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Union of the Comoros: Staff Report for the 2012 Article IV Consultation, Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Financing Assurances Review—Staff Report; Staff Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Union of the Comoros.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2012 Article IV consultation with Comoros and Staff Report for the 2012 Article IV Consultation, Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Financing Assurances Review, the have following documents been released and are included in this package:

- The staff report for the combined 2012 Article IV consultation, fourth review under the three-year arrangement under the Extended Credit Facility, and financing assurances review, prepared by a staff team of the IMF, following discussions that ended on October 6, 2012, 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 November 30, 2012. 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.
- An Informational Annex of November 30, 2012
- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its December 17, 2012, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- A statement by the Executive Director for Comoros.

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

HIPC Initiative Paper
Joint Staff Advisory Note of the Poverty Reduction Strategy Paper Progress Report
Poverty Reduction Strategy Paper
Enhanced Initiative for Heavily Indebted Poor Countries–Completion Point Document and Multilateral Debt Relief Initiative
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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INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

November 30, 2012

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND FINANCING ASSURANCES REVIEW

KEY ISSUES

Background: A three-year Extended Credit Facility (ECF) arrangement was approved in September 2009 for the Union of the Comoros, for the equivalent of SDR 13.57 million (152.5 percent of quota). The third review was completed on June 15, 2012. Comoros, a member of the Franc Zone, has accepted the obligations under Article VIII and maintains an exchange system free of restrictions on payments and transfers for current international transactions.

Context: In a more enabling political context, Comoros' macroeconomic performance continues to improve. Economic activity is trending up; the external position has strengthened; and significant gains in fiscal consolidation have been made thanks to unexpectedly strong revenue collection, including non-tax receipts under the economic citizenship program, and to enhanced expenditure control.

Medium-term policy framework: The mission: (i) reached understandings with the authorities on medium-term policies to consolidate recent gains in macroeconomic stability and to secure further improvements in public utilities management, permitting Board consideration of the 4th review under the ECF arrangement; (ii) assessed broadly satisfactory implementation of the HIPC completion triggers, opening the way to full HIPC/MDRI debt relief and improved debt sustainability prospects.

Approved By
Roger Nord and Peter Allum

The staff team comprised Mr. Matungulu (head) and Messrs. Crispolti, Fievet, Reinke, and Touna Mama (all AFR). The discussions were held in Moroni during September 22–October 6, 2012. The mission met H.E. 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, civil society, and the donor community.

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EXECUTIVE SUMMARY

- **In the last 18 months, the Comorian authorities have made steady progress in fiscal consolidation, reinvigorated their structural reform agenda, and gathered strong public support for sound macroeconomic policies.** This followed a period where, despite positive political developments—including bold democracy-enhancing constitutional reforms and peaceful elections followed by a smooth transition of power—the focus on economic reform had weakened. The strengthening of economic policies has greatly bolstered donor support.

- **Macroeconomic developments have been largely positive, mostly thanks to improved policies.** Despite continued weaknesses in the global economy, growth has rebounded modestly and the medium-term prospects are largely favorable. However, the authorities concur that continued growth and sustainable poverty alleviation will require improvements in Comoros' external competitiveness, dependent on structural reforms to improve the efficiency of state-owned public utilities and the civil service. Following initial political opposition, the reform agenda in these areas is now progressing.

- **Performance under the ECF-supported program through end-June 2012 was satisfactory.** All quantitative performance criteria and indicative targets were met through end-June, and preliminary data suggest that all end-September indicative targets were also observed. Five out of six structural benchmarks for June and September were met, and one benchmark partly observed.

- **External competitiveness improved in the last year, underpinned by the recent depreciation of the euro vis-à-vis the US dollar.** As a member of the Franc Zone, Comoros has limited policy control over the nominal exchange rate; but continued fiscal discipline and steadfast implementation of structural reforms under the ECF would help to maintain the exchange rate in line with fundamentals over the medium term.

- **In the medium term, the government intends to seek further gains in fiscal consolidation and to accelerate reform of the public enterprises and civil service.** Efforts in raising domestic tax revenue are to be complemented by enhanced spending controls—especially on civil sector personnel outlays. The resulting higher fiscal space would permit increased domestically financed investment to support stronger growth and accelerated gains in poverty reduction. Comores Telecom is on track to be privatized in 2013, in parallel with the introduction of initiatives to overhaul management of the water and electricity utility as well as the fuel import company consistent with reform strategies agreed with development partners and adopted in 2012.

- **The authorities have observed all but one HIPC Initiative completion point triggers** and have requested a waiver for the nonobservance of the latter. Staff supports this request.

- **Staff recommends completion of the fourth review under the ECF arrangement.**

BACKGROUND: TURNED-AROUND PROGRAM PERFORMANCE IN A MORE ENABLING POLITICAL CONTEXT

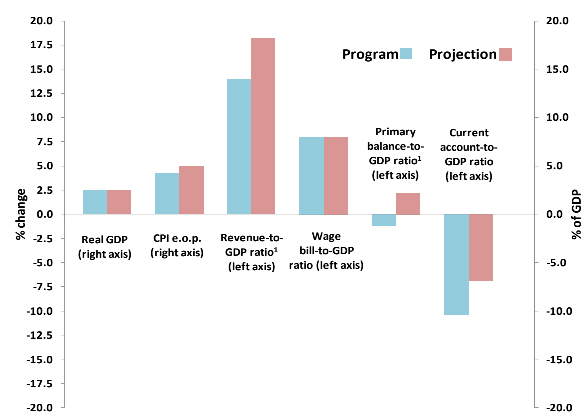
1. **In September 2009, the IMF Board approved a three-year ECF arrangement to support Comoros' medium-term economic recovery efforts.** The reform agenda promotes strong sustained growth to achieve deeper gains in poverty alleviation and faster progress toward the MDGs. Key policies to strengthen economic competitiveness are geared to (i) achieving gains in fiscal consolidation while protecting spending for the social sectors, and restoring external viability; (ii) deepening financial intermediation; (iii) enhancing the efficiency of the public utilities; (iv) strengthening institutions and improving governance; and (v) improving the investment climate.

2. **Program performance weakened substantially in late 2010 and early 2011.** From late 2010, a sizeable public sector pay raise and lower-than-programmed domestic tax collection weighed heavily on fiscal developments, and nearly all programmed structural reform measures were delayed. As a result, Board discussion of the third and fourth reviews under the ECF arrangement, originally planned for 2011, was delayed.

3. **Performance improved sharply in late 2011 under the reform-minded cabinet that took office in mid-year.** Corrective revenue and spending measures introduced in the third quarter—including stepped-up tax arrears recovery efforts and the reversal of the prohibitive 2010 public sector wage increase—helped to steer the program back on track. The domestic primary budget deficit (excluding one-off nontax receipts) was limited at 1.4 percent of GDP; and all wage arrears accumulated in the earlier months of 2011 were cleared by end-year. In the structural area, several long-delayed reform measures were implemented; and, in June 2012, the Board completed the third ECF review and approved the extension of the program to end-2013.

4. **The last Article IV consultation held in January 2011 concluded that further efforts were required to achieve tangible progress in putting the economy on a path of strong sustained growth, particularly on structural reforms.** Despite the setback in program performance during 2011, the record of implementing these recommendations is now largely positive.

Text Figure 1: Selected Economic and Financial Indicators, 2012



Source: Comorian authorities; and IMF estimates.

[1] 2012 revenue estimate includes "economic citizenship program" receipts of about 3 percent of GDP

RECENT ECONOMIC DEVELOPMENTS

5. The political context has continued to improve and program ownership has further strengthened during 2012. The authorities in power since May 2011 have shown unwavering commitment to IMF-supported policies; and program ownership is strong not only in government, but also among trade unions, the private sector, and wider civil society. There is a broad national consensus on the need to stay the course for achieving the HIPC completion point and continuing satisfactory implementation of the ECF-supported program over the medium term.

6. Macroeconomic performance has strengthened during 2012 (Table 1 and Figure 1). Real GDP growth is now projected at 2.5 percent (2.0 percent during 2009–11), benefiting from strong agricultural exports, sustained construction activities, robust foreign aid and direct investment, and resilient remittances. Despite easing pressures on import prices, the depreciation of the euro against the dollar and the temporary impact of rain floods in April on domestic food prices have slowed the expected fall in inflation to a projected 5 percent for end-December (4.3 percent under the program). Solid exports of cloves and buoyant receipts of transfers, mainly under the *economic citizenship program* (ECP), have supported a narrowing of the external current account deficit to 6.9 percent of GDP (estimated 3.5 percent lower than programmed).[1] International reserves increased further and are expected to reach the equivalent of 7.2 months of imports of goods and services by the end of 2012 (6.7 months at end-2011). In the monetary area, persistent excess liquidity in the banking sector made the reduction in the reserve ratio ineffective as a tool for stimulating lending. As a result, a large reduction of central bank credit to government was only partially balanced by a modest expansion of bank credit to the private sector. The fiscal outturn is expected to be significantly better than anticipated thanks to buoyant receipts—particularly non-tax revenues—and continued restraint on spending, resulting in a projected domestic primary surplus of 2.2 percent of GDP, compared to a deficit of 1.1 percent under the program.

[1] Revenues under the *economic citizenship* program (ECP), a 2008 arrangement whereby the government grants citizenship (in exchange for KMF 1 million; about US$3,000) to foreigners willing to make large investments in Comoros. To prevent abuses, these receipts are channeled through the

(continued)

Banque de France to the Treasury account with Central Bank of Comoros.

PROGRAM PERFORMANCE IN 2012

7. Program performance continued to be satisfactory (MEFP, Tables 1 and 2). At end-June 2012, all quantitative performance criteria and indicative targets, as well as structural benchmarks were met. Revenues exceeded the program target by 2.7 percent of GDP, reflecting adequate tax collection and continued strong non-tax receipts under the ECP. The wage bill remained within the programmed envelop, but primary current expenditure was 0.4 percentage points of GDP higher than programmed due to emergency spending following massive flood damages in April; and the domestic primary budget recorded a surplus of 2.1 percent of GDP at end-June (a deficit of 0.2 percent under the program). The performance criterion on net bank credit to government was observed with a wide margin, despite budget support falling below target by 1.1 percent of GDP. Five out of six structural benchmarks for June and September were met (MEFP, Table 2). Specifically, the government finalized a feasibility study on the establishment of an integrated computerized public finance management system and developed a reform strategy for the electricity parastatal (MA-MWE), with the assistance of development partners. The September benchmark for the implementation of newly approved civil service personnel frameworks has been delayed to early 2013 due to technical difficulties incurred by the authorities. In particular, filling in newly budgeted positions and matching them up with existing personnel skills at both Union and island levels have taken longer than initially anticipated. The authorities are confident that stepped up technical collaboration with relevant development partners will allow the new deadline to be met.

8. Fiscal performance improved markedly in 2012 thanks to stronger revenue mobilization and continued adequate control of the wage bill. The budget was tightly managed to ensure that the ECP revenue windfall would strengthen government savings and be available for additional outlays on priority infrastructure and social programs. Revenues are expected to reach 18.2 percent of GDP (14 percent of under the program), underpinned by continued improvement in the mobilization of direct and indirect taxes and by a sharp increase in receipts under the ECP. The latter receipts are projected at 4.5 percent of GDP (including a windfall of 3.1 percent of GDP), bringing non-tax revenues to 6.4 percent of GDP (2.2 percent under the program). With the wage bill maintained within the programmed envelope, the authorities have saved six tenths of the ECP revenue windfall (1.8 percent of GDP), and allocated the reminder to (i) urgent transport infrastructure rehabilitation expenditures and increased government contributions to the malaria and HIV/AIDS program managed jointly with the World Health Organization (1 percent of GDP); and (ii) a short-term loan to the financially strained national oil importing company to help secure an adequate supply of imported petroleum products (0.2 percent of GDP). As a result, the primary fiscal balance should post a surplus of 2.2 percent of GDP (a deficit 0.9 percent excluding ECP windfall), and net credit to the government should contract by 0.8 percent of GDP as opposed to an expansion of 1 percent under the program.

9. The government has completed a program of capacity building in external debt management and continued its prudent external debt management policy. With support from the AfDB, the debt office received upgrades in IT hardware, debt management software, and related training, which are now all operational.

POLICY DISCUSSIONS AND KEY ISSUES FOR 2013

A. Macroeconomic Outlook and Risks: Safeguarding Macroeconomic Stability and Strengthening Growth after Debt Relief

10. In the period ahead, economic growth is expected to continue trending up as the fiscal and structural reforms under the ECF arrangement advance and the business climate continues to improve (Text Table 1). Real GDP growth should strengthen moderately to 3.5 percent in 2013, building on increased and more reliable availability of electricity, timely civil service wage payments, investment in infrastructure, and the start of production of a new fisheries project. In addition, economic growth should benefit from sustained construction activities, robust domestic demand financed by remittances, and increased budget support. Inflation will likely recede further as world fuel and food prices decline. The external current account deficit is expected to remain broadly stable while FDI would continue to grow slowly from its already high level. In the fiscal area, the medium-term anchor remains the domestic primary budget, which is projected to be brought into balance in 2015. This will help consolidate recent gains in fiscal sustainability and preserve the improved debt dynamics in the post-HIPC/MDRI era.

Text Table 1: Selected Economic and Financial Indicators, 2013–17

	2013	2014	2015	2016	2017
	Projections				
Real GDP, percentage change	3.5	4.0	4.0	4.0	4.0
Consumer price index (end-period percentage change)	3.6	3.2	3.4	3.2	3.1
Domestic government revenues (in percent of GDP)	14.5	14.8	15.2	15.4	15.6
Total grants (share of GDP)	34.7	9.2	9.0	9.0	9.0
Total expenditure (share of GDP)	24.9	25.0	24.8	24.8	24.7
Wage bill (in percent of GDP)	7.6	7.3	7.0	6.8	6.6
Domestic primary balance (in percent of GDP)	-0.9	-0.5	0.0	0.3	0.6
Current account balance (in percent of GDP)	-6.0	-8.6	-7.7	-7.4	-6.9

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

11. Key risks to the outlook for 2013 stem from Comoros' dependence on the global economy, particularly on remittances, aid, and FDI inflows. Price shocks on key import commodities, notably oil and food, could also depress growth and unsettle external and fiscal balances. Risks of delay to SOE reforms have receded over the past year, reflecting strengthened program ownership (see ¶28–31).

B. Fiscal Policy for 2013

12. The consolidation of public finances will continue in 2013 with the deficit of the domestic primary budget contained at 0.9 percent of GDP (1.2 percent, excluding ECP windfall, in 2011–12). To this end, the government is stepping up efforts to increase domestic revenue, including by improving further the efficiency of the tax and customs administrations (¶14, and MEFP ¶9). These efforts should increase tax revenue to 12.2 percent of GDP (11.8 percent in 2011), while ECP receipts are expected to return to their historical average of about 2 percent of GDP (4 percent in 2011–12). On expenditure, the government will intensify controls to contain current spending at 16.3 percent of GDP (¶14, and MEFP ¶9), with the wage bill representing 7.6 percent of GDP (8.0 percent in 2012). Spending and the fiscal deficits will however be ultimately higher in 2013 when the government allocates part of anticipated HIPC/MDRI debt relief (2.1 percent of GDP) to additional poverty reduction outlays under a revised budget (Text Box 1). External budgetary support is projected to reach 2 percent of GDP (1 percent under the program) as donors' interest in the country rises.

13. Should additional donor resources be forthcoming, the government will consult with staff on potential uses and prepare a supplemental budget for their allocation. Priority will be given to clearing domestic payment arrears and increasing its reserves and deposits with central bank.

Text Box 1. Budgeting Received HIPC/MDRI Debt Relief and Bilateral Assistance Beyond HIPC

HIPC, MDRI, and bilateral debt relief beyond HIPC are projected at an annual average of US$8.89 million (CF3, 142 million or 0.8 percent of GDP) during 2013–31.[1] Estimated at US$15.6 million (2.1 percent of GDP based on 2013 exchange rate), the debt service savings for 2013 would be confirmed at Paris Club discussions scheduled for early 2013, and allocated to additional poverty reduction outlays and domestic arrears reduction in a revised budget to be discussed in parliament next year. The savings for 2014–2017 are estimated at an average of 1.1 percent of GDP; they have helped reduce Comoros' projected net fiscal financing needs for the period to an annual average of 1.5 percent of GDP, compared with 2.6 percent of GDP before debt reduction.

[1] Annual debt service savings based on 2011 exchange rates, consistent with the HIPC methodology (Table A5 of the HIPC completion point document for Comoros). The amounts in local currency and in percent of GDP may differ from those obtained on the basis of projected annual average exchange rates.

14. Continued reform of public finance management will be required to achieve the government's fiscal objectives in 2013 and beyond (MEFP ¶19). In line with recommendations from past FAD TA missions, the authorities intend to enhance the efficiency of tax and customs administrations notably by: (i) starting operations of the new General Tax and Property Administration (AGID) by March 2013, (ii) establishing an electronic network between the country's four major customs offices by June 2013, and

(iii) increasing financial and human resources of the joint tax-customs investigations brigade. In addition, the government will continue to manage rigorously the large taxpayer registry, and make full use of *ad valorem* taxation of imports thanks to a more effective management of the Moroni Port. Efforts to contain expenditure are focused on gaining full control of recurrent expenditure—especially for public wages—and avoiding accumulation of new payment arrears. In this context, the authorities will continue to strictly adhere to the new automated personnel expenditure management system (GISE) and implement in January 2013 the new civil service organizational frameworks with a view to achieving a more efficient and financially viable civil service in the medium term. These frameworks set the optimal size of the civil service at 11,666 full-time positions. However, cognizant of the need to preserve the medium-term sustainability of the wage bill, the government will initially limit the number of civil servants to the 10,521 employees validated under the 2011 census (19 percent less than the 13,000 reported prior to verification). Staff and the authorities agreed that the optimal number of civil servants could be reached over the medium term, provided that the wage bill does not exceed the equivalent of 6 percent of GDP. With the assistance of the World Bank, the government is also developing an integrated public finance information management system aimed at improving the quality of budget execution, and the monitoring of revenue and expenditures in all phases of the budget cycle. The new system is expected to be operational by end-June 2013 at a cost of US$1.5 million fully covered by the AfDB.

15. Within the 2013 fiscal framework spelled out above, the government's net fiscal financing requirements are fully covered with already-identified budget support and anticipated use of IMF resources (Text Table 2). Net bank credit to government would amount to 1.4 percent, half of which representing a drawdown of government deposits with the central bank.

Text Table 2. Comoros - Strategy for filling the financing gap, 2012–13

	2012			2013		
	Billions CF	Millions USD	% of GDP	Billions CF	Millions USD	% of GDP
I. Identified financing requirements, net	4.3	11.4	1.9	6.8	17.2	2.8
II. Identified budget support	2.5	6.6	1.1	5.0	12.5	2.0
AfDB	0.6	1.5	0.3	0.6	1.5	0.2
World Bank	1.9	5.0	0.8	2.0	5.0	0.8
Gulf partners/Arab league and others	0.0	0.0	0.0	2.4	6.0	1.0
III. Financing gap (I-II)	1.8	4.9	0.8	1.9	4.7	0.8
IV. ECF Disbursements	1.8	4.9	0.8	1.9	4.7	0.8
V. Residual financing gap (III-IV)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Comorian authorities; and IMF estimates.

C. Structural and Financial Sector Reforms

16. The reform of public enterprises is advancing with the assistance of development partners (MEFP, ¶46, 47, and 48). In particular, the privatization of Comores Telecom is proceeding as scheduled. [In late 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 in 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 (Completion Point Document, [¶20]). With the support of the World Bank, the government has adopted a reform strategy for the state-owned oil importing company (SCH) aimed at improving the structure of tariffs and making petroleum products prices more flexible,[2] strengthening internal controls, and defining a medium-term investment plan (MEFP, ¶18). In the case of the electricity and water utility MA-MWE, the Bank and other partners are providing financial and technical support to put the company on a financially sustainable footing before privatization; the government is enlisting external expertise in company management.

17. Comoros's banking system is generally sound (Text Table 3). Following a year of record profits in 2011, the nonperforming loans ratio has declined during 2012 to 12.0 percent at the end of June, compared to 15.7 percent at end-2011; the level is still high by regional standards but well-provisioned. Liquidity and solvency ratios remain high. The government has two priorities for strengthening the financial sector: (i) the privatization of the Development Bank of the Comoros is well advanced and the process should be completed in 2013; (ii) the restructuring of the National Post and Financial Services Institution (SNPSF) is likely to include the separation of banking activity from the postal office and foreign direct investment in the creation of a new fully-fledged commercial bank in 2013.

Text Table 3. Bank Prudential Ratios Compliance

Indicator	Threshold	Status at end-June 2012
Capital/loans	>10 percent	met by 6 of 7 institutions
Capital/deposits	>10 percent	met by 6 or 7 institutions
Liquid assets/total liabilities	>30 percent	met by all 7 institutions
Division of risk (total commitment to single borrower)	<25 percent	met by 6 or 7 institutions

Source; Central Bank of Comoros.

18. The Central Bank of Comoros continues implementing recommendations from the 2010 safeguards report and strengthening banking supervision with IMF and *Banque de France* assistance. The BCC started on-site inspections of financial institutions in 2012, and is working towards the establishment of a credit bureau. Also, the BCC has started drafting a new banking law; and the audit of its financial statements for 2011 has been completed and the financial statements will be published by end-December 2012 (MEFP, ¶11–12).

[2] This corrective measure will strengthen compliance with the continuous benchmark on maintaining a flexible petroleum pricing arrangement (MEFP, Table 2). Greater price flexibility would help avoid fiscal liabilities. After an 8.3 percent price increase in September 2011, there have been no subsequent price changes, and losses at the state oil company required a small loan from the government (0.2 percent) in 2012.

D. Program Monitoring and Risks to IMF Resources

19. The program will be monitored on the basis of quarterly quantitative targets and structural benchmarks (MEFP Tables 1 and 2). Program performance criteria have been set for end-June 2012 and end-December 2012 for the fourth and fifth ECF reviews, respectively, at the time of Board consideration of the third ECF review. No revisions to performance criteria and indicative targets are requested; and new targets for the sixth review are being proposed for end-June 2013. The fifth and sixth ECF reviews are expected to be completed by June and December 2013, respectively.

20. In the structural area, the fifth program review will focus on reforms to further strengthen revenue mobilization and control of wage outlays, and to improve efficiency of public utilities. These include the effective operation of the General Administration of Taxes and implementation of new ministry personnel frameworks; as well as the privatization of the state-owned telecommunications company.

21. The risks to IMF resources are manageable. For the rest of the program (2012–13), debt service to the IMF would average 0.007 percent of exports of goods and services while in the medium term (2012–2023), it would average less than 1.3 percent of exports of goods and service (Table 8), within Comoros's capacity to repay the IMF.

E. Poverty Reduction Strategy Paper

22. The second annual progress report (APR), completed in October 2012, assesses moderately positive performance in implementing the Poverty Reduction Strategy Paper (PRSP) in 2011. Particularly noteworthy are achievements in maintaining macroeconomic stability, rekindling the reform of the public utilities, and securing improvements in health and human capital indicators. However, poverty remains widespread—particularly in rural areas—and local technical capacity constraints are important obstacles to effective implementation of the reform agenda. The APR also shows that there remain major challenges to implementing the PRS, including weaknesses in data collection and statistics. In addition, the growth prospects continue to be hampered by energy shortages and infrastructure bottlenecks (JSAN, ¶13–14).

HIPC INITIATIVE COMPLETION POINT AND FINANCING ASSURANCES REVIEW

23. Comoros has broadly met the conditions for reaching the HIPC Initiative completion point. With assistance from development partners, the authorities have implemented all but one of the HIPC Initiative completion point triggers (Completion Point Document), including broadly satisfactory implementation of the poverty reduction strategy in the last two years; achievement of gains in fiscal consolidation and macroeconomic stability; progress in improving public financial and debt management; and advances in restructuring the public utilities. The authorities have also developed new institutional frameworks aimed at achieving improved outcomes in procurement and governance, and in better tackling corruption. In the education and health sectors, new schools have been built and required vaccination campaigns undertaken. The authorities have requested a waiver for the nonobservance of the completion point trigger on the distribution of school books, in part due to a change in strategy on education, as recommended by relevant donors (Completion Point Document, ¶27).

24. The authorities have concluded debt restructuring agreements with their main bilateral and multilateral creditors, consistent with the November 2009 Paris Club Agreement and the HIPC Initiative framework. They are negotiating with remaining multilateral and official bilateral creditors and making good faith efforts to reach collaborative agreements with private creditors (completion point document, ¶42).

25. An updated low-income country debt sustainability analysis (LIC-DSA) indicates that Comoros would face a high risk of debt distress post HIPC/MDRI. The country had been in debt distress prior to reaching the HIPC Initiative completion point, but would likely not experience debt repayment difficulties after receiving full HIPC, MDRI, and beyond-HIPC debt relief. However, the debt-to-exports ratio reveals a protracted breach of the relevant threshold under the baseline, and the external debt dynamics would remain vulnerable to shocks over the long term. While remittances are an important source of foreign exchange, they have a limited impact on growth and affect the external debt outlook only moderately. (Completion point Document, Appendix II). In light of Comoros' narrow export base and high vulnerability to exogenous shocks it is critical that the government's fiscal financing needs continue to be met mostly with grants, and that new borrowing is contracted on concessional terms for the foreseeable future.

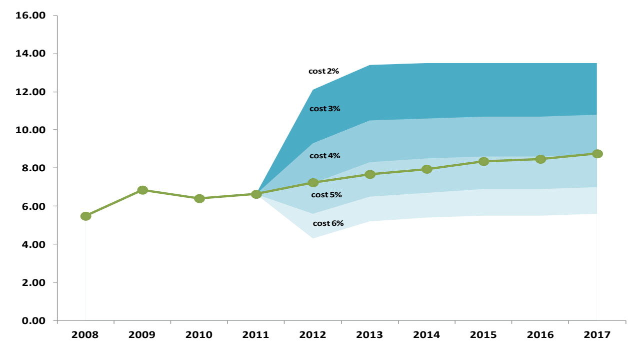
ARTICLE IV DISCUSSIONS: MANAGING RISKS AND CONSOLIDATING RECENT GAINS IN MACRO-ECONOMIC STABILITY AND COMPETITIVENESS

26. Comoros' external position improved markedly in 2012 despite persistent trade imbalances (Text Figure 3). The current account deficit is projected to decline to 6.9 percent of GDP (9.0 percent in 2011), mainly reflecting stronger-than-anticipated official transfers. Over the medium term, external imbalances should decline gradually as sizable investment in the tourism sector comes on stream and import dependence declines—facilitated notably by improved energy efficiency from ongoing energy sector reforms (¶16).

27. The Comorian franc is broadly in line with its medium-term fundamentals (Box 1). Comoros' real effective exchange rate depreciated by about 13 percent between October 2009 and September 2012, mainly reflecting the weakening of the euro *vis à vis* the US dollar. Over the medium term, results based on standard CGER-like methodologies indicate that Comoros' exchange rate is subject to overvaluation pressures, but would remain broadly consistent with external sustainability provided that the authorities maintain fiscal discipline and continue pressing ahead with structural reforms to improve competitiveness. In this regard, despite recent progress, Comoros' structural indicators suggest that the overall quality of the business environment remains poor, with the country scoring below peers in areas such as the ease of doing business, government effectiveness, and quality of regulation (Text Table 4 and Box 2). Staff urged the authorities to adhere closely to the polices set out in the ECF arrangement; continue making progress in promoting the development of sectors with high growth potential, such as agriculture, fishing, and tourism; and further improve the business environment to attract foreign investors and promote private sector development. The authorities concurred with staff's assessment of the exchange rate and reiterated their adherence to the exchange rate peg under the Franc Zone arrangement, which they view as an appropriate anchor for external stability and low inflation.

Text Figure 2: Reserve Adequacy Assessment

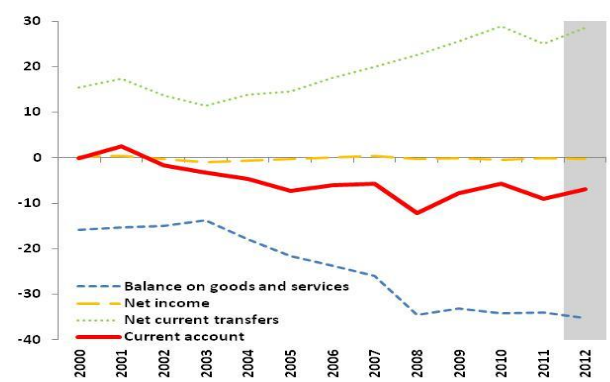
(In months of imports)



Source: Comorian authorities; and IMF estimates.

Test Figure 3: Current account and its financing

(In percent of GDP)



source: Comorian

Text Table 4: Doing Business Indicators: Comoros and selected East African Countries

(2013 ranking)

	Comoros	Madagascar	Mozambique	Tanzania	Seychelles	Kenya	Mauritius
Ease of...							
Doing Business (2013 rank) (1)	158	142	146	134	74	121	19
Starting a Business	168	17	96	113	117	126	14
Dealing with Construction Permits	60	148	135	174	57	45	62
Getting Electricity	104	183	174	96	144	162	44
Registering Property	77	147	155	137	66	161	60
Getting Credit	154	180	129	129	167	12	53
Protecting Investors	139	70	49	100	70	100	13
Paying Taxes	114	68	105	133	20	164	12
Trading Across Borders	146	112	134	122	33	148	15
Enforcing Contracts	159	156	132	36	83	149	58
Resolving Insolvency	185	151	147	129	65	100	64
Memorandum:							
Population (thousands)	754	21315	23930	46218	86	41610	1286
GNI per capita (US$):	770	430	470	540	11130	820	8240

(1) Bottom ranking 185 equals worst business climate; top 1 equals best business climate.

Source: World Bank Group.

28. Thanks to strong remittances and aid inflows, Comoros' international reserves remain at an adequate level for precautionary purposes. In 2012, reserve holdings are expected to increase to 7.2 months of imports, equivalent to 32 percent of GDP and 90 percent of broad money. Over the medium term, reserve accumulation would remain adequate as indicated by a model-based approach to reserve adequacy in LICs, which explicitly takes into account Comoros' structural characteristics—including its vulnerability to external shocks—and different costs of holding reserves (Text Figure 2).[3] The authorities concurred with staff's analysis and reiterated their commitment to prudent reserve management, consistent with relevant Zone Franc regulations, to support the peg with the euro.

29. A small open economy, Comoros is particularly vulnerable to external shocks; and delays in programmed public enterprise and financial sector reforms would significantly affect medium-term prospects. The mission discussed the (i) potential impact of external shocks transmitted through remittances, FDI, trade, and aid with a focus on vulnerability to disruptions in aid and FDI receipts (Box 2); and (ii) potential fall-out from a domestic policy shock that would delay public enterprise and banking sector reforms.

30. Achieving strong sustained growth requires steady efforts to alleviate Comoros' vulnerability to import price shocks, and to develop a diversified goods and service exports base. Fuel imports, the bulk of which for electrical power generation, exceed 10 percent of GDP. The authorities concurred that enhancing the flexibility of domestic fuel pricing policies and reforming MA-MWE and SCH are essential to shielding the budget from adverse global fuel price developments. In contrast, goods exports account for only 4 percent of GDP. The authorities stressed their commitment to export diversification, pointing to fishing and tourism projects that are underway. They recognized that the long-term success of their export development strategy hinges on a further strengthening of economic competitiveness more generally, which requires continued adherence to stability-oriented fiscal policies and to increased investments in infrastructure and education.

31. The authorities broadly agreed that a suspension of SOE reform would negatively affect overall program performance, curtail anticipated aid flows, and delay much needed gains in overall economic competitiveness. They concurred that such developments would frustrate achievement of the government's medium-term growth and poverty alleviation objectives. However, the authorities felt that the likelihood of this downside scenario materializing was low since they were fully committed to the SOE reform and were indeed carrying it forward. The authorities reiterated their commitment to fiscal discipline and to continued progress in implementing their structural reform agenda, as a means of building fiscal buffers and enhancing investor and donor interest in Comoros.

32. Although the banking sector remains sound, it may lack the dynamism to support Comoros' growth ambitions more effectively. Recent years have seen the arrival of two new commercial banks and a significant increase in both the geographic coverage of financial services and the volume of savings mobilization. As a result, financial intermediation has expanded and competition

[3] The assessment of reserve adequacy for Comoros is based on the methodology developed in the IMF Policy Paper "Assessing Reserve Adequacy" (www.imf.org/external/np/pp/eng/2011/021411b.pdf).

in the banking industry increased. However, the persistent excess bank liquidity, high interest spreads between deposit and lending rates, and still high NPL ratios point to institutional bottlenecks that still have to be addressed. These include an outdated regulatory framework, the absence of a credit bureau, and weaknesses in the legal system that make enforcement of rulings against loan defaulters costly and slow.

33. **The authorities concurred with staff's assessment of the banking system's soundness and urgent need for modernization.** They noted BCC's recently bolstered banking supervision capacity and other important policy actions under way to strengthen the central bank's ability to support the development of the financial sector (¶18).

Box 1. Comoros' Exchange Rate and Competitiveness Assessment

An updated assessment of the real effective exchange rate (REER) indicates that the Comorian franc is broadly in line with its medium-term fundamentals. However, non-price indicators suggest that the country's external competitiveness continues to be undermined by the weak overall quality of the business environment—particularly in the areas of ease of doing business, government effectiveness, and quality of regulation. These results are subject to considerable uncertainty due to the difficulties of assessing the exchange rate with standard analytical methodologies in developing countries and the volatility of economic variables—especially in small islands.[1,2]

Standard exchange rate assessment methods[3]

The Macroeconomic Balance approach points to an 11 percent overvaluation of the REER with respect to its medium-term fundamentals. These include economic growth, fiscal balance, income, net foreign assets position, aid, remittances, and demographics.

The External Sustainability approach suggests an overvaluation of the Comorian franc of 22.5 percent, if the country's net foreign asset position was to be maintained at its 2011 level (12 percent of GDP). The estimated overvaluation increases if a lower net foreign position-to-GDP ratio is targeted over the medium term.

The Equilibrium Real Exchange Rate and the Purchasing Power Parity approaches indicate that the currency is undervalued with respect to its long-run equilibrium level in the range of 2.6–6.6 percent, which falls within the margin of errors of these methods.

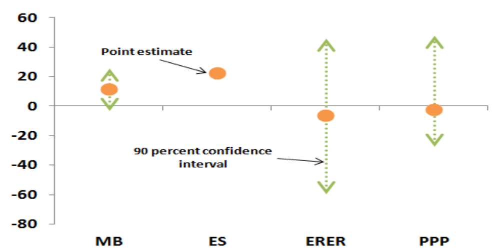
Non-price indicators

Comoros' export performance has been lackluster compared to other CFA countries, leading to a marked decline of the country's share in world export and contributing to a significant widening of the trade balance deficit. Over the medium term, exports are expected to pick up, reflecting important investment in the service sector and efforts to broaden the export base.

The overall quality of the business environment remains poor, despite recent progress. The 2013 Doing Business Indicators report ranks Comoros 158 out of 185 countries (also 158 in 2012), underscoring the need for further improvement—particularly with respect to the ease of starting a business, enforcing contracts, and resolving solvency. In addition, structural governance remains weak—including in the areas of government effectiveness and quality of regulation—as indicated by the 2012 Governance Indicators from the World Bank.

Exchange Rate Assessment

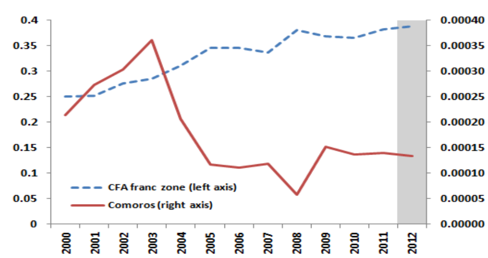
(in 2017; percent misalignment)



Source: Comorian authorities; and IMF estimates

Export market shares

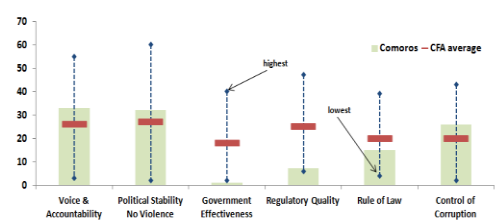
(In percent)



Source: Comorian authorities; and IMF estimates

Structural Indicators of Governance: Comoros and CFA countries

(*percentile rank: 0-100) (1)*



(1) Ranking of the country among all Countries of the world; 0 (100) indicates lowest (highest) rank.

Source: World Bank.

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[1] A. Prati, and others, *"Performance in Low-Income Countries"*, IMF occasional Paper, n. 272, 2011.

[2] W. Easterly and A. Kraay, "*Small States, Small Problems? Income, Growth, and Volatility in Small States"*, in World Development, Vol. 28, Issue 11, November 2000, pp. 2013–2027.

[3] The exchange rate assessment is based on Vitek, 2010, *Exchange Rate Assessment Toolkit,* mimeo; and Aydin, 2010, *Exchange Rate Assessment for Sub-Saharan Economies,* mimeo. The dataset used for the regressions contains annual data on non-oil exporting Sub-Saharan countries over the period 1990–2011.

Box 2. Interconnectedness and Spillovers: Assessing Comoros' Vulnerability to Global Shocks

Comoros can be affected by changes in global conditions through four main channels: remittances, foreign aid, FDI, and exports. For 2012–13, these sources of foreign exchange average an estimated 35 percent of GDP. To assess the potential impact of global shocks on Comoros, staff simulated the impact of two adverse scenarios based on WEO projections by using the GIMF model.[1]

The baseline scenario is based on global medium term (2013-17) growth of 4.1 percent and falling commodity prices (including fuel). Two alternative scenarios are considered: (i) a scenario assuming a 3-percentage-point fall in growth in 2013 (from 3.5 percent in 2012), followed by a gradual recovery of real GDP growth to an average 4.1 percent in the medium term (Figure 1);[2] and (ii) a protracted growth decline scenario consisting of an average 15-percent fall (-0.59 percentage point) in growth between 2013 and 2014, followed by a steep recovery to an average real GDP growth of 3.2 percent in the medium term (Figure 2).[3]

Changes in global conditions would affect aggregate demand through three main channels:

- Remittances, mostly from France, have averaged 25 percent of GDP in 2009–11 and have been resilient throughout the recent crisis. They are important for financing imports (49 percent of GDP in 2009–11). A further slowdown in the Euro Zone could depress the level of remittances and household consumption could suffer severely, although remittances have so far been quite resilient in the face of the global slowdown.

[1]The GIMF model is a tool for analyzing the interaction among macroeconomic policies of the world economy. It is a dynamic general equilibrium model (Kumhof, Michael, Douglas Laxton, Dirk Muir, and Susana Mursula, 2010, "*The Global Integrated Monetary and Fiscal Model (GIMF) – Theoretical Structure,*" IMF Working Paper No. 10/34).

[2]In this scenario, the euro area sovereign and banking stress intensifies and spills over to other regions. The scenario assumes that credit in both core and periphery euro zone countries contracts significantly for two years. Sovereign risk premiums rise by 300 bps for core countries and 500 bps for periphery countries by 2014; fiscal policies are further tightened, and risk spills over to all other regions.

[3]In this scenario, potential output in advanced and emerging markets is lower than assumed in the baseline. In advanced economies hysteresis in unemployment, slower technological advancement, and/or more cautious behavior of households and firms drive the long-run reduction in activity. The slower growth in advanced economies implies more subdued external prospects for emerging economies.

- Foreign aid (about 8–10 percent of GDP) could be susceptible to continued austerity policies in donor countries, particularly in Europe. Lower budget and project grants would have a relatively important impact on growth. However, these risks would be mitigated by potentially stronger resource flows from multilateral donors and partner countries from the Gulf region if program performance remains satisfactory.

- FDI flows in Comoros have accelerated recently (to about 5 percent of GDP). They are predominantly originating from the Gulf region. Staff analysis suggests that adverse developments in the Gulf region could put future and existing projects at risk, with far reaching implications for economic activity in Comoros.

- Exports (4 percent of GDP) are dominated by cloves and vanilla. World price fluctuations would affect export earnings, but with contained repercussions on the wider economy.

With only 10 percent of remittances allocated to productive activities, the direct growth effect of lower inflows is somewhat small, and a very high propensity to import and a narrow domestic production base make the indirect (multiplier) effect even less significant. Staffs estimate the growth elasticity of remittances at around 0.15 in remitting countries as compared to 1.5 found in literature. [4] As for FDI receipts and foreign aid, their growth elasticities in source regions are set at 21 and 0.1, respectively.[5] The impact of the downside scenario and the protracted growth decline scenario are presented in Figure 3 and Figure 4, respectively.

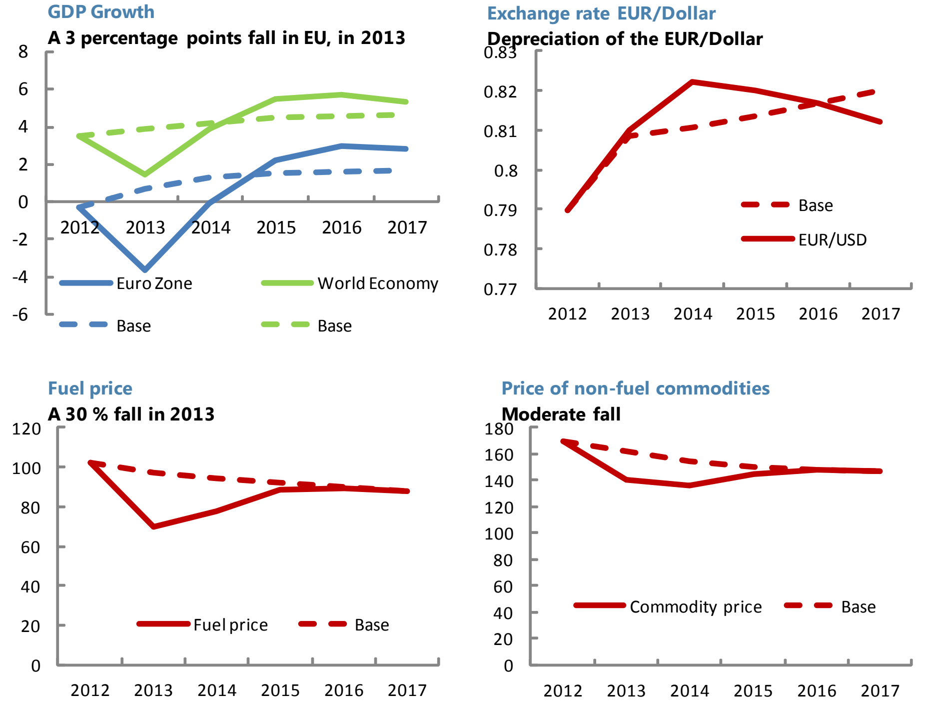
Under either scenario, Comoros has limited buffers to absorb the negative effects of external shocks. A tightening of fiscal policy could be necessary, should a reduction in budget support and FDI materializes. Continued fiscal prudence and timely implementation of the structural agenda remain critical.

[4] "*Determinants of Bilateral Remittance Flows*," (Lueth and Ruiz-Arranz; The B.E. Journal of Macroeconomics: Vol. 8: Iss. 1 (Topics), Article 26).

[5]Based on Dabla-Norris, Honda, Lahreche, and Verdier, 2010, "*FDI Flows to Low-Income Countries: Global Drivers and Growth Implications*," IMF Working Paper No. 10/132; and Raghuram G. Rajan and Arvind Subramanian, 2005 "*Aid and growth: what does the cross-country evidence really show?*" IMF Working Paper No. 05/127, respectively.

Figure 1. Downside Scenario

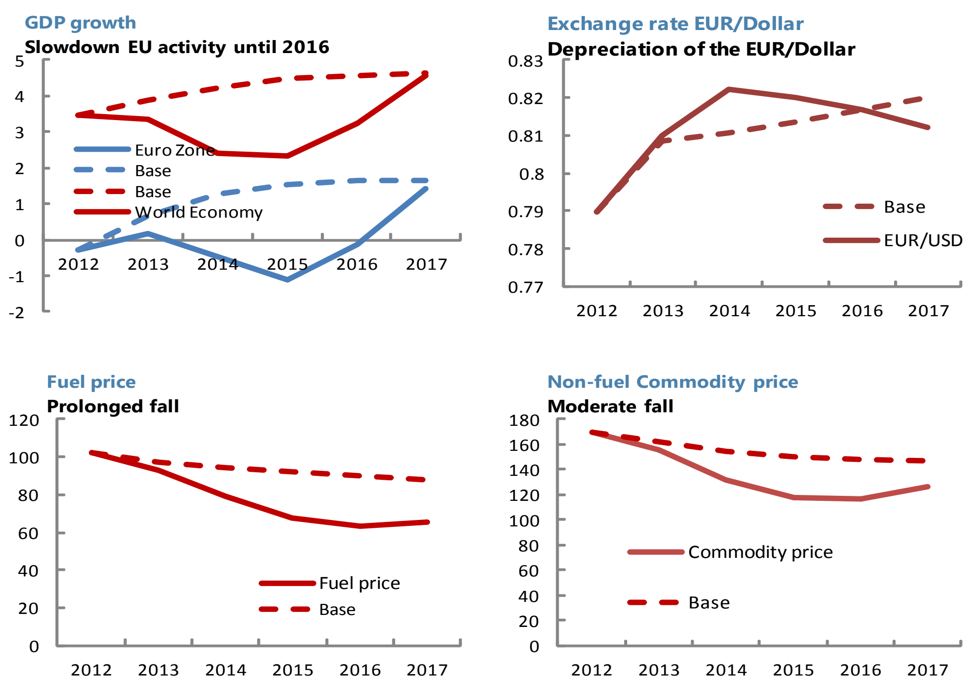
Scenario 1



Source: GIMF and WEO (2012).

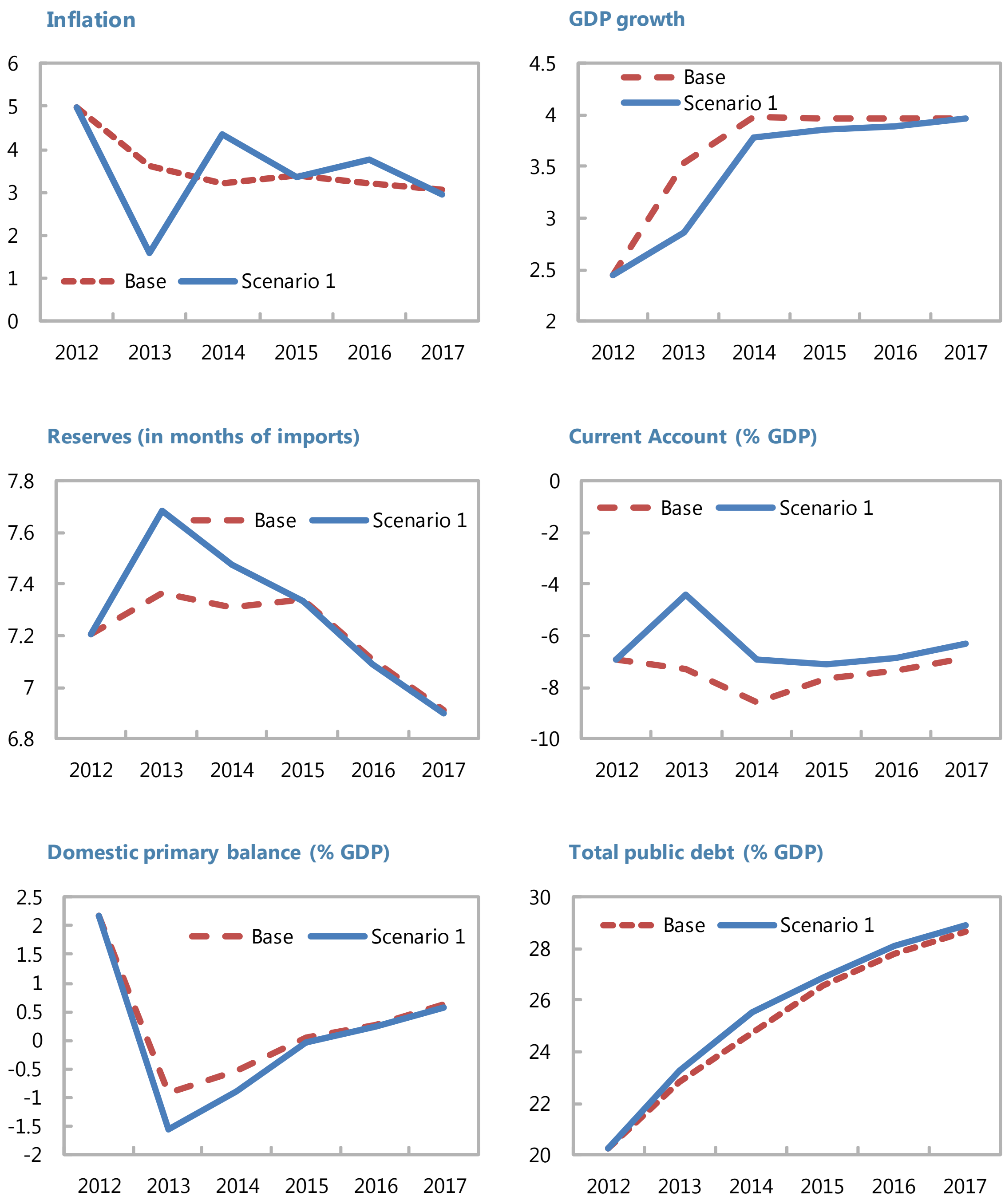
Figure 2. Protracted Growth Decline Scenario

Scenario 2



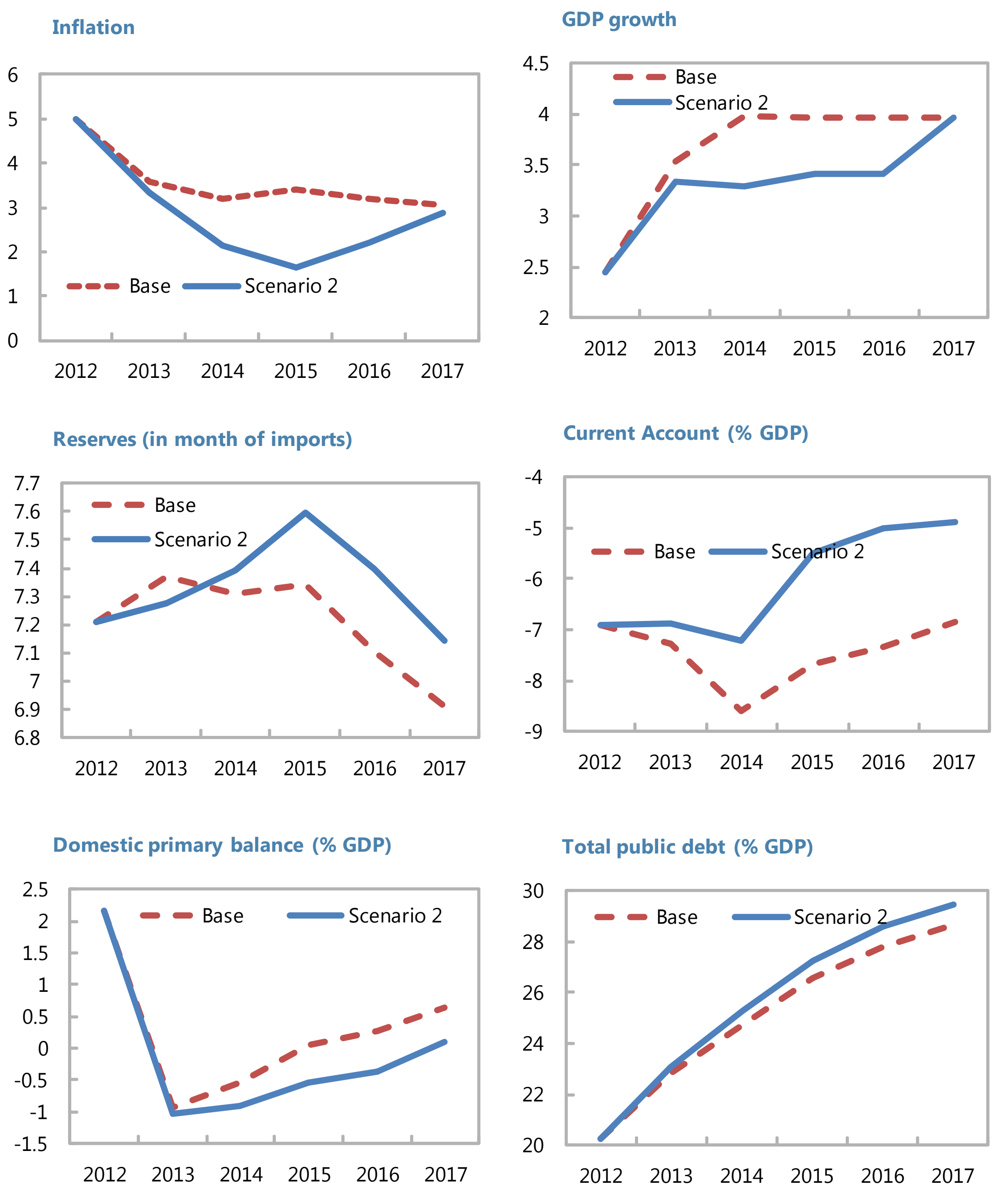
Source: GIMF and WEO (2012).

Figure 3. Impact of a Downside Scenario[1]



Source: Staffs' calculations.

Figure 4. Impact of a Protracted Scenario[2]



Source: Staffs' calculations.

V. STAFF APPRAISAL

34. **Staff takes note of progress the authorities have made in the last 12 months in implementing reforms under the ECF arrangement.** The main achievements include a return to medium-term viability for the wage bill and rekindling of the structural reform agenda. Furthermore, the authorities have successfully concluded debt rescheduling negotiations with their main creditors and broadly met the requirements for reaching the HIPC Initiative completion point.

35. **Preserving macroeconomic stability remains a key medium-term objective for the government**. This requires sustained efforts to strengthen revenue mobilization and keep spending at levels compatible with medium-term fiscal sustainability. Staff urges the timely establishment of the new General Administration of Taxes and implementation of parliament-approved new ministry personnel frameworks, as well as the continued rigorous adherence to the new automated personnel expenditure management system (GISE); all of which are essential to ensuring that the fiscal program stays on track.

36. **The authorities concur about the need for continued close collaboration with development partners in the reform of SOEs and in the effort to improve the business environment.** In the coming year, they intend to focus on enlisting strategic partners of international repute in the management of the telecommunication (Comores Telecom) and electricity (MA-MWE) parastatals; and on strengthening management of the oil-importing company (SCH). With IFC technical assistance, the authorities are also streamlining the administrative requirements to starting a company, and developing reliable contract-enforcement mechanisms for the private sector. Continuing rigorous implementation will be critically important in the period ahead.

37. **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. To mitigate the risks to the economic outlook, staff urges continued close adherence to the ECF-supported reform agenda and stepped-up efforts to enhance public support for reforms, including through stronger actions to improve governance and accountability in public resources management and the deployment of a well-targeted communication strategy.

38. **Staff recommends the completion of the fourth review under the ECF arrangement and financing assurances review, disbursement of related ECF resources, as well as the conclusion of the 2012 Article IV consultation.**

39. **It is proposed that the next Article IV consultation with the Union of Comoros take place within 24 months subject to the provisions of the decision on consultation cycles in program countries.**

Figure 5. Macroeconomic developments and projections, 2004-15

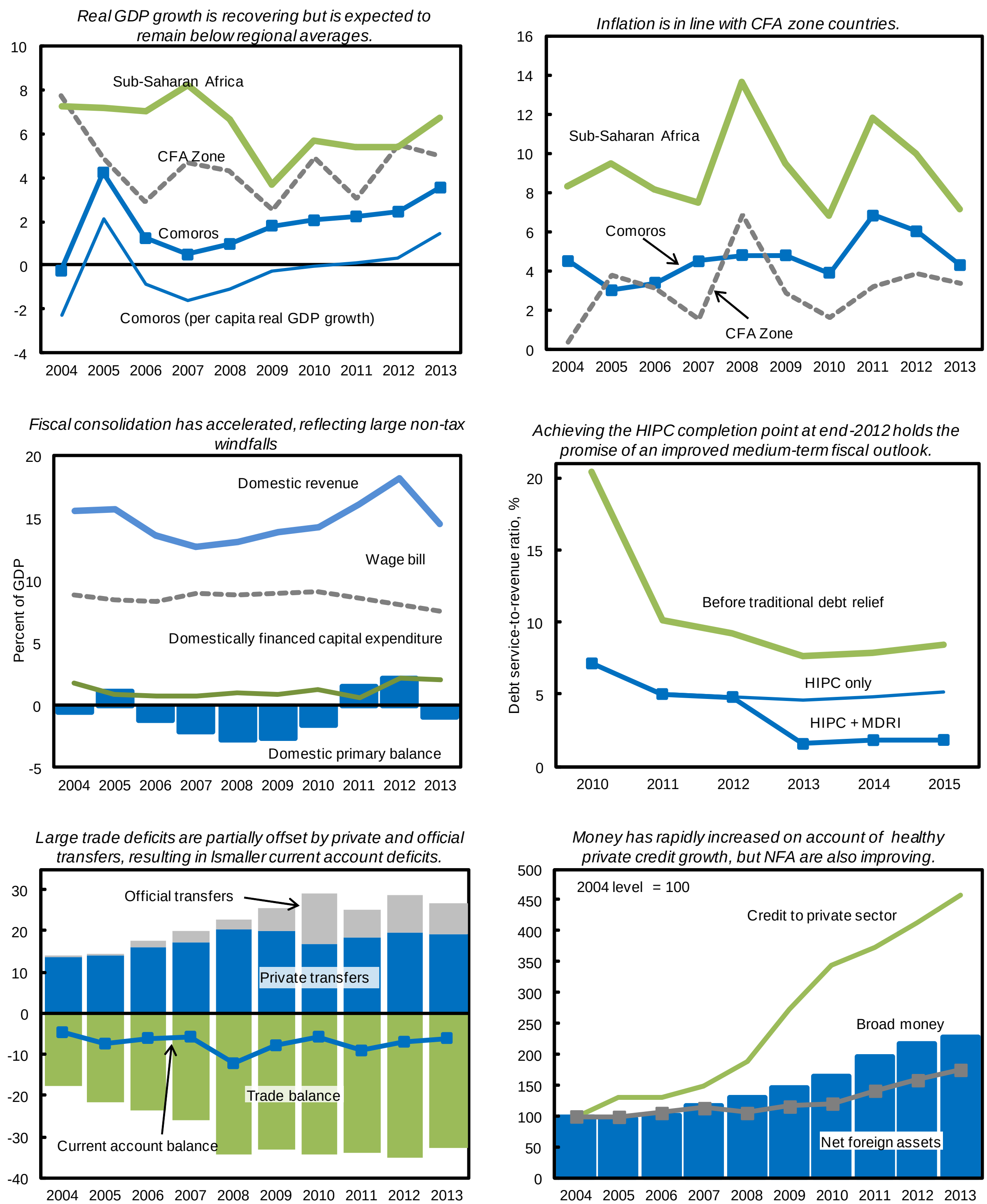


Table 1. Selected Economic and Financial Indicators, 2009–17

	2009	2010	2011	2012		2013	2014	2015	2016	2017
				Prog 3rd Review	Proj.	Projections				
(Annual percentage change, unless otherwise indicated)										
National income and prices										
Real GDP	1.8	2.1	2.2	2.5	2.5	3.5	4.0	4.0	4.0	4.0
GDP deflator	4.6	4.4	4.7	3.2	2.9	3.1	3.2	3.2	3.3	3.2
Consumer price index (annual averages)	4.8	3.9	6.8	5.6	6.0	4.3	3.4	3.3	3.3	3.1
Consumer price index (end period)	2.2	6.6	7.0	4.3	5.0	3.6	3.2	3.4	3.2	3.1
Money and credit										
Net foreign assets	9.7	4.2	17.2	-1.5	12.0	10.5	8.3	10.5	10.0	9.6
Domestic credit	35.3	17.8	4.9	13.0	4.2	17.2	11.6	5.7	5.7	9.4
Net credit to government (treasury)	13.4	-7.5	12.3	22.2	-18.5	43.4	11.2	-17.1	-24.7	-6.5
Broad money	13.3	19.4	9.6	1.0	5.5	2.4	7.7	7.6	7.4	7.4
Velocity (GDP/end-year broad money)	3.3	2.9	2.9	3.0	2.9	3.0	3.0	3.0	3.0	3.0
External sector										
Exports, f.o.b.	116.7	15.0	16.4	5.8	5.9	6.6	8.5	8.5	8.4	4.7
Imports, f.o.b.	1.6	9.7	7.2	5.8	7.8	1.8	2.6	2.5	6.2	3.3
Export volume	54.1	-0.7	-24.7	2.5	2.5	1.6	3.3	3.3	3.1	4.6
Import volume	11.3	0.4	-7.1	-0.8	0.6	2.6	3.4	3.0	6.7	3.3
Terms of trade	12.5	-1.1	5.0	-1.8	-1.7	3.8	3.6	3.2	3.1	1.2
(In percent of GDP, unless otherwise indicated)										
Investment and savings										
Investment	12.4	15.4	14.9	17.9	18.4	19.1	19.9	20.4	21.2	21.8
Public	4.7	5.7	5.4	7.9	8.3	8.6	8.9	8.9	9.2	9.2
Private	7.7	9.7	9.5	10.0	10.1	10.6	11.0	11.5	12.0	12.5
Gross national savings	4.6	9.7	5.9	7.6	11.5	13.1	11.3	12.7	13.8	14.9
Public	3.8	11.6	8.7	6.8	13.4	8.7	5.5	5.7	6.0	5.9
Private	0.8	-1.9	-2.8	0.8	-1.9	4.4	5.8	7.0	7.9	9.0
Government budget										
Total revenue and grants	23.6	29.2	23.6	25.3	28.4	49.2	24.0	24.2	24.4	24.6
Domestic Revenue [1]	13.9	14.3	16.1	14.0	18.2	14.5	14.8	15.2	15.4	15.6
Total grants [2]	9.7	14.9	7.5	11.4	10.2	34.7	9.2	9.0	9.0	9.0
Total expenditure	22.8	22.1	22.0	24.5	25.4	24.9	25.0	24.8	24.8	24.7
Current expenditure	18.1	16.4	16.6	16.6	17.1	16.3	16.1	15.9	15.6	15.4
Domestic primary balance [1]	-2.6	-1.6	1.6	-1.1	2.2	-0.9	-0.5	0.0	0.3	0.6
Change in arrears	0.2	-6.2	-3.4	-0.5	-0.7	-0.9	-0.8	-0.7	-0.7	-0.5
External interest	-0.1	-2.0	-0.8	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Domestic	0.4	-4.2	-2.6	-0.5	-0.6	-0.9	-0.8	-0.7	-0.7	-0.5
Overall balance (cash basis)	0.8	0.9	-1.9	0.1	1.9	23.4	-1.8	-1.4	-1.1	-0.6
Excluding grants	-8.9	-14.0	-9.4	-11.2	-8.3	-11.2	-11.0	-10.4	-10.1	-9.6
Financing	-0.7	1.1	0.3	-0.1	-1.9	-21.3	0.6	-0.9	-1.0	-0.3
Foreign (net)	-1.3	1.4	-0.2	-1.1	-1.1	-22.8	0.1	-0.1	-0.2	-0.2
Domestic (net)	0.6	-0.4	0.5	1.0	-0.8	1.4	0.5	-0.8	-0.9	-0.2
Errors and omissions [3]	-0.2	-1.9	-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	0.0	-2.1	1.2	2.2	2.1	0.9
Financing gap, excluding UFR	0.9	0.5	0.4	0.8	0.8	-1.3	1.1	2.0	1.8	0.5
External sector										
Exports of goods and services	14.5	15.7	16.2	15.7	16.8	17.1	17.5	17.9	18.2	18.0
Imports of goods and services	47.7	49.9	50.2	51.6	52.0	49.8	47.8	45.9	45.3	43.9
Current account balance	-7.8	-5.7	-9.0	-10.4	-6.9	-6.0	-8.6	-7.7	-7.4	-6.9
Excl. official and private transfers	-33.3	-34.6	-34.0	-36.1	-35.4	-32.7	-30.4	-28.2	-27.1	-25.7
External debt, PV in percent of GDP [4]	46.2	38.9	33.1	31.8	10.0	11.8	13.1	14.3	15.2	15.8
External debt, PV in percent of exports of goods and services [4]	329.7	248.6	203.9	202.7	58.0	68.9	74.9	80.2	83.6	87.5
External debt service (in percent of exports of goods and services) [4]	13.5	11.4	10.0	6.3	4.7	0.3	1.2	2.1	2.6	2.8
Overall balance of payments (in millions of U.S. dollars)	12.3	-44.3	-11.0	-5.8	-5.8	2.6	5.9	3.1	3.6	13.5
Official grants and loans (percent of GDP)	9.7	15.1	7.5	11.4	10.2	34.9	9.4	9.2	9.2	9.2
Gross international reserves (end of period)										
In millions of U.S. dollars	146.0	144.2	170.1	158.0	187.5	194.5	207.0	223.1	239.2	255.9
In months of imports of goods & services	6.8	6.4	6.7	6.2	7.2	7.7	7.9	8.3	8.5	8.7
Real effective exchange rate (2000=100)	103.9	97.7	97.9	...	...	...	...	...	...	...
Exchange rate CF/US$ (period average)	353.2	370.8	353.6	...	...	...	...	...	...	...
Memorandum items:										
GDP (nominal, in bilions of CF)	189.5	201.8	216.0	228.3	227.8	243.3	261.1	280.0	300.8	322.9

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

[1] Revenue for 2011-12 includes exceptional "economic citizenship program" receipts (about 3 percent of GDP each year).

[2] Includes interim HIPC assistance (2010-12) and expected debt relief under HIPC and MDRI upon completion point at end-2012.

[3] Data for 2010 and 2011 reflect 2010 revenues collected in early 2011.

[4] External debt ratios after full HIPC, MDRI and beyond HIPC relief from end-2012. Ratios from LIC-DSA (Appendix II - Table 1a) produced with a different methodology than those from HIPC-DRA (Appendix II - Paragraph 1).

Table 2. Consolidated Government Financial Operations, 2009–17

(In millions of Comorian francs, cumulative, unless otherwise indicated)

	2009	2010	2011	2012		2013		2014	2015	2016	2017
				Prog 3rd Review	Proj.	Prog 3rd Review	Proj.	Projections			
Total revenue and grants	44,776	58,869	50,907	57,760	64,678	59,177	119,572	62,793	67,729	73,324	79,383
Revenues [1]	26,401	28,875	34,793	31,847	41,466	35,148	35,245	38,670	42,484	46,208	50,271
Tax revenues	20,515	22,449	23,520	26,871	26,884	29,753	29,600	32,973	36,290	39,713	42,932
Direct and indirect taxes	10,867	11,514	12,412	14,690	15,529	16,405	17,072	19,007	21,115	23,318	25,213
Taxes on international trade and transactions	9,648	10,935	11,108	12,181	11,355	13,348	12,528	13,966	15,175	16,396	17,719
Nontax revenues	5,887	6,426	11,273	4,976	14,581	5,394	5,645	5,697	6,193	6,494	7,340
External grants	18,374	29,994	16,114	25,913	23,213	24,029	84,327	24,123	25,245	27,117	29,112
Budgetary assistance [2]	7,743	18,584	53	5,151	2,500	2,495	4,960	585	0	0	0
Projects (incl. techn.assist.)	10,631	10,973	15,135	19,781	19,739	21,534	21,443	23,538	25,245	27,117	29,112
HIPC and MDRI assistance		437	926	980	974	0	57,924	0	0	0	0
Total expenditure and net lending	43,627	44,703	47,793	56,312	58,819	60,971	60,483	65,293	69,470	74,515	79,619
Current expenditure	34,240	33,116	35,785	37,939	38,976	40,130	39,675	42,116	44,503	46,867	49,760
Primary current expenditures	29,806	29,631	29,959	30,558	31,611	32,281	32,507	34,193	35,951	37,629	39,797
Wages and salaries	17,034	18,500	18,409	18,288	18,282	18,416	18,408	19,056	19,678	20,408	21,309
Goods and services	7,447	7,553	7,662	8,154	8,924	9,136	9,231	9,908	10,627	11,315	12,147
Transfers and pensions	5,325	3,578	3,889	4,116	4,406	4,729	4,868	5,229	5,646	5,906	6,341
Interest payments	1,069	1,036	952	1,010	1,007	914	262	343	421	505	587
External debt	715	831	743	782	780	743	92	160	225	294	361
Before rescheduling		686	652	633	631	608	…	…	…	…	…
On restructured obligations		145	91	148	148	135	…	…	…	…	…
Domestic debt	355	205	209	229	228	171	170	183	196	211	226
Foreign-financed project maintenance	1,585	677	2,636	1,129	1,127	1,229	1,224	1,343	1,441	1,548	1,662
Technical assistance	1,780	1,771	2,238	5,242	5,230	5,706	5,682	6,237	6,690	7,185	7,714
Capital expenditure	8,939	11,588	11,708	18,022	18,994	20,840	20,808	23,177	24,967	27,648	29,859
Domestically financed investment	1,563	2,515	1,417	3,909	4,910	4,974	5,006	5,879	6,402	7,696	8,427
Foreign-financed investment	7,326	9,073	10,291	13,441	13,412	15,136	15,072	16,505	17,703	19,015	20,414
Counterpart funds-financed	50	0	0	672	672	730	730	793	862	937	1,018
Net lending	448	0	300	350	850	0	0	0	0	0	0
Domestic primary balance	-4,967	-3,271	3,417	-2,621	4,945	-2,107	-2,268	-1,401	130	883	2,048
Overall balance (commitment basis)	1,148	14,165	3,114	1,448	5,859	-1,794	59,089	-2,501	-1,741	-1,190	-236
Excluding grants	-17,226	-15,829	-13,000	-24,465	-17,354	-25,823	-25,238	-26,623	-26,987	-28,307	-29,347
Change in net arrears	430	-12,430	-7,281	-1,152	-1,532	-2,125	-2,116	-2,089	-2,100	-2,106	-1,615
Interest on external debt	-271	-4,007	-1,662	0	-180	0	0	0	0	0	0
Domestic arrears	702	-8,423	-5,619	-1,152	-1,352	-2,125	-2,116	-2,089	-2,100	-2,106	-1,615
Repayment	-9,391	-13,629	-7,985	-1,152	-1,352	-2,125	-2,116	-2,089	-2,100	-2,106	-1,615
Accumulation	10,093	5,206	2,366	0	0	0	0	0	0	0	0
of which: Float	2,849	2,761	2,071								
Overall balance (cash basis)	1,579	1,736	-4,167	296	4,327	-3,919	56,973	-4,589	-3,841	-3,296	-1,850
Excluding grants	-16,795	-28,258	-20,280	-25,616	-18,886	-27,948	-27,354	-28,712	-29,087	-30,413	-30,962
Special adjustment [3]		-3,900	3,900				-5,135				
Errors and omissions (+ = underfinancing)	-324	-30	-419	0	0	0	0	0	0	0	0
Financing	-1,255	2,194	685	-296	-4,327	-748	-51,837	1,474	-2,436	-3,125	-1,094
Foreign (net)	-2,387	2,913	-404	-2,510	-2,479	-2,087	-55,362	173	-226	-476	-568
Drawings, PIP (identified)	60	548	31	31	30	537	535	548	588	632	678
Amortization	-2,239	-2,773	-2,772	-2,755	-2,727	-2,625	-55,897	-375	-814	-1,107	-1,246
Before rescheduling		-2,503	-2,443	-2,424	-2,391	-2,193	…	…	…	…	…
On restructured obligations		-271	-330	-332	-336	-432	…	…	…	…	…
Clearance of deferred arrears and debt service [4]	-5,016										
Change in net arrears (principal)	-1,155	-10,337	-3,470	0	0	0	0	0	0	0	0
Exceptional financing	5,964	15,474	5,808	215	218	0	0	0	0	0	0
Arrears restructuring and deferral		14,415	5,014	0	0	0	0	0	0	0	0
Current maturities restructuring and deferral		1,059	794	215	218	0	0	0	0	0	0
Domestic (net)	1,131	-719	1,089	2,214	-1,848	1,339	3,524	1,300	-2,210	-2,650	-526
Bank financing	1,131	-719	1,089	2,214	-1,848	1,339	3,524	1,300	-2,210	-2,650	-526
Central bank	1,357	-770	2,260	2,214	-1,848	1,516	3,701	1,527	-2,097	-2,550	-526
Of which: IMF (net) [2]	1,697	920	891	1,829	1,843	1,831	1,870	-271	-778	-1,065	-1,257
Commercial banks	-226	51	-1,171	0	0	-177	-177	-227	-113	-100	0
Financing gap (+ = underfinancing) [2]	0	0	0	0	0	4,668	0	3,116	6,277	6,421	2,944
Memorandum items:											
GDP (nominal)	189,536	201,841	216,011	228,294	227,801	244,294	243,253	261,096	280,041	300,798	322,929
Wages in percentage of revenues	64.5	64.1	52.9	57.4	44.1	52.4	52.2	49.3	46.3	44.2	42.4

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

[1] Revenue for 2011-12 includes exceptional "economic citizenship program" receipts (about 3 percent of GDP each year).

[2] Program projections for 2013 incorporate all identified budget support and anticipated net UFR, with zero net fiscal financing gaps.

[3] 2010 revenues received in early 2011; and, for 2013, HIPC and MDRI savings to be allocated in revised 2013 budget.

[4] For 2009 includes further deferral of arrears to the HIPC decision point, following which these arrears are assumed to be cleared through restructuring or further deferral.

Table 3. Consolidated Fiscal Operations, 2009–17

(In percent of GDP, unless otherwise indicated)

	2009	2010	2011	2012		2013		2014	2015	2016	2017
				Prog 3rd Review	Proj.	Prog 3rd Review	Proj.	Projections			
Total revenue and grants	23.6	29.2	23.6	25.3	28.4	24.3	49.2	24.0	24.2	24.4	24.6
Revenues [1]	13.9	14.3	16.1	14.0	18.2	14.4	14.5	14.8	15.2	15.4	15.6
Tax revenues	10.8	11.1	10.9	11.8	11.8	12.2	12.2	12.6	13.0	13.2	13.3
Direct and indirect taxes	5.7	5.7	5.7	6.4	6.8	6.7	7.0	7.3	7.5	7.8	7.8
Taxes on international trade and transactions	5.1	5.4	5.1	5.3	5.0	5.5	5.2	5.3	5.4	5.5	5.5
Nontax revenues	3.1	3.2	5.2	2.2	6.4	2.2	2.3	2.2	2.2	2.2	2.3
External grants	9.7	14.9	7.5	11.4	10.2	9.9	34.7	9.2	9.0	9.0	9.0
Budgetary assistance [2]	4.1	9.2	0.0	2.3	1.1	1.0	2.0	0.2	0.0	0.0	0.0
Projects (incl. techn.assist.)	5.6	5.4	7.0	8.7	8.7	8.9	8.8	9.0	9.0	9.0	9.0
HIPC and MDRI assistance		0.2	0.4	0.4	0.4	0.0	23.8	0.0	0.0	0.0	0.0
Total expenditure and net lending	23.0	22.1	22.1	24.7	25.8	25.1	24.9	25.0	24.8	24.8	24.7
Current expenditure	18.1	16.4	16.6	16.6	17.1	16.5	16.3	16.1	15.9	15.6	15.4
Primary current expenditures	15.7	14.7	13.9	13.4	13.9	13.3	13.4	13.1	12.8	12.5	12.3
Wages and salaries	9.0	9.2	8.5	8.0	8.0	7.6	7.6	7.3	7.0	6.8	6.6
Goods and services	3.9	3.7	3.5	3.6	3.9	3.8	3.8	3.8	3.8	3.8	3.8
Transfers and pensions	2.8	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.0	2.0
Interest payments	0.6	0.5	0.4	0.4	0.4	0.4	0.1	0.1	0.2	0.2	0.2
External debt	0.4	0.4	0.3	0.3	0.3	0.3	0.0	0.1	0.1	0.1	0.1
Before rescheduling	0.0	0.3	0.3	0.3	0.3	0.2	…	…	…	…	…
On restructured obligations	0.0	0.1	0.0	0.1	0.1	0.1	…	…	…	…	…
Domestic debt	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign-financed project maintenance	0.8	0.3	1.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Technical assistance	0.9	0.9	1.0	2.3	2.3	2.3	2.3	2.4	2.4	2.4	2.4
Capital expenditure	4.7	5.7	5.4	7.9	8.3	8.6	8.6	8.9	8.9	9.2	9.2
Domestically financed investment	0.8	1.2	0.7	1.7	2.2	2.0	2.1	2.3	2.3	2.6	2.6
Foreign-financed investment	3.9	4.5	4.8	5.9	5.9	6.2	6.2	6.3	6.3	6.3	6.3
Counterpart funds-financed	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net lending	0.2	0.0	0.1	0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance	-2.6	-1.6	1.6	-1.1	2.2	-0.9	-0.9	-0.5	0.0	0.3	0.6
Overall balance (commitment basis)	0.6	7.0	1.4	0.6	2.6	-0.7	24.3	-1.0	-0.6	-0.4	-0.1
Excluding grants	-9.1	-7.8	-6.0	-10.7	-7.6	-10.6	-10.4	-10.2	-9.6	-9.4	-9.1
Change in net arrears	0.2	-6.2	-3.4	-0.5	-0.7	-0.9	-0.9	-0.8	-0.7	-0.7	-0.5
Interest on external debt	-0.1	-2.0	-0.8	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears	0.4	-4.2	-2.6	-0.5	-0.6	-0.9	-0.9	-0.8	-0.7	-0.7	-0.5
Repayment	-5.0	-6.8	-3.7	-0.5	-0.6	-0.9	-0.9	-0.8	-0.7	-0.7	-0.5
Accumulation	5.3	2.6	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: Float	1.5	1.4	1.0								
Overall balance (cash basis)	0.8	0.9	-1.9	0.1	1.9	-1.6	23.4	-1.8	-1.4	-1.1	-0.6
Excluding grants	-8.9	-14.0	-9.4	-11.2	-8.3	-11.5	-11.2	-11.0	-10.4	-10.1	-9.6
Special adjustment [3]	0.0	-1.9	1.8	0.0	0.0	0.0	-2.1	0.0	0.0	0.0	0.0
Errors and omissions (+ = underfinancing)	-0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-0.7	1.1	0.3	-0.1	-1.9	-0.3	-21.3	0.6	-0.9	-1.0	-0.3
Foreign (net)	-1.3	1.4	-0.2	-1.1	-1.1	-0.9	-22.8	0.1	-0.1	-0.2	-0.2
Drawings, PIP (identified)	0.0	0.3	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Amortization	-1.2	-1.4	-1.3	-1.2	-1.2	-1.1	-23.0	-0.1	-0.3	-0.4	-0.4
Before rescheduling	0.0	-1.2	-1.1	-1.1	-1.0	-0.9	…	…	…	…	…
On restructured obligations	0.0	-0.1	-0.2	-0.1	-0.1	-0.2	…	…	…	…	…
Clearance of deferred arrears and debt service [4]	-2.6										
Change in net arrears (principal)	-0.6	-5.1	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	3.1	7.7	2.7	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Arrears restructuring and deferral		7.1	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current maturities restructuring and deferral	0.0	0.5	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	0.6	-0.4	0.5	1.0	-0.8	0.6	1.4	0.5	-0.8	-0.9	-0.2
Bank financing	0.6	-0.4	0.5	1.0	-0.8	0.6	1.4	0.5	-0.8	-0.9	-0.2
Central bank	0.7	-0.4	1.0	1.0	-0.8	0.6	1.5	0.6	-0.7	-0.8	-0.2
Of which: IMF (net) [2]	0.9	0.5	0.4	0.8	0.8	0.8	0.8	-0.1	-0.3	-0.4	-0.4
Commercial banks	-0.1	0.0	-0.5	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
Financing gap (+ = underfinancing) [2]	0.0	0.0	0.0	0.0	0.0	1.9	0.0	1.2	2.2	2.1	0.9
Memorandum items:											
GDP (nominal)	189,536	201,841	216,011	228,294	227,801	244,294	243,253	261,096	280,041	300,798	322,929
Wages in percentage of revenues	64.5	64.1	52.9	57.4	44.1	52.4	52.2	49.3	46.3	44.2	42.4

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

[1] Revenue for 2011-12 includes exceptional "economic citizenship program" receipts (about 3 percent of GDP each year).

[2] Program projections for 2013 incorporate all identified budget support and anticipated net UFR, with zero net fiscal financing gaps.

[3] 2010 revenues received in early 2011; and, for 2013, HIPC and MDRI savings to be allocated in revised 2013 budget.

[4] For 2009 includes further deferral of arrears to the HIPC decision point, following which these arrears are assumed to be cleared through restructuring or further deferral.

Table 4. Consolidated Government Fiscal Operations, 2011–13
(In millions of Comorian francs, cumulative, unless otherwise indicated)

	2011	2012							2013	
		Mar	Jun		Sep		Dec		Mar	Jun
			Prog 3rd Review	Prel.	Prog 3rd Review	Proj.	Prog 3rd Review	Proj.	Proj.	
Total revenue and grants	50,907	13,865	30,872	32,309	45,074	48,729	57,760	64,678	73,540	88,352
Revenues [1]	34,793	8,614	16,052	22,299	24,029	33,683	31,847	41,466	7,796	16,662
Tax revenues	23,520	6,249	12,311	12,472	19,700	19,696	26,871	26,884	6,751	13,539
Direct and indirect taxes	12,412	3,508	6,221	7,415	10,199	11,439	14,690	15,529	3,995	8,152
Taxes on international trade and transactions	11,108	2,741	6,090	5,057	9,501	8,257	12,181	11,355	2,756	5,387
Nontax revenues	11,273	2,365	3,741	9,827	4,330	13,987	4,976	14,581	1,045	3,122
External grants	16,114	5,250	14,819	10,010	21,044	15,045	25,913	23,213	65,745	71,690
Budgetary assistance [2]	53	0	2,460	0	3,444	0	5,151	2,500	2,460	3,045
Projects (incl. techn.assist.)	15,135	4,944	11,869	9,502	16,814	14,255	19,781	19,739	5,361	10,721
HIPC and MDRI assistance	926	306	491	508	786	790	980	974	57,924	57,924
Total expenditure and net lending	47,793	13,811	29,566	27,786	44,343	42,709	56,312	58,819	14,722	29,757
Current expenditure	35,785	9,607	18,861	20,656	29,132	31,794	37,939	38,976	9,520	19,353
Primary current expenditures	29,959	7,707	14,557	15,534	22,919	24,015	30,558	31,611	7,728	15,769
Wages and salaries	18,409	4,564	9,144	9,118	13,716	13,696	18,288	18,282	4,593	8,928
Goods and services	7,662	1,793	3,355	4,205	6,116	6,950	8,154	8,924	1,919	4,407
Transfers and pensions	3,889	1,350	2,058	2,211	3,087	3,369	4,116	4,406	1,217	2,434
Interest payments	952	308	481	463	798	792	1,010	1,007	66	131
External debt	743	266	367	378	626	629	782	780	23	46
Before rescheduling	652	248	313	324	550	553	633	631	…	…
On restructured obligations	91	17	54	54	77	77	148	148	…	…
Domestic debt	209	42	114	85	171	162	229	228	43	85
Foreign-financed project maintenance	2,636	282	677	30	960	45	1,129	1,127	306	612
Technical assistance	2,238	1,310	3,145	4,628	4,455	6,943	5,242	5,230	1,420	2,841
Capital expenditure	11,708	4,205	10,355	6,781	14,861	10,065	18,022	18,994	5,202	10,404
Domestically financed investment	1,417	845	1,955	1,933	2,932	2,793	3,909	4,910	1,251	2,503
Foreign-financed investment	10,291	3,360	8,065	4,848	11,425	7,272	13,441	13,412	3,768	7,536
Counterpart funds-financed	0	0	336	0	504	0	672	672	182	365
Net lending	300	0	350	350	350	850	350	850	0	0
Domestic primary balance	3,417	63	-460	4,833	-1,821	6,876	-2,621	4,945	-1,184	-1,610
Overall balance (commitment basis)	3,114	53	1,305	4,523	731	6,020	1,448	5,859	58,818	58,596
Excluding grants	-13,000	-5,197	-13,514	-5,487	-20,313	-9,026	-24,465	-17,354	-6,927	-13,095
Change in net arrears	-7,281	-684	-750	-780	-864	-1,127	-1,152	-1,532	-529	-1,058
Interest on external debt	-1,662	0	0	0	0	0	0	-180	0	0
Domestic arrears	-5,619	-684	-750	-780	-864	-1,127	-1,152	-1,352	-529	-1,058
Repayment	-7,985	-684	-750	-780	-864	-1,127	-1,152	-1,352	-529	-1,058
Accumulation	2,366	0	0	0	0	0	0	0	0	0
of which: Float	2,071	0	0	0	0	0	0	0	0	0
Overall balance (cash basis)	-4,167	-631	556	3,743	-133	4,893	296	4,327	58,289	57,537
Excluding grants	-20,280	-5,881	-14,263	-6,267	-21,177	-10,153	-25,616	-18,886	-7,456	-14,153
Special adjustment [3]	3,900	0	0	0	0	0	0	0	-3,088	-3,460
Errors and omissions (+ = underfinancing)	-419	-438	0	517	0	-156	0	0	0	0
Financing	685	1,069	-556	-4,260	133	-4,736	-296	-4,327	-55,201	-54,077
Foreign (net)	-404	-747	-1,064	-1,113	-1,893	-1,915	-2,510	-2,479	-55,731	-55,608
Drawings, PIP (identified)	31	8	18	5	26	5	31	30	134	268
Amortization	-2,772	-861	-1,265	-1,305	-2,102	-2,107	-2,755	-2,727	-55,865	-55,876
Before rescheduling	-2,443	-771	-1,124	-1,163	-1,871	-1,873	-2,424	-2,391	…	…
On restructured obligations	-330	-91	-140	-141	-231	-234	-332	-336	…	…
Change in net arrears (principal)	-3,470	0	0	0	0	0	0	0	0	0
Exceptional financing	5,808	106	182	187	182	187	215	218	0	0
Arrears restructuring and deferral	5,014	0	0	0	0	0	0	0	0	0
Current maturities restructuring and deferral	794	106	182	187	182	187	215	218	0	0
Domestic (net)	1,089	1,816	508	-3,147	2,026	-2,821	2,214	-1,848	530	1,531
Bank financing	1,089	1,816	508	-3,147	2,026	-2,821	2,214	-1,848	530	1,531
Central bank	2,260	1,806	508	-3,183	2,026	-3,332	2,214	-1,848	574	1,619
Of which: IMF (net) [2]	891	0	915	921	915	921	1,829	1,843	0	
Commercial banks	-1,171	10	0	36	0	511	0	0	-44	-89
Financing gap (+ = underfinancing) [2]	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
GDP (nominal)	216,011	227,801	228,294	227,801	228,294	227,801	228,294	227,801	227,801	227,801
Wages in percentage of revenues	52.9	53.0	57.0	40.9	57.1	40.7	57.4	44.1	58.9	53.6

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

[1] Revenue for 2011-12 includes exceptional "economic citizenship program" receipts (about 3 percent of GDP each year).

[2] Program projections for 2013 incorporate all identified budget support and anticipated net UFR, with zero net fiscal financing gaps.

[3] 2010 revenues received in early 2011; and, for 2013, HIPC and MDRI savings to be allocated in revised 2013 budget.

Table 5. Monetary Survey, 2009–17
(In millions of Comorian francs)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Prel.	Projections				
Net foreign assets	44,114	45,974	53,878	60,354	66,714	72,267	79,888	87,840	96,279
Central bank assets	51,601	53,810	59,859	71,468	77,485	82,700	89,459	96,278	103,408
Central bank liabilities	-8,108	-9,475	-10,732	-12,574	-12,374	-12,103	-11,325	-10,260	-9,004
Commercial banks assets	2,089	5,023	8,655	6,439	6,706	6,978	7,274	7,563	7,845
Commercial banks liabilities	-1,468	-3,384	-3,905	-4,979	-5,103	-5,307	-5,520	-5,740	-5,970
Net domestic assets	13,457	22,772	21,451	19,087	14,641	15,349	14,402	13,438	12,451
Domestic credit	37,095	43,680	45,831	47,748	55,943	62,430	65,981	69,728	76,307
Net credit to government [1]	7,266	5,743	6,016	4,168	7,692	8,992	6,782	4,133	3,607
Of which: Treasury	9,604	8,885	9,974	8,126	11,650	12,951	10,741	8,091	7,565
Claims on public enterprises	1,303	2,232	1,341	1,341	1,341	1,341	1,341	1,341	1,341
Claims on other financial institutions	476	86	-21	-21	-21	-21	-21	-21	-21
Claims on private sector	28,048	35,304	38,275	42,260	46,931	52,118	57,878	64,276	71,380
Other items net	-23,638	-20,908	-24,379	-28,661	-41,301	-47,081	-51,579	-56,290	-63,856
Broad money	57,571	68,747	75,329	79,441	81,355	87,616	94,290	101,279	108,730
Money	35,754	42,650	48,820	50,822	50,796	54,815	59,109	63,490	68,161
Currency in circulation	14,291	18,115	19,985	23,344	23,907	25,746	27,707	29,761	31,951
Demand deposits	21,464	24,534	28,835	27,479	26,889	29,069	31,401	33,729	36,211
Quasi-money	21,817	26,097	26,509	28,618	30,559	32,801	35,181	37,789	40,569
Memorandum items (in percent of beginning period broad money):									
Net foreign assets	7.7	3.2	11.5	8.6	8.0	6.8	8.7	8.4	8.3
Net domestic assets	5.6	16.2	-1.9	-3.1	-5.6	0.9	-1.1	-1.0	-1.0
Domestic credit	19.1	11.4	3.1	2.5	10.3	8.0	4.1	4.0	6.5
Net credit to government	4.0	-2.6	0.4	-2.5	4.4	1.6	-2.5	-2.8	-0.5
Credit to public enterprises	-2.8	1.6	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	16.9	12.6	4.3	5.3	5.9	6.4	6.6	6.8	7.0
Other items (net)	-13.4	4.7	-5.0	-5.7	-15.9	-7.1	-5.1	-5.0	-7.5
Broad money	13.3	19.4	9.6	5.5	2.4	7.7	7.6	7.4	7.4
Money	1.9	12.0	9.0	2.7	0.0	4.9	4.9	4.6	4.6
Quasi-money	11.4	7.4	0.6	2.8	2.4	2.8	2.7	2.8	2.7
Velocity (GDP/end-year broad money)	3.3	2.9	2.9	2.9	3.0	3.0	3.0	3.0	3.0
Credit to private sector (percent change)	44.1	25.9	8.4	10.4	11.1	11.1	11.1	11.1	11.1

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

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

Table 6. Balance of Payments, 2009–17

(In millions of Comorian francs, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Prel.	Projections				
Current account	-14,735	-11,473	-19,547	-15,775	-14,670	-22,380	-21,577	-22,137	-22,197
Goods and services	-62,898	-69,038	-73,308	-80,213	-79,480	-79,224	-78,505	-81,537	-83,470
Trade balance	-53,386	-58,218	-61,686	-66,660	-67,415	-68,556	-69,600	-73,683	-75,973
Exports	6,659	7,656	8,908	9,434	10,060	10,918	11,847	12,847	13,454
Of which: Vanilla	645	309	350	359	372	394	418	435	452
Cloves	3,221	5,410	6,361	6,712	7,155	7,813	8,529	9,311	9,685
Ylang-ylang	762	881	745	786	830	881	934	991	1,051
Other	2,031	1,056	1,451	1,576	1,702	1,830	1,966	2,111	2,265
Imports (f.o.b.)	-60,045	-65,874	-70,594	-76,094	-77,475	-79,474	-81,447	-86,531	-89,427
HIPC and MDRI assistance	-12,356	-17,327	-22,190	-24,187	-23,684	-23,378	-23,166	-22,965	-22,829
Services (net)	-9,512	-10,819	-11,622	-13,553	-12,065	-10,668	-8,905	-7,853	-7,497
Receipts	20,806	24,092	26,135	28,772	31,597	34,719	38,156	41,996	44,797
Payments	-30,318	-34,911	-37,757	-42,325	-43,662	-45,387	-47,061	-49,849	-52,293
Income (net)	-168	-851	-151	-521	-2	-154	-363	35	451
Credit	547	20	592	259	90	6	-137	330	812
Debit	-715	-871	-743	-780	-92	-160	-225	-294	-361
Of which: Interest on rescheduled obligations		-145	-91	-148	-17	-33	-40	-43	-38
Current transfers (net)	48,331	58,415	53,912	64,959	64,812	56,998	57,291	59,364	60,822
Government	10,649	24,237	13,863	20,697	18,488	9,896	9,400	9,400	8,698
Of which: HIPC interim assistance		103	198	205	8,473	0	0	0	0
Private	37,682	34,179	40,049	44,262	46,324	47,102	47,891	49,964	52,125
Capital and financial account	14,298	17,753	22,453	25,323	15,706	24,749	22,837	23,600	27,640
Capital account	10,771	9,407	11,019	14,181	67,814	16,505	17,703	19,015	20,414
Capital transfers	10,771	9,407	11,019	14,181	67,814	16,505	17,703	19,015	20,414
Transfer of fixed assets	7,266	9,073	10,291	13,412	15,072	16,505	17,703	19,015	20,414
HIPC interim assistance		334	729	768	57,924	0	0		
Liabilities cancellation	0	0	0	0	0	0	0	0	0
Financial account	3,527	8,346	11,433	11,142	-52,108	8,244	5,134	4,585	7,226
Direct investment	4,882	3,099	8,171	6,496	6,804	6,835	6,872	6,911	6,952
Net portfolio and other investment	-1,355	5,247	11,938	4,864	-53,730	4,525	4,539	4,095	3,218
Government	-6,318	-2,225	-2,742	-2,697	-55,362	173	-226	-476	-568
Drawings	60	548	31	30	535	548	588	632	678
SDR allocations	4,139								
Amortization	-2,239	-2,773	-2,772	-2,727	-42	-375	-814	-1,107	-1,246
Before rescheduling		-2,503	-2,443	-2,391	-35	-285	-564	-701	-787
On restructured obligations		-271	-330	-336	-7	-90	-250	-407	-459
Private sector (net)	4,963	7,472	6,004	7,343	-3,551	1,235	-1,513	-1,851	842
Banks, net	2,101	-1,019	-3,111	3,290	-142	-68	-84	-68	-52
Other	2,862	8,491	9,115	4,053	-3,408	1,303	-1,429	-1,783	894
Errors and omissions	4,793	-22,698	-2,888	0	0	0	0	0	0
Overall balance	-661	-16,418	-6,771	9,548	1,035	2,369	1,260	1,463	5,443
Financing	661	16,418	3,882	-9,548	-1,035	-5,485	-7,537	-7,884	-8,387
NFA of central bank (increase -)	-6,012	-841	-4,793	-9,766	-6,218	-5,485	-7,537	-7,884	-8,387
Foreign assets	-11,741	-2,208	-6,050	-11,608	-6,018	-5,214	-6,759	-6,819	-7,131
Foreign liabilities	5,729	1,367	1,257	1,843	-200	-271	-778	-1,065	-1,257
Of which: Net IMF Credit	1,697	920	891	1,843	1,870	-271	-778	-1,065	-1,257
Net change in arrears	-1,427	-1,202	0	0	0	0	0	0	0
Clearance of deferred arrears and debt service [1]	-5,016								
Exceptional financing	8,099	18,462	8,675	218	5,182	0	0	0	0
Arrears restructuring and deferral		14,415	5,014	180	0	0	0	0	0
Current maturities restructuring and deferral		1,059	794	218	0	0	0	0	0
Financing gap	0	0	0	0	0	3,116	6,277	6,421	2,944
Memorandum items:									
Current account (percentage of GDP)	-7.8	-5.7	-9.0	-6.9	-6.0	-8.6	-7.7	-7.4	-6.9
Excluding transfers	-33.3	-34.6	-34.0	-35.4	-32.7	-30.4	-28.2	-27.1	-25.7
Exports of goods and services (percentage of GDP	-14.5	-15.7	-16.2	-16.8	-17.1	-17.5	-17.9	-18.2	-18.0
Imports of goods and services (percentage of GDP	47.7	49.9	50.2	52.0	49.8	47.8	45.9	45.3	43.9
Gross international reserves (millions of U.S. dollars	146.0	144.2	170.1	187.5	194.5	207.0	223.1	239.2	255.9
In months of imports of goods and services	6.8	6.4	6.7	7.2	7.7	7.9	8.3	8.5	8.7

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

[1] For 2009 includes further deferral of arrears to the HIPC decision point, following which these arrears are assumed to be cleared through restructuring or further deferral.

Table 7. Education and Health Expenditure, 2009–13
(In millions of Comorian francs)

	2009	2010	2011	2012	2013
Education	10,089	10,794	11,675	10,786	13,653
Wages	7,597	8,528	8,954	8,302	10,512
Goods and services	145	193	420	350	344
Transfers	649	1,054	913	1,188	1,196
Capital	1,698	1,019	1,388	946	1,602
Domestically funded	0	78	400	550	696
Foreign funded	1,698	941	988	396	906
Health	3,195	2,866	3,100	5,893	4,633
Wages	1,361	1,084	1,138	860	1,526
Goods and services	6	70	120	36	82
Transfers	130	934	775	1,298	969
Capital	1,698	778	1,066	3,699	2,055
Domestically funded	0	0	250	450	366
Foreign funded	1,698	778	816	3,249	1,689
Total education and health	13,284	13,660	14,775	16,680	18,285
Domestically funded	9,888	11,941	12,970	13,034	14,908
Domestically funded, in percent of GDP	5.2	5.9	6.0	5.7	6.1
Memorandum item:					
GDP, in millions of CF francs	189,536	201,841	216,011	227,801	243,253

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

Table 8. Indicators of Capacity to Repay the Fund, 2009–23

	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	0.45	1.29	1.76	1.91	1.91	1.47	0.62	0.16	0.00	0.00
Charges and interest [1]	0.02	0.00	0.00	0.00	0.01	0.02	0.02	0.02	0.01	0.01	0.00	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	0.45	1.29	1.76	2.07	2.69	2.71	1.87	1.40	1.09	0.47
Charges and interest [1]	0.03	0.00	0.00	0.00	0.01	0.04	0.04	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	0.5	1.3	1.8	2.1	2.7	2.7	1.9	1.4	1.1	0.5
In millions of CF	622.8	0.0	0.0	0.0	6.0	294.7	802.4	1,083.3	1,274.7	1,645.0	1,657.1	1,141.2	855.9	661.6	285.3
In percent of government revenue	2.4	0.0	0.0	0.0	0.0	0.8	1.9	2.3	2.5	3.0	2.8	1.8	1.2	0.9	0.3
In percent of exports of goods and services	2.3	0.0	0.0	0.0	0.0	0.6	1.6	2.0	2.2	2.7	2.5	1.6	1.2	0.8	0.3
In percent of debt service [3]	21.1	0.0	0.0	0.0	0.0	55.1	77.2	77.3	79.3	80.1	66.4	48.4	36.3	25.0	11.3
In percent of GDP	0.3	0.0	0.0	0.0	0.0	0.1	0.3	0.4	0.4	0.5	0.4	0.3	0.2	0.1	0.1
In percent of quota	12.8	0.0	0.0	0.0	0.1	5.5	14.9	20.1	23.6	30.4	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	15.8	15.4	14.1	12.3	10.2	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	7,499.1	9,482.8	9,232.6	8,482.5	7,443.7	6,215.7	4,576.8	2,931.8	1,796.7	946.9	285.3	0.0
In percent of government revenue	13.3	15.7	15.4	18.1	26.9	23.9	20.0	16.1	12.4	8.4	4.9	2.8	1.4	0.4	0.0
In percent of exports of goods and services	12.8	14.3	15.2	19.6	22.8	20.2	17.0	13.6	10.7	7.4	4.5	2.6	1.3	0.4	0.0
In percent of debt service [3]	119.0	181.6	197.7	235.8	16.3	1,726.5	816.2	531.1	386.7	222.7	117.4	76.2	40.1	10.8	0.0
In percent of GDP	1.9	2.2	2.5	3.3	3.9	3.5	3.0	2.5	1.9	1.3	0.8	0.4	0.2	0.1	0.0
In percent of quota	72.5	90.0	107.5	142.5	177.5	172.5	158.0	138.2	115.1	84.7	54.3	33.3	17.5	5.3	0.0
Net use of Fund credit (millions of SDRs)	3.1	1.6	1.6	3.1	3.1	-0.5	-1.3	-1.8	-2.1	-2.7	-2.7	-1.9	-1.4	-1.1	-0.5
Disbursements	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
Repayment and Repurchases	1.1	0.0	0.0	0.0	0.0	0.5	1.3	1.8	2.1	2.7	2.7	1.9	1.4	1.1	0.5
Memorandum items															
Nominal GDP (millions of CF)	189,536	201,841	216,011	227,801	243,253	261,096	280,041	300,798	322,929	345,457	371,547	399,842	430,544	463,878	500,091
Exports of goods and services (millions of CF)	27,465	31,747	35,043	38,206	41,657	45,637	50,003	54,843	58,250	61,892	65,786	69,953	74,412	79,228	84,473
Government revenue (millions of CF)	26,401	28,875	34,793	41,466	35,245	38,670	42,484	46,208	50,271	54,623	59,302	64,381	68,728	74,732	82,270
Debt service (millions of CF) [2]	2,954	2,496	2,702	3,180	58,059	535	1,039	1,402	1,607	2,055	2,497	2,357	2,361	2,649	2,533
CF/SDR (period average)	545	566	558												

Sources: IMF staff estimates and projections.

[1] Temporary waiver of interest payments on PRGT borrowing until December 2012 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 9. 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,	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,	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,	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 1—LETTER OF INTENT

Moroni, November 30, 2012

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

Dear Ms. Lagarde,

1. After decades of instability, the Union of the Comoros is entering a new era of peace, political calm, and renewed efforts to combat poverty. In this new context, the government intends to pursue with increased rigor the program of economic and social reforms supported by the IMF under the Extended Credit Facility (ECF). The main program measures are based on the national Poverty Reduction Strategy Paper (PRSP) adopted in 2009; its key objectives remain the expansion of fiscal space to permit increased spending on priority sectors and support growth, and increased competitiveness of the economy to promote strong, inclusive growth.

2. As expressed in our discussions with Fund staff for the fourth review of the ECF-supported program, we report that all relevant performance criteria, including the quantitative targets for the period ending June 30, 2012, were met. In particular, solid revenue collection and rigorous monitoring of expenditures helped to maintain net credit to the government within program limits; and the accumulation of new payment arrears was avoided thanks to stricter monitoring of treasury operations. Implementation of the structural program component was also satisfactory, with the timely adoption of measures programmed for the above deadline: Parliament's adoption of the law creating the General Tax Administration and the establishment of the new list of government personnel to implement the recommendations of the recent civil service census.

3. The government is determined to stay the course with the fiscal consolidation and structural reform efforts under way in order to strengthen fiscal and macroeconomic sustainability and restore lasting growth. To this end, it will ensure that its revenue targets are met and maintain the wage bill within limits compatible with its capacity to mobilize domestic revenue. Cognizant of the need to strengthen economic competitiveness, the government plans to step up implementation of its structural reform program, particularly the restructuring of public enterprises. In view of the satisfactory performance and favorable outlook for the program, the government requests the completion of the fourth review under the ECF arrangement and the disbursement of related ECF resources. Furthermore, confident that it has successfully executed all except one of the triggers for the Heavily Indebted Poor Countries (HIPC) Initiative completion point, for which a waiver is being requested, the government requests access for Union of the Comoros to the debt relief benefits under the HIPC Initiative and the Multilateral Debt Reduction Initiative (MDRI).

4. Macroeconomic developments were generally favorable in 2012. The rate of real GDP growth is projected at 2.5 percent, supported by construction and private consumption sustained by transfers from the Diaspora, and by financial support and investments by foreign public and private partners. Inflation has declined moderately, reflecting a relatively less difficult international context than in 2011, despite the flooding that had affected food crop production in the second quarter. The current account deficit is expected to decline significantly, primarily due to a strong rebound in current public and private transfers. The improvements in the public financial position begun in 2011 continued, and the domestic primary budget balance is expected to post a surplus of 2.2 percent of GDP, reflecting the impact of increased efforts to mobilize domestic resources, exceptionally high receipts from the economic citizenship program, and renewed control of the wage bill.

5. The architecture and basic objectives of the ECF-supported program remain unchanged. As indicated in the accompanying memorandum of economic and financial policies, the government will continue to conduct a prudent fiscal policy with support from the IMF, ensuring the preservation of resources allocated to social sectors in support of its efforts to combat poverty. The government also intends to expedite the structural reforms needed to strengthen the competitiveness of the Comorian economy. The Government believes that the policies set forth in this letter and the MEFP are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures and in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. We intend to remain in close consultation with Fund staff and provide timely information necessary for monitoring economic developments and implementation of policies under the ECF arrangement. It is expected that the fifth review of the ECF arrangement will take place on or after March 15, 2013, and that the sixth review will be completed on or after September 2013.

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 fourth review of our ECF-supported program.

Sincerely yours,

/s/

Ikililou Dhoinine
President of the Union of the Comoros

/s/

Mohamed Ali Soilihi
Vice President in charge of the Ministry of Finance, Economy, Budget, Investment, and Foreign Trade

/s/

Mzé Abdou Mohamed Chanfiou
Governor, Central Bank of the Comoros

ATTACHMENT 1: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2013

I. INTRODUCTION

1. This memorandum takes stock of progress made in 2011–12 in implementing the 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 and program implementation

2. Economic activity is gradually gaining momentum. According to projections, real GDP growth should rise modestly to 2.5 percent in 2012, buoyed by sustained activity in the construction and public works sector, a reasonably good harvest of cash crops, the resilience of remittances from expatriate workers, increased external financial support, and a modest return of foreign direct investment (FDI). Inflation is projected at 5 percent year-on-year, reflecting the euro's depreciation vis-à-vis the dollar and the impact of the April 2012 floods on the supply of locally produced foodstuffs. Inflation would nonetheless be lower than last year (7 percent), contained by reduced pressure on international prices of key imports.

3. The fiscal position improved considerably in 2012, reflecting satisfactory revenue mobilization and more effective control of spending, particularly the wage bill. Revenue is expected to exceed the targeted 14 percent of GDP and reach 18.2 percent of GDP thanks to increased collection of direct and indirect taxes and a marked increase in revenue from the economic citizenship program; the latter will increase to 4.5 percent of GDP in 2012 compared with a target of 1.4percent of GDP under the program, or a gain equivalent to 3.1 percent of GDP. The government has decided to save the bulk of the windfall (1.8 percent of GDP), and to allocate the remainder to urgent expenditures to rehabilitate infrastructure, primarily roads, and to spending on the malaria and HIV/AIDS program managed jointly with the World Health Organization (WHO, 1 percent of GDP); as well as to a short-term loan to the financially strained national oil importing company to help secure an adequate supply of imported petroleum products (0.2 percent of GDP). Under these circumstances, with the wage bill maintained within the programmed envelope, (i) the primary fiscal balance is expected to record a surplus of 2.2 percent of GDP (1.6 percent in 2011), and (ii) net bank financing to the government is expected to decline by 0.8 percent of GDP as against an expansion of 1 percent of GDP projected under the program.

4. The current account deficit is expected to narrow significantly in 2012. According to projections, the external current account deficit is expected to fall to 6.9 percent of GDP (9 percent in 2011), reflecting the relatively strong performance of clove exports and sharp rise in public and private transfers, despite the increase in imports financed by external assistance and resulting from the rebound of FDI, including fuel imports. International reserves are expected to increase to the equivalent of at least seven months of non-factor goods and services imports by end-2012.

5. Determined to reduce external debt to a sustainable level, the government has implemented the triggers for reaching the Heavily Indebted Poor Countries (HIPC) Initiative and expect to obtain substantial debt relief under the HIPC and Multilateral Debt Reduction (MDRI) initiatives. As a result, the net present value of external debt should be reduced to the equivalent of 78.9 percent of goods and services exports at end-December 2012 from 233.8 in 2011, representing a reduction of 64.3 percent.

B. Program implementation

6. Implementation of the ECF-supported program was satisfactory in 2012 (Tables 1 and 2). All quantitative performance criteria and indicative targets, as were the structural benchmarks, for end-June were met. Revenue exceeded the programmed target by 2.7 percent of GDP (9.7 percent against 7 percent), the result of solid tax collection and continued high levels of nontax receipts from the economic citizenship program. The wage bill remained within the established target, but current primary expenditures were higher than planned due to emergency purchases of goods and services for victims of the flooding caused by heavy rainfall in April and to the rehabilitation of roads and some sports infrastructures pursuant to longstanding sub-regional commitments. The primary domestic budget posted a surplus equivalent to 2.1 percent of GDP, while the program provided for a deficit of 0.2 percent, and the performance criteria relating to net bank credit to the government was observed with a large margin, despite budgetary support falling short of the program objective by roughly 1 percent of GDP. The solid performance in the fiscal area continued in the third quarter. On the structural front, five of the six program benchmarks for end-June and end-September were observed. In particular, Parliament adopted the law creating the new tax and property administration and providing for improved functional integration; and the government prepared a new list of government employees conforming to the results of the civil service census – an indispensable measure for improved control of the wage bill. In addition, the strategy to reform the water and electricity utility (MA-MWE) was adopted. However, implementation of the new civil service organizational frameworks (*cadres organiques*, ministry staffing allocations), initially planned for end-September, is not expected to begin until January 2013 following long technical delays for various upstream actions, including filling in of newly budgeted positions by the regional entities.

III. ECONOMIC AND FINANCIAL POLICIES FOR 2013

A. Macroeconomic Framework

7. Real GDP growth is projected to rise to 3.5 percent in 2013, with lower inflation reflecting the continued easing of pressure on international fuel and food prices. Growth will continue to be driven primarily by activity in foodcrop agriculture thanks to satisfactory rainfall, and by continuing recovery of the construction and public works sector, which is expected to benefit from increased foreign aid, remittances from the Diaspora, and renewed FDI, including in the hotel industry. Year-on-year inflation is expected to recede to around 3.6 percent. In the external sector, the current account deficit is expected to be contained at 7.3 percent of GDP.

B. Fiscal Policy

8. **In 2013, the government is committed to rigorous execution of its fiscal policy supported by the IMF under the ECF.** The domestic primary fiscal deficit (excluding exceptional economic citizenship receipts) should be contained at the equivalent of 0.9 percent of GDP (1.2 percent in 2011/12). To this end, the government will step up efforts to mobilize revenue by increasing the efficiency of the tax and customs administrations. If external budgetary support exceeds the programmed amounts, the government will consult Fund staff regarding utilization of the windfall and will prepare a supplemental budget providing for allocation of the resources. In that context, the government will accord priority to clearing domestic payment arrears and increasing its reserves and deposits with the BCC.

9. **Domestic revenue is expected to increase to the equivalent of 14.5 percent of GDP in 2013 and expenditures to remain within 25 percent of GDP, with the wage bill representing 7.6 percent of GDP**. Efforts to mobilize revenue will rely chiefly on continuation of the reforms to increase efficiency in the tax and customs authorities as described in paragraph 19 below. Control of spending, particularly wages, will also be intensified (paragraphs 19b and 20). The budget contribution to investment expenditures will be increased to 2.1 percent of GDP (1.5 percent of GDP in 2011-2012), and spending for the social sectors of education and health will be increased to CF 13.908 billion (CF 13.034 billion in 2012). The government will continue to strengthen cash flow monitoring to prevent any new accumulation of domestic payment arrears and ensure regular, timely payment of monthly wages to government employees.

10. **The overall fiscal position (cash basis, including grants) is projected to be nearly in balance in 2013.** The government's net financing needs will be covered entirely by financial support from partners in the Gulf region, the IMF, the African Development Bank (AfDB), and the World Bank. If revenue or grants fall below programmed amounts, the government will take appropriate offsetting measures including reduced spending for goods and services consumption and equipment purchases and more vigorous collection of tax arrears.

C. Money, Credit, and the Financial System

11. **Monetary policy will remain prudent.** It will aim to preserve the stability of prices and the macroeconomic framework while ensuring adequate supply of liquidity to the economy. In this context, the required reserves ratio was reduced to 20 percent in 2012. The rapid expansion of broad money in recent years is expected to stabilize, and credit to the private sector should increase to 11 percent in 2013. After strengthening its bank supervision department, the BCC intends to expedite the implementation of a credit information repository (*centrale des risques*) to promote the sound development of credit in the context of expanded financial intermediation

in the Comoros. The BCC will also continue to implement the recommendations of the 2010 safeguards assessment, including the mandated routine and timely publication of its financial statements in accordance with applicable international standards. Publication of the 2011 BCC audited financial statement has been delayed, but will take place by end-December 2012.

12. Financial strengthening of the banking system remains a priority. The majority of financial institutions saw improved profitability and a decline in the large proportion of nonperforming loans in their portfolios in 2012. The BCC is supporting these improvements and intends to push them further in the coming years by ensuring that the country's banks and financial institutions adhere strictly to prudential standards. The reform of the banking system will focus on privatizing the Comoros Development Bank (BDC) and restructuring the National Postal and Financial Services Company (SNPSF), including separation of the banking and postal functions and the sale of a substantial stake to a new foreign partner. The details of this key reform are in preparation and expected to be available by end-March 2013. The BCC, under the government's direction, expects to ensure prompt implementation in due course.

D. Balance of Payments and External Debt

13. The external current account deficit, including grants and private and official transfers, is expected to narrow to further to 6 percent of GDP in 2013 (6.9 percent of GDP in 2012). This notably reflects a pickup in tourism services and the impact of received HIPC/MDRI debt relief, despite a decline in current public transfers after a sharp increase in 2012. In a context of improved terms of trade, the trade balance should not decline significantly, and according to projections, international reserves will represent the equivalent of 7.7 months of goods and services imports in 2013.

14. In the past two years the government successfully executed the triggers for the HIPC Initiative completion point. This will help the Union of the Comoros achieve not only debt relief under the HIPC Initiative but also substantial debt reductions under the MDRI. The net present value of the external debt to export ratio is expected to decline to 78.9 percent of GDP by end-December 2012. The union of the Comoros appreciates the debt reduction accorded by its creditors, which will enable it to devote additional resources to support its development efforts.

15. To preserve the renewed sustainability of our external debt, the government will continue pursuing a prudent budget policy and develop a comprehensive new debt strategy. In this context, the government will ensure that its financing needs are largely covered by grants, and will contract debt only under concessional terms. As in the past, any external debt contracted or guaranteed by the government will be subject to the prior approval of the Ministry of Finance of the Union, and the islands governments 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.

E. Structural Policies

16. With assistance from the development partners, the government relaunched the reform of public enterprises. The reform focuses on privatization of Comores Télécom with support from the International Finance Corporation (IFC) and restructuring of the public electricity utility (MA-MWE) and oil importer and distributor Société Comorienne des Hydrocarbures (SCH) with technical assistance from the World Bank, the AfDB, and the European Union. The government recently completed the reform strategies for the three enterprises and plans to quickly proceed with implementation.

17. The restructuring of Comores Télécom will include the sale of 51 percent of shareholding to a strategic partner of international repute. To this end, the government issued a call for expressions of interest in late November 2012, preceded by the adoption of a social plan for the company in October. The government will ensure that the new partner is effectively involved in company management before end-June 2013.

18. The government is determined to take vigorous measures to substantially improve the management of MA-MWE and SCH. It has issued a call for expressions of interest to recruit a specialized partner in charge of invigorating MA-MWE's commercial operations. The collection rate for electricity consumption bills is extremely low in the Comoros, estimated at 30 percent. In addition to a flexible, cost-based, pricing policy, a substantial improvement in the rate of collections from the company's customers is a key prerequisite to a sustainable turnaround of its operations and financial position. With assistance from the World Bank, the government expects to make significant progress in these areas in the coming months. In the context of the energy sector strategy adopted in August 2012, the government plans to revitalize SCH through a series of actions supported by the World Bank and other partners. The most important initiatives concern: (i) the development of appropriate price structures for the various petroleum products sold and a better alignment of domestic petroleum products prices to relevant parameters entailing enhanced pricing flexibility, (ii) improved supervision of financial management and governance, and (ii) the development of an investment program designed to increase the capacity and improve the security of storage facilities.

19. Reforms in the area of public finance aim to enhance the efficiency of tax and customs administrations and improve control of the wage bill.

a. **The tax and customs administrations will function more effectively following:** (i) the start of operations of the new General Tax and Property Administration (AGID) in March 2013, (ii) the establishment of an electronic network between the country's four major customs offices by June 30, 2013 (a new structural benchmark), and (iii) increased financial and human resources for the joint tax-customs investigations brigade. The government will also continue to rigorously manage the large taxpayer registry and make full use of ad valorem taxation of imports in the context of a more effective management of the Moroni Port.

b. **To better control the wage bill in the medium term**, the government will continue to adhere strictly to the new automated personnel expenditure management system (GISE). In the near term, the government intends to limit the number of civil servants to the 10,521 employees validated under the 2011 census, a 19 percent reduction from the 13,000 reported prior to verification. It will implement the delayed new civil service organizational frameworks approved by the Parliament, beginning in January 2013. Those frameworks make room for 11,666 budgeted positions, representing the optimum size of the civil service. However, cognizant of the need to preserve the medium-term sustainability of the wage bill, the government will phase in the increase gradually, subject to the condition that the wage bill not exceeds the equivalent of 6 percent of GDP.

20. The government has begun development of an ambitious integrated public financial management system. It recently completed the system feasibility study with support from the World Bank. The system's deployment is expected to improve monitoring of government revenue and expenditures in all phases of the budget cycle and substantially improve the quality of budget execution. The new system is expected to be online before end-June 2013, at a cost of US$1.5 million fully covered by the AfDB.

21. By end-June 2013, the government will complete a new strategy to improve public financial management for the period 2014–2017 (a new structural benchmark). The document will assess progress made in this area in recent years and define the new reform measures needed to consolidate the gains and establish new bases for more sound management of government finance in the context of a second three-year reform program supported by the IMF under the ECF.

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

22. The second annual progress report on PRSP implementation, completed in October 2012, reviews activities completed in 2011. It reveal the establishment of some road infrastructures, a modest recovery in the tourism and fishing sectors, and progress with respect to growth, macroeconomic stability, institutional development, and political governance. At the same time, the report notes persistent shortcomings in implementing the poverty reduction strategy and weak capacity to absorb available resources, which limit tangible gains in the social sectors. The lack of updated data on poverty remains a major constraint. The government intends to improve the effectiveness of its poverty reduction strategy by making use of the report's conclusions and recommendations. In this context, it also plans to organize a national symposium on the promotion of the most productive sectors of the economy in order to identify policies and actions to remove constraints on the development of these sectors with strong growth potential. The government has also begun preparations for the third annual progress report on PRSP implementation, which is expected to be finalized in June 2013.

23. The government will continue its efforts to improve the socio-demographic and macroeconomic databases needed for effective design and monitoring of its development policy. It will continue to receive substantial technical assistance from the AfDB in this context, including in the preparation of the national accounts and consumer price index. The program to improve the quality of national accounts and consumer price statistics is expected to be completed in 2013. With support from the European Union, the government is implementing a program to strengthen the reform monitoring unit (CREF) capacities in the area of gathering, compiling, verifying, processing, and consolidating economic and financial data and preparing the table of government financial operations (TOFE).

IV. MONITORING OF PROGRAM EXECUTION AND REPHASING OF DISBURSEMENTS

24. The program monitoring will be based on quarterly targets with performance criteria established on a semiannual basis (Tables 1 and 2). The government will transmit information required for program monitoring to the IMF 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 any multiple currency practices, conclude any bilateral payment agreements that are inconsistent with Article VIII of the IMF Articles of Agreement, or impose any restrictions on imports for balance of payments purposes.

25. The fifth review of the ECF-supported arrangement will be conducted in June 2013. In the area of structural reforms, the review will focus primarily on measures to improve budget management and implementation of reforms of public 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 SCH.

Table 1. Comoros: Quantitative Performance Criteria, Benchmarks and Indicative Targets Under ECF Through End-June 2013 [1]

(In millions of Comorian francs, cumulative since end of previous year, unless otherwise specified)

	2012									2013	
	Mar.	Jun.				Sept.		Dec.		Mar.	June
	Est.	PC	Adj. PC	Actual		Indicative Target	Est.	PC	Proj.	Indicative Target	PC
Performance criteria											
1. Ceiling on net credit to government (NCG)	1,816	508		-3,147	met	2,026	-2,821	2,214	-1,848	530	1,531
2. Ceiling on the accumulation of new domestic payments arrears [2]	0	0		0	met	0	0	0	0	0	0
3. Ceiling on new nonconcessional external debt contracted or guaranteed by the government [3, 4]	0	0		0	met	0	0	0	0	0	0
4. Ceiling on new short-term external debt contracted or guaranteed by the government [3, 4]	0	0		0	met	0	0	0	0	0	0
5. Ceiling on accumulation of external debt service arrears [3]	0	0		0	met	0	0	0	0	0	0
Indicative targets											
6. Floor on the domestic primary balance	63	-460		4,833	met	-1,821	6,876	-2,621	4,945	-1,184	-1,610
7. Floor on total domestic revenues	8,614	16,052		22,299	met	24,029	33,683	31,847	41,466	7,796	16,662
8. Ceiling on expenditures by cash advances	150	150		150	met	150	150	150	150	150	150
9. Floor on domestically financed social spending								13,034	13,034		
10. Floor on gross reduction of domestic payment arrears [2]	-684	-750	0	-780	met	-864	-1,127	-1,152	-1,352	-529	-1,058

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

[2] Targets and realizations adjusted as specified in the TMU.

[3] Excluding trade credits.

[4] Monitored on a continuous basis.

Table 2. Proposed Structural Benchmarks for the ECF Arrangement, 2012–13

Measure	Macroeconomic Justification	Date	Status / Rev. Date
Structural benchmarks			
Public finance management			
Adopt the law establishing the new General Tax Administration (formerly the DGI)	Increase efficiency in tax administration	June 2012	Complete
Establish the new post-census payroll file	Improve control of the wage bill and public expenditures	June 2012	Complete
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	September 2012	Not met; reset to January 2013
Adapt the terms of reference for a feasibility study for a comprehensive automated public financial management system, including a cost estimate and implementation timetable for the proposed system	Improve monitoring of expenditures and overall budget execution; facilitate progress toward the HIPC completion point	September 2012	Complete
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	In progress
Appoint the board of directors of the new General Tax Administration	Increase efficiency in tax administration	March 31, 2013	In progress
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	New
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	New
Public enterprise reform			
Maintaining the flexible petroleum pricing mechanism	Ensure a reliable supply of petroleum products and limit budgetary pressures from subsidies	Continuous.	Met.
Approve the feasibility study for the new privatized MAMWE	Ensure a reliable supply of electrical energy and limit budgetary pressures from subsidies	September 2012	Complete
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	Complete

ATTACHMENT 2: TECHNICAL MEMORANDUM OF UNDERSTANDING

Moroni, November 30, 2012

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 report 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. New quantitative performance criteria are proposed for June 30, 2013 with respect to changes in net domestic credit to the government and the zero limit on accumulation of new domestic payment arrears; with indicative targets for March 31, 2013. The following performance criteria are proposed for monitoring 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, 2011.

Performance criteria

6. The amounts set out in Table 1 of the MEFP on net credit to government for December 31, 2012 and June 30, 2013 are ceilings and constitute performance criteria. The amounts set out in the above table for September 30, 2012 and March 31, 201 are ceilings and constitute indicative targets.

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 15^{th} 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 and December 31, 2012 constitute performance criteria. The zero limit on new domestic payment arrears for September 30, 2012 and March 31, 2013 constitute indicative targets.

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 debt1. 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.

III. INDICATIVE TARGETS

A. 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.

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

Indicative targets

21. The targets for the floor for the domestic primary fiscal balance, cumulative from the beginning of the 2012 and 2013 calendar years, respectively, are set at CF–1.821 billion for September 30, 2012; CF –2.621 billion for December 31, 2012; CF –1.184 billion for March 31, 2013; and CF –1.610 billion for June 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.

B. 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 floor for government revenue, cumulative from the beginning of calendar years 2012 and 2013, respectively, are set at CF 24.029 billion for September 30, 2012; CF 31.847 billion for December 31, 2012; CF 7.796 billion for March 31, 2013; and CF 16.662 billion for June 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.

C. 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 January 1, 2012 and 2013, respectively, is set at CF 150 million at September 30, 2012, December 31, 2012, March 31, 2013, and June 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.

D. 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 2012 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 for the period from January 1, 2013 to December 31, 2013 is set as CF 14.908 billion. 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.

E. 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 floor for reduction of gross domestic payment arrears, cumulative for the period from January 1, 2012 to December 31, 2012 and from January 1 to June 30, 2013, respectively, is set at CF -0.864 billion for September 30, 2012; CF -1.152 billion for December 31, 2012; CF -0.529 billion for March 31, 2013; and CF -1.058 billion for June 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 4.358 billion by end-September 2012; CF 6.980 billion by end-December 2012; CF 2.460 billion by March 31, 2013; and CF 3.980 billion by June 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

November 30, 2012

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By

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

CONTENTS

I. RELATIONS WITH THE FUND

(As of September 21, 2012)

I.	**Membership Status**: Joined September 21, 1976		Article VIII
II.	**General Resources Account**:	**SDR Millions**	**% Quota**
	Quota	8.90	100.00
	Fund holdings of currency	8.33	93.59
	Reserve position in Fund	0.58	6.50
III.	**SDR Department**:	**SDR Millions**	**% Allocation**
	Net cumulative allocation	8.50	100.00
	Holdings	11.35	133.43
IV.	**Outstanding Purchases and Loans**:	**SDR Millions**	**% Allocation**
	ESF RAC Loan	2.23	25.00
	ECF Arrangement	8.90	100.00

V. **Latest Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
ECF	Sep. 21, 2009	Dec. 31, 2013	13.57	8.90
SAF	Jun. 21, 1991	Jun. 20, 1994	3.15	2.25

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

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	0.00	0.00	0.45	1.29	1.76
Charges/interest	0.00	0.01	0.03	0.03	0.02
Total	0.00	0.01	0.47	1.32	1.78

VII. 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	Floating
II. Total disbursement of IMF assistance (SDR Million)	--

VIII. 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 has completed the audit of the financial statements for 2011. These will be published by end-December 2012.

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

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

XI. Article IV Consultation: The last Article IV consultation was concluded on January 21, 2011 (Country Report No. 11/72). Directors commended the Comorian authorities for their broadly satisfactory policies in a challenging political and economic environment. They welcomed the improved fiscal performance in the first half of 2010. Expressing concern at slippages later in the year, Directors welcomed the corrective steps taken and urged the authorities to implement expeditiously planned revenue and expenditure measures to strengthen the fiscal position. Directors underscored that achieving a higher growth path will require far reaching structural reforms to bolster competitiveness and increase the economy's ability to intermediate remittances and aid inflows. In particular, they stressed the need to improve the business environment and the management of public utilities.

XII. Recent Technical Assistance

Department	Dates	Subject
MFD	Jul. 2003	Mission to review the role of the central bank in banking supervision and to evaluate technical assistance needs
MFD	Sep–Oct. 2003	Mission to review the envisaged resumption of activities by the Comoros Development Bank, the possible opening of a postal bank, and the supervision of microfinance institutions
MFD	Feb. 2004	AML/CFT
MFD	Feb. 2004	Internal audit
MFD	Mar. & Oct. 2004/ Mar. & Dec. 2005	Bank supervision
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

XIII. Resident Representative: A resident representative post established in September 1991 was closed in December 1995; in the 2000s, the IMF's field operations in the country were managed by the resident office in Madagascar. The Comoros post was reestablished in May 2012.

II. JOINT WORLD BANK-IMF WORK PROGRAM, 2012–13

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 2. HIPC Completion Point Document 2. Country Assistance Strategy 3. Regional Telecom Project 4. Additional Funding for ABGE project – Financial Management/Public Sector Management 5. Additional Funding for FADC project – Social Safety Nets	Appraisal 9/12 Appraisal 9/12	Nov 2012 Dec 2012 Jan 2013 Jan 2013 Jan 2013 Nov 2013
IMF work program in next 12 months	1. Fourth ECF Review and Article IV consultation; HIPC CP 2. Policy paper on macroeconomic impact of remittances 3. Fifth ECF Review 4. Sixth ECF Review	September 2012 N/A March 2013 September 2013	December 2012: Board meeting March 2013 June 2013 : Board meeting Dec. 2013 : Board meeting
	B. Requests for work program inputs		
Fund request to Bank	Update on Bank's assistance in the area of PFM reforms and PRSP implementation		March 2013
Bank request to Fund	1. Sharing macro-framework updates		Continuous
	C. Agreement on joint products and missions		
Joint products in next 12 months	1. HIPC DSA, Completion Point 2. JSAN on second PRSP/APR 3. JSAN on third PRSP/APR		December 2012 December 2012 December 2013

III. 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 sixteen (16) operations and one (1) economic and sector work (ESW). Cumulative Bank Group commitments net of cancellation amounted to UA [58.88] million as of October 2012. These operations targeted the public sector and were mainly financed from ADF resources (83.6 percent). One (1) port infrastructure project was financed through the ADB window for a net UA 9.67 million representing 16.4 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 (40 percent), multi-sector (26 percent), water and sanitation (17 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 Boards of AfDB has approved a new Country Strategy Paper (CSP) for 2011-2015 based on a single pillar focusing on the energy sector in support to economic diversification. The new CSP draws on the Growth and Poverty Reduction Strategy Paper for 2010-2014 and will span 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 Fragility (FSF). These resources will primarily aim to finance (i) an energy sector project (UA 13.6 million) and (ii) a budget support (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.

3. As of 31 October 2012, the Bank's ongoing portfolio in Comoros funded under ADF 12 resources amounts to UA 16.5 Million comprising two 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). A comprehensive Energy Sector Support Project will be implemented early 2013 with co-financing from the World Bank and Qatar. A Country Portfolio Performance Review (CPPR) will be conducted in 2013.

C. Non Lending Activities

4. Along with other developing partners, AfDB aims to provide Comoros 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 and employment as well as private sector and commodity value chains.

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	19/11/09	31/12/13	5.86	9.08
Drinking Water and Sanitation Project	Public Utilities	12/02/10	31/12/13	10.64	16.48
Total				**16.50**	**25.56**

Source: AfDB, 2012

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 would be explored.

IV. STATISTICAL ISSUES

Comoros—Statistical Issues Appendix **As of October 31, 2012**
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 Developing 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. **Consumer prices**. The accuracy and reliability of the consumer price index (CPI) represents another key source of uncertainty. Expenditure weights are based on a survey from the late 1980s and sub-indices are compiled irregularly across the islands. 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.
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 spending components, complicating fiscal analysis.
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 *Monetary and Financial Statistics Manual 2000*.
External sector statistics. The BCC compiles balance of payments statistics along the lines of the methods recommended in IMF's *Balance of Payments Manual*, 5th *edition*. 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, precluding desirable improvements needed in coverage and data validation, particularly for trade, nonregistered trade, services, and foreign direct investment.

II. Data Standards and Quality	
Comoros has initiated the process for participating in the General Data Dissemination System (GDDS).	No data ROSC is available.

III. Reporting to STA
Comoros does not report government finance statistics to STA for publication in the International Financial Statistics (IFS) or in the Government Finance Statistics Yearbook, nor does it report balance of payments statistics in the IFS. Among national accounts data, only GDP is reported for publication in the IFS.

Table of Common Indicators Required for Surveillance
As of October 31, 2012

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]	September 2012	March 2012	M	M	M
Reserve/Base Money	September 2012	March 2012	M	Q	Q
Broad Money	September 2012	March 2012	M	Q	Q
Central Bank Balance Sheet	September 2012	March 2012	M	Q	Q
Consolidated Balance Sheet of the Banking System	September 2012	March 2012			
Interest Rates[2]	September 2012	March 2012	C	C	M
Consumer Price Index	September 2012	March 2012	M	I	I
Revenue, Expenditure, Balance and Composition of Financing[3] — General Government[4] — Union government and three island governments	September 2012	March 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).

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 13/03
FOR IMMEDIATE RELEASE
January 15, 2013

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

IMF Executive Board Concludes 2012 Article IV Consultation with Comoros

On December 17, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Comoros.[5]

Background

Over the last two years, and despite a challenging external environment, economic activity in the Union of Comoros has gained momentum. Real gross domestic product (GDP) increased by 2.2 percent in 2011, underpinned by favorable conditions in the agriculture sector, sustained activity in the construction and public works, and a rebound in foreign direct investment. Preliminary information points to a further strengthening of economic conditions in 2012, with real growth rising to 2.5 percent on account of robust agricultural exports, resilient remittances from expatriates, and increased external financial support. The depreciation of the euro against the dollar and lingering upward pressures on international commodity prices slowed the expected fall in inflation, which is likely to have reached 5 percent at end-2012. Thanks to a solid performance of exports of cloves and buoyant official transfers, the external current account deficit declined to 6.9 percent of GDP in 2012 from 9.0 percent in 2011.

[5] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

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Against this background, the authorities have made steady progress in fiscal consolidation. Following departures from some program targets at end-December 2010 and end-June 2011, performance improved significantly after the new government introduced corrective revenue and spending measures, including the reversal of a prohibitive 2010 public sector wage increase and stepped-up tax arrears recovery efforts. As a result, the domestic primary budget deficit was limited at 1.4 percent of GDP (excluding one-off nontax receipts); and all wage arrears accumulated in the earlier months of 2011 were cleared by end-year. On the structural front, several long-delayed measures were implemented, namely the completion of the census of the civil service, parliamentary approval of legislation on new ministry personnel frameworks, and intensification of technical discussions on reform of the public utilities with World Bank staff and other development partners. On November 27, 2012, the authorities issued a call for bids from potential investors for the state-owned telecommunication company, following approval of a social plan in October.

Over the medium term, economic growth is expected to rise to an annual average of 4 percent, underpinned by increased and more reliable availability of electricity; investment in infrastructure and tourism; and improvements in the business environment. Inflation should remain subdued, consistent with Comoros' membership in the Franc zone. By 2015, the authorities aim to bring the domestic primary fiscal balance to equilibrium, including by rising government revenue to about 15 percent of GDP and containing wage payments at 7 percent of GDP. Comoros' external debt position is expected to improve significantly in the period following the delivery of broad debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) initiatives. However, in light of the country's narrow export base, large development needs, and high vulnerability to exogenous shocks, it is critical that the government's fiscal financing needs--including for pro-growth and pro-poor programs--continue to be met mostly with grants, and that new borrowing is contracted on concessional terms for the foreseeable future. This requires close adherence to reforms under the Extended Credit Facility (ECF) and Poverty Reduction Strategy Paper. Risks to the outlook include Comoros' dependence on remittances, aid, and foreign direct investment inflows. Price shocks on key import commodities, notably oil and food, could also depress growth and unsettle external and fiscal balances. Risks related to a delay in the reform of state-owned enterprises have receded over the past year, reflecting strengthened program ownership.

Executive Board Assessment

Executive Directors commended the authorities for their strong implementation of reforms under the ECF arrangement and for reaching the completion point under the enhanced HIPC Initiative. They looked forward to continued strong commitment to the program.

Directors welcomed the improved fiscal performance during 2012. They encouraged the authorities to continue strengthening revenue mobilization and to keep spending in line with

public resource mobilization capacity, particularly with respect to the wage bill. In this regard, priorities remain the establishment of the new General Administration of Taxes; the prompt implementation of new ministry personnel frameworks; and a close adherence to the automated wages management system. Directors welcomed the development of new frameworks for improving governance in the public sector and encouraged their steadfast implementation.
Directors noted that, while debt sustainability will improve following the HIPC Initiative completion point, Comoros will remain at high risk of debt distress owing notably to a narrow export base. Therefore, they underscored the need for budget discipline and reliance on grants and highly concessional loans in meeting the country's financing needs.
Directors commended the authorities for rekindling their structural reform agenda to invigorate growth, accelerate poverty reduction, and reduce vulnerability to external shocks. They called for the rapid enlisting of reputable strategic partners in the management of the state-owned telecommunications (Comores Telecom) and electricity (MA MWE) companies, and a more efficient operation of the oil importing parastatal (SCH). Streamlining administrative requirements to starting a company and developing reliable contract-enforcement mechanisms would help to improve the business environment.

Directors underlined the importance of continued implementation of the 2010 safeguards assessment recommendations and further strengthening banking supervision. Priorities are the timely publication of the central bank's financial statements, an early finalization of the new banking law, and the establishment of the envisaged credit bureau.
Directors were encouraged by Comoros' broadly favorable growth and poverty reduction prospects in the post HIPC/MDRI era. They noted that improved data on poverty is needed to inform progress toward the Millennium Development Goals. Rigorous policy implementation and steady donor support will be required to secure tangible gains in living standards.

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

Comoros: Selected Economic and Financial Indicators, 2009-17

	2009	2010		2012		2013	2014	2015	2016	2017
				Prog 3rd Review	Proj.	Project ions				
	(Annual percentage change, unless otherwise indicated)									
ɔnal income and prices										
l GDP	1.8	2.1	2.2	2.5	2.5	3.5	4.0	4.0	4.0	4.0
ˀ deflator	4.6	4.4	4.7	3.2	2.9	3.1	3.2	3.2	3.3	3.2
sumer price index (annual averages)	4.8	3.9	6.8	5.6	6.0	4.3	3.4	3.3	3.3	3.1
sumer price index (end period)	2.2	6.6	7.0	4.3	5.0	3.6	3.2	3.4	3.2	3.1
ey and credit										
foreign assets	9.7	4.2	17.2	-1.5	12.0	10.5	8.3	10.5	10.0	9.6
ıestic credit	35.3	17.8	4.9	13.0	4.2	17.2	11.6	5.7	5.7	9.4
credit to government (treasury)	13.4	-7.5	12.3	22.2	-18.5	43.4	11.2	-17.1	-24.7	-6.5
ıd money	13.3	19.4	9.6	1.0	5.5	2.4	7.7	7.6	7.4	7.4
ıcity (GDP/end-year broad money)	3.3	2.9	2.9	3.0	2.9	3.0	3.0	3.0	3.0	3.0
ırnal sector										
ɔrts, f.o.b.	116.7	15.0	16.4	5.8	5.9	6.6	8.5	8.5	8.4	4.7
ɔrts, f.o.b.	1.6	9.7	7.2	5.8	7.8	1.8	2.6	2.5	6.2	3.3
ɔrt volume	54.1	-0.7	-24.7	2.5	2.5	1.6	3.3	3.3	3.1	4.6
ɔrt volume	11.3	0.4	-7.1	-0.8	0.6	2.6	3.4	3.0	6.7	3.3
ns of trade	12.5	-1.1	5.0	-1.8	-1.7	3.8	3.6	3.2	3.1	1.2
	(In percent of GDP, unless otherwise indicated)									
stment and savings										
stment	12.4	15.4	14.9	17.9	18.4	19.1	19.9	20.4	21.2	21.8
lic	4.7	5.7	5.4	7.9	8.3	8.6	8.9	8.9	9.2	9.2
ate	7.7	9.7	9.5	10.0	10.1	10.6	11.0	11.5	12.0	12.5
ss national savings	4.6	9.7	5.9	7.6	11.5	13.1	11.3	12.7	13.8	14.9
lic	3.8	11.6	8.7	6.8	13.4	8.7	5.5	5.7	6.0	5.9
ate	0.8	-1.9	-2.8	0.8	-1.9	4.4	5.8	7.0	7.9	9.0
ernment budget										
.l revenue and grants	23.6	29.2	23.6	25.3	28.4	49.2	24.0	24.2	24.4	24.6
ıestic Revenue [1]	13.9	14.3	16.1	14.0	18.2	14.5	14.8	15.2	15.4	15.6
.l grants [2]	9.7	14.9	7.5	11.4	10.2	34.7	9.2	9.0	9.0	9.0
.l expenditure	22.8	22.1	22.0	24.5	25.4	24.9	25.0	24.8	24.8	24.7
ent expenditure	18.1	16.4	16.6	16.6	17.1	16.3	16.1	15.9	15.6	15.4
ıestic primary balance [1]	-2.6	-1.6	1.6	-1.1	2.2	-0.9	-0.5	0.0	0.3	0.6
nge in arrears	0.2	-6.2	-3.4	-0.5	-0.7	-0.9	-0.8	-0.7	-0.7	-0.5
ırnal interest	-0.1	-2.0	-0.8	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
ıestic	0.4	-4.2	-2.6	-0.5	-0.6	-0.9	-0.8	-0.7	-0.7	-0.5
rall balance (cash basis)	0.8	0.9	-1.9	0.1	1.9	23.4	-1.8	-1.4	-1.1	-0.6
uding grants	-8.9	-14.0	-9.4	-11.2	-8.3	-11.2	-11.0	-10.4	-10.1	-9.6
ncing	-0.7	1.1	0.3	-0.1	-1.9	-21.3	0.6	-0.9	-1.0	-0.3
·ign (net)	-1.3	1.4	-0.2	-1.1	-1.1	-22.8	0.1	-0.1	-0.2	-0.2
ıestic (net)	0.6	-0.4	0.5	1.0	-0.8	1.4	0.5	-0.8	-0.9	-0.2
rs and omissions [3]	-0.2	-1.9	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ncing gap	0.0	0.0	0.0	0.0	0.0	-2.1	1.2	2.2	2.1	0.9
ncing gap, excluding UFR	0.9	0.5	0.4	0.8	0.8	-1.3	1.1	2.0	1.8	0.5
ırnal sector										
ɔrts of goods and services	14.5	15.7	16.2	15.7	16.8	17.1	17.5	17.9	18.2	18.0
ɔrts of goods and services	47.7	49.9	50.2	51.6	52.0	49.8	47.8	45.9	45.3	43.9
ent account balance	-7.8	-5.7	-9.0	-10.4	-6.9	-6.0	-8.6	-7.7	-7.4	-6.9
. official and private transfers	-33.3	-34.6	-34.0	-36.1	-35.4	-32.7	-30.4	-28.2	-27.1	-25.7
ırnal debt, PV in percent of GDP [4]	46.2	38.9	33.1	31.8	10.0	11.8	13.1	14.3	15.2	15.8
ırnal debt, PV in percent of exports of ıds and services [4]	329.7	248.6	203.9	202.7	58.0	68.9	74.9	80.2	83.6	87.5
ırnal debt service (in percent of exports of ıds and services) [4]	13.5	11.4	10.0	6.3	4.7	0.3	1.2	2.1	2.6	2.8
rall balance of payments (in millions of U.S. ırs)	12.3	-44.3	-11.0	-5.8	-5.8	2.6	5.9	3.1	3.6	13.5
:ial grants and loans (percent of GDP)	9.7	15.1	7.5	11.4	10.2	34.9	9.4	9.2	9.2	9.2
ss international reserves (end of period)										
illions of U.S. dollars	146.0	144.2	170.1	158.0	187.5	194.5	207.0	223.1	239.2	255.9
onths of imports of goods & services	6.8	6.4	6.7	6.2	7.2	7.7	7.9	8.3	8.5	8.7
l effective exchange rate (2000=100)	103.9	97.7	97.9	…	…	…	…	…	…	…
ıange rate CF/US$ (period average)	353.2	370.8	353.6	…	…	…	…	…	…	…
ıorandum items:										
ˀ (nominal, in billions of CF)	189.5	201.8	216.0	228.3	227.8	243.3	261.1	280.0	300.8	322.9

rces: Comorian authorities; and IMF staff estimates and projections.
venue for 2011-12 includes exceptional "economic citizenship program" receipts (about 3 percent of GDP each year).
ludes interim HIPC assistance (2010-12) and expected debt relief under HIPC and MDRI upon completion point at end-2012.
ta for 2010 and 2011 reflect 2010 revenues collected in early 2011.
ternal debt ratios after full HIPC, MDRI and beyond HIPC relief from end-2012. Ratios from LIC-DSA (Appendix II - Table 1a) produced with a rent methodology than those from HIPC-DRA (Appendix II - Paragraph 1).

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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December 17, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review under Comoros' ECF Arrangement, and Approves US$2.3 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed its fourth review of the Union of Comoros' economic performance under the program supported by the Extended Credit Facility (ECF). Completion of the fourth review allows the disbursement of an amount equivalent to SDR 1.5575 million (about US$2.30 million), bringing total disbursements under the arrangement to SDR 10.46 million (about US$15.44 million).

The Executive Board also agreed that the Union of Comoros has taken the steps necessary to reach its completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

This decision on the HIPC completion point is contingent upon the Executive Board of the World Bank concluding that the Union of Comoros has reached the completion point under the enhanced HIPC Initiative, after which a joint press release will be issued.

The three-year Extended Credit Facility (ECF) arrangement was approved in September 2009, for the equivalent of SDR 13.57 million (152.5 percent of quota).

Following the Executive Board's discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, made the following statement:

"Performance under the ECF-supported program has improved commendably. Economic activity and the fiscal position are strengthening, and Comoros has met the conditions for reaching the HIPC Initiative completion point.

"The recent gains in macroeconomic sustainability will have to be consolidated. This requires further strengthening revenue collection and keeping spending compatible with fiscal sustainability. Critical to that end will be the establishment of the new General Administration of Taxes and implementation of new ministry personnel frameworks, as well as close adherence to the automated wages management system. The efforts to promote good governance will also have to be stepped-up, including rigorous implementation of the new COMESA-based public procurement code.

"Prudent borrowing policies remain indispensable. While debt sustainability will improve following the HIPC Initiative completion point, Comoros remains at high risk of debt distress owing notably to a narrow export base. This underscores the need for fiscal discipline and reliance on grants and highly concessional loans in meeting the country's financing needs.

"The authorities are to be commended for rekindling the structural reform agenda to invigorate growth and accelerate poverty reduction. The focus will be on enlisting reputable strategic partners in the management of the state-owned telecommunication (Comores Telecom) and electricity (MA-MWE) companies; and on ensuring a more efficient operation of the oil-importing parastatal (SCH). The authorities will also step up removal of excessive administrative requirements to starting a company and of unreliable contract-enforcement mechanisms for the private sector. In the financial sector, the banking supervision agenda and recommendations from the 2010 safeguards assessment will continue to be rigorously implemented, and the establishment of a new credit bureau expedited.

"Comoros' growth and poverty reduction prospects are broadly favorable in the post-HIPC/MDRI era. Rigorous policy implementation and steady donor support will be key to securing tangible gains in living standards for the population."

**Statement by Kossi Assimaidou, Executive Directfor for the Union of the Comoros
December 12, 2012**

I. Introduction

I would like to thank the Board, management and staff for their continued support to the Union of the Comoros. This support has been invaluable in helping the country address difficult challenges and implement far reaching reforms, and in meeting the HIPC Completion Point triggers. My authorities also highly value the assistance provided by regional and development partners. This assistance has been critical in helping the country address its difficult political and economic situation and lay the foundation for political stability and economic development. Progress in all sectors has been noteworthy in the past year-and-a-half, as can be seen by the satisfactory implementation of the ECF-supported program. As my authorities continue to address the challenges ahead, they would like to reiterate their firm commitment to the policies envisaged under the ECF which they view as crucial to reducing poverty and raising living standards while enhancing the economy's competitiveness.

The implementation of the ECF-supported program has been pursued with determination, with all end-June 2012 quantitative performance criteria and indicative targets met. Performance in the fiscal area was particularly strong with the domestic primary balance recording a surplus of 2.1 percent of GDP —significantly exceeding the 0.2 percent deficit target under the program. Fiscal revenues also largely exceeded program target thanks to renewed tax collection efforts and larger-than-anticipated receipts from the economic citizenship program. High revenue mobilization and strict control over expenditures helped to maintain the indicative target of net credit to the government within program limits.

On the structural front, all end-June 2012 structural benchmarks were also met, including the adoption by Parliament of the law establishing the new General Tax and Property Administration, and the establishment by the government of a new payroll file for its employees that is consistent with the findings of the civil service census. Significant progress has also been achieved in the restructuring of public utilities, with the adoption of a strategy to reform the water and electricity company (MA-MWE).

As regards performance under the HIPC Initiative, my authorities have met all but one of the sixteen completion point triggers, and as indicated by staff in the report, they have fulfilled the conditions for reaching the HIPC Initiative completion point. My authorities are therefore requesting the Executive Board's support for access to debt relief under HIPC and MDRI. Full debt relief would reduce the country's NPV of debt-to-exports from 343 percent at end-December 2009 to a more sustainable 78.9 percent at end-December 2012. This will also create the necessary fiscal space to further increase spending on priority sectors and accelerate poverty reduction. My authorities would like to reassure the Board that they remain fully committed to ensuring that all external financing needs are largely covered by grants and that they will contract debt only on concessional terms.

II. Recent Economic Developments

Comoros' main macroeconomic indicators have improved in 2012. Real GDP growth rose to 2.5 percent —from 2.2 percent in 2011— driven by a good harvest of the country's main cash crops (cloves and vanilla) and sustained activity in the construction and public works sectors. Both sectors benefited respectively from the resilience of remittances from the Diaspora residing notably in Europe, and increased foreign assistance, including from EU member countries, despite the crisis affecting the continent. Inflation is projected to decline to 5 percent in 2012 from 7 percent in 2011 as pressure from international prices of the country's key imports abates.

The fiscal position improved markedly in 2012 largely due to the authorities' renewed revenue mobilization efforts and more effective control of spending, particularly the wage bill. It is my authorities' firm intention to maintain the wage bill within limits compatible with the capacity to mobilize domestic revenue. Although overall fiscal revenues are expected to reach 18.2 percent of GDP in 2012, compared to 16.1 in 2011 (this includes revenue from the economic citizenship program which amounts to 4.5 percent of GDP in 2012), they have decided to save the bulk of the revenue windfall, and allocate the reminder to infrastructure rehabilitation and health-related programs, given the volatility of revenues from the economic citizenship program. The primary fiscal balance is thus expected to record a surplus of 2.2 percent of GDP in 2012 compared to 1.6 percent in 2011, and net bank financing to the government will decline by 0.8 percent (an expansion of 1 percent was projected under the program).

Despite rising imports, notably fuel, the external current account deficit is projected to narrow significantly in 2012 to 6.9 percent of GDP from 9 percent in 2011. This reflects the relatively strong performance of the exports of cash crop (mainly cloves) and a sharp increase in public and private transfers. International reserves are projected to reach seven months of imports.

III. Medium-Term Economic Policies

My authorities remain committed to sound and prudent fiscal and monetary policies under the ECF going forward. They also intend to accelerate progress towards finalizing the far-reaching structural reforms underway —mainly the restructuring of public enterprises—, which they consider to be essential for raising the economy's competitiveness and growth potential. Their steadfast commitment to ongoing reforms, along with the anticipated debt relief under HIPC and MDRI should enable real GDP growth to reach the projected 3.5 percent in 2013 and 4 percent beyond. The inflation outlook also remains broadly positive, with year-on-year inflation expected to recede in 2013 to lower single-digit as pressures from international fuel and food prices subside.

A. Fiscal Policy

Ongoing efforts to raise the revenue-to-GDP ratio will continue in the period ahead while control over spending, particularly the wage bill, will intensify.

With the new General Tax and Property Administration—which will be operational in March 2013—and the establishment of an electronic network between the country's four major customs offices expected by June 30, 2013, the efficiency of tax and customs administrations will be significantly strengthened. This should contribute to improve the authorities' revenue mobilization performance.

To enhance control over the wage bill, the government will continue to adhere strictly to the new automated personnel expenditure management system. The authorities are also committed to gradually phasing in the increase in the number of government employees needed to reach the optimum size of the civil service —compared to the actual census number—in order to preserve the medium-term sustainability of the wage bill.

B. Monetary Policy and the Financial System

The membership of the Union of the Comoros to the Zone franc has been a critical anchor for macroeconomic stability. The monetary authorities will pursue their current prudent policy stance aimed at preserving price stability while ensuring adequate supply of liquidity to the economy.

Given the country's more positive economic outlook and growing confidence in the economy, credit to the private sector is projected to increase to 11 percent in 2013 against the backdrop of improved profitability of financial institutions and decline in NPLs. As financial intermediation expands, the central bank will set up a credit information repository *(centrale des risques)* to promote the sound development of credit. The ongoing process for the privatization of the *Banque de Développement des Comores* and the restructuring of the *Société Nationale des Postes et des Services Financiers* (separation of the banking and postal functions and sale of a substantial stake to a new foreign partner) will help improve both institutions' financial situation while enabling a more efficient allocation of credit to the economy.

C. Structural Reforms

Key steps have recently been taken to accelerate the restructuring of public enterprises with the objective to further enhancing the competitiveness of the economy. With assistance from the World Bank, AfDB, and the EU, the government of Comoros recently completed the reform strategies of *Comores Télécom,* MA-MWE (the electricity and water utility) and *Société Comorienne des Hydrocarbures* (company in charge of importing and distributing fuel).

With assistance from the IFC, the government issued a call for expressions of interest for *Comores Télécom* in late November 2012 for the sale of 51 percent of the company to a strategic partner of international standing. For MA-MWE, the government also issued a call for expressions of interest to recruit a specialized partner in charge of strengthening the company's commercial operations. This will require the introduction of a flexible, cost-based pricing policy and a substantial improvement in the customers' collection rate. The plan to revitalize *Société Comorienne des Hydrocarbures* foresees notably the development of appropriate price structures for the various petroleum products sold.

D. Poverty Reduction Strategy Paper

My authorities welcome the findings of the second annual progress report on PRSP implementation which underscores progress achieved in a number of areas, including infrastructure development such as road rehabilitation, the recovery of tourism and fishing, and political governance. However, my authorities are also aware of the shortcomings highlighted in the report and are determined to address them swiftly. In particular, weak capacity to absorb available resources has had an adverse impact on some of the country's social indicators. The lack of updated data on poverty also remains a major constraint. The authorities intend to improve the socio-demographic and macroeconomic databases needed for effective design and monitoring of development policies. In this regard, they are thankful to their development partners for the substantial T/A provided, including in the preparation of national accounts and the consumer price index.

IV. Conclusion

In view of my authorities' strong performance under the ECF-supported program and satisfactory implementation of completion point triggers, I would appreciate the Board's support for the completion of the fourth review under the ECF, and access to debt relief under HIPC and MDRI for the Union of the Comoros.