 12.5 percent of quota (SDR 1.1125 million). No subsidization of EPCA purchase is assumed.

[2] Total debt service includes IMF repurchases and repayments.

[3] Assuming that the rate of charge on EPCA purchase is subsidized down to 0.5 percent per annum plus adjustment for deferred charges. Subsidization is subject to the availability of subsidy resources.

APPENDIX I

UNION OF THE COMOROS: LETTER OF INTENT

November 26, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

1. Our long and difficult process of national reconciliation is now getting back on track, following the most recent political crisis in the island of Anjouan. Economic and social conditions have worsened in the post-conflict period; the country's administrative capacity was severely weakened. The fiscal situation has tightened and relations with the international community have suffered. A new island President for the island of Anjouan was elected last June and his administration is fully functioning as an integral part of the Union of Comoros. The Union together with the three island governments has taken early steps to restore inter-island cooperation and reactivate the revenue sharing agreement. There are already encouraging signs of an improvement in national cohesiveness, and donor support is expected to resume.

2. In order to build on these recent gains, the government has agreed on a program of economic and financial policies that begins to address the immediate post-conflict challenges of stabilizing the fiscal position, building capacity for policy implementation, and normalizing relations with the donor community. The program also includes structural measures that lay the ground work for meeting the country's medium-term objectives of reviving growth, reducing poverty, and achieving fiscal and external sustainability. Many donors have already indicated they will provide critical financial and technical support for program management. In order to facilitate implementation of planned measures under the program, address our balance of payments needs and restore confidence in economic management, the government is requesting SDR 1.1125 million (12.5 percent of quota) under the Fund's Emergency Post-Conflict Assistance (EPCA) and SDR 2.225 million (25 percent of quota) under the Rapid-Access Component of the Exogenous Shocks Facility (ESF).

3. A critical factor underlying our program is the firm commitment by the Union and the three island governments to implement the agreed inter-island revenue sharing agreement. The details of the program are included in the attached Memorandum on Economic and

Financial Policies (MEFP). The government believes that the policies and measures set forth in the MEFP are adequate for achieving the objectives of the program, but we will take any further measures that may become appropriate for that purpose. In such cases, as well as before implementing policies that could adversely affect the program, we will consult the Fund.

4. To assist the Fund in assessing progress on the program, we will provide information on a regular basis as detailed in the attached Technical Memorandum of Understanding. Moreover, we invite the staff of the Fund to review performance under the program quarterly, on the basis of quantitative and structural indicators (Tables 1 and 2 of the MEFP) as well as on overall implementation of the program. We consent to the publication of both the staff report and memorandum on economic and financial policies pertaining to the discussions under the 2008 Article IV consultation and EPCA- and ESF-supported program discussions.

5. Going forward, we plan to deepen our reform agenda after the EPCA-supported program is completed. In this context, we intend to seek in due course IMF assistance under the Poverty Reduction and Growth Facility.

Sincerely yours,

/s/	/s/
Mohamed Ali Soilihi	Ahamadi Abdoulbastoi
Minister of Finance and Budget	Governor of the BCC

ATTACHMENT I

UNION OF THE COMOROS: MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR 2008–09

I. INTRODUCTION

1. Comoros is slowly recovering from the most recent political crisis. Decades of political instability have taken a significant toll: per capita real GDP has declined; basic social services have suffered and administrative capacity has weakened considerably. Almost half of the population lives below the poverty line, and there is limited access to clean water and electricity, and to services such as education and health care. The situation worsened over the last year due to internal strife and lack of donor assistance.

2. Major efforts since March of this year have helped to reunify the country, restart political reconciliation and begin the process of restoring institutions. The forced removal of the former Anjouan island rebel leader, Colonel Bakar, followed by the election of a new island president in June set the stage for bringing Anjouan back into the fold of the Union, resuming inter-island cooperation, and gradually rebuilding economic and social management institutions at the national level, including the revenue-sharing agreement initially put in place in 2005[1]. The government intends to further advance the national reconciliation process by effectively implementing laws devolving to the island administrations significant authority for domestic security, the judiciary, health, and education, and oversight of public sector enterprises.

3. The Union government, firmly backed by its island partners, is determined to pursue prudent economic and financial policies to begin putting the economy on a path of strong and sustainable growth for more effective poverty alleviation. With IMF assistance, an economic reform program has been prepared for the six-month period October 2008 to March 2009, aimed at strengthening institutions and governance, beginning to restore macroeconomic stability, and improving the investment climate. In support of these reforms, the government has requested IMF Emergency Post Conflict Assistance (EPCA), a bridge to a possible support under the Poverty Reduction and Growth Facility (PRGF) and debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI).

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[1] Under the revenue sharing agreement, the customs and tax authorities transfer revenues designated for distribution to a single special account at the central bank. Under the 2006 framework fixed percentages are set aside for external debt service (20.1 percent), and pension payments (5.5 percent). The remainder is shared as follows: Union (37.5 percent), Ngazidja (27.4 percent), Anjouan (25.7 percent) and Moheli (9.4 percent). However, beginning with the 2007 budget, provisions for external debt service are based on obligations actually falling due.

II. Economic Developments in 2007

4. Real GDP growth was a mere 0.5 percent in 2007, mainly reflecting the political crisis in Anjouan and the curtailment of domestic credit by the sole commercial bank following a disputed lawsuit. Both events have hampered business activities and reduced the volume of imports by 19 percent. The agricultural sector has been sustained only by a relatively good food harvest. Inflation stood at 4.6 percent ay year-end, driven by higher food prices and by the impact of rising oil prices. Broad money increased modestly by 1.1 percent, with declining domestic credit offsetting gains in net foreign assets.

5. Against a background of a destabilizing political crisis and economic decline, fiscal performance deteriorated. The 2007 budget targets were missed with the domestic primary deficit increasing to 2.2 percent of GDP against a budgeted surplus of 1.5 percent. Revenues were down by 3.9 percent of GDP against budget, reflecting poor economic activity in general, as well as weaknesses in fiscal administration in the face of political instability and the breakdown in the inter-island revenue sharing mechanism. The wage bill was well above the budgeted ceiling, mainly due to staffing increases in the run up to last year's presidential elections on the islands of Moheli and Ngazidja. Additional budget financing was secured from the central bank, donors, and short-term non-bank sources; nevertheless domestic arrears increased to 1.8 percent of GDP.

6. In 2007, the external current account deficit narrowed by 2.2 percentage-points of GDP, reflecting deterioration in the terms of trade and a surge in energy and food import values, despite strong inflows of remittances and a quite reasonable export performance. End-year official reserves amounted to over 7 months of import cover. Understandings on arrears clearance were reached with key multilateral creditors, in particular BADEA, IFAD, and the Arab Monetary Fund. The government also started debt discussions with the European Investment Bank (EIB), the Islamic Development Bank (IsDB) and OPEC. The African Development Bank (AfDB) approved an arrears clearance operation in December 2007, canceling $34.5 million in external debt arrears. However, Comoros' external debt burden remains unsustainable. The NPV of debt to exports ratio is estimated at over 249 percent in 2007, above the HIPC threshold. Remaining current on obligations stemming from recent external arrears clearance agreements represents a substantial drain on public finances, particularly in the absence of debt relief under the HIPC and MDRI initiatives. As a result, new arrears were accumulated at the end of 2007 amounting to 0.4 percent of GDP, of which 0.2 percent of GDP was owed to BADEA, EIB and IsDB.

7. Progress on structural reforms was held back by the political crisis. Nevertheless, a new investment code has been adopted, and some progress made toward liberalizing the telecommunication sector. Amendments to strengthen the central bank charter have been approved by both the French and Comoros finance ministries, and are awaiting parliamentary approval in both countries; at the same time progress has been made on implementing the

recommendations of the IMF's Safeguards Assessment and on strengthening supervision of microfinance institutions.

III. Outlook, Objectives and Economic Policies for 2008 And the Medium Term

A. Macroeconomic Framework for 2008

8. Economic developments in the first half of 2008 were dominated by a serious energy crisis and restrictions on credit to the private sector, at a time of particularly high seasonal economic activity driven by the visiting diaspora.

9. Despite a significant increase in international oil prices, the freeze on retail prices of petroleum products since 2005 and on electricity tariffs for the past 20 years was still in effect at end-June 2008. Moreover, a permanent government contract for importing petroleum products, which expired in April, was not been renewed, as a result of which the state-owned oil and gas (SCH) and electric (MAMWE) companies are beset by ever-increasing operating losses. Widespread power outages were suffered in mid-year and only 20 percent of annual oil imports are expected to be effected in the second half of 2008. Aware of the negative repercussions of this situation for economic activity, the government has started upwardly adjusting petroleum products prices, consistent with developments in underlying cost parameters. To that end, prices of key petroleum products were increased by 18 percent on average in August. Going forward, these prices will be revised on a quarterly basis, beginning in November 2008, to take account of changes in relevant cost parameters. In the financial sector, the Comoros' single commercial bank (Banque de l'Industrie et du Commerce) resumed normal activities in late September, following resolution of a lawsuit by a private sector economic operator. This should ease access to credit for the private sector, further facilitated by the recent opening of a new commercial credit institution (EXIMBANK of Tanzania).

10. Against this backdrop, the objectives of the government's economic program are based on a real GDP growth rate of 0.5 percent for 2008, underpinned mainly by activity in the agricultural sector; end-year inflation of 9.6 percent; and a current account deficit (including grants) of 8.7 percent of GDP. International reserves would be maintained around 6 months of imports of goods and nonfactor services.

B. Fiscal Policy

11. In the fiscal area, the program will focus on restoring inter-island cooperation and initiating fiscal consolidation. To that end, the 2008 budget of the Union, which was initially approved by parliament in February of 2008, has been amended and approved by the National Assembly last November to include Anjouan and to consolidate the framework of the revenue sharing mechanism. The budget anticipates a domestic primary deficit of 2.7 percent of GDP, and a nearly balanced overall budget position (on a cash basis, including grants). This takes account of delayed payments for wages (9 tenths of one month) and for debt service to selected external creditors, owing to the government's tight budgetary situation. The government has initiated discussions with concerned domestic and external creditors, including France, aimed at developing agreed modalities for an early settlement of the overdue payments; it is committed to remaining current on debt service to the World Bank and African Development Bank. On the basis of the above, the fiscal financing requirements for 2008 are estimated at CF 7.1 billion ($21.2 million or 3.9 percent of GDP). In addition to IMF support under the EPCA and ESF, external assistance under the program comprises budget support earmarked for wage and wage arrears payments—from the EU and France, food aid from the AfDB, and general budget support from Kuwait. Should additional external budget assistance become available, the government will consult with the Fund on its use and issue a further supplementary budget outlining how the resources are to be spent.

12. Strict implementation of the inter-island revenue-sharing agreement and better expenditure management should result in a more predictable cash flow that will facilitate the timely payment of domestic obligations, and help avoid the accumulation of new domestic arrears. In this context the government will curtail its use of the three-month bridge financing arrangement with the National Financial and Postal Services Company (SNPSF) to ensure timely payment of civil service salaries. It also intends to start repayment of the advances received from the SNPSF (CF 833 million at end-July 2008), the total of which is to be reduced by CF 238 million in net terms in 2008.

13. Domestic revenues are projected at CF 22,301 billion (12.4 percent of GDP), 5 percent higher than the revenue collected in 2007. This largely reflects efficiency gains in tax and customs administration and other recent measures to improve revenue collection. The customs department (i) implemented the ASYCUDA++ system in the islands of Ngazidja and Anjouan and intends to extend it to all customs agencies nationwide; (ii) established an exemptions control commission tasked with reducing exemptions by 40 percent from their 2007 level, in strict observance of the pertinent Vienna Convention; and (iii) took steps to remove the presumptive tax on containers from October 1, 2008, under the 2008 supplementary budget. In addition, a single taxpayer identification number system (NIF) was established and, after taking a census of large taxpayers, the General Directorate of Taxes (DGI) has refocused the activities of the Corporate Tax Unit to the exclusive monitoring the large taxpayers' fiscal obligations. The government plans to increase the unit's operating

budget, while the DGI works to complete implementation of the SYSIT system (aimed at enhancing tax compliance and collection). Finally, a customs-tax mixed commission was created to ensure better collaboration between the two administrations.

14. Total expenditures are estimated at CF 38,978 billion or 21.7 percent of GDP. The authorities are determined to slow the rapid growth in primary spending experienced in recent years to a level compatible with available resources. Accordingly, the government has (i) placed a freeze on new hiring in the civil service starting August 8, 2008; (ii) reduced the number of Union and island ministerial portfolios from 35 to 26 by end-November 2008; and (iii) launched the computerization of wage payments. Consequently, current primary expenditure will be limited to 14.4 percent of GDP, including 9 percent of GDP in wage payments, and capital spending financed with domestic resources will be contained at 0.7 percent of GDP. To ensure greater control of spending on goods and services, the government has decreed a freeze on non essential overseas missions.

15. Faced with a difficult budgetary situation, the government has taken only very limited fiscal measures to cushion the impact on consumers of higher food and oil prices. Customs tariffs on flour imports have been temporarily reduced and the government has made petroleum products available to the national electric company (MAMWE) at reduced prices. The fiscal cost of these measures is estimated at CF 249.3 million (0.14 percent of GDP) in the 2008 budget. The government recognizes that measures to protect the poor must be well targeted and relative price distortions avoided. In the medium term, adjustment requires price increases as needed to continue the recent trend towards revival of agricultural production.

16. In 2009, the government intends to intensify the revenue efforts and expenditure control measures initiated in 2008. As a result, the domestic primary budget deficit is projected to decline to 1.6 percent of GDP (2.7 percent in 2008). However, in view of greater debt service obligations falling due, the fiscal financing requirements for 2009 are expected to rise to the equivalent of US$25.1 million (4.8 percent of GDP). The government plans to organize a donors conference in the coming months to seek financing assurances to cover a residual gap currently estimated at the equivalent of $11.5 million (2.2 percent of GDP).

17. The government will complete an audit of domestic payment arrears, including an arrears clearance strategy, with donor assistance by end-June 2009. To that end, it began discussions with the World Bank last October 2008 and will hire the services of a consultant by January 31, 2009. In addition to government debt to private enterprises, the audit will cover cross-financial obligations between the Treasury and public enterprises.

C. Monetary Policy and Financial Sector Reforms

18. Broad money is projected to increase by 7.1 percent, with credit to the private sector remaining stagnant. Monetary policy will continue to be circumscribed by the Comoros' participation in the franc zone, which has enabled the government to contain inflation, and maintain a stable exchange rate and an adequate level of foreign reserves despite major fiscal imbalances.

19. The government is determined to ensure the independence of the central bank in monetary and credit policy. This is necessary to ensure macroeconomic stability and support the exchange rate regime in a more competitive banking environment seeking to achieve market-based interest rates.

20. The central bank will continue efforts to enhance the effectiveness of the financial system and to strengthen bank supervision. To encourage competition, it has granted licenses for the opening of two new foreign commercial banks specializing in financing the productive sectors. The BCC will endeavor to contain the potential risks that could arise with the operation of these new foreign banks by strengthening the modalities of cooperation with the banks' home country supervisors. A memorandum of understanding with these home country supervisors will be finalized by end-December 2008. In keeping with the decree of July 2004 authorizing BCC supervision of microfinance institutions (MFIs), the central bank will reinforce the supervision program for these institutions, which have experienced rapid growth in recent years.[2] The National Financial and Postal Services Company (SNPSF) will take steps to limit credit risks notably pertaining to its lending to public enterprises and to the Treasury; it will endeavor to extend the new postal checking service to a larger public.

21. To combat money laundering and the financing of terrorism, a law was adopted in 2004 to implement the rules derived from the United Nations conventions and resolutions and the 40 FATF recommendations. Updated consistent with new FATF recommendations, the legislation is under review, and awaits approval, by the government. The government intends to involve the autonomous islands in its implementation. The government, in consultation with the central bank and the autonomous islands, will endeavor to terminate the operations of the offshore banking centers.

22. To provide reasonable assurance that the central bank's legal structure, its control, accounting, reporting and auditing systems are adequate to manage resources, including IMF disbursements, the government has accepted key recommendations of the Safeguards

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[2] By the end of their first year of operations in 1997, the two MFI networks had created 39 funds on the different islands, collected more than CF 360 million in savings, and distributed CF 320 million in loans. By end-2005, they had reached a membership base of 54,480 and a network of 83 units on the three islands, and currently they have a market share of 31 percent of deposits and credit.

Assessment undertaken by the IMF Finance Department in 2007. The priority recommendations of this assessment are being implemented in line with the timeframe proposed in the assessment. In that connection, an audit committee was established and audited the 2007 accounts of the BCC. The government is also aware of the need to conduct an update safeguards assessment of the BCC in connection with EPCA and will provide all necessary support and information to facilitate completion of the update assessment prior to the IMF Executive Board consideration of a subsequent financial arrangement.

D. Structural Reform Agenda

Strengthening institutions and public expenditure management

23. As underscored above, the objectives of the fiscal program can only be achieved through strict adherence to the revenue-sharing mechanism. To this end, the governments of the Union and the autonomous islands have fully restored inter-island cooperation and strengthened accountability in public financial management. To improve efficiency, the parties have also agreed to centralize certain government functions, including revenue administration, monitoring of budget execution, and compilation of economic statistics. Implementation of the revenue-sharing mechanism will be monitored by the operation of inter-government committees and administrative units charged with data compilation and dissemination, as well as policy coordination. A unit has been established to consolidate fiscal data from the Union and island governments. In this context, the monthly meetings of the Budgetary Committee, made up of representatives from the Union and the three islands, will be strictly adhered to. Budget execution reports will also be prepared on a monthly basis and disseminated to the executive branches of the Union and the three island governments.

Civil service reform

24. The government is determined to significantly improve management of the wage bill. Reform of the public administration (initiated under the *Appui Pour une Administration Publique Performante*—APP—project funded by UNDP) is critical to that effect. It will notably consist of efforts to computerize the civil service payment roster and implement a computer-based and integrated system of payroll management. Other critical elements of the civil service reform include the adoption of organic frameworks which will help set the appropriate structure and optimal level of staffing for the civil service. A unit responsible for monitoring wage payments has been set up and its director appointed.

25. Implementation of the civil service reform program is being coordinated by the High Authority for Public Administration (HA-PA), which started operations in early 2007. HA-PA's responsibilities include preparation of the institutional and legal framework for the reforms within the public administration, coordination of all public entities, and effective surveillance of the Union-wide application of administrative and financial management

procedures. During 2008, the authority will propose for adoption by the Union and Island parliaments the envisaged organic frameworks for all ministries, which establish their structure and staffing levels. Such frameworks will be used in the preparation of the consolidated budgetary framework for the 2008 and subsequent budget laws.

Strengthening the investment climate

26. The government is determined to take steps to rehabilitate management of public enterprises—Société Comorienne des Hydrocarbures (SCH), the electricity (MAMWE) and telecommunication (Comores Telecom) companies. These must provide reliable service in order to attract investors, which is a critical condition for revitalizing economic activity. The liabilities of these units are a potential burden for the government budget. The government plans to engage the services of the International Finance Corporation (IFC) to assist in developing a coherent reform strategy for these enterprises. The government also plans to allow private sector participation in the importation of rice. The government also commits not to interfere in the price setting and marketing mechanisms for export crops: vanilla, cloves and ylang-ylang.

27. The government is determined to resolve the energy crisis, which threatens sustainable economic recovery. With technical assistance from donors, the government plans to introduce a permanent flexible mechanism for setting petroleum product prices, which would be reviewed on a quarterly basis, starting in November 2008, to reflect changes in international prices for oil products. In the meantime, as indicated above, it has already applied initial price increases for petroleum products and electricity rates, in an effort to begin reducing the operating losses of the concerned public utilities. This is critical for guaranteeing the steady availability of energy products and ensuring that needed adjustments are effected in the face increasing international energy costs. Lastly, the government will ensure that an agreement is signed with a firm of international repute to guarantee continuing availability of petroleum products.

28. Improvements in the investment climate will be needed to attract foreign investment and encourage a shift in the use of large remittances from consumption to growth-oriented investment. To support this, a draft Investment Code was approved by the parliament in 2007. The government will introduce a one-stop shop for investors and set up the National Investment Promotion Agency (ANPI) by end-December 2008.

29. The government is committed to trade liberalization. High specific import duties on key commodities have been converted into domestic excise taxes, and ad valorem tariff rates reduced to a new maximum of 20 percent. The government intends to pursue efforts aimed at simplifying and further reducing import duties in the context of the Comoros' adherence to the regional free trade area (COMESA). These efforts will focus on eliminating exemptions and the presumptive regime for imported multiple cargo containers. The recently concluded diagnostic trade integration study (DTIS) under the Integrated Framework Initiative has

assessed the overall competitiveness of the economy, identified sectors for greatest export potential and outlined constraints to trade development. The DTIS recommendations will be used to guide further reforms beyond our program horizon. By end-December 2008, the government will request IMF assistance in evaluating the effectiveness of its tax system, with a view to preparing a program of simplification and reform that would provide an incentive to private investment.

30. The government is committed to an extensive program to promote good governance, including civil service reform, judicial reform and increased transparency. The government will review and reform its public procurement procedures with a view to making them fully transparent and open to competition. Following the adoption by the National Assembly of the organic laws on the justice system, the Supreme Court, and the status of magistrates, the government will launch, starting in 2009, extensive reforms of the judiciary, and strengthen the powers of the courts. The government has requested the support of its development partners, including France and the UNDP, to help in the implementation of the action plan for justice aimed at improving the quality of the judicial system.

E. External Debt Relief and Management

31. The government is committed to regularizing its external debt situation and improving external debt management. In 2007, it signed agreements on the treatment of arrears owed to its multilateral and bilateral creditors. It is committed to closely working with concerned creditors in developing mutually agreed modalities for dealing with related debt service obligations as they fall due, pending implementation of a comprehensive IMF-supported program and Comoros' subsequent eligibility for debt relief under the enhanced HIPC Initiative.

32. The government will pursue a prudent debt management policy**.** Any government or government-guaranteed external borrowing will be subject to prior approval by the Finance Minister of the Union, and the autonomous island governments may under no circumstances contract or guarantee external loans. Moreover, for the full duration of the program, the government will not contract or guarantee any nonconcessional or short-term external debt, as defined in the Technical Memorandum of Understanding (TMU). The government is committed to avoiding any accumulation of new external arrears in 2009; it will consult closely with the IMF staff regarding any external debt contracted or guaranteed on concessional terms in excess of US$20 million.

F. Statistics

33. The Comoros' socio-demographic and macroeconomic data bases remain weak. With technical and financial support from the World Bank, the government has developed a National Strategy for the Development of Statistics (SNDS), which was approved in

December 2007. The strategy aims to develop and adopt a legal and regulatory framework (statistical law) for managing the country's socio-demographic statistics. The government aims in particular to enhance its human capacity in this area by providing training to senior and middle-level executives in charge of the development of an integrated national account data system with the installation of ERETES software, with a view to ensuring an adequate monitoring of household living conditions and of the incidence of poverty in the country. The government also intends to work on improving governance and the coordination of the national statistics system, the production of agriculture, demographic and social statistics. It evaluates the cost of the country's statistical program for the period 2008–12 at CF 4.903 million. The government will soon submit a request for technical and financial assistance to donors for the implementation of the program. Some development partners have already expressed interest in supporting the initiative.

IV. Program Monitoring

34. The program is to cover the period October 2008–March 2009, and would be monitored through quarterly quantitative and structural indicators (Tables 1 and 2). IMF Executive Board consideration of the government's EPCA assistance request would be conditioned on the implementation of the following prior actions: (i) approval by parliament of the revised budget for 2008; (ii) signing by the finance ministers of the Union and the three island entities of a memorandum of understanding on the reactivation of the revenue sharing mechanism; and (iii) a joint decree by the finance ministers of the union and the islands requiring the monthly transmission to the Reform Monitoring Committee (CREF) of data on budget execution by the Union and the islands, as well as the holding of monthly meetings of the expanded CREF, including the budget directors of the Union and the autonomous entities. The definitions of the quantitative indicators are provided in the attached TMU.

35. To secure the full collaboration of the four territorial entities in program implementation, a four-party Budgetary Committee has been created to monitor the program. The committee is made up of finance ministers from the three islands and the Union or their deputies. At the technical level, the Treasurers-Paymasters General of the Union and their colleagues in the entities will prepare the meetings of the Budgetary Committee, which will monitor the operations of the special account (payments and appropriations) and ensure transparent management and mutual agreement with respect to the redistribution of government resources among the entities.

36. The government will report the data necessary for program monitoring to the IMF in accordance with the relevant Technical Memorandum of Understanding. During the program period, the government will not (i) introduce restrictions on payments and transfers on current international transactions or intensify any such restrictions without first consulting the Fund, (ii) introduce or modify multiple currency practices, (iii) conclude bilateral payments agreements not compatible with the provisions of Article VIII of the IMF's Articles of Agreement, or (iv) introduce restrictions on imports for balance of payments purposes.

Table 1 MEFP. Prior Actions and Structural Indicators under the 2008–09 EPCA

Prior Actions

Full restoration of the Revenue Sharing Agreement (RSA) on the basis of the joint decree (*procès verbal)* signed by the four Ministers of Finance.

Adoption by the parliament of the supplementary budget law for 2008 in compliance with the budgetary program and with the macroeconomic framework agreed with the Fund.

Issuance of a joint order of the Ministers of Finance of the Union and the islands requiring the monthly transmission to the macroeconomic and accounting unit (CREEF) of the data on the budgetary execution of the Union and the islands, as well as the holding of the monthly meetings of the CREEF with the participation of the Directors of the Budget of the Union and the island administrations.

Structural Indicators

Submission of consolidated accounts to all Ministries of Finance and to Fund staff on a quarterly basis. (January 1st, 2009).

Holding of monthly meetings of the Budgetary Committee. (Continuous)

Maintaining the automatic fuel price adjustment mechanism. (Continuous)

Computerization of civil servant payment roster and staffing of the unit responsible for monitoring and controlling wage payments. (December 1st, 2008).

Table 2 MEFP. Comoros: Quantitative Indicators Under the proposed EPCA[1]
December 2008–June 2009
(Millions of Comorian Francs)

	2008	2009	
	December [2]	March [2]	June
	Prog.	Prog.	Proj.
Indicators			
1. Ceiling on net credit to government (NCG) [3]	1,546	-171	-250
2. Ceiling on the net accumulation of domestic arrears	304	0	0
3. Ceiling on new nonconcessional external debt contracted or guaranteed by the state [4]	0	0	0
4. Ceiling on new short-term external debt contracted or guaranteed by the state [4]	0	0	0
5. Ceiling on accumulation of external debt service arrears	572	0	0
6. Floor on the domestic primary balance	-4,803	1,062	-1,922
7. Floor on total domestic revenues	22,301	6,441	10,803

[1] Definitions of quantitative indicators and adjusters are provided in the Technical Memorandum of Understanding (TMU).
[2] Cumulative from January 1, 2008 for end-December 2008, and from January 1, 2009 for end-March 2009.
[3] NCG is based on end-December of previous year in the monetary survey, and includes IMF assistance.
[4] Excluding trade credits.

ATTACHMENT II

UNION OF THE COMOROS: TECHNICAL MEMORANDUM OF UNDERSTANDING

November 26, 2008

1. This technical memorandum of understanding (TMU) defines the quantitative indicators and structural benchmarks to monitor the implementation of the program supported under the Emergency Post-Conflict Assistance (EPCA) in accordance with the understandings reached between the authorities of Comoros and the staff of the IMF. It also specifies the reporting requirements and deadlines for transmission of data to the staff of the IMF for program monitoring purposes.

I. DEFINITION

2. Unless otherwise specified below, "the governments" is meant to include the government of the Union of the Comoros and the governments of the three autonomous islands. Local Governments, the central bank, or any government-owned entity with separate legal personality are excluded from the definition of government. The units covered under this definition of government are consolidated for the needs of the program.

II. QUANTITATIVE INDICATORS

3. Quantitative indicators are the following: (i) ceiling on net domestic credit to the government (NCG); (ii) ceiling on net accumulation of domestic arrears; (iii) ceiling on new non-concessional external debt contracted or guaranteed by state; (iv) ceiling on new short-term external debt contracted or guaranteed by state; (v) ceiling on accumulation of external debt service arrears; (vi) floor on the domestic primary deficit; and (vii) floor on total domestic revenues.

A. Ceiling on Net Domestic Credit to the Government

4. Net domestic credit to the government is defined as overall net credit extended to the government from domestic bank and non-bank sources. Net bank credit to the government reflects the net credit position of the government vis-à-vis the central bank, commercial banks and the national savings bank. It is the difference between the government's gross indebtedness to the banking system and its claims on the banking system. Government claims include all deposits at the central bank and commercial banks, as well as treasury cash holdings. The government's debt to the banking system includes central bank credit (statutory advances as well as any long-term credit, and IMF net credit) and commercial bank credit, and deposits at the national savings bank. Domestic non-bank financing includes changes in the stock of treasury bills placed in the domestic market, and privatization receipts, as well as

any other domestic financial debt held outside the banking sector, other than arrears, that may arise. Table 1 below provides the details.

Table 1 TMU. Net Domestic Financing, 2007–09
(Millions of Comorian Francs)

	2007	2008 Dec. Prog	2009 Mar. Prog.
Net Domestic Financing	6,118	7,664	7,493
(flow, cumulative from end December of previous year)	...	1,546	-171
Central Bank (net)	5,642	7,426	7,314
(flow, cumulative from end December of previous year)	...	1,783	-111
Advances	5,587	5,609	5,497
Of which: long term	1,313	1,163	1,163
IMF credit	395	2,157	2,157
Government deposits [1]	340	340	340
Commercial Bank net credit to Treasury	0	0	0
Non-Bank financing [2]	476	238	179

Sources: Monetary Survey and government financial operations data.
[1] Net of earmarked Saudi grant and of deposits of other government entities in the Central Bank.
[2] Postal savings bank (SNPSF) advances for salary payment, backed by government deposits at the Central Bank.

5. The change in net domestic credit to the government as of the date for the quantitative indicator or benchmark is defined as the difference between the stock on the date indicated and the stock on December 31, 2007 for the 2008 indicators, and the stock at December 31, 2008 for the 2009 indicators.

6. The BCC will report the provisional data on the net bank credit to the government to Fund staff on a monthly basis, with a lag of no more than 45 days after the end of each observation period. Final data will be reported with a maximum lag of two months. The Ministry of Finance will report on a monthly basis, any financing from non-bank sources.

B. Ceiling on Net Accumulation of Domestic Arrears

7. New domestic payments arrears of the government are defined as any of the following: (i) Any bill that has been received by the spending ministry from a supplier of goods and services, delivered and verified and for which, payment has not been made within 90 days after the date the payment order (*ordonnancement*) was cleared; (ii) in the case of specific contracts between the suppliers and the government, any bill received and not paid on the due date stipulated in the contracts; (iii) tax credits confirmed by the proper authorities after review, and not paid within 60 days from the date when the payment order was issued; (iv) wages and salaries and any payment to a government employee that were due to be paid in a given month but remained unpaid on the 15th day of the following month.

8. Under the program, the government of the union and the autonomous island governments will not accumulate any new net domestic payments arrears, except as indicated in Table 2 of the MEFP. This quantitative indicator will be monitored on a quarterly basis

Reporting requirements

9. The authorities will report to Fund staff any accumulation of domestic payments arrears as defined above as well as the status of outstanding balances (*restes à payer*) of the Treasury.

C. Ceiling on External Debt Payments Arrears

10. External payments arrears are defined as the sum of payments due but unpaid on outstanding external debt (for a definition of external debt, (see above ¶16) that has been contracted or guaranteed by the government, with the exception of external payments arrears arising from government debt being renegotiated with creditors including Paris Club creditors.

11. Under the program, the government will not accumulate any external payments arrears, except as indicated in Table 2 of the MEFP. This quantitative indicator will be monitored on a continuous basis.

Reporting requirements

12. The government will report to Fund staff any accumulation of external payments arrears as soon as the due date has been missed. It will provide each month with a maximum lag of 15 days, a table showing external debt service due (after rescheduling) and paid.

D. Ceiling on the Contracting or Guaranteeing of New Non Concessional External Debt and Short-Term Debt by the Government

13. This Quantitative Indicator applies not only to debt as defined in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 6230–(79/140), last amended by Executive Board Decision No. 12274–(00/85), adopted August 24, 2000, but also to commitments contracted or guaranteed by the government for which value has not been received.

14. Short-term debt refers to external debt with a contractual maturity of less than one year.

15. The definition of debt—as specified in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt—reads as follows: " (a) For the purposes of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the

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

16. Any external debt of which the present value, calculated with the reference interest rates mentioned hereafter, is superior to 50 percent of the nominal value (grant element of less than 50 percent) is considered nonconcessional, with the exception of IMF lending under the Poverty Reduction and Growth Facility, which is considered concessional even if it does not meet the 35 percent grant element threshold. For debt with a maturity of more than 15 years, the ten-year reference market interest rate, published by the OECD, is used to calculate the grant element. The six-month reference market rate is used for debt with shorter maturities.

17. For the purposes of this Quantitative Indicator, government is understood to include the government (as defined in ¶2 above), as well as local administrations, public institutions of an industrial and commercial nature (EPIC), public administrative institutions (EPA), public enterprises, and government-owned or controlled independent companies (i.e. public enterprises with financial autonomy of which the government holds at least 50 percent of the capital).

18. The government as defined in ¶2 will not contract or guarantee nonconcessional or short-term external debt as defined above. These performance criteria are monitored on a continuous basis. They do not apply to: debt rescheduling and restructuring operations. In addition, import-related credit and pre-export financing secured on export contracts of less than one year maturity, are excluded from the performance criteria on short-term debt.

Reporting requirements

19. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government.

E. Floor on the Domestic Primary Balance

20. The consolidated domestic primary fiscal balance (payments order basis) is calculated as total government revenue (defined below), excluding foreign grants, less expenditure, excluding interest payments, and foreign-financed technical assistance and investment expenditure.

21. The indicative targets for the domestic primary fiscal balance are floors set at CF 4,803 million for December 31, 2008 and CF 1,062 million for Mach 31, 2009.

Reporting requirements

22. During the program period, data on the domestic primary fiscal balance (payment order basis) will be forwarded monthly by the Ministry of Finance and the Budget of the Union within 30 days following the end of each month.

F. Floor on Total Domestic Revenues

23. Total domestic revenue is defined as reported in the consolidated government financial operations table (TOFE), and includes all tax and non-tax receipts and excludes external grants**.**

24. The floors on total domestic revenue, cumulative from the beginning of the 2008 calendar year, is set at CF 22,301 million for December 31, 2008 and CF6,441 million for March 31, 2009.

Reporting requirements

25. The Ministry of Finance and Budget will report to Fund staff preliminary revenue data on a monthly basis, with a lag of no more than one month, on the basis of actual collections as recorded in treasury accounts. Final data will be provided once the final treasury accounts are available, but not later than two months after the reporting of preliminary data.

III. Additional Information for Program Monitoring

26. The authorities will report to Fund staff the following information and data according to the schedule provided, either directly (e-mail or facsimile) or by airmail. Barring any agreement to the contrary, the data will take the form mutually agreed by the authorities and the IMF. The fiscal data, monetary data, external debt data, the consumer price index, and

any information on important legislative and/or other developments will be provided not later than one month after the date to which they pertain.

Monthly

The monetary survey and the monthly balance sheets of the BCC and the commercial bank;

Classification of commercial bank loans by economic sector;

Interest rates;

TOFE data on a cash and payments order basis, the related detailed tables on revenue and a table showing the link between the payments order and cash basis for expenditures;

External public debt operations (debt contracted and publicly guaranteed, settlement of external payments arrears, and debt service paid, broken down between interest and principal);

Consumer price index; and

Imports and exports, production of electricity, tourist arrivals, and any other indicators of economic activity that may be available on a monthly basis.

Quarterly

Production of major products (vanilla, cloves, ylang-ylang)

Annually

- National accounts
- Balance of payments

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

27. Moreover, the authorities will promptly communicate to IMF staff all information and data pertaining to policy measures adopted by the government in the economic and social areas, which are likely to have an impact on program performance, amendments to existing laws and to any other relevant legislation.

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

Staff Report for the 2008 Article IV Consultation
And Requests for Emergency Post-Conflict Assistance and Disbursement Under the Rapid-Access Component of the Exogenous Shocks Facility

Informational Annex

Prepared by the African Department

December 2, 2008

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. As of October 31, 2008, there are no outstanding purchases and loans.

- **Relations with the African Development Bank Group (AfDB)**. Describes the AfdB Group's strategy and portfolio.

- **Statistical Issues.** Assesses the quality and timeliness of statistical data and identifies areas of serious shortcomings that significantly hamper surveillance.

Contents Page

I. COMOROS: RELATIONS WITH THE FUND
(As of October 31, 2008)

I. **Membership Status**: Joined September 21, 1976; 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	1.66

IV. **Outstanding Purchases and Loans**: None

V. **Latest Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
SAF	June 21, 1991	June 20, 1994	3.15	2.25

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

	Forthcoming				
	2008	2009	2010	2011	2012
Principal					
Charges/interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	0.01	0.01	0.01	0.01

VII. **Implementation of HIPC Initiative:** Not applicable

VIII. **Summary of Safeguards Assessment.** A safeguards assessment of the Banque Centrale des Comores (BCC) was completed in August 2007 and found that the BCC was taking steps to strengthen its safeguards framework and its financial statements were subject to an external audit. The main remaining vulnerabilities concern the quality of the external audit mechanism, the absence of a recognized accounting framework, and no publication of audited financial statements. The assessment recommended measures to alleviate these weaknesses.

IX. Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable.

X. 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.

XI. Article IV Consultation: The 2006 Article IV consultation was concluded on October 13, 2006 (Country Report No. 06/383). Executive Directors welcomed the peaceful presidential elections in May 2006 as a milestone in the national reconciliation process, but regretted the sharp deterioration in fiscal performance in the months leading up to the presidential elections. They noted the country's weak institutional constraint on its growth and stabilization prospects, expressed concern about Comoros's lack of external competitiveness, and stressed the need for wide-ranging structural reforms. It is proposed that the next Article IV consultation with Comoros take place within 24 months subject to the provisions of the decision on consultation cycles in program countries.

XII. Recent Technical Assistance

Department	Dates	Subject
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/ December 2005	Bank supervision
MFD	April 2006	Multi-topic TA assessment
FAD	August 2005	Tax policy
FAD	Jan. – Feb. 2006	Tax administration
STA	September 2005	Government finance statistics
FAD	February 2006	Tax policy

XIII. Resident Representative: None. A resident representative post established in September 1991 was closed in December 1995.

II. COMOROS: RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP

Background

1. Due to arrears accumulation, Comoros has been under sanctions with the Bank Group since 1993. In June 2007, the Bank started its re-engagement in the country after the Board's approval of the Country Dialogue Note. Comoros was defined as a post-conflict country based on the following criteria: (i) progress in restoring peace despite the on-going political situation involving Anjouan; (ii) improved governance (progress in revenue sharing agreement, adoption of a consolidated budget, measures to improve transparency in public finance management and civil service reforms) ; and (iii) progress in the resettlement of displaced population. This facilitated the Board's approval in December 2007 of the arrears clearance operation through the Post-Conflict Country Facility (PCCF) mechanism.

Arrears Clearance Operation

2. As of October 31, 2007 the arrears with the Bank Group had reached UA 21.94 million, comprising UA 12.48 million owed to ADB and UA 9.47 million owed to ADF. According to the Bank's plan, the financing of arrears was through a tripartite burden sharing whereby the country, the PCCF and the donors share the burden on a case-by-case basis. The share and contribution of the three partners in the financing of the arrears was as follows:

	Share	Contribution (US$ million)
PCCF contribution	69.3%	23.70
Donors contribution	29.3%	10.16
Comoros contribution	1.0%	0.34
Total	100%	34.20

3. The Bank's reengagement plan involved the following activities: (i) lifting of sanctions in December 2007; (ii) resumption of Bank operations- preparation of an interim strategy; and (iii) positive net transfer in favor of Comoros through ADF-XI to support the country's poverty reduction efforts. However, as of June 2008, sanctions have not yet been lifted as the arrears clearance operation still needs to be finalized. Letters of Commitment for contributions from some donors are still being awaited to be able to complete the arrears clearance.

Strategy and Instruments for Resuming Cooperation with Comoros

4. There is currently no valid Country Strategy Paper (CSP) for Comoros. A new interim CSP (2008-2010) is under preparation for presentation to the Board in November 2008. The proposed pillars are in line with ADF-XI and Fragile State Facility (FSF) priorities. The proposed lending program for 2008-2010 focus on the following areas: (i) institutional support to the Ministry of Finance; (ii) institutional support to the private sector through vocational training; and (iii) improving access to water and sanitation. Non-lending activities include: (i) Economic and sector Work (ESW); and (ii) country dialogue. The lending and non-lending activities will be financed from ADF-XI and FSF resources to the tune of UA 5 million and UA 10 million, respectively.

III. COMOROS: STATISTICAL ISSUES

1. Data provision has serious shortcomings that significantly hamper surveillance. The statistical database has deficiencies in all sectors because of inadequate staffing and funding, as well as lack of integration of island-based data. Comoros does not participate in the General Data Dissemination System (GDDS).

National accounts data and prices

2. Data shortcomings are particularly severe in the area of national accounts. Since basic data are not available in a number of areas, estimates of GDP at current prices are compiled using outdated benchmarks and mostly crude assumptions and extrapolations. Due to lack of funding and staffing, there have been no survey-based national accounts since 1995, when one was prepared with UNDP assistance, and to date there has been no survey at all on manufacturing. In 2004, with the support of donors, a new population census and surveys on subsistence agriculture and households were completed. These surveys have neither been fully processed or updated. A July 2006 AFR mission helped the authorities improve GDP estimates for 2001–05. The weights used to compile the consumer price index (CPI) are based on an outdated survey from the late 1980s and are compiled irregularly across the islands. Most price data are collected only for the country's capital. CPI compilation and quality control are conducted mainly by only one person.

Government finance statistics

3. Classification of budgetary data is often not consistent over time or across the islands. In particular, problems arise in data on domestic arrears, external debt, and external support including its investment spending components. The latest data provided for publication in the *Government Finance Statistics (GFS) Yearbook* refer to1987; no data are reported for publication in the *International Financial Statistics* (*IFS).* In August/September 2005, a mission found that the public chart of accounts did not accurately record the execution of the budget and that a standardized presentation on outstanding public debt is not compiled. In order to address existing problems, the mission recommended the creation of a committee to reform the public chart of accounts and strengthening of the coordination of accounting methods used by the various islands. The mission encouraged the authorities to set up a harmonized information system for budgetary and accounting operations. The mission's report also proposes various methodological improvements as well as an enhancement of the dissemination of central government operations and public debt data.

External sector statistics

4. The Central Bank of Comoros (BCC) compiles balance of payments statistics. With technical assistance from an STA expert in April 2005, the BCC moved to adopt the IMF

Balance of Payments Manual, 5th edition. The expert helped the authorities prepare a work plan to improve compilation of data on the balance of payments and international investments. As a result, preliminary annual estimates are now available, though not yet published, for 2003–05. The latest data on the balance of payments statistics submitted to STA for publication refer to1995.

5. Despite some improvement, balance of payments statistics remain inadequate, mainly due to lack of adequate staff and financial resources for compilation. A single economist is responsible for compiling balance of payments information. Improvement is needed in data validation and coverage, particularly for trade, nonregistered trade, services, and foreign direct investment. Trade data are less than adequate because of incomplete data transmission from the Customs authorities. The July 2006 AFR mission helped the authorities strengthen balance of payments data for 2001–05, based on more information on goods and services trade and an improved estimation of inflows of emigrants' remittances.

Monetary data

6. The BCC produces adequate monetary statistics on its own accounts, for the two commercial banks active in the country, for the deposits collected by the postal administration, and for two microcredit operators. The CFA franc zone arrangement has established accounting and prudential standards that prevent data disruptions. A major shortcoming is the absence of data on the large amount of Euro cash in circulation. In May 2006, the BCC began reporting test monetary data to STA using the Standardized Report Forms (SRFs) for the assets and liabilities of the central bank (1SR), other depository corporations (2SR), other financial corporations (4SR), as well as for monetary aggregates (5SR). Test monthly monetary data in the SRF format are now available for the period January 2004–August 2008.

At the request of the BCC, a monetary and financial statistics technical assistance mission is scheduled for late 2008. The mission will assess the reliability and internal consistency of SRF test data submitted so far by the BCC, and will assist and provide guidance to complete the migration to the SRFs.

Income distribution data and social indicators

7. Some progress was made with collecting income-distribution statistics and social welfare indicators when the I-PRSP was being prepared in 2003–04. However, since then coverage has remained limited and there has been insufficient monitoring of progress towards the MDGs.

Technical Assistance Missions in Statistics (1986-present)

Subject	Staff Member	Date
Monetary and Financial Statistics	P. Papadacci	November-December 2008
Government finance statistics	G. Rousselot	August 2005
Balance of payments and international investment position statistics	M. Dessart	March-April 2005
Money and banking statistics	G. Raymond	July 1997
Balance of payments statistics	Daniel Daco	May-June 1988
Money and banking statistics	Thiet T. Luu	October 1987
Government finance statistics	Vincent Marie	June 1986

Forthcoming technical assistance

In 2005, the authorities requested a Statistics Department (STA) multi-topic technical assistance mission with a view to a thorough revamping of the statistical system. STA is planning to provide technical assistance in the area of national accounts. A Statistics Department GDDS metadata development mission scheduled for January 2007 has been postponed at the request of the authorities. As regards monetary statistics, the authorities are requesting a technical assistance mission to review the SRF test data and identify possible methodological departures from the recommendations of the Monetary and Financial Statistics Manual.

Comoros: Table of Common Indicators Required for Surveillance

AS OF NOVEMBER 30, 2008

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Current	Current	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar 2008	Oct 2008	M	M	M
Reserve/Base Money	Sep 2008	Nov 2008	M	Q	Q
Broad Money	Sep 2008	Nov 2008	M	Q	Q
Central Bank Balance Sheet	Sep 2008	Nov 2008	M	Q	Q
Consolidated Balance Sheet of the Banking System	Sep 2008	Nov 2008			
Interest Rates[2]	Sep 2008	Nov 2008	C	C	M
Consumer Price Index	Sep 2008	Nov 2008	M	I	I
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4] -- Union government and three island governments	Sep 2008	Nov 2008	Q	I	I
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Central government data for the Union government only would be of limited relevance without data for the three island governments and are not produced separately				
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec 2007	Aug 2008	A	I	I
External Current Account Balance	2007	Aug 2008	A	I	I
Exports and Imports of Goods and Services	2007	Aug 2008	A	I	I
GDP/GNP	2007	Aug 2008	A	I	I
Gross External Debt	2007	Aug 2008	A	I	I
International Investment Position[6]					

[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] Includes external gross financial asset and liability positions vis-a vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); reported when there are changes (C).

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

UNION OF THE COMOROS

Joint IMF/World Bank Debt Sustainability Analysis 2008

Prepared by the staffs of the International Monetary Fund and
the International Development Association

Approved by Emilio Sacerdoti and Anthony Boote (IMF) and
Carlos Braga and Sudhir Shetty (IDA)

December 2, 2008

Comoros is in debt distress. *The debt sustainability analysis (DSA) shows that Comoros would remain in debt distress under the baseline scenario, even in the absence of shocks. In the alternative scenario, which for illustrative purposes assumes an hypothetical access to HIPC/MDRI debt relief within the next 3 years, debt would become manageable, including under a variety of stress tests.*[1]

I. Background

1. **Following cancellation in 2007 of US $34.5 million of arrears to the African Development Bank (AfDB)[2], the stock of Comoros' public external debt declined to 56.7 percent of GDP (US$ 276 million), from 67.4 percent at end-2006.** Eight tenths of the debt stock is owed to multilateral creditors, the largest creditor is the International Development Association (IDA)—which accounts for 45 percent of total debt, followed by the African Development Bank (AfDB)—15 percent, and BADEA—12 percent. Among the bilateral creditors, the Kuwaiti and Saudi Funds jointly account for about 15 percent of the debt stock, compared with 2 percent for France, the only Paris Club creditor. Comoros owes

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[1] This is the second DSA prepared for Comoros using the debt sustainability framework for low-income countries developed jointly by the IMF and the World Bank. The first DSA was prepared in 2006 at the time of the last Article IV consultations. The DSA is based on external and public debt data from the Comorian authorities, and on IMF and World Bank staff estimates; it was produced jointly by Fund and Bank staffs following "Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries (LICs)," October 06, 2008 – http://www-int.imf.org/depts/pdr/Debt/Debt-Sustainability/Low-Income-Country-DSA/SM08317andCorr1.pdf and http://siteresources.worldbank.org/INTDEBTDEPT/PolicyPapers/21952151/39748MainExt.pdf.

[2] The African Development Bank cancelled 99 percent of Comoros arrears to the institution under its Post Conflict Country Facility, with contributions from the AfDB itself (69 percent) and France and other donors (30 percent).

no debt to the IMF. With more than two thirds of the total debt stock denominated in SDR, 12 percent in U.S. dollar, and 16 percent in currencies that are linked to the U.S. dollar, the country's debt situation in local currency is highly vulnerable to fluctuations in the Euro (to which the Comorian Franc is pegged) exchange rate to the U.S. dollar.[3] In 2007, domestic public debt, including unpaid short-term central bank advances to the treasury, amounted to the equivalent of US$16.6 million (3.3 percent of GDP).

Text Table 1. Comoros: External Debt and Arrears, Official Creditors, 2007

	2007		
	Stocks		
Creditors	Total Debt	*of which Arrears*	
	(in millions of U.S dollars)		(in percent of total)
Total	276	15.7	100.0
Multilaterals	225	12.1	81.6
AfDB Group	42.6	0.0	15.4
BADEA	32.0	0.1	11.6
EIB	0.7	0.2	0.3
IDB	12.0	7.0	4.4
OPEC	3.6	3.6	1.3
IFAD	8.7	0.0	3.2
IDA	124.3	0.0	45.0
ARAB MONETARY FUND	1.2	1.2	0.4
Bilaterals	50.9	3.6	18.4
UAE (Abu Dhabi)	1.3	1.3	0.5
France	5.2	0.7	1.9
China	1.4	1.5	0.5
Kuwait Fund	27.7	0.0	10.0
Saudi Fund	14.2	0.0	5.1
Mauritius	1.0	0.0	0.4

Source: Comorian authorities. Data not reconciled with creditor statements.

2. **Progress in clearing external debt arrears has been uneven.** In addition to the AfDB arrears cancellation, the country obtained favorable rescheduling terms in 2007 on

[3] Authorities do not keep record of private sector external debt obligations.

arrears to BADEA (US $26.7 million)[4], the Kuwaiti Fund (US$27.7 million) and the Saudi Funds (US$14.1 million). However, for various reasons, including lack of resources to carry out payments set under the arrears settlement arrangements, the final agreements remain pending in the case of the Islamic Development Bank, the OPEC Fund, the European Investment Bank, the Arab Monetary Fund, the United Arab Emirates, and France. The Comorian authorities have indicated that they remain engaged with these creditors, most of which have reportedly expressed willingness to reach favorable understandings regarding the unsettled arrears situations.

3. **Comoros' NPV-based external debt indicators are above all indicative policy-dependent thresholds** [5] The joint Bank-Fund debt sustainability framework (DSF) for low-income countries classifies Comoros as a "poor performer", reflecting the poor quality of the country's policies and institutions as measured by the 3-year average of the World Bank's CPIA ratings (Table 2).[6] Within this framework, the ratios of all relevant external debt indicators, in NPV terms, were above the indicative policy-dependent thresholds for Comoros at end-2007; in particular, the ratio to exports of goods and services was more than double (271 percent) the threshold. However, debt service ratios to exports and revenues were below relevant indicative thresholds, reflecting mainly the impact of the AfDB arrears cancellation and favorable rescheduling terms (delayed principal repayments) from other creditors.

[4] Note that new arrears were accumulated by the end-2007 following the rescheduling.

[5] Comoros has not yet benefited from debt relief under the enhanced HIPC Initiative and MDRI. However, because the country has been assessed to have met the Enhanced HIPC Initiative income and indebtedness criteria based on end-2004 data, it could become eligible for HIPC and MDRI debt relief. See "Heavily Indebted Poor Countries (HIPC) Initiative—Issues Related to the Sunset Clause," posted on the IMF Website August 16, 2006.

[6] See "Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries (LICs)," October 06, 2008 – http://www-int.imf.org/depts/pdr/Debt/Debt-Sustainability/Low-Income-Country-DSA/SM08317andCorr1.pdf and http://siteresources.worldbank.org/INTDEBTDEPT/PolicyPapers/21952151/39748MainExt.pdf.

Text Table 2. Policy Dependent Debt Burden Thresholds under the DSF

	Comoros		Thresholds
	End-2006	End-2007	Low Income DSA (Weak Policy) [1]
NPV of debt in percent of			
Exports	390	271	100
GDP	55	40	30
Revenue	406	315	200
Debt service in percent of			
Exports	13	11	15
Revenue	14	13	25

Sources: Comorian authorities; and IMF and World Bank staffs estimates.

[1] Weak policy refers to low income countries whose 3-year average CPIA rating is below 3.25.

II. Underlying DSA Assumptions

4. **Staffs performed a debt sustainability analysis under a baseline and an alternative scenario.** The baseline scenario is identical to the alternative, but without the hypothetical assumption of an HIPC/MDRI debt relief. The alternative scenario is predicated on steady post-conflict economic recovery underpinned by full restoration of inter-island cooperation, good progress on fiscal consolidation, and implementation of key growth-supporting reforms. The scenario also assumes that the completion point under the HIPC Initiative would be reached over the next three years and that Comoros would also benefit from relief under the MDRI. Under such conditions, (i) real GDP growth would gradually pick up from near stagnation in 2007, settling around 4 percent over the medium term; (ii) the primary fiscal balance would steadily improve from a deficit (an average 1.7 percent of GDP on during 2007–11) to a surplus of 0.3 percent of GDP during 2012–27, reflecting improved revenue collection and enhanced control over current expenditure. The scenario also assumes the resumption of external assistance in 2008 in the context of economic programs supported by the IMF under the Emergency Post Conflict Assistance and Exogenous Shocks Facility and, in late 2009, under the Poverty Reduction and Growth Facility. This LIC-DSA assumes that all other arrears, including to Paris Club Creditors, would be rescheduled on respective creditors' standard terms.[7]

5. **The previous external DSA (2006 DSA) for Comoros assumed similar GDP growth rates, but with much more favorable external and fiscal positions** (Text Table 3). Real GDP growth was projected to average 3.5 percent for the first five years (2006–10) and 4 percent for the remainder of the period; the new estimates are 2.4 for 2007–11, and 4 percent for 2012-28. The downward revision of the growth projections in the first five

[7] For Paris club creditors Naples and Cologne terms were assumed for arrears rescheduling and HIPC/MDRI relief simulation respectively.

years reflects weaker than expected growth performance in 2007 on the back of crisis political conditions and more pronounced terms of trade deterioration. The last DSA projected export growth of 16.4 percent on average for the initial five years and 8 percent thereafter, compared with a more modest 10 percent and 3.7 percent on average, respectively, in the new DSA, reflecting less optimistic prospects for world prices of Comoros' key export commodities. The 2006 DSA assumed a current account deficit (including grants) of 5½ percent of GDP on average for (2006–10), whereas the current DSA projects a higher average deficit (9.4 percent of GDP for 2007-2011) driven mainly by high world prices of oil and food. The current account deficits are projected to gradually decline to 6 percent of GDP by the end of 2028. Like the previous one, this DSA assumes that the bulk of the identified fiscal financing requirements will be met with grants. The political crisis of 2007 contributed to a shortfall in government revenues, a fact that underpins lower projected revenue in this DSA compared to the old. Despite these developments, the reduction in the debt stock resulting from arrears cancellation, coupled with favorable rescheduling terms, has improved debt dynamics under the current DSA, compared to the previous DSA.

Text Table 3. Comoros. 2006 and 2008 DSA Comparative Assumptions
(Percent, unless otherwise indicated)

	DSA 2008				DSA 2006				
	2007	2008	2009-11	2012-28	2006	2007	2008	2009-11	2012-26
	Act.	Projection			Act.	Projection			
Real GDP growth (in percent)	0.5	0.5	2.0	4.0	1.2	3.0	4.5	4.3	4.0
Inflation (annual change, average)	4.5	5.9	3.1	3.0	3.8	3.0	3.0	3.0	3.0
Domestic revenue (in percent of GDP)	12.7	12.4	13.0	14.1	14.2	15.7	16.0	16.5	17.0
Domestic primary balance (in percent of GDP)	-2.2	-2.7	-1.3	-0.1	-0.3	1.0	0.9	0.8	0.2
Current account balance (in percent of GDP)	-6.7	-8.7	-10.6	-7.6	-4.5	-6.0	-5.9	-5.2	-5.1
Official grants (in percent of GDP)	8.3	9.1	6.3	7.2	6.4	8.0	9.3	10.0	10.0
Real Export Growth	30.1	5.8	6.5	3.7	…	18.0	14.1	17.0	8.0
Terms of trade	-20.3	-21.2	4.2	0.2	-6.0	...	5.2	4.6	6.5

Sources: Comorian authorities; and IMF and World Bank staffs estimates and projections.

Text Table 4. Comoros: Medium-term Scenarios: Baseline and Alternative, 2007-13

	2007	2008	2009	2010	2011	2012	2013
Baseline scenario[1]							
Real sector			(In units indicated)				
Real GDP (percent change)	0.5	0.5	1.0	2.0	3.0	3.5	4.0
GDP deflator (percent change)	5.2	7.1	6.1	1.4	3.1	3.5	3.5
Nominal GDP (US$ millions)	465.6	539.3	525.0	545.5	581.9	623.4	671.2
Investment (percent of GDP)	10.4	10.5	12.8	13.9	14.5	15.1	15.8
General government			(In percent of GDP)				
Grants	7.6	8.9	5.9	6.1	6.3	6.5	6.7
Domestic revenues	12.7	12.4	12.7	13.0	13.4	13.9	14.3
Domestic primary spending	14.9	15.1	14.3	14.3	14.2	14.2	14.0
Domestic primary balance	-2.2	-2.7	-1.6	-1.3	-0.8	-0.3	0.3
Overall balance (cash basis)	-3.4	-3.4	-2.5	-2.2	-1.7	-1.2	-1.1
Change in arrears	-1.4	-0.8	-0.3	-0.4	-0.5	-0.5	-0.5
External sector			(In percent of GDP)				
Current account balance (incl. grants)	-6.7	-8.7	-10.5	-10.3	-11.0	-10.4	-10.6
Exports of goods and services	14.8	14.4	14.5	14.7	14.8	15.0	15.0
Imports of goods and services	41.6	43.1	41.0	41.8	42.3	42.3	42.8
Official grants and loans	8.3	9.1	6.1	6.3	6.5	6.7	6.9
External debt	57.6	52.2	47.2	44.4	40.7	36.5	32.7
Of which: arrears	3.2	0.0	0.0	0.0	0.0	0.0	0.0
Ext. debt service (in percent of exports of goods and services)	11.4	12.2	7.2	6.0	2.7	4.5	3.9
NPV of ext. debt to exports of goods & services	249.3	235.7	217.7	207.5	193.4	175.3	160.2
Gross international reserves (months of imports)	7.3	5.8	6.3	6.0	5.6	5.2	4.8
Alternative Scenario[2]							
External debt	57.6	52.2	45.9	43.2	17.7	16.4	15.1
Of which: arrears	3.2	0.0	0.0	0.0	0.0	0.0	0.0
Ext. debt service (in percent of exports of goods and services)	11.4	12.2	7.2	6.0	3.7	4.5	3.9
NPV of ext. debt to exports of goods & services	249.3	235.7	217.7	207.5	63.3	58.0	53.7

Sources: Comorian authorities and IMF and World Bank staffs estimates and projections.

[1] It reflects political crisis resolved in 2008, EPCAand ESF approved by Q4 2008, PRGF in place by Q3 2009, external assistance in line with I-PRSP.

[2] Assumes debt relief under HIPC/MDRI in 2011.

Box 1. Macroeconomic Assumptions

Real GDP growth: GDP growth in 2008 is projected to stagnate at 0.5 percent, with a sustained recovery projected to start in 2009 from a growth rate of 1 percent, accelerating gradually to a peak of 4 percent in 2013. For the period of 2014–28, real GDP growth rate averages 4 percent, close to the rate registered in 2005 following the previous secessionist crisis. Growth during the recovery phase through 2012 would be underpinned by a good agricultural supply response to higher food prices, renewed confidence and enhanced political stability; stable terms of trade; and new FDI-led investments, especially in tourism and public infrastructure. Longer-term growth would be driven by enhanced investment in key sectors and by structural reforms aimed at enhancing competitiveness.

Inflation: Average inflation is projected to rise to 5.9 in 2008 from 4.5 in 2007, driven mainly by high oil and fuel prices. In the absence of significant second round effects in 2009, average annual inflation will settle at around 3 percent over the longer-term horizon.

Real exchange rate and terms of trade: After a modest appreciation in 2008, the real effective exchange rate is projected to be broadly stable throughout the remainder of the projection period; the terms of trade are expected to worsen further in 2008, before improving somewhat through 2010, and remaining broadly constant thereafter.

Current account balance: The current account balance (including official transfers) is projected to initially deteriorate from a deficit of 6.7 percent of GDP in 2007 to 10.8 percent in 2011 followed by gradual improvements to about 6 of GDP by 2028. The initial worsening of the current account balance would result from a further deterioration of the terms of trade and strong import growth (especially for investment) outpacing exports. Service export is expected to pick up steadily at an annual average of 10 percent, in response to improved hotel infrastructure when the Galawa and other tourism resorts are completed by 2012, compared with 5 percent during 1998–07.

Government balance: The primary balance (total revenue and grants less non-interest expenditure) is projected to worsen slightly to a deficit of 2.7 percent of GDP in 2008 from 2.2 percent in 2007, and to gradually move into surplus beginning in 2013, as revenue gradually increases and more efforts are made to maintain spending under control.

External assistance, scaling up and concessionality: The framework assumes that up to 2010 external assistance will be exclusively in the form of grants, averaging just under 7 percent of GDP. Over the long-term (2011–28) further assistance will be available, in adequate terms, including from IDA and AfDB.

Domestic borrowing: The scenario assumes no new medium to long-term domestic borrowing beyond Central Bank's short-term cash advances to the treasury.

III. External DSA

A. Baseline Scenario

6. **In the baseline scenario, Comoros' NPV-based debt burden indicators remain above the indicative thresholds for a prolonged period.** Low growth and continued accumulation of payments arrears keep all NPV indicators significantly above the country-specific indicative thresholds for almost a decade, with the ratio of NPV of debt-to-export barely below the threshold by 2028. Any stress test would worsen the situation further. For example, under the stress test defined as a one standard deviation negative shock to historical exports growth, the NPV of debt would reach 378 percent of exports of goods and services in 2010 or three times in excess of the threshold.

7. **However, debt service indicators are for the most part below the relevant thresholds, reflecting mainly the impact of highly favorable terms under the arrears rescheduling arrangements of 2007.** This is illustrated graphically by a characteristic hump-shape for the debt service-to-exports and to-revenue ratios.

B. Alternative Scenario and Stress Tests

8. **In the alternative scenario, with an hypothetical HIPC completion point and MDRI relief assumed over the next three years, Comoros' external debt indicators would improve substantially.** While the savings from the HIPC interim debt relief would be roughly offset by new IMF borrowings (under EPCA and ESF in 2008 and PRGF assumed in 2009), Comoros would greatly benefit from the HIPC and MDRI relief after 2011, when all IDA and AfDB debts, jointly accounting for about 60 percent of the total external debt, are projected to be cancelled. As a result, following the HIPC completion point and additional relief under the MDRI, the NPV of external debt would fall to 84 percent of exports, well below the LIC DSA thresholds and debt service would average about 5 percent of exports.

9. **The debt dynamics under the adjustment scenario would be sustainable under a variety of stress tests.** Under the most extreme test, defined as combined one-half standard deviation shocks to GDP, exports and non debt creating flows, the NPV of debt to-exports ratio briefly breaches the threshold in 2011, but quickly falls below it thereafter. After the shock, the NPV of debt would decline to 64 percent of exports after 2018; and the debt service ratios would remain below relevant thresholds throughout the horizon.

Text Table 5. Comoros: External Debt Indicators, 2008 - 2028
(in percent)

	Indicative thresholds	Baseline Scenario			Alternative Scenario		
		2008	2009-11 [1]	2012-2028 [1]	2008	2009-11 [1]	2012-2028 [1]
NPV of debt-to-GDP	30.0	32.0	32.4	16.8	37.1	30.4	9.8
Debt service to revenue	25.0	14.3	11.7	10.3	14.9	6.5	5.3
NPV of debt-to-revenue	200.0	257.8	248.5	118.5	299.4	235.0	69.2
Debt service-to-exports	15.0	12.3	10.4	9.5	12.8	5.8	4.9
NPV of debt-to-exports	100.0	221.3	220.9	110.0	256.9	208.0	64.0
Memorandum items:							
GDP growth	…	0.5	1.6	3.0	0.5	2.0	4.0
Export growth, f.o.b.	…	6.4	2.2	3.0	6.4	6.8	5.5

Sources: Comorian authorities; and IMF and World Bank staffs estimates and projections.
[1] Simple average.

IV. Public DSA

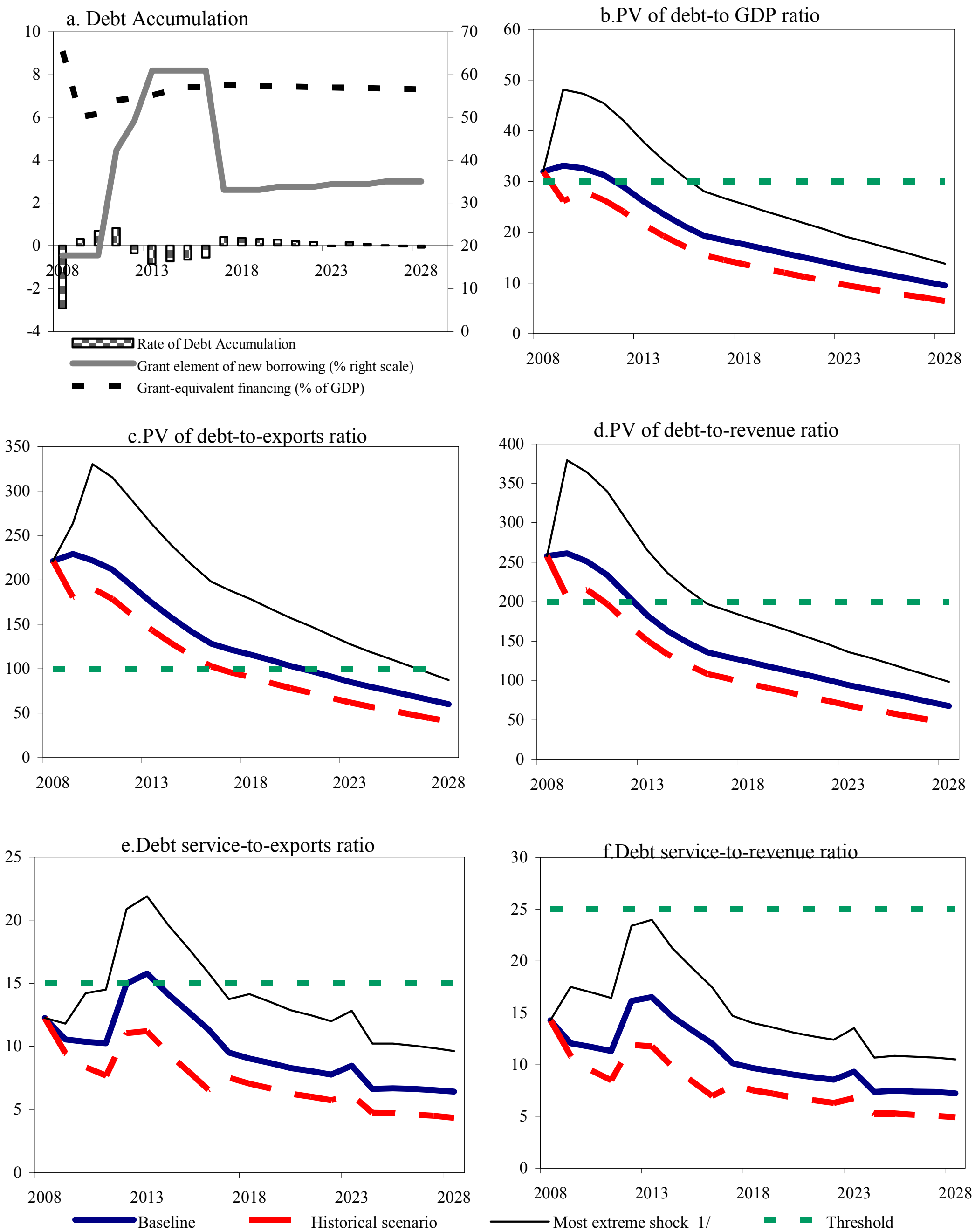
10. **Under the baseline scenario**, **Comoros' debt is above LIC DSA thresholds**. However, under the alternative scenario, higher revenues and spending restraint will permit achievement of a small primary fiscal surplus, anchoring fiscal consolidation and permitting a gradual reduction of domestic arrears. Both NPV and debt service ratios drop faster towards the end of the projection period than at the beginning, reflecting the impacts of primary surpluses in the later years as well as repayment of the bulk of principal due to larger creditors (IDA and AfDB).

V. Debt Distress qualification and Conclusions

11. **In the baseline scenario, Comoros is shown to be in debt distress, as evidenced by recurrent arrears accumulation and prolonged breaches of the NPV of debt thresholds**. As in the previous DSA, under the baseline scenario the external NPV of debt ratios are above country-specific indicative thresholds for most of 2008–24. The updated public DSA for 2008 does not change this assessment. However, an alternative scenario which assumes HIPC/ MDRI debt relief points to a significant improvement of the debt outlook. The debt dynamics are somewhat vulnerable to lower real GDP growth and lower export growth. These vulnerabilities underscore the importance of export diversification and continued reform efforts.

12. **The authorities generally concurred with the thrust of this DSA.** They therefore expressed readiness to take the steps needed to facilitate Comoros' eligibility to the enhanced HIPC Initiative, including steadfast implementation of donor-supported reforms and measures to address weak debt management capacity.

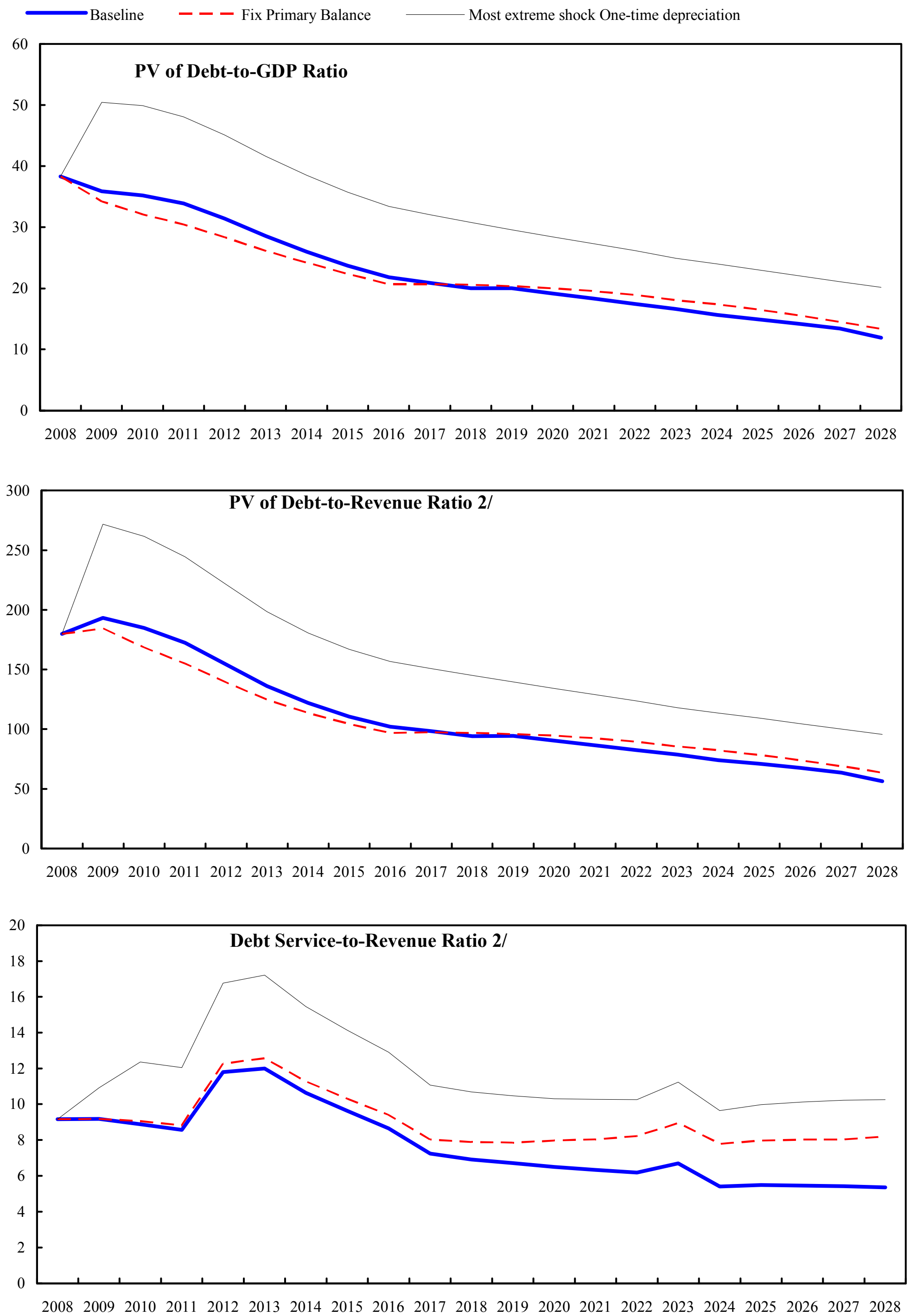
Figure 1. Comoros: Baseline (Non HIPC/MDRI) Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2008-2028 1/



Source: Comorian authorities; and IMF and World Bank staffs projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2018. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in picture f. to a One-time depreciation shock

Figure 2. Comoros: Baseline (Non HIPC/MDRI) Indicators of Public Debt Under Alternatives Scenarios, 2008-2028 1/

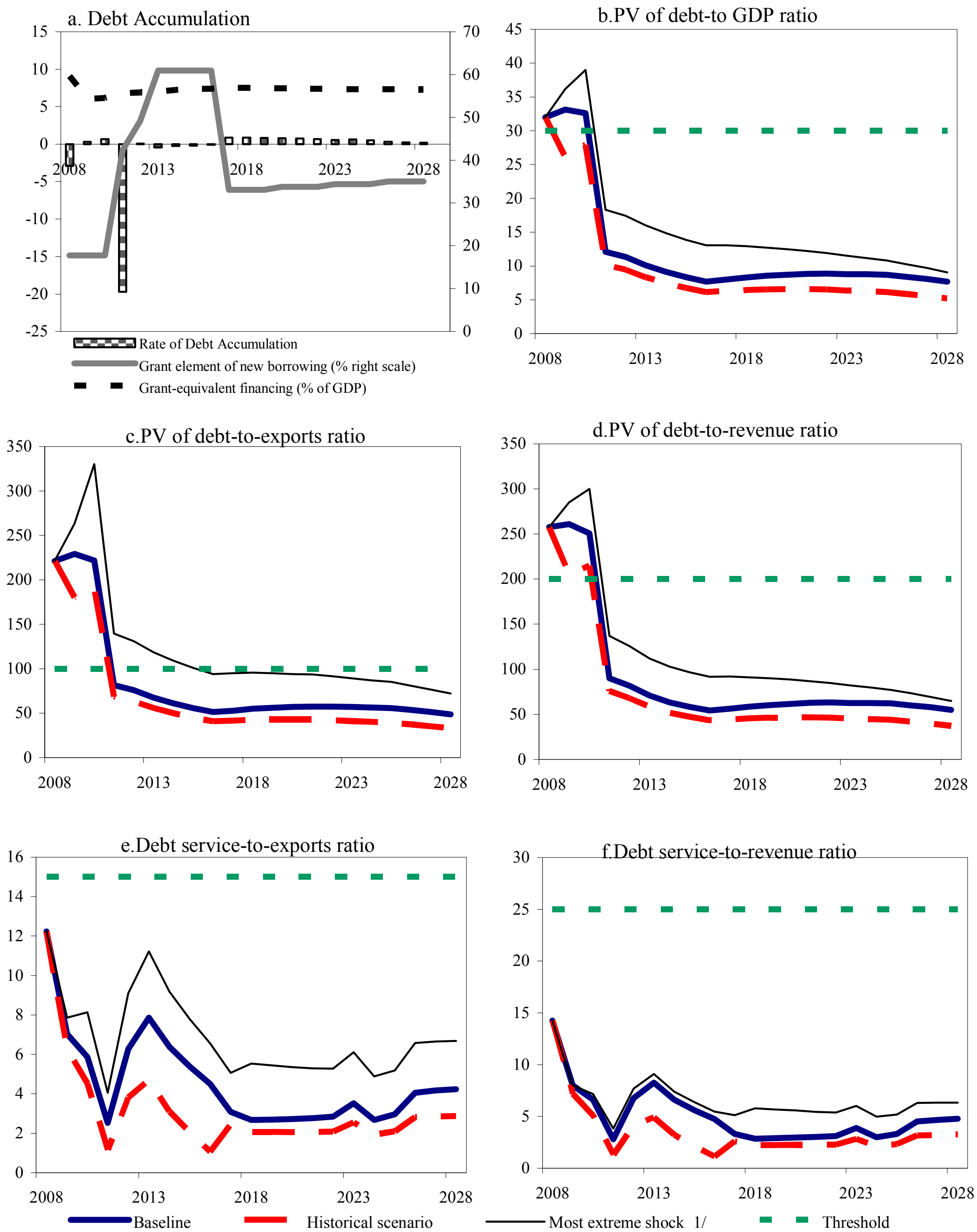


Sources: Comorian authorities; and IMF and World Bank staffs estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2018.

2/ Revenues are defined inclusive of grants.

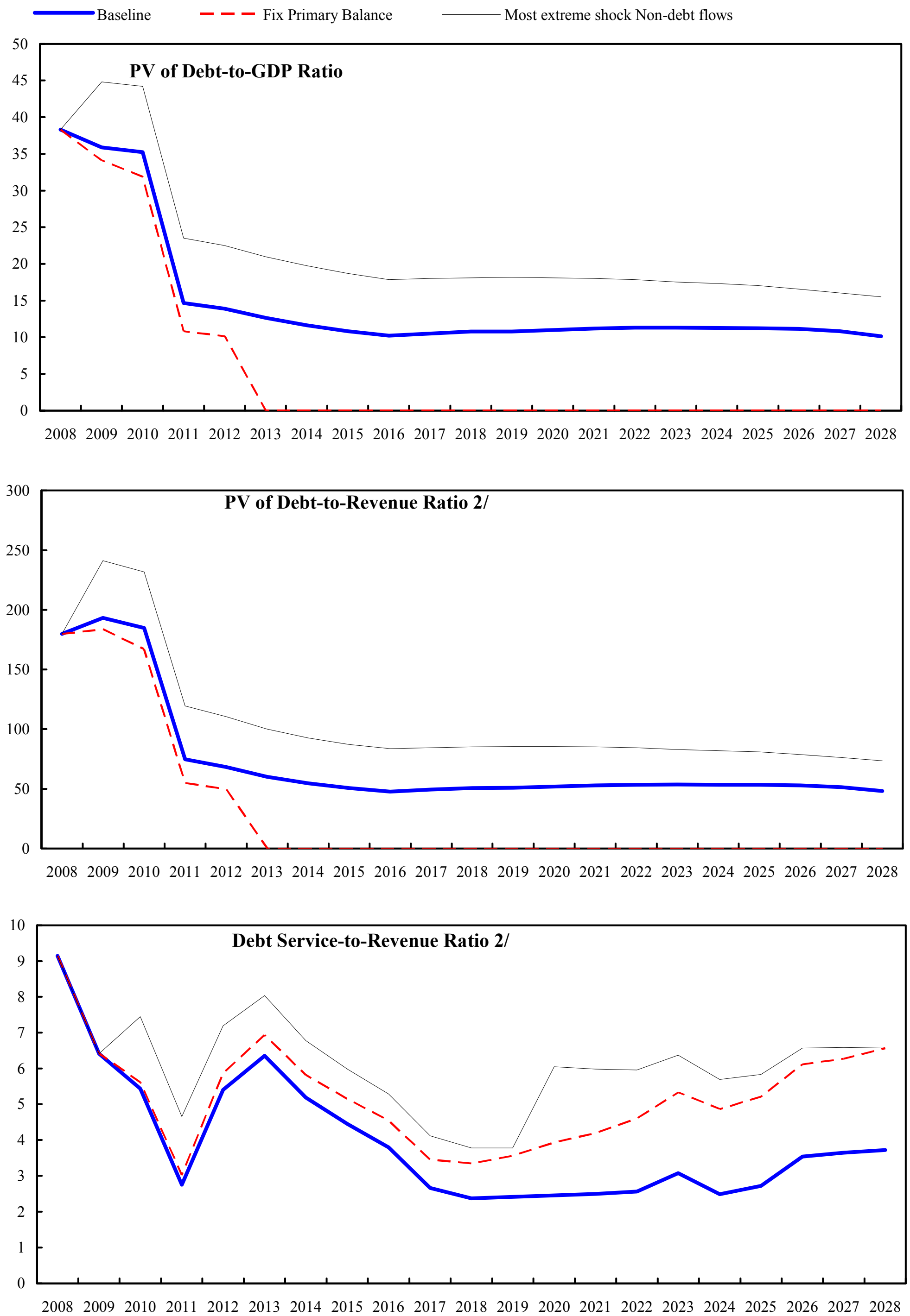
Figure 3. Comoros: Alternative (HIPC/MDRI) Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2008-2028 1/



Source: Comorian authorities; and IMF and World Bank staffs projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2018. In figure b. it corresponds to a Non-debt flows shock; in c. to a Exports shock; in d. to a Non-debt flows shock; in e. to a Exports shock and in picture f. to a Non-debt flows shock

Figure 4.Comoros: Alternative (HIPC/MDRI) Indicators of Public Debt Under Alternatives Scenarios, 2008-2028 1/



Sources: Comorian authorities; and IMF and World Bank staffs estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2018.

2/ Revenues are defined inclusive of grants.

Table 1a.: External Debt Sustainability Framework, Baseline Scenario (Non HIPC/MDRI), 2005-2028 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Average 0	Standard Deviation	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-2013 Average	2018	2028	2014-2028 Average
External debt (nominal) 1/	**71.2**	**69.8**	**57.6**			**58.0**	**53.2**	**50.6**	**47.5**	**43.3**	**38.8**		**24.9**	**12.6**	
o/w public and publicly guaranteed (PPG)	71.2	69.8	57.6			58.0	53.2	50.6	47.5	43.3	38.8		24.9	12.6	
Change in external debt	-9.3	-1.4	-12.2			0.5	-4.8	-2.6	-3.1	-4.1	-4.5		-1.6	-1.0	
Identified net debt-creating flows	1.9	3.1	-4.2			6.8	7.9	7.2	7.5	6.9	6.4		5.3	5.3	
Non-interest current account deficit	**6.5**	**5.5**	**6.3**	**2.8**	**3.4**	**8.2**	**10.2**	**9.8**	**10.5**	**9.8**	**10.0**		**7.7**	**5.8**	7.2
Deficit in balance of goods and services	21.5	24.4	26.9			28.7	26.5	27.1	27.5	27.3	27.9		23.0	16.9	
Exports	14.3	14.2	14.8			14.4	14.5	14.7	14.8	15.0	15.0		15.1	15.8	
Imports	35.8	38.6	41.6			43.1	41.0	41.8	42.3	42.3	42.8		38.1	32.6	
Net current transfers (negative = inflow)	-14.5	-18.3	-19.8	-15.7	2.5	-19.7	-16.1	-16.8	-16.4	-16.9	-17.3		-15.1	-11.2	-13.8
o/w official	-0.4	-1.6	-2.8			-3.6	-0.5	-0.5	-0.5	-0.6	-0.6		-0.6	-0.6	
Other current account flows (negative = net inflow)	-0.4	-0.7	-0.8			-0.8	-0.3	-0.5	-0.7	-0.6	-0.6		-0.2	0.2	
Net FDI (negative = inflow)	**-0.1**	**-0.2**	**-1.6**	**-0.4**	**0.4**	**-1.6**	**-2.1**	**-1.9**	**-1.8**	**-1.7**	**-2.3**		**-1.7**	**-0.2**	-1.2
Endogenous debt dynamics 2/	**-4.5**	**-2.2**	**-8.9**			**0.3**	**-0.2**	**-0.7**	**-1.1**	**-1.2**	**-1.3**		**-0.8**	**-0.3**	
Contribution from nominal interest rate	0.6	0.6	0.4			0.5	0.4	0.3	0.3	0.4	0.3		0.2	0.2	
Contribution from real GDP growth	-3.2	-0.8	-0.3			-0.2	-0.6	-1.0	-1.4	-1.6	-1.6		-1.0	-0.5	
Contribution from price and exchange rate changes	-2.0	-1.9	-9.0			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-11.2**	**-4.5**	**-8.0**			**-6.4**	**-12.6**	**-9.9**	**-10.7**	**-11.0**	**-10.9**		**-6.9**	**-6.3**	
o/w exceptional financing	0.0	0.0	-7.3			0.0	-1.3	-1.2	-23.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	39.9			32.0	33.2	32.6	31.3	28.9	26.1		17.6	9.5	
In percent of exports	...	...	270.5			221.3	229.0	221.9	211.7	193.1	174.1		115.9	60.0	
PV of PPG external debt	**...**	**...**	**39.9**			**32.0**	**33.2**	**32.6**	**31.3**	**28.9**	**26.1**		**17.6**	**9.5**	
In percent of exports	**...**	**...**	**270.5**			**221.3**	**229.0**	**221.9**	**211.7**	**193.1**	**174.1**		**115.9**	**60.0**	
In percent of government revenues	**...**	**...**	**315.4**			**257.8**	**261.2**	**250.6**	**233.8**	**208.0**	**182.4**		**123.8**	**67.7**	
Debt service-to-exports ratio (in percent)	**14.6**	**13.1**	**11.4**			**12.3**	**10.6**	**10.4**	**10.2**	**15.0**	**15.8**		**9.0**	**6.4**	
PPG debt service-to-exports ratio (in percent)	**14.6**	**13.1**	**11.4**			**12.3**	**10.6**	**10.4**	**10.2**	**15.0**	**15.8**		**9.0**	**6.4**	
PPG debt service-to-revenue ratio (in percent)	**13.3**	**13.7**	**13.3**			**14.3**	**12.0**	**11.7**	**11.3**	**16.1**	**16.5**		**9.7**	**7.2**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.0	0.0			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Non-interest current account deficit that stabilizes debt ratio	15.9	6.9	18.5			7.7	14.9	12.4	13.6	13.9	14.5		9.3	6.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.2	1.2	0.5	2.0	1.5	0.5	1.0	2.0	3.0	3.5	4.0	2.3	4.0	4.0	4.0
GDP deflator in US dollar terms (change in percent)	2.5	2.8	14.8	6.5	9.8	15.3	-3.7	1.9	3.6	3.5	3.5	4.0	3.0	3.0	3.1
Effective interest rate (percent) 5/	0.8	0.9	0.6	1.0	0.2	1.0	0.7	0.7	0.7	0.8	0.8	0.8	1.0	1.6	1.2
Growth of exports of G&S (US dollar terms, in percent)	0.9	3.6	20.0	8.0	20.8	13.3	-2.4	5.4	7.5	8.4	7.7	6.6	7.0	7.6	7.6
Growth of imports of G&S (US dollar terms, in percent)	15.8	12.4	24.5	8.8	15.1	19.9	-7.4	5.9	8.0	7.0	9.1	7.1	4.9	6.0	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	17.7	17.7	17.7	42.4	49.1	61.0	34.3	33.1	35.0	39.4
Government revenues (excluding grants, in percent of GDP)	15.7	13.6	12.7			12.4	12.7	13.0	13.4	13.9	14.3		14.2	14.0	14.1
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	
o/w Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			9.1	6.0	6.2	6.8	6.9	7.0		7.5	7.3	7.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			91.9	89.4	93.1	90.6	93.8	96.8		89.7	94.2	92.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.4	0.4	0.5			0.5	0.5	0.5	0.6	0.6	0.7		1.0	1.9	
Nominal dollar GDP growth	6.8	4.1	15.4			15.8	-2.7	3.9	6.7	7.1	7.7	**6.4**	7.1	7.1	7.2
PV of PPG external debt (in Billions of US dollars)			0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.2	0.2	
(PVt-PVt-1)/GDPt-1 (in percent)						-2.9	0.3	0.7	0.8	-0.3	-0.8	-0.4	0.4	-0.1	0.0

Source: Comorian authorities; and IMF and World Bank staffs simulations.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = 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 PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b.Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028
(In percent)

	Projections											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**	2028
PV of debt-to GDP ratio												
Baseline	32	33	33	31	29	26	24	21	19	18	**18**	9
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	32	26	28	26	24	21	19	17	15	15	**14**	6
A2. New public sector loans on less favorable terms in 2008-2028 2	32	33	32	31	28	26	24	22	20	19	**18**	11
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	32	33	33	32	29	27	24	22	20	19	**18**	10
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	32	34	36	35	32	29	26	24	22	21	**20**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	32	33	34	33	30	27	25	22	20	19	**18**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	32	36	39	38	35	32	29	27	25	23	**22**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	32	33	35	34	32	29	26	24	22	21	**20**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	32	48	47	45	42	38	34	31	28	27	**25**	14
PV of debt-to-exports ratio												
Baseline	221	229	222	212	193	174	157	142	128	121	**116**	60
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	221	180	190	178	160	143	128	115	103	96	**90**	41
A2. New public sector loans on less favorable terms in 2008-2028 2	221	227	218	207	190	174	159	145	133	124	**119**	67
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	221	229	222	212	193	174	157	142	128	121	**116**	60
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	221	263	330	316	289	263	239	217	198	188	**178**	87
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	221	229	222	212	193	174	157	142	128	121	**116**	60
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	221	250	266	254	234	213	195	179	164	155	**146**	69
B5. Combination of B1-B4 using one-half standard deviation shocks	221	240	271	259	238	217	198	180	165	156	**147**	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	221	229	222	212	193	174	157	142	128	121	**116**	60
PV of debt-to-revenue ratio												
Baseline	258	261	251	234	208	182	163	148	136	130	**124**	68
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	258	206	215	197	173	150	133	120	108	102	**96**	46
A2. New public sector loans on less favorable terms in 2008-2028 2	258	259	246	229	204	182	164	151	140	133	**127**	76
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	258	262	255	238	212	186	166	151	138	132	**126**	69
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	258	268	276	258	230	203	183	168	155	148	**141**	73
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	258	260	263	245	218	191	171	155	142	136	**130**	71
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	258	285	300	280	252	224	202	187	173	165	**156**	78
B5. Combination of B1-B4 using one-half standard deviation shocks	258	259	272	254	227	201	181	167	154	147	**140**	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	258	379	364	339	302	265	236	215	197	188	**180**	98

Table 1b.Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028 (continued)

(In percent)

	Debt service-to-exports ratio											
Baseline	12	11	10	10	15	16	14	13	11	10	**9**	6
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	12	9	8	8	11	11	9	8	7	7	**7**	4
A2. New public sector loans on less favorable terms in 2008-2028 2	12	11	10	10	12	11	11	10	10	9	**9**	6
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	12	11	10	10	15	16	14	13	11	9	**9**	6
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	12	12	14	15	21	22	20	18	16	14	**14**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	12	11	10	10	15	16	14	13	11	9	**9**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	12	11	11	11	16	17	15	14	12	11	**12**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	12	11	11	12	17	18	16	14	13	11	**12**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	12	11	10	10	15	16	14	13	11	9	**9**	6
	Debt service-to-revenue ratio											
Baseline	14	12	12	11	16	17	15	13	12	10	**10**	7
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	14	11	9	8	12	12	10	8	7	8	**8**	5
A2. New public sector loans on less favorable terms in 2008-2028 2	14	12	12	11	13	12	11	11	10	10	**10**	6
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	14	12	12	12	16	17	15	14	12	10	**10**	7
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	14	12	12	12	17	17	15	14	12	11	**11**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	14	12	12	12	17	17	15	14	13	11	**10**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	14	12	12	12	17	17	15	14	13	12	**13**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	14	11	11	11	16	16	15	13	12	11	**11**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	14	17	17	16	23	24	21	19	17	15	**14**	10
Memorandum item:												
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	38	38	38	38	38	38	38	38	38	38	**38**	38

Source: Comorian authorities; and IMF and World Bank staffs 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.

Table 2a.Comoros: Public Sector Debt Sustainability Framework, Baseline Scenario (Non HIPC/MDRI), 2005-2028
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
Public sector debt 1/	73.9	73.2	60.9			61.0	56.0	53.3	50.1	45.9	41.3		27.4	15.0	
o/w foreign-currency denominated	71.2	69.8	57.6			58.0	53.2	50.6	47.5	43.3	38.8		24.9	12.6	
Change in public sector debt	-8.8	-0.6	-12.3			0.1	-5.0	-2.7	-3.2	-4.2	-4.6		-1.6	-1.0	
Identified debt-creating flows	4.7	-6.9	-15.4			1.0	-3.0	-1.1	-24.5	-2.4	-2.9		-1.3	0.0	
Primary deficit	-0.8	1.8	1.5	1.4	1.2	-0.3	2.1	1.8	1.3	0.5	0.0	0.9	0.3	0.7	0.4
Revenue and grants	19.9	18.7	20.3			21.3	18.6	19.1	19.7	20.4	21.0		21.3	21.1	
of which: grants	4.3	5.0	7.6			8.9	5.9	6.1	6.3	6.5	6.7		7.1	7.1	
Primary (noninterest) expenditure	19.1	20.5	21.8			21.0	20.7	20.9	21.0	20.9	21.0		21.6	21.8	
Automatic debt dynamics	5.6	-8.7	-9.7			1.2	-3.9	-1.7	-2.9	-2.9	-2.8		-1.6	-0.7	
Contribution from interest rate/growth differential	-5.1	-2.4	-1.7			-0.7	-1.4	-1.7	-2.1	-2.2	-2.2		-1.3	-0.6	
of which: contribution from average real interest rate	-1.7	-1.5	-1.4			-0.4	-0.8	-0.6	-0.6	-0.5	-0.4		-0.2	0.0	
of which: contribution from real GDP growth	-3.4	-0.9	-0.4			-0.3	-0.6	-1.1	-1.6	-1.7	-1.8		-1.1	-0.6	
Contribution from real exchange rate depreciation	10.6	-6.4	-7.9			2.0	-2.5	0.0	-0.8	-0.7	-0.6		...	...	
Other identified debt-creating flows	0.0	0.0	-7.3			0.0	-1.3	-1.2	-23.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	-7.3			0.0	-1.3	-1.2	-23.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-13.5	6.2	3.1			-0.8	-2.0	-1.6	21.3	-1.8	-1.7		-0.4	-1.0	
Other Sustainability Indicators															
PV of public sector debt	2.7	3.5	40.9			38.3	35.9	35.2	33.9	31.4	28.5		20.0	11.9	
o/w foreign-currency denominated	0.0	0.0	37.5			35.3	33.1	32.5	31.3	28.9	26.0		17.5	9.5	
o/w external	...	...	37.5			35.3	33.1	32.5	31.3	28.9	26.0		17.5	9.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.3	5.6	5.8			4.0	6.1	5.7	5.2	5.0	4.6		4.2	4.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	13.5	18.5	201.3			179.8	193.1	184.6	172.2	154.2	136.1		94.2	56.5	
PV of public sector debt-to-revenue ratio (in percent)	17.2	25.3	322.9			309.0	282.5	270.9	252.9	226.0	199.6		141.2	85.0	
o/w external 3/	…	…	296.5			284.6	260.7	250.1	233.3	207.6	182.0		123.6	67.5	
Debt service-to-revenue and grants ratio (in percent) 4/	10.9	11.0	9.1			9.2	9.2	8.9	8.6	11.8	12.0		6.9	5.4	
Debt service-to-revenue ratio (in percent) 4/	13.9	15.1	14.6			15.8	13.4	13.0	12.6	17.3	17.6		10.4	8.1	
Primary deficit that stabilizes the debt-to-GDP ratio	7.9	2.5	13.9			-0.4	7.1	4.5	4.6	4.7	4.5		2.0	1.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.2	1.2	0.5	2.0	1.5	0.5	1.0	2.0	3.0	3.5	4.0	2.3	4.0	4.0	4.0
Average nominal interest rate on forex debt (in percent)	0.8	0.9	0.6	1.0	0.2	1.0	0.7	0.7	0.7	0.8	0.8	0.8	1.0	1.6	1.2
Average real interest rate on domestic debt (in percent)	2.1	3.2	-2.0	-0.9	8.4	-3.6	-2.5	2.3	0.7	0.4	0.4	-0.4	1.2	2.0	1.4
Real exchange rate depreciation (in percent, + indicates depreciation)	14.1	-9.2	-11.6	-6.0	19.4	3.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.3	2.0	5.2	5.4	9.4	7.1	6.1	1.4	3.1	3.5	3.5	4.1	3.0	3.0	3.1
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.1	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	17.7	17.7	17.7	42.4	49.1	61.0	34.3	33.1	35.0	...

Sources: Comorian authorities; and IMF and World Bank staffs estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b.Comoros: Sensitivity Analysis for Key Indicators of Public Debt 2008-2028

		Projections						
	2008	2009	2010	2011	2012	2013	2018	2028
PV of Debt-to-GDP Ratio								
Baseline	38	36	35	34	31	29	20	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	38	35	34	33	32	31	29	29
A2. Primary balance is unchanged from 2008	38	34	32	30	28	26	21	13
A3. Permanently lower GDP growth 1/	38	36	36	34	32	30	23	20
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	38	36	36	35	33	30	23	16
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	38	36	36	35	33	30	21	13
B3. Combination of B1-B2 using one half standard deviation shocks	38	36	35	34	32	29	21	13
B4. One-time 30 percent real depreciation in 2009	38	50	50	48	45	42	31	20
B5. 10 percent of GDP increase in other debt-creating flows in 2009	38	45	44	43	40	37	27	17
PV of Debt-to-Revenue Ratio 2/								
Baseline	180	193	185	172	154	136	94	56
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	180	188	178	168	156	145	132	120
A2. Primary balance is unchanged from 2008	180	184	168	155	139	124	97	63
A3. Permanently lower GDP growth 1/	180	194	186	175	157	140	106	94
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	180	194	189	177	160	143	105	76
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	180	195	191	178	160	141	99	60
B3. Combination of B1-B2 using one half standard deviation shocks	180	192	186	174	156	138	97	61
B4. One-time 30 percent real depreciation in 2009	180	272	262	244	221	198	145	95
B5. 10 percent of GDP increase in other debt-creating flows in 2009	180	241	232	217	196	176	129	82
Debt Service-to-Revenue Ratio 2/								
Baseline	9	9	9	9	12	12	7	5
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	9	9	8	12	12	9	10
A2. Primary balance is unchanged from 2008	9	9	9	9	12	13	8	8
A3. Permanently lower GDP growth 1/	9	9	9	9	12	12	7	7
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	9	9	9	9	12	12	7	7
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	9	9	9	9	12	12	7	6
B3. Combination of B1-B2 using one half standard deviation shocks	9	9	9	9	12	12	7	6
B4. One-time 30 percent real depreciation in 2009	9	11	12	12	17	17	11	10
B5. 10 percent of GDP increase in other debt-creating flows in 2009	9	9	11	10	14	14	8	8

Sources: Comorian authorities; and IMF and World Bank staffs estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 3. Comoros: External Debt Sustainability Framework, Alternative Scenario (HIPC/MDRI), 2005-2028 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Average 0	Standard Deviation	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-2013 Average	2018	2028	2014-2028 Average
External debt (nominal) 1/	**71.2**	**69.8**	**57.6**			**58.4**	**53.8**	**51.6**	**49.2**	**45.8**	**42.0**		**30.1**	**18.6**	
o/w public and publicly guaranteed (PPG)	71.2	69.8	57.6			58.4	53.8	51.6	49.2	45.8	42.0		30.1	18.6	
Change in external debt	-9.3	-1.4	-12.2			0.9	-4.6	-2.2	-2.4	-3.4	-3.9		-1.3	-1.1	
Identified net debt-creating flows	1.9	3.1	-4.2			6.8	7.8	7.2	7.5	6.8	6.3		5.1	5.1	
Non-interest current account deficit	**6.5**	**5.5**	**6.3**	**2.8**	**3.4**	**8.2**	**10.3**	**9.9**	**10.7**	**10.1**	**10.2**		**7.8**	**5.8**	7.3
Deficit in balance of goods and services	21.5	24.4	26.9			28.7	26.5	27.1	27.5	27.3	27.9		23.0	16.9	
Exports	14.3	14.2	14.8			14.4	14.5	14.7	14.8	15.0	15.0		15.1	15.8	
Imports	35.8	38.6	41.6			43.1	41.0	41.8	42.3	42.3	42.8		38.1	32.6	
Net current transfers (negative = inflow)	-14.5	-18.3	-19.8	-15.7	2.5	-19.7	-16.1	-16.8	-16.4	-16.9	-17.3		-15.1	-11.2	-13.8
o/w official	-0.4	-1.6	-2.8			-3.6	-0.5	-0.5	-0.5	-0.6	-0.6		-0.6	-0.6	
Other current account flows (negative = net inflow)	-0.4	-0.7	-0.8			-0.8	-0.2	-0.4	-0.4	-0.4	-0.3		-0.1	0.2	
Net FDI (negative = inflow)	**-0.1**	**-0.2**	**-1.6**	**-0.4**	**0.4**	**-1.6**	**-2.1**	**-1.9**	**-1.8**	**-1.7**	**-2.3**		**-1.7**	**-0.2**	-1.2
Endogenous debt dynamics 2/	**-4.5**	**-2.2**	**-8.9**			**0.3**	**-0.4**	**-0.8**	**-1.4**	**-1.5**	**-1.6**		**-1.1**	**-0.5**	
Contribution from nominal interest rate	0.6	0.6	0.4			0.5	0.3	0.2	0.1	0.1	0.1		0.1	0.2	
Contribution from real GDP growth	-3.2	-0.8	-0.3			-0.2	-0.6	-1.0	-1.5	-1.6	-1.7		-1.2	-0.7	
Contribution from price and exchange rate changes	-2.0	-1.9	-9.0			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-11.2**	**-4.5**	**-8.0**			**-5.9**	**-12.4**	**-9.4**	**-9.9**	**-10.2**	**-10.2**		**-6.4**	**-6.2**	
o/w exceptional financing	0.0	0.0	-7.3			-0.4	-1.6	-1.6	-23.1	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	39.9			37.1	38.4	37.7	15.0	14.1	12.6		9.6	7.8	
In percent of exports	...	...	270.5			256.9	265.4	257.0	101.6	94.1	84.4		63.5	49.4	
PV of PPG external debt	**...**	**...**	**39.9**			**37.1**	**38.4**	**37.7**	**15.0**	**14.1**	**12.6**		**9.6**	**7.8**	
In percent of exports	**...**	**...**	**270.5**			**256.9**	**265.4**	**257.0**	**101.6**	**94.1**	**84.4**		**63.5**	**49.4**	
In percent of government revenues	**...**	**...**	**315.4**			**299.4**	**302.6**	**290.2**	**112.1**	**101.4**	**88.4**		**67.8**	**55.7**	
Debt service-to-exports ratio (in percent)	**14.6**	**13.1**	**11.4**			**12.8**	**7.6**	**6.5**	**3.3**	**7.2**	**8.9**		**4.0**	**4.2**	
PPG debt service-to-exports ratio (in percent)	**14.6**	**13.1**	**11.4**			**12.8**	**7.6**	**6.5**	**3.3**	**7.2**	**8.9**		**4.0**	**4.2**	
PPG debt service-to-revenue ratio (in percent)	**13.3**	**13.7**	**13.3**			**14.9**	**8.6**	**7.4**	**3.7**	**7.7**	**9.3**		**4.2**	**4.8**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.1	0.1	0.1		0.1	0.1	
Non-interest current account deficit that stabilizes debt ratio	15.9	6.9	18.5			7.3	14.9	12.1	13.2	13.4	14.1		9.2	6.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.2	1.2	0.5	2.0	1.5	0.5	1.0	2.0	3.0	3.5	4.0	2.3	4.0	4.0	4.0
GDP deflator in US dollar terms (change in percent)	2.5	2.8	14.8	6.5	9.8	15.3	-3.7	1.9	3.6	3.5	3.5	4.0	3.0	3.0	3.1
Effective interest rate (percent) 5/	0.8	0.9	0.6	1.0	0.2	1.0	0.4	0.4	0.1	0.2	0.2	0.4	0.3	1.0	0.6
Growth of exports of G&S (US dollar terms, in percent)	0.9	3.6	20.0	8.0	20.8	13.3	-2.4	5.4	7.5	8.4	7.7	6.6	7.0	7.6	7.6
Growth of imports of G&S (US dollar terms, in percent)	15.8	12.4	24.5	8.8	15.1	19.9	-7.4	5.9	8.0	7.0	9.1	7.1	4.9	6.0	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	17.7	17.7	17.7	42.4	49.1	61.0	34.3	33.1	35.0	39.4
Government revenues (excluding grants, in percent of GDP)	15.7	13.6	12.7			12.4	12.7	13.0	13.4	13.9	14.3		14.2	14.0	14.1
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	
o/w Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			9.1	6.0	6.2	6.8	6.9	7.0		7.5	7.3	7.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			91.9	89.4	93.1	90.6	93.8	96.8		89.7	94.2	92.9
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.4	0.4	0.5			0.5	0.5	0.5	0.6	0.6	0.7		1.0	1.9	
Nominal dollar GDP growth	6.8	4.1	15.4			15.8	-2.7	3.9	6.7	7.1	7.7	**6.4**	7.1	7.1	7.2
PV of PPG external debt (in Billions of US dollars)			0.2			0.2	0.2	0.2	0.1	0.1	0.1		0.1	0.1	
(PVt-PVt-1)/GDPt-1 (in percent)						3.1	0.3	0.8	-21.7	0.1	-0.5	-3.0	0.7	0.2	0.3

Source: Staff simulations. 0

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = 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 PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Statement by the IMF Staff Representative

December 15, 2008

1. The information below has become available since the staff report was issued to Executive Directors on December 2, 2008. It does not alter the thrust of the staff appraisal.

2. All program prior actions have been implemented, including parliamentary approval of a stability-oriented consolidated budget for 2008.

3. During their discussion on Comoros at a December 10, 2008 meeting, Paris Club creditors did not raise objections to the existence and expected continued accumulation of arrears under the EPCA. The authorities have also reached understandings with all multilateral creditors on how to address existing arrears.

4. The authorities have:

- Put in place a flexible-pricing mechanism for petroleum products. Henceforth, an inter-ministerial committee will review and revise petroleum products prices on a quarterly basis, as needed, to reflect changes in international prices. This should help make fuel supply more reliable.

- Initiated discussions with World Bank/IFC staff on a reform strategy for public enterprises.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 08/149
FOR IMMEDIATE RELEASE
December 24, 2008

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

IMF Concludes the 2008 Article IV Consultation with Comoros

On December 15, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Union of the Comoros.[1]

Background

The Union of Comoros' economic performance has weakened since 2006, due to a precarious political environment, and against a backdrop of tensions in the global economy. In 2007, real GDP grew a scanty 0.5 percent, compared with an annual average of 2.5 percent during 1999–2006. Business activities, especially imports, were hard hit by political tensions with the island of Anjouan and limited credit availability—as the country's sole commercial bank curtailed operations in the wake of a disputed lawsuit. Economic activity remained subdued in the first half of 2008, and real GDP growth is likely to stagnate at 0.5 percent in 2008. In addition to a further decline in the terms of trade, growth is held back by a difficult energy crisis. Inflation rose sharply to an average of 4.5 percent in 2007 and is projected to accelerate to 6 percent at the end-2008, driven by higher food and fuel prices early in the year.

Fiscal performance has deteriorated further in 2007–08, although corrective measures are being taken for 2009 and the medium term. The domestic primary fiscal deficit increased to 2.2 percent of GDP in 2007. Third-quarter revenue and current spending outturns for 2008, including for wages, appear to be as targeted under the revised 2008 budget, suggesting that the domestic primary fiscal deficit will rise to 2.7 percent of GDP in 2008. In the absence of

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the 12/15/2008 Executive Board discussion based on the staff report.

adequate aid disbursements, new domestic and external payment arrears are being accumulated as sizable external debt service obligations fall due.

Monetary policy remains prudent. Money supply increased by a modest 1.1 percent in 2007, with declining domestic credit offsetting gains in net foreign assets. Reflecting increased financial intermediation, broad money growth is to accelerate to around 7 percent in 2008, matching that of nominal GDP.

In the face of steady real appreciation of the euro-pegged Comoros franc, and with the terms-of-trade declining by an annual average of 16 percent in the last three years, the external current account deficit rose to the equivalent of 6.7 percent of GDP in 2007, up from 6.1 percent in 2006. The deficit is projected to widen further to 8.7 percent of GDP in 2008—mostly on account of higher energy and food prices in the initial months of the year. The external debt, projected at 236 percent of exports in net present value terms at end-2008, is judged to be unsustainable. Addressing this problem will require comprehensive debt relief under the enhanced Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives (MDRI).

Growth is likely to remain relatively subdued over the medium term in the absence of major investment in agriculture, which represents over 50 percent of total value added, and despite some revival of activity in tourism and donor-funded public works. As pressures on food and fuel prices ease up, inflation is projected to decline to a trend 3-percent annual average, anchored by the exchange rate peg.

In the next several years, the external current account deficit is projected to widen to 10–11 percent of GDP, reflecting limited export volume gains and relatively strong worker remittances-funded imports, following the end of the political conflict. Foreign direct investment (FDI) is expected to increase in line with identified investment projects in banking and tourism, including major revamping of some vacation resorts on the island of Ngazidja. Consistent with these developments, external reserves are projected to decline to 5-6 months of imports.

As a result of heightened prudence in fiscal policy, the deficit on the domestic primary budget balance is projected to gradually decline to about 1 percent of GDP by 2011 (2.2 percent in 2007), reflecting improved revenue performance and better control over spending, with a focus on the wage bill. This will be key to accommodating some higher pro-growth and pro-poor expenditures.

In the structural area, key medium-term challenges for the authorities are to (i) maintain and strengthen inter-island cooperation, (ii) address structural impediments to medium-term expenditure viability, and (iii) begin removing core economic distortions. The authorities have introduced and will maintain a flexible pricing mechanism for fuel prices over the medium term. They are seeking World Bank assistance in assessing the financial health of state-owned enterprises to inform a reform strategy for the sector. Other structural reforms are aimed at enhancing the efficiency of public administration. These include the adoption of organic frameworks that set the appropriate structure and optimal level of staffing for the civil service and, more generally, a comprehensive civil service reform to improve public service delivery while reducing staffing to levels compatible with medium-term budget viability.

The full Poverty Reduction Strategy Paper (PRSP) is expected to be completed by end-March 2009. Comoros' Interim PRSP (I-PRSP, 2006–09) was considered by the Boards of the IMF and World Bank in May 2006.

Executive Board Assessment

Directors noted that after a long period of political instability, that had taken a severe toll on various economic and social indicators, the return to political stability is allowing the authorities to address deep-rooted macroeconomic distortions and structural rigidities. In addition, the economy has been confronted with the impact of recent food and fuel price shocks. Directors welcomed therefore the authorities' intention to implement a broad-ranging macroeconomic and structural reform program aimed at achieving fiscal sustainability, while improving the investment climate and strengthening institutions and governance.

Directors considered the authorities' fiscal consolidation efforts to be properly focused on restoring inter-island cooperation, mobilizing revenue, containing the wage bill, and refocusing spending on pro-growth and poverty-reducing programs. They welcomed the introduction of measures to improve customs and tax administration, refocus civil service recruitment policies, and streamline government ministerial portfolios. Directors recognized that Comoros' fiscal prospects remain difficult as illustrated by sizeable financing requirements for 2009 and beyond and by unsustainable public debt levels. They urged additional donor financing to support the authorities' efforts, while encouraging prudent public debt management.

They noted that the exchange rate peg continues to anchor macroeconomic stability, and the staff's assessment that the real effective exchange rate is in line with economic fundamentals. Recognizing nonetheless the erosion of external competitiveness and narrow export base, they supported the authorities' plans to bolster the export sector and diversify the economy.

Executive Directors encouraged the authorities to vigorously implement their structural reform agenda in order to place the Comoros economy on a more rapid growth path. Accordingly, they welcomed the recent upward revisions of petroleum products prices and electricity tariffs, following several years of a freeze, and the establishment of a flexible-pricing mechanism for fuel products; these actions should make power supply more reliable, easing a key constraint on growth. Directors endorsed the authorities' plans to reform public enterprises and improve the business environment, particularly in the agricultural sector, by streamlining business licensing requirements and strengthening investor protection and the legal system. They emphasized that an early completion of the PRSP would help set clearer priorities for the structural reforms and identify needs for technical and financial assistance.

Directors underscored the importance of enhancing financial intermediation to facilitate private sector growth and development. They welcomed the recent decision to allow entry of additional foreign commercial banks. Directors also stressed the importance of enhancing financial sector supervision. A few Directors called for a strengthening of the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) framework and in this context, they welcomed the recent parliamentary approval of AML/CFT legislation. Directors supported the ongoing reforms of the central bank's statutes aimed at enhancing its independence, and encouraged the authorities to address all areas identified in the 2007 safeguards assessment.

Successful implementation of the EPCA-supported program would in the view of Directors permit a follow on the Poverty Reduction and Growth Facility (PRGF) arrangement and progress toward HIPC and MDRI debt relief, which would be essential to restore public debt sustainability and would contribute importantly to creating fiscal space for poverty-reducing expenditures.

Comoros: Selected Economic Indicators, 2005–08

	2005	2006	2007	2008
	(Annual changes in percent)			
Income and prices				
Real GDP	4.2	1.2	0.5	0.5
Consumer prices (average)	3.0	3.4	4.5	5.9
Real effective exchange rate	0.4	1.3	-3.7	...
Terms of trade	-47.3	-6.9	-20.3	-21.2
	(Annual change in percent of beginning-of-period broad money)			
Money and credit				
Net foreign assets	1.1	7.7	6.2	1.1
Broad money	3.1	4.3	1.1	7.1
Credit to the nongovernment sector	0.0	-2.8	1.3	-0.3
Net credit to central government	4.3	7.2	0.0	5.5
	(Percent of GDP, unless otherwise indicated)			
Investment and saving				
Gross domestic investment	9.3	9.2	10.4	10.5
Gross national saving	2.1	3.2	3.7	1.8
External sector				
Current account balance	-7.2	-6.1	-6.7	-8.7
Overall balance of payments	-2.1	-1.2	-2.1	-1.2
NPV of debt to export of goods and nonfactor services	…	390	249	236
Central government finance				
Central government revenue	15.7	13.6	12.7	12.4
Total expenditure and net lending	19.9	21.2	22.3	21.7
Primary fiscal balance	1.1	-1.2	-2.2	-2.7
Overall fiscal balance	-0.5	-1.7	-3.4	0.0

Sources: Comorian authorities; and IMF staff calculation and estimates

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 08/327
FOR IMMEDIATE RELEASE
December 16, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$5.1 Million in Emergency Post-Conflict Assistance and Exogenous Shocks Facility Disbursements to the Union of the Comoros

The Executive Board of the International Monetary Fund (IMF) has approved a disbursement in an amount equivalent SDR 2.2 million (about US$3.4 million) under the rapid-access component of the Exogenous Shocks Facility (ESF) to the Union of the Comoros.

In September 2008 the Executive Board approved modifications to the ESF, which provided for faster and higher access, made the facility easier to use, and enhanced its flexibility. Those modifications came info effect in late November. The disbursement under the rapid-access component of the ESF helps mitigate the impact of higher fuel and food prices on the balance of payments in 2008.

The Executive Board has also approved a loan disbursement in an amount equivalent to SDR 1.1 million (about US$ 1.7 million) in Emergency Post-Conflict Assistance (EPCA) to Comoros, bringing total support to Comoros to SDR 3.3 million (about US$5.1 million). The support through the EPCA aims to address the immediate post-conflict challenges of re-establishing inter-island cooperation, initiating restoration of fiscal viability, tackling core economic distortions, and gradually putting the economy on a path of stronger and sustainable growth.

Following the Executive Board's discussion on December 15, 2008, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

"Against a backdrop of persistent political instability, Comoros' growth performance has suffered, while higher food and energy costs have weakened the external position and adversely affected vulnerable groups. The external debt burden, including accumulated arrears, is unsustainable. Membership in the franc zone, however, has served as an anchor of stability. With political tensions declining, the authorities are to be commended for timely introduction of a comprehensive economic and program to tackle these challenges.

"In the macroeconomic area, the government has resumed inter-island cooperation in budget and economic management, and is endeavoring to strengthen the fiscal position through implementation of strong revenue-enhancing measures and better control of the wage bill. Achieving the 2008 fiscal targets will provide confidence to donors and to the private sector regarding government readiness to put the budget on a sustainable path. To prevent a worsening of the debt situation, the authorities will limit their fiscal deficits to levels that can be covered by identified external assistance, mostly in the form of grants.

"On the structural front, the government has started tackling key structural impediments to growth. The recent upward revision of petroleum products prices and electricity tariffs, which reverses a freeze in effect over the last several years, is welcome. The authorities have also established a flexible-pricing mechanism for fuel products, cognizant that this is critical to making power supply more reliable—a key growth-supporting ingredient. Furthermore, with technical support from the World Bank and other donors, the government has initiated preparations for reform of state-owned enterprises, and is working to ensure completion of the PRSP by end-March 2009. Other structural reforms are aimed at enhancing the efficiency of public administration, including right sizing staffing levels for the civil service and streamlining its organizational structure.

"At the same time, reform implementation risks remain considerable for Comoros, given institutional capacity constraints, the challenging political environment, and the country's vulnerability to external shocks. In this challenging environment, close adherence to reforms will be key to securing increased donor support, restoring economic competitiveness, and more generally, creating conditions for accelerated growth; all of which would enhance the effectiveness of the country's poverty reduction strategy. To achieve a resolution of the unsustainable debt situation will require moving to a PRGF-supported program and attaining HIPC and MDRI debt relief." Mr. Kato said.

ANNEX

Recent Economic Developments

Economic conditions have dramatically deteriorated in the Union of the Comoros in the last two years. In 2007, real GDP grew a scant 0.5 percent, compared with an annual average of 2.5 percent during 1999-2006. Economic activity remained subdued in the first half of 2008, and real GDP is likely to stagnate at 0.5 percent for the year as whole. In addition to a decline in the terms of trade, growth is held back by a difficult energy situation following cancellation in April 2008 of a long-standing fuel supply contract with a major French oil company.

In 2007, inflation rose sharply to 4.5 percent driven by higher food and fuel prices. End-year inflation is projected to accelerate to 9.6 percent in 2008, spurred by continuing pressures from rising world food and fuel prices in the initial 9 months of the year.

Fiscal performance has weakened further in 2007-08, although corrective measures are being taken for 2009 and the medium term. The domestic primary fiscal deficit increased to 2.2 percent of GDP in 2007, and fiscal data through end-September suggest that the deficit will further rise to 2.7 percent of GDP in 2008.

In the face of steady real appreciation of the euro-pegged Comoros franc, and with the terms of trade declining by an annual average of 16 percent in the last three years, the external current account deficit hit the equivalent of 6.7 percent of GDP in 2007. The deficit is projected to widen further to 8.7 percent of GDP in 2008—mostly on account of higher food and energy prices in the first 9 months of the year. At a projected 236 percent of exports in net present value terms by end-2008, the country's external debt is unsustainable.

Program Summary

Against a background of low growth, the EPCA-supported program focuses on revenue mobilization and containing the wage bill. The structural agenda seeks to gradually restore inter-island cooperation, tackle selected structural impediments to medium-term expenditure viability, and begin addressing core economic distortions. If successfully implemented, the program could count as track record toward the decision point for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. This could create conditions for longer-term donor reengagement in strengthening the authorities' capacity to implement macroeconomic policies.

The IMF support under the rapid access component of the ESF will help smooth adjustment to a sizeable terms of trade shock in 2008. To address the shock, the authorities have initiated critical corrective measures. Especially noteworthy are a tightening of fiscal policy and the gradual introduction of market-based prices for key import and export commodities, all of which should contribute to a narrowing of the Comoros' external imbalances over time.

Table. Comoros: Selected Economic and Financial Indicators, 2006–13

	2006	2007	2008	2009	2010	2011	2012	2013
			Prog.		Proj.			
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP	1.2	0.5	0.5	1.0	2.0	3.0	3.5	4.0
Consumer price index (average)	3.4	4.5	5.9	4.9	1.5	2.9	3.1	3.1
Real effective exchange rate	134	129	...	...	...	...	...	...
Terms of trade	-6.9	-20.3	-21.2	17.1	-3.1	-1.4	0.3	0.7
Money and credit								
Net foreign assets	6.3	5.0	0.8	0.8	0.4	0.8	1.0	1.1
Domestic credit	5.0	6.0	11.9	-0.4	2.7	4.2	5.1	6.1
Credit to government	63.9	-0.2	31.6	-3.5	0.6	2.3	3.5	4.2
Broad money	4.3	1.1	7.1	7.2	5.5	8.3	9.3	7.7
	(Percent of GDP, unless otherwise indicated)							
Investment and savings								
Investment	9.2	10.4	10.5	12.8	13.9	14.5	15.1	15.8
Gross national savings	3.2	3.7	1.8	2.2	3.6	3.5	4.7	5.2
Government budget								
Domestic Revenue	13.6	12.7	12.4	12.7	13.0	13.4	13.9	14.3
Total grants	5.0	7.6	8.9	5.9	6.1	6.3	6.5	6.7
Total expenditure	21.2	22.3	21.7	21.2	21.3	21.4	21.6	21.6
Domestic primary balance	-1.2	-2.2	-2.7	-1.6	-1.3	-0.8	-0.3	0.3
Overall balance (cash basis)	-1.7	-3.4	0.0	-3.4	-2.5	-2.2	-1.7	-1.2
Excluding grants	-6.7	-11.0	-8.9	-9.3	-8.6	-8.4	-8.2	-7.8
External sector								
Current account balance	-6.1	-6.7	-8.7	-10.5	-10.3	-11.0	-10.4	-10.6
Excl. official and private transfers	-24.3	-26.5	-28.4	-26.6	-27.1	-27.4	-27.3	-27.9
NPV of external debt to exports of goods and services	390	249	236	218	208	193	175	160

Sources: Comorian authorities; and IMF staff estimates and projections.

Statement by Laurean W. Rutayisire, Executive Director for Union of the Comoros
December 15, 2008

I. Introduction

Years of political instability have held back the economic development of the Comoros. Real GDP growth rates remained low and the country's social indicators have deteriorated. Comoros is currently recovering from last year's political crisis that ended in June 2008 with the election of a new President for the island of Anjouan. Inter-island cooperation has since resumed and the prospects for a return of political stability have significantly improved.

My authorities would like to thank management and staff for maintaining a close relationship with the Union of the Comoros despite the difficult political situation. They also appreciate the useful advice and support provided over the years. It is particularly unfortunate that last year's discussion of a PRGF-supported program had to be postponed due to the regrettable political circumstances. They are confident that their current efforts to boost the economy and to preserve political stability will benefit from the full support of the Fund and the international community.

In the weeks that followed the resolution of Anjouan crisis, my authorities have moved rapidly to put in place a new economic reforms program, with the assistance of the Fund, that addresses the post-conflict challenges. These include the need to raise growth to higher levels for more efficient poverty reduction, and achieving fiscal sustainability while improving the investment climate and strengthening institutions and governance. A critical component of the program will be the strict adherence to the revenue sharing agreement between the islands, to which my authorities have reiterated their firm commitment. To this end, they are requesting a six-month Fund-supported program under the Emergency Post-Conflict Assistance (EPCA), covering October 2008–March 2009. My authorities have also requested a disbursement of 25 percent of quota under the Rapid-Access Component of the Exogenous Shocks Facility (ESF) to help cushion the impact of volatile food and oil prices on the populations.

The goal of the EPCA is also to enable further diversification of the economy away from subsistence agriculture and the production of vanilla and cloves, and reduce its vulnerability to shocks. The authorities count on the EPCA's catalytic role to garner much needed donor support. This will help alleviate the burden of the debt service which continues to exercise a significant drain on public finances. Urgent debt relief is crucial to restoring fiscal and current account viability given that Comoros remains in debt distress. My authorities intend to move as rapidly as possible to a PRGF-supported program that would pave the way for debt relief under the HIPC and MDRI initiatives. In this regard, they are committed to a strict and full implementation of the measures set out in the EPCA.

II. Recent Economic Developments and Prospects

Real GDP growth dropped to 0.5 percent in 2007 (from 1.2 percent in 2006) due to the political crisis and a contraction of credit to the private sector. Growth is projected to remain low in 2008, at 0.5 percent, and then rise slightly to 1 percent in 2009, driven by agriculture (subsistence mainly), investment in the tourism sector, and public-sector works (funded by donors). Growth should average 1.5 percent over the period 2008–11.

It is clear, however, that higher growth rates would be needed to accelerate poverty reduction given the deterioration of the poverty situation in recent years, and –according to the most recent data from the World Bank–, that 45 percent of the population lives below the poverty line. Furthermore, access to basic social services remains limited. Although a key objective of the I-PRSP –completed by Comoros in October 2005–, and the authorities' request of an EPCA is to implement growth-enhancing measures that would address the issue of poverty more effectively, their determined efforts alone will not be sufficient to achieve this objective. It will also require a considerable increase in financial aid from the international community to finance pressing social needs and infrastructure. A comprehensive debt relief is also essential given the country's large indebtedness and the limited fiscal resources.

In addition, the global food crisis has had a severe impact on Comoros. Because half of the food consumed is imported, local prices of vegetable oil and meat products, for example, have increased by over 50 percent in the past three years, according to the World Bank, and the price of imported dairy products has doubled in the last year. *Inflation,* more generally, rose to 4.5 percent in 2007, from 3.4 in 2006, and is expected to remain high in 2009, at 4.9 percent.

To cushion the impact of high international prices on the population and the economy, the authorities have, notably, temporarily reduced customs tariffs on certain food imports. Longer term measures to promote agricultural development, with the assistance of the World Bank, include better access to seeds for the production of traditional staples, and facilitating access to credit for agricultural producers through the development of specific credit lines.

III. Debt Sustainability

Compounding the above difficult situation, Comoros is in debt distress, as well demonstrated by staff in the DSA analysis. The country's NPV of debt to exports ratio reached 249 percent in 2007 –very high above the HIPC threshold of 100 percent (applicable to "weak policy" LICs, such as Comoros). As indicated in the DSA analysis, "even in the absence of shocks most debt indicators would remain above the relevant policy-dependent thresholds, in the absence of HIPC and MDRI debt relief."

The authorities have made good faith efforts to reach understandings on arrears clearance with a number of multilateral creditors, most notably with the AfDB in 2007 which cancelled $34 million in arrears. Discussions are still underway with other creditors, including the European Investment Bank and the Islamic Development Bank.

My authorities would like to reiterate their commitment to a prudent debt management policy, and as underlined in the MEFP, are committed to ensuring non contracting and non guaranteeing of any nonconcessional debt during the period of the EPCA program. They will also consult with the IMF before contracting or guaranteeing any external *concessional* debt above $20 million.

IV. Implementation of the EPCA

Fiscal sustainability. The re-establishment of the revenue sharing agreement and the authorities' commitment to improve expenditure management are key steps toward sound fiscal management. The authorities are in this regard determined to strictly adhere to the agreed quarterly meetings of the Budgetary Committee, made up of representatives from the Union and the three islands. Budget execution reports will also be prepared on a monthly basis and disseminated to the executive branches of the Union and the three island governments.

To achieve fiscal sustainability, the authorities have taken a number of revenue-enhancing measures that will improve the efficiency of tax and customs administration. They are also making considerable efforts to slow growth in spending –especially the large wage bill which absorbs approximately ¾ of fiscal revenues, and is a major source of arrears accumulation. To this end, they have frozen all new hiring since August 2008.

However, despite their efforts to raise revenues and reduce spending, a financing gap of 4.8 percent of GDP ($25.1 million) is projected in the 2009 budget due mainly to higher debt service obligations falling due. To address this gap, the authorities plan to organize a donors' conference in the coming months to seek financing assurances.

Raising growth. The authorities are fully aware that strengthening financial intermediation is crucial to enhancing growth. Accordingly, the central bank has granted licenses to two new foreign commercial banks, the EXIMBANK of Tanzania and the Banque Fédérale des Comores. The opening of these two new banks along with the resumption of the activities of the third commercial bank will help support economic recovery.

Also in the financial sector, the authorities have approved the recommendations of the 2007 IMF Safeguards Assessment. The priority recommendations are currently being implemented, notably the establishment of an audit committee at the central bank. The audit committee has already audited the 2007 accounts of the central bank.

To strengthen the investment climate, the authorities intend to develop a reform strategy for the state-owned enterprises (SOEs) with the assistance of the World Bank, in the electricity, telecommunications, and hydrocarbon sectors in order to attract investors and avoid a potential burden from the liabilities of these enterprises on the country's budget.

In an effort to reduce the operating losses of the SOEs in the electricity and hydrocarbon sectors, the authorities have implemented a pass-through mechanism for petroleum products prices and electricity tariffs which were frozen for many years. Electricity tariffs were adjusted in mid-October 2008 while prices of petroleum products were raised by 18 percent in August of this year. The latter prices will be revised on a quarterly basis taking into account the evolution of international oil prices.

V. Conclusion

Comoros is one of the few remaining countries that are potentially eligible to the HIPC initiative but have not yet qualified due to an unstable political situation. My authorities are aware that a successful implementation of the reforms under the EPCA would be key to reaching the decision point soon given that the EPCA would count as track-record towards the HIPC initiative, and they are strongly committed to stay the course. However, the aftermaths of post-conflict, aggravated by the recent food and oil prices shocks render the policy implementation landscape to be extremely challenging. It is for this reason that my authorities are also requesting a Rapid-Access Component of the ESF. We call on the Fund and the international community to urgently provide the needed support to Comoros to avoid a weakening of the reforms momentum and a return to crises of the past.