



UNION OF THE COMOROS

FIFTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION

June 2013

In the context of the Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Request for Modification of a Performance Criterion, the following documents have been released and are included in this package:

- **Staff Report** on the Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Request for Modification of a Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on March 23, 2013, with the officials of Comoros on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 20, 2013. 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.
- **Informational Annex** prepared by the IMF.
- **Press Release** prepared by the IMF.

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

Letter of Intent sent to the IMF by the authorities of Comoros*
Memorandum of Economic and Financial Policies by the authorities of Comoros*
Technical Memorandum of Understanding*

*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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May 20, 2013

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EXECUTIVE SUMMARY

- **The Comorian authorities continue to pursue sound macroeconomic policies and expressed continued strong commitment to the program.** Further progress has been made in fiscal consolidation and in the implementation of the structural reform agenda. The program is receiving the support of a broad range of stakeholders.
- **Macroeconomic developments are consistent with expectations under the ECF arrangement.** Economic growth strengthened to 3 percent in 2012 and end-year inflation fell to 1 percent following a marked easing in import prices. Official grants and remittance receipts were very strong, and international reserve holdings reached the equivalent of 7 months of imports. In 2013 economic activity is expected to continue to benefit from investments in infrastructure, the start of a new fisheries project and aid flows, as well as reforms in the state enterprise sector. HIPC debt service savings will be allocated to boost social and health sector spending.
- **Performance under the ECF-supported program through end-December was satisfactory.** All performance criteria and indicative targets for end-December 2012 were met, with wide margins in some cases. Four out of five structural benchmarks through end-March 2013 were also met. A new date for completion of the remaining benchmark is proposed and a new benchmark is proposed for reforms in the energy sector. In February 2013, the authorities signed an agreement for a loan whose grant element falls slightly short of the program requirements. Upon effectiveness of the loan agreement the related performance criteria would be breached.
- **The authorities are requesting a modification of the performance criterion on the contracting of new debt on nonconcessional terms.** Staff supports this request as well as the proposed modifications to the structural benchmarks, and recommends completion of the fifth review under the ECF arrangement.

Approved By
David Robinson and
Peter Allum

The mission team comprised Mr. Trines (head) and Messrs. Crispolti, Fievet, Reinke, and Touna Mama (all AFR). The discussions were held in Moroni from March 13 to 23, 2013. The mission met HE Dr. Dhoinine Ikililou, President of the Union of Comoros. It held discussions with Vice-President and Finance Minister Soilihi and with other members of the Cabinet of the Union; with the Governor of the Central Bank of the Comoros; and with representatives of the private sector and the donor community.

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RECENT ECONOMIC DEVELOPMENTS

1. **Economic activity strengthened in 2012.** Real GDP growth at 3 percent was slightly higher than the 2.5 percent expected, benefiting from resilient remittances and sustained investment activity in infrastructure and a normalization of public sector wage payments. Agriculture, which accounts for about half of Comoros' economic activities, suffered from floods in April 2012, but domestic food production recovered quickly and performed strongly for the year as a whole. The fiscal outturn was significantly better than anticipated due to buoyant receipts, especially non-tax revenue, and continued restraint on wage spending, resulting in a domestic primary surplus of 3 percent of GDP (see 16).

2. **Inflation fell sharply during 2012 despite rapid monetary expansion.** The regularization of wage payments in the public sector contributed to a 16 percent increase in broad money.¹ However, end-year inflation fell to 1 percent (4 percent less than envisaged under the program) following a correction in the last quarter, after temporary pressures from the floods in April and seasonal factors in mid-2012 drove up prices earlier in the year (average inflation reached 6.3 percent). Import prices for food and fuel were somewhat lower than in 2011, and inflationary pressures were further contained because government decided to save most of the strong increase in receipts under the economic citizenship program (ECP) (Text Box 1). The large reduction of central bank credit to government was only partially balanced by an expansion of bank credit to the private sector.

3. **Despite an increased trade deficit, the current account deficit contracted, mostly on account of buoyant remittances and official transfers.** Export volumes of cloves and scrap metal dropped sharply, overshadowing a strong performance of vanilla exports and causing export values to fall nearly 20 percent, compared to 2011. Imports, up 18 percent compared to 2011, were partly driven by stepped-up public and private investment activity and partly by remittance-financed consumption. Current transfers, including both official transfers and remittances, increased by over 35 percent compared to 2011. Official reserves increased slightly to just over seven months of imports.

¹ Regular salary payments made it possible for many civil service employees to increase their deposits in the banking system.

4. **Comoros' banking system remains sound.** Liquidity and solvency ratios remain high and potential loan losses are well-provisioned. With the increase in credit to the private sector, the nonperforming loans ratio deteriorated slightly to 16.5 percent at the end of 2012, compared to 15.7 percent at end-2011.

A. Program Performance

5. **Program performance remained satisfactory through end-March 2013.** At end-December 2012, all performance criteria and indicative targets were observed, with wide margins in some cases. The primary domestic balance posted a surplus of 3 percent of GDP (compared to 2.2 percent projected at the time of the fourth review). As a result, net credit to the government was well within the programmed envelope. On structural reforms, the authorities issued a call for expression of interest from potential strategic partners for the state-owned telecommunication company (Comores Télécom) and adopted the terms of reference for the feasibility study for the budget and medium-term expenditure frameworks. All indicative targets and two out of three structural benchmarks for end-March 2013 were met. The structural benchmark on the effective implementation of the new organizational frameworks for the Union and the islands governments—originally scheduled for January 2013—was postponed to September 2013 due to technical delays in adopting the measure at the island governments' level (see MEFP ¶21 (b)).

Text Box 1. Comoros—The Economic Citizenship Program

Comoros enacted a law on an Economic Citizenship Program (ECP) in 2008. Since then, Comoros has operated an ECP on the basis of bilateral agreements with other countries. The agreements allow Comoros to offer its citizenship to foreigners who reside in the partner countries and who have been selected by the partner government, following a background check conducted by the partner government. Comoros receives a modest fee for each passport, but in recent years the revenue from the program has become significant in relation to Comoros' GDP. ECP revenues are not earmarked for particular projects or sectors. The current ECP arrangement is to expire in late 2013, but a renewal is possible.

ECP revenues, 2009–2012, in US\$ and percent of GDP

	2009	2010	2011	2012
USD million	8.6	9.8	24.8	33.4
Percent of GDP	1.6	1.8	4.1	5.6

In recent years, revenues from the program far outstripped the projections in the government budget. Indeed, the revenue stream has been unpredictable, mainly because of the high fluctuations of citizenship applications. In fiscal projections, the Comorian authorities therefore continue to favor a conservative approach with a low level of projected ECP revenues, with decisions taken on whether to spend or save any additional revenues taken in the context of a supplementary budget.

6. **In 2012, fiscal performance improved markedly due to stronger revenue mobilization and tighter controls on spending, particularly the wage bill.** Revenues reached 19.3 percent of GDP,² particularly due to an exceptional increase in non-tax receipts reflecting unexpected ECP revenues and an increase in tax revenues, mainly indirect taxes. With the wage bill kept within budget, the authorities used part of the windfall (2.3 percent of GDP) to finance urgent expenditures for the rehabilitation of transport infrastructure, improving the inter-island aerial connection, and increasing the government's contributions to the malaria and HIV/AIDS program managed jointly with the World Health Organization (WHO). The remaining resources were saved as deposits at the central bank. As a result, the primary fiscal balance posted a surplus of 3 percent of GDP (1.6 percent of GDP in 2011), and net credit to the government declined to 1.7 percent of GDP. External support continued to fall short of expectations due to delays in disbursing committed resources by development partners.

7. **The government has continued its prudent external debt management policy, although a new loan signed in February 2013 fell slightly short of the program's concessionality requirement.** The new loan amounting to \$41.6 million (approximately 6.5 percent of the 2012 GDP), is with the Export-Import Bank of India to build a new heavy fuel electricity plant. The grant element of this loan, fell below the minimum requirement under the program (i.e., 48 percent compared to 50 percent) after the Fund changed the discount rate in January 2013.³ The loan is not yet effective, but is expected to become so in the coming months, following the requested establishment of a non-concessional borrowing window under the program specific to this loan (MEFP, Table 1). The shortfall in concessionality for this loan relative to the target grant element of 50 percent will have a negligible adverse impact on debt sustainability. On other debt issues, rescheduling negotiations with Paris Club creditors were concluded in February 2013. The authorities have continued good-faith negotiations on debt restructuring with the remaining official non-Paris Club and private creditors. There are no arrears on debt obligations rescheduled after reaching the HIPC decision point.

² A target of 14.3 percent of GDP was set in the context of the third review of the current ECF arrangement. At the time of the fourth review an outcome of 18.2 percent was projected.

³ Government officials discussed the loan with staff in November 2012, when the grant element was estimated at above 50 percent.

POLICY DISCUSSIONS

A. Macroeconomic Outlook and Risks:

8. **Macroeconomic performance is expected to remain strong in 2013.** Economic growth is projected at 3.5 percent, driven by investment in infrastructure, and the start of production of a new fisheries project. In addition, economic activity should benefit from aid flows, robust domestic demand financed by resilient remittances, and the allocation of HIPC and MRDI debt service savings to various priority sectors, including health, education, infrastructure, energy, and water. The deficit of the domestic primary balance should reach 1.1 percent of GDP (0.9 percent at the time of the fourth review) with the reallocation of part of the debt service savings. In the absence of another ECP windfall, the current account balance is expected to revert to a deficit of around 10 percent of GDP while official reserves are likely to stabilize at around seven months of imports. With weaker inflationary pressures from international fuel and food prices, inflation is projected to remain in the single digits. Structural reforms are advancing and the business climate is improving, which could raise Comoros' international competitiveness.

9. **The medium-term outlook continues to be favorable.** Over the medium term, growth is projected to increase to 4 percent sustained by investment in tourism and fishing; inflation should remain close to 3 percent. In the fiscal area, the aim is to anchor the budget on achieving a domestic primary budget balance by 2015 to achieve a more sustainable debt path and reflecting continued gains in fiscal consolidation.

10. **Main risks to the outlook include spillovers from a possible further weakening of the world economy and pressures to raise domestic spending.** Key transmission channels from the global economy are remittances, aid, and FDI. Furthermore, receipts under the ECP program are uncertain and fiscal controls could suffer pressures in the post completion point era. Resistance to public enterprise restructuring could also disrupt the reform agenda.

B. Fiscal Policy for 2013

11. **The government has decided to allocate the debt service savings arising from broad debt relief under the HIPC and MDRI Initiatives to raise social spending in priority areas.** The revised budget maintains the key fiscal objectives under the ECF-supported program, while allowing for higher social spending in priority areas consistent with Comoros' PRSP (MEFP ¶19). It envisages: (i) further improvements in revenue mobilization; (ii) additional restraint in spending for public

wages; (iii) continued reduction of domestic arrears; (iv) a build-up of government deposits at the central bank; and (v) an increase in social spending financed with resources made available by HIPC and MDRI debt relief. Should additional external resources be forthcoming—including from the ECP—the government will consult with staff on the appropriate use of such resources. Priority will be given to further spending in social areas and clearance of domestic arrears.

12. **The authorities have identified priority areas for higher social spending with the assistance of development partners and consistent with PRSP objectives** (MEFP ¶110). These areas include the health, education, infrastructure, energy, and water sectors. In the health sector transfers to hospitals will be increased to improve services provided to patients with special needs. In the energy sector, the electricity parastatal (MA-MWE) has benefited from an emergency financial support GDP to avoid protracted disruptions in the supply of electricity. The government is also stepping up domestic investment with the focus on rehabilitating the road network, and improving the waste collection system. In addition, sector representatives are holding discussions with development partners to identify specific measures to support primary health care and primary/secondary education at the island level.

13. **Progress is being made in enhancing the efficiency of tax and customs administrations and better controlling recurrent spending—particularly wages—drawing on recommendations from past Fund technical assistance** (MEFP ¶121). On the revenue side, the board of directors of the new General Tax and Property Administration (AGID) was recently appointed with the view of starting operations of the new administration in the second half of the year. Moreover, the joint tax-customs investigation brigade is being strengthened—including by providing additional resources to intensify ex-post controls— while the country's four major customs offices are expected to be connected through an electronic network by June 2013. On the expenditure side, the government will continue to adhere strictly to the new automated personnel expenditure management system (GISE). At the Union level, the implementation of the new civil service organizational frameworks has been completed; at the island level, full implementation is expected by September 2013 due to delays partly reflecting the lack of technical resources and difficulties in matching existing skills to required professional profiles. With the assistance of the World Bank, the government is also developing an ambitious integrated public financial management system aimed at improving the monitoring of government revenue and expenses in all phases of the budget cycle, and strengthening the quality of budget execution. Finally, activities for

the introduction of a medium term expenditure framework are advancing consistent with the timeline agreed with previous Fund TA.

14. **Within this fiscal framework, the government's net fiscal financing requirements in 2013 are expected to be fully covered** by already-identified budget support and anticipated use of IMF resources (Text Table 2).

	2013		
	Billions CF	Millions USD	% of GDP
I. Identified financing requirements, net	4.2	11.2	1.7
II. Identified budget support	2.4	6.5	1.0
AfDB	0.6	1.5	0.2
World Bank	1.9	5.0	0.8
Gulf partners/Arab league and others	0.0	0.0	0.0
III. Financing gap (I-II)	1.8	4.8	0.7
IV. ECF Disbursements	1.8	4.8	0.7
V. Residual financing gap (III-IV)	0.0	0.0	0.0

C. Monetary and Financial Sector Outlook

15. **Monetary expansion is expected to slow in 2013.** With receipts under the ECP projected to fall, a lower increase in net foreign assets at the central bank will limit broad money growth compared to 2012. In addition, credit to the private sector is projected to grow according to trend, reverting to an annual growth rate of just above 8 percent (20.6 percent in 2012).

16. **The Central Bank of Comoros continues implementing reforms to strengthen the financial sector and improve banking supervision.** The BCC continues to strengthen banking supervision, and internal audit and control in line with recommendations made under earlier Fund technical assistance. It is also pursuing preliminary actions to set up a credit bureau. The authorities are planning to complete the privatization of the Development Bank of the Comoros during the BCC board meeting in June 2013. In addition, a feasibility study is under way for the restructuring of the National Post and Financial Services Institutions (SNPSF) and a report will be available by July 2013.

D. Structural Reforms

17. **The authorities are committed to continued close collaboration with development partners to resolve the crisis in the energy sector.** In recent years, Comoros has increasingly suffered electricity shortages (electric power is typically only available for a few hours per day, if at all) and periodic fuel shortages with severe consequences for economic growth and welfare. The reasons lie in inadequate power generation and distribution capacity, antiquated equipment that is neither fuel efficient nor reliable, poor recovery rates, and institutional weaknesses in the energy sector parastatals. The authorities see improvements in the energy supply as an urgent priority and have adopted an energy sector strategy with the support of the World Bank, AfDB and EU.⁴ In this context, the authorities are discussing with the donors whether the proposed heavy fuel plant is compatible with this strategy because of the nature of the technology (heavy fuel), which will require careful attention to environmental issues and may require new facilities to handle heavy fuel shipments. A reform strategy for MA-MWE is under development with the assistance of the World Bank and the AfDB. Its implementation is expected to start in 2013.

18. **The existing benchmark on maintaining a flexible petroleum pricing mechanism has proven impractical, and a new reform approach is being developed.** In the absence of clear guidelines on the appropriate degree of pricing flexibility, the benchmark proved difficult for the authorities and staff to monitor. At the same time, the government is revisiting the petroleum sector model, including the pricing regime. The redesign will include a review of the current petroleum import contract as well as steps to clarify and strengthen the working relationships between the different entities involved in fuel supply. The authorities are working with the donors on a reform strategy that promises more transparency and reductions in government subsidies alongside greater macroeconomic efficiency. Eventually, it will allow more flexible retail pricing of petroleum products (MEFP ¶20). As a first step, donors will also provide technical support to take stock of the financial relationships between the government and the energy parastatals (i.e. SCH, MA-MWE, and Electricite d'Anjouan), to assess existing cross debts (MEFP, ¶20). It is proposed that completion of this stocktaking become a structural benchmark, replacing the benchmark on maintaining flexible petroleum pricing.

⁴ The authorities are discussing with these partners how the recent decision to construct a heavy fuel plant fits within the agreed strategy.

19. **In the telecommunication sector, activities are focused on completing the privatization process of Comores Télécom with the assistance of the IFC.** In early November 2012, the government issued a call for bids from potential investors, following approval in October of a social plan for the company. The selection of a strategic partner and the sale of 51 percent of the company's equity are expected by end-2013. The government also plans to open the sector to competition through the transparent and competitive issuance of a second mobile license, and to improve connectivity by seeking investment in submarine cable infrastructure under terms of open access and private participation. In its efforts to develop a competitive, private telecommunications sector the government receives the support of the World Bank.

E. Risks to IMF Resources

20. **The program will be monitored on the basis of quarterly quantitative targets and structural benchmarks (MEFP Tables 1 and 2, and TMU, ¶19).** Program targets for end-June 2013 were set at the time of Board consideration of the fourth review under the ECF arrangement. One change is proposed to the continuous performance criterion on the contracting of nonconcessional debt to account for the contracting of debt with the Export-Import Bank of India. Quantitative indicative targets are proposed for September 30, 2013. A new structural benchmark is proposed on the reconciliation of debt between the energy parastatals (i.e. SCH, MA-MWE, and Electricité d'Anjouan) and the government; a stocktaking of mutual arrears is to be completed before end-September 2013. It is also proposed to reset the benchmark on the implementation of the new organizational frameworks to end-September 2013.

21. **The 6th program review will focus on policies to continue strengthening the fiscal position and continued structural reforms designed to improve efficiency of public utilities.** These include progress in the implementation of the ongoing fiscal measures to strengthen revenue mobilization and PFM, as well as monitoring the reforms in the energy sector.

22. **The risks to IMF resources are manageable. Comoros will begin to repay pay debt service to the IMF in 2016.** Comoros' payments to the Fund peak at just 0.4 percent of GDP in 2018 and 2019 (Table 6).

F. Poverty Reduction Strategy Paper

23. **The third annual progress report (APR) is being prepared for publication by June 2013.**

Sectoral surveys have been completed and are being analyzed to address a perceived weakness of the previous APR, i.e., its lack of data on anti-poverty spending and quantifiable evidence of progress towards the PRSP's objectives. It also seeks to improve donor coordination.

G. Staff Appraisal

24. **Following achievement of the HIPC completion point in late 2012, the Comorian authorities have continued to pursue sound macroeconomic policies and emphasized their commitment to the program.** Steady progress in fiscal consolidation and structural reforms has continued. The program has received the support of a broad range of stakeholders.

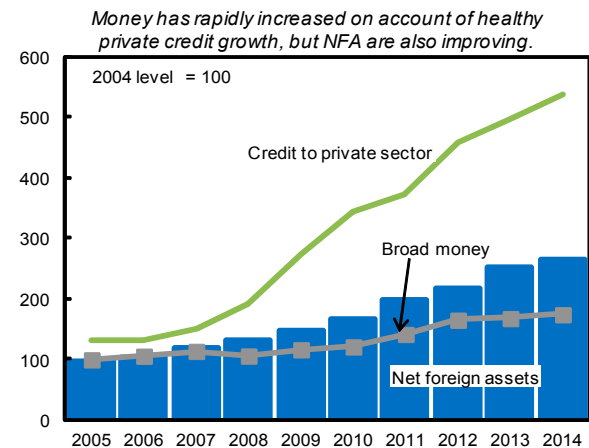
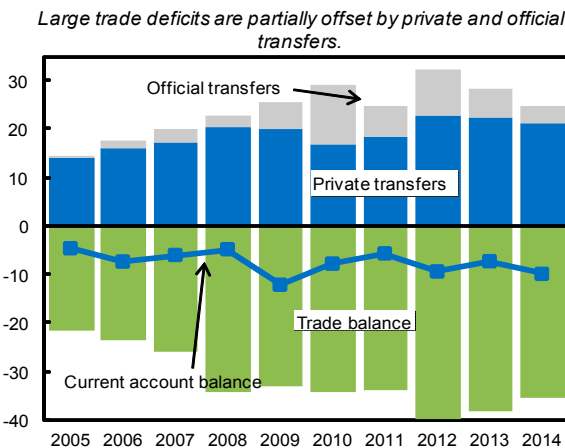
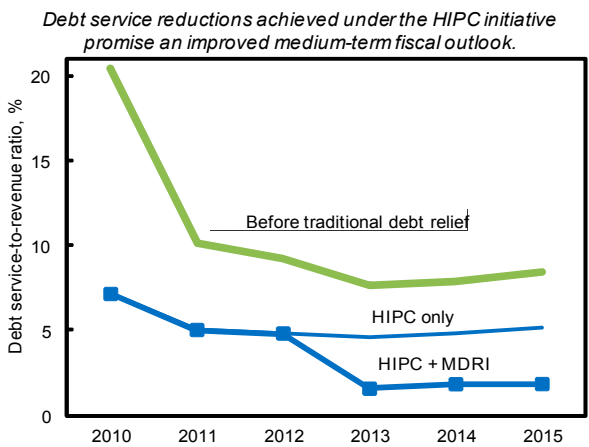
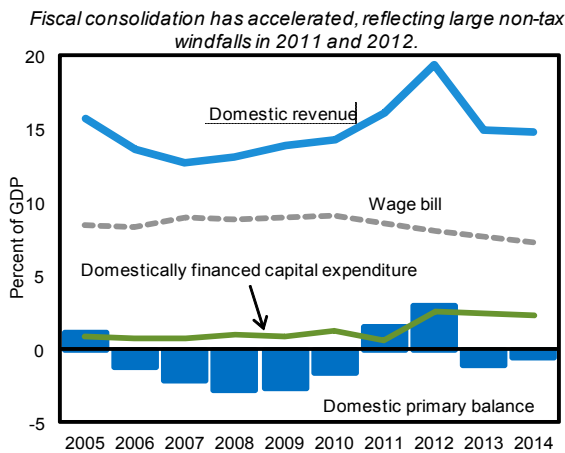
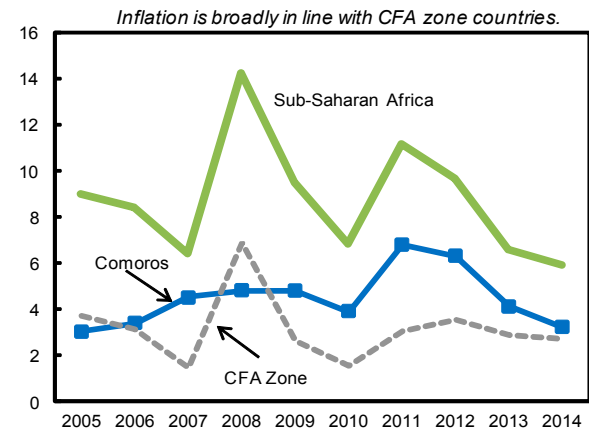
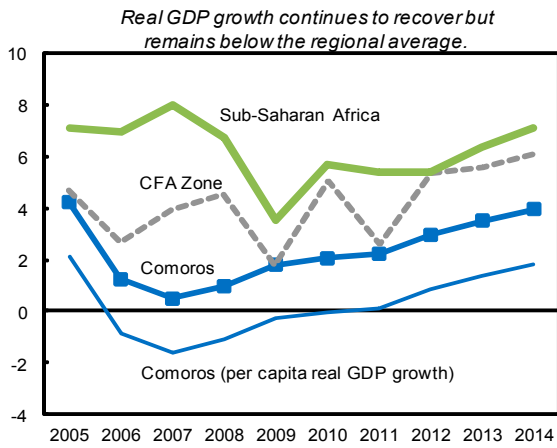
25. **Further improvements in macroeconomic performance are required to achieve sustainable poverty reduction.** Growth has rebounded modestly in 2012 and the medium-term outlook is largely favorable. However, reliable growth and sustainable poverty alleviation will require continued efforts to improve revenue mobilization and contain non-priority spending, enhanced investment in infrastructure and social sectors, and structural reforms to remove infrastructure bottlenecks and improve the efficiency and service delivery of the civil service and publicly owned companies.

26. **The restructuring of public utilities remains a key priority to achieving sustained, strong growth.** Staff therefore urges the authorities to ensure that state disengagement from Comores Telecom is indeed followed through with the selection of a suitable partner and divestment of the majority equity stake. Similarly, staff encourages the authorities to assess cross-company debt between SCH, MA-MWE and EDA, finalize the reform strategy for MA-MWE, and embark on reform of SCH as soon as its audits have been completed. While staff appreciate the authorities' determination in addressing the shortage of electricity, new initiatives should be fully consistent with the recently adopted strategy for the energy sector as agreed with stakeholders.

27. **The main risks to the program remain resistance to civil service and public enterprise reforms, although these risks have receded over the last year.** The prospects for higher aid, FDI and remittances could be undermined by a further weakening of the global economy, especially if the Gulf region, an important source of FDI and aid for Comoros, were affected. Unforeseen rises in food and fuel import prices could adversely impact growth and fiscal balances.

28. **In light of the authorities' progress in implementing the fiscal and structural program, staff supports the request for a modification of the performance criterion on contracting new nonconcessional external debt, and the modifications of the structural benchmarks, and recommends completion of the financing assurances review and of the fifth review under the ECF arrangement.** In the view of the staff, the contracting of the loan to construct a heavy fuel electricity plant does not impede the successful implementation of the program, due to only minor deviation from the required concessionality level and the positive effects it would have on electricity production.

Figure 1: Key Parameters of the Comorian Economy



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

Table 1. Comoros: Selected Economic and Financial Indicators, 2011-17

	2011	2012		2013	2014	2015	2016	2017
		Prog 4 th Review	Act.						Projections
'(Annual percentage change, unless otherwise indicated)								
National income and prices								
Real GDP	2.2	2.5	3.0	3.5	4.0	4.0	4.0	4.0
GDP deflator	4.7	2.9	2.6	3.1	3.2	3.2	3.2	3.2
Consumer price index (annual averages)	6.8	6.0	6.3	4.1	3.2	3.2	3.2	3.2
Consumer price index (end period)	7.0	5.0	1.0	3.2	3.2	3.2	3.2	3.2
Money and credit								
Net foreign assets	17.2	12.0	16.4	1.7	3.7	3.7	3.9	4.0
Domestic credit	4.9	4.2	7.7	13.5	9.7	8.6	7.7	6.4
Net credit to government (treasury)	12.3	-18.5	-38.6	49.2	14.2	7.8	2.9	-5.0
Broad money	9.6	5.5	16.0	5.2	7.3	7.3	7.3	7.4
Velocity (GDP/end-year broad money)	2.9	2.9	2.6	2.7	2.7	2.7	2.7	2.7
External sector								
Exports, f.o.b.	16.4	5.9	-19.0	6.3	8.5	8.5	6.0	6.1
Imports, f.o.b.	7.2	7.8	18.1	3.2	2.2	2.2	2.3	2.4
Export volume	-24.7	2.5	-27.9	1.2	3.1	3.1	3.8	3.8
Import volume	-7.5	0.6	14.8	6.6	3.6	2.5	2.3	2.0
Terms of trade	4.7	-1.7	5.1	5.0	3.8	3.0	1.7	1.5
'(In percent of GDP, unless otherwise indicated)								
Investment and savings								
Investment	14.9	18.4	16.8	19.2	19.7	20.4	21.1	21.7
Public	5.4	8.3	6.8	8.7	8.7	8.9	9.1	9.2
Private	9.5	10.1	10.1	10.5	11.0	11.5	12.0	12.5
Gross national savings	5.5	11.5	10.4	10.7	10.2	11.6	13.5	14.9
Public	8.7	13.4	15.3	7.5	5.4	5.3	5.9	6.0
Private	-3.2	-1.9	-4.9	3.2	4.7	6.2	7.7	9.0
Government budget								
Total revenue and grants	23.6	28.4	29.0	44.9	24.2	23.7	23.9	24.1
Domestic Revenue	16.1	18.2	19.3	14.9	14.8	15.0	15.3	15.4
Total grants ¹	7.5	10.2	9.6	30.0	9.4	8.7	8.7	8.7
Total expenditure	22.0	25.4	25.1	25.2	24.6	24.4	24.3	24.3
Current expenditure	16.6	17.1	18.4	16.5	15.9	15.5	15.2	15.1
Domestic primary balance	1.6	2.2	3.0	-1.1	-0.5	0.0	0.3	0.6
Change in arrears	-3.4	-0.7	-0.7	-0.9	-0.8	-0.8	-0.7	-0.6
External interest	-0.8	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Domestic	-2.6	-0.6	-0.6	-0.9	-0.8	-0.8	-0.7	-0.6
Overall balance (cash basis)	-1.9	1.9	2.8	18.9	-1.3	-1.5	-1.1	-0.8
Excluding grants	-9.4	-8.3	-6.8	-11.1	-10.7	-10.1	-9.8	-9.4
Financing	0.3	-1.9	-2.8	-19.0	0.4	0.3	-0.1	-0.4
Foreign (net)	-0.2	-1.1	-1.1	-20.3	-0.1	0.0	-0.2	-0.3
Domestic (net)	0.5	-0.8	-1.7	1.2	0.5	0.3	0.1	-0.2
Errors and omissions	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.9	1.2	1.2	1.2
Financing gap, excluding UFR	0.4	0.8	0.8	0.7	0.9	1.1	0.9	0.9
External sector								
Exports of goods and services	16.2	16.8	14.5	14.9	15.2	15.5	15.6	15.5
Imports of goods and services	50.2	52.0	54.1	53.1	50.8	48.6	46.6	44.7
Current account balance	-9.4	-6.9	-7.3	-9.9	-10.9	-10.0	-8.7	-7.9
Excl. official and private transfers	-34.3	-35.4	-39.7	-38.2	-35.8	-33.3	-31.1	-29.3
External debt, PV in percent of GDP ²	33.1	10.0	9.6	12.8	14.1	15.2	16.0	16.5
External debt, PV in percent of exports of goods and services ²	203.9	58.0	65.8	85.9	93.1	98.0	102.3	106.6
External debt service (in percent of exports of goods and services) ²	10.0	4.7	5.4	0.4	1.4	2.4	2.9	3.2
Overall balance of payments (in millions of U.S. dollars)	-11.0	-5.8	-5.8	-11.6	0.3	-2.2	-1.5	-2.3
Official grants and loans (percent of GDP)	7.5	10.2	9.6	30.2	9.6	8.9	8.9	8.9
Gross international reserves (end of period)								
In millions of U.S. dollars	170.1	187.5	191.1	204.3	207.4	212.2	216.6	220.4
In months of imports of goods & services	6.7	7.2	7.1	7.0	7.0	7.0	7.0	7.0
Real effective exchange rate (2000=100)	97.8	...	93.0	...	...	...	...	...
Exchange rate CF/US\$ (period average)	353.6	...	382.7	...	...	...	...	...
<i>Memorandum items:</i>								
GDP (nominal, in billions of CF)	216.0	227.8	228.2	243.6	261.3	280.4	300.8	322.9

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

¹ Includes interim HIPC assistance (2010-12) and debt relief under HIPC and MDRI.² External debt ratios after full HIPC, MDRI and beyond HIPC relief from end-2012.

Table 2A. Comoros: Consolidated Government Financial Operations, 2011–17
(In millions of Comorian francs, cumulative, unless otherwise indicated)

	2011	2012		2013		2014	2015	2016	2017
		Prog 4 th Review	Act.	Prog 4 th Review	Proj.					Projections
Total revenue and grants	50,907	64,678	66,083	119,572	109,443	63,219	66,508	72,023	77,891
Revenues	34,793	41,466	44,137	35,245	36,324	38,620	42,166	45,914	49,857
Tax revenues	23,520	26,884	26,849	29,600	28,994	32,780	36,014	39,476	42,777
Direct and indirect taxes ¹	12,412	15,529	17,600	17,072	23,122	25,870	28,221	31,111	33,640
Taxes on international trade and transactions ¹	11,108	11,355	9,250	12,528	5,872	6,910	7,793	8,365	9,137
Nontax revenues	11,273	14,581	17,287	5,645	7,329	5,840	6,152	6,438	7,080
External grants	16,114	23,217	21,947	84,327	73,119	24,599	24,342	26,109	28,035
Budgetary assistance	53	2,500	0	4,960	3,085	1,915	0	0	0
Projects (incl. techn.assist.)	15,135	19,739	19,008	21,443	20,655	22,684	24,342	26,109	28,035
HIPC and MDRI assistance	926	974	2,938	57,924	49,379	0	0	0	0
Total expenditure and net lending	47,793	58,819	58,192	60,483	61,270	64,397	68,497	73,177	78,444
Current expenditure	35,785	38,976	41,898	39,675	40,173	41,599	43,601	45,838	48,658
Primary current expenditures	29,959	31,611	31,604	32,507	33,231	33,904	35,279	36,868	38,986
Wages and salaries	18,409	18,282	18,278	18,408	18,605	19,023	19,649	20,362	21,263
Goods and services	7,662	8,924	8,932	9,231	9,293	9,426	10,061	10,692	11,480
Transfers and pensions	3,889	4,406	4,394	4,868	5,333	5,455	5,569	5,814	6,243
Interest payments	952	1,007	977	262	290	389	482	562	643
External debt	743	780	780	92	120	206	286	351	417
Before rescheduling	652	631	631	...	...	...	...	...	...
On restructured obligations	91	148	148	...	...	...	...	...	...
Domestic debt	209	228	198	170	170	183	196	211	226
Foreign-financed project maintenance	2,636	1,127	2,860	1,224	1,179	1,295	1,389	1,490	1,600
Technical assistance	2,238	5,230	6,457	5,682	5,473	6,011	6,450	6,918	7,429
Capital expenditure	11,708	18,994	15,444	20,808	21,097	22,798	24,896	27,339	29,786
Domestically financed investment	1,417	4,910	5,747	5,006	5,828	6,077	6,943	8,070	9,084
Foreign-financed investment	10,291	13,412	9,696	15,072	14,539	15,927	17,091	18,332	19,684
Counterpart funds-financed	0	672	0	730	730	793	862	937	1,018
Net lending	300	850	850	0	0	0	0	0	0
Domestic primary balance	3,417	4,945	6,785	-2,268	-2,735	-1,362	-56	976	1,787
Overall balance (commitment basis)	3,114	5,859	7,891	59,089	48,173	-1,178	-1,989	-1,154	-553
Excluding grants	-13,000	-17,354	-14,056	-25,238	-24,946	-25,777	-26,330	-27,263	-28,587
Change in net arrears	-7,281	-1,532	-1,544	-2,116	-2,119	-2,090	-2,103	-2,105	-1,905
Interest on external debt	-1,662	-180	-171	0	0	0	0	0	0
Domestic arrears	-5,619	-1,352	-1,372	-2,116	-2,119	-2,090	-2,103	-2,105	-1,905
Repayment	-7,985	-1,352	-1,372	-2,116	-2,119	-2,090	-2,103	-2,105	-1,905
Accumulation	2,366	0	0	0	0	0	0	0	0
Float	2,071	0	45	0	0	0	0	0	0
Overall balance (cash basis)	-4,167	4,327	6,347	56,973	46,054	-3,268	-4,092	-3,259	-2,458
Excluding grants	-20,280	-18,886	-15,599	-27,354	-27,065	-27,868	-28,433	-29,368	-30,493
Special adjustment ²	3,900	0	-300	-5,135	300	0	0	0	0
Errors and omissions (+ = underfinancing)	-419	0	311	0	0	0	0	0	0
Financing	685	-4,327	-6,358	-51,837	-46,354	1,013	814	-333	-1,419
Foreign (net)	-404	-2,479	-2,504	-55,362	-49,364	-287	-1	-660	-839
Drawings, PIP (identified)	31	30	5	535	536	549	589	632	678
Amortization	-2,772	-2,727	-2,726	-55,897	-49,900	-836	-590	-1,292	-1,517
Before rescheduling	-2,443	-2,391	-2,391	...	...	...	...	...	...
On restructured obligations	-330	-336	-335	...	...	...	...	...	...
Clearance of deferred arrears and debt service									
Change in net arrears (principal)	-3,470	0	0	0	0	0	0	0	0
Exceptional financing	5,808	218	218	0	0	0	0	0	0
Arrears restructuring and deferral	5,014	0	0	0	0	0	0	0	0
Current maturities restructuring and deferral	794	218	218	0	0	0	0	0	0
Domestic (net)	1,089	-1,848	-3,854	3,524	3,010	1,300	816	327	-580
Bank financing	1,089	-1,848	-3,854	3,524	3,010	1,300	816	327	-580
Central bank	2,260	-1,848	-4,398	3,701	3,187	1,527	929	427	-580
Of which: IMF (net)	891	1,843	1,825	1,870	1,777	0	-58	-757	-942
Of which: HIPC assistance	0	0	-1,964	0	0	0	0	0	0
Commercial banks	-1,171	0	544	-177	-177	-227	-113	-100	0
Financing gap (+ = underfinancing)	0	0	0	0	0	2,255	3,277	3,592	3,877
<i>Memorandum items:</i>									
GDP (nominal)	216,011	227,801	228,168	243,253	243,550	261,312	280,405	300,766	322,946
Wages in percentage of revenues	52.9	44.1	41.4	52.2	51.2	49.3	46.6	44.3	42.6

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

¹ Since January 1, 2013, revenues collected at customs are classified according to their nature rather than the institution collecting them. The new classification system produced a change in the composition of tax revenues.

² 2010 revenues received in early 2011; and 2012 revenues received in early 2013.

Table 2B. Comoros: Consolidated Government Financial Operations, 2011–17
(In percent of GDP, unless otherwise indicated)

	2011	2012		2013		2014	2015	2016	2017
	Prog. révisé	Prog. 2 ^{ème} rev.	Prog. révisé	Prog 4 th Review	Proj.	Projections			
		Prog 4 th Review	Act.	Prog 4 th Review	Proj.	Projections			
Total revenue and grants	23.6	28.4	29.0	49.2	44.9	24.2	23.7	23.9	24.1
Revenues	16.1	18.2	19.3	14.5	14.9	14.8	15.0	15.3	15.4
Tax revenues	10.9	11.8	11.8	12.2	11.9	12.5	12.8	13.1	13.2
Direct and indirect taxes ¹	5.7	6.8	7.7	7.0	9.5	9.9	10.1	10.3	10.4
Taxes on international trade and transactions ¹	5.1	5.0	4.1	5.2	2.4	2.6	2.8	2.8	2.8
Nontax revenues	5.2	6.4	7.6	2.3	3.0	2.2	2.2	2.1	2.2
External grants	7.5	10.2	9.6	34.7	30.0	9.4	8.7	8.7	8.7
Budgetary assistance	0.0	1.1	0.0	2.0	1.3	0.7	0.0	0.0	0.0
Projects (incl. techn.assist.)	7.0	8.7	8.3	8.8	8.5	8.7	8.7	8.7	8.7
HIPC and MDRI assistance	0.4	0.4	1.3	23.8	20.3	0.0	0.0	0.0	0.0
Total expenditure and net lending	22.1	25.8	25.5	24.9	25.2	24.6	24.4	24.3	24.3
Current expenditure	16.6	17.1	18.4	16.3	16.5	15.9	15.5	15.2	15.1
Primary current expenditures	13.9	13.9	13.9	13.4	13.6	13.0	12.6	12.3	12.1
Wages and salaries	8.5	8.0	8.0	7.6	7.6	7.3	7.0	6.8	6.6
Goods and services	3.5	3.9	3.9	3.8	3.8	3.6	3.6	3.6	3.6
Transfers and pensions	1.8	1.9	1.9	2.0	2.2	2.1	2.0	1.9	1.9
Interest payments	0.4	0.4	0.4	0.1	0.1	0.1	0.2	0.2	0.2
External debt	0.3	0.3	0.3	0.0	0.0	0.1	0.1	0.1	0.1
Before rescheduling	0.3	0.3	0.3	...	...	...	...	...	...
On restructured obligations	0.0	0.1	0.1	...	...	...	...	...	...
Domestic debt	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign-financed project maintenance	1.2	0.5	1.3	0.5	0.5	0.5	0.5	0.5	0.5
Technical assistance	1.0	2.3	2.8	2.3	2.2	2.3	2.3	2.3	2.3
Capital expenditure	5.4	8.3	6.8	8.6	8.7	8.7	8.9	9.1	9.2
Domestically financed investment	0.7	2.2	2.5	2.1	2.4	2.3	2.5	2.7	2.8
Foreign-financed investment	4.8	5.9	4.2	6.2	6.0	6.1	6.1	6.1	6.1
Counterpart funds-financed	0.0	0.3	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Net lending	0.1	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance	1.6	2.2	3.0	-0.9	-1.1	-0.5	0.0	0.3	0.6
Overall balance (commitment basis)	1.4	2.6	3.5	24.3	19.8	-0.5	-0.7	-0.4	-0.2
Excluding grants	-6.0	-7.6	-6.2	-10.4	-10.2	-9.9	-9.4	-9.1	-8.9
Change in net arrears	-3.4	-0.7	-0.7	-0.9	-0.9	-0.8	-0.8	-0.7	-0.6
Interest on external debt	-0.8	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears	-2.6	-0.6	-0.6	-0.9	-0.9	-0.8	-0.8	-0.7	-0.6
Repayment	-3.7	-0.6	-0.6	-0.9	-0.9	-0.8	-0.8	-0.7	-0.6
Accumulation	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-1.9	1.9	2.8	23.4	18.9	-1.3	-1.5	-1.1	-0.8
Excluding grants	-9.4	-8.3	-6.8	-11.2	-11.1	-10.7	-10.1	-9.8	-9.4
Special adjustment ²	1.8	0.0	-0.1	-2.1	0.1	0.0	0.0	0.0	0.0
Errors and omissions (+ = underfinancing)	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	0.3	-1.9	-2.8	-21.3	-19.0	0.4	0.3	-0.1	-0.4
Foreign (net)	-0.2	-1.1	-1.1	-22.8	-20.3	-0.1	0.0	-0.2	-0.3
Drawings, PIP (identified)	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Amortization	-1.3	-1.2	-1.2	-23.0	-20.5	-0.3	-0.2	-0.4	-0.5
Before rescheduling	-1.1	-1.0	-1.0	...	...	...	...	...	...
On restructured obligations	-0.2	-0.1	-0.1	...	...	...	...	...	...
Clearance of deferred arrears and debt service									
Change in net arrears (principal)	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	2.7	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Arrears restructuring and deferral	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current maturities restructuring and deferral	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	0.5	-0.8	-1.7	1.4	1.2	0.5	0.3	0.1	-0.2
Bank financing	0.5	-0.8	-1.7	1.4	1.2	0.5	0.3	0.1	-0.2
Central bank	1.0	-0.8	-1.9	1.5	1.3	0.6	0.3	0.1	-0.2
Of which: IMF (net)	0.4	0.8	0.8	0.8	0.7	0.0	0.0	-0.3	-0.3
Of which: HIPC assistance	0.0	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	-0.5	0.0	0.2	-0.1	-0.1	0.0	0.0	0.0	0.0
Financing gap (+ = underfinancing)	0.0	0.0	0.0	0.0	0.0	0.9	1.2	1.2	1.2
<i>Memorandum items:</i>									
GDP (nominal)	216,011	227,801	228,168	243,253	243,550	261,312	280,405	300,766	322,946
Wages in percentage of revenues	52.9	44.1	41.4	52.2	51.2	49.3	46.6	44.3	42.6

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

¹ Since January 1, 2013, revenues collected at customs are classified according to their nature rather than the institution collecting them. The new classification system produced a change in the composition of tax revenues.

² 2010 revenues received in early 2011; and 2012 revenues received in early 2013.

Table 2C. Comoros: Consolidated Government Financial Operations, 2011–13
(In millions of Comorian francs, cumulative, unless otherwise indicated)

	2011	2012				2013				
		Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec
					Prog 4 ^h Review	Act.					Prel.	Proj.
Total revenue and grants	50,907	13,865	32,309	48,729	64,678	66,083	64,411	80,538	94,137	109,443
Revenues	34,793	8,614	22,299	33,683	41,466	44,137	7,908	18,331	26,767	36,324
Tax revenues	23,520	6,249	12,472	19,696	26,884	26,849	7,193	14,740	21,270	28,994
Direct and indirect taxes ¹	12,412	3,508	7,415	11,439	15,529	17,600	5,419	12,097	17,342	23,122
Taxes on international trade and transactions ¹	11,108	2,741	5,057	8,257	11,355	9,250	1,774	2,642	3,928	5,872
Nontax revenues	11,273	2,365	9,827	13,987	14,581	17,287	715	3,591	5,497	7,329
External grants	16,114	5,250	10,010	15,045	23,213	21,947	56,504	62,206	67,370	73,119
Budgetary assistance	53	0	0	0	2,500	0	1,827	2,500	2,500	3,085
Projects (incl. techn. assist.)	15,135	4,944	9,502	14,255	19,739	19,008	5,298	10,328	15,491	20,655
HIPC and MDRI assistance	926	306	508	790	974	2,938	49,379	49,379	49,379	49,379
Total expenditure and net lending	47,793	13,811	27,786	42,709	58,819	58,192	16,578	30,985	45,618	61,270
Current expenditure	35,785	9,607	20,656	31,794	38,976	41,898	10,131	20,087	29,970	40,173
Primary current expenditures	29,959	7,707	15,534	24,015	31,611	31,604	8,386	16,615	24,763	33,231
Wages and salaries	18,409	4,564	9,118	13,696	18,282	18,278	4,644	9,302	13,954	18,605
Goods and services	7,662	1,793	4,205	6,950	8,924	8,932	2,419	4,647	6,970	9,293
Transfers and pensions	3,889	1,350	2,211	3,369	4,406	4,394	1,322	2,666	3,840	5,333
Interest payments	952	308	463	792	1,007	977	82	145	218	290
External debt	743	266	378	629	780	780	30	60	90	120
Before rescheduling	652	248	324	553	631	631	...	...	...	...
On restructured obligations	91	17	54	77	148	148	...	...	...	...
Domestic debt	209	42	85	162	228	198	52	85	128	170
Foreign-financed project maintenance	2,636	282	1,030	1,795	1,127	2,860	295	589	884	1,179
Technical assistance	2,238	1,310	3,628	5,193	5,230	6,457	1,368	2,737	4,105	5,473
Capital expenditure	11,708	4,205	6,781	10,065	18,994	15,444	4,947	10,898	15,648	21,097
Domestically financed investment	1,417	845	1,933	2,793	4,910	5,747	1,312	3,264	4,196	5,828
Foreign-financed investment	10,291	3,360	4,848	7,272	13,412	9,696	3,635	7,269	10,904	14,539
Counterpart funds-financed	0	0	0	0	672	0	0	365	547	730
Net lending	300	0	350	850	850	850	1,500	0	0	0
Domestic primary balance	3,417	63	4,833	6,876	4,945	6,785	-1,791	-1,548	-2,193	-2,735
Overall balance (commitment basis)	3,114	53	4,523	6,020	5,859	7,891	47,833	49,553	48,519	48,173
Excluding grants	-13,000	-5,197	-5,487	-9,026	-17,354	-14,056	-8,670	-12,653	-18,851	-24,946
Change in net arrears	-7,281	-684	-780	-1,127	-1,532	-1,544	-659	-1,059	-1,589	-2,119
Interest on external debt	-1,662	0	0	0	-180	-171	0	0	0	0
Domestic arrears	-5,619	-684	-780	-1,127	-1,352	-1,372	-659	-1,059	-1,589	-2,119
Repayment	-7,985	-684	-780	-1,127	-1,352	-1,372	-659	-1,059	-1,589	-2,119
Accumulation	2,366	0	0	0	0	0	0	0	0	0
Float	2,071	0	0	0	0	45	1,977	0	0	0
Overall balance (cash basis)	-4,167	-631	3,743	4,893	4,327	6,347	47,174	48,494	46,930	46,054
Excluding grants	-20,280	-5,881	-6,267	-10,153	-18,886	-15,599	-9,330	-13,713	-20,440	-27,065
Special adjustment ²	3,900	0	0	0	0	-300	300	300	300	300
Errors and omissions (+ = underfinancing)	-419	-438	517	-157	0	311	-450	0	0	0
Financing	685	1,069	-4,260	-4,736	-4,327	-6,358	-47,024	-48,794	-47,230	-46,354
Foreign (net)	-404	-747	-1,113	-1,915	-2,479	-2,504	-49,509	-49,372	-49,368	-49,364
Drawings, PIP (identified)	31	8	5	5	30	5	0	268	402	536
Amortization	-2,772	-861	-1,305	-2,107	-2,727	-2,726	-49,509	-49,639	-49,770	-49,900
Before rescheduling	-2,443	-771	-1,163	-1,873	-2,391	-2,391	...	...	...	...
On restructured obligations	-330	-91	-141	-234	-336	-335	...	...	...	...
Change in net arrears (principal)	-3,470	0	0	0	0	0	0	0	0	0
Exceptional financing	5,808	106	187	187	218	218	0	0	0	0
Arrears restructuring and deferral	5,014	0	0	0	0	0	0	0	0	0
Current maturities restructuring and deferral	794	106	187	187	218	218	0	0	0	0
Domestic (net)	1,089	1,816	-3,147	-2,821	-1,848	-3,854	2,485	578	2,138	3,010
Bank financing	1,089	1,816	-3,147	-2,821	-1,848	-3,854	2,485	578	2,138	3,010
Central bank	2,260	1,806	-3,183	-3,332	-1,848	-4,398	2,455	666	2,271	3,187
Of which: IMF (net)	891	0	913	913	1,843	1,825	1,777	888	888	1,777
Of which: HIPC assistance	0	0	0	0	0	-1,964	0	0	0	0
Commercial banks	-1,171	10	36	511	0	544	30	-89	-133	-177
Financing gap (+ = underfinancing)	0	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>										
GDP (nominal)	216,011	228,168	228,168	228,168	227,801	228,168	243,550	243,550	243,550	243,550
Wages in percentage of revenues	52.9	53.0	40.9	40.7	44.1	41.4	58.7	50.7	52.1	51.2

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

¹ Since January 1, 2013, revenues collected at customs are classified according to their nature rather than the institution collecting them. The new classification system produced a change in the composition of tax revenues.

² 2010 revenues received in early 2011; and 2012 revenues received in early 2013.

Table 3. Comoros: Monetary Survey, 2011-17
(In Millions of Comorian francs)

	2011	2012	2013	2014	2015	2016	2017
		Act.			Projections		
Net foreign assets	53,878	62,709	63,770	66,123	68,594	71,292	74,136
Central bank assets	59,859	72,761	75,352	77,701	80,091	82,359	84,408
Central bank liabilities	-10,732	-10,589	-12,366	-12,366	-12,308	-11,551	-10,609
Commercial banks assets	8,655	5,496	5,866	6,074	6,308	6,201	6,283
Commercial banks liabilities	-3,905	-4,959	-5,083	-5,286	-5,497	-5,717	-5,946
Net domestic assets	21,451	24,687	28,133	32,482	37,216	42,201	47,726
Domestic credit	45,831	49,362	56,007	61,428	66,698	71,841	76,467
Net credit to government ¹	6,016	1,604	4,614	5,914	6,730	7,057	6,477
Of which: Treasury	9,974	6,120	9,130	10,430	11,246	11,574	10,994
Claims on public enterprises	1,341	512	512	512	512	512	512
Claims on other financial institutions	-21	-4	-4	-4	-4	-4	-4
Claims on private sector	38,275	47,062	50,885	55,006	59,461	64,276	69,482
Other items net	-24,379	-24,674	-27,874	-28,947	-29,483	-29,641	-28,740
Broad money	75,329	87,396	91,902	98,605	105,809	113,492	121,862
Money	48,820	56,525	58,950	63,249	67,870	72,799	78,167
Currency in circulation	19,985	21,755	25,717	27,592	29,608	31,758	34,100
Demand deposits	28,835	34,770	33,233	35,657	38,262	41,040	44,067
Quasi-money	26,509	30,871	32,952	35,356	37,939	40,694	43,695
	<i>(in percent of beginning period broad money):</i>						
Net foreign assets	11.5	11.7	1.2	2.6	2.5	2.5	2.5
Net domestic assets	-1.9	4.3	3.9	4.7	4.8	4.7	4.9
Domestic credit	3.1	4.7	7.6	5.9	5.3	4.9	4.1
Net credit to government	0.4	-5.9	3.4	1.4	0.8	0.3	-0.5
Credit to public enterprises	-1.3	-1.1	0.0	0.0	0.0	0.0	0.0
Credit to private sector	4.3	11.7	4.4	4.5	4.5	4.6	4.6
Other items (net)	-5.0	-0.4	-3.7	-1.2	-0.5	-0.1	0.8
Broad money	9.6	16.0	5.2	7.3	7.3	7.3	7.4
Money	9.0	10.2	2.8	4.7	4.7	4.7	4.7
Quasi-money	0.6	5.8	2.4	2.6	2.6	2.6	2.6
Velocity (GDP/end-year broad money)	2.9	2.6	2.7	2.7	2.7	2.7	2.7
Credit to private sector (percent change)	8.4	23.0	8.1	8.1	8.1	8.1	8.1

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, 2011-17
(Millions of Comorian francs, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017
		Prel.			Projections		
Current account	-20,346	-16,608	-24,065	-28,399	-28,168	-26,314	-25,672
Goods and services	-73,308	-90,375	-93,014	-93,107	-92,799	-93,168	-94,473
Trade balance	-61,686	-76,126	-78,347	-79,623	-80,826	-82,376	-84,030
Exports	8,908	7,215	7,672	8,325	9,035	9,575	10,156
<i>Of which:</i> Vanilla	350	552	572	606	643	668	695
Cloves	6,361	5,494	5,855	6,391	6,977	7,398	7,852
Ylang-ylang	745	666	703	746	791	839	890
Other	1,451	503	542	582	624	670	720
Imports (f.o.b.)	-70,594	-83,341	-86,019	-87,948	-89,861	-91,951	-94,186
<i>of which</i> oil	-22,190	-25,519	-26,719	-26,107	-25,588	-25,308	-25,099
Services (net)	-11,622	-14,249	-14,666	-13,483	-11,973	-10,792	-10,443
Income (net)	-720	-209	-120	-337	-641	-438	-159
<i>Of which:</i> Interest on rescheduled obligations	-91	-148	-23	-42	-51	-51	-44
Current transfers (net)	53,683	73,976	69,069	65,044	65,272	67,291	68,960
Government	13,863	22,306	15,161	9,519	8,082	8,550	8,351
<i>Of which:</i> HIPC and MDRI assistance	198	205	7,986	0	0	0	0
Private	39,820	51,670	53,908	55,525	57,191	58,741	60,610
Capital and financial account	22,453	27,660	19,756	28,493	27,339	25,747	24,786
Capital account	11,019	12,429	59,095	15,927	17,091	18,332	19,684
Capital transfers	11,019	12,429	59,095	15,927	17,091	18,332	19,684
Transfer of fixed assets	10,291	9,696	14,539	15,927	17,091	18,332	19,684
HIPC assistance	729	2,733	49,379	0	0	0	0
Financial account	11,433	15,230	-39,338	12,566	10,248	7,415	5,102
Direct investment	8,171	6,549	6,361	6,427	6,484	6,544	6,603
Net portfolio and other investment	3,262	8,681	-45,699	6,139	3,764	871	-1,501
Government	-2,742	-2,721	-49,364	-287	-1	-660	-839
Drawings	31	5	536	549	589	632	678
Amortization	-2,772	-2,726	-521	-836	-590	-1,292	-1,517
Before rescheduling	-2,443	-2,391	...	...	...	...	...
On restructured obligations	-330	-335	...	...	...	...	...
Private sector (net)	6,004	11,403	3,665	6,426	3,765	1,532	-663
Banks, net	-3,111	4,213	-247	-5	-22	327	146
Other	9,115	7,189	3,911	6,430	3,788	1,205	-809
Errors and omissions	-2,090	1,475	0	0	0	0	0
Overall balance	-5,972	12,826	-4,308	94	-829	-567	-886
Financing	3,882	-12,826	4,009	-2,349	-2,448	-3,025	-2,990
NFA of central bank (increase -)	-4,793	-13,044	-814	-2,349	-2,448	-3,025	-2,990
Foreign assets	-6,050	-12,901	-2,591	-2,349	-2,391	-2,268	-2,049
Foreign liabilities	1,257	-143	1,777	0	-58	-757	-942
<i>Of which:</i> Net IMF Credit	891	1,825	1,777	0	-58	-757	-942
Net change in arrears	0	0	0	0	0	0	0
Clearance of deferred arrears and debt service							
Exceptional financing	8,675	218	4,823	0	0	0	0
Arrears restructuring and deferral	5,014	171	0	0	0	0	0
Current maturities restructuring and deferral	794	218	0	0	0	0	0
Financing gap	0	0	0	2,255	3,277	3,592	3,877
<i>Memorandum items:</i>							
Current account (percentage of GDP)	-9.4	-7.3	-9.9	-10.9	-10.0	-8.7	-7.9
Excluding transfers	-34.3	-39.7	-38.2	-35.8	-33.3	-31.1	-29.3
Exports of goods and services (percentage of GDP)	16.2	14.5	14.9	15.2	15.5	15.6	15.5
Imports of goods and services (percentage of GDP)	50.2	54.1	53.1	50.8	48.6	46.6	44.7
Gross international reserves (millions of U.S. dollars)	170.1	191.1	204.3	207.4	212.2	216.6	220.4
In months of imports of goods and services	6.7	7.1	7.0	7.0	7.0	7.0	7.0

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

Table 5. Comoros: Education and health expenditure, 2008-10
(In millions of comorian francs)

	2009	2010	2011	2012	2013
Education	10,089	10,794	11,675	10,989	13,686
Wages	7,597	8,528	8,954	8,296	10,486
Goods and services	145	193	420	407	360
Transfers	649	1,054	913	1,286	1,222
Capital	1,698	1,019	1,388	1,000	1,617
Domestically funded	0	78	400	604	721
Foreign funded	1,698	941	988	396	896
Health	3,195	2,866	3,100	5,785	4,592
Wages	1,361	1,084	1,138	856	1,515
Goods and services	6	70	120	43	83
Transfers	130	934	775	1,208	948
Capital	1,698	778	1,066	3,678	2,047
Domestically funded	0	0	250	429	359
Foreign funded	1,698	778	816	3,249	1,687
Total education and health	13,284	13,660	14,775	16,774	18,278
Domestically funded	9,888	11,941	12,970	13,129	14,908
Domestically funded, in percent of GDP	5.2	5.9	6.0	5.8	6.1
<i>Memorandum item:</i>					
GDP, in millions of CF francs	189,536	201,841	216,011	228,168	243,550

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

Table 6. The Comoros: Indicators of Capacity to Repay the Fund, 2008-2022

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Projections														
Fund obligations based on existing credit (in millions of SDRs)															
Principal	0.00	0.00	0.00	0.00	0.00	0.00	0.10	1.31	1.62	2.09	2.09	1.25	0.78	0.47	0.00
Charges and interest ¹	0.02	0.00	0.00	0.00	0.00	0.00	0.02	0.02	0.02	0.01	0.01	0.00	0.00	0.00	0.00
Fund obligations based on existing and prospective credit (in millions of SDRs)															
Principal	1.11	0.00	0.00	0.00	0.00	0.00	0.10	1.31	1.62	2.25	2.71	1.87	1.40	1.09	0.47
Charges and interest ¹	0.03	0.00	0.00	0.00	0.00	0.00	0.03	0.03	0.03	0.02	0.02	0.01	0.01	0.00	0.00
Total obligations based on existing and prospective credit ²															
In millions of SDRs	1.1	0.0	0.0	0.0	0.0	0.0	0.1	1.3	1.7	2.3	2.7	1.9	1.4	1.1	0.5
In millions of CF	622.8	0.0	0.0	0.0	0.0	0.0	74.8	774.7	959.2	1,327.0	1,595.9	1,099.0	824.3	637.2	274.8
In percent of government revenue	2.4	0.0	0.0	0.0	0.0	0.0	0.2	1.7	1.9	2.5	2.7	1.7	1.2	0.9	0.3
In percent of exports of goods and services	2.3	0.0	0.0	0.0	0.0	0.0	0.2	1.6	1.9	2.5	2.8	1.8	1.3	0.9	0.4
In percent of debt service ³	21.1	0.0	0.0	0.0	0.0	0.0	8.5	47.1	49.6	48.5	46.4	34.1	25.4	18.6	9.9
In percent of GDP	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.4	0.4	0.3	0.2	0.1	0.1
In percent of quota	12.8	0.0	0.0	0.0	0.0	0.0	1.5	15.1	18.5	25.5	30.7	21.1	15.8	12.2	5.3
Outstanding Fund credit ²															
In millions of SDRs	6.5	8.0	9.6	12.7	12.8	12.8	12.7	11.4	9.8	7.5	4.8	3.0	1.6	0.5	0.0
In millions of CF	3,514.4	4,532.0	5,342.2	7,429.1	7,317.1	7,345.8	7,322.7	6,596.6	5,691.3	4,407.7	2,823.5	1,730.3	911.9	274.8	0.0
In percent of government revenue	13.3	15.7	15.4	16.8	20.1	19.0	17.4	14.4	11.4	8.2	4.8	2.7	1.3	0.4	0.0
In percent of exports of goods and services	12.8	14.3	15.2	22.4	20.2	18.5	16.9	14.0	11.4	8.3	5.0	2.9	1.4	0.4	0.0
In percent of debt service ³	119.0	181.6	197.7	144.4	14.6	705.0	836.2	401.5	294.3	161.0	82.1	53.6	28.1	8.0	0.0
In percent of GDP	1.9	2.2	2.5	3.3	3.0	2.8	2.6	2.2	1.8	1.3	0.8	0.4	0.2	0.1	0.0
In percent of quota	72.5	90.0	107.5	142.5	144.2	144.2	143.0	128.2	110.0	84.7	54.3	33.3	17.5	5.3	0.0
Net use of Fund credit (millions of SDRs)															
Disbursements	3.1	1.6	1.6	3.1	3.1	0.0	-0.1	-1.3	-1.6	-2.3	-2.7	-1.9	-1.4	-1.1	-0.5
Repayment and Repurchases	4.2	1.6	1.6	3.1	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	1.1	0.0	0.0	0.0	0.0	0.0	0.1	1.3	1.6	2.3	2.7	1.9	1.4	1.1	0.5
Memorandum items															
Nominal GDP (millions of CF)	189,536	201,841	216,011	228,168	243,550	261,312	280,405	300,766	322,946	345,980	372,497	400,887	431,696	465,149	501,496
Exports of goods and services (millions of CF)	27,465	31,747	35,043	33,177	36,200	39,653	43,445	46,964	50,026	53,141	56,470	60,030	63,838	67,961	72,443
Government revenue (millions of CF)	26,401	28,875	34,793	44,137	36,324	38,620	42,166	45,914	49,857	54,081	58,885	64,070	68,525	74,586	82,081
Debt service (millions of CF) ²	2,954	2,496	2,702	5,144	50,020	1,042	876	1,643	1,934	2,738	3,439	3,227	3,240	3,427	2,785
CF/SDR (period average)	545	566	558												

Sources: IMF staff estimates and projections.

¹ Temporary waiver of interest payments on PRGT borrowing until December 2014 is assumed.² Assuming ECF disbursement of the entire amount of SDR 13.57 million (152.5 percent of quota). The entire EPCA credit of SDR 1.1 million (12.5 percent of quota) was repurchased by the first ECF disbursement.³ Total debt service before HIPC interim assistance; includes IMF repurchases and repayments.

Table 7. Comoros: Availability Dates of Proposed ECF Disbursements and Reviews, 2009-13

Date	Disbursements ¹ (Millions of SDRs)	Conditions
September 30, 2009 ²	4.2275	Disbursed, based on Executive Board approval (September 21, 2009)
March 15, 2010	1.5575	Disbursed, based on completion of first review (June 21, 2010)
September 15, 2010	1.5575	Disbursed, based on completion of second review (January 21, 2011)
March 15, 2011	1.5575	Completion of third review, based on observance of performance criteria through December 31, 2010
September 15, 2012	1.5575	Completion of fourth review, based on observance of performance criteria through June 30, 2012
March 15, 2013	1.5575	Completion of fifth review, based on observance of performance criteria through December 31, 2012
September 15, 2013	1.5575	Completion of sixth review, based on observance of performance criteria through June 30, 2013

Source: IMF staff estimates and projections.

¹ Based on access of 152.5 percent of quota (SDR 13.5725 millions).

² Includes early repayment of the SDR 1.1125 million EPCA purchased in December 2008.

APPENDIX I. LETTER OF INTENT

Moroni, May 18, 2013

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Madame Lagarde:

1. Now that the Union of the Comoros has reached the completion point under the HIPC initiative, it is undertaking a new phase of economic reforms aimed at reducing poverty and improving the competitiveness of its economy. The government intends to move forward with economic development efforts aided by an environment of political calm. Implementation of the Fund-supported economic and social reform program under the Extended Credit Facility (ECF) remains therefore of the highest priority.
2. Following our discussions with Fund staff regarding the fifth review of the ECF-supported program, we determined that all the quantitative performance criteria and quantitative targets for the period ended December 31, 2012 were met. In particular, owing to sound management of government finances and solid receipts from the economic citizenship program, the primary domestic balance reached a surplus equivalent to 3 percent of GDP. However, one of the program's five structural benchmarks has not been met: implementation of new organizational structures for the civil service, originally planned for January 2013, has been completed at the national level but there have been some delays at the level of island administrations. We propose resetting this benchmark for September 2013.
3. In accordance with the objectives set out in the national Poverty Reduction Strategy Paper (PRSP), the government will use savings from debt relief under the HIPC and MDRI initiatives to expand fiscal space for the benefit of the high-priority areas identified in the PRSP, namely health, education, water supply, road infrastructure, and energy. In the energy sector, with a view to promoting strong, inclusive growth, the government remains determined to implement a strategy agreed with the World Bank, the African Development Bank, and the European Union. A preliminary step, from now until September 2013, will be to take stock of the arrears between the government, the Société Comorienne des Hydrocarbures (SCH), the water and electric power utility MA-MWE, and Électricité d'Anjouan (EDA), a proposed new benchmark.

4. The architecture and basic objectives of the ECF-supported program remain unchanged. The government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are appropriate to achieve the program objectives, but it will take whatever additional measures may be required to that end. When necessary, it will consult Fund staff before any revisions to the policies described in the memorandum are made, in accordance with the Fund's provisions in that respect. It intends to work in close consultation with Fund staff and to provide the necessary information for monitoring the evolution of economic activity and the implementation of the policies under the ECF-supported program within the time frames established. The sixth and final review is expected to take place in December 2013.

5. In light of the progress made, we request the completion of the fifth review and the sixth disbursement under the ECF arrangement. We also request a modification of the performance criterion on the contracting of nonconcessional debt and of two structural benchmarks as described in the MEFP.

6. In line with our commitment to transparency in government operations, we agree to the publication of documents relating to our discussions with Fund staff under the fifth review of our ECF-supported program.

Sincerely yours,

/s/

Ikililou DHOININE
President of the Union of the Comoros

/s/

Mohamed Ali SOILIH
Vice President responsible for
the Ministry of Finance, the Economy,
the Budget, Investment, and
Foreign Trade

/s/

Mzé Abdou Mohamed CHANFIU
Governor of the
Central Bank of the Comoros

Attachment 1. Memorandum of Economic and Financial Policies for 2013

I. INTRODUCTION

1. This memorandum takes stock of the progress made in 2012 in implementing the government reforms supported by the International Monetary Fund under the Extended Credit Facility (ECF) and sets out the measures and policies that the government plans to implement in 2013 in order to achieve its objectives.

II. ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

A. Recent Economic Developments

2. **Economic activity strengthened significantly in 2012.** Real GDP posted 3 percent growth, up from 2.2 percent in 2011, mainly due to sustained activity in the construction and public works sector, a reasonably good harvest of cash crops, the resilience of remittances from Comorians working abroad, increased external financial support, and a modest rebound in foreign direct investment (FDI). On a year-to-year basis, inflation was 1 percent (down from 7 percent in 2011) owing to a drop in domestic demand at the end of the year following the month of Ramadan and *Grands Mariages*. As a yearly average, however, inflation has slipped only slightly (6.3 percent versus 6.8 percent in 2011).

3. **The fiscal position improved considerably in 2012, reflecting satisfactory mobilization of public resources and more effective control of spending, particularly personnel expenditure.** Government revenue exceeded the figure programmed, equivalent to 14 percent of GDP, and reached 19.3 percent of GDP due to improved collection of direct and indirect taxes and a spike in revenue from the economic citizenship program. The latter increased to 7.6 percent of GDP in 2012. The government has opted to set aside a portion of this surplus as a reserve in the central bank (BCC) (2.7 percent of GDP) and allocated the remainder to (i) financing urgent expenditures to rehabilitate infrastructure, mainly roadworks, (ii) contributing to the program to combat malaria and HIV/AIDS, managed jointly with the World Health Organization (WHO) (1 percent of GDP), and (iii) granting a loan to the Société Comorienne des Hydrocarbures (SCH) to make sure the country has a regular supply of petroleum products. With the wage bill kept within the programmed envelope, the primary fiscal balance recorded a surplus equivalent to 3 percent of GDP; and net bank financing to the government fell by 1.7 percent of GDP.

4. **The money supply grew strongly in 2012 driven by revenue from the economic citizenship program and the regular paying of civil service salaries. Inflationary risk nevertheless remained** low because only a fraction of the increased money supply was injected

into the economy while a substantial part of the revenue from the economic citizenship program served to increase deposits at the central bank. Banks and other financial institutions saw their level of activity strengthen significantly in 2012 because civil service salaries were being regularly paid and that had a direct impact on deposits and an indirect impact on lending, especially to individuals. At the same time, corporate lending increased owing to the resumption of government investment, particularly road infrastructure. As a result, most financial institutions saw increased profits in 2012.

5. **The current account deficit also narrowed significantly in 2012.** The current account balance posted a deficit of 7.3 percent of GDP (down from 9.4 percent in 2011), reflecting sharply higher government nontax revenue (from the economic citizenship program) which more than compensated for the increasing deficit in the goods and services balance attributable largely to the increase in imports. Foreign-exchange reserves increased to the equivalent of at least seven months' worth of goods and services imports by the end of 2012.

6. **In December 2012, the Union of the Comoros reached the completion point under the Heavily Indebted Poor Countries initiative (HIPC) and obtained substantial debt relief under the HIPC initiative and the Multilateral Debt Relief Initiative (MDRI).** This reduced the country's external debt by 67.7 percent so that, by the end of December 2012, it represented only the equivalent of 65.8 percent of goods and services exports at net present value (down from 203.9 percent in 2011). Paris Club creditors granted comparable debt relief in February 2013.

B. Program Implementation

7. **Implementation of the ECF-supported program remained satisfactory** (see Tables 1 and 2). All performance criteria and indicative quantitative targets for end-December were met. Revenue exceeded the originally programmed target by the equivalent of 5.3 percent of GDP (19.3 percent versus 14 percent) as a result of satisfactory collection of domestic taxes and continuing high levels of nontax revenue. Personnel expenditure remained within the established target, but current primary expenditure was higher than planned owing to urgent purchases of goods and services for victims of flooding caused by heavy rainfall in April and the rehabilitation of roadworks and sports infrastructure, including longstanding subregional commitments. The primary domestic budget posted a surplus equivalent to 3 percent of GDP whereas the original program envisaged a deficit of 1.2 percent; and the performance criterion for net bank credit to the government was achieved with a significant margin despite the fact that budgetary support fell short of the programmed objective by roughly 2.3 percent of GDP. The solid performance of the fiscal program continued in the first quarter of 2013. From a structural perspective, four of the five end-December and end-March benchmarks were met. In particular, the government issued a call for expressions of interest from potential strategic partners for Comores Télécom, adopted terms of reference for a study of the medium-term budget framework and expenditure frameworks, appointed the board of directors of the new General Tax Administration, and

established a strategy to reform the SCH with the assistance of development partners. Implementation of new organizational structures for the civil service, originally planned for January 2013, has been completed at the national level, but there have been some delays at the level of island administrations (see paragraph 21 (b)).

III. ECONOMIC AND FINANCIAL POLICIES FOR 2013

C. Macroeconomic Framework

8. **Economic activity is expected to remain steady in 2013, with real GDP growth of approximately 3.5 percent.** Growth will continue to be driven primarily by the subsistence agriculture and cash crop sectors, provided that rainfall is as abundant as it was in 2012, and by the rebound in the construction and public works sectors which are expected to benefit from continued external aid, remittances from expatriate Comorians, the reduction in interest payments due to the HIPC initiative, and the resumption of foreign direct investment. Tourism and fishing are also expected to make a significant contribution to economic activity in 2013. With world oil and food prices expected to ease, the annual average rate of inflation is expected to decline to about 4 percent.

D. Fiscal Policy

9. **By June 2013, the government will approve a supplementary budget to allocate the savings from debt relief under the HIPC and MDRI initiatives.** Given the time frames for negotiating with creditors after the completion point (see paragraph 14), only the amounts of debt relief already obtained will be taken into account in the supplementary budget. The revised budget will maintain the key fiscal objectives under the ECF-supported program while at the same time calling for increased social spending in the high-priority areas identified in the Comoros' poverty reduction strategy. The budget has four targets: (i) tax revenue equivalent to 11.8 percent of GDP (up from 11.3 percent in 2011–12), by stepping up efforts to make tax and customs administration more effective (see paragraph 21); (ii) a wage bill equivalent to 7.6 percent of GDP (down from 8 percent in 2012), the savings to be achieved by reforming the civil service and gradually implementing the new organizational structures for the public administration; (iii) a reduction in domestic arrears to 0.9 percent of GDP; and (iv) net credit to the government of 1.2 percent of GDP. Moreover, the revised budget calls for nontax revenues to be no more than 3 percent of GDP (down from 7.6 percent in 2012), since the economic citizenship program will expire at the end of September 2013, and fiscal support equivalent to 1.3 percent of GDP following the disbursement of funds by the World Bank and the African Development Bank (AfDB). Owing to the uncertainty of outside support and nontax revenues, the government intends to use the savings resulting from the lowering of debt service payments prudently by increasing social expenditure up to the equivalent of 0.7 percent of GDP and holding the remainder (about 1.3 percent of GDP) for now at the central bank. Should there be any additional external resources—such as under the economic citizenship program—the

government will consult the Fund regarding the appropriate use of those resources. Priority will be given to social expenditures and the clearing of domestic arrears.

10. **With the support of development partners, the authorities have identified the high-priority areas where increased social spending is needed, in line with the objectives of Comoros' poverty reduction strategy,** namely health, education, social protection, water supply, energy, and infrastructure. In the hospital sector, the authorities have increased transfers to hospitals to improve the services offered to certain categories of patients, particularly expectant mothers. In the energy sector, the water and electric power utility MA-MWE has received emergency financial support to deal with its ongoing cash problems and avoid prolonged power disruptions. In addition, at the island level, the representatives of various sectors are engaged in discussions with development partners to identify specific measures to be taken to support primary health care and primary and secondary education, particularly through better access to vaccines, medicines, and teaching materials. We will ask the World Bank to make an expert team available to support us in these endeavors.

E. Money, Credit, and the Financial System

11. **The BCC will continue to oversee bank liquidity to support sound, noninflationary economic activity.** Reserve requirements remain the primary monetary policy tool, and membership of the Franc Zone provides an anchor to keep inflation rates low. The BCC will continue to implement recommendations from the 2010 assessment on safeguards, particularly preparations for setting up an internal audit office.

12. **The BCC intends to pursue reforms to strengthen bank supervision.** The draft banking law is expected to be approved during the parliament's first session in 2013. Technical assistance from the Fund in May and November 2012 and comments from other national and international institutions, including the Banque de France, have provided support in preparing it. To consolidate the banking system, the government is privatizing the Comoros Development Bank (BDC). Delays in the privatization process have come about because of a change in how the acquisition is to be organized. Furthermore, a feasibility study is now under way on restructuring the National Postal and Financial Services Company (SNPSF), which inter alia includes the separation of the banking and postal functions and the sale of a substantial stake to a new foreign partner.

F. Balance of Payments and External Debt

13. **The external current account deficit, including grants and private and official transfers, is expected to stabilize at the equivalent of 10 percent of GDP in 2013.** According to projections, foreign-exchange reserves will remain equivalent to seven months' worth of goods and services in 2013, taking into account the substantial growth of those reserves in 2012.

14. **The Union of the Comoros has seen a substantial reduction of its external debt since reaching the completion point for the HIPC and MDRI initiatives and agreement with Paris Club creditors on rescheduling on comparable terms.** The government intends to undertake negotiations with non-Paris Club creditors to follow through on their promised debt relief similar to the debt reductions obtained under the HIPC initiative.

15. **To preserve the renewed sustainability of the country's external debt, the government will continue to pursue a prudent budget policy and develop a new debt strategy consistent with the country's development objectives.** In this context, the government will ensure that its financing needs are largely covered by grants, and will contract debt only on concessional terms. As in the past, any external debt contracted or guaranteed by the government will be subject to the prior approval of the Minister of Finance, and the island administrations will not be authorized to a contract or guarantee external loans. Furthermore, the government will not contract or guarantee short-term external or nonconcessional debt as defined in the Technical Memorandum of Understanding (TMU). The authorities will continue to consult Fund staff before contracting or guaranteeing any concessional external debt in excess of US\$20 million.

16. **Notwithstanding the above, the government signed a loan with the Export-Import Bank of India in February 2013 in the amount of US\$41.6 million to build a new electric power station.** When the loan agreement was signed, the grant component was only 48 percent, below the 50 percent threshold required under the program (one of the performance criteria). When the government asked Fund staff for their technical opinion in November 2012, the grant component was larger than 50 percent. It was the Fund's change in the discount rate in January 2013 that reduced the grant component below the 50 percent threshold when the loan agreement was finally signed. We expect that the loan agreement will become effective in the next few months. Because this error came about for technical reasons, and given the urgent need for financing to build the new electric power station, the government is requesting a modification of this performance criterion. In future, we will also consult Fund staff only a few days before signing new loan agreements under paragraph 15.

G. Structural Policies

17. **With support from our development partners, the government will continue its efforts to reform public enterprises,** focusing on the privatization of Comores Télécom and the restructuring of MA-MWE, the electric power utility, and SCH, the importer and distributor of petroleum products. The World Bank, the AfDB, the European Union, and the International Finance Corporation (IFC) are providing assistance.

18. **Some foreign firms have indicated preliminary interest in acquiring Comores Télécom.** Calls for tenders have been sent to these investors so that the privatization process can proceed according to the timetable drawn up by the government and the IFC. At the same time,

we are working with the World Bank on a project to provide regulatory support, finance a new cable, and strengthen the information and communication technology sector. Approval for this project, which forms part of a regional telecommunications project, is expected in the second half of 2013.

19. **In the energy sector, improving the commercial performance of MA-MWE remains a high priority**, and the government continues to work to resolve this problem with World Bank assistance. Starting in December 2013, MA-MWE will provide quarterly statements on its output of electric power and its performance in collecting charges owed to it measured against quantitative targets. We will also assess the current system of penalties and devise a new system to replace it. In response to the urgent need for additional electric power generation, the government has also concluded a contract to build a new electric power station burning heavy fuel oil, financed by a loan from the Export-Import Bank of India. We will consult our development partners to make sure that this project fits into our long-term strategy for the energy sector.

20. **The new SCH Director General has already taken significant steps to make sure the country has a regular supply of petroleum products.** However, additional reform efforts, including the setting of proper prices for petroleum products at the national level, face two serious obstacles: (i) the fuel purchase contract negotiated by the previous government, which results in prices being much higher than reference prices in other countries; and (ii) the weak financial position of MA-MWE, which is SCH's main customer. Reform of the two utilities will have to go hand in hand. The first step, from now until September 2013, will be to take stock of the arrears between the government, the SCH, MA-MWE, and Électricité d'Anjouan (EDA) (a proposed new benchmark). This will also identify the various financial flows by estimating direct and indirect subsidies and assessing cross debts, contractual claims, in addition to arrears. That will enable us to settle cross debts and implement a policy of transparency in government transfers to state enterprises. Other measures will then be instituted to make the SCH's financial and cost data available to the public and carry out a study on the mechanisms for setting fuel prices. The eventual aim is to develop a mechanism that provides for the automatic adjustment of prices at the pump, provided that the fuel supply contract allows for this and that other reforms in the sector have been implemented. Given that this study has not yet been undertaken and that the current supply contract is disadvantageous, we propose that the program benchmark on maintaining a flexible price mechanism be replaced with the new benchmark described above, which is more closely aligned with our immediate reform efforts.

21. The government is also continuing its efforts to improve efficiency in the tax and customs administrations and strengthen control of the wage bill.

- (a) The directors of the new General Tax and Property Administration (AGID) have been named, work is continuing on the electronic network that will connect the four main customs offices (a June 2013 benchmark), and the joint tax/customs investigation squad has been strengthened. The government will also continue rigorously to manage the large taxpayer rolls and make full use of ad valorem taxation of imports as part of making the management of the Port of Moroni more efficient.
- (b) To strengthen control of the wage bill in the medium term, the government will adhere strictly to the new automated personnel expenditure management system (GISE). All current public servants are included in the system. Progress has been made at the national level to implement the new civil service organizational frameworks approved by the parliament, but that work has proceeded more slowly than originally expected, partly because of technical problems and the difficulty in matching skills and positions in island administrations. Nevertheless, it is expected that these new organizational frameworks will be implemented at the island level by September 30, 2013.

22. Work is also proceeding in implementing a new strategy to improve fiscal management for the period 2014 to 2017. The new system is expected to improve the tracking of government revenue and expenditure throughout the budget cycle, and consequently the quality of budget execution. At the same time, with the assistance of technical and financial partners, we are working to institute a medium-term fiscal and expenditure framework to make budget execution easier to forecast.

H. Poverty Reduction Strategy Paper (PRSP) and Improvement of Economic and Social Statistics

23. The government has begun preparing the third annual progress report on implementation of the PRSP and expects to complete it by June 2013. It covers 2012 and part of 2013. The government is now consulting development partners and proceeding with activities laid out in the timetable established in agreement with the partners concerned.

IV. MONITORING OF PROGRAM EXECUTION AND REPHASING OF DISBURSEMENTS

24. Program monitoring will be based on quarterly targets with performance criteria established on a semiannual basis (see Tables 1 and 2). The government will transmit information required for program monitoring to the Fund in accordance with the TMU. During the program period, it will refrain from instituting or increasing restrictions on payments or transfers for current international transactions and will not introduce or modify multiple

exchange rate practices, conclude any bilateral payment agreements that are not consistent with Article VIII of the Fund's Articles of Agreement, or impose any restrictions on imports for balance of payments purposes.

25. **The sixth review of the ECF-supported program will be conducted in December 2013.** In the area of structural reforms, the review will focus primarily on measures to improve budget management and implementation of reforms of State enterprises, including (i) implementation of the civil service organizational frameworks, (ii) development of the new integrated public financial management system, (iii) establishment of the new AGID, and (iv) restructuring of Comores Télécom, MA-MWE, and the SCH.

Table 1. Comoros: Quantitative Performance Criteria, Benchmarks and Indicative Targets Under ECF Through End-September 2013 ¹
(In millions of Comorian francs, cumulative since end of previous year, unless otherwise specified)

	2012			2013				
	Sept.	Dec.		Mar.		June		Sept.
	Est.	PC	Act.	Indicative Target	Prel.	PC	Revised PC	Indicative Target
Performance criteria								
1. Ceiling on net credit to government (NCG) ²	-2,821	2,214	-3,854 met	530	2,485	1,531	1,531	2,138
2. Ceiling on the accumulation of new domestic payments arrears ³	0	0	0 met	0	0	0	0	0
3. Ceiling on new nonconcessional external debt contracted or guaranteed by the government ^{4, 5, 6}	0	0	0 met	0	0	0	41.6	41.6
4. Ceiling on new short-term external debt contracted or guaranteed by the government ^{4, 5}	0	0	0 met	0	0	0	0	0
5. Ceiling on accumulation of external debt service arrears ⁴	0	0	0 met	0	0	0	0	0
Indicative targets								
6. Floor on the domestic primary balance	6,876	-2,621	6,785 met	-1,184	-1,791	-1,610	-1,610	-2,193
7. Floor on total domestic revenues	33,683	31,847	44,137 met	7,796	7,908	16,662	16,662	26,767
8. Ceiling on expenditures by cash advances	150	150	150 met	150	150	150	150	150
9. Floor on domestically financed social spending		13,034	13,129 met	...	...	...	...	...
10. Floor on gross reduction of domestic payment arrears ³	-1,127	-1,152	-1,372 met	-529	-659	-1,058	-1,058	-1,589

¹ Definitions of targets and adjusters are provided in the Technical Memorandum of Understanding (TMU).

² HIPC assistance from the Fund was disbursed on December 20 2012, instead of Q1-2013 as assumed in 4th ECF review. Actual for Dec. 2012 excluding HIPC assistance would have been CF -1,890 million (compared to CF -3,854 million). The corresponding adjusted indicative target for March 2013 would have been CF 2,495 million (compared to CF 530 million).

³ Targets and realizations adjusted as specified in the TMU.

⁴ Excluding trade credits.

⁵ Monitored on a continuous basis.

⁶ In millions of US dollars. Only for the loan agreement with Export-Import Bank of India and destined to electricity power generation.

Table 2. Comoros: Structural Benchmarks Under the ECF Arrangement, 2012–3

Measure	Macroeconomic Justification	Date	Current status
Structural benchmarks			
Public finance management			
Implement the new organizational frameworks for the Union and islands governments	Establish the appropriate size of the civil service to ensure medium-term budget sustainability	January 2013	Not met. Reset to September 30, 2013
Adopt the terms of reference for the feasibility study for the budget framework and medium-term expenditure framework.	Increase efficiency in budget and expenditure management	December 2012	Met
Appoint the board of directors of the new General Tax Administration	Increase efficiency in tax administration	March 31, 2013	Met
Establish an electronic network between the country's four major customs offices.	Increase efficiency of customs administration and facilitate achievement of medium-term revenue and key fiscal balance targets under the program.	June 30, 2013	In progress
Prepare a strategy for reform of public financial management during 2014–17	Further increase efficiency of budget management; improve the quality of public expenditure; and enhance medium-term budget and macroeconomic viability.	June 2013	In progress
Public enterprise reform			
Issue a call for expressions of interest from potential strategic partners for Comores Télécom	Ensure reliable telecommunications services and limit budgetary pressures from subsidies	December 2012	Met
Define a framework for reform of Société Comorienne des Hydrocarbures (SCH)	Ensure a reliable supply of petroleum products and limit budgetary pressures from subsidies	March 2013	Met
Complete a stocktaking of arrears between the state, MA-Mwe, Électricité d'Anjouan and SCH	Ensure a an efficient and effective functioning of the energy sector in support economic growth	September 2013	New

Attachment 2. Technical Memorandum of Understanding

Moroni, May 18, 2013

1. This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets, and structural benchmarks to be used to monitor implementation of the program supported by the three-year arrangement under the Extended Credit Facility (ECF). It also identifies the data to be reported for program monitoring purposes.

I. DEFINITION

2. Unless otherwise indicated below, “the government” is meant to include the government of the Union of the Comoros and the autonomous island governments. Local governments, the central bank, and any government-owned entity with independent legal status 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 PERFORMANCE CRITERIA

3. Quantitative performance criteria have been established for June 2013 and indicative targets are proposed for September 30, 2013. The following performance criteria are monitored on a continuous basis: (i) the government’s external payment arrears; (ii) the contracting or guaranteeing of new nonconcessional external debt by the government; and (iii) the contracting or guaranteeing of new short-term external debt by the government.

A. Change in Net Domestic Credit to the Government

Definitions

4. Net domestic credit to the government is defined as overall net credit extended to the government from domestic bank and nonbank sources. Net bank credit to the government reflects the net debt position of the government vis-à-vis the central bank, commercial banks, and the National Postal and Financial Services Company (SNPSF), as well as microfinance institutions. It is the difference between the government’s gross indebtedness to the banking system and its claims on the banking system. These 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, as well as net deposits at the SNPSF. Domestic nonbank credit to the government includes changes in the stock of Treasury bills placed in the domestic market, privatization receipts, and any other domestic financial debt of the government held outside the banking sector other than arrears.

5. The change in net domestic credit to the government as at the date for the performance criterion or indicative target is defined as the difference between the stock on the date indicated and the stock on December 31, 2012.

Performance criteria

6. The amount set out in Table 1 of the MEFP on net credit to government for June 30, 2013 is a ceiling and constitutes a performance criteria. The amounts set out in the above table for September 30, 2013 ceiling and constitutes an indicative target.

Reporting requirements

7. The Central Bank of the Comoros (BCC) will report the provisional data on 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 monthly on any financing from nonbank sources.

B. New Domestic Payment Arrears

Definition

8. New domestic payment arrears of the government are defined as any of the following: (i) invoice that a spending ministry has received from a supplier of goods and services, delivered and verified, and for which payment has not been made within 90 days from the date the payment order (*ordonnancement*) was cleared; (ii) in the case of specific contracts between the suppliers and the government, any invoice 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; or (iv) wages and salaries and any payments 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.

Performance criterion

9. Under the program, the government will not accumulate any new domestic payment arrears. The zero limit on new domestic payment arrears for June 30, 2013 constitutes a performance criteria. The zero limit on new domestic payment arrears for September 30, 2013 constitutes an indicative target.

C. External Payment Arrears

Definition

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 paragraph 15) that has been contracted or guaranteed by the government, with the exception of external payments arrears arising from public debt being renegotiated with creditors, including Paris Club members.

Performance criterion

11. Under the program, the government will not accumulate any external payments arrears with respect to the public debt, except for payments being renegotiated with creditors, including Paris Club members. This performance criterion will be monitored on a continuous basis.

Reporting requirements

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

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

Definition

13. This performance criterion applies not only to debt as defined in Point 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. 1441-(09/91), effective December 1, 2009), 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. External debt refers to debt owed to nonresidents.

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. Debt 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 sometime 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. For program purposes, a debt is concessional if it includes a grant element of at least 50 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt⁵. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

17. For the purposes of this performance criterion, the government is understood to include the government (as defined in paragraph 2 above), as well as local administrations, public institutions of an industrial and commercial nature (EPICs), public administrative institutions (EPAs), 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).

Performance criterion

18. The government as defined in paragraph 19 will not contract or guarantee nonconcessional or short-term external debt as defined above. This performance criterion will be monitored on a continuous basis. It does 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 this performance criterion on short-term debt.

Reporting requirements

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

¹The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

III. INDICATIVE TARGETS

E. Domestic Primary Balance

Definition

20. The consolidated domestic primary fiscal balance (payment 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.

Indicative targets

21. The targets for the floor for the domestic primary fiscal balance, cumulative from the beginning of the 2013 calendar year are set at CF -1,610 million for June 30, 2013; and CF -2,193 million for September 30, 2013.

Reporting requirements

22. During the program period, data on the domestic primary fiscal balance (payment order basis) will be forwarded to Fund staff monthly by the Ministry of Finance of the Union within 45 days following the end of each month.

F. Government Revenue

Definition

23. Government revenue is defined as reported in the consolidated government financial operations table (TOFE), and includes all tax and nontax receipts and excludes external grants.

Indicative targets

24. The floors for government revenue, cumulative from the beginning of calendar year 2013, are set at CF 16,662 million for June 30, 2013; and CF 26,767 million for September 30, 2013. These amounts are considered indicative targets under the program for the respective dates indicated.

Reporting requirements

25. The Ministry of Finance will report preliminary revenue data to Fund staff monthly, with a lag of no more than 45 days, 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.

G. Expenditures Made by Cash Advance

Definition

26. Expenditures made by cash advance include all expenditures paid without prior commitment order.

Indicative targets

27. Responsibility for complying with the ceiling on expenditures made other than through normal procedures rests with both the Union government and the autonomous island governments. This ceiling, cumulative from the beginning of calendar year 2013 is set at CF 150 million for June 30, 2013 and September 30, 2013.

Reporting requirements

28. Data on expenditures made other than through normal procedures will be forwarded to Fund staff monthly by the Ministry of Finance of the Union, within 30 days following the end of each month.

H. Domestically Financed Social Spending

Definition

29. Total domestically financed social spending (current and capital) is calculated, for each category of current expenditure (wages, goods and services, transfers and subsidies) and capital expenditure as: (1) expenditure executed by the Ministry of Health (under "health"), and (2) expenditure executed by the Ministry of Education (under "education"). Domestically financed social spending is classified according to the above categories (health and education) based on a classification of each project presented in the 2013 budget as health or education. Total domestically financed current and capital social spending includes social spending financed by domestic resources, including revenues, domestic financing, and general external budget support, and excludes all social spending financed by project-specific foreign grants and/or loans.

Indicative targets

30. The floor for total domestically financed social spending from the beginning of calendar year 2013 is set as CF 14,908 million for December 31, 2013. This amount is considered an indicative target under the program.

Reporting deadline

31. During the program period, data on domestically financed social spending will be forwarded to Fund staff by the Ministry of Finance within 45 days following the end of the period.

I. Reduction of Gross Domestic Payment Arrears

Definition

32. Domestic payment arrears of the government are defined as any of the following: (i) any invoice that a spending ministry has received from a supplier of goods and services, delivered and verified, and for which payment has not been made within 90 days from the date the payment order (*ordonnancement*) was cleared; (ii) in the case of specific contracts between the suppliers and the government, any invoice 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; or (iv) wages and salaries and any payments 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.

Indicative targets

33. The floors for reduction of gross domestic payment arrears, cumulative from the beginning of calendar year 2013, are set at CF -1,058 million for June 30, 2013; and CF -1,589 million for September 30, 2013. These amounts are considered indicative targets under the program.

Adjuster

34. If the amount of external budget support is below the programmed level, the floor for quarterly reduction of gross domestic payment arrears as reported in the government financial operations table (TOFE) will be adjusted downward by the full amount of the shortfall. If the amount of external budget support is above the programmed level, the floor for quarterly reduction of gross domestic payment arrears will be adjusted upward by the full amount of the surplus. Cumulative from January 1 of the year concerned, the program assumes external (including IMF) budget support of CF 3,388 million by June 30, 2013; and CF 3,388 million for September 30, 2013.

Reporting requirements

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

IV. ADDITIONAL INFORMATION FOR PROGRAM MONITORING

36. 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 45 days after the date to which they pertain.

Monthly:

The monetary survey and the monthly balance sheets of the BCC and commercial banks;
Classification of commercial bank loans by economic sector; Interest rates;

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

External public debt operations (debt contracted and guaranteed by the government, 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 agricultural products (vanilla, cloves, ylang-ylang).

Annually:

National accounts data;

Balance of payments data.

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



UNION OF THE COMOROS

May 20, 2013

FIFTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF A PERFORMANCE CRITERION— INFORMATIONAL ANNEX

Prepared By

The African Department (In consultation with other
Departments)

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RELATIONS WITH THE FUND

(As of March 31, 2013)

Membership Status: Joined September 21, 1976

Article VIII

General Resources Account:	SDR Millions	% Quota
Quota	8.90	100.00
Fund holdings of currency	8.33	93.59
Reserve position in Fund	0.58	6.50

SDR Department:	SDR Millions	% Allocation
Net cumulative allocation	8.50	100.00
Holdings	11.35	133.43

Outstanding Purchases and Loans:	SDR Millions	% Allocation
ECF Arrangements	9.71	109.15

Latest Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved</u> (SDR millions)	<u>Amount Drawn</u> (SDR millions)
ECF	Sep. 21, 2009	Dec. 31, 2013	13.57	10.46
SAF	Jun. 21, 1991	Jun. 20, 1994	3.15	2.25

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

	<u>Forthcoming</u>				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Principal	0.00	0.00	0.10	1.31	1.62
Charges/interest	0.00	0.00	0.02	0.02	0.02
Total	<u>0.00</u>	<u>0.00</u>	<u>0.13</u>	<u>1.34</u>	<u>1.64</u>

Implementation of HIPC Initiative:	Enhanced framework
I. Commitment of HIPC assistance	
Decision point date	July 2010
Assistance committed	
by all creditors (US\$ Million in NPV terms)	144.80
Of which: IMF assistance (US\$ million)	4.27
(SDR equivalent in millions)	2.89
Completion point date	December 2012
II. Total disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	2.89
Interim assistance	--
Completion point balance	2.89
Additional disbursement of interest income	0.07
Total disbursements	2.97

Summary of Safeguards Assessment. An update of the August 2007 safeguards assessment of the Banque Centrale des Comores (BCC) was completed in April 2010. The safeguards assessment found that despite capacity constraints the central bank has taken steps to strengthen its safeguards framework; it notably recommends the routine timely publication of the full set of the Central Bank's financial statements, and the review by the financial controller of data submitted to the Fund for each program test date, starting in December 2009. The BCC has published its audited financial statements for 2010 and 2011. The audit of the 2012 financial statements is in progress,

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

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.

Article IV Consultation: The last Article IV consultation was concluded on December 17, 2011 (Country Report No. 13/32). Directors commended the Comorian authorities for their strong implementation of reforms under the ECF arrangement and for reaching the completion point under the enhanced HIPC Initiative. Welcoming the improved fiscal performance, they encouraged the authorities to continue strengthening mobilization and to keep spending in line with public resources mobilization capacity. They underscored the need for budget discipline and reliance on grants and highly concessional loans, as Comoros will remain at high risk of debt distress owing notably to a narrow

export base. Directors commended the authorities for rekindling their structural reforms agenda to invigorate growth, accelerate poverty reduction, and reduce vulnerability to external shocks.

Recent Technical Assistance

Department	Dates	Subject
MFD	Apr. 2006	Multi-topic TA assessment
FAD	Aug. 2005	Tax policy
FAD	Jan–Feb. 2006	Tax administration
STA	Sep. 2005	Government finance statistics
FAD	Feb. 2006	Tax policy
STA	Dec. 2008	Monetary and financial statistics
FAD	Mar. 2009	Public expenditure management
MCM	Sept. 2009	Banking supervision
FAD	Dec. 2009	Tax and customs administration
MCM	May–June 2010	Banking supervision and internal audit
MCM	Aug. 2010	Banking supervision and internal control
FAD	Mar. 2011	Modernization of fiscal administration
FAD	Oct. 2011	Public expenditure management
STA	Mar–Apr. 2012	General Data Dissemination System
FAD, AFRITAC-SOUTH	June 2012	Budget execution, public expenditure management
FAD	Oct. 2012	Revenue administration
MCM	Nov. 2012	Banking supervision
FAD, AFRITAC-SOUTH	Jan. 2013	Budget execution, public expenditure management
FAD, AFRITAC-SOUTH	Jan. 2013	Customs administration

Resident Representative: A resident representative post was (re)established in May 2012. The current resident representative is Mr. Rene Fievet. In the 2000s, the IMF's field operations in the country were managed by the resident office in Madagascar.

JOINT WORLD BANK-IMF WORK PROGRAM, 2013

TITLE	Products	Provisional timing of mission	Expected delivery date
A. Mutual information on relevant work programs			
Bank work program in next 12 months	1. Budget Support Operation	Appraisal 9/13	Nov. 2013
	2. Country Assistance Strategy		Sep. 2013
	3. Regional Telecom Project		May 2013
	4. Additional Funding for ABGE project – Financial Management/Public Sector Management		July 2013
	5. Additional Funding for FADC project – Social Safety Nets		March 2013
	6. Policy Notes Series		Oct. 2013
IMF work program in next 12 months	1. Sixth ECF Review	September 2013	Dec. 2013 : Board meeting
B. Requests for work program inputs			

Comoros: Recent World Bank Operations

Project	Type of Funding	Amount Approved (in mln. of US\$)	Date Approved	Description
Emergency Response Project (additional financing)	IDA Grant	3.0	3/28/2013	Grant to increase access to short-term employment and basic and social services in areas affected by the crises.
Development Policy grant 2	IDA Grant	5.0	11/29/2012	Budgetary financing to support the implementation of core reforms in Comoros' Poverty Reduction and Growth Strategy.
Economic Governance TA Project	IDA Grant	1.8	1/31/2011	Grant to increase the efficiency, accountability and transparency of public financial management and to improve the management of civil service human resources and wages.
Fund request to Bank	Update on Bank's assistance in the area of PFM reforms and PRSP Implementation and energy sector reforms			Continuous
Bank request to Fund	Sharing macro-framework Updates			Continuous

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP

A. Bank Group's Support in Comoros

1. The African Development Bank Group (AfDB) started its operations in Comoros in 1977 and has since then approved seventeen (17) operations and one (1) economic and sector work (ESW). Cumulative Bank Group commitments net of cancellation amounted to UA 60.88 million as of March 2013. These operations targeted the public sector and were mainly financed from ADF resources (84.1 percent). One (1) port infrastructure project was financed through the ADB window for a net UA 9.67 million representing 15.9 percent of total net commitments. In addition, the AfDB approved three (3) emergency operations to assist in mitigating the adverse impact of the food crisis in 2008 (UA 1.5 million) and support victims of floods in 2009 and most recently in 2012 (UA 1.28 million). In 2009, Comoros was among the first Bank's Regional Member Countries (RMCs) to benefit from a UA 2.5 million support from the Fragile States Facility (FSF) targeted at capacity building, namely for PRSP finalization, training of civil servants, revision of the fiscal code, fiscal reorganization, preparation of the Public Finances Management (PFM) strategy and action plan and capacity building to the Planning Commission (CGP) and to the Water and Sanitation Department. A UA 0.6 million additional grant was also allocated to the Institutional Capacity Strengthening Project (ICBP) in November 2010. Overall, AfDB operations in Comoros have been mainly directed toward supporting economic-related infrastructure, support to public finances and improvement of rural livelihoods. They have primarily concerned transport (39 percent), multi-sector (28 percent), water and sanitation (16 percent), agriculture (11 percent) and education (6 percent).

B. Strategic Orientation

2. The Bank Group concretely re-engaged in Comoros in 2010 following the resolution of the Anjouan crisis and the lifting of sanctions in February 2009 after clearance of its arrears with the Bank. A two-year Interim Country Strategy Paper (I-CSP) 2009-2010 focusing on economic and financial governance and water and sanitation was approved in April 2009. In December 2011, the Board of the AfDB approved a new Country Strategy Paper (CSP) for 2011-2015 based on a single pillar focusing on the energy sector in support of economic diversification. The new CSP draws on the Growth and Poverty Reduction Strategy Paper for 2010-2014 and spans over two ADF cycles - ADF 12 and ADF 13. Under ADF 12, the indicative country allocation will amount to UA 15.6 million, including UA 10 million from the Fragile States Facility (FSF). These resources will primarily aim to finance (i) an energy sector project (UA 13.6 million) and (ii) a budget support operation (UA 2 million) whose main objective will be to leverage the level of available domestic resources and assist the country in reaching HIPC Completion Point by end 2012. It will also provide Comoros with additional resources to support economic and social development and manage transition during the post-HIPC phase.

3. As of March 31, 2013, the Bank's ongoing portfolio in Comoros funded under ADF 12 resources amounts to UA 18.5 million comprising three operations: (i) the *Institutional Capacities Strengthening Project (ICSP)* whose objective is to strengthen national capacities in PFM, debt management and macroeconomic statistics and (ii) the Drinking Water and Sanitation Project (DWSP) and (iii) the *Energy Sector and Financial and Economic Governance Support Project*. A comprehensive Energy Sector Support Project will be implemented during the second semester of 2013 with co-financing from the World Bank and Qatar. A Country Portfolio Performance Review (CPPR) will be conducted in mid-2013.

C. Non Lending Activities

4. Along with other developing partners, the AfDB aims to provide Comoros's authorities with policy advice and decision tools on key strategic directions with the objective of leveraging and sustaining economic growth over the medium-long term. In this respect, the first phase of a study on the sources of growth in Comoros was completed in December 2010 and provided a series of preliminary key recommendations on ways of boosting growth and improving the economic and business climate. The new CSP 2011-2015 includes a series of economic and sector works (ESW) covering strategic themes such as inclusive growth, competitiveness, trades and employment as well as private sector and value chains analysis in key sectors such as fisheries, agribusiness, and tourism.

D. Summary of AfDB Current Lending Portfolio

Project	Sector	Effectiveness	Closing Date	Amount	
				Millions of Units of Account	Millions of U.S. Dollars
Institutional Capacities Support Project	Multisector	11/19/2009	12/31/2013	5.86	9.08
Drinking Water and Sanitation Project	Public Utilities	02/12/2010	12/31/2013	10.64	16.48
Energy Sector and Economic and Financial Governance Support Project	Multisector	01/23/2013	06/30/2014	2.00	3.10
Total				18.50	28.66

Source: AfDB, 2013

E. IMF-African Development Bank Collaboration

5. Collaboration between the IMF and Africa Development Bank teams has been largely through exchanges, sharing of information and joint missions. More opportunities for collaboration will be explored.

STATISTICAL ISSUES

Comoros—Statistical Issues Appendix

As of April 8, 2013

I. Assessment of Data Adequacy for Surveillance

General: Data provision has serious shortcomings that significantly hamper surveillance. The statistical database has deficiencies in all sectors largely due to inadequate staffing and funding, as well as lack of integration of island-based data. Some progress was made with collecting income-distribution statistics and social welfare indicators when the Interim Poverty Reduction Strategy Paper (I-PRSP) was being prepared in 2003–04. Since then, coverage has remained limited, hampering the monitoring of progress towards the Millennium Development Goals (MDGs).

National accounts. Shortcomings in national accounts compilation undermine accuracy and reliability of the data and impart a high degree of uncertainty to economic analysis. The absence of basic source data requires estimates of GDP to be prepared with outdated benchmarks and rely on 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; unfortunately, these surveys have neither been fully processed nor updated. A July 2006 AFR mission helped the authorities improve GDP estimates for 2001–05. The African Development Bank assigned an international Expert from May 2011 to January 2012, who helped the National Statistic Institute (NSI) with the compilation of a new base year and implementation of new compilation techniques. The authorities plan to release the new series in September 2013 after an STA mission, planned for June 2013, will have assessed the reliability of the data.

Consumer prices. The accuracy and reliability of the consumer price index (CPI) represents another key source of uncertainty. The base year is 1999 and expenditure weights are based on a household budget survey from 1995. Most price data are collected only for the country's capital. CPI compilation is largely conducted by one person. The African Development Bank assigned an international Expert from May 2011 to January 2012, who helped the NSI to design a new consumer price index (CPI). Baskets of products, expenditure weights, collection locations as well as calculation techniques were revised. An IT tool was implemented and the responsible official was trained in managing the whole compilation process. However, the new CPI could not be disseminated due to difficulties encountered in the collection of price data for the base year.

Government finance statistics. In August/September 2005 an STA 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. 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

<p>spending components, complicating fiscal analysis.</p>	
<p>Monetary and financial statistics. The Central Bank of Comoros (BCC) produces adequate monetary statistics on its own accounts, for the commercial banks, the development bank, the deposits collected by the Société nationale des postes et des services financiers (chèques postaux and saving passbooks), and for two microfinance networks. The 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, handicapping surveillance. In June 2009 the BCC started reporting monetary and financial statistics to the IMF using Standardized Report Forms (SRFs). The current presentation and content of monetary statistics accords largely with the methodology in the IMF's <i>Monetary and Financial Statistics Manual 2000</i>.</p>	
<p>External sector statistics. The BCC compiles balance of payments statistics along the lines of the methods recommended in IMF's <i>Balance of Payments Manual, 5th edition</i>. Despite technical assistance and some improvements over the past few years, shortcomings in coverage and compilation continue to affect accuracy and reliability and impart uncertainty to economic analysis. A single BCC economist is responsible for compiling balance of payments statistics. Improvements are needed in coverage and data validation, particularly for trade, nonregistered trade, services, and foreign direct investment.</p>	
<p>II. Data Standards and Quality</p>	
<p>Comoros joined the General Data Dissemination System (GDDS) on February 13, 2013.</p>	<p>No data ROSC is available.</p>
<p>III. Reporting to STA</p>	
<p>Comoros does not report government finance statistics to STA for publication in the <i>International Financial Statistics (IFS)</i> or in the <i>Government Finance Statistics Yearbook</i>, nor does it report balance of payments statistics in the <i>IFS</i>. Among real sector statistics, only GDP is reported for publication in the <i>IFS</i>.</p>	

**Table of Common Indicators Required for Surveillance
As of April 8, 2013**

Indicators	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	November 2012	January 2013	M	M	M
Reserve/Base Money	February 2013	March 2013	M	Q	Q
Broad Money	February 2013	March 2013	M	Q	Q
Central Bank Balance Sheet	February 2013	March 2013	M	Q	Q
Consolidated Balance Sheet of the Banking System	February 2013	March 2013			
Interest Rates ²	February 2013	March 2013	C	C	M
Consumer Price Index	December 2012	February 2013	M	I	I
Revenue, Expenditure, Balance and Composition of Financing ³ — General Government ⁴ — Union government and three island governments	September 2012	December 2012	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	December 2011	March 2012	A	I	I
External Current Account Balance	2011	March 2012	A	I	I
Exports and Imports of Goods and Services	June 2011	March 2012	A	I	I
GDP/GNP	2011	March 2012	A	I	I
Gross External Debt	December 2011	March 2012	A	I	I
International Investment Position ⁶	NA	NA			

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

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).



Press Release No. 13/203
FOR IMMEDIATE RELEASE
June 7, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under ECF Arrangement for Comoros, and Approves US\$2.4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) on June 6, 2013 completed the fifth review of the economic performance of the Union of the Comoros under a program supported by the Extended Credit Facility (ECF) arrangement. The Board's decision enables the disbursement of an amount equivalent to SDR 1.5575 million (about US\$2.4 million), bringing the total disbursements under the arrangement to an amount equivalent to SDR12.015 million (about US\$18.3 million). The Executive Board's decision was taken on a lapse of time basis.¹ In completing the review, the Board also approved a modification to the performance criterion related to the contracting of nonconcessional debt under the arrangement.

The current arrangement under the ECF was approved in September 2009 (see [Press Release No. 09/315](#)). At the conclusion of the fourth review in December 2012 the Executive Board of the IMF also agreed that Comoros had reached the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative (see [Press Release No. 12/492](#)).

Economic growth strengthened to 3 percent in 2012 and end-year inflation fell to 1 percent following a marked easing in import prices. Official grants and remittance receipts were strong, and international reserve holdings reached the equivalent of 7 months of imports. Further progress was made in fiscal consolidation, due to stronger revenue mobilization and improved control over spending—particularly the wage bill—while increasing spending on improving transportation infrastructure and key social programs. As a result the primary fiscal balance posted a surplus of 3 percent of GDP.

Program performance remained satisfactory through end-March 2013. All end-December 2012 quantitative performance criteria and indicative targets were met, with wide margins in some cases. Four out of five structural benchmarks through end-March 2013 were also met. In particular, the government issued a call for expressions of interest from potential strategic partners for the state-owned telecommunications company (Comores Telecom); adopted

¹ The Executive Board takes decision under its lapse of time procedures when it is agreed by the Board that a proposal can be considered without convening formal discussions.

terms of reference for a study of the medium-term budget and expenditure frameworks; appointed the board of directors of the new general tax administration; and established a strategy to reform the oil importing company (SCH) with the assistance of development partners. The implementation of new civil service organizational frameworks has been delayed. The Executive Board also approved a change in the performance criterion on the contraction of new non-concessional debt make room for an investment loan in the electricity sector.

The ECF-supported program for 2013 builds on the government's strategy to enhance growth while addressing social development priorities. The authorities' strategy to use resources raised from debt service savings arising from broad debt relief under the HIPC Initiative to raise social spending should facilitate achieving these goals. Efforts will be made to further enhance the efficiency of tax and customs administrations and to better control recurrent expenditures. Reforms to strengthen the financial sector and improve banking supervision will continue. Restructuring the energy sector will be key to supporting growth and it is important that all stakeholders are involved in the design and implementation of this process.