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Third Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Waiver of Nonobservance of a Performance Criterion, Modification of a Performance Criterion, Extension of the Arrangement, Rephasing of Disbursements, and Financing Assurances Review

In the context of the third review under the three-year arrangement under the Extended Credit Facility, and request for a modification of performance criteria, and extension of the arrangement and rephasing of disbursements, and financing assurances review, the following documents have been released and are included in this package:

- **Staff Report** on the third review under the three-year arrangement under the Extended Credit Facility, and request for a modification of performance criteria, and extension of the arrangement and rephasing of disbursements, and financing assurances review, prepared by a staff team of the IMF, following discussions that ended on March 17, 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 May 23, 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.
- **Informational Annex**
- **Debt Sustainability Analysis**
- **Press Release**
- **Statement by the Executive Director for the Union of the Comoros**

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

Letter of Intent sent to the IMF by the authorities of 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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Third Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Waiver of Nonobservance of a Performance Criterion, Modification of a Performance Criterion, Extension of the Arrangement, Rephasing of Disbursements, and Financing Assurances Review

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

Approved by Saul Lizondo and Thomas Dorsey

May 23, 2012

ECF arrangement:	Comoros's 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). The second review was completed on January 21, 2011.
Mission team:	Mr. Matungulu (head) and Messrs. Crispolti, Reinke, and Touna Mama (all AFR). The discussions were held in Moroni during March 3–17, 2012. The mission met HE Dr. Dhoinine Ikililou, President of the Union of Comoros. It held discussions with Vice-President and Finance Minister Soilihi and with other members of the Cabinet of the Union; with the Governor of the Central Bank of the Comoros; and with representatives of the private sector, civil society, and the donor community.
Focus:	Third review under the ECF arrangement; requests for waiver of non-observance of a performance criterion, modification of a performance criterion, extension of the arrangement and rephasing of disbursements; and financing assurances review.
Mission outcome:	Fiscal performance improved significantly in the second half of 2011 after two performance criteria for the period through end-December 2010 were missed. The authorities are re-invigorating the structural reform program with the support of technical partners. Staff supports the request for a waiver for the nonobservance of one performance criterion and the request for the extension of the arrangement, and recommends completion of the third review under the ECF arrangement.

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EXECUTIVE SUMMARY

- **Macroeconomic developments were mixed in 2011**. Despite sustained activity in subsistence agriculture and some pick-up in FDI, real GDP growth is estimated at just over 2 percent (1.6 percent in 2008–10). End-year inflation, while in the single digits, rose to 7 percent on account of higher international commodity prices—particularly of imported oil and foodstuffs. A less favorable global environment and strong FDI-related imports caused a further weakening of the external current account deficit to 9.5 percent of GDP.

- **Following departures from some program targets at end-December 2010 and end-June 2011, performance improved significantly in late 2011**, mainly thanks to corrective revenue and spending measures by the new cabinet that took office in mid-2011. These included stepped-up tax arrears recovery efforts and the reversal of a prohibitive 2010 public sector wage increase. 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. Several long-delayed structural reform measures were implemented. Important steps were 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.

- **The outlook for 2012 is broadly consistent with expectations under the ECF arrangement.** Real GDP growth is projected to strengthen moderately at 2.5 percent, benefiting from continuing favorable conditions in the agriculture sector, sustained construction activities, robust remittances, and higher budget support. Inflation is likely to slow thanks to easing pressures on import prices. Stronger domestic revenues and a reduced wage bill are expected to help contain the domestic primary budget deficit at 1.1 percent of GDP. With budgetary assistance set to reach 2.3 percent of GDP, net bank credit to government will remain contained, permitting a healthy expansion of credit to the private sector.

- **Comoros remains in debt distress,** pending the achievement of the completion point under the HIPC Initiative. The authorities continue good faith discussions with bilateral and multilateral creditors on debt restructuring, consistent with the 2009 and 2010 Paris Club Agreements.

- **Staff supports the authorities' requests for waiver of nonobservance of a performance criterion and rephasing of disbursements and recommends completion of the third review under the ECF arrangement and the extension of the arrangement to end-2013.**

I. Recent Developments: Economic Growth Has Yet to Fully Benefit From Improving Political Conditions

1. **The political context has improved and program ownership increased markedly during the last year.** Presidential elections were peacefully held in December 2010, capping two years of bold political reforms that have enhanced inter-island cohesion in policymaking and budget management. The new president assumed office in May 2011, and has shown unprecedented commitment to IMF-supported policies.

2. **Macroeconomic performance in 2011 was mixed** (Text Figure 1, Table 1 and Figure 1). Despite strong rain-fed agricultural production and a rebound in foreign direct investment (FDI), real GDP growth is estimated at just 2.2 percent (2.0 percent in 2009–10); and with world fuel and food prices increasing, year-on-year inflation rose slightly to 7 percent by December. While international reserves remained at a comfortable equivalent of 6.4 months of imports of goods and services, the external current account deficit widened significantly as a result of the higher commodity prices and FDI-related imports. Nevertheless, the fiscal outturn was somewhat better than anticipated thanks to restrained wage spending after the reversal of a prohibitive 2010 public sector pay raise and to exceptionally strong one-off nontax receipts[1].

II. Program Performance in 2010 and Early 2011

3. **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) improving the efficiency of the public utilities; (iv) strengthening institutions and improving governance; and (v) improving the investment climate.

4. **Program performance weakened substantially in the run-up to and aftermath of the December 2010 presidential elections (MEFP, Tables 1 and 2)**. From late 2010, a sizeable public sector pay raise and lower-than-programmed domestic tax collection weighed heavily on fiscal developments; and the structural reform agenda, including restructuring of the public utilities, stalled. Two performance criteria were missed. Specifically, the end-December 2010 performance criterion for net reduction of domestic payments arrears was missed by 0.5 percent of GDP as the government, facing an unsustainable wage bill, suspended all wage payments in a bid to renegotiate the pay raise granted in October 2010. Moreover, the zero-ceiling on the accumulation of external debt service arrears was exceeded by 0.02 percent of GDP due to weaknesses in external debt management.[2] Nearly all programmed structural reform

[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. It is important that the ECP include adequate safeguards under the AML/CFT framework to prevent abuses.

[2] This non-observance of the PC on external debt service arrears was not reported to the Fund until after the second review, and thus resulted in noncomplying disbursements following the first and second reviews. However, the misreporting was treated under *de minimis*

(continued)

measures were delayed. As a result, Board discussion of the third and fourth reviews, originally planned for 2011, was delayed.

Box 1. Comoros: Restoring the Medium-Term Viability of the Wage Bill and Putting the ECF-Supported Program Back on Track

The second review of the three-year (2009–12) ECF-supported program was completed in January 2011. The third review initially scheduled for June 2011 was delayed because of slippages incurred in the fiscal and structural areas at the time of the last presidential elections.

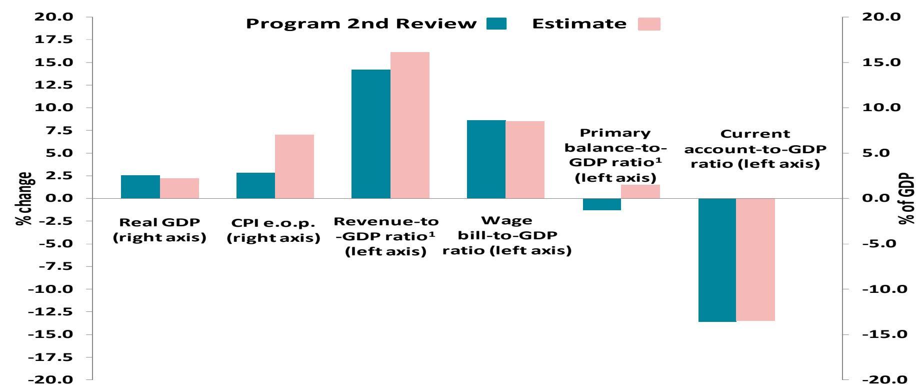
The cabinet that took office in mid-2011 has taken bold action to steer the program back on track. The authorities are strengthening domestic revenue collection, including through the provision of additional human and material resources to the revenue agencies and replacement of ineffective management at key positions; and have reversed a 30-percent pay raise granted in October 2010. The upward salary adjustment increased civil service wage payments to 9.2 percent of GDP in 2010 (8.9 percent of GDP under the program), a level that would have risen further to nearly 11 percent of GDP in 2011 (compared with a targeted 8.6 of GDP). In the absence of stout revenue increases, the wage increase was certain to veer the ECF-supported program off track, and to derail progress toward achieving the HIPC Initiative completion point. With Constitutional Court approval, the government retroactively reversed the salary increase in mid-2011 with effect from January, restoring the medium-term viability of the wage bill. More generally, the authorities are expected to observe an adequately restrained overall spending stance in the period ahead. As a result, the primary budget is projected to move into balance over the medium-term, albeit it with a one-year delay, and despite revenue likely to be in 2012–13 somewhat lower than earlier programmed.

In the structural area, the authorities have stepped up technical consultations with development partners on reform of public financial management and restructuring of the public utilities; they appear to be closely adhering to reform roadmaps developed for key sectors. Against this favorable background, extension of the ECF arrangement to end-2013 would provide much needed additional time for addressing delays in implementing reforms to strengthen economic competitiveness.

procedures, and on February 2, 2012, the IMF Board granted waivers for the non-observance of this external debt service arrears PC (EBS/12/11). The authorities subsequently cleared all outstanding external payments arrears.

5. **Performance improved sharply in late 2011** (Text Figure 1). Nearly all revised fiscal targets for end-December 2011 (as agreed with staff during the October 2011 mission) were met thanks to corrective revenue and spending measures introduced in the third quarter—including stepped-up tax arrears recovery efforts and the reversal of a prohibitive 2010 public sector wage increase. 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. Especially noteworthy are the completion of a much anticipated 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.

Text Figure 1. Comoros: Selected Economic and Financial Indicators, 2011



Source: Comorian authorities; and IMF estimates.

[1] 2011 revenue estimate includes "economic citizenship program" receipts of about 3 percent of GDP.

6. **The government continued pursuing a prudent external debt management policy.** The authorities declined a loan offer (US$31 million) whose concessionality fell short of the 50-percent grant element set out under the program and have since accelerated negotiations with IDA on a substitute grant of US$23 million for the restructuring of the state–owned telecommunication company (Comores Télécom).

III. POLICY DISCUSSIONS AND KEY ISSUES FOR 2012

A. Macroeconomic Outlook and Risks: Strengthening Growth under Improving Political Conditions

7. **Economic activity is expected to continue trending up as political tensions ease further, program ownership is enhanced, and donor interest builds up.** Real GDP growth should strengthen moderately at 2.5 percent in 2012, benefiting from continuing favorable conditions in the agriculture sector, sustained construction activities related to FDI and projects financed by donors[3], robust remittances, and higher budget support. Inflation will likely recede as pressures on international fuel and food prices ease somewhat, but the external current account deficit is projected to widen further owing to a pick-up in import-intensive FDI projects. In the fiscal area, the medium-term anchor remains the domestic primary budget, which is projected to balance in 2015 as the authorities continue seeking additional gains in fiscal consolidation.

Text Table 1. The Comoros: Selected Economic and Financial Indicators, 2012–16

	2012	2013	2014	2015	2016
	Projections				
Real GDP, percentage change	2.5	3.5	4.0	4.0	4.0
Consumer price index (end-period percentage change)	4.3	2.0	2.2	2.4	2.7
Domestic government revenues (in percent of GDP)	14.0	14.4	14.8	15.2	15.6
Total grants (share of GDP)	11.4	9.8	9.2	9.0	9.0
Total expenditure (share of GDP)	24.5	25.0	25.2	25.0	25.1
Wage bill (in percent of GDP)	8.0	7.5	7.3	7.0	6.8
Domestic primary balance (in percent of GDP)	-1.1	-0.9	-0.5	0.0	0.3
Current account balance (in percent of GDP)	-10.4	-9.6	-9.0	-8.0	-7.8

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

8. **Key risks to the outlook include rising world fuel and food prices, reduced remittances, and lower aid and FDI inflows**. With such external resources projected at a combined 35 percent of GDP in 2012, aggregate demand is vulnerable to a change in global conditions. Also, though the new government is building wider domestic support for reforms, additional risks may stem from demands for higher public wages, inadequate control of government spending, and continued resistance to public enterprise reform. The authorities shared staff's assessment of medium-term prospects and risks.

[3] Projects include reconstruction of various roads, rehabilitation of the port of Moroni, and construction of fisheries infrastructure.

B. Fiscal Policy for 2012

9. **The domestic primary deficit is being contained at 1.1 percent of GDP underpinned by enhanced efforts to strengthen domestic revenue mobilization and enhanced control over wages.** In particular, domestic revenues are expected to reach 14 percent of GDP (13.1 percent of GDP in 2011, excluding exceptional nontax revenues), while the wage bill is expected to fall to 8.0 percent of GDP (8.5 percent of GDP in 2011) as a recent wage freeze remains in effect and savings from the 2011 census results and ongoing civil service reform are being realized. Following the resumption of budget support (2.3 percent of GDP), net bank credit to government would remain contained, leaving room for adequate expansion of credit to the private sector. Close adherence to the fiscal program under the ECF will be important to ensuring continued progress toward macroeconomic stability, especially in light of heightened inflation risks.

10. **Within this fiscal framework, the government's net fiscal financing requirements are fully covered** with already-identified budget support and anticipated use of IMF resources (Text Table 2). Nevertheless, as a precautionary step, the authorities have identified compensatory fiscal measures to address a potential shortfall in revenue or grants. These notably include slower increases in goods and services and domestically-financed investment spending.

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

	2012Q2		2012Q3		2012Q4		2012			2013		
	Billions CF	Millions USD	Billions CF	Millions USD	Billions CF	Millions USD	Billions CF	Millions USD	% of GDP	Billions CF	Millions USD	% of GDP
I. Identified financing requirements, net	3.4	8.8	1.0	2.6	2.6	6.8	7.0	18.2	3.1	9.0	21.8	3.7
II. Identified budget support	2.5	6.4	1.0	2.6	1.7	4.5	5.2	13.4	2.3	2.5	6.5	1.0
AfDB	0.0	0.0	0.0	0.0	0.6	1.5	0.6	1.5	0.3	0.6	1.5	0.2
France	0.0	0.0	1.0	2.6	0.0	0.0	1.0	2.6	0.4	0.0	0.0	0.0
World Bank	0.0	0.0	0.0	0.0	1.1	2.9	1.1	2.9	0.5	1.9	5.0	0.8
Gulf partners/Arab league and others	2.5	6.4	0.0	0.0	0.0	0.0	2.5	6.4	1.1	0.0	0.0	0.0
III. Financing gap (I-II)	0.9	2.4	0.0	0.0	0.9	2.4	1.8	4.8	0.8	6.5	15.3	2.7
IV. ECF Disbursements	0.9	2.4	0.0	0.0	0.9	2.4	1.8	4.8	0.8	1.8	4.8	0.7
V. Residual financing gap (III-IV)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.7	10.5	1.9

Source: Comorian authorities; and IMF estimates.

11. **Achievement of the government's fiscal objectives requires close adherence to the fiscal program and continued progress in implementing recommendations from past FAD TA missions to enhance the efficiency of tax and customs administration and to expand the tax base** (MEFP, Table 2). Beyond the gains from stronger inter-island cohesion in tax administration, the improved tax revenue prospects for 2012 reflect notably:

- The full-year impact of a recent update of the large taxpayer registry and greater coordination among Large Taxpayer Unit offices, and enhanced efforts in recovering large-tax-payer fiscal obligations.

- More efficient operation of the joint Custom-Tax department investigation brigade, including rigorous routine exchanges of taxpayer data between the two agencies.

- Accelerated expansion of ad-valorem imports taxation, including by enhancing the customs services' expertise and capacity in imports valuation.

- Accelerated preparations for the establishment of a new, more functionally-integrated, General Administration of Taxes and appointment of its Board of Directors.

On spending, the government's priorities remain to gain full control of recurrent expenditure, especially the wage bill, and avoid accumulation of new payment arrears. In particular, efforts are focusing on:

- Swiftly updating the civil service payroll list consistent with the findings of the 2011 civil service personnel census; the government is requesting assistance from donors to cover costs associated with the relocation of released civil servants.

- Rigorous management of a new computerized wage management system.

- Full implementation of the new ministry personnel frameworks compatible with medium-term budget viability.

- Rigorous adherence to the program objectives of nonaccumulation of new payments arrears and domestic arrears clearance for 2012.

C. Structural and Financial Sector Reforms

12. **In sharp contrast with the last administration, the new authorities are expediting the structural reform agenda with steady assistance of the World Bank and other development partners.** Stronger government ownership and donor involvement in the last months are bridging hitherto prohibitive technical and financial capacity gaps, and facilitating progress in key areas of the structural reform agenda.

13. **With the support of the World Bank Group, the government plans to issue calls for bids to potential strategic partners for Comores Telecom by December 2012.** The World Bank, African Development Bank (AfDB) and the European Union (EU) have committed technical and financial support for the restructuring of the electricity parastatal (MA-MWE) and the state-owned oil importing company (SCH) as part of a long-term strategy for the sustainable development of the energy sector. In this context, facing a lack of

private sector interest in a competitive bidding process, the government is considering a partnership agreement with a Saudi investor in the management of MA-MWE. In the meantime, the authorities have developed with World Bank technical assistance a short-term emergency rehabilitation program of CF350 million (0.2 percent of GDP) to strengthen the power company's operations and reduce the incidence of electricity outages. Progress is also being made in rekindling several PFM reforms (MEFP, ¶20 and ¶21), one of which (i.e. appointment of the Board of Directors of the General Tax Administration) had been unduly delayed because of inadequate sequencing of related upstream actions.

14. **Comoros's banking system is generally sound.** In a more supportive political context, all major banking institutions posted record after-tax profits in 2011, benefiting from a further deepening of financial intermediation. Liquidity and solvency ratios remain at comfortable levels, while nonperforming loans (NPLs) are well provisioned. The restructuration of the National Post and Financial Services Institution (SNPSF) is under way, following its emergence from administration by the Central Bank (BCC) in December 2011. The institution's new management is expected to present a restructuring plan to the BCC in mid-2012 that will require a separation of the postal activities from financial services. Following up on the recommendations of the 2010 Doha Conference on development and investment in Comoros, the government of Qatar has expressed interest in investing in SNPSF's financial division. The authorities have also invited bids for the sale of their equity (50 percent) in Banque de Développement des Comores (BDC).

15. **The Central Bank of Comoros continues implementing recommendations from the 2010 safeguards report and strengthening banking supervision with IMF and *Banque de France* assistance.** In this context, a summary report of the BCC's annual financial statements is regularly posted on the bank's website, monetary data reported to Fund staff are pre-approved by the financial comptroller, and the bank's audit charter has been revised to better define the audit committee's mandate. Also, the BCC has made important progress in strengthening banking supervision and is working towards the establishment of a credit bureau.

D. Program Extension and Monitoring, Disbursements Rephasing, and Risks to IMF Resources

16. **A fifteen-month extension of the ECF arrangement and rephasing of disbursements are proposed**. Since the third ECF review has been substantially delayed, rephasing of related and subsequent disbursements and extension of the program to end-2013 will be needed. The extension of the arrangement will provide adequate time for concluding all outstanding reviews. In this perspective, completion of the 4th ECF review could take place by end-2012 on the basis of performance through end-June 2012, while the 5th and 6th reviews could be considered in June and December 2013.

17. **The program will be monitored on the basis of quantitative and continuous performance criteria, quarterly indicative targets and structural benchmarks (MEFP**

Tables 1 and 2, and TMU); and modification of a performance criterion is proposed. To address protracted weaknesses in treasury operations, management of the treasury committee is being strengthened. Also, the performance criterion on accumulation of domestic payments arrears is redefined so that it will set a zero-limit on new arrears; and a new indicative target is set to monitor the gradual reduction of gross domestic arrears. Program targets had been set through end-June 2011 at time of Board consideration of the second ECF review; they are reset to cover for the period through end-2012, at levels consistent with updated medium-term macroeconomic projections under the program.

18. **The 4th program review will focus on structural reforms designed to further reinforce control over the wage bill and improve efficiency of public utilities.** These include the full implementation of the computerized pay slip system, implementation of the new civil service personnel frameworks, and the issuance of calls for bids for the state-owned telecommunications company. Performance criteria for 2013 will be proposed at the time of the 4th review.

19. **The risks to IMF resources are manageable.** For the rest of the program (2012–13), debt service to the IMF would average 0.008 percent of exports of goods and services (Table 7), within Comoros's capacity to repay the IMF.

E. PRSP, HIPC, and Financing Assurances

20. **The government expects to complete its second annual progress report (APR) on the implementation of the Poverty Reduction Strategy Paper (PRSP) by end-June 2012.** The first report completed in mid-2011 provided evidence of constraints in implementation and monitoring capacity (see Box 2). The authorities are taking corrective steps to address identified weaknesses and enhance the effectiveness of their poverty reduction strategy, informed by feedback received from development partners. In this context, to make the strategy more operational and realistic, they have prepared a refocused action plan for the PRSP with AfDB support. Implementation began in the second half of 2011, with technical and financial support from development partners.

21. **The authorities remain on track with discussing and signing debt restructuring understandings with bilateral and multilateral creditors, consistent with the November 2009 and July 2010 Paris Club Agreements and the HIPC Initiative framework.** They have already signed debt rescheduling and forgiveness agreements with the Arab Bank for Economic Development in Africa (BADEA), IFAD, Italy, France, the OPEC Fund, and the Arab Monetary Fund; and are pursuing good faith efforts to reach collaborative agreements with all other external multilateral, official bilateral and private creditors in line with the Paris Club's comparability of treatment requirement, the HIPC Initiative, and the IMF's lending into arrears policy as needed. Delays in concluding the third ECF review had caused the suspension of the 2009 and 2010 Paris Club agreements, but the authorities promptly initiated bilateral discussions with concerned creditors aimed at preventing the accumulation of new external payments arrears. On March 13, 2012, Paris Club creditors agreed to have

the third phase of the suspended Paris Club agreements reenter into force retroactively. They also plan to extend the consolidation period as needed beyond the initial June 2012 end-date if the third ECF review is completed by then and the arrangement is back on track.

22. **With assistance from development partners, the authorities continue implementing the HIPC Initiative Completion Point triggers** (Appendix I). Modest advances have been made in strengthening growth and improving political governance, as well as in securing the gains sought in education and health; but progress on structural reforms has been limited.

23. **An updated debt sustainability analysis (DSA) indicates that Comoros remains in debt distress** (attached DSA update, Tables 1a and 1b). The NPV of debt-to-exports ratio is estimated at 201 percent at end-2011. It would decline to 168 percent under the assumption of HIPC/MDRI and bilateral beyond HIPC debt relief being granted at end-2012, and converge toward the 100-percent external debt policy threshold by 2032.

F. Request for Waivers

24. **The authorities request a waiver for the nonobservance of a performance criterion on reduction of domestic arrears.** At end-December 2010, the performance criterion on reduction of domestic payments arrears and zero accumulation of external payments arrears were missed—last February the authorities were granted a waiver for the non-observance of this external debt service arrears performance criterion (¶4 above). To avoid the accumulation of new payments arrears they have instituted joint enhanced monitoring of debt-repayment schedules by the Treasury, Public Debt departments, and the central bank. More generally, the government has bolstered management of the cash flow committee chaired by the Vice-President in charge of finance, with a view to achieving significant improvements in fiscal management. Considering the strong corrective measures undertaken (Box 1 and ¶5 above; and MEFP, ¶8), the government is seeking a waiver for the nonobservance of the above missed performance criterion on reduction of domestic arrears.

Box 2. Comoros—First Annual Progress Report (APR) on PRSP Implementation

The Comorian authorities adopted their first full Poverty Reduction Strategy Paper (PRSP) in September 2009. The document builds on the strategy laid out in the Interim PRSP, which was approved by the Boards of the IMF and World Bank in May 2006. The PRSP is organized around six core objectives: (i) stabilize the economy and lay the groundwork for strong and equitable growth; (ii) develop key productive sectors by focusing on institution building and ensuring a broader role for the private sector; (iii) strengthen governance and social cohesion; (iv) improve the health status of the general public; (v) promote education and vocational training with the aim of developing human capital; and (vi) foster environmental sustainability and civil security.

The first annual progress report (APR) on the implementation of the PRSP was completed in mid-2011. It reviewed achievements under each of the six core objectives of the PRSP in the previous year. The APR indicates limited but encouraging progress, particularly with respect to a timid recovery in economic growth, improvements in political governance, greater women's inclusion in the labor force, and a reduction of maternal and infant mortality rates. However, the advances were generally modest in comparison with the ambitious objectives set out in the strategy paper. Main obstacles were insufficient coordination among implementing government departments and entities, and limited absorptive capacity.

Discussions with authorities and stakeholders.

Staff: Staff welcomed the finalization of the first APR, but warned that the discussion used somewhat outdated macroeconomic and other program data. This reflects a weakening of focus in program implementation and in coordination with donors during the unusually long political transition between the December 2010 elections and the appointment of the new cabinet in June 2011. Staff encouraged the authorities to update the report and its assessment of PRSP performance in the first year, notably regarding macroeconomic developments and prospects. Staff also called for enhanced consistency between the PRSP and the fiscal program under the ECF, stressing the need to ensure that overall spending is adequately aligned with available resources.

Stakeholders: Donors urged a strengthening of collaboration with the authorities in the implementation of the PRSP and pledged renewed support, including in improving the quality and coverage of socio-demographic and macroeconomic data. In this context, production of national accounts and consumer price index statistics is being revamped with AfDB support and the EU is funding a capacity-building program for the reform-monitoring committee (CREF) aimed at strengthening the collection, compilation, verification, and consolidation of government finance statistics. **Various civil society organizations and NGOs welcomed having been involved in the design of the PRSP, including the setting of priorities**, and asked for a stronger role in monitoring implementation.

Authorities: The authorities concurred with the donors' assessment and committed to addressing identified weaknesses, taking full advantage of pledged technical and financial support.

G. Staff Appraisal

25. **Bold institutional reforms in the last few years have eased political tensions and created a more enabling context for socioeconomic reforms.** The December 2010 presidential election capped two years of courageous political reforms that have consolidated the institutional set up for government operations and ushered in a new era of political stability. Staff urges the authorities to take full advantage of the new environment to expedite economic reforms that are essential to rekindling growth and improving the living standards of the Comorian people. This will require preservation of macroeconomic stability and determined measures to tackle long-standing impediments to economic competitiveness and sustained strong growth.

26. **Achieving further gains in macroeconomic stability will require more determined efforts at strengthening revenue mobilization and continued control of expenditures, notably the wage bill**. Government action should accelerate preparations for the establishment of a new, integrated General Administrations of Taxes. The recent wage bill crisis and consequent one-year delay in completing the third ECF review underscore the need for keeping wage expenditures under scrutiny and in line with medium-term fiscal consolidation and restructuring objectives. Staff therefore urges the authorities to ensure rigorous implementation of their computerized wage payment system and to update the civil service payroll list consistent with the findings of the civil service personnel census. Like staff, the authorities are cognizant that effective payroll and civil service reforms will be critical to containing the size of the wage bill and keeping the fiscal program on track.

27. **The structural reform agenda must be expedited if the economy is to be put on a path of strong sustained growth.** The restructuring of public utilities remains a key priority. Staff therefore urges the authorities to ensure that state disengagement from Comores Telecom is indeed completed on schedule by end-December 2012. Similarly, staff encourages the authorities to finalize the reform strategy for MAMWE in 2012 and embark on reform of SCH as soon as its audits have been completed. Also critical are ongoing initiatives to strengthen banking supervision; to improve the legal framework and quality of the central bank's internal procedures and controls; and to keep Central Bank financial reporting consistent with international standards. Continuing progress in these areas is welcome; staff urges the authorities to stay the course.

28. **The main risks to the program are resistance to civil service and public enterprise reforms**. A weakening of global economic conditions, undermining the prospects for higher aid, FDI, and remittances would also negatively affect the program prospects. With support from development partners, including IMF staff, the authorities have initiated a public campaign to enlist greater public support for the reform agenda. They are confident that with easing political tensions these risks can be mitigated.

29. **Staff supports the authorities' requests for waiver of the nonobservance of a performance criterion and rephasing of disbursements, and recommends the completion of the third review under the ECF arrangement and of the financing assurances review, as well as the extension of the arrangement to end-December 2013.**

Figure 1. Comoros: Macroeconomic developments and projections, 2003–2015

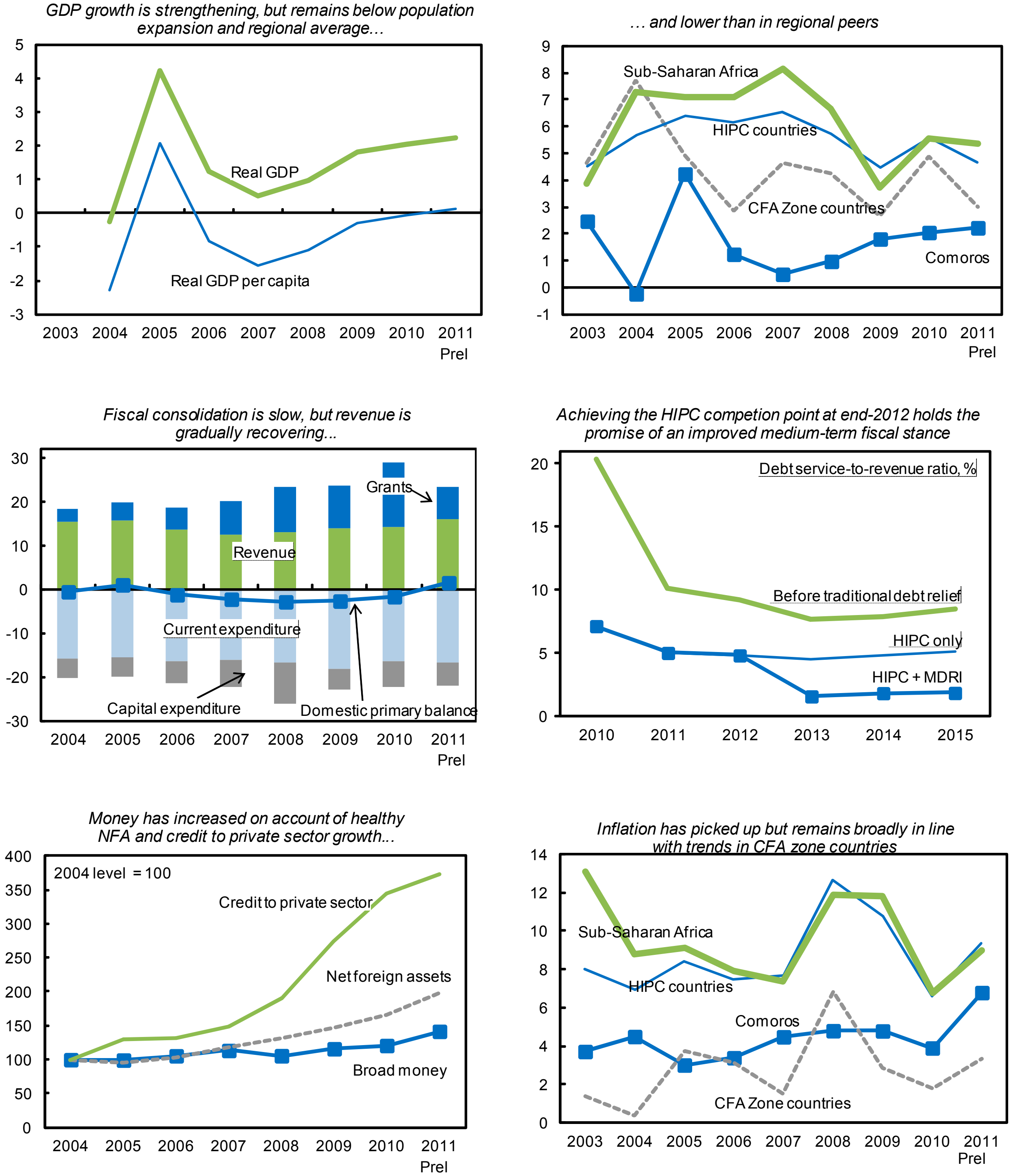


Table 1. Comoros: Selected Economic and Financial Indicators, 2009–16

	2009	2010	2011	2011	2012	2013	2014	2015	2016
		Prel	Proj. [4]	Prel.	Projections				
(Annual percentage change, unless otherwise indicated)									
National income and prices									
Real GDP	1.8	2.1	2.2	2.2	2.5	3.5	4.0	4.0	4.0
GDP deflator	4.6	4.4	4.6	4.6	3.2	3.3	3.3	3.3	3.3
Consumer price index (annual averages)	4.8	3.9	5.8	6.8	5.6	3.1	2.1	2.3	2.5
Consumer price index (end period)	2.2	6.6	5.0	7.0	4.3	2.0	2.2	2.4	2.7
Money and credit									
Net foreign assets	9.7	4.2	-6.0	17.2	-1.5	1.3	2.2	3.9	3.2
Domestic credit	35.3	17.8	14.4	4.9	13.0	11.6	9.1	8.5	8.6
Net credit to government (treasury)	13.4	-7.5	15.4	12.3	22.2	11.0	0.5	-3.1	-4.0
Broad money	13.3	19.4	4.0	9.6	1.0	7.4	7.8	7.8	7.4
Velocity (GDP/end-year broad money)	3.3	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	6.8	16.4	5.8	6.4	8.3	8.3	8.3
Imports, f.o.b.	1.6	11.6	8.9	9.4	5.8	1.7	2.2	2.4	6.4
Export volume	54.1	-0.7	0.2	-24.7	2.5	1.5	3.1	3.1	3.0
Import volume	10.9	2.1	1.4	-4.4	-0.8	3.7	3.5	3.0	6.5
Terms of trade	12.3	-1.2	-1.5	6.2	-1.8	4.3	3.4	3.0	2.6
(In percent of GDP, unless otherwise indicated)									
Investment and savings									
Investment	12.4	15.4	18.2	14.9	17.9	19.0	19.9	20.5	21.3
Public	4.7	5.7	8.7	5.4	7.9	8.5	9.0	9.1	9.3
Private	7.7	9.7	9.5	9.5	10.0	10.5	11.0	11.4	11.9
Gross national savings	4.6	8.4	6.5	5.4	7.6	9.5	11.0	12.5	13.5
Public	3.8	10.8	4.8	10.6	6.8	6.0	5.9	6.0	6.4
Private	0.8	-2.4	1.8	-5.2	0.8	3.5	5.1	6.5	7.1
Government budget									
Total revenue and grants	23.6	29.2	22.1	23.6	25.3	24.2	24.0	24.2	24.6
Domestic Revenue [1]	13.9	14.3	13.1	16.1	14.0	14.4	14.8	15.2	15.6
Total grants	9.7	14.9	9.0	7.5	11.4	9.8	9.2	9.0	9.0
Total expenditure	22.8	22.1	24.3	22.0	24.5	25.0	25.2	25.0	25.1
Current expenditure	18.1	16.4	15.5	16.6	16.6	16.4	16.2	15.9	15.7
Domestic primary balance [1]	-2.6	-1.6	-1.5	1.6	-1.1	-0.9	-0.5	0.0	0.3
Change in arrears	0.2	-6.2	-3.8	-3.4	-0.5	-0.9	-0.8	-0.8	-0.7
External interest	-0.1	-2.0	-0.8	-0.8	0.0	0.0	0.0	0.0	0.0
Domestic	0.4	-4.2	-3.0	-2.6	-0.5	-0.9	-0.8	-0.8	-0.7
Overall balance (cash basis)	0.8	0.9	-5.9	-1.9	0.1	-1.6	-2.0	-1.6	-1.2
Excluding grants	-8.9	-14.0	-14.9	-9.4	-11.2	-11.4	-11.2	-10.6	-10.2
Financing	-0.7	1.1	0.8	0.3	-0.1	-0.3	-0.9	-1.1	-1.1
Foreign (net)	-1.3	1.4	0.2	-0.2	-1.1	-0.9	-0.9	-1.0	-1.0
Domestic (net)	0.6	-0.4	0.6	0.5	1.0	0.5	0.0	-0.1	-0.2
Errors and omissions [2]	-0.2	-1.9	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	3.3	0.0	0.0	1.9	2.9	2.7	2.3
Financing gap, excluding UFR	0.9	0.5	3.7	0.4	0.8	2.7	2.8	2.4	2.0
External sector									
Exports of goods and services	14.5	15.6	15.6	15.3	15.7	16.0	16.3	16.6	16.9
Imports of goods and services	47.7	50.5	50.7	51.8	51.6	49.3	47.2	45.2	44.7
Current account balance	-7.8	-7.0	-11.7	-9.5	-10.4	-9.6	-9.0	-8.0	-7.8
Excl. official and private transfers	-33.3	-35.2	-35.2	-36.6	-36.1	-33.5	-31.1	-28.7	-27.8
External debt, NPV in percent of GDP [3]	46.2	38.9	34.2	30.9	31.8	30.7	29.9	28.9	27.9
External debt, NPV in percent of exports of goods and services	329.7	308.0	219.8	201.0	202.7	192.1	184.0	174.4	164.6
External debt service (in percent of exports of goods and services)	13.5	19.5	5.3	10.6	6.3	8.6	9.6	11.4	10.8
Overall balance of payments (in millions of U.S. dollars)	6.7	-0.8	-41.6	11.7	-5.8	-11.3	-17.2	-15.2	-14.1
Official grants and loans (percent of GDP)	9.7	15.1	9.4	7.5	11.4	10.1	9.4	9.2	9.2
Gross international reserves (end of period)									
In millions of U.S. dollars	146.0	144.2	150.3	170.1	158.0	163.4	164.3	166.1	166.3
In months of imports of goods & services	6.8	6.3	5.8	6.4	6.2	6.2	6.1	6.1	5.7
Real effective exchange rate (2000=100)	103.9	97.7	...	98.1	...	...	...	...	...
Exchange rate CF/US$ (period average)	353.2	370.8	351.9	351.9	...	...	...	...	...
Memorandum items:									
GDP (nominal, in bilions of CF)	189.5	201.8	215.9	215.9	228.3	244.3	262.4	281.8	302.6

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

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

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

[3] External debt ratios before traditional debt-relief.

[4] Based on October 2011 review mission.

Table 2A. Comoros: Consolidated Government Financial Operations, 2009–16

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

	2009	2010		2011		2012		2013	2014	2015	2016
		Prog 2nd Review	Prel.	Prog 2nd Review	Prel.	Prog 2nd Review	Proj.	Projections			
Total revenue and grants	44,776	57,912	58,869	45,349	50,907	49,210	57,760	59,177	63,004	68,159	74,407
Revenues [1]	26,401	28,848	28,875	30,175	34,793	32,939	31,847	35,148	38,775	42,756	47,129
Tax revenues	20,515	22,479	22,449	26,337	23,520	28,826	26,871	29,753	32,901	36,361	40,167
Direct and indirect taxes	10,867	11,998	11,514	16,000	12,412	17,371	14,690	16,405	18,459	20,806	23,330
Taxes on international trade and transactions	9,648	10,481	10,935	10,609	11,108	11,208	12,181	13,348	14,443	15,554	16,838
Nontax revenues	5,887	6,368	6,426	3,838	11,273	4,113	4,976	5,394	5,874	6,395	6,962
External grants	18,374	29,064	29,994	15,174	16,114	16,271	25,913	24,029	24,229	25,403	27,279
Budgetary assistance [2]	7,743	15,177	18,584	0	53	0	5,151	2,495	576	0	0
Projects (incl. techn.assist.)	10,631	13,444	10,973	14,205	15,135	15,259	19,781	21,534	23,653	25,403	27,279
HIPC interim assistance		444	437	969	926	1,012	980	0	0	0	0
Total expenditure and net lending	43,627	48,300	44,703	49,269	47,793	51,464	56,312	60,971	66,052	70,511	75,812
Current expenditure	34,240	33,155	33,116	32,941	35,785	33,428	37,939	40,130	42,500	44,875	47,553
Primary current expenditures	29,806	29,391	29,631	30,107	29,959	30,436	30,558	32,281	33,965	35,813	37,926
Wages and salaries	17,034	17,864	18,500	18,350	18,409	17,875	18,288	18,416	19,070	19,705	20,433
Goods and services	7,447	7,692	7,553	7,743	7,662	8,307	8,154	9,136	9,813	10,611	11,551
Transfers and pensions	5,325	3,835	3,578	4,015	3,889	4,254	4,116	4,729	5,082	5,496	5,942
Interest payments	1,069	1,425	1,036	987	952	1,008	1,010	914	917	880	842
External debt	715	1,197	831	781	743	793	782	743	734	683	630
Before rescheduling		686	686	674	652	649	633	608	589	567	543
On restructured obligations		511	145	107	91	144	148	135	144	116	87
Domestic debt	355	228	205	206	209	215	229	171	184	197	212
Foreign-financed project maintenance	1,585	1,412	677	1,094	2,636	1,175	1,129	1,229	1,350	1,450	1,557
Technical assistance	1,780	928	1,771	753	2,238	809	5,242	5,706	6,268	6,731	7,228
Capital expenditure	8,939	15,145	11,588	16,328	11,708	18,036	18,022	20,840	23,552	25,637	28,259
Domestically financed investment	1,563	2,598	2,515	2,900	1,417	3,611	3,909	4,974	6,173	6,961	8,194
Foreign-financed investment	7,326	11,970	9,073	12,807	10,291	13,754	13,441	15,136	16,586	17,814	19,129
Counterpart funds-financed	50	577	0	621	0	672	672	730	793	862	937
Net lending	448	0	0	0	300	0	350	0	0	0	0
Domestic primary balance	-4,967	-3,141	-3,271	-2,832	3,417	-1,108	-2,621	-2,107	-1,363	-18	1,009
Overall balance (commitment basis)	1,148	9,611	14,165	-3,920	3,114	-2,253	1,448	-1,794	-3,049	-2,352	-1,405
Excluding grants	-17,226	-19,453	-15,829	-19,094	-13,000	-18,525	-24,465	-25,823	-27,277	-27,755	-28,684
Change in net arrears	430	-15,593	-12,430	-851	-7,281	-1,134	-1,152	-2,125	-2,099	-2,113	-2,118
Interest on external debt	-271	-4,809	-4,007	0	-1,662	0	0	0	0	0	0
Domestic arrears [3]	702	-10,784	-8,423	-851	-5,619	-1,134	-1,152	-2,125	-2,099	-2,113	-2,118
Repayment	-9,391	-10,784	-13,629	-851	7,985	-1,134	-1,152	-2,125	-2,099	-2,113	-2,118
Accumulation	10,093	0	5,206	0	2,366	0	0	0	0	0	0
of which: Float	2,849		2,761		2,071						
Overall balance (cash basis)	1,579	-5,982	1,736	-4,771	-4,167	-3,388	296	-3,919	-5,148	-4,465	-3,523
Excluding grants	-16,795	-35,046	-28,258	-19,945	-20,280	-19,659	-25,616	-27,948	-29,376	-29,869	-30,802
Special adjustment [4]			-3,900		3,900						
Errors and omissions (+ = underfinancing)	-324	0	-30	0	-419	0	0	0	0	0	0
Financing	-1,255	1,859	2,194	83	685	-1,571	-296	-748	-2,381	-3,191	-3,458
Foreign (net)	-2,387	2,605	2,913	-1,466	-404	-2,021	-2,510	-2,087	-2,450	-2,775	-2,936
Drawings, PIP (identified)	60	866	548	448	31	478	31	537	551	592	635
Amortization	-2,239	-4,132	-2,773	-2,722	-2,772	-2,721	-2,755	-2,625	-3,001	-3,367	-3,572
Before rescheduling		-2,560	-2,503	-2,514	-2,443	-2,461	-2,424	-2,193	-2,318	-2,388	-2,329
On restructured obligations		-1,572	-271	-208	-330	-259	-332	-432	-683	-979	-1,243
Clearance of deferred arrears and debt service [5]	-5,016										
Change in net arrears (principal)	-1,155	-13,937	-10,337	0	-3,470	0	0	0	0	0	0
Exceptional financing	5,964	19,808	15,474	807	5,808	221	215	0	0	0	0
Arrears restructuring and deferral		18,700	14,415	0	5,014	0	0	0	0	0	0
Current maturities restructuring and deferral		1,108	1,059	807	795	221	215	0	0	0	0
Domestic (net)	1,131	-746	-719	1,549	1,089	450	2,214	1,339	69	-416	-522
Bank financing	1,131	-746	-719	1,549	1,089	450	2,214	1,339	69	-416	-522
Central bank	1,357	-333	-770	1,756	2,260	761	2,214	1,516	296	-303	-422
Of which: IMF (net) [2]	1,697	920	920	0	891	0	1,829	1,831	-265	-764	-1,047
Commercial banks	-226	-413	51	-207	-1,171	-310	0	-177	-227	-113	-100
Financing gap (+ = underfinancing) [2]	0	4,123	0	4,689	0	4,958	0	4,668	7,529	7,657	6,981
Memorandum items:											
GDP (nominal)	189,531	201,028	201,833	212,732	215,919	226,823	228,294	244,294	262,375	281,794	302,593
Debt service to be paid in cash [6]		2,343	2,036	1,727	1,913	2,280	2,343	3,368	3,735	4,050	4,202
Wages in percentage of revenues	64.5	61.9	64.1	60.8	52.9	54.3	57.4	52.4	49.2	46.1	43.4

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

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

[2] Starting with the third ECF review, program projections incorporate all identified budget support and anticipated net UFR, with zero net fiscal financing gaps.

[3] Quantitative performance criteria and benchmarks on net accumulation of domestic arrears exclude float (nil in projections).

[4] 2010 revenues received in early 2011.

[5] 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.

[6] Net of HIPC interim assistance from mid-2010 to 2012.

Table 2B. Comoros: Consolidated Government Financial Operations, 2009–16

(In percentage of GDP, unless otherwise indicated)

	2009	2010		2011			2012		2013	2014	2015	2016
		Prog 2nd Review	Prel.	Prog 2nd Review	Proj. [7]	Prel.	Prog 2nd Review	Proj.	Projections			
Total revenue and grants	23.6	28.8	29.2	21.3	22.1	23.6	21.7	25.3	24.2	24.0	24.2	24.6
Revenues [1]	13.9	14.4	14.3	14.2	13.1	16.1	14.5	14.0	14.4	14.8	15.2	15.6
Tax revenues	10.8	11.2	11.1	12.4	10.8	10.9	12.7	11.8	12.2	12.5	12.9	13.3
Direct and indirect taxes	5.7	6.0	5.7	7.5	5.5	5.7	7.7	6.4	6.7	7.0	7.4	7.7
Taxes on international trade and transactions	5.1	5.2	5.4	5.0	5.4	5.1	4.9	5.3	5.5	5.5	5.5	5.6
Nontax revenues	3.1	3.2	3.2	1.8	2.3	5.2	1.8	2.2	2.2	2.2	2.3	2.3
External grants	9.7	14.5	14.9	7.1	9.0	7.5	7.2	11.4	9.8	9.2	9.0	9.0
Budgetary assistance [2]	4.1	7.5	9.2	0.0	0.0	0.0	0.0	2.3	1.0	0.2	0.0	0.0
Projects (incl. techn.assist.)	5.6	6.7	5.4	6.7	8.5	7.0	6.7	8.7	8.8	9.0	9.0	9.0
HIPC interim assistance		0.2	0.2	0.5	0.4	0.4	0.4	0.4	0.0	0.0	0.0	0.0
Total expenditure and net lending	23.0	24.0	22.1	23.2	24.3	22.1	22.7	24.7	25.0	25.2	25.0	25.1
Current expenditure	18.1	16.5	16.4	15.5	15.5	16.6	14.7	16.6	16.4	16.2	15.9	15.7
Primary current expenditures	15.7	14.6	14.7	14.2	13.4	13.9	13.4	13.4	13.2	12.9	12.7	12.5
Wages and salaries	9.0	8.9	9.2	8.6	8.5	8.5	7.9	8.0	7.5	7.3	7.0	6.8
Goods and services	3.9	3.8	3.7	3.6	3.2	3.5	3.7	3.6	3.7	3.7	3.8	3.8
Transfers and pensions	2.8	1.9	1.8	1.9	1.6	1.8	1.9	1.8	1.9	1.9	2.0	2.0
Interest payments	0.6	0.7	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
External debt	0.4	0.6	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Before rescheduling	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
On restructured obligations	0.0	0.3	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Domestic debt	0.2	0.1	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	0.7	0.3	0.5	0.5	1.2	0.5	0.5	0.5	0.5	0.5	0.5
Technical assistance	0.9	0.5	0.9	0.4	1.2	1.0	0.4	2.3	2.3	2.4	2.4	2.4
Capital expenditure	4.7	7.5	5.7	7.7	8.7	5.4	8.0	7.9	8.5	9.0	9.1	9.3
Domestically financed investment	0.8	1.3	1.2	1.4	1.2	0.7	1.6	1.7	2.0	2.4	2.5	2.7
Foreign-financed investment	3.9	6.0	4.5	6.0	7.3	4.8	6.1	5.9	6.2	6.3	6.3	6.3
Counterpart funds-financed	0.0	0.3	0.0	0.3	0.3	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Net lending	0.2	0.0	0.0	0.0	0.0	0.1	0.0	0.2	0.0	0.0	0.0	0.0
Domestic primary balance	-2.6	-1.6	-1.6	-1.3	-1.5	1.6	-0.5	-1.1	-0.9	-0.5	0.0	0.3
Overall balance (commitment basis)	0.6	4.8	7.0	-1.8	-2.1	1.4	-1.0	0.6	-0.7	-1.2	-0.8	-0.5
Excluding grants	-9.1	-9.7	-7.8	-9.0	-11.1	-6.0	-8.2	-10.7	-10.6	-10.4	-9.8	-9.5
Change in net arrears	0.2	-7.8	-6.2	-0.4	-3.8	-3.4	-0.5	-0.5	-0.9	-0.8	-0.8	-0.7
Interest on external debt	-0.1	-2.4	-2.0	0.0	-0.8	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears [3]	0.4	-5.4	-4.2	-0.4	-3.0	-2.6	-0.5	-0.5	-0.9	-0.8	-0.8	-0.7
Repayment	-5.0	-5.4	-6.8	-0.4	-3.7	3.7	-0.5	-0.5	-0.9	-0.8	-0.8	-0.7
Accumulation	5.3	0.0	2.6	0.0	0.7	1.1	0.0	0.0	0.0	0.0	0.0	0.0
of which: Float	1.5		1.4		0.7	1.0						
Overall balance (cash basis)	0.8	-3.0	0.9	-2.2	-5.9	-1.9	-1.5	0.1	-1.6	-2.0	-1.6	-1.2
Excluding grants	-8.9	-17.4	-14.0	-9.4	-14.9	-9.4	-8.7	-11.2	-11.4	-11.2	-10.6	-10.2
Special adjustment [4]			-1.9		1.8	1.8						
Errors and omissions (+ = underfinancing)	-0.2	0.0	0.0	0.0		-0.2						
Financing	-0.7	0.9	1.1	0.0	0.8	0.3	-0.7	-0.1	-0.3	-0.9	-1.1	-1.1
Foreign (net)	-1.3	1.3	1.4	-0.7	0.2	-0.2	-0.9	-1.1	-0.9	-0.9	-1.0	-1.0
Drawings, PIP (identified)	0.0	0.4	0.3	0.2	0.4	0.0	0.2	0.0	0.2	0.2	0.2	0.2
Amortization	-1.2	-2.1	-1.4	-1.3	-1.3	-1.3	-1.2	-1.2	-1.1	-1.1	-1.2	-1.2
Before rescheduling	0.0	-1.3	-1.2	-1.2	-1.1	-1.1	-1.1	-1.1	-0.9	-0.9	-0.8	-0.8
On restructured obligations	0.0	-0.8	-0.1	-0.1	-0.2	-0.2	-0.1	-0.1	-0.2	-0.3	-0.3	-0.4
Clearance of deferred arrears and debt service [5]	-2.6											
Change in net arrears (principal)	-0.6	-6.9	-5.1	0.0	-1.6	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	3.1	9.9	7.7	0.4	2.6	2.7	0.1	0.1	0.0	0.0	0.0	0.0
Arrears restructuring and deferral		9.3	7.1	0.0	2.3	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Current maturities restructuring and deferral	0.0	0.6	0.5	0.4	0.4	0.4	0.1	0.1	0.0	0.0	0.0	0.0
Domestic (net)	0.6	-0.4	-0.4	0.7	0.6	0.5	0.2	1.0	0.5	0.0	-0.1	-0.2
Bank financing	0.6	-0.4	-0.4	0.7	0.6	0.5	0.2	1.0	0.5	0.0	-0.1	-0.2
Central bank	0.7	-0.2	-0.4	0.8	1.2	1.0	0.3	1.0	0.6	0.1	-0.1	-0.1
Of which: IMF (net) [2]	0.9	0.5	0.5	0.0	0.4	0.4	0.0	0.8	0.7	-0.1	-0.3	-0.3
Commercial banks	-0.1	-0.2	0.0	-0.1	-0.5	-0.5	-0.1	0.0	0.0	0.0	0.0	0.0
Financing gap (+ = underfinancing) [2]	0.0	2.1	0.0	2.2	3.3	0.0	2.2	0.0	1.9	2.9	2.7	2.3
Memorandum items:												
GDP (nominal)	189,531	201,028	201,833	212,732	215,919	215,919	226,823	228,294	244,294	262,375	281,794	302,593
Debt service to be paid in cash [6]		1.2	1.0	0.8	0.9	0.9	1.0	1.0	1.4	1.4	1.4	1.4
Wages in percentage of revenues	64.5	61.9	64.1	60.8	65.1	52.9	54.3	57.4	52.4	49.2	46.1	43.4

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

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

[2] Starting with the third ECF review, program projections incorporate all identified budget support and anticipated net UFR, with zero net fiscal financing gaps.

[3] Quantitative performance criteria and benchmarks on net accumulation of domestic arrears exclude float (nil in projections).

[4] 2010 revenues received in early 2011.

[5] 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.

[6] Net of HIPC interim assistance from mid-2010 to 2012.

[7] Based on October 2011 review mission.

Table 2C. Comoros: Consolidated Government Financial Operations, 2010–12

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

	2010		2011						2012			
	Dec		Mar		Jun		Sep	Dec	Mar	Jun	Sep	Dec
	Prog 2nd Review	Act.	Prog 2nd Review	Act.	Prog 2nd Review	Act.	Est.	Prel.	Est.	Projections		
Total revenue and grants	57,912	58,869	10,824	9,692	22,013	25,860	37,852	50,907	13,856	30,872	45,074	57,760
Revenues [1]	28,848	28,875	7,008	6,693	14,446	14,511	21,632	34,793	8,614	16,052	24,029	31,847
Tax revenues	22,479	22,449	6,049	4,599	12,527	11,053	17,381	23,520	6,249	12,311	19,700	26,871
Direct and indirect taxes	11,998	11,514	3,821	1,992	7,753	5,232	9,037	12,412	3,508	6,221	10,199	14,690
Taxes on international trade and transactions	10,481	10,935	2,228	2,608	4,774	5,821	8,344	11,108	2,741	6,090	9,501	12,181
Nontax revenues	6,368	6,426	960	2,094	1,919	3,458	4,251	11,273	2,365	3,741	4,330	4,976
External grants	29,064	29,994	3,816	2,999	7,567	11,348	16,220	16,114	5,242	14,819	21,044	25,913
Budgetary assistance [2]	15,177	18,584	0	0	0	53	53	53	0	2,460	3,444	5,151
Projects (incl. techn.assist.)	13,444	10,973	3,551	2,743	7,103	10,853	15,436	15,135	4,944	11,869	16,814	19,781
HIPC interim assistance	444	437	264	255	464	442	731	926	298	491	786	980
Total expenditure and net lending	48,300	44,703	11,507	9,450	23,919	27,443	41,165	47,793	13,803	29,566	44,343	56,312
Current expenditure	33,155	33,116	8,005	7,672	15,842	17,161	26,735	35,785	9,598	18,861	29,132	37,939
Primary current expenditures	29,391	29,631	7,229	6,785	14,437	14,191	22,578	29,959	7,707	14,557	22,919	30,558
Wages and salaries	17,864	18,500	4,642	4,636	9,267	9,203	13,812	18,409	4,564	9,144	13,716	18,288
Goods and services	7,692	7,553	1,703	1,562	3,484	3,445	5,942	7,662	1,793	3,355	6,116	8,154
Transfers and pensions	3,835	3,578	883	587	1,686	1,544	2,823	3,889	1,350	2,058	3,087	4,116
Interest payments	1,425	1,036	314	274	482	534	784	952	300	481	798	1,010
External debt	1,197	831	265	242	379	353	589	743	258	367	626	782
Before rescheduling	686	686	248	241	325	315	550	652	240	313	550	633
On restructured obligations	511	145	17	1	54	38	39	91	17	54	77	148
Domestic debt	228	205	49	33	103	181	195	209	42	114	171	229
Foreign-financed project maintenance	1,412	677	273	169	547	677	952	2,636	282	677	960	1,129
Technical assistance	928	1,771	188	443	376	1,759	2,421	2,238	1,310	3,145	4,455	5,242
Capital expenditure	15,145	11,588	3,502	1,779	8,077	9,882	13,947	11,708	4,205	10,355	14,861	18,022
Domestically financed investment	2,598	2,515	145	266	1,363	803	1,018	1,417	845	1,955	2,932	3,909
Foreign-financed investment	11,970	9,073	3,202	1,512	6,403	9,078	12,929	10,291	3,360	8,065	11,425	13,441
Counterpart funds-financed	577	0	155	0	311	0	0	0	0	336	504	672
Net lending	0	0	0	0	0	400	483	300	0	350	350	350
Domestic primary balance	-3,141	-3,271	-366	-358	-1,354	-484	-1,964	3,417	63	-460	-1,821	-2,621
Overall balance (commitment basis)	9,611	14,165	-683	242	-1,906	-1,583	-3,313	3,114	53	1,305	731	1,448
Excluding grants	-19,453	-15,829	-4,498	-2,757	-9,473	-12,932	-19,533	-13,000	-5,189	-13,514	-20,313	-24,465
Change in net arrears	-15,593	-12,430	0	2,178	-283	-4,150	-3,246	-7,281	-684	-750	-864	-1,152
Interest on external debt	-4,809	-4,007	0	0	0	-445	-445	-1,662	0	0	0	0
Domestic arrears [3]	-10,784	-8,423	0	2,178	-283	-3,705	-2,801	-5,619	-684	-750	-864	-1,152
Repayment	-10,784	-13,629	0	-2,840	-283	-7,673	-7,800	-7,985	-684	-750	-864	-1,152
Accumulation	0	5,206	0	5,018	0	3,968	4,999	2,366	0	0	0	0
of which: Float		2,761		2,313		2,038	2,037	2,071	0	0	0	0
Overall balance (cash basis)	-5,982	1,736	-683	2,420	-2,190	-5,733	-6,559	-4,167	-631	556	-133	296
Excluding grants	-35,046	-28,258	-4,498	-579	-9,757	-17,082	-22,779	-20,280	-5,873	-14,263	-21,177	-25,616
Special adjustment [4]		-3,900		3,900		3,900	3,400	3,900				
Errors and omissions (+ = underfinancing)	0	-30	0	-153	0	-422	604	-419	-457	0	0	0
Financing	1,859	2,194	683	-6,167	218	2,255	2,555	685	1,089	-556	133	-296
Foreign (net)	2,605	2,913	-496	-499	-686	73	-405	-404	-727	-1,064	-1,893	-2,510
Drawings, PIP (identified)	866	548	112	137	224	661	866	31	8	18	26	31
Amortization	-4,132	-2,773	-790	-814	-1,247	-1,246	-2,100	-2,772	-839	-1,265	-2,102	-2,755
Before rescheduling	-2,560	-2,503	-737	-724	-1,143	-1,108	-1,876	-2,443	-749	-1,124	-1,871	-2,424
On restructured obligations	-1,572	-271	-53	-90	-104	-138	-224	-330	-90	-140	-231	-332
Change in net arrears (principal)	-13,937	-10,337	0	0	0	-1,209	-1,209	-3,470	0	0	0	0
Exceptional financing	19,808	15,474	183	178	337	1,867	2,038	5,808	104	182	182	215
Arrears restructuring and deferral	18,700	14,415	0	0	0	1,536	1,536	5,014	0	0	0	0
Current maturities restructuring and deferral	1,108	1,059	183	178	337	331	502	795	104	182	182	215
Domestic (net)	-746	-719	1,179	-5,668	904	2,182	2,960	1,089	1,816	508	2,026	2,214
Bank financing	-746	-719	1,179	-5,668	904	2,182	2,960	1,089	1,816	508	2,026	2,214
Central bank	-333	-770	1,220	-5,699	966	3,323	4,078	2,260	1,806	508	2,026	2,214
Of which: IMF (net) [2]	920	920	0	891	0	891	891	891	0	915	915	1,829
Commercial banks	-413	51	-41	31	-62	-1,140	-1,118	-1,171	10	0	0	0
Financing gap (+ = underfinancing) [2]	4,123	0	0	0	1,972	0	0	0	0	0	0	0
Memorandum items:												
GDP (nominal)	201,028	201,833	212,732	215,919	212,732	215,919	215,919	215,919	228,294	228,294	228,294	228,294
Debt service to be paid in cash [5]	2,343	2,036	608	622	824	944	1,574	1,913	696	959	1,759	2,343
Wages in percentage of revenues	61.9	64.1	66.2	69.3	64.1	63.4	63.9	52.9	53.0	57.0	57.1	57.4

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

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

[2] Starting with the third ECF review, program projections incorporate all identified budget support and anticipated net UFR, with zero net fiscal financing gaps.

[3] Quantitative performance criteria and benchmarks on net accumulation of domestic arrears exclude float (nil in projections).

[4] 2010 revenues received in early 2011.

[5] Net of HIPC interim assistance from mid-2010 to 2012.

Table 3. Comoros: Monetary Survey, 2009–16

(In Millions of Comorian francs)

	2009	2010	2011	2012	2013	2014	2015	2016
				Projections				
Net foreign assets	44,114	45,974	53,878	53,062	53,738	54,937	57,076	58,900
Central bank assets	51,601	53,810	59,859	60,655	62,803	63,424	64,447	64,883
Central bank liabilities	-8,108	-9,475	-10,732	-12,561	-14,392	-14,126	-13,362	-12,315
Commercial banks assets	2,089	5,023	8,655	8,951	9,409	9,885	10,407	10,925
Commercial banks liabilities	-1,468	-3,384	-3,905	-3,983	-4,083	-4,246	-4,416	-4,592
Net domestic assets	13,457	22,772	21,451	23,036	27,966	33,108	37,804	42,983
Domestic credit	37,095	43,680	45,831	51,810	57,820	63,076	68,420	74,295
Net credit to government [1]	7,266	5,743	6,016	8,230	9,569	9,638	9,222	8,700
Of which: Treasury	9,604	8,885	9,974	12,188	13,527	13,596	13,180	12,658
Claims on public enterprises	1,303	2,232	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
Claims on private sector	28,048	35,304	38,275	42,260	46,931	52,118	57,878	64,276
Other items net	-23,638	-20,908	-24,379	-28,774	-29,854	-29,968	-30,616	-31,312
Broad money	57,571	68,747	75,329	76,098	81,704	88,045	94,880	101,883
Money	35,754	42,650	48,820	49,319	53,048	57,268	61,825	66,389
Currency in circulation	14,291	18,115	19,985	22,362	24,009	25,872	27,881	29,939
Demand deposits	21,464	24,534	28,835	26,957	29,039	31,396	33,944	36,450
Quasi-money	21,817	26,097	26,509	26,779	28,656	30,777	33,055	35,495
Memorandum items (in percent of beginning period broad money):								
Net foreign assets	7.7	3.2	11.5	-1.1	0.9	1.5	2.4	1.9
Net domestic assets	5.6	16.2	-1.9	2.1	6.5	6.3	5.3	5.5
Domestic credit	19.1	11.4	3.1	7.9	7.9	6.4	6.1	6.2
Net credit to government	4.0	-2.6	0.4	2.9	1.8	0.1	-0.5	-0.6
Credit to public enterprises	-2.8	1.6	-1.3	0.0	0.0	0.0	0.0	0.0
Credit to private sector	16.9	12.6	4.3	5.3	6.1	6.3	6.5	6.7
Other items (net)	-13.4	4.7	-5.0	-5.8	-1.4	-0.1	-0.7	-0.7
Broad money	13.3	19.4	9.6	1.0	7.4	7.8	7.8	7.4
Money	1.9	12.0	9.0	0.7	4.9	5.2	5.2	4.8
Quasi-money	11.4	7.4	0.6	0.4	2.5	2.6	2.6	2.6
Velocity (GDP/end-year broad money)	3.3	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

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

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

Table 4. Comoros: Balance of payments, 2009–16

(Millions of Comorian francs, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016
		Prel	Projections					
Current account	-14,736	-14,113	-20,564	-23,684	-23,340	-23,522	-22,549	-23,458
Goods and services	-62,898	-70,272	-78,787	-81,997	-81,389	-81,064	-80,533	-83,948
Trade balance	-53,386	-59,359	-64,418	-68,184	-68,866	-69,785	-70,782	-75,050
Exports (f.o.b.)	6,659	7,656	8,908	9,428	10,035	10,868	11,775	12,755
Of which: Vanilla	645	309	350	359	372	394	418	435
Cloves	3,221	5,410	6,361	6,712	7,155	7,813	8,529	9,311
Ylang-ylang	762	881	745	786	830	881	934	991
Other	2,031	1,056	1,451	1,571	1,677	1,780	1,893	2,019
Imports (f.o.b.)	-60,045	-67,015	-73,326	-77,612	-78,901	-80,652	-82,556	-87,805
Of which: Petroleum products	-12,356	-17,327	-22,190	-24,643	-24,167	-23,480	-23,105	-22,970
Services (net)	-9,512	-10,912	-14,369	-13,813	-12,523	-11,279	-9,751	-8,898
Receipts	20,806	23,897	24,175	26,407	28,974	31,811	34,938	38,448
Payments	-30,318	-34,810	-38,544	-40,220	-41,498	-43,090	-44,688	-47,346
Income (net)	-168	-851	-151	-518	-498	-477	-388	-48
Credit	547	20	592	263	245	257	295	582
Debit	-715	-871	-743	-782	-743	-734	-683	-630
Of which: Interest on rescheduled obligations		-145	-91	-148	-135	-144	-116	-87
Current transfers (net)	48,331	57,010	58,374	58,831	58,547	58,018	58,372	60,538
Government	10,649	22,535	17,998	14,217	11,858	10,543	10,100	10,178
Of which: HIPC interim assistance		103	198	207	0	0	0	0
Private	37,682	34,475	40,375	44,614	46,690	47,475	48,272	50,360
Capital and financial account	14,298	15,569	19,350	22,436	18,990	16,880	16,680	17,959
Capital account	10,771	8,859	10,989	14,184	14,599	16,035	17,222	18,493
Capital transfers	10,771	8,859	10,989	14,184	14,599	16,035	17,222	18,493
Transfer of fixed assets	7,206	8,525	10,260	13,411	14,599	16,035	17,222	18,493
HIPC interim assistance		334	729	773	0	0	0	
Liabilities cancellation	0	0	0	0	0	0	0	0
Financial account	3,527	6,710	8,361	8,252	4,391	844	-543	-534
Direct investment	4,882	1,463	4,926	6,562	6,581	6,619	6,664	6,712
Net portfolio and other investment	-1,355	5,247	9,243	1,905	2,478	1,755	450	-265
Government	-6,318	-2,225	-2,742	-2,725	-2,087	-2,450	-2,775	-2,936
Drawings	60	548	31	31	537	551	592	635
SDR allocations	4,139							
Amortization	-2,239	-2,773	-2,772	-2,755	-2,625	-3,001	-3,367	-3,572
Before rescheduling		-2,503	-2,443	-2,424	-2,193	-2,318	-2,388	-2,329
On restructured obligations		-271	-330	-332	-432	-683	-979	-1,243
Private sector (net)	4,963	7,472	6,177	4,415	-103	-3,324	-4,431	-4,310
Banks, net	2,101	-1,019	-3,111	-218	-358	-313	-352	-341
Other	2,862	8,491	9,287	4,633	255	-3,011	-4,079	-3,969
Errors and omissions	2,789	-1,745	9,231	0	0	0	0	0
Overall balance	-2,664	-290	13,348	-1,249	-4,350	-6,643	-5,870	-5,499
Financing	2,664	290	-4,117	1,249	-318	-886	-1,787	-1,482
NFA of central bank (increase -)	-1,873	-841	-4,793	1,034	-318	-886	-1,787	-1,482
Foreign assets	-11,741	-2,208	-6,050	-795	-2,149	-621	-1,023	-435
Foreign liabilities	9,868	1,367	1,257	1,829	1,831	-265	-764	-1,047
Of which: Net IMF Credit	1,697	920	891	1,829	1,831	-265	-764	-1,047
Net change in arrears	-1,427	-14,343	-5,132	0	0	0	0	0
Clearance of deferred arrears and debt service [1]	-5,016							
Exceptional financing	5,964	15,474	5,808	215	0	0	0	0
Arrears restructuring and deferral		14,415	5,014	0	0	0	0	0
Current maturities restructuring and deferral		1,059	795	215	0	0	0	0
Financing gap	0.0	0.0	0	0.0	4,668	7,529	7,657	6,981
Memorandum items:								
Current account (percentage of GDP)	-7.8	-7.0	-9.5	-10.4	-9.6	-9.0	-8.0	-7.8
Excluding transfers	-33.3	-35.2	-36.6	-36.1	-33.5	-31.1	-28.7	-27.8
Exports of goods and services (percentage of GDP)	-14.5	-15.6	-15.3	-15.7	-16.0	-16.3	-16.6	-16.9
Imports of goods and services (percentage of GDP)	47.7	50.5	51.8	51.6	49.3	47.2	45.2	44.7
Gross international reserves (millions of U.S. dollars)	146.0	144.2	170.1	158.0	163.4	164.3	166.1	166.3
In months of imports of goods and services	6.8	6.3	6.4	6.2	6.2	6.1	6.1	5.7

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 5. Comoros: Education and Health expenditure, 2009–12.

(In millions of Comorian francs unless otherwise indicated)

	2009	2010	2011	2012
Education	10,089	10,794	11,671	10,786
Wages	7,597	8,528	8,954	8,302
Goods and services	145	193	420	350
Transfers	649	1,054	908	1,188
Capital	1,698	1,019	1,388	946
Domestically funded	0	78	400	550
Foreign funded	1,698	941	988	396
Health	3,195	2,866	3,098	5,893
Wages	1,361	1,084	1,138	860
Goods and services	6	70	120	36
Transfers	130	934	774	1,298
Capital	1,698	778	1,066	3,699
Domestically funded	0	0	250	450
Foreign funded	1,698	778	816	3,249
Total education and health	13,284	13,660	14,769	16,680
Domestically funded	9,888	11,941	12,964	13,034
Domestically funded, in percent of GDP	5.2	5.9	6.0	5.7
Memorandum item:				
GDP, in millions of CF francs	189,531	201,833	215,919	228,294

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

Table 6. Comoros: Availability Dates for Proposed ECF Disbursements, 2009–13

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

Source: IMF staff estimates and projections.

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

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

Table 7. Comoros: Indicators of Capacity to Repay the Fund, 2009–2023.

	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	5.9	288.9	787.7	1,064.8	1,253.8	1,618.0	1,630.0	1,122.5	841.9	650.8	280.6
In percent of government revenue	2.4	0.0	0.0	0.0	0.0	0.7	1.8	2.3	2.4	2.9	2.7	1.7	1.2	0.8	0.3
In percent of exports of goods and services	2.3	0.0	0.0	0.0	0.0	0.7	1.7	2.1	2.3	2.8	2.7	1.7	1.2	0.9	0.4
In percent of debt service [3]	21.1	0.0	0.0	0.0	0.2	7.2	16.5	20.5	24.0	31.4	35.4	27.5	21.8	17.4	6.7
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	7,444.6	9,285.3	9,051.6	8,327.2	7,317.0	6,113.9	4,501.8	2,883.8	1,767.3	931.4	280.6	0.0
In percent of government revenue	13.3	15.7	15.4	23.4	26.4	23.3	19.5	15.5	11.9	8.1	4.7	2.6	1.3	0.4	0.0
In percent of exports of goods and services	12.8	14.4	16.1	20.8	23.8	21.2	17.8	14.3	11.3	7.8	4.7	2.7	1.3	0.4	0.0
In percent of debt service [3]	119.0	181.6	197.7	231.8	280.1	226.9	174.0	140.7	116.9	87.3	62.7	43.3	24.1	7.5	0.0
In percent of GDP	1.9	2.2	2.5	3.3	3.8	3.4	3.0	2.4	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)	189,531	201,833	215,919	228,294	244,294	262,375	281,794	302,593	324,902	348,849	374,565	402,177	431,825	463,658	497,838
Exports of goods and services (millions of CF)	27,465	31,553	33,082	35,836	39,009	42,679	46,712	51,203	54,343	57,697	61,262	65,067	69,128	73,508	78,261
Government revenue (millions of CF)	26,401	28,875	34,793	31,847	35,148	38,775	42,756	47,129	51,318	55,807	61,043	66,800	73,132	80,115	87,322
Debt service (millions of CF) [2]	2,954	2,496	2,702	3,211	3,316	3,989	4,785	5,202	5,231	5,157	4,600	4,085	3,858	3,750	4,159
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.

Appendix 1. Triggers for the HIPC Floating Completion Point[4]

PRSP

- Satisfactory implementation for at least one year of the full PRSP, as evidenced by an Annual Progress Report submitted by the government to IDA and the IMF.

The APR for 2010 was completed in August 2011; the 2011 APR is expected to be finalized in the second quarter of 2012.

Macroeconomic stability

- Maintenance of macroeconomic stability as evidenced by satisfactory implementation of the ECF-supported program.

The macroeconomic stability conditionality will be met if the third and fourth ECF reviews are completed in the second and fourth quarters of 2012, respectively.

Public financial management and governance

- Regularly produce detailed quarterly budget execution reports for a period of at least 12 months prior to reaching the completion point.

Publication of quarterly budget execution reports commenced in late 2011.

- Adopt the terms of reference for a feasibility study for a comprehensive computerized public financial management system, including an estimate of the cost and a timetable for the installation of the proposed system.

In good progress.

- Adopt by law a public procurement code consistent with relevant COMESA norms and develop related implementing regulations; and successfully implement the new code prior to the country's attainment of the HIPC Initiative completion point;

The law was approved by Parliament in February 2012 and is expected to be in force by Q3 2012.

- Adopt a revised set of organic frameworks (organigram and staffing plans), consistent with the 2009 constitutional amendments, for all ministries.

Done.

- Government approval and submission to Parliament of a draft law establishing the constitutionally-mandated Chamber of Accounts for external control of budget operations.

Done.

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[4] Understandings with the authorities on completion point triggers, as previously reported in EBS/10/110, 6/7/10.

Structural reform

- Officially adopt reform strategies to strengthen management of Comores Télécoms (telecommunications), Société Comorienne des Hydrocarbures (oil import and storage), and MAMWE (electricity); and issue calls for expressions of interest to identify a strategic partner for at least one of the three companies

In process. Jointly with the World Bank, the government has adopted a strategy for the privatization of Comores Télécoms under which calls for bids from potential strategic partners are to be issued by end-2012.

Social sectors

Education: Strengthen efforts towards achieving MDG 2; the authorities will:

- Construct and equip 210 primary school classrooms following agreed standards (22 on Moheli, 126 on Anjouan, and 62 on Ngazidja).
- Construct 100 separated latrines for improved hygiene and promotion of girls' participation.
- Provide 300,000 textbooks and 25, 000 school kits (including basic school supplies) for vulnerable children.

In progress: 152 class rooms rehabilitated; 41 latrines built; 21,000 books and 85,350 school kits provided.

Health: Strengthen efforts towards achieving MDGs 4 and 6; the authorities will:

- Conduct a national measles vaccination campaign for children 9–47 months to achieve 90-percent coverage nationwide (and thus consolidate progress in reducing infant mortality).

Done.

- Carry out a national survey on risk factors for non communicable diseases to guide the development of a national strategy to reduce the growing burden of noncommunicable diseases.

Done.

Debt Management

- Improve public debt management systems, particularly adopting effective debt management software.

In progress, expected completion during Q2 2012.

- Produce detailed annual reports on external and domestic debt no later than six months after year end, including data on existing stocks, new loans, and debt service due and paid. At least one such report should be available prior to Comoros reaching the HIPC completion point.

Done. A report for 2010 was published in 2011 and the report for 2011 is expected in Q2 of 2012. Efforts are needed to improve the quality of the reports.

- Amend the 2003 decree (décret N°03-62/PR) establishing the debt management office to refocus its mandate and activities, consistent with the office's capacity limitations.

Pending. With assistance from staff of the World Bank's Debt Unit, the authorities are restructuring the Debt Directorate (DND) to ensure that it meets its statutory obligations.

Appendix 2. Letter of Intent

Moroni, May 23, 2012

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

Dear Madame Lagarde:

1. Following the bold institutional reforms undertaken over the last two years, the Comoros are gradually returning to peace and national unity. The most recent presidential and island elections were peaceful. These elections confirmed the rotating status of the Union presidency and enabled the country to embark on the road to political stability. As a result, the Comoros can at last focus on the challenges of economic development with technical and financial support from the IMF and other development partners.

2. The major political achievements of the last few years have nonetheless been obtained in a context of disruptions and delays harmful to the implementation of the IMF-supported reform program under the Extended Credit Facility (ECF) arrangement. Consequently, the program reviews for June and December 2011 could not be completed in a timely manner.

3. Encouraged by the more enabling political context, the new government is determined to put the program back on track. To that end, the government has initiated corrective measures in the budgetary and structural areas. These measures and other development actions by the government are coordinated in its Growth and Poverty Reduction Strategy Paper (GPRGF) adopted in 2009, and which we have lately refocused by order of priority of the projects and programs for the period 2011–14. From this strategy is drawn the three-year ECF-supported program, whose major objectives are to expand fiscal space so as to increase spending in priority and growth-supporting sectors, in addition to strengthening the competitiveness of the economy with a view to fostering stronger growth, in particular through the restructuring of public utilities.

4. Our discussions with Fund staff under the third review of the ECF arrangement have established that two performance criteria were not observed. The clearance of domestic payments arrears fell short of program targets for end-2010 and debt service owed to one

creditor was honored with a delay, leading to incurrence of external payments arrears. Furthermore, the existence of these arrears could not be promptly reported to IMF staff, owing to weaknesses in the national foreign debt management system. This led to misreporting for which the government requested and obtained a waiver from the IMF Executive Board in February 2012. Except for those mentioned above, all other quantitative program performance criteria for end-December 2010 were met. No significant progress was made through the latter date on the structural front, with especially a slow pace of reforms of the public enterprises and civil service. The most serious deficiencies in program implementation occurred during the run-up to and aftermath of the 2010 elections.

5. The new government has renewed efforts to achieve fiscal consolidation and to reinvigorate structural reforms, which it intends to expedite. In the medium term, the government is determined to secure its revenue targets under the program. To make the wage bill more compatible with the government's domestic revenue mobilization capacity, the government cancelled the excessive wage increase granted in 2010. Furthermore, the government is more closely monitoring the settlement of domestic payments arrears and the external debt service repayment schedule in particular by strengthening the joint monitoring of these operations by the Directorate of the Treasury, the Public Debt Directorate of the Ministry of Finance, as well as by the Central Bank of the Comoros. More generally, the government has enhanced the performance of the cash flow committee chaired by the Vice-President in charge of finance, with a view to achieving significant improvements in fiscal management. In order to give fresh impetus to its structural reform program, the government has requested and obtained increased technical support from development partners in implementing the reform of public enterprises. Moreover, the stepped-up monitoring of external debt is expected to help improve the reliability of data reporting to Fund staff. Considering all the corrective measures currently in progress, the government is seeking a waiver for the nonobservance of the above-mentioned performance criterion on domestic payments arrears. The government is henceforth requesting the completion of the third review under the ECF arrangement and disbursement of related ECF resources.

6. The country's macroeconomic performance was broadly satisfactory in 2011. Against the backdrop of easing political tensions, foreign aid remained high and domestic credit remained relatively robust. During 2011, private consumption and construction grew strongly, buoyed by remittances from the diaspora, financial aid, and a number of investments from public and private partners in the Gulf region. Thus, the rate of growth in real GDP attained 2.2 percent. Rising inflation reflects a somewhat difficult international context, despite favorable performance of subsistence agriculture. The surge in imports in the face of a rising oil bill, and the recovery of FDI, widened the external current account deficit, which reached 9.5 percent of GDP. The fiscal situation improved in the second half of the year. The domestic primary budget recorded a surplus of 1.6 percent of GDP, reflecting the impact of heightened efforts to mobilize domestic resources in the final quarter, exceptionally large revenues under the economic citizenship program, and wage restraint.

7. The architecture and fundamental objectives of the ECF-supported program remain unchanged. As stated in the attached memorandum of economic and financial policies, the government will continue pursuing a prudent fiscal policy, while endeavoring to protect the resources allocated to the social sectors in support of its poverty reduction efforts. The government also intends to accelerate the structural reforms necessary to enhance the competitiveness of the economy. If necessary, it would consult Fund staff before any revisions are made to the policies outlined in the memorandum, in accordance with the Fund's policy on such consultation.

8. In light of the delays in program implementation, the government requests the extension of the arrangement through December 2013 and rephasing of the third and subsequent ECF reviews and related disbursements. This would provide additional time beyond September 2012—the initial expiry date for the ECF arrangement—to complete the six program reviews and permit the disbursement of related Fund financial support. Accordingly, the fourth review would take place in December 2012 and the fifth review completed by end-June 2013.

9. 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 third 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 of the BCC

ATTACHMENT 1

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2012

I. INTRODUCTION

1. This memorandum reviews progress made in 2010–11 in implementing the government reform program under the ECF, and sets out the measures and policies which the government is implementing in 2012 in order to achieve its objectives.

II. ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

A. Recent economic developments and program implementation

2. **While slowly recovering, economic growth remains weak.** Estimated at 2.1 percent in 2010, the rate of growth of real GDP virtually stagnated in 2011, compared to 1.8 percent in 2009. In a context of rising foreign aid and easing political tensions, growth in 2010 was boosted by an upturn in domestic demand buoyed by external assistance and transfers from the diaspora. In 2011, growth was driven by favorable performance of the agricultural sector and transfers from the diaspora, as well as a modest recovery of foreign direct investment. Construction activities benefited from positive developments in the latter two sectors. Despite favorable agricultural food production, inflation was 7 percent on a year-on-year basis in 2011, reflecting domestic price pressures linked to rising world food and oil prices.

3. **Efforts to mobilize domestic resources and strengthen expenditure control in 2010 generated additional gains in fiscal consolidation.** Government revenue was equivalent to the targeted 14.3 percent of GDP under the program as a result of good performance of customs and nontax revenues associated with the economic citizenship program. In spite of overruns on personnel expenditure, the primary budget deficit fell to the programmed level of 1.6 percent of GDP (2.6 percent in 2009), while nonwage expenditure was broadly within projections. However, the late recovery of a large share of revenues delayed the settlement of some of the government's financial commitments and resulted in the accumulation of two months of wage arrears, which were not cleared until the second quarter of 2011.

4. **After deteriorating in the early part of the year, government budget strengthened in the second half of 2011.** Revenue collection was considerably weakened during the first three quarters of the year on account of insufficient taxation of petroleum products, institutional weaknesses in the management of the Port of Moroni, and insufficient performance by the tax and customs administrations. However, thanks to stronger revenue mobilization efforts at year-end, government revenue reached 16.1 percent of GDP including

3 percent of GDP in one-off nontax receipts from the economic citizenship program, compared to a revised projection of 13.1 percent of GDP and an outturn of 14.3 percent of GDP in 2010. The wage bill was brought back to a level more compatible with the government's revenue capacity (8.5 percent of GDP) following the cancellation of the wage increase granted in 2010. Accordingly, the primarily budget balance recorded a surplus equivalent to 1.6 percent of GDP compared to a deficit of 1.6 percent of GDP for 2010.

5. **Having remained stable in 2010, the external current account deficit significantly increased in 2011.** It is estimated at almost 9.5 percent of GDP in 2011 (7.0 percent of GDP in 2010), reflecting the rising global food and oil prices, a pickup in FDI-related imports, and a slight decline in budget assistance. Remittances from the diaspora recorded a moderate growth, while official reserves remained at a comfortable level, equivalent to 6.4 months of imports of goods and nonfactor services. The external debt of the Comoros remains unsustainable, and the government is endeavoring to expedite the implementation of the triggers in order to gain access to the completion point under the HIPC Initiative. The government is continuing to sign debt rescheduling agreements with its foreign creditors in conformity with the requirements of the HIPC process. Accordingly, the government is calling for the rapid restoration of the November 2009 debt rescheduling agreement with Paris Club members which was temporarily suspended as a result of delays in completing the third and fourth reviews under the ECF arrangement. To avoid penalties resulting from suspension, the government has engaged discussions with concerned creditors, while ensuring that its debt service is paid in strict accordance with agreed-upon timetables.

B. Program Implementation

6. **The implementation of the three-year ECF arrangement approved in September 2009 weakened significantly during the run-up to and aftermath of the December 2010 presidential** (Tables 1 and 2). Two performance criteria were not observed. Specifically, the end-December 2010 performance criterion on net reduction in domestic payments arrears was missed by 0.5 percent of GDP as the government faced with an unsustainable wage bill suspended all wage payments in a bid to renegotiate the salary increase granted in October 2010. Furthermore, the zero-ceiling on the accumulation of external debt service was overshot by 0.02 percent of GDP on account of weaknesses in external debt management. Almost all programmed structural reform measures were delayed. In particular, the implementation of the new civil service organizational frameworks for the civil service, initially planned for July 2011, was delayed; the census of civil service employees was not completed until December 2011, one year after the originally scheduled date; and the reform of public enterprises experienced delays. Consequently, Executive Board consideration of the third and fourth reviews, initially scheduled for 2011, was postponed.

III. ECONOMIC AND FINANCIAL POLICIES FOR 2012

A. Macroeconomic Framework

7. **In 2012, real GDP is expected to grow by 2.5 percent with inflation declining on account of lower pressures on global food and oil prices.** Growth continues to benefit from the favorable performance of rain-fed subsistence agriculture, a slight strengthening of foreign direct investment, as well as a stepping up of technical and financial engagement of the country's main development partners. Against this backdrop, inflation will be held to 4.3 percent on a year-on-year basis. In the external sector, with exports remaining weak and the continuing high demand for imports, the external current account deficit is expected to exceed 10 percent of GDP.

B. Fiscal Policy

8. **In the medium term, government budget policy remains consistent with the objectives of the Fund-supported reform program under the ECF.** The government intends to pursue its efforts to achieve further gains in fiscal consolidation and improve the long-term profile of government indebtedness. In this perspective, the domestic primary budget deficit, which had fallen to the equivalent of 1.4 percent of GDP in 2011 (excluding exceptional revenues associated with the economic citizenship program), is projected to narrow further in 2012, reaching 1.1 percent of GDP. This reflects the effect of more rigorous revenue mobilization efforts in strengthening tax and customs administration, as well as closer scrutiny of expenditure, including wages. The government has made important changes in senior management personnel at the General Directorate of Taxes and Customs, a policy it intends to pursue in other areas of the finance administration. After cancelling the October 2010 wage increases, the government intends to implement the recommendations of the census of government employees and clean up the payroll list by end-June 2012. The government will then implement the new organizational frameworks for the civil service beginning in September 2012. All of these efforts are expected to help better control government wage costs. If the government receives external budget support in excess of programmed amounts, it will consult with the IMF on its use and will establish a new supplementary budget specifying how these resources will be allocated. In such a situation, the government will give priority to settling domestic payments arrears and to strengthening its deposits with the BCC.

9. **According to projections, domestic revenue is expected to amount to the equivalent of 14 percent of GDP in 2012.** To achieve this objective, the government is ensuring more rigorous management of the current taxpayer database of the Large Tax Payer Unit (*service de la fiscalité des enterprises, SFE),* which has doubled in size to reach 530 taxpayers over the last 12 months. The government has also strengthened the activities of the SFE offices in Anjouan and Mohéli. With technical assistance from the IMF and the AfDB, the government is expediting the establishment of the new General Administration of Taxes

and Government Property (*Direction Générale des Impôts et des Domaines*). The law establishing this agency is expected to be adopted by Parliament by end-June 2012. Pending the completion of this important reform and the comprehensive implementation of the law in question, in the first quarter of 2013, collaboration between the central government and island tax administrations has been strengthened. Further, the ad valorem taxation of imports will continue to be subject to closer monitoring by customs and, to that end, the operational resources of the central office responsible for monitoring the value, type, and origin of imported goods have been strengthened. In addition, the government has addressed the uncertainties affecting the Port of Moroni which is now being managed by an internationally reputable operator.

10. **In 2012, expenditure is expected to be contained to 24.7 percent of GDP.** In this context, the wage bill will decline to 8 percent of GDP, compared to 8.5 percent of GDP in 2011. To ensure the satisfactory implementation of its budget program and facilitate attainment of the completion point under the HIPC Initiative, the government is exercising close supervision over the wage bill––including through rigorous adherence to the new integrated wage payment system (GISE) across the country. Cumulative from January 1, 2012, the government has set ceilings on wage outlays at CF 9,144 million for June 30, 2012, CF 13,716 million for September 30, 2012, and CF 18,288 million for December 31, 2012. The government intends to raise investment outlays to 1.7 percent of GDP (0.7 percent of GDP in 2011). Social expenditures in education and health are expected to increase to CF 13,034 million (5.7 percent of GDP). More generally, the government is closely adhering to the spending limits agreed to under the 2012 budget, including one-off loan of CF 350 million (0.2 percent of GDP) to the electricity company in support of an emergency rehabilitation program for that company, prepared with technical assistance from the World Bank. After settling all wage arrears accumulated in 2011, the government has strengthened cash flow management in an effort to forestall any further accumulation of new domestic payments arrears. It is now ensuring the regular and timely payment of monthly wages to government employees.

11. **The overall fiscal balance (cash basis, including grants) should be virtually in equilibrium in 2012.** The net financing requirements of the government are fully met by financial assistance from Gulf region partners, the IMF, the AfDB, the World Bank, and France. In the event of shortfalls in revenue or grants, the government intends to adopt appropriate compensatory measures, including slower increases in goods and services and investment expenditures, as well as more vigorous collection of tax arrears.

C. Money, Credit, and the Financial System

12. **Following a considerable expansion over the last three years, broad money is expected to virtually stagnate in 2012.** Government borrowing from the banking system remains prudent so as to allow for adequate expansion of credit to the private sector. The reserve requirement ratio continues to be the main instrument for liquidity management. In

2011, it was brought back to 25 percent (from 35 percent) in response to a gradual decline in the demand for credit against a backdrop of persistent excess liquidity within the banking system. Subsequent changes in the ratio will continue to be dictated by the overarching objectives of maintaining price and macroeconomic stability, as well as provisioning the economy with adequate liquidity. The BCC is implementing the recommendations of the 2012 safeguards assessment, including producing financial statements in conformity with international standards and submitting the monetary data reported to Fund to prior review by the financial controller of the Bank.. Finally, in 2012 the BCC is completing its efforts aimed at further strengthening banking supervision with technical and financial assistance from the IMF, Banque de France, and the UNDP-FENU in the context of the Comoros Inclusive Finance Program (PAFIC).

13. **Overall, the soundness of the Comorian banking system continues to be satisfactory.** Despite a slight increase of NPLs in 2011, most financial institutions saw their profitability improve. Moreover, the banking system exhibits healthy ratios with respect to liquidity, gross solvency, and coverage of obligations to third parties. Pending finalization of a medium-term reform program, the government has pursued the execution of short-term measures designed to improve the financial situation of the National Postal and Financial Services Company (SNPSF). In this respect, important progress has been made, particularly with respect to the replenishment of cash flow, compliance with reserves requirements, and the improvement of the credit portfolio. As a result, the BCC has terminated the provisional administration of the institution. However, the SNPSF's overall situation remains fragile. The finalization and rapid implementation of a credible medium-term rehabilitation plan remain one of the priorities for the institution. The government has granted the BCC considerable leeway in the conduct of these important reforms with technical support from development partners.

D. Balance of Payments and External Debt

14. **The external current account deficit, inclusive of private and official transfers and grants, is expected to reach 10.4 percent in GDP in 2012 (9.5 percent of GDP in 2011).** It should decline below 10 percent of GDP in 2013. In the face of rising food and oil prices, the weak external position in 2011 and 2012 reflects the low level of exports and the return of official grants to normal levels, following the strong expansion observed in 2010. Confronted with a heavy external debt burden, the government intends to pursue a cautious indebtedness policy.

15. **Any external borrowing contracted or guaranteed by the government is subject to prior approval by the Minister of Finance of the Union, and the executive governments of the islands do not have the authority to contract or guarantee external borrowing**. As in the past, the government will neither contract nor guarantee any short-term or nonconcessional external debt as defined in the Technical Memorandum of Understanding

(TMU). The authorities will continue to consult the IMF before contracting or guaranteeing any concessional external debt in excess of US$20 million.

16. **Having accumulated external payments arrears in 2010, the government has made efforts to improve debt management to prevent further difficulties in this area.** External debt service payments arrears (on rescheduled debt obligations under the HIPC Initiative) were accumulated vis-a-vis the International Fund for Agricultural Development (IFAD) in 2010 and early 2011. They have since been settled in full. With support from the African Development Bank, the Public Debt Directorate is being provided with an effective debt management software and training for staff. Also, the World Bank has recently provided the government with technical assistance to assess their debt management capacity. On that basis, the authorities are developing an effective program for enhancing its expertise in this area. Inter-departmental monitoring of debt service maturities and payments (between the Debt Directorate, the Treasury, and the Central Bank) has been intensified. In this context, meetings among decision-makers from the relevant departments are being held on a regular basis.

E. Structural Policies

17. **The government is determined to accelerate its divestiture of Comores Télécom.** It is benefiting from technical and financial assistance from the World Bank group. In April, the government signed a partnership contract with the IFC to receive technical support in implementing the Comores Telecom divestiture transaction. A call for expressions of interest among potential strategic partners will be launched by end-December 2012.

18. **Faced with the steady deterioration in the country's energy situation, the government is reaffirming its commitment to in-depth reform of the energy sector.** To ensure the success of this reform, the government has requested technical assistance from the World Bank, the European Union, and the AfDB. The AfDB will be implementing a project to provide support to the energy sector in the amount of US$20 million during 2012. Various studies should be completed by end-September 2012, in particular: (i) an EU-funded study on the long-term energy strategy for the Comoros; (ii) an organizational and strategic audit of the electricity and water company (MA-MWE) supported by the AfDB; and (iii) a diagnostic study of the sector as well as a sectoral strategy proposed by the World Bank. These studies will help clarify the institutional and regulatory environment for the energy sector and facilitate agreement on arrangements for restructuring MA-MWE and the Société Comorienne des Hydrocarbures (SCH) in the context of performance contracts entrusted to providers specializing in energy management. Preliminary contracts have been established with a Saudi group (Al-Sharif Group) with a view to entering into a possible partnership in the production and distribution of electric energy, in the context of a far-reaching restructuring of the electricity and Water Company.

19. **In the immediate future, the government is focused on finalizing an emergency rehabilitation program for MA-MWE with technical assistance from the World Bank.** The financial cost of the emergency maintenance operations, estimated at CF 350 million, is fully reflected in government's financial operations for the second quarter of 2012. The execution of the emergency program is being overseen by World Bank staff.

20. **In the area of public financial management, the government's objective is to improve budget management.** Supported by the AfDB, the authorities have implemented a new General Tax Code; by end-March 2013 they are expected to complete the establishment of a new General Tax and Government Property Administration (AGID) and its board of directors. This reform is designed to strengthen overall cohesion and collaborative relationships between the offices of the central tax authorities of the Union and the tax offices of the island entities, and to enhance the efficiency of tax administration throughout the tax revenue chain (assessment, supervision, and collection) while strengthening the efforts towards a unified budget framework. With assistance from the World Bank, the government conducted a comprehensive census of government employees and civil servants. The government is preparing by end-June 2012 a new list of government employees for payroll settlement purposes under the GISE system. Current staffing levels broken down by grade and ministry will be reported to Fund staff by end-July 2012. With assistance from the World Bank, the government has also developed a list of priority sector expenditures which will be rigorously monitored by the inter-unit committee responsible for monitoring PRSP implementation. These efforts will help to ensure that the savings generated through the debt service reduction under the HIPC Initiative are actually used to finance the priority sectors in the poverty reduction and growth strategy. Furthermore, by end-2012 the government will finalize the terms of reference for a study aimed at introducing a budgetary framework and medium-term expenditure frameworks (MTEF) beginning in FY 2016.

21. **Civil service reforms should contribute to strengthening the medium-term viability of the budget.** In this context, the government has secured the adoption by Parliament of the law establishing organizational frameworks for the civil service; implementation is expected in September 2012. This reform is expected to generate further efficiency gains in payroll management resulting from the civil service census and a rigorous implementation of the GISE, making it possible to beef up average wages while keeping the overall wage envelope within limits compatible with the financial resources of the State. In this context, the government is continuing to seek technical and financial assistance from its development partners in preparing and implementing a program to support civil servants removed from the government's personnel lists.

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

22. **The government has finalized its first annual status report on implementation of the PRSP**. The report assesses limited but encouraging progress in several areas, including a

modest recovery in economic growth, improvements in political governance and school enrollment for girls, as well as some reduction of maternal and infant mortality. However, the progress remains modest in comparison with the ambitious objectives set out in the initial document. The main constraints consist in insufficient coordination of actions as well as limited absorption capacity relative to the announced amounts of financial resources. The government is drawing upon the conclusions and recommendations of this report to take steps to enhance the effectiveness of its poverty reduction strategy. Furthermore, to make the strategy more operational and realistic, the government has finalized with AfDB support a refocused action plan for the PRSP. The authorities intend to implement it rigorously with technical and financial support from its development partners.

23. **The government is resolved to continue its efforts to improve the socio-demographic and macroeconomic database needed for the design and monitoring of its development policy.** In this connection it is receiving significant technical assistance from the AfDB, particularly in respect of the preparation of the national accounts and the consumer price index. The program to improve the quality of national accounts and consumer price index statistics is expected to be completed in 2013. With support from the EU, the government has embarked upon a capacity-building program for the Economic and Financial Reform Monitoring Committee (CREF) in the areas of the collecting, compiling, verifying, processing, and consolidating economic and financial data, as well as preparing and monitoring the government's table of financial operations (TOFE).

IV. Program Monitoring and Extension, And Rephasing of Disbursements

24. **The program will be monitored on the basis of quarterly targets with performance criteria established on a semiannual basis** (Tables 1 and 2). Since the third ECF review has been substantially delayed, the government requests rephasing of related and subsequent disbursements and extension of the program to end-2013. This will provide adequate time for implementation delayed program reforms and concluding all outstanding reviews. In 2010, persistent shortcomings in wage bill management jeopardized program implementation, causing recurrent slippages in the budget program and calling the integrity of the program into question. The government intends to ensure that there is no recurrence of such incidents. Accordingly, quarterly wage ceilings as set in paragraph 10 above will be strictly adhered to. The government will provide the IMF with such information as needed to monitor the program, in accordance with the Technical Memorandum of Understanding. During the program period, the authorities will not introduce or intensify restrictions on payments and transfers for current international transactions, and will not introduce or modify any multiple currency practices, conclude any bilateral payments agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement, or impose any restrictions on imports for balance of payments purposes.

25. **The fourth review of the ECF arrangement will be held in December 2012.** In the area of structural reforms, the review will focus primarily on measures aimed at

strengthening control of the wage bill and execution of public enterprise reform, in particular: (i) observance of the fiscal targets pertaining to the wage bill; (ii) cleanup of the payroll database in order to act upon the recommendations of the survey of government employees and civil servants; (iii) introduction of the organizational frameworks for the civil service; and (iv) implementation of the roadmap for Comores Télécom.

26. **The government requests that the ECF-supported program be extended for 15 months through end-December 2013.** This will make it possible to have more time after September 2012—the initial expiry date of the arrangement under the ECF—to complete the six program reviews and to make disbursements of the related financial assistance.

Table 1. Comoros: Quantitative Performance Criteria and Indicative Targets under the ECF-supported Program [1]
(in millions of Comorian francs, cumulative since the start of the fiscal year, unless otherwise specified)

	2010			2012			
	Dec.			Mar.	Jun.	Sept.	Dec.
	PC	Adj. PC	Actual	Est.	PC	Indicative Target	PC
Performance criteria							
1. Ceiling on net credit to government (NCG)	156		-719 met	1,816	508	2,026	2,214
2. Ceiling on the accumulation of net domestic payments arrears [2]	-10,784	-12,264	-11,184 not met				
3. Ceiling on the accumulation of new domestic payments arrears [3]				0	0	0	0
4. Ceiling on new nonconcessional external debt contracted or guaranteed by the government [4, 5]	0		0 met	0	0	0	0
5. Ceiling on new short-term external debt contracted or guaranteed by the government [4, 5]	0		0 met	0	0	0	0
6. Ceiling on accumulation of external debt service arrears [5]	0		44 not met [6]	0	0	0	0
Indicative targets							
7. Floor on the domestic primary balance	-3,141		-3,271 not met	63	-460	-1,821	-2,621
8. Floor on total domestic revenues	28,848		28,875 met	8,614	16,052	24,029	31,847
9. Ceiling on expenditures by cash advances	150		120 met	150	150	150	150
10. Floor on domestically financed social spending	11,870		11,941 met				13,034
11. Floor on gross reduction of domestic payment arrears				-684	-750	-864	-1,152

[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. The target on the accumulation of domestic arrears is set on a net basis until December 31, 2010.
[3] Targets and realizations adjusted as specified in the TMU. The target on the accumulation of new domestic arrears is set from January 2012 onward.
[4] Excluding trade credits.
[5] Monitored on a continuous basis.
[6] Waiver for missed PC granted by the IMF Board in February 2012 under the related misreporting case (EBS/12/11).

Table 2. Comoros: Proposed Structural Benchmarks for the Arrangement Under the ECF, 2010–13

Measures	Macroeconomic Justification	Date	Status
Structural benchmarks			
Public finance management			
Completion of the civil service census	Improve control of the wage bill and public expenditure	December 31, 2010	Observed with delay in December 2011
Establish the post-census payroll list	Improve control of the wage bill and public expenditure	June 2012	New
Establish the offices of the large taxpayer unit in Anjouan and Mohéli	Enhanced effectiveness of tax administration	March 31, 2011	Not observed on time, but fully implemented in September 2011
Adopt legislation on new General Administration of Taxes (formerly the General Tax Directorate)	Enhanced effectiveness of tax administration	June 2012	New
Appoint the board of directors of the new general tax administration	Enhanced effectiveness of tax administration	March 31, 2011	Not observed; new date set for end-March 2013
Adopt TORs for study on the budget framework and MTEFs	Enhanced effectiveness of budget and expenditure management	March 31, 2011	Not observed; new date set for end-December 2012
Implementation of the new organizational frameworks for the administrations of the Union and the islands	Rightsizing the civil service to ensure medium-term budget sustainability	June 30, 2011	Not observed; new date set for September 2012
Adopt indicative targets for social spending and other priority outlays	Improve monitoring of the use of HIPC resources	June 30, 2011	Not observed on time, but completed in October 2011

Measures	Macroeconomic Justification	Date	Status
Complete a census of large taxpayers and thereby update the list of large taxpayers	Enhanced effectiveness of the collection activities of the large taxpayer unit	September 30, 2011	Observed
Adopt the terms of reference for a feasibility study for a comprehensive computerized public financial management system, including an estimate of the cost and a timetable for the installation of the proposed system	Improve monitoring of expenditures and overall budget execution; facilitate progress toward HIPC completion point	September 2012	New
Public enterprise reform			
Maintaining the flexible petroleum product price-setting mechanism	Permit a reliable supply of petroleum products and limit the pressures for subsidies on the budget	Ongoing	Ongoing
Adoption of the reform strategy for MA-MWE	Permit a reliable supply of electrical energy and limit the pressures for subsidies on the budget	March 31, 2011	Redefined as feasibility study for the new privatized MA-MWE, September 2012
Call for expressions of interest from potential strategic partners for Comores Télécom and SCH	Permit a reliable supply of telecommunications services and limit the pressures for subsidies on the budget	March 31, 2011	Delayed for Comores Télécom to end-December 2012 SCH: to be redetermined
Call for expressions of interest from potential strategic partners for MA-MWE	Permit a reliable supply of electrical energy and limit the pressures for subsidies on the budget	June 30, 2011	Redetermined: partnership agreement signed in January 2012 with Al-Sharif group to achieve the same objective

ATTACHMENT 2

TECHNICAL MEMORANDUM OF UNDERSTANDING

Moroni, June 2012

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

I. Definition

2. Unless otherwise specified 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, or any government-owned entity with separate legal personality are excluded from the definition of government. The units covered under this definition of government are consolidated for the needs of the program.

II. Quantitative Performance Criteria

3. Quantitative performance criteria are proposed for June 30 and December 31, 2012 with respect to changes in net domestic credit to the government and zero-ceiling on new domestic payments arrears; with indicative targets for September 30, 2012. The following performance criteria are proposed for monitoring on a continuous basis: (i) the external payments arrears of the government; (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 of 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 June 30 and December 31, 2012 are ceilings and constitute performance criteria. The amount set out in the above table for September 30, 2012 is a ceiling and constitutes an indicative target.

Reporting requirements

7. The 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 Payments Arrears

Definition

8. Domestic payments 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 after 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; and (iv) wages and salaries and any payments to a government employee that were due to be paid in a given month but remained unpaid on the 15th day of the following month.

Performance criterion

9. Under the program, the government will not accumulate any new domestic payments arrears as from January 1, 2012. The zero-limits on new domestic payment arrears for June 30 and December 31, 2012 constitute performance criteria, and the zero-limit on new domestic arrears for September 30, 2012 constitutes an indicative target.

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

17. For the purposes of this performance criterion, 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 17 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.

Indicative Targets

21. The targets for the floor on the domestic primary fiscal balance, cumulative from the beginning of the 2012 calendar year, are set at CF –460 million for June 30, 2012 CF –1,821 million for September 30, 2012, and CF –2,621 million for December 31, 2012.

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 on government revenue, cumulative from the beginning of the 2012 calendar year, is set at CF 16,052 million for June 30, 2012, CF 24,029 million for September 30, 2012, and CF 31,847 million for December 31, 2012. These amounts are considered indicative targets under the program, for the respective dates.

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 Advances

Definition

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

Indicative Targets

27. Responsibility for achieving the ceiling on expenditures outside of normal procedures rests with both the Union government and the autonomous island governments. This ceiling, cumulative from January 1, 2012, is set at CF 150 million at June 30, 2012, September 30, 2012, and December 31, 2012**.**

Reporting requirements

28. Data on expenditures made outside of 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 into health and 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 on total domestically financed social spending for the period from January 1, 2012 to end-December 2012 is set at CF 13,034 million. This amount is an indicative target under the program.

Reporting deadlines

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. Gross Reduction of Domestic Payments Arrears

Definition

32. Domestic payments 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 after 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; and (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 on gross reduction of domestic payments, cumulative from the beginning of the 2012 calendar year, is set at CF 750 million for June 30, 2012, CF 864 million for September 30, 2012, and CF 1,152 million for December 31, 2012. These amounts are considered indicative targets under the program, for the respective dates.

Adjuster

34. If external budget support is less than expected, the floor on the gross quarterly reduction of domestic payments arrears adopted in the MEFP, fiscal Table 2C, will be lowered by the full amount of the shortfall. In the case of a surplus in the amount of external budget support, the floor on the net reduction of domestic arrears will be raised by the full amount of the surplus. Cumulative from January 1 of the year in question, the program assumes external budget support (IMF inclusive) of CF 3,375 million by end-June 2012, CF 5,481 million by end-September 2012, and CF 6,980 million by end-December 2012.

Reporting requirements

35. During the program period, data on gross reduction of domestic payments will be forwarded to Fund staff by the Ministry of Finance within 45 days following the end of the period.

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, changes in legislation, and any other pertinent legislation, will be reported to Fund staff by the authorities on a timely basis.

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

Third Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Waiver of Nonobservance of a Performance Criterion, Modification of a Performance Criterion, Extension of the Arrangement, Rephasing of Disbursements, and Financing Assurances Review—Informational Annex

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

May 23, 2012

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I. Relations with the Fund

(As of March 31, 2012)

I. Membership Status: Joined September 21, 1976 — Article VIII

		SDR Millions	% Quota
II.	**General Resources Account**:	**SDR Millions**	**% Quota**
	Quota	8.90	100.00
	Fund holdings of currency	8.36	93.91
	Reserve position in Fund	0.54	6.11
III.	**SDR Department**:	**SDR Millions**	**% Allocation**
	Net cumulative allocation	8.50	100.00
	Holdings	9.79	115.10
IV.	**Outstanding Purchases and Loans**:	**SDR Millions**	**% Allocation**
	ESF RAC Loan	2.23	25.00
	ECF Arrangement	7.34	82.50

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
ECF	Sep. 21, 2009	Sep. 20, 2012	13.57	7.34
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	0.02	0.02	0.02
Total	0.00	0.01	0.47	1.31	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 recommended that efforts to implement International Financial Reporting Standards (IFRS) should be intensified and the financial controller should review data submitted to the Fund for each program test date, starting in December 2009.

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

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	Appraisal 9/12	Nov 2012
	2. HIPC Completion Point Document	Appraisal 9/12	Dec 2012
	2. Country Assistance Strategy		Jan 2013
	3. Regional Telecom Project		Jan 2013
	4. Additional Funding for ABGE project – Financial Management/Public Sector Management		Jan 2013
	5. Additional Funding for FADC project – Social Safety Nets		Nov 2013
IMF work program in next 12 months	1. Fourth ECF Review and Article IV consultation; HIPC CP	September 2012	December 2012: Board meeting
	2. Policy paper on macroeconomic impact of remittances	N/A	March 2013
	3. Fifth ECF Review	March 2013	June 2013 : Board meeting
B. Requests for work program inputs			
Fund request to Bank	1. Update on Bank's assistance in the area of PFM reforms and PRSP implementation		July 2012
	2. Bank's assistance strategy in support of public enterprise reform		July 2012
	3. Bank's medium-term engagement strategy		July 2012
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		December 2012
	2. JSAN on second PRSP/APR		December 2012

III. Relations with the African Development Bank Group

A. Bank Group's Support in Comoros

1. The African Development Bank Group (AfDB) started operations in Comoros in 1977 and has since approved fifteen (15) operations and one economic and sector work (ESW). Cumulative Bank Group commitments net of cancellation amounted to UA [58.88] million as of April 30, 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 two (2) emergency operations to assist in mitigating the adverse impact of the food crisis (UA 1.5 million) (2008) and to support victims of floods ((UA 0.64 million) (2009). A UA 0.6 million supplementary grant was also allocated to the Institutional Capacity Strengthening Project (ICBP) in November 2010. In 2009, Comoros benefited from a UA 2.5 million support from the Fragile States Facility (FSF) for capacity building, namely for the 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. Overall, the AfDB operations in Comoros have been directed toward supporting economic-related infrastructure, budget support and rural livelihoods and 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 re-engagement in Comoros is recent. Following the resolution of the Anjouan crisis in 2007 and the lifting of sanctions in February 2009 after clearance of its arrears with the Bank under the Bank's Post-Conflict Countries Facility (PCCF), a two-year Interim Country Strategy Paper 2009–2010 (I-CSP) focusing on economic and financial governance and water and sanitation was approved in April 2009. In December 2011, the Boards of AfDB 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 assist the country in reaching HIPC Completion Point by end 2012.

3. As of 30 April 2012, the Bank's ongoing portfolio in Comoros 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 Country Portfolio Performance Review (CPPR) was conducted in May 2011 followed by a Country Portfolio Improvement Plan (CPIP) mission in March 2012.

C. Non Lending Activities

4. Along with other developing partners, AfDB aims to provide Comoros authorities with policy advice 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. It provided a series of preliminary key recommendations on ways of 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 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 March 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.
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 authorities are well aware of these shortcomings and the Commissariat Général au Plan (CGP) has secured the assistance of the African Development Bank for long-term technical assistance in both national accounts and price statistics. **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.
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 and the development bank active in the country, for the deposits collected by the postal administration, 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.* Nevertheless, 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.
Income distribution data and social indicators. Some progress was made with collecting income-distribution statistics and social welfare indicators when the I-PRSP was being prepared in 2003–04. Since then, coverage has remained limited hampering the monitoring of progress towards the MDGs.

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

Technical Assistance Missions in Statistics (1986–present)

Subject	Staff Member/Expert	Date
General Data Dissemination System	Vincent Marie	March–April 2012
Monetary and Financial Statistics	P. Papadacci	November–December 2008
Government finance statistics	G. Rousselot	August 2005
Balance of payments and international investment		
Position statistics	M. Dessart	March–April 2005
Money and banking statistics	G. Raymond	July 1997
Balance of payments statistics	Daniel Daco	May–June 1988
Money and banking statistics	Thiet T. Luu	October 1987
Government finance statistics	Vincent Marie	June 1986

Forthcoming technical assistance

None.

Table of Common Indicators Required for Surveillance

As of March 31, 2010

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

UNION OF THE COMOROS

Joint World Bank/IMF Debt Sustainability Analysis

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

The analysis based on the joint IMF-World Bank debt sustainability framework for low-income countries shows that Comoros is in debt distress. Under the baseline scenario, external debt indicators remain above their relevant indicative thresholds over the next couple of years. Faster economic growth, continued prudent fiscal policy, and further gains in macroeconomic stability are anticipated in the long-run, but the external debt dynamics remain vulnerable to shocks. As illustrated in the 2010 DSA for the Highly Indebted Poor Country (HIPC) Initiative Decision Point, comprehensive debt relief under the HIPC and Multilateral Debt Relief Initiative (MDRI) frameworks remains crucial for securing a long lasting upturn in the external debt outlook.[1]

A. Introduction

1. **This debt sustainability analysis (LIC-DSA) assesses the country's external and public debt using the forward-looking debt sustainability framework (DSF) for low-income countries.**[2] In line with the previous DSA exercise, the present analysis concludes that Comoros is in debt distress and debt dynamics for the country remain vulnerable to a number of shocks over the projection period.

2. **The last joint DSA prepared in June 2010 for the HIPC Initiative decision point concluded that Comoros was in debt distress.** It nevertheless showed more favorable dynamics of debt indicators in the medium term than those from earlier assessments, reflecting arrears clearance operations, bilateral and multilateral debt relief, as well as

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[1] HIPC Initiative Decision Point document for Comoros (IMF Country Report No. 10/242, July 2010).

[2] This DSA has been prepared by Fund and World Bank staff using the Debt Sustainability Framework (DSF) for Low Income Countries (see "Applying the Debt Sustainability Framework for Low-Income Countries Post Debt Relief", (http://siteresources.worldbank.org/INTDEBTDEPT/PolicyPapers/21154573/DMSDR1S3149398v1DSFPaperforweb.pdf). Comoros' quality of policies and institutions, as measured by the average World Bank's Country Policy and Institutional Assessment (CPIA) for the period 2007–12 places it as a "weak performer". The corresponding indicative thresholds for the external debt indicators are 30 percent for the NPV of debt-to-GDP ratio, 100 percent of the debt-to-export ratio, 200 percent for NPV of debt-to-revenue ratio, 15 percent for the debt service-to-exports ratio, and 18 percent for the debt service-to-revenue ratio.

projected improvements in macroeconomic performance. The somewhat improved medium-term debt dynamics are confirmed by the 2012 DSA results.

3. **Comoros reached the decision point of the HIPC Initiative in July 2010 and was granted debt relief by a number of multilateral and bilateral creditors.** After reaching the decision point, the authorities continued making good faith efforts toward completing agreements with Paris Club and non-Paris Club bilateral creditors, as well as other official and commercial creditors on the provision of debt relief on terms compatible with the relief accorded under the November 2009 Paris Club Agreement and in the context of the HIPC Initiative. An agreement signed with the Arab Bank for Economic Development in Africa (BADEA) in December 2010 rescheduled $28.7 million in arrears to this institution.

B. Baseline Assumptions

4. **The baseline macroeconomic assumptions for the current DSA are consistent with the macroeconomic framework underlying the current ECF arrangement, including the following key features:**

a. Real GDP growth is projected to accelerate over the medium term to 4 percent per year, driven by continued macroeconomic stability, improvements in infrastructure, and stronger performance of the agricultural sector based on favorable international prices and additional investment. Economic activity would also benefit from continued easing of political tensions and the gradual return of political stability.

b. CPI inflation over the long-term is projected to remain stable at around 3 percent per year, compatible with the fixed exchange rate regime under the Franc Zone arrangement, which constitutes an important anchor for price stability.

c. The current account deficit (including official grants) is expected to gradually decline, converging to about 5 percent of GDP over the projection period (compared to around 9.5 percent estimated for 2011) as food and consumer goods imports slacken. As a share of GDP, imports of goods are projected to revert to long-run historical averages reflecting the impact of terms of trade improvements and import substitution in agriculture and manufacturing from ongoing and envisaged investments in these sectors. By contrast, exports of goods are projected to grow in line with real GDP.

d. Remittances are projected to remain robust, although increasing at more moderate rates (on average 5 percent in nominal terms over the projection period). Structural reforms, macroeconomic stability and improvements in overall governance are also expected to enhance the outlook for FDI compared to the recent past.

e. Fiscal consolidation is expected to continue over the medium term. The primary fiscal balance is projected to be in surplus from 2016 onwards, providing a strong anchor for long-term fiscal sustainability.

f. External financing is initially assumed mostly on grant terms, with less concessional loan financing gradually picking up (as shown in Figure 1).

g. The baseline scenario for the DSA takes into account interim IDA HIPC assistance starting in mid-2010 up to end-2012 as well as debt relief granted by Paris Club creditors (topped up to standard Cologne terms) and BADEA.

C. External Debt Sustainability Analysis

Baseline

5. **Under the baseline scenario, some external debt indicators for Comoros remain above their relevant indicative thresholds over the medium term** (Table 1a, Figure 1). The present value (PV) of public and publicly guaranteed (PPG) external debt to exports ratio is projected to be about 200 percent in 2012 and remains above the 100 percent threshold for most of the projection period. Furthermore, both the PV of external debt-to-GDP ratio and the PV of external debt relative to revenue are projected to stay above their respective indicative threshold through 2014. Nevertheless, under the baseline scenario, these two indicators decrease significantly over the projection period, including after moving below relevant thresholds in 2015. Indicators related to debt service remain below the respective thresholds throughout the period of analysis.

Sensitivity Analysis

6. **The external debt outlook remains vulnerable to shocks, especially shocks to non-debt creating flows (e.g. FDI) and a combination of several other shocks** (Table 1b, Figure 1). The policy thresholds for three key ratios are breached under the most extreme stress tests for a prolonged period of time. Both the PV of external debt-to-GDP and the PV external debt-to-revenue indicators deteriorate significantly under the scenario assuming a shock to non-debt creating flows. In addition, the PV of debt-to-exports ratio is vulnerable to a combined-shock scenario entailing weaker GDP growth, lower exports, and subdued non-debt creating flows.

7. **In light of Comoros' debt service difficulties and the results from the baseline scenario and stress tests performed, staff concludes that Comoros is in debt distress.**

D. Public Sector Debt Sustainability

Baseline

8. **The inclusion of Comoros' domestic public debt in the analysis does not significantly alter the dynamics of debt burden indicators** (Table 2a, Figure 2). Under the baseline scenario, the PV of total public debt-to-GDP and total public debt-to-revenue (including grants) ratios are projected to decline steadily over time, but remain at rather high levels over the medium term. Total public debt is mostly driven by the dynamics of external debt.

Sensitivity Analysis

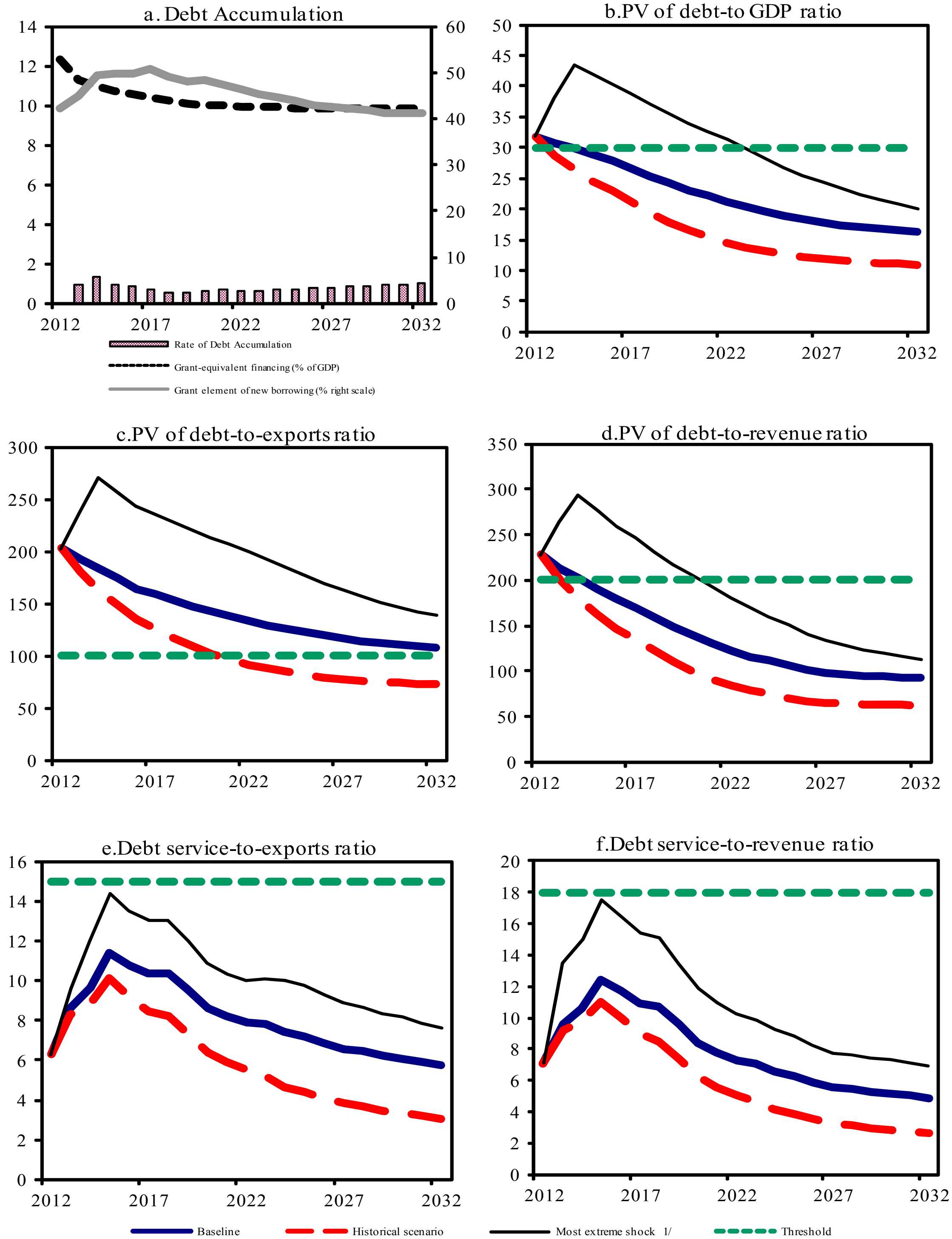
9. **The evolution of public debt indicators is sensitive to a wide range of shocks.** In particular, a shock to GDP growth and a one-time real depreciation (30 percent) would cause the PV of the debt-to-GDP ratio to remain above 30 percent until 2022 (Table 2b, Figure 2). The dynamics of debt appears unsustainable when key variables are kept at historical levels. This highlights the paramount importance of continued efforts in fiscal consolidation to ensure debt sustainability, and in structural reforms to improve the business environment, support foreign investment, and achieve rapid growth.

E. Conclusion

10. **The DSA indicates that Comoros is in debt distress.** Under the baseline scenario and realistic stress tests, the debt ratios remain above relevant thresholds over an extended period of time. These results point to the need for continued fiscal consolidation and prudent borrowing policies to secure long-term debt sustainability. The assumptions and conclusions of the DSA were discussed with the authorities, who broadly concurred with staff's assessment.

11. **Improving the external debt outlook will depend on achieving the HIPC Initiative completion point and maintaining sound macroeconomic policies in the long run.** The inclusion of Comoros' domestic debt in the analysis reinforces the conclusions of the external DSA and stresses the risks to debt prospects. In this context, it is essential that the authorities continue current efforts to strengthen public finance management, reform state-owned enterprises, and improve the investment climate so as to lay the foundation for rapid sustainable economic growth.

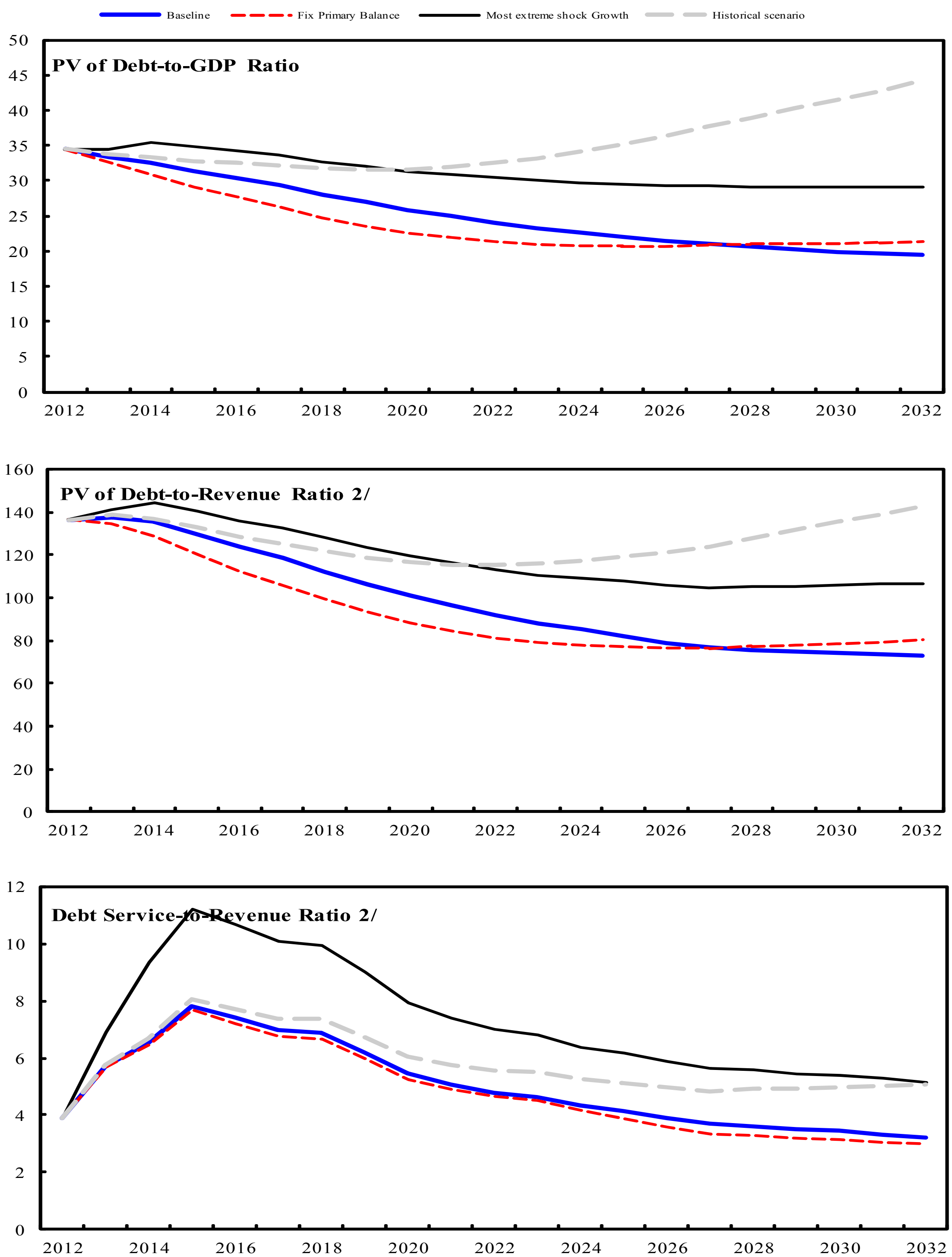
Figure 1. Comoros: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Non-debt flows shock; in c. to a Combination shock; in d. to a Non-debt flows shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2.Comoros: Indicators of Public Debt Under Alternative Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022.
2/ Revenues are defined inclusive of grants.

Table 1a.Comoros: External Debt Sustainability Framework, Baseline Scenario, 2009-2032 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-2017 Average	2022	2032	2018-2032 Average
External debt (nominal) 1/	**54.4**	**49.3**	**42.4**			**43.6**	**42.4**	**41.9**	**41.0**	**40.0**	**38.8**		**31.7**	**24.3**	
o/w public and publicly guaranteed (PPG)	54.4	49.3	42.4			43.6	42.4	41.9	41.0	40.0	38.8		31.7	24.3	
Change in external debt	-9.6	-5.1	-7.0			1.3	-1.2	-0.6	-0.8	-1.0	-1.2		-1.3	-0.4	
Identified net debt-creating flows	4.7	5.5	1.9			6.4	5.4	4.9	4.1	4.0	4.0		4.1	4.3	
Non-interest current account deficit	**7.4**	**6.6**	**9.2**	**6.1**	**2.8**	**10.2**	**9.2**	**8.6**	**7.7**	**7.5**	**7.2**		**6.1**	**5.3**	5.6
Deficit in balance of goods and services	33.2	34.8	36.7			35.9	33.3	30.9	28.6	27.7	26.5		23.5	21.6	
Exports	14.5	15.6	15.4			15.7	16.0	16.3	16.6	16.9	16.7		15.9	15.1	
Imports	47.7	50.4	52.1			51.6	49.3	47.2	45.2	44.7	43.3		39.3	36.7	
Net current transfers (negative = inflow)	-25.5	-28.2	-27.2	-19.5	6.2	-25.8	-24.0	-22.1	-20.7	-20.0	-19.1		-17.2	-16.4	-17.2
o/w official	-2.2	-9.2	0.0			-2.3	-1.0	-0.2	0.0	0.0	0.1		0.1	0.1	
Other current account flows (negative = net inflow)	-0.2	0.0	-0.3			0.0	-0.1	-0.1	-0.2	-0.3	-0.2		-0.1	0.1	
Net FDI (negative = inflow)	**-2.6**	**-0.7**	**-2.3**	**-0.9**	**0.9**	**-2.9**	**-2.7**	**-2.5**	**-2.4**	**-2.2**	**-2.1**		**-1.0**	**-0.3**	-0.7
Endogenous debt dynamics 2/	**-0.1**	**-0.4**	**-5.0**			**-0.8**	**-1.1**	**-1.3**	**-1.2**	**-1.2**	**-1.2**		**-1.0**	**-0.7**	
Contribution from nominal interest rate	0.3	0.4	0.3			0.2	0.3	0.3	0.3	0.3	0.3		0.2	0.2	
Contribution from real GDP growth	-1.1	-1.1	-1.0			-1.1	-1.4	-1.6	-1.6	-1.5	-1.5		-1.2	-0.9	
Contribution from price and exchange rate changes	0.7	0.3	-4.4			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-14.3**	**-10.6**	**-8.9**			**-5.2**	**-6.6**	**-5.4**	**-4.9**	**-5.0**	**-5.2**		**-5.4**	**-4.7**	
o/w exceptional financing	-3.1	-7.7	-2.7			-0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	30.9			31.8	30.7	29.9	28.9	27.9	26.7		21.2	16.3	
In percent of exports	...	...	201.0			202.7	192.1	184.0	174.4	164.6	159.6		133.8	107.8	
PV of PPG external debt	**...**	**...**	**30.9**			**31.8**	**30.7**	**29.9**	**28.9**	**27.9**	**26.7**		**21.2**	**16.3**	
In percent of exports	**...**	**...**	**201.0**			**202.7**	**192.1**	**184.0**	**174.4**	**164.6**	**159.6**		**133.8**	**107.8**	
In percent of government revenues	**...**	**...**	**191.1**			**228.0**	**213.2**	**202.5**	**190.6**	**178.9**	**169.1**		**122.8**	**92.0**	
Debt service-to-exports ratio (in percent)	**10.5**	**11.4**	**10.6**			**6.3**	**8.6**	**9.6**	**11.4**	**10.8**	**10.3**		**7.9**	**5.7**	
PPG debt service-to-exports ratio (in percent)	**10.5**	**11.4**	**10.6**			**6.3**	**8.6**	**9.6**	**11.4**	**10.8**	**10.3**		**7.9**	**5.7**	
PPG debt service-to-revenue ratio (in percent)	**11.0**	**12.5**	**10.1**			**7.1**	**9.6**	**10.6**	**12.5**	**11.7**	**10.9**		**7.3**	**4.9**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.0	0.1			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Non-interest current account deficit that stabilizes debt ratio	17.0	11.7	16.2			8.9	10.4	9.2	8.5	8.5	8.5		7.3	5.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.8	2.1	2.2	1.9	1.4	2.5	3.5	4.0	4.0	4.0	4.0	3.6	4.0	4.0	4.0
GDP deflator in US dollar terms (change in percent)	-1.0	-0.6	9.7	8.9	8.3	-4.8	3.3	2.9	2.8	2.7	2.8	1.6	3.3	3.3	3.3
Effective interest rate (percent) 5/	0.5	0.8	0.8	0.5	0.2	0.5	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.9	0.8
Growth of exports of G&S (US dollar terms, in percent)	0.4	9.4	10.5	11.3	13.3	-0.6	8.8	9.0	8.9	9.0	5.7	6.8	6.3	7.1	6.6
Growth of imports of G&S (US dollar terms, in percent)	-0.8	7.4	15.8	17.1	10.3	-3.3	2.1	2.4	2.3	5.7	3.6	2.1	6.1	7.1	6.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	42.1	45.1	49.5	49.7	49.6	50.9	47.8	46.3	41.1	44.4
Government revenues (excluding grants, in percent of GDP)	13.9	14.3	16.2			14.0	14.4	14.8	15.2	15.6	15.8		17.3	17.7	17.5
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.0			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
o/w Grants	0.1	0.1	0.0			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
o/w Concessional loans	...	...	...			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			12.4	11.3	10.9	10.7	10.6	10.4		10.0	9.8	9.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			90.0	86.4	86.3	86.1	86.9	88.3		90.2	89.5	89.8
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.5	0.5	0.6			0.6	0.6	0.7	0.7	0.8	0.8		1.2	2.4	
Nominal dollar GDP growth	0.7	1.5	12.2			-2.5	6.9	7.0	6.9	6.8	6.9	5.3	7.4	7.4	7.4
PV of PPG external debt (in Billions of US dollars)			0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.3	0.4	
(PVt-PVt-1)/GDPt-1 (in percent)						0.0	1.0	1.3	1.0	0.8	0.7	0.8	0.7	1.0	0.8
Gross workers' remittances (Billions of US dollars)	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.2	0.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	26.1			26.6	25.8	25.3	24.7	23.9	23.0		18.6	14.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	90.5			90.3	87.4	87.1	85.8	83.0	81.2		70.3	56.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	4.8			2.8	3.9	4.6	5.6	5.4	5.3		4.2	3.0	

Sources: Country authorities; and staff estimates and projections.

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

Table 1b.Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	32	31	30	29	28	27	**21**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	32	29	27	25	23	21	**15**	11
A2. New public sector loans on less favorable terms in 2012-2032 2	32	32	32	32	32	31	**28**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	32	32	32	31	30	28	**23**	17
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	32	32	32	31	30	29	**23**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	32	31	31	30	29	28	**22**	17
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	32	38	43	42	40	39	**31**	20
B5. Combination of B1-B4 using one-half standard deviation shocks	32	37	41	40	39	37	**30**	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	32	43	42	41	39	38	**30**	23
PV of debt-to-exports ratio								
Baseline	203	192	184	174	165	160	**134**	108
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	203	180	163	149	135	127	**92**	72
A2. New public sector loans on less favorable terms in 2012-2032 2	203	198	196	192	187	187	**178**	169
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	203	192	184	174	164	159	**133**	108
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	203	219	246	234	221	214	**180**	139
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	203	192	184	174	164	159	**133**	108
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	203	238	267	253	239	232	**197**	133
B5. Combination of B1-B4 using one-half standard deviation shocks	203	238	271	257	243	236	**200**	139
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	203	192	184	174	164	159	**133**	108
PV of debt-to-revenue ratio								
Baseline	228	213	203	191	179	169	**123**	92
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	228	200	180	162	147	134	**84**	62
A2. New public sector loans on less favorable terms in 2012-2032 2	228	219	216	210	204	198	**163**	144
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	228	219	215	203	190	180	**131**	98
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	228	219	220	207	194	183	**134**	96
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	228	218	212	200	187	177	**129**	96
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	228	265	293	276	260	246	**181**	114
B5. Combination of B1-B4 using one-half standard deviation shocks	228	256	280	264	248	235	**173**	111
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	228	300	285	268	252	238	**173**	129

Table 1b.Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032 (continued)
(In percent)

Debt service-to-exports ratio

Baseline	6	9	10	11	11	10	**8**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	6	8	9	10	9	8	**6**	3
A2. New public sector loans on less favorable terms in 2012-2032 2	6	9	10	12	12	12	**9**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	6	9	10	11	11	10	**8**	6
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	6	10	12	14	14	13	**10**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	6	9	10	11	11	10	**8**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	6	9	10	12	12	11	**9**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	6	9	11	13	13	12	**9**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	6	9	10	11	11	10	**8**	6

Debt service-to-revenue ratio

Baseline	7	10	11	12	12	11	**7**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	7	9	10	11	10	9	**5**	3
A2. New public sector loans on less favorable terms in 2012-2032 2	7	10	11	13	13	12	**9**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	7	10	11	13	12	12	**8**	5
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	7	10	11	13	12	11	**7**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	7	10	11	13	12	11	**8**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	7	10	11	14	13	12	**8**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	7	10	11	14	13	12	**8**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	7	13	15	18	16	15	**10**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	44	44	44	44	44	44	**44**	44

Sources: Country authorities; and staff estimates and projections.

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

Table 2a.Comoros: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009-2032
(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	57.2	51.6	44.9			46.3	45.0	44.4	43.6	42.6	41.5		34.6	27.4	
o/w foreign-currency denominated	54.4	49.3	42.4			43.6	42.4	41.9	41.0	40.0	38.8		31.7	24.3	
Change in public sector debt	-9.9	-5.7	-6.7			1.4	-1.2	-0.6	-0.9	-0.9	-1.2		-1.2	-0.4	
Identified debt-creating flows	-4.7	-15.3	-9.9			0.3	-2.2	-1.8	-2.0	-2.3	-2.5		-3.5	-3.4	
Primary deficit	-0.9	-7.4	-1.8	0.3	3.2	-0.9	0.4	0.8	0.5	0.2	-0.1	0.2	-1.3	-1.7	-1.3
Revenue and grants	23.6	29.2	23.7			25.3	24.2	24.0	24.2	24.6	24.8		26.3	26.7	
of which: grants	9.7	14.9	7.5			11.4	9.8	9.2	9.0	9.0	9.0		9.0	9.0	
Primary (noninterest) expenditure	22.7	21.7	21.9			24.4	24.6	24.8	24.7	24.8	24.7		25.0	25.0	
Automatic debt dynamics	-0.6	-0.2	-5.4			1.2	-2.6	-2.6	-2.5	-2.5	-2.5		-2.2	-1.7	
Contribution from interest rate/growth differential	-3.7	-3.1	-3.0			-2.2	-2.7	-2.8	-2.8	-2.7	-2.6		-2.2	-1.7	
of which: contribution from average real interest rate	-2.6	-1.9	-1.9			-1.2	-1.1	-1.1	-1.1	-1.0	-1.0		-0.8	-0.6	
of which: contribution from real GDP growth	-1.2	-1.2	-1.1			-1.1	-1.6	-1.7	-1.7	-1.7	-1.6		-1.4	-1.1	
Contribution from real exchange rate depreciation	3.1	2.9	-2.4			3.5	0.1	0.2	0.2	0.2	0.2		...	...	
Other identified debt-creating flows	-3.1	-7.7	-2.7			-0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-3.1	-7.7	-2.7			-0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-5.2	9.6	3.2			1.1	1.0	1.2	1.1	1.4	1.4		2.3	3.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	33.5			34.4	33.3	32.5	31.4	30.4	29.3		24.1	19.4	
o/w foreign-currency denominated	...	...	30.9			31.8	30.7	29.9	28.9	27.9	26.7		21.2	16.3	
o/w external	...	...	30.9			31.8	30.7	29.9	28.9	27.9	26.7		21.2	16.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.0	-3.4	1.9			2.5	4.2	4.8	4.8	4.3	4.1		2.6	2.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	141.2			136.1	137.4	135.4	129.9	123.7	118.3		91.7	72.6	
PV of public sector debt-to-revenue ratio (in percent)	…	…	206.6			246.9	231.3	220.0	207.1	195.4	185.8		139.5	109.6	
o/w external 3/	…	…	191.1			228.0	213.2	202.5	190.6	178.9	169.1		122.8	92.0	
Debt service-to-revenue and grants ratio (in percent) 4/	6.5	6.1	6.9			3.9	5.7	6.5	7.8	7.4	7.0		4.8	3.2	
Debt service-to-revenue ratio (in percent) 4/	11.0	12.5	10.1			7.1	9.6	10.6	12.5	11.7	10.9		7.3	4.9	
Primary deficit that stabilizes the debt-to-GDP ratio	8.9	-1.8	4.9			-2.3	1.6	1.4	1.4	1.1	1.1		-0.1	-1.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.8	2.1	2.2	1.9	1.4	2.5	3.5	4.0	4.0	4.0	4.0	3.6	4.0	4.0	4.0
Average nominal interest rate on forex debt (in percent)	0.5	0.8	0.8	0.5	0.2	0.5	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.9	0.8
Average real interest rate on domestic debt (in percent)	...	...	...	…	…	...	...	...	...	...	...	…	...	...	…
Real exchange rate depreciation (in percent, + indicates depreciation)	5.2	5.6	-5.2	-4.1	6.8	8.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.6	4.3	4.1	3.9	1.4	3.7	3.3	3.3	3.3	3.3	3.3	3.4	3.3	3.3	3.3
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	42.1	45.1	49.5	49.7	49.6	50.9	47.8	46.3	41.1	...

Sources: Country authorities; and staff estimates and projections.
1/ Covers general government gross debt.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b.Comoros: Sensitivity Analysis for Key Indicators of Public Debt 2012-2032

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	34	33	33	31	30	29	24	19
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	34	34	33	33	32	32	32	44
A2. Primary balance is unchanged from 2012	34	33	31	29	28	26	21	21
A3. Permanently lower GDP growth 1/	34	33	33	32	31	30	26	26
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	34	35	35	35	34	34	30	29
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	34	35	36	34	33	32	26	21
B3. Combination of B1-B2 using one half standard deviation shocks	34	35	36	35	34	33	30	27
B4. One-time 30 percent real depreciation in 2013	34	46	44	41	39	37	28	20
B5. 10 percent of GDP increase in other debt-creating flows in 2013	34	39	38	37	35	34	28	22
PV of Debt-to-Revenue Ratio 2/								
Baseline	136	137	135	130	124	118	92	73
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	136	139	137	133	128	125	115	143
A2. Primary balance is unchanged from 2012	136	135	129	120	112	106	81	80
A3. Permanently lower GDP growth 1/	136	138	136	131	126	121	99	94
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	136	141	144	140	136	132	113	107
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	136	145	149	143	136	130	101	78
B3. Combination of B1-B2 using one half standard deviation shocks	136	143	145	141	136	132	111	100
B4. One-time 30 percent real depreciation in 2013	136	189	182	171	159	149	107	75
B5. 10 percent of GDP increase in other debt-creating flows in 2013	136	160	157	151	144	137	107	81
Debt Service-to-Revenue Ratio 2/								
Baseline	4	6	7	8	7	7	5	3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	4	6	7	8	8	7	6	5
A2. Primary balance is unchanged from 2012	4	6	6	8	7	7	5	3
A3. Permanently lower GDP growth 1/	4	6	7	8	7	7	5	4
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	4	6	7	8	8	7	5	4
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	4	6	7	8	8	7	5	4
B3. Combination of B1-B2 using one half standard deviation shocks	4	6	7	8	8	7	5	4
B4. One-time 30 percent real depreciation in 2013	4	7	9	11	11	10	7	5
B5. 10 percent of GDP increase in other debt-creating flows in 2013	4	6	7	8	8	7	5	4

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes Third Review Under the Extended Credit Facility Arrangement for the Union of the Comoros; Approves Extension of the Arrangement and US$2.37 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of the Union of the Comoros' economic performance under the program supported by the Extended Credit Facility (ECF). In completing the review, the Board approved a waiver for the nonobservance of a performance criterion on reduction of domestic arrears and the modification of this performance criterion. The Executive Board also approved an extension of the arrangement through December 31, 2013, and a rephasing of the remaining disbursements.

The completion of the review will enable an immediate disbursement of SDR 1.56 million (equivalent to US$2.37 million). The Union of the Comoros' ECF arrangement was approved in September 2009 in an amount equivalent to SDR 13.57 million (about US$20.63 million; see Press Release No. 09/315).

Following the Executive Board discussion on the Union of the Comoros, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"Comoros' overall performance under the ECF-supported program has significantly improved since late 2011. Against the backdrop of a favorable political environment, and enhanced donor support, the authorities have initiated corrective measures to put their ECF-supported program back on track and are committed to prudent macroeconomic policies and structural reforms. All these efforts are necessary to promote sustained strong growth, facilitate progress towards long-term debt sustainability, and reduce poverty.

"Achievement of the government's fiscal objectives, including creating the space needed for pro-poor and pro-growth spending, will require strengthening domestic revenue collection and observing expenditure restraint. In this context, it will be important to enhance the efficiency of tax and customs administration, and expand the tax base. Efforts should also continue towards avoiding accumulation of new payments arrears.

“Prudent debt management policies remain essential to address Comoros’ unsustainable debt situation. Further progress towards reaching understandings on debt restructuring with all external creditors and implementing the HIPC Initiative Completion Point triggers will therefore be important.

“On the structural front, the authorities have stepped up technical consultations with development partners on the reform of public financial management and the restructuring of public utilities. In the financial sector, the authorities are reinforcing banking oversight and strengthening the central bank’s internal control mechanisms, all of which are essential to ensure continued sound expansion of financial intermediation.

“In light of the more supportive policy environment, an extension of the ECF arrangement to end-2013 would provide the needed additional time for addressing delays in the implementation of reforms, so as to strengthen economic competitiveness and enhance the effectiveness of the authorities’ poverty reduction strategy,” Mr. Shinohara added.

Statement by Kossi Assimaidou, Executive Director for the Union of the Comoros
June 15, 2012

I. Introduction

My Comorian authorities would like to thank staff for the constructive policy dialogue and useful advice provided under the ECF. They remain firmly committed to the Fund-supported program and have continued to make progress in its implementation. The current third ECF review assesses performance at end-December 2010. All quantitative performance criteria were met, except the criteria on the accumulation of external debt service arrears and the accumulation of domestic payments arrears. My authorities request the completion of the third review and a waiver for the nonobservance of the quantitative performance criterion on the accumulation on domestic payments arrears at end-December 2010.

Following the reversal of the 2010 wage increase —validated by the country's highest court in mid-2011—, program implementation resumed steadfastly and by end-2011 the authorities achieved considerable progress in meeting all the targets and objectives of the program, demonstrating strong program ownership. Corrective measures were swiftly taken to redress the budget including through stronger revenue mobilization. Closer coordination with the World Bank and other international partners helped accelerate the pace of structural reforms including, in the area of public financial management, the approval by Parliament of a new personnel framework for ministries, and in the area of public enterprises reform, the adoption of crucial measures to overhaul the telecommunications parastatal.

More broadly, my authorities will pursue the restructuring of all domestic public enterprises which they view as critical to strengthening the country's competitiveness and enhancing growth. With the assistance of the World Bank, the African Development Bank, and the European Union, they will continue their efforts to finalize the reform of all public utilities in accordance with the agreed agenda and timetable.

My authorities are also endeavoring to meet all HIPC Initiative completion point triggers by the end of the year, at the time of the fourth ECF review. In this regard, progress towards meeting all completion triggers continues to be satisfactory with fifteen out of sixteen completion point triggers either already met or on-track to being met prior to the fourth review.

II. Recent Economic Developments

Overall, macroeconomic performance improved in 2011. Real GDP growth rose to 2.2 percent —from 2.1 percent in 2010 and 1.8 percent in 2009— driven by private consumption (thanks to strong remittances flows), and public and private investments (especially FDI from the Gulf region). Higher remittances and relatively large FDI both boosted construction while agricultural production improved. Foreign aid, including budget support, also played a crucial role in the overall good economic performance.

The fiscal stance strengthened in 2011 with the domestic primary balance recording a surplus of 1.6 percent of GDP (compared with a deficit of 1.6 percent a year earlier) thanks to the good performance of customs, large revenues under the economic citizenship program, and wage restraint. Domestic revenues rose from 14.3 percent in 2010 of GDP to 16.1 percent in 2011 (including exceptional nontax revenues). The wage bill dropped from 9.2 percent of GDP in 2010 to 8.5 percent of GDP in 2011.

Inflation, however, rose by 7 percent (end-year) from 6.6 in 2010 and 2.2 in 2009. High world food and oil prices were the main drivers of inflation. In addition, a higher oil import bill and FDI-related imports widened the current account deficit to 9.5 percent of GDP in 2011 from 7 percent in 2010.

III. Medium-Term Policies

My authorities are committed to fully implementing all fiscal and structural measures agreed under the program which are key to attaining the projected growth levels of about 4 percent in the medium-term. The doubling of growth to 4 percent by 2014 from last year's 2.2 percent —above population growth— will in turn contribute to raising the populations' living standards and further reducing poverty.

A. Fiscal Policy

Efforts to consolidate the budget will be pursued consistent with the objectives of the program. On the revenue side, the authorities are implementing key measures to further strengthen revenue mobilization and reinforce tax and customs administration, notably through the establishment of the new General Administration of Taxes and Government Property *(Administration Générale des Impôts et des Domaines)* and the appointment of its Board of Directors. This new administration, intended to strengthen relationships between the central tax authority of the Union and the tax offices of the islands, should be operational by end-March 2013.

In the event of shortfalls in revenue or grants, the authorities will adopt compensatory measures, including a reduction of spending on goods and services and on investment. Conversely, any budget support received in excess of the programmed amounts will be used to settle domestic payments arrears and to increase deposits at the central bank.

On the expenditure side, efforts will mainly focus at better controlling the wage bill. Thus, parliament recently adopted a new law establishing organizational frameworks for the civil service. The objective of the reform is to further generate efficiency gains in payroll management (following the completion last year of the civil service census) and a rigorous implementation of the new integrated wage payment system that is expected to take effect in September 2012.

B. Structural Reforms and Poverty Reduction

1. Public Enterprises

Of the three main parastatals undergoing restructuring with assistance from the World Bank, the African Development Bank, and the European Union —in the energy, telecommunications, and oil import sectors—, the restructuring process is most advanced for *Comores Télécom.* With the signing in April 2012 of a partnership contract between the government and IFC to assist in the privatization process of *Comores Télécom,* a call for expressions of interest to identify potential strategic partners will be launched by end-December 2012.

In the energy sector, various studies financed by development partners are under way to diagnose and define a long-term strategy for the sector which will help facilitate agreement on arrangements to restructure the electricity parastatal, Ma-Mwé. In the more immediate future, the government is focused on finalizing an emergency rehabilitation plan for Ma-Mwé with technical assistance from the World Bank.

2. Poverty Reduction Strategy

The government completed last year its first annual status report on the implementation of the PRSP, and should complete the second annual progress report by end-June 2012. While encouraging progress was achieved in various areas, following the assessment made by development partners, the government agreed that insufficient coordination among the departments involved in the implementation of the strategy along with limited absorption capacity resulted in a relatively lesser outcome than initially envisaged. Therefore, to enhance the effectiveness of the strategy, the government has finalized with African Development Bank support, a refocused action plan for the PRSP. They intend to implement it vigorously with technical and financial support from development partners.

Furthermore, in close collaboration with the World Bank, the government has developed a list of priority sector expenditures which will be monitored by the committee responsible for monitoring PRSP implementation. These efforts are intended to ensure that the savings generated from debt relief under the HIPC Initiative are used to finance priority sectors.

IV. Conclusion

Despite recent delays in program implementation, I would like to reaffirm my authorities' full commitment to the policies and objectives of the ECF- supported program, as shown by the bold institutional reforms recently undertaken in a very difficult environment. The newly elected government has renewed efforts to achieve fiscal consolidation and has accelerated structural reforms. To give my authorities more time to implement their program and attain its objectives, they are requesting an extension of the current ECF by fifteen additional months (through December 2013) and the rephrasing of its disbursements. Given the measures taken and the commitment of the authorities, I would appreciate Directors' support for my authorities' requests.