INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/393

UNION OF COMOROS

December 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UNION OF COMOROS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Comoros, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its December 7, 2016 consideration of the staff report that concluded the Article IV consultation with Comoros.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 7, 2016, following discussions that ended on September 20, with the officials of Comoros on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 18, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Comoros.

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

Selected Issues*
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 IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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

On December, 7, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with The Union of the Comoros.

The Comorian economy encountered difficulties in 2015 and the first half of 2016. Growth in 2016 is estimated at 1 percent in 2015, below the annual population growth rate of 2½ percent. An ongoing crisis in the electricity sector and slower-than expected implementation of the public investment program have been the main factors behind the growth deceleration. Inflation remained well anchored at an annual rate of about 2 percent. Fiscal policy was challenging for most of 2015 as the impact of slowing economic growth was compounded by a deterioration of revenues, with the tax revenue-to-GDP ratio declining to 11.1 percent and continued to decline during the first months of 2016. With the public sector wage and salary bill continuing its upward trend to 9.1 percent of GDP in 2015, domestic arrears arose on wages and salaries in the course of the year. However, a large budget grant from Saudi Arabia in December 2015 dramatically changed the fiscal picture, allowing arrears to be cleared and resulting in an overall fiscal surplus of 2.9 percent of GDP for the year and providing sizeable financing in the first 6 months of 2016. The balance of payments improved sharply, mainly owing to imports being held back on account of the real depreciation and the large grant. At the end of the year international reserves amounted to the equivalent of more than 9 months of imports.

A new administration took office in mid-year, recognizing that accelerated reforms and urgent action on the budget were needed to establish a basis for achieving sustainable growth. As a start to addressing the problems the government adopted a set of measures to improve revenue mobilization and reduce expenditures for the remainder of 2016, including cancellation of contract of recently hired government employees. Measures were also taken to improve the supply of electricity. The government efforts are supported by a staff monitored program with the IMF. It is projected that growth should pick up somewhat to 2 percent in 2016 and revenues are projected to increase to 12 percent of GDP. The government aims to build on these measures in 2017 and to implement further reforms to strengthen revenue administration, improve public financial management and pursue reforms in the electricity sector.

[1]Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors noted that the Comorian economy is experiencing weak growth due to difficult challenges including electricity shortages and other infrastructure inadequacies. Poor tax revenue performance and a rising public wage bill have also led to a structural fiscal imbalance. Against this background, Directors welcomed the authorities' commitment to implement a six-month staff-monitored program, which aims to stabilize the fiscal situation. Looking ahead, Directors stressed the need to forcefully address the underlying structural problems to raise economic growth and reduce poverty.

Directors emphasized the need to address the fiscal gap to create space for growth-enhancing infrastructure investment and priority social spending. They welcomed the important revenue administration and public financial management measures the authorities have taken to rebalance the budget and minimize and eventually eliminate domestic arrears. Nonetheless, they saw a need for further reforms to enhance revenue mobilization and contain the wage bill. In particular, the procedures for budget preparation, execution, and monitoring need to be strengthened. In addition, urgent implementation of a fully effective registry of public workers remains essential for controlling the wage bill.

Directors noted that Comoros will need additional external support. They stressed, however, that borrowing to meet priority development needs should be on concessional terms only to safeguard debt sustainability. Directors encouraged the authorities to send a positive signal of prudent debt management by meeting its external debt service obligations on time and implementing a mechanism to facilitate such repayments.

Directors noted that the financial system in Comoros remains fragile. They encouraged the authorities to step up supervision of the sector and resolve the difficulties of the state-owned postal bank. They also stressed that efforts to promote financial inclusion will be important.

Directors noted that the recent acquisition of new diesel generators is necessary to address inadequate electricity provision in the country. They encouraged the authorities to continue to work with external partners to develop a long-term strategy for improving the capacity of the state-owned electricity company. Directors also welcomed the arrival of a second telecommunications operator in Comoros, which will increase competition and help lower prices and improve service quality. They recommended further reforms to the business environment to catalyze additional private sector investment.

Directors encouraged the authorities to continue to improve the production of statistics and disseminate reliable economic data in a timely manner to aid policymaking.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Table 1. Comoros: Selected Economic and Financial Indicators, 2014-20

	2014	2015	2016		2017	2018	2019	2020
		Prel.		Proj.	Proj.	--	--	--
	(In percentage change; unless otherwise indicated)							
National income and prices								
Real GDP	2.0	1.0	2.2	2.2	3.3	4.0	4.0	4.0
GDP deflator	1.8	2.1	3.6	2.9	2.0	2.1	2.2	2.3
Consumer price index (annual averages)	1.3	2.0	2.2	2.0	2.0	2.0	2.0	2.0
Consumer price index (end period)	0.0	2.0	0.1	2.0	2.0	2.0	2.0	2.0
Money and credit								
Net foreign assets	1.4	38.4	0.2	-14.1	-2.5	0.6	0.7	0.7
Domestic credit	12.9	-4.8	8.9	27.4	10.0	8.2	8.2	8.2
Credit to the private sector	10.0	16.2	9.6	13.5	12.0	10.2	10.2	9.4
Broad money	8.1	17.1	5.9	5.1	5.4	6.1	6.3	6.4
Velocity (GDP/end-year broad money)	2.6	2.3	2.6	2.3	2.3	2.3	2.3	2.3
External sector								
Exports, f.o.b.	37.4	-21.7	5.6	5.3	6.0	4.8	4.8	5.0
Imports, f.o.b.	5.6	-7.9	9.0	1.5	6.1	3.6	4.0	5.9
Export volume	50.4	-21.0	3.3	3.0	3.3	2.6	2.7	2.7
Import volume	0.2	-4.2	9.6	11.5	10.5	8.4	6.9	4.2
Terms of trade	-0.2	1.9	1.5	2.6	4.3	4.5	3.2	0.3
	(In percent of GDP; unless otherwise indicated)							
Investment and savings								
Investment	18.6	18.4	20.8	20.9	21.6	21.6	20.0	20.0
Public	8.0	8.4	10.1	10.3	11.1	11.5	11.8	13.5
Private	10.6	10.0	10.7	10.6	10.5	10.2	8.2	6.5
Gross national savings	12.8	19.2	11.0	11.9	11.8	11.4	9.5	9.0
Public	-0.6	0.1	1.0	-3.9	-2.0	-2.0	-2.0	-1.7
Private	13.4	19.1	10.1	15.8	13.8	13.5	11.6	10.7
Government budget								
Total revenue and grants	23.9	31.6	26.7	22.7	24.3	24.3	24.7	25.2
Tax Revenue	11.8	11.1	12.5	12.0	12.9	13.4	13.9	14.5
Total grants	9.4	15.1	9.3	8.4	8.3	7.8	7.7	7.6
Total expenditure	24.4	25.8	29.9	28.0	29.0	28.1	28.5	29.5
Current expenditure	16.4	17.3	17.9	17.4	16.1	15.8	15.6	15.3
Capital expenditure	8.0	8.4	12.0	10.7	13.0	12.2	13.0	14.2
Domestic primary balance	-2.3	-1.4	-0.3	-3.5	-2.9	-1.4	-1.3	-1.3
Change in arrears	-0.2	-1.6	0.0	0.8	-0.7	0.0	0.0	0.0
External (Interest)	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.1	-1.6	0.0	0.8	-0.7	0.0	0.0	0.0
Overall balance (cash basis)	-0.8	2.9	-5.0	-6.4	-7.3	-3.8	-3.8	-4.3
Excluding grants	-10.1	-12.2	-14.3	-14.8	-15.6	-11.6	-11.5	-11.9
Financing	2.0	-1.4	5.0	6.4	3.1	1.3	1.4	1.6
Foreign (net)	0.9	3.3	5.3	3.2	3.1	1.3	1.4	1.6
Domestic (net)	1.1	-4.7	-0.3	3.2	0.0	0.0	0.0	0.0
Financing gap/errors and omissions	-1.2	-1.5	0.0	0.0	4.1	2.5	2.4	2.7
External sector								
Exports of goods and services	16.3	17.1	17.6	17.3	17.4	17.4	17.4	17.3
Imports of goods and services	49.7	45.5	56.4	47.4	47.8	46.9	46.0	45.9
Current account balance	-8.6	0.6	-11.1	-9.3	-10.1	-10.6	-10.8	-10.8
Excl. official and private transfers	-32.9	-27.7	-39.1	-30.0	-30.3	-29.4	-28.7	-28.6
Private remittances, net [1]	21.6	18.4	23.5	18.0	17.6	17.1	16.6	16.5
External debt	20.2	24.2	28.5	25.4	27.7	27.3	26.9	26.8
External debt, in percent of exports of goods and services	123.9	141.3	161.7	147.1	159.4	157.2	154.9	155.0
External debt service, in percent of exports of goods and services and private remittances	0.5	0.3	...	1.8	2.0	2.4	2.6	2.3
Overall balance of payments (in millions of U.S. dollars)	19.2	47.6	0.0	-28.6	-21.5	-16.1	-17.0	-20.4
Official grants and loans	9.4	18.3	15.2	12.4	12.2	9.9	9.9	9.9
Gross international reserves (end of period)								
In millions of U.S. dollars	186.0	204.0	144.2	177.8	171.7	169.3	166.8	164.5
In months of imports of goods & services	6.6	9.1	4.8	7.2	6.6	6.3	6.1	5.7
Real effective exchange rate (2010=100)	98.1	81.7	...	...	...	...	...	...
Exchange rate CF/US$ (period average)	370.2	443.4	...	...	...	...	...	...
Memorandum items:								
GDP (nominal, in billions of CF)	253.1	261.0	275.9	274.3	289.1	306.8	326.2	347.1
GDP per capita (nominal, in US Dollars)	881	736	759	753	772	797	828	862

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

[1]From 2015, net private official transfers include estimates made by the Central Bank of Comoros of debit items other than wire transfers.

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

November 18, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION; AND STAFF - MONITORED PROGRAM

KEY ISSUES

- **A new government has taken the reins of power at a challenging time for Comoros**. Economic growth is anemic due to electricity shortages and other infrastructure inadequacies. Poor tax revenue performance and a continuously rising wage bill have led to a structural imbalance between domestic resources and recurrent spending resulting in intermittent domestic arrears accumulation.

- **Comoros needs accelerated economic growth in order to overcome fragility and to achieve an improvement in living standards and a meaningful reduction in poverty**. The highest priority needs to be given to creating fiscal space to tend to the country's development needs through infrastructure investment and to create buffers against external shocks, including natural disasters. Strengthened revenue administration and public financial management are key to creating fiscal space but additional external support is also needed.

- **A strengthened environment for investment and business is essential**. A more reliable supply of electricity, better telecommunications services, and a more effective judiciary to handle commercial disputes are all key in this regard.

- **The financial system in Comoros is fragile and strengthened supervision is required**. The government needs to develop a plan for dealing with the troubled state-owned postal bank.

- **The authorities have requested support from the IMF in the form of a six-month staff-monitored program through March 2017** that could serve a precursor to discussions of a new ECF arrangement in the second quarter of 2017. Management has approved this program, the main objectives of which are to stabilize the fiscal situation and put in place policies to eliminate domestic arrears in 2017.

Approved By
David Owen (AFR) and Peter Allum (SPR)

The mission that visited Comoros during September 7-20 to conduct the discussions for the 2016 Article IV consultation and discuss a six-month staff-monitored program comprised Messrs. Trines (head), Arnason, McLoughlin, Zhang, and Bari (all AFR). It was assisted by Messrs. Bua (Resident Representative) and Ahamada (local economist). The mission met with President Azali and held discussions with the Vice President in charge of Economy Djaffar, Minister of Finance Chayhane, Minister of Justice Fahmi, Governor of the Central Bank of Comoros Chanfiou, Head of the Economic and Financial Reform Agency Oubeidi, and other representatives of the government, parliament, the state enterprises, the private sector, and the donor community.

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CONTEXT

1. **Comoros is a small, poor, and fragile-three island state with limited natural resources and connectivity to the rest of the world**.[1] Political instability marked the country in the first quarter century after independence from France in the mid-1970s but over the last decade and a half the country has seen three peaceful and democratic transitions of presidential power based on a 2001 constitution, which stipulates the autonomy of the three islands that constitute the Union of the Comoros and the rotation of the presidency among them every five years. However, coordination challenges between the Union government and the islands remain significant, giving rise to problems with revenue collection and service delivery. Moreover, the private sector exhibits little dynamism in an unfavorable business environment. Overall, this has resulted in limited improvements in living standards and stagnant poverty rates.

2. **The traction of IMF policy advice has been limited in recent years**. While the authorities invariably expressed a willingness to pursue sound macroeconomic policies and structural reforms, progress was mostly disappointing (Annex I). Severe capacity constraints—an important dimension of fragility in Comoros (Box 1)—undoubtedly contributed to this.

3. **Following presidential elections in April 2016, Mr. Azali Assoumani was sworn in as president of the Union of Comoros in late May**. Mr. Azali was previously head of state during 1999-2006. Mr. Azali has repeatedly declared that poor revenue collections, a high public sector wage bill, and corruption are major challenges for his administration. He also indicated to the mission that he wished for a close engagement with the IMF, preferably through a new three-year Extended Credit Facility (ECF) arrangement. In view of the poor recent performance, a satisfactory track record under a new staff-monitored program (SMP) would provide the basis for considering a new ECF arrangement.

RECENT ECONOMIC DEVELOPMENTS

4. **Macroeconomic performance over 2014-15 fell below expectations at the time of the last Article IV consultation in January 2015** (Figures 1 and 2 and Table 1). At that time, annual economic growth was projected at 3-3½ percent. Current estimates put growth at 2 percent in 2014 and 1 percent in 2015, below the annual population growth rate of 2½ percent. An ongoing crisis in the electricity sector, as well as the slower-than expected implementation of the public investment program (Box 2), has been the main factor behind the growth deceleration. Notwithstanding a sharp real depreciation of the Comorian franc in 2015, owing to the depreciation of the euro against the dollar, inflation remained well anchored at an annual rate of about 2 percent.[2]

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[1] Comoros' per capital GDP is $740, while the poverty rate in 2014 was 42.4 percent.

[2] Severe data deficiencies across the board are an impediment to the precise analysis of economic developments in Comoros. For example, no consumer prices surveys were undertaken during large stretches of 2014 and 2015.

Box 1. Comoros: Strategy for Addressing Fragility

The Union of the Comoros is characterized by three aspects of fragility. First, the country's history has been marked by inter-island tensions and conflicts since independence from France in 1974, which have spilled over into political instability and a series of coups and secession attempts during the 1990s and into the early 2000s. Recent years have, however, seen three successive democratic political transitions. Second, Comoros is characterized by severe capacity limitations, which drastically impede effective macroeconomic management and reform implementation. Third, the provision of basic infrastructure, such as roads and a reliable source of electricity, is weak.

The strategy for engagement with the Comoros focuses on simple capacity building efforts to build resilience going forward. Measures such as ensuring the effective operation of the single treasury account, enhancing coordination between the different arms of the tax collection authority (AGID) and implementation of a computerized central register of public sector workers (GISE) aim to increase efficiency and transparency to help reduce inter-island tensions and bolster political stability. At the same time, enhancing revenue mobilization and controlling the wage bill will create the fiscal space needed to address infrastructure gaps. Furthermore, an intensive program of technical assistance, undertaken in cooperation with AFRITAC South, aims at alleviating the severe capacity limitations.

Near-to-medium term capacity building efforts focus on improving revenue administration, public financial management, and enhancing statistical capacity. Urgent measures are needed to boost revenue collection capacity and raise tax revenues from their current perilously low level. In the medium term, root and branch reform of the tax and customs administration is needed to put the public finances on a sustainable footing. Concerning public financial management, priority areas are improving budget preparation and execution, as well as implementation of proper cash flow management practices. Weak statistical capacity is being addressed through an ongoing program of technical assistance designed to improve the reliability of the national accounts and price statistics.

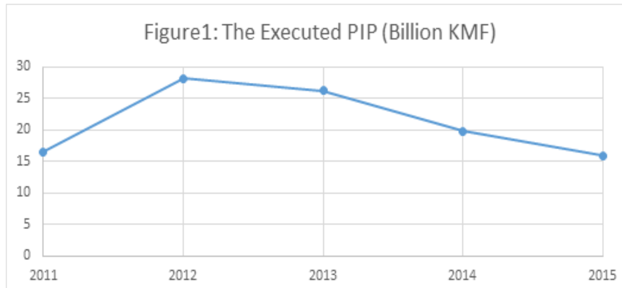
5. **Fiscal policy implementation was challenging for most of 2015 (Table 2).** The impact of slowing economic growth on revenue was compounded by the deteriorating performance of revenue administration, particularly customs. The tax revenue-to-GDP ratio declined from 11.8 percent of GDP in 2014 to 11.1 percent in 2015.[3] Non-tax revenue was, however, bolstered by more than 2 percent of GDP from the proceeds of the sale of a second telecommunication license in December. With the public sector wage and salary bill continuing its upward trend—from 7.6 percent of GDP in 2013, to 8.5 percent in 2014, and 9.1 percent in 2015—and with statutory advances from the central bank already at their ceiling—the inevitable result of these trends were rising domestic arrears in the course of the year; to three months of wages and salaries in October and November.

[3] The tax revenue ratio in 2015 would have been even lower had the government not forced profitable state-owned companies to pay profit tax as part of an effort to obtain a disbursement under the Rapid Credit Facility (RCF) and an SMP; see *Union of the Comoros—Request for a Disbursement under the Rapid Credit Facility; and Staff-Monitored Program*. The request for the RCF disbursement was withdrawn at the last minute due to a large Saudi budget grant and the SMP was subsequently cancelled by the authorities due to difficulties in implementing the program in the run-up to elections.

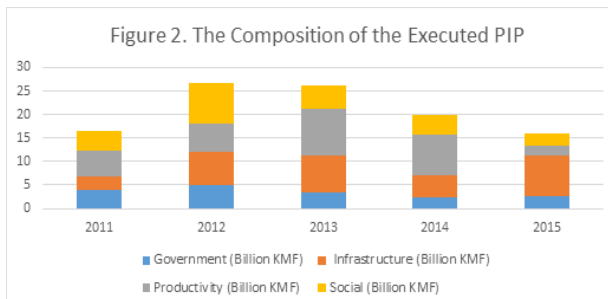
6. **The disbursement of a Saudi budget grant of €40 million (equivalent to 7.5 percent of GDP) in mid-December 2015 dramatically changed the fiscal picture for 2015**. It enabled the authorities to clear the wage and salary arrears before year-end and record an overall fiscal surplus on a cash basis of 2.9 percent of GDP, and thereby substantially improve the government's position vis-à-vis the central bank.

Box 2. Comoros: Public Investment Program (PIP)

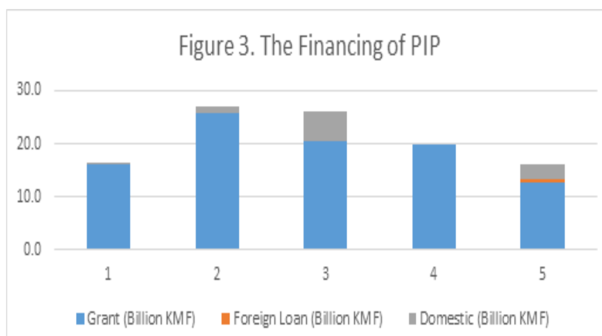
The public investment program (PIP) in Comoros has declined substantially in recent years. The planned PIP shrank from 26 percent of GDP in 2012 to 14.6 percent in 2015. Meanwhile, the executed PIP declined from 12.4 percent of GDP in 2012 to 6.1 percent in 2015 (Figure 1).



The PIP can be broadly categorized into four classes: government capacity building, social development, infrastructure, and productivity enhancements. The executed PIP has declined in all areas except for infrastructure (Figure 2).



The financing of the PIP is predominantly foreign (Figure 3). The PIP financing includes budgetary support, foreign grants, and foreign loans. Typically, the foreign component is in excess of 90 percent of the total, while the domestic component represents well less than 10 percent.



The low and decreasing execution ratio for the PIP is a major concern. The execution ratio of the PIP has been on a declining trajectory in recent years, decreasing from 47 percent in 2012 to 42 percent in 2015. The low execution ratio not only signals a waste of investment opportunities, but also leads to the delay and even failure of many projects. To increase the execution ratio, the authorities can help improving infrastructure, enhancing project management, and strengthening the communications with the donor countries.

7. **For most of 2015, the growth in monetary aggregates was fairly subdued (Table 3).** The receipt of the Saudi grant distorted the end-year monetary figures sharply; broad money grew by 17.1 percent, only slightly more than private sector credit, while net foreign assets were up by 38.4 percent and credit to government down 4.8 percent.

8. **The balance of exports and imports of goods and services improved sharply in 2015** (Table 4), mainly owing to non-fuel goods imports being held back by the real depreciation. Goods exports also declined, but from a small base, largely owing to low world market prices for cloves. Remittances from the large Comorian diaspora, a mainstay of the economy, also appear to have held up reasonably well.[4] All told, the current account recorded a surplus of 0.6 percent of GDP. The large overall balance of payments surplus led to a rise in international reserves of about 10 percent in dollar terms, providing cover for prospective imports of goods and services of more than 9 months at end-2015.

9. **Developments during the first half of 2016 point to a continuation, even an amplification, of the trends seen in 2015**. Revenues, particularly from customs, have continued to lag expectations and the outgoing government added many employees to its payroll. As a result, public sector wages and salaries consumed 85 percent of tax revenues, and 74 percent of all revenues, during the first six months of the year (Table 2C). The authorities were able to continue to draw on the remaining proceeds of the Saudi grant to avoid the incurrence of domestic arrears; however, some external arrears (about $1½ -2 million) were incurred despite resources being available for external debt service, mainly due to inadequate communications within the Ministry of Finance. Imports were subdued during the first months of the year, mainly because of strikes on the French island of Mayotte (an important transshipment point). International reserves held up fairly well even with high levels of government spending during the first half of 2016; at the end of July, reserves were down 13 percent in nominal terms from their elevated level of end-2015.

10. **Reflecting the country's fragility and the mostly negative per capita GDP growth over the last 10-15 years, progress in improving social indicators has been limited** (Table 5). According to a 2014 household survey, 42.4 percent of the population is poor, a marginal improvement over the 2004 poverty rate of 44.8 percent.

OUTLOOK, RISKS, AND DEBT SUSTAINABILITY

11. **In the discussions, the authorities and the mission agreed that, absent corrective measures, growth would continue to be tepid, revenues would remain stagnant, and substantial arrears would reappear**. In a baseline scenario, developed jointly by the authorities and the mission, growth would remain in the 2 percent range, the revenue-to-GDP ratio flat, and, domestic and external arrears rising, leaving no room for additional infrastructure investment (Baseline Scenario in Text Table 1). The authorities and the mission agreed that this was clearly an unsustainable scenario.

[4] While Tables 1 and 4 indicate a decline in net private transfers from 21.6 percent of GDP to 18.4 percent between 2014 and 2015, this represents the proper inclusion of private outflows in the data; gross remittance inflows were broadly unchanged relative to GDP.

Text Table 1. Comoros: Comparison of Baseline and Policy Scenarios

	Baseline Scenario					Policy Scenario				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Real GDP (percent change)	2.2	2.2	2.2	2.2	2.2	2.2	3.3	4.0	4.0	4.0
					(in percent of GDP)					
Total revenue and grants	20,9	21.4	21.4	21.3	21.2	22.7	24.3	24.3	24.7	25.2
Tax revenue	10.9	11.1	11.1	11.1	11.1	12.0	12.9	13.4	13.9	14.5
Non-tax revenue	1.6	2.0	2.0	2.0	2.0	2.4	3.1	3.1	3.1	3.1
Grants	8.4	8.3	8.3	8.2	8.1	8.4	8.3	7.8	7.7	7.6
Total expenditure and net lending	30.7	31.9	28.4	28.4	28.8	29.9	30.8	28.1	28.5	29.5
Current expenditure	18.1	18.1	18.1	18.1	18.1	17.4	16.1	15.8	15.6	15.3
Capital expenditure	10.7	11.9	10.3	10.3	10.8	10.7	13.0	12.2	13.0	14.2
Net lending	1.9	1.8	0.0	0.0	0.0	1.9	1.8	0.0	0.0	0.0
Change in arrears	1.9	0.0	0.0	0.0	0.0	0.8	-0.7	0.0	0.0	0.0
Overall balance (cash basis)	-8.0	-10.4	-7.0	-7.1	-7.6	-6.4	-7.3	-3.8	-3.8	-4.3
Financing (net)	8.0	3.2	1.4	1.4	1.6	6.4	3.1	1.3	1.4	1.6
Foreign	3.5	3.2	1.4	1.4	1.6	3.2	3.1	1.3	1.4	1.6
Domestic	4.5	0.0	0.0	0.0	0.0	3.2	0.0	0.0	0.0	0.0
Financing gap to be externally financed	0.0	7.2	5.6	5.7	6.0	0.0	4.1	2.5	2.4	2.7

Source: Comorian authorities and IMF staff.

12. **Under a joint active policy scenario (Policy Scenario in Text Table 1), growth would accelerate modestly in 2016 and 2017 and converge to the pre-2014 trend of close to 4 percent over the medium term**. With some improvement in the electricity situation through government purchases of additional generating capacity and support for fuel purchases, real GDP growth could be close to 2 percent in 2016 and accelerate to the 3.5-4 percent range thereafter. However, in addition to a more reliable electricity supply, this would be predicated on other improvements in infrastructure and the business environment to strengthen the attractiveness of Comoros as an investment destination. Under this scenario, the tax revenue ratio would increase by a ½ percentage point of GDP annually over the medium term based on determined actions to improve revenue administration. This scenario also assumes that the rise in the wage bill (Box 3) would be curtailed while additional funds would be available for domestically-financed public sector investment. Moreover, additional external funding would be needed to eliminate remaining financing gaps.

13. **Comoros faces both domestic and external risks** (Annex I). On the domestic side the principal risks are continued fiscal instability arising from lack of success in mobilizing additional domestic revenue and reining in the wage bill in the amounts and time-frame envisaged and a prolongation of the period of electricity shortages. On the external side, the main risks relate to remittance flows and international food and fuel prices. Comoros is also at risk from natural disasters, including volcanic eruptions and flooding.

14. **A DSA update confirms Comoros' moderate risk of debt distress rating** (*Union of the Comoros—Staff Report for the 2016 Article IV Consultation—Debt Sustainability Analysis*). The government is currently drawing on two previously-contracted external loans, one from India (from 2013) in the amount of US$33 million for the construction of a heavy fuel power plant, the other from China (from 2010) for US$32 million for strengthening the domestic telecommunications infrastructure. While additional borrowing likely will be needed over the medium-term, the authorities have not identified a pipeline of specific credits. The mission urged the new authorities to only borrow on concessional terms and only for high-priority projects with a clear economic benefit and after consultation with the Fund and the World Bank. The mission indicated to the authorities that the incurrence of arrears on external debt service, even in small amounts, by a country, such as Comoros, that had recently received comprehensive debt relief sent a very bad signal to the

international community and explored with them possible steps to strengthen external debt management to avoid such incurrence in the future, including the establishment of a mechanism that would provide standing authority to the central bank to debit the government's account to facilitate debt service payments.

Box 3. Comoros: The Wage Bill

The Union of the Comoros is an outlier with respect to the ratio of the wage bill to tax revenues, which is one of the most elevated in Sub-Saharan Africa (Figure 1).

In contrast to other countries in the region, the wage bill in Comoros has taken an ever-larger share of tax revenues. In both the Seychelles and Comoros, the ratio of the change in wage bill / change in tax revenues was negative during 2014-15. In the Seychelles, this occurred since the wage bill fell, while tax revenues increased. However, in Comoros, it was tax revenues that declined, while the wage bill held steady.

The nominal wage bill has increased at the Union level, as well on the individual islands of Anjouan, Ngazidja and to a lesser extent Moheli. The fiscal outturn for 2015 indicates that the wage bill breached the budgetary celling of the 2015 budget law, mainly in Anjouan (+5 percent) and for the Union (+2 percent).

Many neighboring countries exhibit a stable relationship between the wage bill and tax revenues, however, a similar phenomenon is not observed in the Union of the Comoros. When the wage bill exceeds its equilibrium level, many countries make an effort to reduce the wage bill (and increase tax revenues). In Comoros however, wages and salaries appear to evolve independently of tax revenues.

Increases in the wage bill may result from higher salaries and/or more workers, yet the diagnosis for the Comoros is not clear. It is impossible to distinguish between these two effects in the Comoros, since comprehensive information regarding the total number of public servants and wages at the Union and island levels is currently unavailable.

Available data indicate that at the Union level, the overall wage bill is mainly concentrated in the Finance, Foreign Affairs and Justice ministries. The foreign affairs ministry pays the highest average salary per employee and has the highest base wage bill. Bonuses account for about 38 percent of the total wage bill in the finance ministry.

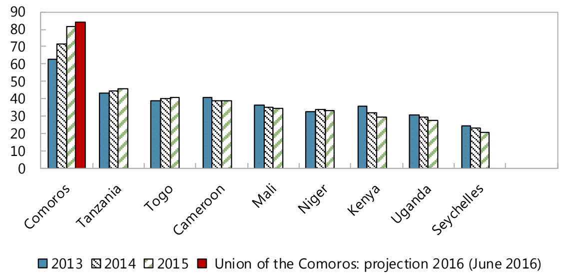
Bonuses significantly deepen inequities in the wage bill distribution. Inequalities are moderate in the base wage bill distribution, but they are more evident in the distribution of bonuses. Although the total of bonuses and other benefits is capped at 50 percent of the basic salary, this rule appears not to be applied.

The main obstacles to effectively controlling the wage bill are: i) irregularities in the list of public sector workers, particularly on Anjouan, ii) ineffective application of laws defining employment levels in each ministry, the management of the recruitment process, and the revaluing of salaries and bonuses, and iii) significant recruitment during the recent electoral period. Moreover, the central registry of public sector workers (GISE) is not fully effective throughout the country. Efforts should be reinforced to address these outstanding issues and to get better information on the composition of public employment and the pattern of wages and bonuses.

Box 3. Figure 1. Comoros: Selected Wage Bill Indicators (concluded)

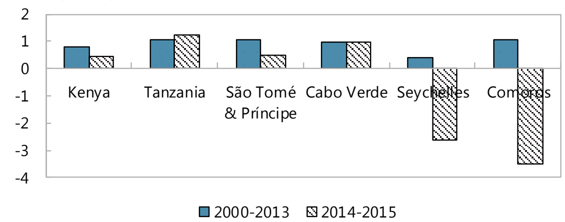
Comoros has the most elevated ratio of wage bill to tax revenues amongst selected peers

Ratio of the Wage Bill to Tax Revenues
(percent)



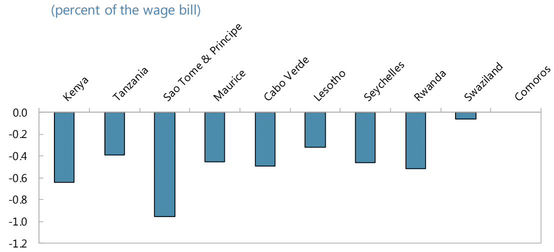
In Comoros, the wage bill increased, while tax revenues decreased, in 2014/15

Change Wage Bill / Change Tax Revenues
(ratio)



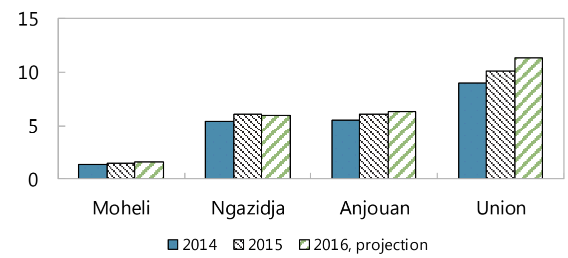
Comparators adjust the wage bill downwards when it is too high in relation to tax revenues relative to an estimated long-run equilibrium, but no such effort is made in Comoros.

Adjustment of the Wage Bill
(percent of the wage bill)



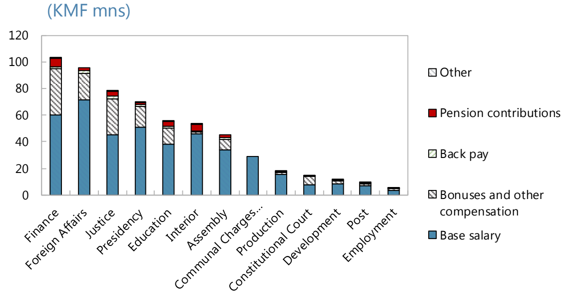
The wage bill in Comoros has increased over time for all governmental levels.

Wage Bill by Level of Government
(KMF bn)



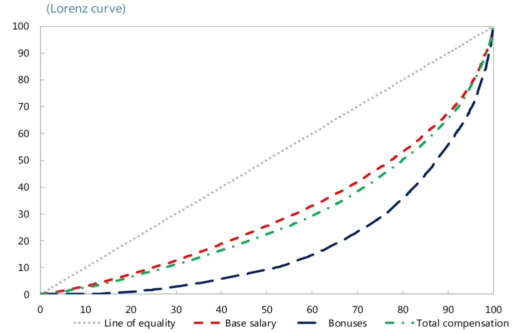
The overall wage bill is concentrated in Finance, Foreign Affairs and Justice ministries

Wages by Ministry - March 2016
(KMF mns)



The distribution of salaries is unequal.

Distribution of the Union Wage Bill, March 2016
(Lorenz curve)



Sources: Country authorities and IMF Staff calculations

POLICY DISCUSSIONS

A. Introduction

15. The authorities recognize that Comoros needs accelerated economic growth in order to overcome fragility and to achieve an improvement in living standards and a meaningful reduction in poverty. A number of factors hold back growth, including the country's small size and geographic isolation and weak inter-island and international transport connections and telecommunications connectivity, as well as weak implementation capacity. Moreover, poor physical infrastructure, notably in the electricity and road sectors, and an inhospitable business environment, partly caused by an ineffective judiciary, are also obstacles to growth.

16. Comoros ranks firmly in the bottom quartile of countries in terms of ease of doing business according to the World Bank's Doing Business Indicators for 2016. Overall, Comoros ranks 154th out of 189 countries, with particularly poor scores for enforcing contracts (179th) and resolving business disputes (189th and last). However, the assessment of the external position using standard EBA-lite tools indicates that at end-2015 it was broadly in line with medium-term fundamentals (Annex III).

B. Growth Policy

17. Against this background, the authorities and the mission agreed that the highest priority should be given to the following:

- Creating **fiscal space for increased investment**. A part of increased fiscal space should come from a better balance between domestic resource mobilization and recurrent spending (Text Figure 1 and Box 4). However, the country also needs additional external support, particularly budget support. In this regard, staff welcomed the authorities' intention to convene a donors' conference in parallel to discussion of a possible ECF arrangement in the first half of 2017.[5]

- Ensuring that **the electricity situation** continues to improve to provide a stable energy supply to businesses, without which investors will remain reluctant to continue existing activities and start new ones. The authorities indicated that they would continue to work closely with the World Bank and the African Development Bank on a longer-term strategy for the electricity sector. In the short term, the mission argued that subsidies to the state-owned electricity company (MAMWE) should be transparent rather than made on an ad-hoc basis as in the past. Over the medium term, these subsidies should be phased out.

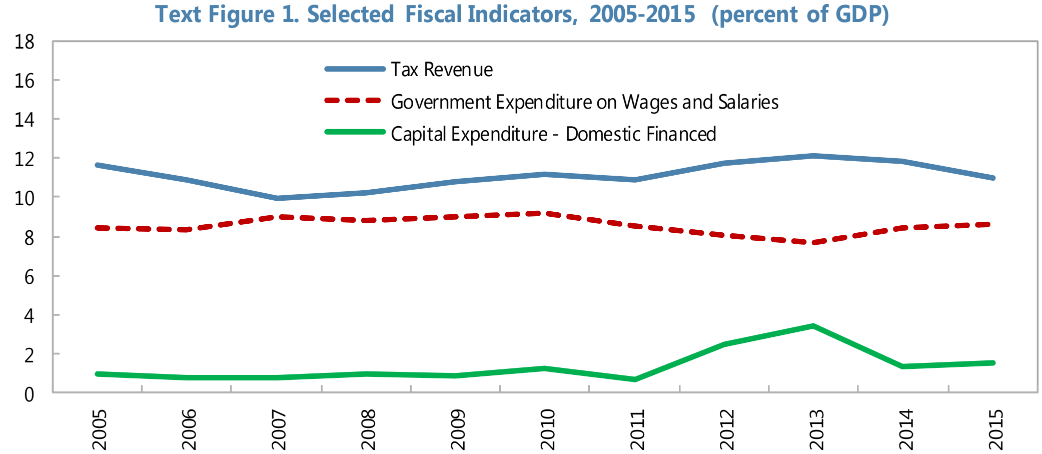
- Paving the way for the success of **the second telecommunications license**. The authorities recognize that the arrival of a new provider of telecommunications services holds out hope for significant positive effects on activity through higher quality and lower costs in both the

[5] The most recent donor's conference for Comoros was held in Doha in 2010.

short and long run, but will pose a restructuring challenge to the existing state-owned monopoly provider.

- Strengthening **the judiciary**, through improved selection and training of judges, to better enable it to handle contract enforcement and business dispute resolution, as well as tackle governance/corruption issues. The government is aware that, without improvement in this area, banks will not provide the credit needed for the private sector. Donors are already providing some support in these areas but more would be welcome.
- Seeking **foreign investment**, including from the diaspora, in agriculture, fishing, and tourism, that could boost production and create employment in these and related sectors. The government sees these sectors as potential drivers of growth for the economy and is preparing to adjust the country's poverty reduction strategy (*Strategy for Accelerated and Durable Development*, SCA2D) to better accommodate the need for a more favorable environment for investment and business.

Text Figure 1. Selected Fiscal Indicators, 2005-2015 (percent of GDP)



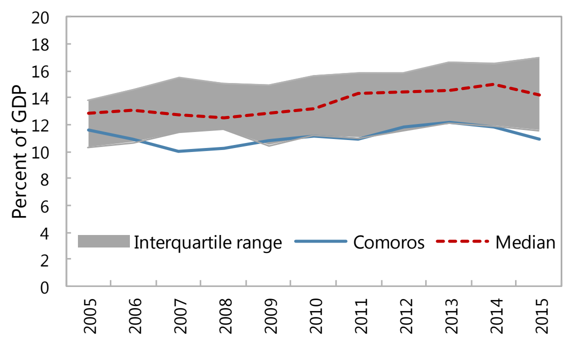
Sources: Country authorities; and IMF staff calculations.

Box 4. Comoros: Fiscal Trends 2005-2015

The fiscal performance of and outlook for Comoros continues to be adversely affected by a number of systemic challenges, particularly in the areas of revenue administration and public financial management. In particular, Comoros experiences a structural imbalance between domestic resource mobilization and current spending, particularly on public wages and salaries, leaving little scope for domestically-financed capital spending that is essential for spurring economic growth and social development.

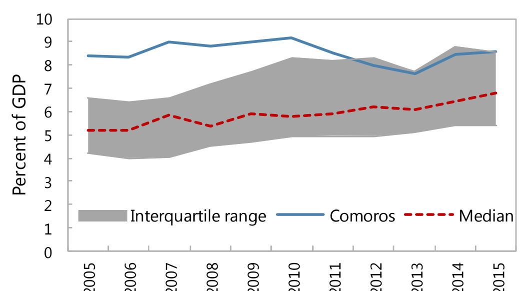
Comoros is constrained by weak tax mobilization, reflecting poor effectiveness in customs and tax administration. In comparison with other SSA PRGT-eligible countries, tax revenue in Comoros has remained at or below the first quartile over the last decade (Box Figure 1.1).

Figure 1.1. Government Tax Revenue



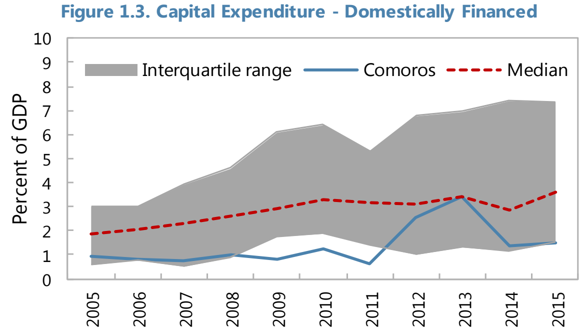
High government expenditure on wages and salaries remains a chronic challenge. Relative to peers, Comoros' public sector wage bill has been in the top quartile for the past decade although the differential relative to the median has narrowed owing to the rising spending on wages in other SSA countries (Figure 1.2).

Figure 1.2. Government Expenditure on Wages and Salaries



The combination of poor tax collection and a high wage bill leaves little room for other spending, including priority social spending. In particular, domestically-financed capital spending has remained especially low over the last decade, general being at or below the first quartile relative to peers (Figure 1.3). The only exception to this was during the period of passport sales under the ECP program.

Figure 1.3. Capital Expenditure - Domestically Financed



For a detailed analysis of fiscal trends see the Special Issues supplement accompanying this report.

C. Fiscal Policy

18. The new government's overriding objective is to create fiscal space for investment in infrastructure investment that improves the operating environment for the productive sectors of the economy and will help accelerate growth. It is acutely aware that this requires that the imbalance between domestic revenue mobilization and current spending needs to be radically redressed. Its longer term objectives are to raise domestic revenues by 50 percent and reduce public spending by 40 percent relative to current ratios to GDP. However, the government recognizes that short-term options are much more limited partly because of the need to take into account the fragility of Comorian society when considering measures to reduce the wage bill. The government also recognizes that fiscal stability predicated on balance between available resources and spending is a precondition for the macroeconomic stability required for sustained growth.

19. For the remainder of 2016, the authorities and the mission discussed the measures the authorities plan to take to prevent arrears on wages and salaries, and minimize other arrears to the extent possible (Text Table 2). The revenue measures, which should raise overall revenues by about 10 percent relative to the baseline, focus on (i) immediately improving the effectiveness of tax administration and customs through strengthened leadership; (ii) applying new tax measures, including a five percent consumption tax on telecommunication services, the elimination of all discretionary tax exemptions, and a tax on external business services; and (iii) ensuring that the profitable state-owned enterprises contribute additional dividends to the treasury. On the spending side, the focus is on (i) eliminating unnecessary and irregular spending on goods and services; and (ii) containing the wage bill in the short-term by cancelling all employment contracts granted since January 1, 2016. This would reduce projected spending by almost 9 percent. The authorities confirmed that they did not expect to receive any external budget support beyond the US$3 million anticipated from the World Bank in 2016. Moreover, they reiterated that the government's general policy would be to use one-off resources, such as from occasional budget support grants, for one-off expenditures, such as state-enterprise restructuring, or for building buffers against external shocks, including natural disasters. With these measures fully applied, the government should be able to fully pay all wages and salaries due in 2016, leaving only a small financing gap (about 0.8 percent of GDP) resulting in the accumulation of domestic arrears of the same magnitude. The authorities acknowledged that these measures were ambitious, but felt that, with a determined effort, they would be feasible, especially given the profitable status of the state enterprises that would be contributing a large part of the additional revenues.

20. The authorities and the mission also agreed on a macroeconomic and fiscal framework for the budget proposal for 2017. The framework is based on a realistic but ambitious revenue target and the repayment of the domestic arrears accumulated in 2016. It also aims to further contain the public sector wage bill through better control of the number and salaries of public sector employees at both Union and island levels. With the measures outlined in Text Table 2 and based on the further revenue administration and public financial management reforms outlined below, the projected financing gap, even with some additional allocations to domestically financed capital spending, has been significantly reduced relative to the baseline, to 2½ percent of GDP. To close this remaining financing gap, the government plans to call on the international community, including the

IMF, for additional support, particularly budget support. To this end, it intends to convene a donors' conference in the first half of 2017. The fiscal program would need to be revisited if it does not prove possible to fully close the financing gap for 2017.

D. Revenue Administration

21. The authorities underscored their firm commitment to revenue administration (RA) reform. They **accepted** that, at the institutional level, both the general tax administration (AGID) and customs administration needed to be strengthened and had already taken steps to this end although more would be needed. In designing revenue administration reforms, the government has taken its lead from IMF tax administration TA provided in July 2016 (Text Table 3). The main reforms to be implemented in the near term include (i) concentrating the tax treatment of all large companies, including state-owned enterprises, in the large tax payers unit on Ngazidja (Grande Comore); (ii) expanding the lists of large and small and medium-sized tax payers and ensuring that those on the lists pay their taxes; and (iii) introducing a clear classification system, interfaced with the information system Sydonia, as a first step to improving the management of the tax and customs exemption regime. A comprehensive program with additional reforms based on the provided TA is being developed.

Text Table 2. Comoros: Impact of Fiscal Measures Relative to Baseline, 2016-2017 (in billions of Comorian francs)

	2016	2017
Total	**8.1**	**12.8**
(in percent of GDP)	(3.0)	(4.4)
Revenue	**5.1**	**8.0**
Tax administration	0.2	0.9
Customs	0.6	1.6
New measures	2.3	2.5
Telecommunications tax	1.3	1.5
Limitation of exemptions	0.5	0.5
Tax on foreign business services	0.5	0.5
Dividends of state enterprises	2.0	3.0
Expenditure	**3.0**	**4.8**
Cancellation of unnecessary spending	2.5	2.6
Reductions in wage bill	0.5	2.2

Source: Comorian authorities and IMF staff.

Text table 3. Comoros: Short term Revenue Admiration and Public Financial Management Reforms

Measure	Purpose	Implementation Date
1. Concentrate the tax treatment of all large companies, including state-owned enterprise in the Large Tax Payers Unit on Ngazidja in line with FAD TA.	Enhance revenue mobilization.	December 31, 2016.
2. Expand the lists of large and small and medium-sized taxpayers and ensure that those on the lists pay their taxes in line with FAD TA.	Enhance revenue mobilization.	December 31, 2016.
3. Introduce a clear classification system interfaced with Sydonia as first step to improve the management of the tax and customs exemption regime in line with FAD TA.	Enhance revenue mobilization.	December 31, 2016.
	Public Financial Management	
4. Ensure that all receipts from the unique petroleum tax (TUPP) accrue to the single treasury account and that all offsets between the government, the state-owned oil import company (SCH), and state-owned electricity company (MAMWE) are eliminated.	Strengthen cash management; enhance transparency.	December 31, 2016.
5. Strengthen preparation of the table for central government financial operations (TOFE) in line with STA TA.	Improve fiscal policy design and montoring and enhance transparency	March 31, 2017.
6. Undertake a comprehensive audit of domestic arrears as of June 30, 2016.	Strengthen budget execution; enhance transparency.	March 31, 2017.
7. Ensure that the central registry of public sector workers covers the Union and all three islands and that only workers in the registry are paid.	Control wage bill.	December 31, 2016.

E. Public Financial Management

22. The authorities aim to build on progress already made in strengthening public financial management (PFM) by focusing on strengthening control of the wage bill and addressing remaining weaknesses relating to cash management and budgeting and budget execution, as well as transparency (see Text Table 3). In particular, they intend to immediately (i) ensure that the central registry of public sector workers (GISE) covers the Union and the three islands and that only workers in the registry are paid; (ii) strengthen the preparation of the table for central government financial operations (TOFE); (iii) undertake a comprehensive audit of domestic arrears at the Union level; and (iv) ensure that all receipts from the single tax on petroleum products (TUPP) accrue to the single treasury account and that all of the offsets between the government, the state-owned oil importing company (SCH), and the state-owned electricity company (MAMWE) are eliminated. Moreover, the treasury and central bank will organize monthly meetings to reconcile treasury cash flow data with bank data.

F. Financial Sector Policy

23. The new government attaches great importance to Comoros' monetary cooperation agreement with France which simultaneously pegs the Comorian Franc to the euro and anchors fiscal policy through the ceiling on statutory advances from the central bank to the treasury based on the average of internal revenue over the previous three years. The government envisages no changes to these arrangements. The mission agreed that these arrangements continued to serve Comoros well.

24. The mission noted that the Comorian financial system is fragile and that the macroeconomic environment was challenging for financial institutions (Box 5 and Table 6). While these institutions were generally adequately capitalized and liquid, their profitability had been sluggish, the ratio of non-performing loans rising, and provisioning lagging. The central bank (BCC) underscored its commitment to further strengthening banking supervision and the monitoring of financial sector stability. The BCC would also continue to closely monitor developments in the postal bank (SNPSF), including through participation in a government committee established to make proposals on how the bank's difficulties could be resolved. The government committed to preparing an action plan for the resolution of the bank's difficulties by March 31, 2017, building on recommendations made by an MCM technical assistance mission earlier this year.

25. The central bank will also continue working closely with the Ministry of Justice to address weaknesses in the application of the legal provisions with respect to the recovery of doubtful and disputed receivables, which currently is a serious impediment to the ability and willingness of the banks to extend credit.

G. Electricity Sector

26. The new government indicated that it was keenly aware that persistent electricity shortages and blackouts were significant obstacles to economic growth and development in Comoros and that it was determined to overcome them as soon as possible. For immediate relief, the authorities confirmed that they had purchased a number of diesel generators with a combined capacity of 25 MW and expected to take delivery of them in late 2016 or early 2017. The mission expressed understanding for the government's decision to go ahead with the purchase of these generators but noted that it would add significantly to budgetary outlays (about 1½ percent of GDP) in 2017. The government has also affirmed its support for the heavy-fuel plant being financed with a concessional loan from the EXIM Bank of India. The mission noted that these two projects would provide a firm supply foundation for the electricity sector in Comoros for the medium term. The authorities also continue to work with the World Bank and African Development Bank on a longer term strategy to strengthen the technical, management, and commercial capacity of MAMWE and minimize the dependence on expensive diesel oil for electricity generation by diversifying to solar, wind, and geothermal energy.

H. Telecommunications Sector

27. The government confirmed that it is committed to lowering the cost and improving the quality of telecommunication services in Comoros through increased competition. To this end, the government would provide a level playing field of competition between state-owned Comores Telecom and TELCO, the holder of the new telecommunications license which was expected to begin to offer services to customers once it had made the requisite investments in infrastructure in late 2016. The mission welcomed this position, noting that the arrival of a new telecommunications service provider could prove an important spur to economic activity in the country.

I. Economic Data

28. The mission reiterated that economic data gathering and dissemination had serious shortcomings that hampered analysis of economic developments, as well as policy design (see Comoros—Statistical Assessment Appendix in the Informational Annex**)**. The highest priority needed to be given to the preparation of a timely and accurate table of consolidated government financial operations (TOFE), for which the Fund was already providing technical assistance. The mission noted that this table provided a crucial basis for budget preparation, execution, and monitoring, as well as for ensuring transparency in fiscal operations. Almost equally important were continuing efforts to strengthen the compilation of price, national accounts, and balance of payments data. To this end, further efforts to improve capacity, including through technical assistance by the Fund, the World Bank, and the AfDB, should be vigorously pursued. Moreover, adequate funding of the statistics agency would be essential. The authorities acknowledged this problem and committed to continuing efforts.

J. Outreach

29. The mission engaged in various outreach activities. It met with representatives of parliament, civil society, the private sector, and donors. The mission organized a seminar attended by government officials and others, at which mission members made analytical presentations on (i) regional economic trends, (ii) longer-term fiscal trends in Comoros relative to peers in Sub-Saharan Africa, and (iii) various financial sector issues in Comoros, including financial inclusion. The seminar was followed by a roundtable at which seminar attendees debated what could be done to strengthen revenue administration in Comoros.

STAFF MONITORED PROGRAM

30. The new government requested support, including financing, from the Fund in navigating the challenging circumstances it faces. The mission noted that, given the recent poor record of macroeconomic performance, a satisfactory track record under a new staff-monitored program, covering the six-month period from October 1, 2016 through March 31, 2017 could provide a basis for considering a new ECF arrangement. Discussions on such arrangement could be held in the second quarter of 2017 and could also coincide with the authorities' efforts to mobilize additional external support through a donor's conference. The authorities agreed with this approach. Their objectives during the six-month program period are detailed in the Letter of Intent and Memorandum of Economic Policies in Annex IV, approved by Management. The program includes test dates on December 31, 2016 and March 31, 2017.

31. The main objectives of the SMP are to achieve fiscal sustainability through policies that aim to limit domestic arrears in 2016 and eliminating them in 2017, relying on a combination of a strong adjustment effort and additional external budget support. The macroeconomic and structural targets and policies under the SMP are in line with the quantitative framework and policy undertakings discussed above. The main quantitative targets relate to revenue mobilization and the avoidance of arrears, while the structural measures focus on the revenue administration and public financial management reforms listed in Text Table 3, with additional measures relating to the preparation of an action plan for dealing with the problems of the state-owned postal bank and setting up a mechanism among the Ministry of Finance, the treasury, and the central bank for ensuring the external debt service payments are made on time.

STAFF APPRAISAL

32. The new Comorian government has come to power at a particularly difficult time. Economic growth is anemic due to electricity shortages and other infrastructure inadequacies. Poor tax revenue performance and a continuously rising wage bill have led to a structural imbalance between domestic resources and recurrent spending resulting in intermittent domestic arrears accumulation. The new government should seize the opportunity to more forcefully address the country's underlying problems.

33. The authorities have a clear understanding of the main challenges that Comoros faces. In order to support accelerated economic growth to overcome fragility and achieve an improvement in living standards and a meaningful reduction in poverty Comoros needs to create fiscal space for infrastructure investment and eventually build financial buffers upon which it can draw in case of external shocks. Increased fiscal space should come from an improved balance between domestic resource mobilization and recurrent spending, but the country also needs additional external support, particularly budget support. Future borrowing to address development needs should be on concessional terms only.

34. The government has already taken important steps toward rebalancing the budget. The revenue administration and public financial management measures it has already announced will go a long way toward minimizing domestic arrears in 2016 and eliminating them altogether in 2017. Additional efforts will be essential to achieve the long term goals the government has established.

35. The government appropriately emphasizes the need for continuing revenue administration reforms. Compared to peers, revenue mobilization in Comoros is weak and more so because of weak revenue administration than inadequacies in the tax system.

36. Further public financial management reforms are also needed to ensure the effective use of public resources. The procedures for budget preparation, execution, and monitoring need to be strengthened. Moreover, while the establishment of the single treasury account represented a milestone in cash management, more needs to be done to strengthen liquidity forecasting and transparency. Finally, achieving better control of the wage bill through a fully effective registry of public sector workers is a matter of the utmost urgency.

37. The financial system in Comoros is fragile and strengthened supervision by the central bank is required. The government needs to develop a plan for dealing with the troubled state-owned postal bank.

38. The government's purchase of new diesel generators, while costly for the budget, is appropriate in order to provide immediate relief from the recurrent electricity shortages and blackouts. The authorities also continue to work with the World Bank and African Development Bank on a longer term strategy to strengthen the technical, management, and commercial capacity of the state-owned electrical company.

39. The incurrence of any arrears on external debt service by a country such as Comoros that has recently received comprehensive and deep external debt relief sends a bad signal to the international community. Better monitoring and communication procedures are needed and the proposed mechanism to facilitate payments directly with the help of the central bank should be put in place without delay. Efforts should also continue to address the small amount of remaining pre-HIPC external debt.

40. The arrival of a second telecommunications services provider in Comoros is welcome. Through increased competition, with lower prices and better quality services, it could prove an important spur to economic activity.

41. Comorian economic data are in urgent need of an upgrade. The authorities need continue to work with external partners to improve capacity and ensure that adequate resources are made available for the compilation of reliable and timely data on central government finances, prices, national accounts, and balance of payments.

42. The six-month SMP through March 2017 aims to establish a track record of performance regarding macroeconomic management and structural reforms. Satisfactory performance under the SMP would set the stage for discussions on a new three-year arrangement under the ECF in the second quarter of 2017.

43. It is expected that the next Article IV consultation will be held on the standard 12-month cycle.

Box 5. Comoros: Selected Financial Sector Issues

Financial institutions in Comoros operate in a challenging macroeconomic environment, while financial vulnerabilities are rising and profitability is sluggish (Box Figure 2.1). In the current slow growth environment, the ratio of non-performing loans to gross loans has increased further, reaching 27.4 percent at end-March 2016. Profitability in the sector is low, with an overall return on assets of less than 1 percent in 2015.

The financial sector in Comoros is shallow, underdeveloped and mildly concentrated, but is deeper than comparators in low-income Sub-Saharan Africa (SSA). Financial institution assets amounted to just over 47 percent of GDP in 2015, with the three largest financial institutions controlling about 57 percent of total sector assets. Assets consist mainly of loans to the domestic private sector and deposits at the central bank. High liquidity levels reflect underdeveloped financial markets that constrain investment opportunities. Holdings of net foreign assets are insignificant, as is lending to the public sector. Traditional metrics of financial sector depth and intermediation indicate that at end-2015, the depth of the Comorian financial sector was comparable to the low-income Sub-Saharan Africa (SSA) average, yet well behind that of frontier SSA economies (Box Figure 2.2).

Some financial institutions are large enough to be considered systemic, but financial interconnectedness is limited. Deposits and loans are concentrated in a few institutions but financial interconnectedness is limited as interbank markets are nonexistent and inter-institution deposits are limited to the excess liquidity of microfinance institutions, reducing the scope for spillovers between banks in the event of financial distress.

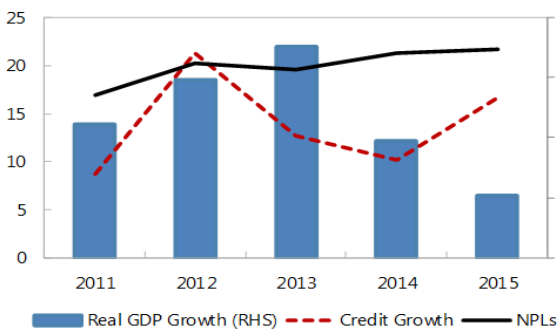
Financial institutions are broadly well-capitalized and liquid, but the increasing NPL ratio and lagging provisioning of recent years are a concern (Box Figure 2.3). Moreover, provisioning has not kept pace with the rise in doubtful loans.

Although Comoros compares well with low-income SSA regarding financial access, there is significant inequality across income levels and gender (Figures 2.4 and 2.5). The proportion of survey respondents aged 15 and over in Comoros with access to an account at a financial institution ('financial access') in 2011, at 21.7 percent, was well above the average for low-income SSA countries. However, the ratio of the bankable 'better-off' to the 'poor' and males to females is higher in Comoros than for low-income SSA countries.

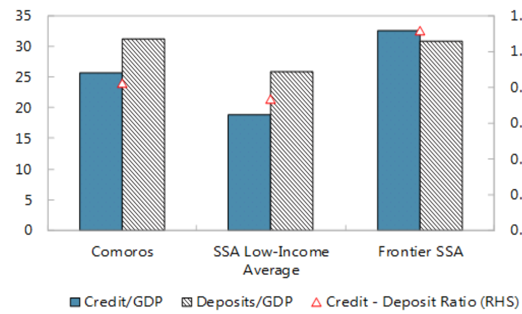
For a detailed analysis of financial sector issues see the Special Issues supplement accompanying this report.

Box 5. Comoros: Selected Financial Sector Issues (concluded)

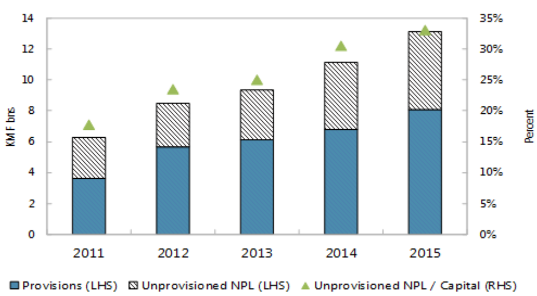
Growth, Credit and NPLs



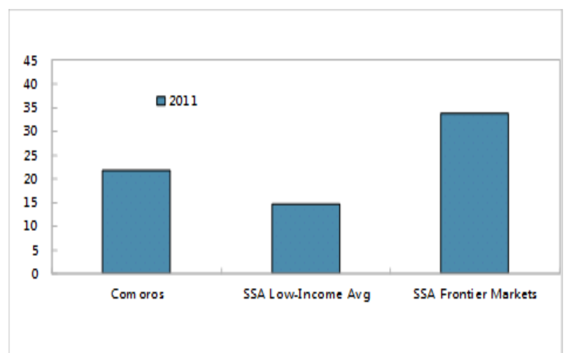
Financial Sector Depth, 2015



NPLs and Provisioning, percent



Financial Access in 2011, percent



Inequality in Financial Access in 2011, ratio richest 20% / poorest 20%

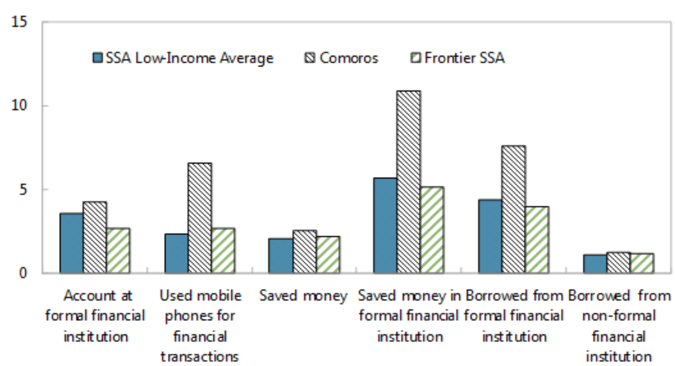
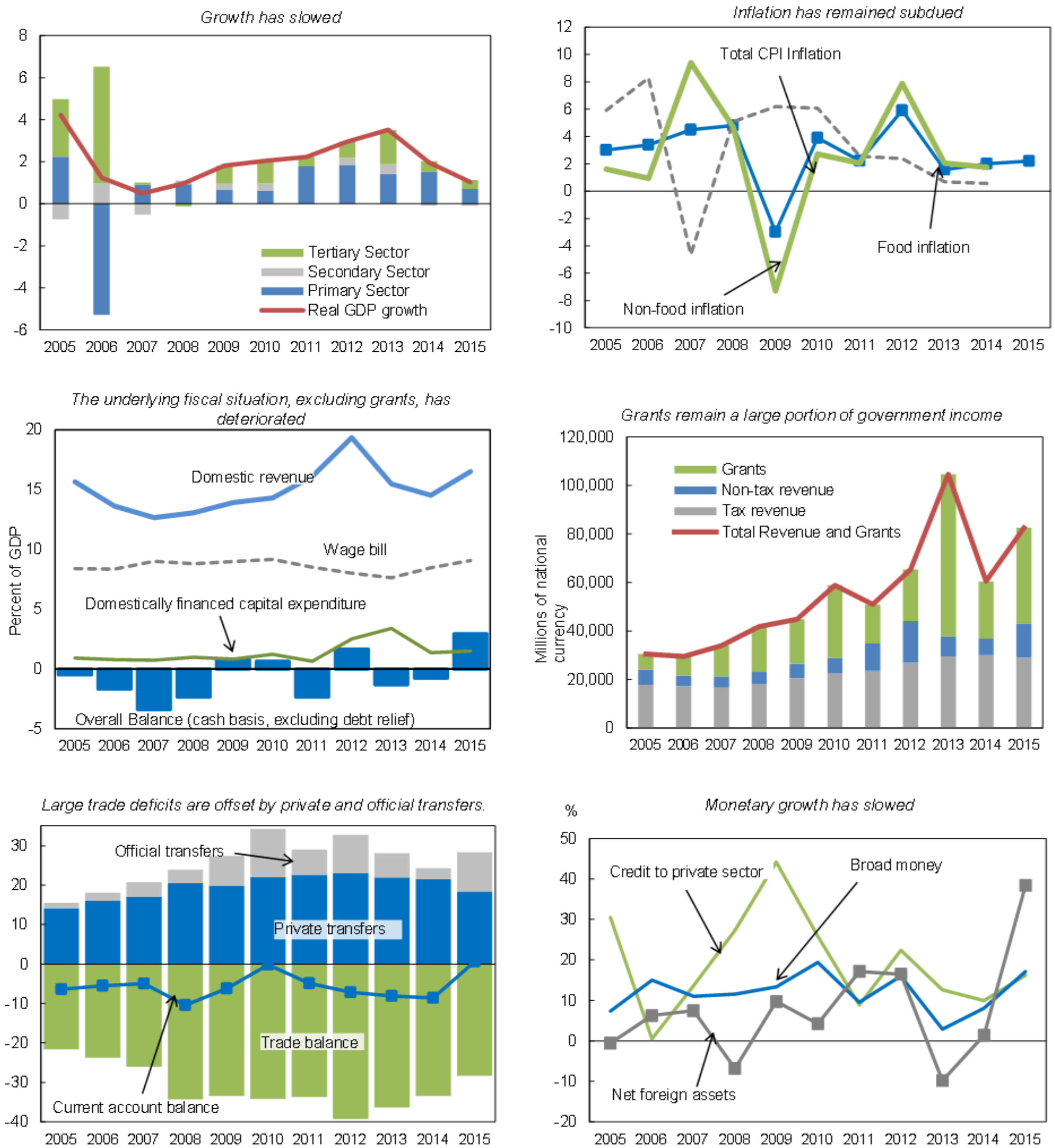
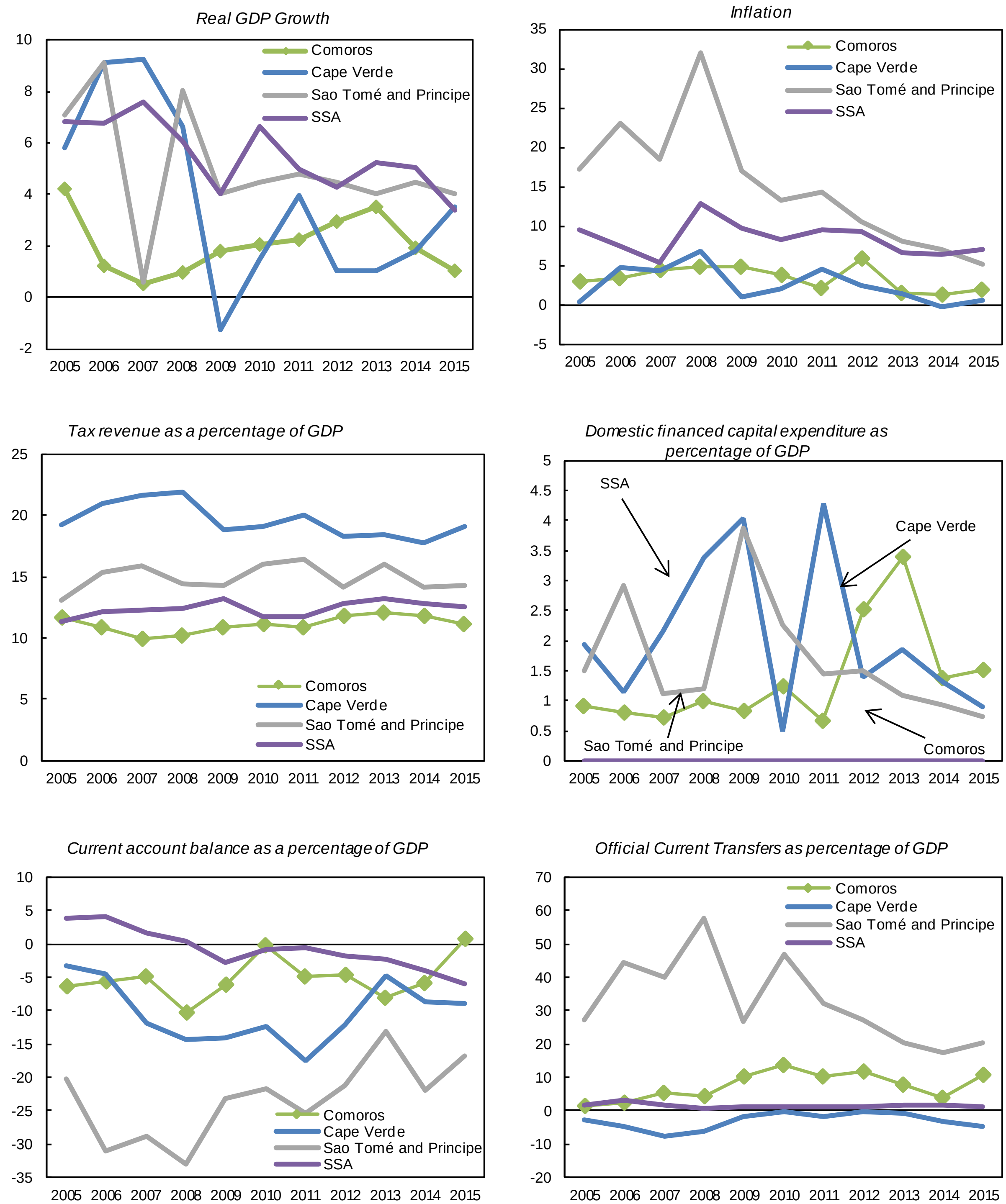


Figure 1. Key Indicators of the Comorian Economy



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

Figure 2. Cross-Country Comparisons



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

Table 1. Comoros: Selected Economic and Financial Indicators, 2014-20

	2014	2015	2016		2017	2018	2019	2020
		Prel.		Proj.		Proj.		
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP	2.0	1.0	2.2	2.2	3.3	4.0	4.0	4.0
GDP deflator	1.8	2.1	3.6	2.9	2.0	2.1	2.2	2.3
Consumer price index (annual averages)	1.3	2.0	2.2	2.0	2.0	2.0	2.0	2.0
Consumer price index (end period)	0.0	2.0	0.1	2.0	2.0	2.0	2.0	2.0
Money and credit								
Net foreign assets	1.4	38.4	0.2	-14.1	-2.5	0.6	0.7	0.7
Domestic credit	12.9	-4.8	8.9	27.4	10.0	8.2	8.2	8.2
Credit to the private sector	10.0	16.2	9.6	13.5	12.0	10.2	10.2	9.4
Broad money	8.1	17.1	5.9	5.1	5.4	6.1	6.3	6.4
Velocity (GDP/end-year broad money)	2.6	2.3	2.6	2.3	2.3	2.3	2.3	2.3
External sector								
Exports, f.o.b.	37.4	-21.7	5.6	5.3	6.0	4.8	4.8	5.0
Imports, f.o.b.	5.6	-7.9	9.0	1.5	6.1	3.6	4.0	5.9
Export volume	50.4	-21.0	3.3	3.0	3.3	2.6	2.7	2.7
Import volume	0.2	-4.2	9.6	11.5	10.5	8.4	6.9	4.2
Terms of trade	-0.2	1.9	1.5	2.6	4.3	4.5	3.2	0.3
	(In percent of GDP, unless otherwise indicated)							
Investment and savings								
Investment	18.6	18.4	20.8	20.9	21.6	21.6	20.0	20.0
Public	8.0	8.4	10.1	10.3	11.1	11.5	11.8	13.5
Private	10.6	10.0	10.7	10.6	10.5	10.2	8.2	6.5
Gross national savings	12.8	19.2	11.0	11.9	11.8	11.4	9.5	9.0
Public	-0.6	0.1	1.0	-3.9	-2.0	-2.0	-2.0	-1.7
Private	13.4	19.1	10.1	15.8	13.8	13.5	11.6	10.7
Government budget								
Total revenue and grants	23.9	31.6	26.7	22.7	24.3	24.3	24.7	25.2
Tax Revenue	11.8	11.1	12.5	12.0	12.9	13.4	13.9	14.5
Total grants	9.4	15.1	9.3	8.4	8.3	7.8	7.7	7.6
Total expenditure	24.4	25.8	29.9	28.0	29.0	28.1	28.5	29.5
Current expenditure	16.4	17.3	17.9	17.4	16.1	15.8	15.6	15.3
Capital expenditure	8.0	8.4	12.0	10.7	13.0	12.2	13.0	14.2
Domestic primary balance	-2.3	-1.4	-0.3	-3.5	-2.9	-1.4	-1.3	-1.3
Change in arrears	-0.2	-1.6	0.0	0.8	-0.7	0.0	0.0	0.0
External (Interest)	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.1	-1.6	0.0	0.8	-0.7	0.0	0.0	0.0
Overall balance (cash basis)	-0.8	2.9	-5.0	-6.4	-7.3	-3.8	-3.8	-4.3
Excluding grants	-10.1	-12.2	-14.3	-14.8	-15.6	-11.6	-11.5	-11.9
Financing	2.0	-1.4	5.0	6.4	3.1	1.3	1.4	1.6
Foreign (net)	0.9	3.3	5.3	3.2	3.1	1.3	1.4	1.6
Domestic (net)	1.1	-4.7	-0.3	3.2	0.0	0.0	0.0	0.0
Financing gap/errors and omissions	-1.2	-1.5	0.0	0.0	4.1	2.5	2.4	2.7
External sector								
Exports of goods and services	16.3	17.1	17.6	17.3	17.4	17.4	17.4	17.3
Imports of goods and services	49.7	45.5	56.4	47.4	47.8	46.9	46.0	45.9
Current account balance	-8.6	0.6	-11.1	-9.3	-10.1	-10.6	-10.8	-10.8
Excl. official and private transfers	-32.9	-27.7	-39.1	-30.0	-30.3	-29.4	-28.7	-28.6
Private remittances, net [1]	21.6	18.4	23.5	18.0	17.6	17.1	16.6	16.5
External debt	20.2	24.2	28.5	25.4	27.7	27.3	26.9	26.8
External debt, in percent of exports of goods and services	123.9	141.3	161.7	147.1	159.4	157.2	154.9	155.0
External debt service, in percent of exports of goods and services and private remittances	0.5	0.3	...	1.8	2.0	2.4	2.6	2.3
Overall balance of payments (in millions of U.S. dollars)	19.2	47.6	0.0	-28.6	-21.5	-16.1	-17.0	-20.4
Official grants and loans	9.4	18.3	15.2	12.4	12.2	9.9	9.9	9.9
Gross international reserves (end of period)								
In millions of U.S. dollars	186.0	204.0	144.2	177.8	171.7	169.3	166.8	164.5
In months of imports of goods & services	6.6	9.1	4.8	7.2	6.6	6.3	6.1	5.7
Real effective exchange rate (2010=100)	98.1	81.7	...	...	...	...	...	...
Exchange rate CF/US$ (period average)	370.2	443.4	...	...	...	...	...	...
Memorandum items:								
GDP (nominal, in bilions of CF)	253.1	261.0	275.9	274.3	289.1	306.8	326.2	347.1
GDP per capita (nominal, in US Dollars)	881	736	759	753	772	797	828	862

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

[1] From 2015, net private official transfers include estimates made by the Central Bank of Comoros of debit items other than wire transfers.

Table 2a. Comoros: Consolidated Government Financial Operations, 2014-20

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

	2014	2015	2016	2016	2017	2018	2019	2020
		Prel.		Proj.		Proj.		
Total revenue and grants	60,450	82,526	73,761	62,351	70,247	74,540	80,653	87,454
Revenues	36,752	43,089	48,209	39,425	46,162	50,569	55,544	61,131
Tax revenues	29,940	28,942	34,352	32,911	37,241	41,100	45,480	50,422
Direct and indirect taxes	24,714	25,295	29,629	28,579	32,674	36,114	40,022	44,441
Taxes on international trade and transactions	5,226	3,647	4,723	4,332	4,566	4,987	5,457	5,982
Nontax revenues	6,812	14,147	13,857	6,514	8,921	9,468	10,064	10,709
External grants	23,698	39,438	25,552	22,925	24,086	23,971	25,109	26,323
Budgetary assistance	3,897	23,464	4,000	1,500	1,500	0	0	0
Projects (incl. techn.assist.)	19,801	15,974	21,552	21,425	22,586	23,971	25,109	26,323
Total expenditure and net lending	61,790	71,138	87,585	82,031	89,081	86,142	93,074	102,404
Current expenditure	41,514	45,227	49,258	47,596	46,425	48,587	50,825	53,211
Primary current expenditures	38,319	42,708	45,364	43,712	42,171	44,013	45,997	48,118
Wages and salaries	21,423	23,713	24,693	24,617	24,250	24,993	25,780	26,606
Goods and services	11,808	12,099	11,756	12,160	10,611	11,262	11,970	12,737
Transfers and pensions	5,087	6,896	8,915	6,935	7,310	7,758	8,247	8,775
Interest payments	201	104	636	645	839	949	1,032	1,113
External debt	43	104	443	453	637	734	803	870
Domestic debt	158	0	193	192	202	215	228	243
Foreign-financed project maintenance	1,130	912	1,230	1,223	1,289	1,368	1,433	1,502
Technical assistance	1,864	1,504	2,029	2,017	2,126	2,256	2,363	2,478
Capital expenditure	20,277	22,010	33,117	29,219	37,442	37,555	42,248	49,192
Domestically financed investment	3,470	3,929	3,787	5,198	12,439	10,764	13,674	17,379
Foreign-financed investment	16,807	18,081	29,331	24,021	25,003	26,790	28,574	30,508
Net lending	0	3,902	5,210	5,216	5,214	0	0	0
Domestic primary balance [1]	-5,036	-3,548	-941	-9,485	-8,448	-4,209	-4,127	-4,365
Overall balance (commitment basis)	-1,340	11,388	-13,824	-19,680	-18,833	-11,602	-12,421	-14,949
Excluding grants	-25,038	-28,050	-39,376	-42,606	-42,919	-35,573	-37,529	-41,272
Change in net arrears	-630	-4,290	0	2,133	-2,142	0	0	0
External arrears	-385	-116	0	-9	0	0	0	0
Domestic arrears	-245	-4,174	0	2,142	-2,142	0	0	0
Repayment	-2,083	-6,928	0	0	-2,142	0	0	0
Accumulation	1,838	2,754	0	2,142	0	0	0	0
Float	1,256	573	0	0	0	0	0	0
Overall balance (cash basis)	-1,970	7,671	-13,824	-17,547	-20,976	-11,602	-12,421	-14,949
Excluding grants	-25,668	-31,767	-39,376	-40,473	-45,061	-35,573	-37,529	-41,272
Financing	5,122	-3,687	13,824	17,547	9,101	4,060	4,560	5,635
Foreign (net)	2,352	8,629	14,640	8,660	9,101	4,060	4,560	5,635
Drawings, PIP (identified)	0	8,424	16,248	11,051	11,046	6,444	7,261	8,165
Amortization	1,817	-279	-1,608	-1,747	-1,946	-2,383	-2,701	-2,530
Change in net arrears (principal)	-1,872	484	0	-645	0	0	0	0
Exceptional financing	2,407	0	0	0	0	0	0	0
Domestic (net)	2,769	-12,316	-815	8,887	0	0	0	0
Bank financing	2,769	-12,316	-815	8,887	0	0	0	0
Central bank	2,967	-12,085	-815	9,077	0	0	0	0
Of which: IMF (net)	0	-64	-815	-823	-1,018	-1,408	-1,701	-1,171
Commercial banks	-197	-231	0	-190	0	0	0	0
Errors and omissions/Financing gap (+ = underfinancing)	-3,152	-3,983	0	0	11,875	7,542	7,860	9,314
Memorandum items:								
GDP (nominal)	253,101	261,009	275,878	274,261	289,114	306,848	326,160	347,055
Wages in percentage of revenues	58.3	55.0	51.2	62.4	52.5	49.4	46.4	43.5

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

[1] Domestic revenue less current primary expenditure and domestically financed capital expenditure.

Table 2b. Comoros: Consolidated Government Financial Operations, 2014-20

(In percent of GDP, cumulative, unless otherwise indicated)

	2014	2015	2016		2017	2018	2019	2020
		Prel.		Proj.		Proj.		
Total revenue and grants	23.9	31.6	26.7	22.7	24.3	24.3	24.7	25.2
Revenues	14.5	16.5	17.5	14.4	16.0	16.5	17.0	17.6
Tax revenues	11.8	11.1	12.5	12.0	12.9	13.4	13.9	14.5
Direct and indirect taxes	9.8	9.7	10.7	10.4	11.3	11.8	12.3	12.8
Taxes on international trade and transactioı	2.1	1.4	1.7	1.6	1.6	1.6	1.7	1.7
Nontax revenues	2.7	5.4	5.0	2.4	3.1	3.1	3.1	3.1
External grants	9.4	15.1	9.3	8.4	8.3	7.8	7.7	7.6
Budgetary assistance	1.5	9.0	1.4	0.5	0.5	0.0	0.0	0.0
Projects (incl. techn. assist.)	7.8	6.1	7.8	7.8	7.8	7.8	7.7	7.6
Total expenditure and net lending	24.4	27.3	31.7	29.9	30.8	28.1	28.5	29.5
Current expenditure	16.4	17.3	17.9	17.4	16.1	15.8	15.6	15.3
Primary current expenditures	15.1	16.4	16.4	15.9	14.6	14.3	14.1	13.9
Wages and salaries	8.5	9.1	9.0	9.0	8.4	8.1	7.9	7.7
Goods and services	4.7	4.6	4.3	4.4	3.7	3.7	3.7	3.7
Transfers and pensions	2.0	2.6	3.2	2.5	2.5	2.5	2.5	2.5
Interest payments	0.1	0.0	0.2	0.2	0.3	0.3	0.3	0.3
External debt	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.3
Domestic debt	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Foreign-financed project maintenance	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Technical assistance	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Capital expenditure	8.0	8.4	12.0	10.7	13.0	12.2	13.0	14.2
Domestically financed investment	1.4	1.5	1.4	1.9	4.3	3.5	4.2	5.0
Foreign-financed investment	6.6	6.9	10.6	8.8	8.6	8.7	8.8	8.8
Net lending	0.0	1.5	1.9	1.9	1.8	0.0	0.0	0.0
Domestic primary balance [1]	-2.0	-1.4	-0.3	-3.5	-2.9	-1.4	-1.3	-1.3
Overall balance (commitment basis)	-0.5	4.4	-5.0	-7.2	-6.5	-3.8	-3.8	-4.3
Excluding grants	-9.9	-10.7	-14.3	-15.5	-14.8	-11.6	-11.5	-11.9
Change in net arrears	-0.2	-1.6	0.0	0.8	-0.7	0.0	0.0	0.0
External arrears	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears	-0.1	-1.6	0.0	0.8	-0.7	0.0	0.0	0.0
Repayment	-0.8	-2.7	0.0	0.0	-0.7	0.0	0.0	0.0
Accumulation	0.7	1.1	0.0	0.8	0.0	0.0	0.0	0.0
Float	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-0.8	2.9	-5.0	-6.4	-7.3	-3.8	-3.8	-4.3
Excluding grants	-10.1	-12.2	-14.3	-14.8	-15.6	-11.6	-11.5	-11.9
Financing	2.0	-1.4	5.0	6.4	3.1	1.3	1.4	1.6
Foreign (net)	0.9	3.3	5.3	3.2	3.1	1.3	1.4	1.6
Drawings, PIP (identified)	0.0	3.2	5.9	4.0	3.8	2.1	2.2	2.4
Amortization	0.7	-0.1	-0.6	-0.6	-0.7	-0.8	-0.8	-0.7
Change in net arrears (principal)	-0.7	0.2	0.0	-0.2	0.0	0.0	0.0	0.0
Exceptional financing	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears restructuring and deferral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current maturities restructuring and deferrı	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	1.1	-4.7	-0.3	3.2	0.0	0.0	0.0	0.0
Bank financing	1.1	-4.7	-0.3	3.2	0.0	0.0	0.0	0.0
Central bank	1.2	-4.6	-0.3	3.3	0.0	0.0	0.0	0.0
Of which: IMF (net)	0.0	0.0	-0.3	-0.3	-0.4	-0.5	-0.5	-0.3
Commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions/ Financing gap (+ = underf	-1.2	-1.5	0.0	0.0	4.1	2.5	2.4	2.7
Memorandum items:								
GDP (nominal)	253,101	261,009	275,878	274,261	289,114	306,848	326,160	347,055
Wages in percentage of revenues	58.3	55.0	51.2	62.4	52.5	49.4	46.4	43.5

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

[1] Domestic revenue less current primary expenditure and domestically financed capital expenditure.

Table 2c. Comoros: Consolidated Government Financial Operations, 2016-2017
(In millions of Comorian francs, cumulative, unless otherwise indicated)

	2016			2017			
	June	Sept	Dec.	March	June	Sept	Dec.
	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	27,967	44,975	62,351	18,861	36,548	52,336	70,247
Revenues	17,119	28,906	39,425	12,840	25,085	35,142	46,162
Tax revenues	14,888	24,129	32,911	10,492	20,041	28,599	37,241
Direct and indirect taxes	12,937	20,880	28,579	8,310	17,009	24,033	32,674
Taxes on international trade and transactions	1,951	3,249	4,332	2,181	3,032	4,566	4,566
Nontax revenues	2,231	4,777	6,514	2,348	5,045	6,543	8,921
External grants	10,847	16,069	22,925	6,021	11,463	17,194	24,086
Budgetary assistance	135	0	1,500	375	750	1,125	1,500
Projects (incl. techn.assist.)	10,713	16,069	21,425	5,646	10,713	16,069	22,586
Total expenditure and net lending	43,623	58,172	82,031	18,982	40,349	62,323	89,081
Current expenditure	26,393	32,450	47,596	9,561	20,264	30,579	46,425
Primary current expenditures	24,451	29,537	43,712	9,033	18,995	28,398	42,171
Wages and salaries	12,553	18,101	24,617	6,050	11,762	17,831	24,250
Goods and services	8,037	8,197	12,160	2,205	5,065	7,152	10,611
Transfers and pensions	3,860	3,239	6,935	777	2,168	3,415	7,310
Interest payments	322	483	645	210	419	629	839
External debt	226	339	453	159	318	477	637
Domestic debt	96	144	192	101	101	152	202
Foreign-financed project maintenance	611	917	1,223	0	0	0	1,289
Technical assistance	1,008	1,513	2,017	319	850	1,552	2,126
Capital expenditure	14,622	21,810	29,219	8,117	17,477	27,833	37,442
Domestically financed investment	2,612	3,795	5,198	1,866	4,976	9,081	12,439
Foreign-financed investment	12,010	18,016	24,021	6,251	12,502	18,752	25,003
Net lending	2,608	3,912	5,216	1,303	2,607	3,910	5,214
Domestic primary balance [1]	-9,943	-4,425	-9,485	1,941	1,115	-2,337	-8,448
Overall balance (commitment basis)	-15,656	-13,197	-19,680	-120	-3,801	-9,987	-18,833
Excluding grants	-26,504	-29,266	-42,606	-6,142	-15,264	-27,181	-42,919
Change in net arrears	1,071	1,607	2,133	-536	-1,071	-1,607	-2,142
External arrears	0	0	-9	n.a.	0	0	0
Domestic arrears	1,071	1,607	2,142	-536	-1,071	-1,607	-2,142
Repayment	-1,409	1,607	2,142	-536	-1,071	-1,607	-2,142
Accumulation	3,515	0	0	0	0	0	0
Float	-696	0	0	0	0	0	0
Overall balance (cash basis)	-14,585	-11,590	-17,547	-656	-4,872	-11,593	-20,976
Excluding grants	-25,433	-27,659	-40,473	-6,677	-16,335	-28,787	-45,061
Financing	14,384	14,029	17,547	0	0	0	9,150
Foreign (net)	5,195	7,522	8,660	0	0	0	9,150
Drawings, PIP (identified)	5,526	8,288	11,051	0	0	0	11,046
Amortization	-506	-943	-1,747	0	0	0	-1,896
Exceptional financing (arrears and deferred debt restructuring)	0	0	0	0	0	0	0
Change in net arrears (principal)	176	176	-645	0	0	0	0
Domestic (net)	9,189	6,507	8,887	0	0	0	0
Bank financing	9,189	6,507	8,887	0	0	0	0
Central bank	9,284	6,650	9,077	0	0	0	0
Commercial banks	-95	-143	-190	0	0	0	0
Errors and omissions/Financing gap (+ = underfinancing)	201	-2,438	0	656	4,872	11,593	11,825
Memorandum items:							
GDP (nominal)	274,261	274,261	274,261	289,114	289,114	289,114	289,114
Wages in percentage of revenues	73.3	62.6	62.4	47.1	46.9	50.7	52.5

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

[1] Domestic revenue less current primary expenditure and domestically financed capital expenditure.

Table 3. Comoros: Monetary Survey, 2014-20
(In Millions of Comorian francs, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020
		Prel.			Proj		
Net foreign assets	57,341	79,360	68,165	66,449	66,850	67,287	67,760
Central bank assets	69,400	90,889	78,735	75,834	74,426	72,725	71,553
Central bank liabilities	-12,632	-13,367	-12,544	-11,527	-10,118	-8,417	-7,246
Commercial banks assets	4,926	5,904	6,204	6,540	6,941	7,378	7,851
Commercial banks liabilities	-4,353	-4,067	-4,229	-4,399	-4,399	-4,399	-4,399
Net domestic assets	39,794	34,400	51,369	59,559	66,887	74,868	83,502
Domestic credit	67,379	64,139	81,709	89,899	97,227	105,207	113,842
Net credit to government	8,290	-4,264	4,285	3,292	1,871	180	-954
Of which: Treasury	13,261	7,819	10,234	9,241	7,819	6,128	4,995
Bank financing	8,290	-4,264	4,285	3,292	1,871	180	-954
Claims on government	16,039	12,062	10,711	9,718	8,296	6,605	5,472
Deposits at Treasury	-7,748	-16,325	-6,425	-6,425	-6,425	-6,425	-6,425
Claims on public enterprises	771	797	797	797	797	797	797
Claims on other financial institutions	-115	-197	-197	-197	-197	-197	-197
Claims on private sector	58,245	67,693	76,824	86,007	94,757	104,428	114,195
Other items net	-27,585	-29,740	-29,740	-29,740	-29,740	-29,740	-29,740
Of which: Long term liabilities	--	--	--	--	--	--	--
Broad money	97,135	113,759	119,535	126,009	133,738	142,155	151,262
Money	62,249	76,379	80,257	84,603	89,792	95,444	101,558
Currency in circulation	24,693	30,387	31,930	33,659	35,723	37,972	40,404
Demand deposits	37,556	45,992	48,327	50,944	54,069	57,472	61,154
Quasi-money	34,886	37,380	39,278	41,406	43,945	46,711	49,704
	(in percent of beginning period broad money)						
Net foreign assets	0.9	22.7	-9.8	-1.4	0.3	0.3	0.3
Net domestic assets	7.2	-5.6	14.9	6.9	5.8	6.0	6.1
Domestic credit	8.6	-3.3	15.4	6.9	5.8	6.0	6.1
Net credit to government	3.1	-12.9	7.5	-0.8	-1.1	-1.3	-0.8
Credit to public enterprises	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	5.9	9.7	8.0	7.7	6.9	7.2	6.9
Other items (net)	-1.3	-2.2	0.0	0.0	0.0	0.0	0.0
Broad money	8.1	17.1	5.1	5.4	6.1	6.3	6.4
Money	6.0	14.5	3.4	3.6	4.1	4.2	4.3
Quasi-money	2.1	2.6	1.7	1.8	2.0	2.1	2.1
Velocity (GDP/end-year broad money)	2.6	2.3	2.3	2.3	2.3	2.3	2.3
Credit to private sector (percent change)	10.0	16.2	13.5	12.0	10.2	10.2	9.4

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

Table 4. Comoros: Balance of Payments, 2014-2020

(Millions of Comorian francs, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020
		Prel.			Proj		
Current account	-21,743	1,557	-25,439	-29,165	-32,471	-35,193	-37,412
Goods and services	-84,636	-74,023	-82,642	-87,805	-90,398	-93,553	-99,138
Trade balance	-79,471	-74,480	-75,322	-79,959	-82,742	-86,017	-91,170
Exports	9,603	7,519	7,918	8,390	8,790	9,213	9,669
Of which: Vanilla	640	1,087	1,145	1,217	1,292	1,371	1,457
Cloves	5,145	3,057	3,255	3,458	3,670	3,895	4,141
Ylang-ylang	900	862	899	955	1,014	1,076	1,143
Other	2,918	2,513	2,619	2,759	2,814	2,871	2,928
Imports (f.o.b.)	-89,074	-81,999	-83,239	-88,349	-91,531	-95,230	-100,839
of which oil	-20,791	-19,057	-23,222	-24,651	-27,931	-26,960	-27,993
Services (net)	-5,165	457	-7,320	-7,846	-7,657	-7,535	-7,968
Receipts	31,599	37,123	39,450	41,933	44,584	47,414	50,434
Payments	-36,764	-36,666	-46,770	-49,779	-52,241	-54,949	-58,402
Income (net)	1,426	1,708	425	223	156	44	-40
Of which: Interest on rescheduled obligations	-43	-104	-453	-637	-734	-803	-870
Current transfers (net)	61,467	73,872	56,778	58,417	57,772	58,316	61,767
Government	6,891	25,879	7,345	7,502	5,329	4,300	4,516
Private [1]	54,576	47,993	49,432	50,915	52,443	54,016	57,251
Capital and financial account	22,038	26,850	12,808	19,644	25,392	27,749	28,532
Capital account	16,807	9,657	12,970	13,957	20,346	21,312	22,343
Capital transfers	16,807	9,657	12,970	13,957	20,346	21,312	22,343
Transfer of fixed assets	16,807	9,657	12,970	13,957	20,346	21,312	22,343
Financial account	5,231	17,193	-162	5,688	5,045	6,437	6,189
Direct investment	1,735	2,087	3,565	3,758	3,989	4,240	4,512
Net portfolio and other investment	3,496	15,106	-3,727	1,929	1,056	2,197	1,677
Government	-591	8,145	9,289	9,291	4,275	4,673	5,692
Drawings	0	8,424	11,051	11,046	6,444	7,261	8,165
Amortization	-591	-279	-1,762	-1,756	-2,168	-2,588	-2,473
Private sector (net)	4,087	6,961	-13,017	-7,361	-3,219	-2,476	-4,015
Banks, net	5,160	6,101	-137	-167	-401	-437	-473
Other	-1,074	860	-12,880	-7,194	-2,818	-2,040	-3,542
Errors and omissions	6,819	-7,285	0	0	0	0	0
Overall balance	7,114	21,121	-12,631	-9,520	-7,079	-7,444	-8,880
Financing	-7,114	-21,121	12,631	2,208	0	0	0
NFA of central bank (increase -)	-7,264	-21,489	13,285	2,208	0	0	0
Foreign assets	-7,264	-21,489	13,285	2,208	0	0	0
Foreign liabilities	0	0	0	0	0	0	0
Of which: Net IMF Credit	0	-64	-823	-1,018	-1,408	-1,701	-1,171
Net change in arrears	-2,257	368	-654	0	0	0	0
Clearance of deferred arrears and debt service							
Exceptional financing	2,407	0	0	0	0	0	0
Arrears restructuring and deferral	0	0	0	0	0	0	0
Current maturities restructuring and deferral	2,407	0	0	0	0	0	0
Financing gap	0	0	0	7,312	7,079	7,444	8,880
Memorandum items:							
Current account (percentage of GDP)	-8.6	0.6	-9.3	-10.1	-10.6	-10.8	-10.8
Excluding transfers	-32.9	-27.7	-30.0	-30.3	-29.4	-28.7	-28.6
Exports of goods and services (percentage of GDP)	16.3	17.1	17.3	17.4	17.4	17.4	17.3
Imports of goods and services (percentage of GDP)	49.7	45.5	47.4	47.8	46.9	46.0	45.9
Gross international reserves (millions of U.S. dollars)	186.0	204.0	177.8	171.7	169.3	166.8	164.5
In months of imports of goods and services	6.6	9.1	7.2	6.6	6.3	6.1	5.4
Nominal GDP (CF millions)	253,101	261,009	274,261	289,114	306,848	326,160	347,055.4
Nominal GDP (millions of U.S. dollars)	684	589	620	654	696	745	798

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

[1] From 2015, net private official transfers include estimates made by the Central Bank of Comoros of debit items other than wire transfers.

Table 5. Progress on the Millennium Development Goals, 2004-2014

	2004	2008	2009	2010	2011	2012	2013	2014
1 1. Eradicate extreme poverty and hunger								
1.1 Proportion of population below $1.25 (PPP) per day	46.1	n.a	n.a	n.a	n.a	n.a	n.a	n.a
1.2 Poverty gap ratio at $1.25 a day (PPP), percentage	20.8	n.a	n.a	n.a	n.a	n.a	n.a	n.a
2. Achieve universal primary education								
2.1 Proportion of pupils starting grade 1 who reach last grade of primary	71.3	79.8	n.a	n.a	n.a	n.a	73.8	n.a
2.2 Literacy rate of 15-24 year-olds, women and men	n.a	n.a	n.a	n.a	n.a	86.4	n.a	n.a
9 3. Promote gender equality and women empowerment								
3.1 Ratio of girls to boys in primary, secondary and tertiary education	0.88	0.92	n.a	n.a	0.85	n.a	0.94	n.a
3.2 Proportion of seats held by women in national parliament	n.a	3	3	3	3	3	3	3
4. Reduce child mortality								
4.1 Children under five mortality rate per 1,000 live births	99.1	90.8	88.2	85.5	82.8	80.2	77.9	n.a
4.2 Infant mortality rate (0-1 year) per 1,000 live births	71.4	66.1	64.5	62.8	61	59.4	57.9	n.a
4.3 Proportion of 1 year-old children immunized against measles, percentage	76	76	79	72	87	85	82	n.a
5. Improve maternal health								
5.1 Maternal mortality ratio per 100,000 live births	447	407	396	388	376	365	354	344
5.2 Proportion of births attended by skilled health personnel	n.a	n.a	n.a	n.a	n.a	82.2	n.a	n.a
5.3 Contraceptive prevalence rate	n.a	n.a	n.a	n.a	n.a	19.4	n.a	n.a
5.4 Antenatal care coverage, at least one visit, percentage	75	n.a	n.a	n.a	n.a	92.1	n.a	n.a
6. Combat HIV/AIDS, malaria and other diseases								
6.1 Proportion of population with advanced HIV infection with access to antiretroviral drugs	n.a	n.a	15	18.7	19	n.a	n.a	n.a
6.2 Incidence and death rates associated with malaria	n.a	n.a	n.a	n.a	n.a	70	n.a	n.a
6.3 Incidence, prevalence and death rates associated with tuberculosis	66	61	59	59	62	62	62	n.a
6.4 Proportion of tuberculosis cases detected and cured under directly observed treatment short course	42	60	57	n.a	49	49	48	n.a
7. Ensure environmental sustainability								
7.1 Proportion of land area covered by forest	n.a	n.a	n.a	1.6	n.a	n.a	n.a	n.a
7.2 Carbon dioxide emissions, total, per capita and per $1 GDP (PPP)	102.7	121	121	132	157.7	n.a	n.a	n.a
7.3 Consumption of ozone-depleting substances	1.2	0.1	0.1	0.1	0.1	0.1	0.1	n.a
7.4 Proportion of terrestrial and marine areas protected	n.a	n.a	n.a	n.a	n.a	n.a	n.a	2.38
8. Deevlop a global partnership for development								
8.1 Debt relief committed under HIPC and MDRI Initiatives								
Debt relief committed under HIPC initiative, cumulative million US$ in end-2009 NPV terms	n.a	n.a	n.a	n.a	n.a	n.a	161	n.a
Debt relief delivered in full under MDRI initiative, cumulative million US$ in end-2009 NPV terms	n.a	n.a	n.a	n.a	n.a	n.a	58	n.a

Source: United Nations, http://mdgs.un.org/unsd/mdg/data.aspx

Table 6. Comoros: Financial Soundness Indicators for the Banking Sector, 2011-2015
(percent)

	2011	2012	2013	2014	2015
Capital Adequacy					
Capital / Assets	23.4	20.3	20.9	21.9	21.7
Asset Quality					
NPLs / Gross Loans	16.9	20.2	19.6	21.3	21.7
Provisions / NPLs	57.4	66.4	65.6	60.7	61.2
NPLs Net of Provisions / Capital	17.8	23.5	25.1	30.6	33.2
Liquidity					
Liquid Assets / Total Assets	47.4	45.8	41.3	39.1	37.6
Liquid Assets / ST Liabilities	58.4	53.2	48.2	45.9	43.8
Loans / Deposits	63.5	60.5	66.7	69.2	70.6
Liquid Assets / Total Deposits	64.4	57.9	52.3	49.6	47.3
Profitability					
Return on Assets	n.a.	-0.9	1.0	0.8	0.8
Return on Equity	n.a.	-1.3	1.8	1.4	1.4
Exposure to FX Risk					
Foreign Exchange liabilities / total liabilities	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Central Bank of Comoros and IMF Staff preliminary calculations.

Annex I. Status of 2014 Article IV Main Recommendations

Areas	Recommendations	Actions/Status
1. Revenue Administration	Strengthen the management of the large tax payer list and reinforce tax compliance. Re-examine judiciously the use of the exemptions made.	Limited progress. The large tax payer list is unreliable and the stock of unpaid taxes continues to increase. Limited progress. Expect report commissioned by the World Bank.
2. Public Financial Management	Implement effective cash management and greater fiscal transparency.	Single treasury account established
	Reflect all government-related transactions, whether for revenue or spending, in the budget.	Limited progress. Offsets between the government and state-owned enterprises continue.
	Accelerate the implementation of the reform program developed with technical assistance from FAD and AFRITAC South.	Limited progress. Government is drafting an action plan to implement the main recommendations of recent TA missions
3. State Owned Enterprises	Bring competition in the telecommunications sector through the issuance of an additional license to bring down costs and improve service.	Second license issued
4. Business Environment	Include in the new poverty reduction strategy a strong private sector development component.	Limited progress in the absence of identified financing
5. Financial and banking sector	Continue to implement the temporary measures to keep the situation at the postal bank from worsening and work closely with the Fund to develop a resolution strategy.	Done
6. Energy Sector	Work closely with the World Bank and the African Development Bank to fashion a long-term solution to the energy supply crisis.	Ongoing
7. Economic data	Strengthen economic data gathering by providing adequate allocations to the new statistical agency.	Limited progress. Adequate budgetary allocations have not been forthcoming.

Sources: Comorian authorities and IMF staff.

Annex II. Comoros Risk Assessment Matrix (RAM)[1]

Nature/Source of Threat	Likelihood	Expected Impact on Economy	Staff Advice on Policy Responses
External Risks			
Decline in remittances A protracted economic slowdown in Europe reduces remittances from the diaspora in France	Low	Medium Reduction in consumption, investment, and imports. Somewhat slower economic growth and fiscal revenue. Pressure on reserves.	Enhance competitiveness of economy. Strengthen revenue mobilization
Decline in donor support Fiscal pressures in donor countries reduce availability of project grants.	Low	High Adverse impact on growth and provision of social services.	Strengthen revenue mobilization and prioritize spending in support of domestic investment and social support.
Weaker –than-expected global growth			
• **Structurally weak growth in key advanced and emerging economies:** Weak demand, low productivity growth, and persistently low inflation from a failure to fully address crisis legacies and undertake structural reforms, leading to lower medium-term path of potential growth (the Euro area, Japan, and the United States) and exacerbating legacy financial imbalances especially among banks (the Euro area) (high likelihood). Tighter financial conditions and insufficient reforms undermine medium-term growth in emerging markets (medium likelihood).	High / Medium	Medium Negative impact on remittances, exports, and FDI, with adverse implications for growth and fiscal revenue.	Enhance competiveness of economy. Strengthen revenue mobilization and re-prioritize spending.
• **Significant slowdown in other large EMs/frontier economies.** Turning of the credit cycle and fallout from excess household and corporate (FX) leverage as investors withdraw from EM corporate debt, generating disorderly deleveraging, with potential spillbacks to advanced economies.	Medium	Medium Negative impact on remittances, exports, and FDI, with adverse implications for growth and fiscal revenue.	Enhance competiveness of economy. Strengthen revenue mobilization and reprioritize spending
• **Significant China slowdown and its spillovers:** Key near term risks are a loss of investor confidence, disorderly corporate defaults, a sharp fall in asset prices, and a quicker fading of the stimulus impact. Weak domestic demand further suppresses commodity prices, roils global financial markets, and reduces global growth (Likelihood: low in short-term, medium thereafter).	Low / Medium	Medium Marginal effect on exports and FDI, with adverse implications for growth and fiscal revenue	Enhance competiveness of economy. Strengthen revenue mobilization and reprioritize spending.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Nature/Source of Threat	Likelihood	Expected Impact on Economy	Staff Advice on Policy Responses
Domestic Risks			
Policy developments Inaction on reining in the wage bill and improving tax collections	Medium	High A higher wage bill and plunging revenues would widen the projected financing gap.	Take decisive action to thoroughly overhaul the tax and customs administrations and compress public spending, especially on salaries.
Infrastructure Persistence of the electricity crisis	Medium	High Continued stagnation of economic growth.	Ensure effective leadership of the state electricity company. Subsidies for electricity production should be provided in a transparent manner and phased out over time.
Natural disasters	Medium	High Potentially large economic impact.	Limited options for mitigation. Enhance revenue mobilization to increase fiscal resources available for disaster recovery.

Annex III. Union of the Comoros—External Sector Assessment[1]

The overall current account balance recorded a surplus of 0.6 percent of GDP in 2015. Foreign exchange reserves increased to about 35 percent of GDP on the back of a one-off large grant from Saudi Arabia that was received in mid–December. Meanwhile, exports continued to stagnate against the background of a real effective exchange depreciation of about 16 percent. Statistical tools indicate that at end-2015, the external position of Comoros was broadly consistent with medium-term fundamentals; estimates of the real equilibrium exchange rate point to a small undervaluation. Yet Comoros' inhospitable business climate, including an ongoing energy crisis and persistent infrastructure bottlenecks, continues to hinder competitiveness.

A. External Sector - Recent Developments

1. The current account balance of Comoros switched from a deficit of 8.6 percent of GDP in 2014 to a *surplus* of 0.6 percent of GDP at end 2015. The key factors underlying this result were the receipt of revenues from the sale of a second telecommunications license to the Malagasy company TELMA, as well as a one-off budget support grant received from Saudi Arabia in mid-December 2015 (40 million Euros or 7.5 percent of GDP). The current account deficit excluding official and private transfers narrowed from 32.9 percent of GDP in 2014 to 27.7 percent of GDP. This was largely attributable to a decline in the value of imports and the subsequent narrowing of trade deficit, as well as increased services receipts.

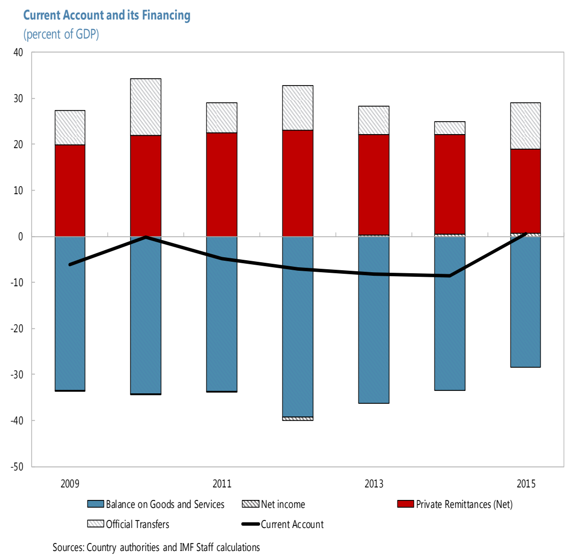
2. Foreign exchange reserves remained more-than-adequate at about 35 percent of GDP (9 months of imports of goods and services) at end 2015. Foreign exchange reserves at end 2015 were boosted by the receipt of the grant from Saudi Arabia. Absent this grant, reserves would have *decreased* by about 3 percent in 2015.

3. The real effective exchange rate depreciated in 2015, yet Comoros' export performance remained disappointing (Figure 1). The real effective exchange rate depreciated by about 16 percent in 2015. However, exports, which measured as a share of the economy are very low, showed no sign of improvement, having remained well below the average of non-oil exporters in Sub – Saharan Africa (SSA) since 2009. In comparison, peer countries boosted their export performance over this same period.

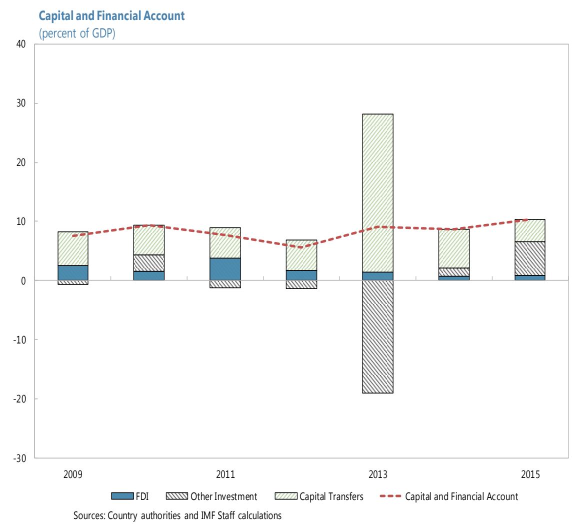
[1] Prepared by Cameron McLoughlin with assistance from Mounir Bari.

Figure 1. Comoros: Balance of Payments and the External Sector

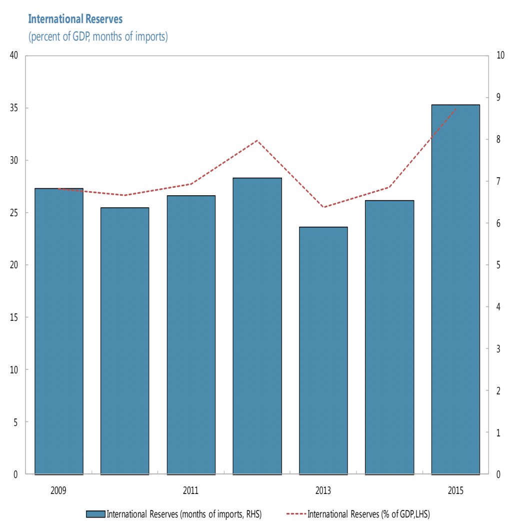
The trade deficit is financed principally by remittances.



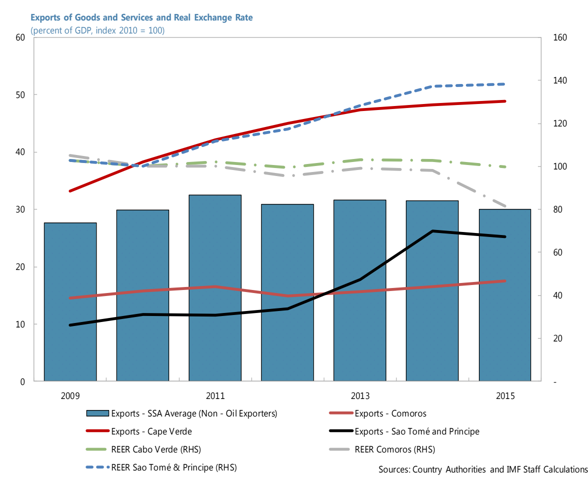
The capital and financial accounts are marked by limited FDI and debt relief in 2013.



Foreign exchange reserves are broadly adequate.



The real effective exchange rate depreciated in 2015, while exports continued to stagnate.



B. Exchange Rate Assessment

4. **Application of the EBA-lite toolkit[2] to Comoros suggests that at end 2015, the external position was broadly consistent with medium-term fundamentals.** In calculating the current

[2] Please see EBA Working Paper (WP/13/272) for technical background information.

account gap (the difference between the actual level of the current account and the estimated current account norm), the one-off grant from Saudi Arabia, which was received in mid-December and, therefore, was unlikely to impact external competitiveness, is excluded from both the current account and estimation of the current account norm. At optimal policies, the current account gap is small (Figure 2) and implies a real exchange rate misalignment of only -1.1 percent (Table 1). Although the IRER approach suggests an undervaluation of the real exchange rate of a larger magnitude, this estimate is subject to considerable uncertainty (large residuals) and should therefore be treated with caution.

Figure 2. Comoros: Estimates of Current Account Balance

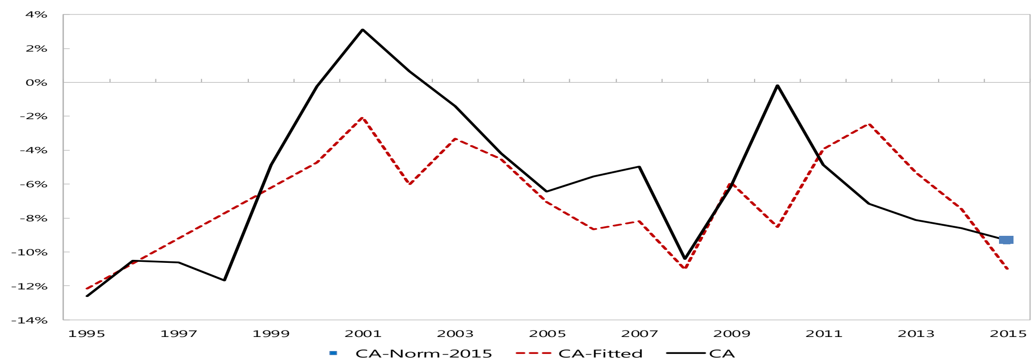


Table 1. Comoros: EBA-lite Exchange Rate Assessment

(percent)

	Norm	Underlying	Implied REER Deviation
CA model (CAB/GDP)	-9.4	-9.3	-1.1
IRER (log REER)	4.53	4.4	-13

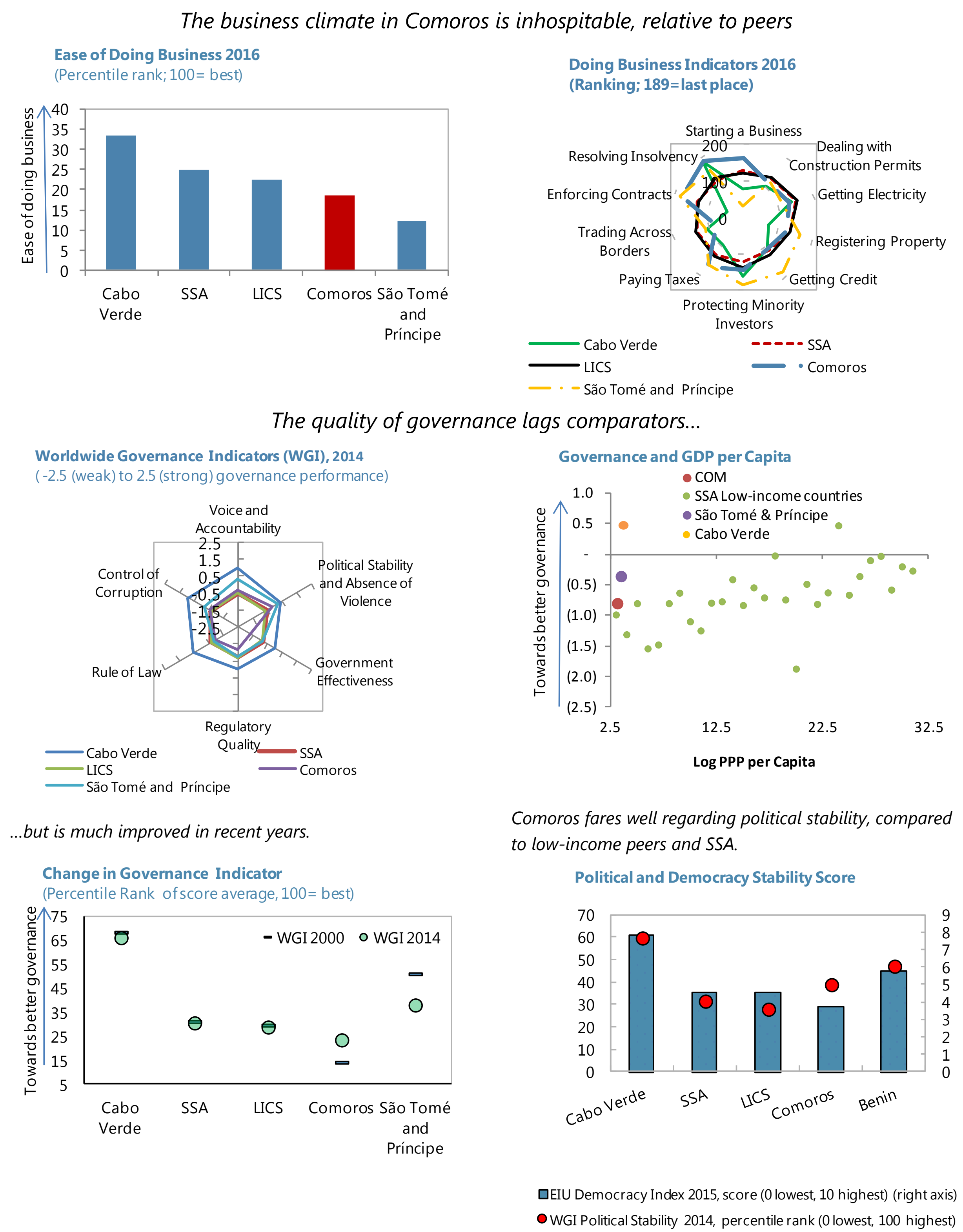
Source: IMF Staff Estimates

C. Indicators of Structural Competitiveness

5. Despite marginal improvements in the business climate in 2015, Comoros continues to face deep-seated and persistent competitiveness problems (Figure 3). On the back of improvements in the ease of starting a business and the ease of obtaining firm credit, in 2015 Comoros moved up five places in the World Bank Doing Business Indicators, to 154th place out of 189 countries. However, little progress was made in other key areas, for example in the ease of enforcing contracts, while other aspects of the business climate worsened. As such, Comoros, characterized by chronic infrastructure bottlenecks most notably in the electricity sector, continues to have one of the most inhospitable business climates amongst peer countries.

6. Improving the business climate is key to improving Comoros' medium-term competitiveness. The unreliability of the electricity supply is a brake on growth and must urgently be addressed. Improving other aspects of the business environment, such as the legal and judicial framework surrounding contract enforcement and insolvency resolution, is also critical for spurring private sector activity in the medium term.

Figure 3. Comoros: Selected Indicators of Business Environment and Governance



Appendix I. Letter of Intent

Moroni, Union of Comoros
November 15, 2016

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde:

1. The new government of Comoros has inherited a very difficult economic situation from the previous government, one that borders on crisis. Economic growth is lackluster and there is an acute shortage of jobs for the country's young population. The environment for economic activity is poor, with persistent electricity shortages, the main roads in an appalling state, and telecommunications services substantially inadequate. Notwithstanding the large budget support from Saudi Arabia at the end of 2015, the fiscal situation is serious with substantial financing gaps projected for 2016 and 2017 in the absence of corrective measures. However, even the strongest possible fiscal actions, given the fragile social context of Comoros, may prove insufficient to close the gaps. We are in urgent need of external support, from the International Monetary Fund (IMF), as well as from our other multilateral and bilateral partners.

2. The new government's immediate priority is to revive economic growth in the context of macroeconomic stability. To this end, we are committed to implementing strong fiscal measures in the second half of 2016 that should allow us to avoid wage and salary arrears and keep other arrears at a minimum. Through the 2017 budget we will implement additional measures that will further reduce the projected financing gap. We intend to seek external financial support for closing any remaining gap by convening a donors' conference in the first half of 2017.

3. The new government of Comoros is interested in obtaining a new three-year ECF arrangement with the IMF as soon as possible to help us maintain economic stability and make progress towards inclusive growth and poverty reduction over the medium term in line with the country's poverty reduction strategy (Strategy for Accelerated Growth and Durable Development, 2015-19, SCA2D). We are in the process of adjusting the strategy to better reflect the new government's focus on strengthening the basis for accelerated economic growth through infrastructure investment in the electricity, road, and telecommunication sectors. However, we recognize that, before we can move to a new program, we need to establish a track record of strong policy implementation and that, for this purpose, we will need close engagement with IMF staff, notably concerning the formulation of strong fiscal measures for the remainder of 2016 and for the 2017 budget, as well as the design of a reform program focused on revenue administration (RA) and public financial management (PFM). We, therefore, request that IMF staff monitor the implementation of our economic program covering the period October 1, 2016 through March 31, 2017.

4. We believe that the policies and measures set out in the attached memorandum of economic and financial policies (MEFP) are adequate to achieve the objectives of our program, but we will take any further measures that may become necessary for this purpose. We will consult with IMF staff prior to any revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations. We will continue to provide to IMF staff the information required to monitor accurately the staff-monitored program on a timely basis. We agree with the publication by the Fund of these documents.

Sincerely yours,

/s/	/s/
Said Ali Chayhane	Mzé Abdou Mohamed Chanfiou
Minister of Finance	Governor, Central Bank of Comoros

Attachments:

I. Memorandum on Economic and Financial Policies (MEFP)

II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

I. Introduction

1. The new government is committed to pursuing policies that will lead to accelerated and inclusive economic growth and sustainable development over the medium term, as laid out in the country's poverty reduction strategy *Stratégie de croissance accelérée et de développement durable, 2015-2019* ("Strategy for Accelerated Growth and Durable Development, SCA2D) adopted in 2015. The strategy is based on strengthening the foundations for strong, sustainable, and inclusive economic growth, improving the quality of life of the population and guaranteeing equitable access to social services, preserving the country's natural and cultural heritage and promoting the optimal utilization of natural resources, and strengthening good governance. We recognize that a stable macroeconomic environment is a prerequisite for attaining these objectives. However, to improve on the initial performance under the strategy, the new government feels that some re-prioritizing is needed, particularly toward greater focus on infrastructure investment in the electricity, road, and telecommunications sectors. The poor state of affairs is significantly hampering existing economic activity and undermining the attractiveness of Comoros as an investment destination.

2. This memorandum of economic and financial policies lays out the Comorian government's macroeconomic and structural policies for the period through end-2017, with a particular focus on the period through March 31, 2017, covered by the requested staff-monitored program (SMP).

II. Economic Context

3. The new government has inherited a precarious economic situation. Economic growth has been lackluster in recent years, of the order of 2 percent per annum and below the rate of population growth. There is serious shortage of job opportunities for the young population of Comoros. The factors behind this poor growth performance include the persistent electricity shortages and the slower-than-expected implementation of the foreign-financed public investment program (PIP). Inflation, although somewhat volatile, has remained broadly contained at around 2 percent per annum, anchored by the exchange rate peg to the euro. Moreover, the large trade deficit continues to be broadly covered by remittances from the diaspora and project grants. The international reserve position was greatly bolstered by the Saudi Arabian budget grant at the end of 2015.

4. The immediate outlook for the Comorian economy points to continued challenges ahead. While the electricity situation has improved somewhat because of an improved supply of fuel to the state-owned electricity company (MAMWE), it is far from resolved. Furthermore, the PIP continues to encounter delays in financing and execution. Against this background, the government assumes that the real GDP growth rate will be 2.2 percent in 2016. Through considerable additional investment in the electricity sector, as well as in other infrastructure sectors,

the government foresees a gradual acceleration of the growth rate to 3.5-4 percent over the medium term.

5. The fiscal situation and outlook are difficult. The previous government used most of the budget grant from Saudi Arabia in the amount of €40 million (7.5 percent of GDP) to clear the wage and salary arrears that had been accumulated in the course of 2015 and remain broadly current on its obligations through the end of May 2016 when the new government came to power. With the recourse to additional domestic financing exhausted, the very large imbalance between domestic revenue mobilization and current spending obligations, has made itself felt with enormous force. A baseline projection based on the continuation of the trends observed in the first half of 2016 points to financing gaps of 3-4 percent of GDP in 2016 and 7-8 percent in 2017. With the wage bill absorbing 80-90 percent of tax revenue in the first half of 2016, this situation is obviously unsustainable.

III. Fiscal Policy

A. Commitment to Growth in the Context of Fiscal Stability

6. The new government's overriding objective is to accelerate inclusive economic growth through the creation of fiscal space for investment in infrastructure investment that improves the operating environment for the productive sectors of the economy. The government is acutely aware that this requires that the imbalance between domestic revenue mobilization and current spending needs to be radically redressed. The government's long term objectives are to raise domestic revenues by 50 percent and reduce public spending by 40 percent and has appointed commissions with Union and island representatives to develop proposals to these ends. However, the government recognizes that short-term options are much more limited partly because of the need to take into account the fragility of Comorian society when considering measures to reduce the wage bill. The government also recognizes that fiscal stability predicated on balance between available resources and spending is a precondition of the macroeconomic stability required for sustained growth. It is against this background that the government has decided on its fiscal policy measures for the remainder of 2016 and 2017.

IV. Remainder of 2016

7. For the remainder of 2016, the government's objective is to avoid incurring arrears on wages and salaries, and minimize other arrears to the extent possible. The revenue and spending measures and their impacts are itemized in Table 1.

8. The revenue measures focus on (i) immediately improving the effectiveness of tax administration and customs through strengthened leadership; (ii) new measures, including the application of a 5 percent consumption tax on telecommunication services, the elimination of all discretionary tax exemptions, and the application of a tax on external business services; and

(iii) ensuring that the profitable state-owned enterprises contribute additional dividends to the treasury.

9. On the spending side, the focus is on (i) eliminating unnecessary and irregular spending on goods and services; and (ii) containing the wage bill in the short-term by cancelling all employment contracts granted since January 1, 2016.

10. At this time, the government does not expect to receive any external budget support beyond the US$3 million anticipated from the World Bank. Moreover, the government's general policy is to use one-off resource, such as from occasional budget support grants such as the one from Saudi Arabia, for one-off expenditure, such as state-enterprise restructuring, or for building buffers against external shocks, including natural disasters. We have, therefore, agreed to an adjustor for the use of un expected external budget support that limits the use of such support to one-half of the amount received (quantitative indicator, Table 2).

11. These measures should allow the government to fully pay all wages and salaries due in 2016, leaving only a small financing gap (about ½ percent of GDP) resulting in the accumulation of arrears of the same magnitude.

A. Budget for 2017

12. The government is in the process of preparing a budget proposal for 2017 based on the macroeconomic framework agreed with IMF staff. It is based on a realistic but ambitious revenue target. It also aims to further contain the public sector wage bill through better control of the number and salaries of public sector employees at both Union and island levels. With the measures outlined in Table 1 and based on the further revenue administration and public financial management reforms outlined below, the projected financing gap has been significantly reduced from that of the baseline, to 2-3 percent of GDP, for which we intend to seek external budget support through a donors' conference, which the government is planning for the first half of 2017.

B. Revenue Administration

13. The new government underscores its firm commitment to revenue administration (RA) reform. It recognizes that, at the institutional level, both the general tax administration (AGID) and customs administration need to be strengthened and has already taken steps to this end although more is needed.

14. In designing revenue administration reforms, the government has taken its lead from IMF tax administration TA provided in July 2016. The main near-term reforms are listed in the structural measures table (Table 3) and include (i)concentrating the tax treatment of all large companies, including state-owned enterprises, in the large tax payers unit on Ngazidja (Grande Comore); (ii) expanding the lists of large and small and medium-sized tax payers and ensuring that those on the lists pay their taxes; and (iii) introducing a clear classification system, interfaced with the information system Sydonia, as a first step to improving the management of the tax and customs

exemption regime. A comprehensive program with additional reforms based on the provided TA is being developed.

V. Public Financial Management

15. The new government aims to build on progress already made in strengthening public financial management (PFM) by focusing on strengthening control of the wage bill and addressing remaining weaknesses relating to cash management and budgeting and budget execution, as well as transparency (structural measures, Table 3). In particular, we will (i) ensure that the central registry of public sector workers (GISE) covers the Union and the three islands and that only workers in the registry are paid; (ii) strengthen the preparation of the table for central government financial operations (TOFE); (iii) undertake a comprehensive audit of domestic arrears at the Union level; and (iv) ensure that all receipts from the single tax on petroleum products (TUPP) accrue to the single treasury account and that all of the offsets between the government, the state-owned oil importing company (SCH), and the state-owned electricity company (MAMWE) are eliminated. Moreover, the treasury and central bank will organize monthly meetings to reconcile treasury cash flow data with bank data.

VI. Debt Management

16. The new government is committed to a prudent debt management strategy. It recognizes that Comoros' rating of moderate risk of debt distress provides some scope for additional external borrowing. Presently, apart from a concessional loan from the Export-Import Bank of India of US$33 million for the construction of a heavy fuel oil electricity generation plan, and a US$32 million loan from China to strengthen the domestic telecommunications infrastructure, the government has neither contracted nor guaranteed any other external loans. For the foreseeable future, the government will continue to borrow only on concessional terms and only for high-priority projects that bring a clear economic benefit based on thorough feasibility studies and after consultations with the staffs of the IMF and the WB.

17. The new government is committed to meeting its external debt service obligations on time and in full. To this end, the government has instructed the Treasury to clear all remaining external arrears by the end of 2016 and thereafter to pay all debt service as it falls due in close collaboration with the Debt Department of the Ministry of Finance and the central bank. To formalize this process, the central bank will develop a foreign exchange cash flow table that incorporates all debt service payments due by end-2016 for which the treasury will issue a standing payment order (structural benchmark, Table 3)

VII. Monetary and Financial Sector Policy

18. The new government attaches great importance to Comoros' monetary cooperation agreement with France which simultaneously pegs the Comorian Franc to the euro and anchors fiscal policy through the ceiling on statutory advances from the central bank to the treasury based

on the average of internal revenue over the previous three years. The government envisages no changes to these arrangements.

19. The central bank (BCC) remains committed to further strengthening banking supervision and the monitoring of financial sector stability. The government and the BCC will also continue to closely monitor developments in the postal bank (SNPSF), including through participation in a government committee established to make proposals on how the bank's difficulties can be resolved. The government is committed to preparing an action plan for the resolution of the bank's difficulties by March 31, 2017 (structural benchmark, Table 3).

20. The central bank will also continue working closely with the Ministry of Justice to address weaknesses in the application of the legal provisions with respect to the recovery of doubtful and disputed receivables, which currently is a serious impediment to the ability and willingness of the banks to extend credit.

VIII. Energy Sector

21. The new government is keenly aware that persistent electricity shortages and blackouts are significant obstacles to economic growth and development in Comoros and is determined to overcome them as soon as possible. For immediate relief, the government has purchased several diesel-fueled generators with a combined capacity of 25 MW. The government expects to take delivery of these generators in early 2017 and pay for them from budgetary resources in the same year. The government has also affirmed its support for the heavy-fuel plant being financed with a concessional loan from the EXIM Bank of India. These two projects will provide a firm supply foundation for the electricity sector in Comoros over the medium term.

22. The government is also working with the World Bank and African Development Bank on a longer term strategy to strengthen the technical, management, and commercial capacity of MAMWE and minimize the dependence on expensive diesel oil for electricity generation by diversifying to solar, wind, and geothermal energy.

IX. Telecommunication Sector

23. The government is committed to lowering the cost and improving the quality of telecommunication services in Comoros through increased competition. To this end, the government will provide a level field of competition between Comores Telecom and TELCO, the holder of the new telecommunications license. We expect the new company to begin to offer services to customers once it has made the requisite investments in infrastructure in late 2016.

X. Economic Data

24. The government recognizes that Comorian economic data have serious shortcomings and deficiencies in all sectors that hamper economic analysis and policy formulation and

implementation. The government is committed to ensuring that INSEED will have sufficient resources to collect timely price data and to continue its updating of the national accounts.

XI. Program monitoring

25. The staff-monitored program (SMP) will be monitored based quantitative indicators (Table 2) and structural measures (Table 3). The first review will be based on targets for December 31, 2016 and the second on targets for March 31, 2017.

Table 1. Comoros: Impact of Fiscal Measures Relative to Baseline, 2016-2017
(in billions of Comorian francs)

	2016	2017
Total	**8.1**	**12.8**
(in percent of GDP)	(3.0)	(4.4)
Revenue	**5.1**	**8.0**
Tax administration	0.2	0.9
Customs	0.6	1.6
New measures	2.3	2.5
Telecommunications tax	1.3	1.5
Limitation of exemptions	0.5	0.5
Tax on foreign business services	0.5	0.5
Dividends of state enterprises	2.0	3.0
Expenditure	**3.0**	**4.8**
Cancellation of unnecessary spending	2.5	2.6
Reductions in wage bill	0.5	2.2

Source: Comorian authorities and IMF staff.

Table 2. Comoros: Indicative Targets Under Staff-Monitored Program [1]

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

	Dec. 2016	March 2017
1. Floor on total tax revenues	32,911.2	10,491.5
2. Ceiling on net domestic credit to government (NCG)[2]	9,887.2	1,000.0
3. Floor on domestically financed social spending	13,560.2	3,039.7
4. Ceiling on the accumulation of new domestic payments arrears, net	2,142.4	0.0
5. Ceiling on new nonconcessional external loans contracted or guaranteed by the government[3]	0.0	0.0
6. Ceiling on new short-term external debt contracted or guaranteed by the government[3]	0.0	0.0
7. Ceiling on accumulation of new external debt service arrears[3]	0.0	0.0
8. Floor on payment of external debt service arrears	644.5	0.0
Memorandum item:		

The governement has no plan for additional concessional external borrowing during the period coverd by the SMP. The government will consult with the IMF and World Bank should there be a change to this plan.

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

[2] The ceiling on net credit to government for December 2015 will be lowered by half of the amount of budget support in excess of KMF 1500 million in 2016 and for March 2017 by half of any budget support received in the first quarter of 2017.

[3] Monitored on a continuous basis.

Table 3. Comoros: Structural Measures for Staff-Monitored Program

Measure	Purpose	Implementation Date
1. Concentrate the tax treatment of all large companies, including state-owned enterprise in the Large Tax Payers Unit on Ngazidja in line with FAD TA.	Enhance revenue mobilization.	December 31, 2016.
2. Expand the lists of large and small and medium-sized taxpayers and ensure that those on the lists pay their taxes in line with FAD TA.	Enhance revenue mobilization.	December 31, 2016.
3. Introduce a clear classification system interfaced with Sydonia as first step to improve the management of the tax and customs exemption regime in line with FAD TA.	Enhance revenue mobilization.	December 31, 2016.
Public Financial Management		
4. Ensure that all receipts from the unique petroleum tax (TUPP) accrue to the single treasury account and that all offsets between the government, the state-owned oil import company (SCH), and state-owned electricity company (MAMWE) are eliminated.	Strengthen cash management; enhance transparency.	December 31, 2016.
5. Strengthen preparation of the table for central government financial operations (TOFE) in line with STA TA.	Improve fiscal policy design and montoring and enhance transparency	March 31, 2017.
6. Undertake a comprehensive audit of domestic arrears as of June 30, 2016.	Strengthen budget execution; enhance transparency.	March 31, 2017.
7. Ensure that the central registry of public sector workers covers the Union and all three islands and that only workers in the registry are paid.	Control wage bill.	December 31, 2016.
Financial Sector		
8. Adopt action plan for resolving the problems of the state-owned postal bank (SNPSF) in line with MCM TA.	Strengthen financial system and stability.	March 31, 2017.
Debt Management		
9. Develop a foreign exchange cash flow table that incorporates all debt service payments due by end-2016 for which the treasury will issue a standing payment order	Strenghthen Debt Management	December 31, 2016.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the concepts and data reporting procedures mentioned in the Memorandum on Economic and Financial Policies (MEFP) for the Staff Monitored program covering the period October 1, 2016-March 31, 2017, prepared by the authorities of the Union of the Comoros. It describes more specifically: (a) definitions and computation methods; (b) quantitative targets; and (c) adjusters of the quantitative targets; (d) structural measures; (e) reporting procedures; and (f) other commitments taken within the framework of the MEFP.

I. DEFINITIONS AND COMPUTATION METHODS

2. Unless otherwise indicated below, the term **government** is meant to include the government of the Union of the Comoros and the autonomous island governments. Local governments, the central bank, and any government-owned entity with independent legal status are excluded from the definition of government. The units covered under this definition of government are consolidated for purposes of the program.

3. **Total tax revenue** is tax revenue as defined in the Government Finance Statistics Manual of 2001 (GFSM 2001, Chapter 5) and is recorded on a cash basis. Proceeds from the Economic Citizenship Program and asset sales as well as external grants are not considered government revenue for the purposes of measuring revenue performance under the program.

4. **Total government expenditure** is the sum of expenditure on wages and salaries of government employees, goods and services, transfers (including subsidies, grants, social benefits, and other expenses), interest payments, and capital expenditure. With the exception of capital expenditure, which is defined as in GFSM 1986, all other spending items are defined as in GFSM 2001 (paragraphs 6.1-6.88). Total government expenditure also includes expenditure executed before payment authorization and not yet regularized. 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").

5. **Domestically-financed social spending** is defined as health and education expenditures based on the 2015 fiscal outturn. 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.

6. The **consolidated domestic primary fiscal balance** (payment order basis) is calculated as total government revenue (defined above), less expenditure, excluding interest payments, and foreign-financed technical assistance and capital expenditure. The **consolidated fiscal balance** (cash basis) is calculated as the difference between total revenues and grants and total spending, including net lending and net changes in arrears.

7. **Net domestic credit to the government** is defined as overall net credit extended to the government from domestic bank and non-bank sources as recorded in the central bank's net credit to government table. 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 commercial bank credit, as well as net deposits at the SNPSF. For purposes of program monitoring, net credit to the government excludes net credit to the IMF and movements in donor accounts at the central bank beyond the control of the government.

8. **Debt** is defined as in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 6230-(79/140), as amended by Executive Board Decision No. 14416-(09/91), effective December 1, 2009), but also includes contracted or guaranteed commitments by the government for which value has not been received.

9. **Loan concessionality** is assessed on the basis of the grant element of a debt. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent. The grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt using a unified discount rate of 5 percent.

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

11. **External payments arrears** are defined as the sum of payments due (including interest) but unpaid on outstanding external debt 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.

II. QUANTITATIVE TARGETS AND ADJUSTERS

12. The **quantitative targets of the program are** specified in Table 2 of the MEFP. Unless stated otherwise, all quantitative targets will be assessed **cumulatively** from the beginning of the calendar year to which they apply.

- **A floor on government tax revenues.**

- **A ceiling on net domestic credit to the government.** For program monitoring purposes, this ceiling will be adjusted downward for one half of budget support in excess of KMF 1,500 million before end-December 2016 and one half of any budge support received in the first quarter of 2017.

- **A floor on domestically financed social spending.**

- **A ceiling on the accumulation of domestic payment arrears by the government** of KMF 2001.1 million by end-December 2016 and zero by end of the first quarter 2017. This ceiling will be assessed continuously**.**

- **A zero ceiling on the accumulation of external payments arrears by the government.** This ceiling will be assessed continuously**.**

- **A ceiling on the contracting or guaranteeing of debt by the government on non-concessional terms.** Normal short-term import credits (e.g., revolving credit lines) are excluded, these being self-liquidating operations because the sales of imports are used to repay the debt. This ceiling will be assessed continuously**.**

- **A ceiling on the contracting or guaranteeing of new short-term external debt.** Short-term debt refers to debt with an original maturity of one year or less. Normal short-term import credits (e.g., revolving credit lines) are excluded, these being self-liquidating operations because the sales of imports are used to repay the debt. This ceiling will be assessed continuously**.**

- **A floor on the payment of external debt service arrears** by end-December 2016 of KMF 644.5 million.

III. REPORTING REQUIREMENTS AND ADDITIONAL INFORMATION

13. The authorities will report to Fund staff the following information and data according to the schedule provided, directly or through the Cellule des reformes economique et financiere (CREF). 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 as soon as they become available but 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. Provisional calculation of net credit to the government for the month.
- Data on tax revenues by category. A copy of the cash plan.

- 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).

- Foreign cash flow of the central bank.

- Consumer price index.

Quarterly:

- Fiscal data, including on revenue, grants, expenditure, net lending and credit to the government and implementation of externally financed public investment plan.

- Production and exports of major agricultural products (vanilla, cloves, ylang-ylang).

- Banking system prudential indicators.

Annually:

- National accounts data.

- Balance of payments data

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

November 21, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION; AND STAFF-MONITORED PROGRAM—INFORMATIONAL ANNEX

Prepared By

African Department

CONTENTS

RELATIONS WITH THE FUND

(As of October 31, 2016)

Membership Status: Joined September 21, 1976 Article VIII

General Resources Account:	**SDR Millions**	**% Quota**
Quota	17.80	100.00
Fund holdings of currency	15.00	84.29
Reserve position in Fund	2.80	15.75

SDR Department:	**SDR Millions**	**% Allocation**
Net cumulative allocation	8.50	100.00
Holdings	8.25	97.07

Outstanding Purchases and Loans:	**SDR Millions**	**% Allocation**
ECF Arrangement	11.41	64.13

Latest Financial Arrangements :

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Sep. 21, 2009	Dec. 23, 2013	13.57	13.57
SAF	Jun. 21, 1991	Jun. 20, 1994	3.15	2.25

[1/] Formerly PRGF

Overdue Obligations and Projected Payments to Fund [2/] (SDR millions; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2016	2017	2018	2019	2020
Principal	0.00	1.62	2.25	2.71	1.87
Charges/interest	0.00	0.00	0.00	0.02	0.01
Total	0.00	1.62	2.25	2.73	1.88

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Enhanced framework

I. Commitment of HIPC assistance	
Decision point date	July 2010
Assistance committed	
by all creditors (US$ Million) [1/]	144.80
Of which: IMF assistance (US$ million)	4.27
(SDR equivalent in millions)	2.89
Completion point date	December 2012
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	2.89
Interim Assistance	-
Completion Point balance	2.89
Additional disbursement of interest income[2/]	0.07
Total disbursements	**2.97**

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Summary of Safeguards Assessment. The last safeguards assessment was conducted in 2010. The BCC continues to publish its annual audited financial statements, but has not yet implemented International Financial Reporting Standards (IFRS). The assessment also recommended that the bank establish an internal audit function, progress on which has been slow. IX. Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable.

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

Article IV Consultation: The last Article IV consultation was concluded on February 4, 2015 (Country Report No. 15/34). Directors welcomed Comoros's improved policy implementation and economic performance in recent years. However, they noted that significant challenges remained - including high poverty, inadequate infrastructure, and vulnerabilities characteristic of small island economies. They saw achieving fiscal stability as a key near-term objective, encouraging the authorities to strike a better balance between available resources and expenditures and calling for efforts to strengthen revenue mobilization and public financial management by implementing quick-win reforms in both areas. Directors also cautioned against excessive reliance on the potentially volatile proceeds from the Economic Citizenship Program. They further stressed the need to develop the financial sector and expedite the pace of structural reforms in order to boost external competitiveness and growth prospects.

Recent Technical Assistance

Department	Date	Subject
FAD	Oct-14	Assist authorities designing, developing & implementing taxpayer register
MCM	Nov-14	Strengthening Banking Supervision and Regulation
FAD, AFS	Nov-14	Budget Preparation Manual
FAD, AFS	Nov-14	Budget Preparation and Presentation
FAD, AFS	Nov-14	Cash Management
FAD, AFS	Jan-15	Cash Management
FAD, AFS	Jan-15	Cash Management and Government Banking Arrangements
FAD, AFS	Mar-15	Cash Management
FAD, AFS	May-15	Cash Management and Government Banking Arrangements
FAD, AFS	Jul-15	Building Macro Fiscal Capabilities
LEG, AFS	Aug-15	Customs Tax Legislation
FAD, AFS	Oct-15	Customs Administration
AFS, MCM	Jan-16	Risk Based Supervision
MCM	Jan-16	Bank Supervision and Regulation
STA	Jan-16	Balance of Payments Statistics
FAD	Jan-16	Treasury Single Account
FAD	Jan-16	TADAT Assessment of the Comoros Tax Authority
FAD/AFS	Mar-16	Strengthen Customs Control on Non-Petroleum Excisable Goods Including Exemptions
MCM	Apr-16	Revisions to the Banking Law and Strengthening the Operational Framework for Monetary Policy
MCM	Apr-16	Bank Restructuring
STA, AFS	Apr-16	National Accounts
STA	Jun-16	Government Finance Statistics

FAD/AFS	Jun-16	Development of Customs Code Regulations - Offsite
FAD	Jul-16	Revenue Administration

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.

JOINT WORLD BANK-IMF WORK PROGRAM, 2016–2017

TITLE	Products	Provisional timing of mission	Expected delivery date
	A. Mutual information on relevant work programs		
	1. Development Policy Operations	Appraisal 12/20/2016	February 2017
	2. Statistics Project	Appraisal 10/04/2016	January 2017
	3. Electricity Sect. Recovery (AF)	Appraisal January 2017	April 2017
	4. Financial Sector Development & Implementation Plan - TA		December 2016
	5. Strengthening Social ProtectionTA.		February 2017
	6. CL4D- Multi-stakeholder leadership TA.		December 2016
Bank work program in next 12 months	7. Poverty Assessment EWt.		
	8. DeMPA and MTDS training TA		May 2017
	9. From Remittances to Savings TA		November 2016
	10. Action plan for targeting and UHC AA		June 2017
	11. Revenue management NLTA AA		
			May 2017
			October 2017

IMF work program in next 12 months	2014 Article IV Consultation	November 2014	January 2015: Board meeting
	B. Requests for work program inputs		
Fund request to Bank	Update on Bank's assistance in the area of PFM reforms and PRSP implementation and energy sector reforms		Continuous
Bank request to Fund	Sharing macro-framework updates; policy notes produced in the area of monetary and fiscal policy, and AFRITAC reports on PFM support.		Continuous

Comoros: Recent World Bank Operations

Project	Type of Funding	Amount Approved (in mln. of US$)	Date Approved	Description
Coastal Resources Co-management for Sustainable Livelihood	TF	2.73	4/5/2011	Grant to increase access to revenues and to basic social services in the fishing community of the recipient's territory.
Second Economic Governance Reform	IDA Grant	3.0	06/02/2015 3/28/2013	To improve economic governance & transparency, and competition & management of the electricity and ICT sectors
Electricity Sector Recovery project	IDA Grant	5.0	6/9/2013	To contribute to the improvement in the electricity sectors' commercial & financial performance.
Regional Telecom Project	IDA Grant	22	9/10/2013	To support the Recipient's efforts to lower prices for international capacity and extend the geographic reach of broadband networks

Economic Governance TA Project	IDA Grant	5.3	11/12/2013	Grant to increase the efficiency, accountability and transparency of public financial management and to improve the management of civil service human resources and wages.
Social Safety Net Project	IDA Grant	6.0	3/19/2015	Provide poor communities with access to safety net and nutrition services.
South West Indian Ocean Fisheries Governance	IDA Grant Regional IDA TF	1.2 8.3 3.5	4/30/2015	Grant to boost regional cooperation and integration in the fisheries sector.
Development Policy Operation (pipeline)	IDA Grant	3.00	02/20/2017	To enhance fiscal management and the conditions for economic growth
Statistics Project (pipeline)	IDA Grant	2.50	01/09/2017	To strengthen the capacity of the National Office to improve the production & dissemination of Statistics
Electricity Sect. Recovery-AF (Pipeline)	IDA Grant	6	04/05/2017	To contribute to the improvement in the electricity's sector commercial and financial performance

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP

A. Bank Group's Support in Comoros

1. The African Development Bank Group (AfDB) started its operations in Comoros in 1977 and has since then approved seventeen (18) operations and one (2) economic and sector work (ESW). Cumulative Bank Group commitments net of cancellation amounted to UA 78.26 million as of October 2016. These operations targeted the public sector and were mainly financed from ADF resources (87.6 percent). One (1) port infrastructure project was financed through the ADB window for a net UA 9.67 million representing 12.4 percent of total net commitments. In addition, the AfDB approved three (3) emergency operations to assist in mitigating the adverse impact of the food crisis in 2008 (UA 1.5 million) and support victims of floods in 2009 and in 2012 (UA 1.28 million). Since 2009, in addition to the ADF, Comoros are eligible for Pillars I and III of the Fragile States Facilities (FSF), on which they have received additional resources of UA 21.46 million. On the Pillar I, Comoros received UA 10 million in ADF 12 and UA 15 million in ADF 13 e), respectively addressed to support Energy Sector in the ADF 12 and Road sector in the ADF 13. The resources on Pillar III have supported the statistical capacity building in the PRCI (UA 595.000), the preparation of SCA2D (UA 241.000), and recently the assistance to private sector (UA 625.000). In November 2015, the Bank approved a PRCI phase 2 under the resources of pillar I of TSF (UA 6 million)

2. Overall, AfDB operations in Comoros have been mainly directed toward supporting economic-related infrastructure, support to public finances and improvement of rural livelihoods. They have primarily concerned Energy sector (69.89 per cent), and multi-sector (30.10 percent).

B. Strategic Orientation

3. The Bank Group concretely re-engaged in Comoros in 2010 following the resolution of the Anjouan crisis and the lifting of sanctions in February 2009 after clearance of its arrears with the Bank. A two-year Interim Country Strategy Paper (I-CSP) 2009-2010 focusing on economic and financial governance and water and sanitation was approved in April 2009. In December 2011, the Board of the AfDB approved a full Country Strategy Paper (CSP) for 2011–2015 based on a single pillar focusing on the energy sector in support of economic diversification. This new CSP draws on the Growth and Poverty Reduction Strategy Paper for 2010-2014 and spans over two ADF cycles - ADF 12 and ADF 13. In April 2016, the Bank approved a second full CSP for 2016-2020, based one single pillar: Developing basic energy and road infrastructure to support economic diversification. The current CSP is aligned on the national Strategy of growth and sustainable development (SCA2D 2015-2019) and is financed by ADF 13 and 14 resources, corresponding to a total amount of UA 40 million, including

UA 10 million from the Transition States Facility (TSF). These resources will primarily aim to finance (i) a road project (UA 15 million), (ii) an energy investment project (UA 10 million), and (iii) a sectoral budget support –energy and road- operation (UA 15 million) whose main objective will be to support government efforts in rehabilitation of roads and energy sectors in which the country faces major challenges.

4. Moreover, aware of the weak of institutional capacity of Comoros, the Bank approved, in November 2015, the second Phase of the Project of Institutional capacity building (PRIC 2) to strengthen the operationalization of Tax department (AGID), improve the capacity of programming and management of public investment (CGP), and improve the effectiveness of the department in charge of energy (DGME).

5. As of October 2016, the Bank's ongoing portfolio in resources amounts to UA 22.005 million comprising 4 operations: (i) Energy Sector Support Project (ii) Energy Production, Transport & Distribution Plan, (iii) Private Sector Support Project, and (iv) the Institutional Capacities Building (PRCI 2). A Midterm review of CSP combined to Country Portfolio Performance Review (CPPR) is planned in 2018.

C. Non Lending Activities

6. Along with other developing partners, the AfDB aims to provide Comoros's authorities with policy advice and decision tools on key strategic directions with the objective of leveraging and sustaining economic growth over the medium-long term. In this respect, the first phase of a study on the sources of growth in Comoros was completed in December 2010 and provided a series of preliminary key recommendations on ways of boosting growth and improving the economic and business climate. A second ESW concerning Fragility study is achieved in April 2014, to support the finalization of SCA2D.

D. Summary of AfDB Current Lending Portfolio

Project	Sector	Effectiveness	Closing Date	Amount	
				Millions of Units of Account	Millions of U.S. Dollars
Energy Sector Support Project	Power	11/27/2013	03/01/2018	13.380	18.65
Energy Production, Transport & Distribution Plan	Power	11/27/2015	12/31/2020	2.000	2.79
Private Sector Support Project	Multisector	05/22/2014	02/28/2017	0.625	0.871
Institutional Capacity Building	Multisector	11/27/2015	01/31/2020	6.000	8.364
Total				22.005	30.675

Source: AfDB, 2016

E. IMF-African Development Bank Collaboration

7. Collaboration between the IMF and Africa Development Bank teams has been largely through exchanges, sharing of information and joint missions. Also, the Bank has always participated of the Article IV mission.

STATISTICAL ISSUES APPENDIX

I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. Inadequate staffing, funding, and institutional environment undermine the accuracy and comparability of almost all macroeconomic statistics, with the partial exception of monetary and financial statistics.
National accounts. The latest estimates for GDP are for 2008 and therefore inadequate for surveillance. Source data from either surveys or administrative sources do not support compilation of key aggregates required to compile GDP. The national statistical office lacks adequate financial resources, staff capacity, and institutional environment. The authorities have made limited progress implementing recommendations of technical assistance to produce a GDP time series by extrapolating from the current base year (2007). No quarterly estimates are produced. **Consumer prices**. The accuracy and reliability of the consumer price index (CPI) represents another key source of uncertainty. Expenditure weights are based on a survey from the late 1980s and sub-indices are compiled irregularly across the islands. Most price data are collected only for the country's capital. CPI compilation is largely conducted by one person. The African Development Bank assigned an international Expert from May 2011 to January 2012, who helped the NSI to design a new consumer price index (CPI). Baskets of products, expenditure weights, collection locations as well as calculation techniques were revised. An IT tool was implemented and the responsible official was trained in managing the whole compilation process. Next STA Technical Assistance mission dedicated to price statistics is planned for November 2016.
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. An August 2016 STA mission proposed various steps to improve compilation and quality of data.
Monetary and financial statistics. The Central Bank of Comoros (BCC) produces adequate monetary statistics on its own accounts, for the commercial banks, the development bank, the deposits collected by the Société nationale des postes et des services financiers (chèques postaux and saving passbooks), and for two microfinance networks. The Franc Zone arrangement has established accounting and prudential standards that prevent data disruptions. A major shortcoming is the absence of data on the large amount of Euro cash in circulation, handicapping surveillance. In June 2009 the BCC started reporting monetary and financial statistics to the IMF using Standardized Report Forms (SRFs). The current presentation and

content of monetary statistics accords largely with the methodology in the IMF's *Monetary and Financial Statistics Manual 2000*.	
1. **External sector statistics.** Despite technical assistance and some improvements over the past few years, shortcomings in coverage and compilation continue to affect accuracy and reliability. Currently two BCC economist are responsible for compiling balance of payments statistics. The last TA mission (January 2016) recommended the recruitment of one additional staff, to assure regular compilation of balance of payments (BP) and the development of the International Investment Position (IIP).	
II. Data Standards and Quality	
Comoros has participated in the enhanced General Data Dissemination System (eGDDS) since May 2015 and disseminates metadata for 11 of the 15 recommended data categories, as well as one supplementary category (producer price index).	No data ROSC is available.
III. Reporting to STA	
National accounts: Comoros is not reporting any national accounts data to STA. **Consumer prices**: In July 2015 Comoros delivered to STA a set of monthly consumer price indexes covering period January 2000 – October 2014. Since then no further reporting.	
Government finance statistics: There is no regular compilation and dissemination of fiscal data (TOFE). No GFS data are reported to GFSY or IFS. Data are compiled on GFSM 1986 / TOFE basis, only when it is requested by the African Department; this data is incomplete (both transactional and institutional coverage) and thus data do not accurately reflect the fiscal position. The last TA mission (June 2016) noted deficient material and technical resources.	
Monetary and financial statistics: Comoros reports MFS data for the depository corporations on a monthly basis using the standardized report forms (SRFs). The institutional coverage of monetary statistics does not include other financial corporations. **Financial Soundness Indicators:** Comoros has begun reporting Financial Soundness Indicators (FSIs) to STA on a regular basis, with monthly/annual data beginning in 2010 M1.	
External sector statistics: Only annual BP data are reported to STA; the most recent dataset (received in 2014) is related to year 2012. Data on IIP and External Debt are not reported.	

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

November 21, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION; AND STAFF-MONITORED PROGRAM—DEBT SUSTAINABILITY ANALYSIS

Approved By
David Owen (IMF) and Ms. Anos-Casero (IDA)

Prepared by the staff of the International Monetary Fund and the World Bank Group.

Based on an updated external LIC DSA, Comoros' risk of debt distress continues to be assessed as moderate. The inclusion of remittances in the analysis remains a key factor underlying the debt sustainability outlook but is also a source of vulnerability. The results also highlight that it is essential that any eventual future borrowing take place on concessional terms. Public sector domestic debt and private sector external debt are minimal in Comoros and are expected to remain so for the foreseeable future.[1]

[1] Comoros' three-year average CPIA score is 2.77, implying a weak policy performance rating for the current DSA.

BACKGROUND

1. Comoros reached the completion point under the HIPC Initiative in December 2012. Following agreements with all but one bilateral creditors[2], Comoros received extensive irrevocable debt relief in 2013 which resulted in a decline in nominal external debt from 40.5 percent of GDP at end-2012 to 18.5 percent at end-2013 (Table A1). Moreover, all the debt and debt service indicators were brought below their respective thresholds of the debt sustainability framework. Since the completion point, Comoros has contracted only one loan, with a concessionality level close to 50 percent, with India of about $33 million for the construction of a heavy-fuel electricity generation plant. Disbursements on this loan, the first of which was made in 2015, are anticipated to continue through 2017. Disbursements of an earlier loan, on similarly concessional terms, with China of $32.3 million for strengthening the domestic telecommunications infrastructure began in 2015.[3]

Text Table 1: Nominal Stock of External Debt, 2015[1]
(Millions of U.S. Dollars; end-of-period)

Total External Debt[2]	**141.6**
Multilateral Creditors	**79.8**
IMF	19.7
IDA	13.8
BADEA	28.0
Other multilateral creditors	18.3
Official Bilateral	**61.8**
Paris Club Creditors	3.3
Non-Paris Club Creditors	58.5
of which: Saudi Arabia	14.9
Kuwait	27.3
India[3]	6.6
China[4]	8.8

[1] Following Paris Club cancellation of all its HIPC-eligible debt, rescheduling of short-term debt in arrears, and restructuring non-Paris club debt.

[2] Excludes $11,584.2 of hospital debt owed by Comoros to France.

[3] Disbursements of $36.6 million are expected over the period 2015 – 2017.

[4] Disbursements of $32.3 million are expected over the period 2015 – 2017.

Source: Comorian authorities

[2] Mauritius is the remaining holdout; negotiations are ongoing.

[3] This loan was contracted in 2010.

UNDERLYING ASSUMPTIONS

2. The medium to long-term macroeconomic assumptions for the DSA are broadly similar to those for the previous DSA prepared in connection with the 2014 Article IV consultation and released in February 2015 (Text Table 2). However, the DSA update reflects the economic difficulties that Comoros is facing as a result of the electricity crisis and ongoing fiscal challenges.

Text Table 2. Comoros: Assumptions for DSA

	2014 Article IV DSA			2015 Article IV DSA		
	2014-2019	2024	2034	2016-2020	2026	2036
GDP Growth Rate (percent)	3.8	4.0	4.0	3.5	4.0	4.0
Inflation, end of period (percent)	2.6	2.5	2.5	2.0	2.0	2.0
Government Revenues and Grants (percent of GDP)	24.8	26.8	29.4	24.3	25.3	24.2
Overall Fiscal Balance (percent of GDP)	-1.3	-0.3	0.8	-4.7	-6.8	-7.7
FDI (percent of GDP)	2.2	2.7	2.7	1.3	1.6	1.6
Current Account Deficit (percent of GDP)	10.2	8.7	6.7	10.3	12.0	9.8
Exports of Goods and Services (annual percentage growth)	2.3	3.9	4.0	2.8	2.9	3.2
Imports of Goods and Services (annual percentage growth)	6.8	5.4	5.2	8.3	3.3	3.8

- **Real Growth** in 2015 is estimated at 1 percent compared to a projected 3.5 percent in the DSA for the 2014 Article IV report. Moreover, the growth projection for 2016 has been lowered from 4 percent in the previous DSA to 2.2 percent currently, amidst a persistent and deep electricity crisis and a poor business environment that is adversely impacting the economy. Thereafter, economic growth is projected to converge gradually to an average of 4 percent growth per year as in the previous DSA, due to a more stable political environment, the coming online of the heavy-fuel plant that will improve the energy supply, the arrival of a new operator in the telecommunication sector, and improvements in infrastructure resulting from a more effective execution of the public investment program in roads, hospitals and schools.

- **Inflation** is expected to remain moderate, at a projected 2.0 percent per year in the medium term, guided by the exchange rate peg to the euro and the monetary cooperation agreement with France.

- The **current account deficit** is projected to average around 10 percent of GDP per year over the medium term. This largely reflects an increase in imports stemming from current investment projects in the energy and telecom sectors and a stagnation of exports relative to the size of national income.[4] Indeed, as in the previous DSA, the growth of imports in volume terms is expected to far outstrip that of exports in the medium term. The current account deficit is assumed to remain stable at around 10 percent of GDP by the end of the projection period, representing continuing net resource transfers to Comoros in the form of external financing (both grants and loans, as well as some foreign investment) in support of growth and development.

[4] While exports are expected to grow at the pace of world trade in the medium term, as a percentage of GDP they are projected to remain steady at about 17 percent of GDP over the forecast horizon.

- **Gross private remittances** received from the diaspora in France, which have been resilient in the face of recession and slowdown in Europe, are projected to continue to grow in nominal terms but decline gradually relative to GDP, from 26.9 percent of GDP in 2016 to about 24 percent in 2020 and 19.0 percent by 2035.[5] This represents an upward revision relative to the previous DSA. These remittances are assumed to continue to finance the bulk of imports to Comoros.

- **Gross investment** in support of growth is projected to rise. Investment is projected to average 20.8 percent of GDP over the medium term and rise slightly thereafter.

- **Public investment** is projected to on average account for more than half of investment in the medium term, initially mainly financed by project grants. Over time, foreign borrowing (on concessional terms; an average grant element of 42 percent, corresponding to non-Paris Club bilateral terms in the LIC DSA template) is assumed to gradually replace some of the grant financing so that by 2036 grants account for two-thirds of foreign-financed capital spending and loans with concessionality levels close to 50 percent for one-third. After a hump in 2016 and 2017 due to the disbursement of the Indian and Chinese loans, new external borrowing is assumed to rise from 2.1 percent of GDP in 2018 to 4.25 percent in 2036, averaging US$45 million per year. This assumption of increased external borrowing over time plays an important role in the DSA and largely explains the upward slope of the debt burden indicators in the baseline. While this assumption is not based on any concrete borrowing plans, it seems reasonable to expect that the share of grant financing in overall financing will decline, and that of loan financing rise, over time, at least in relative terms, even though per capita income is projected to increase only slowly over the next two decades. It is anticipated that investments associated with external borrowing will be made in infrastructure such as electricity, roads, tourism, and other sectors. Domestically-financed capital spending is projected to rise modestly over the projection period. No domestic borrowing by the government is assumed.

- The overall **fiscal overall deficit** is projected to average 4.7 percent of GDP in the medium term, reflecting Comoros' ongoing fiscal challenges related to revenue mobilization and containing current spending. Due principally to Comoros' ambitious public investment program, intended to address their urgent development needs, the fiscal balance is expected to remain in deficit over the long term. It is expected that the deficit will be mainly financed through external loans for investment purposes.

[5] Historical remittance figures are based on central bank data, which are prepared according to the BPM5 methodology and the corresponding definition of remittances. Projections of remittances are based on consultations with the authorities. The remittances play an important role in the DSA and a faster decline relative to GDP than assumed would adversely affect the debt sustainability outlook.

EXTERNAL DSA

3. **Comoros qualifies for the inclusion of private remittances in the denominator of the debt and debt service indicators for the purposes of the baseline of the DSA**. For Comoros, private remittance inflows represent a large source of foreign exchange—currently estimated to be in excess of 27 percent of GDP—and sizable inflows are expected to continue over the medium to long term. That said, the debt sustainability outlook is highly sensitive to the level of remittance flows, which more than doubled relative to GDP in the decade to 2014, and are potentially subject to downside risk should the economic slowdown in Europe continue.

4. **The baseline scenario is broadly in line with that of the previous DSA although there has been a marginal improvement in debt burden indicators**. Whereas in the previous DSA, the ratio of PV debt-to-exports and remittances breached the threshold toward the end of the projection period, in the current DSA this ratio only rises to the threshold by the end of the projection period. All other debt or debt service burden indicators are well below their respective thresholds in the baseline scenario (Figure A1; Tables A1 and A2). The improvement in the debt-to-exports indicator reflects a combination of factors, on the negative side the inclusion of the Chinese and Indian loans, which were not included in the previous DSA, while on the positive side the higher remittances.

5. **The results of the stress tests and alternative scenarios share similarities and differences with those under the previous DSA.** As before, the ratio of the PV of debt to exports plus remittances shows a breach of its threshold under a stress test. Whereas previously the most severe stress test was that to non-debt creating flows (chiefly remittances), this time around the shock to the terms of new borrowing is the most critical.[6] Also in contrast to the previous DSA, currently the ratio of debt to GDP plus remittances, as well as the PV of debt to revenue ratio, moderately breach the threshold towards the end of the projection period under a one-time depreciation shock.[7] The potential impact of these two shocks on Comoros' debt sustainability highlights the importance of a prudent debt management strategy, particularly as relates to obtaining loans on concessional terms, as well as the stability provided by the exchange rate peg of the Comorian Franc to the Euro under the monetary cooperation agreement with France. Under the historical scenario, the initial improvement in the debt and debt service indicators mainly reflects that the projected current account deficits in the baseline are larger than the historical deficits over the medium term. The historical scenario is, therefore, over-financed during this period.

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[6] Refers to public sector loans on less favorable terms during the period 2016 – 36. Less favorable terms are defined as 2 percent increase in the interest rate for new borrowing, which would see the grant element of new borrowing at 30 percent or below from 2017 onwards.

[7] Defined as a one-time 30 percent annual depreciation relative to the baseline in 2017.

CONCLUSION

6. It is the view of the staffs of the IMF and the World Bank, shared by the authorities, that the updated DSA warrants maintaining a moderate risk of debt distress rating for Comoros. The impact of the somewhat higher borrowing (Chinese and Indian loans) than assumed previously has been offset by the higher remittances. While there are no breaches of debt or debt service thresholds in the baseline and only a modest breach of the threshold in three stress tests, the DSA continues to underline the critical role that remittances play in maintaining the moderate risk of debt distress rating. As such, Comoros remains vulnerable to shocks to remittance inflows, increasing the importance of fostering a climate conducive to the productive use of remittances, and limiting the recourse to external financing, particularly on non-concessional terms. The analysis also highlights the importance of striving to maintain higher growth levels compared to historical average by implementing planned structural reforms in infrastructure and the businesses environment and the electricity and the telecom sectors in a timely fashion. The considerable amounts of external borrowing built into the DSA also underscore the need to strengthen debt management capacity.

Table 1. Comoros: External Debt Sustainability Framework Baseline Scenario,20136-2036 1/
(In percent of GDP, unless otherwise indicated))

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-2021 Average	2026	2036	2022-2036 Average
External debt (nominal) 1/	**18.5**	**20.2**	**24.2**			**25.4**	**27.7**	**27.3**	**26.9**	**26.8**	**27.2**		**30.1**	**39.2**	
of which: public and publicly guaranteed (PPG)	18.5	20.2	24.2			25.4	27.7	27.3	26.9	26.8	27.2		30.1	39.2	
Change in external debt	-22.0	1.7	4.0			1.2	2.3	-0.4	-0.4	-0.1	0.3		0.6	0.8	
Identified net debt-creating flows	2.9	7.2	1.9			7.5	8.0	8.2	8.5	8.5	11.7		9.3	6.8	
Non-interest current account deficit	**8.0**	**8.6**	**-0.6**	**5.3**	**3.5**	**9.1**	**9.9**	**10.3**	**10.5**	**10.5**	**13.9**		**11.7**	**9.5**	10.9
Deficit in balance of goods and services	-67.6	-66.0	-62.6			-64.7	-65.2	-64.2	-63.4	-63.2	-66.4		-63.4	-59.4	
Exports	15.6	16.3	17.1			17.3	17.4	17.4	17.4	17.3	17.3		17.3	17.6	
Imports	-52.0	-49.7	-45.5			-47.4	-47.8	-46.9	-46.0	-45.9	-49.1		-46.1	-41.8	
Net current transfers (negative = inflow)	-28.0	-24.3	-28.3	-26.7	5.0	-20.7	-20.2	-18.8	-17.9	-17.8	-17.8		-16.9	-14.6	-16.3
of which: official	-6.1	-2.7	-9.9			-2.7	-2.6	-1.7	-1.3	-1.3	-1.4		-1.3	-1.1	
Other current account flows (negative = net inflow)	103.6	98.9	90.2			94.5	95.3	93.4	91.8	91.5	98.0		92.0	83.5	
Net FDI (negative = inflow)	**-1.4**	**-0.7**	**-0.8**	**-1.5**	**1.0**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.4**		**-1.6**	**-1.6**	-1.6
Endogenous debt dynamics 2/	**-3.7**	**-0.7**	**3.3**			**-0.3**	**-0.6**	**-0.8**	**-0.8**	**-0.8**	**-0.8**		**-0.8**	**-1.1**	
Contribution from nominal interest rate	0.1	0.0	0.0			0.2	0.2	0.2	0.2	0.2	0.3		0.3	0.4	
Contribution from real GDP growth	-1.3	-0.3	-0.2			-0.5	-0.8	-1.0	-1.0	-1.0	-1.0		-1.1	-1.4	
Contribution from price and exchange rate changes	-2.5	-0.4	3.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-24.9**	**-5.5**	**2.1**			**-6.3**	**-5.6**	**-8.6**	**-8.9**	**-8.5**	**-11.4**		**-8.7**	**-6.0**	
of which: exceptional financing	0.0	-1.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	14.8			15.6	17.1	17.0	16.9	17.0	17.4		20.1	27.2	
In percent of exports	...	...	86.6			90.2	98.0	97.7	97.1	98.0	100.4		116.1	154.5	
PV of PPG external debt	**...**	**...**	**14.8**			**15.6**	**17.1**	**17.0**	**16.9**	**17.0**	**17.4**		**20.1**	**27.2**	
In percent of exports	**...**	**...**	**86.6**			**90.2**	**98.0**	**97.7**	**97.1**	**98.0**	**100.4**		**116.1**	**154.5**	
In percent of government revenues	**...**	**...**	**89.7**			**108.4**	**106.8**	**103.1**	**99.0**	**96.3**	**98.6**		**114.1**	**153.8**	
Debt service-to-exports ratio (in percent)	**2.0**	**1.5**	**0.9**			**4.6**	**5.1**	**5.9**	**6.2**	**5.7**	**5.0**		**5.9**	**8.7**	
PPG debt service-to-exports ratio (in percent)	**2.0**	**1.5**	**0.9**			**4.6**	**5.1**	**5.9**	**6.2**	**5.7**	**5.0**		**5.9**	**8.7**	
PPG debt service-to-revenue ratio (in percent)	**2.0**	**1.7**	**0.9**			**5.6**	**5.6**	**6.2**	**6.3**	**5.6**	**4.9**		**5.8**	**8.7**	
Total gross financing need (Millions of U.S. dollars)	45.4	55.6	-7.6			53.4	61.9	70.0	76.9	81.5	112.9		128.3	201.3	
Non-interest current account deficit that stabilizes debt ratio	30.1	6.9	-4.6			7.9	7.5	10.7	11.0	10.6	13.5		11.1	8.7	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.5	2.0	1.0	1.8	0.9	2.2	3.3	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)	6.5	2.0	-14.8	2.8	8.9	3.2	2.1	2.3	2.8	3.1	2.1	2.6	2.3	2.3	2.3
Effective interest rate (percent) 5/	0.2	0.1	0.2	0.5	0.3	0.7	0.9	0.9	1.0	1.0	1.0	0.9	1.1	1.0	1.1
Growth of exports of G&S (US dollar terms, in percent)	14.5	8.5	-9.5	6.8	10.5	6.4	6.3	6.3	6.8	7.0	6.0	6.5	6.5	6.6	6.5
Growth of imports of G&S (US dollar terms, in percent)	5.5	-0.5	-21.3	7.8	15.1	9.9	6.3	4.3	5.1	6.9	13.6	7.7	5.0	5.7	5.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	44.3	43.5	42.3	42.3	42.3	42.3	42.8	42.3	42.3	42.3
Government revenues (excluding grants, in percent of GDP)	15.5	14.5	16.5			14.4	16.0	16.5	17.0	17.6	17.6		17.6	17.7	17.6
Aid flows (in Millions of US dollars) 7/	181.0	64.2	89.2			73.0	83.2	69.0	73.9	79.3	91.4		124.4	230.8	
of which: Grants	180.8	64.0	89.0			51.9	54.5	54.4	57.3	60.6	70.4		88.5	139.8	
of which: Concessional loans	0.3	0.2	0.2			21.1	28.7	14.6	16.6	18.8	21.0		35.9	90.9	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			9.9	10.2	8.7	8.6	8.6	9.3		9.0	8.3	8.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			83.9	80.5	87.8	87.1	86.3	86.7		83.4	77.3	81.4
Memorandum items:															
Nominal GDP (Millions of US dollars)	657.7	683.6	588.7			620.4	654.3	696.1	744.6	798.5	847.5		1154.2	2140.7	
Nominal dollar GDP growth	10.3	4.0	-13.9			5.4	5.5	6.4	7.0	7.2	6.1	6.3	6.4	6.4	6.4
PV of PPG external debt (in Millions of US dollars)			86.8			96.5	111.7	118.6	126.1	135.4	147.0		232.0	580.9	
(PVt-PVt-1)/GDPt-1 (in percent)						1.6	2.5	1.1	1.1	1.3	1.5	1.5	1.8	2.3	2.1
Gross workers' remittances (Millions of US dollars)	166.1	204.1	161.8			167.1	172.2	177.8	184.3	195.0	203.6		254.9	399.6	
PV of PPG external debt (in percent of GDP + remittances)	...	...	11.6			12.3	13.5	13.5	13.5	13.6	14.0		16.5	22.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	33.2			35.2	39.0	39.6	40.0	40.7	42.0		51.0	74.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.3			1.8	2.0	2.4	2.6	2.3	2.1		2.6	4.2	

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.

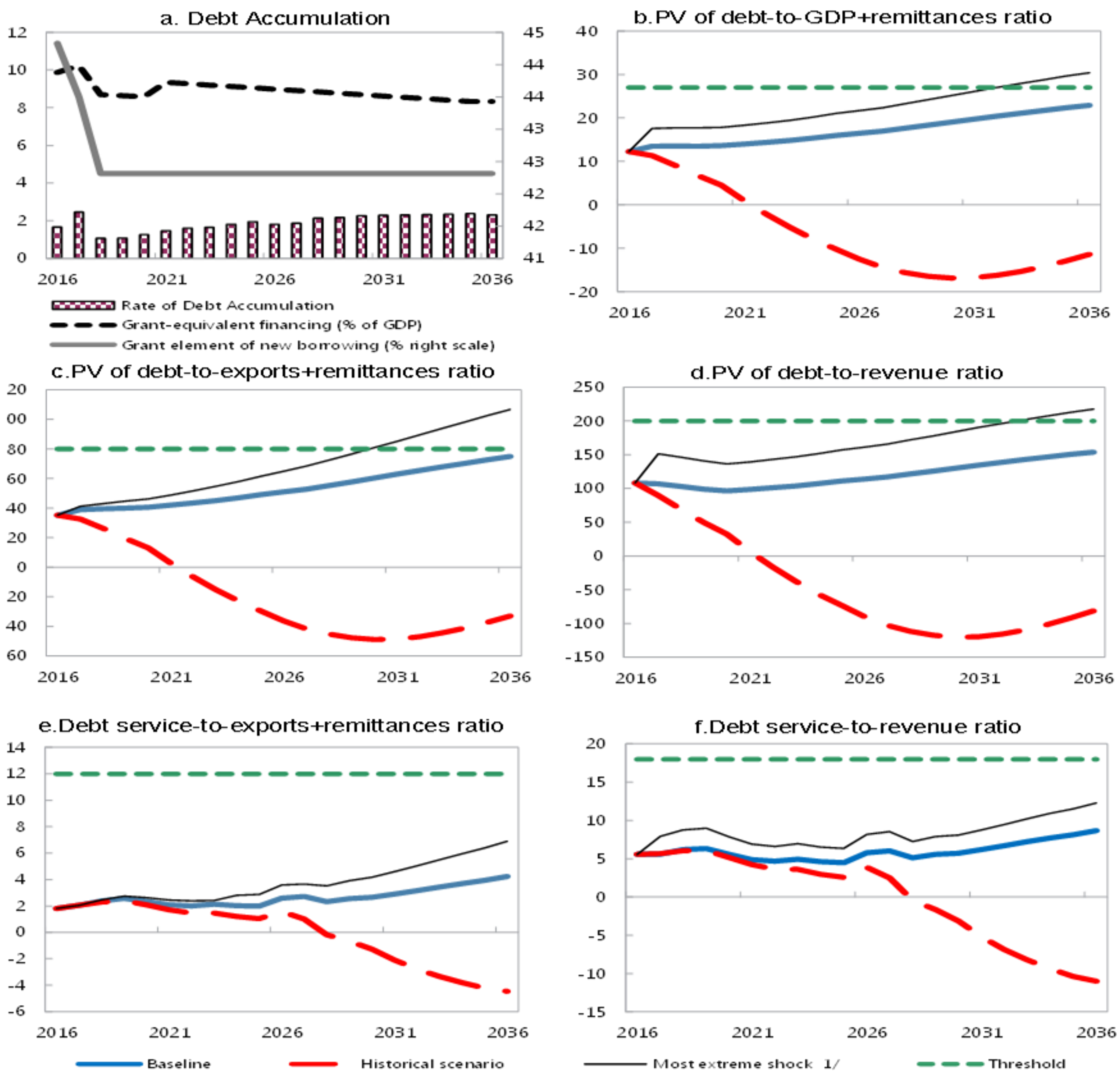
5/ Current-year interest payments divided by previous period debt stock.

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).

Figure 1. Comoros: Indicators of public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2016-2036 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Terms shock and in figure f. to a One-time depreciation shock

Table 2. Comoros Sensitivity Analysis for Key Indicators of Public and publicly Guaranteed External Debt, 2016-2036

(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to-GDP+remittances ratio								
Baseline	12	14	14	14	14	14	**16**	23
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	12	11	9	7	5	1	**-13**	-11
A2. New public sector loans on less favorable terms in 2016-2036 2	12	14	15	15	16	16	**21**	33
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	12	14	14	14	14	15	**17**	24
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	12	14	16	16	16	16	**18**	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	12	14	16	16	16	16	**19**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	12	13	12	12	12	13	**15**	23
B5. Combination of B1-B4 using one-half standard deviation shocks	12	13	13	14	14	14	**17**	25
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	12	18	18	18	18	18	**22**	30
PV of debt-to-exports+remittances ratio								
Baseline	35	39	40	40	41	42	**51**	75
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	35	33	26	20	13	3	**-36**	-33
A2. New public sector loans on less favorable terms in 2016-2036 2	35	41	43	45	46	49	**65**	107
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	35	39	40	40	41	42	**51**	75
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	35	43	50	50	51	52	**62**	83
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	35	39	40	40	41	42	**51**	75
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	35	37	33	37	37	39	**48**	74
B5. Combination of B1-B4 using one-half standard deviation shocks	35	34	33	36	36	38	**47**	73
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	35	39	40	40	41	42	**51**	75
PV of debt-to-revenue ratio								
Baseline	108	107	103	99	96	99	**114**	154
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	108	90	70	50	32	7	**-89**	-81
A2. New public sector loans on less favorable terms in 2016-2036 2	108	113	112	111	110	115	**145**	219
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	108	109	109	105	102	104	**120**	162
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	108	113	120	115	111	113	**127**	156
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	108	116	123	118	114	117	**135**	182
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	108	105	94	91	88	90	**107**	152
B5. Combination of B1-B4 using one-half standard deviation shocks	108	107	109	105	101	104	**122**	173
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	108	151	146	141	136	139	**161**	218

Table 2. Comoros Sensitivity Analysis for Key Indicators of Publicly Guaranteed External Debt, 2016-2036 (Continued)

(In percent)

Debt service-to-exports+remittances ratio								
Baseline	2	2	2	3	2	2	**3**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	2	2	2	2	2	2	**2**	-4
A2. New public sector loans on less favorable terms in 2016-2036 2	2	2	2	3	3	2	**4**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	2	2	2	3	2	2	**3**	4
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	2	2	3	3	3	2	**3**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	2	2	2	3	2	2	**3**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	2	2	2	3	2	2	**3**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	2	2	2	**2**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	2	2	2	3	2	2	**3**	4
Debt service-to-revenue ratio								
Baseline	6	6	6	6	6	5	**6**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	6	6	6	6	5	4	**4**	-11
A2. New public sector loans on less favorable terms in 2016-2036 2	6	6	6	7	6	6	**8**	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	6	6	7	7	6	5	**6**	9
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	6	6	6	7	6	5	**6**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	6	6	7	8	7	6	**7**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	6	6	6	6	5	5	**6**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	6	6	7	7	6	5	**6**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	6	8	9	9	8	7	**8**	12
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	41	41	41	41	41	41	**41**	41

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 3 Comoros Public Sector Debt Sustainability Framework, Baseline Scenario, 2013-2036

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2013	2014	2015	Average 5/	Standard Deviation 5/	2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
ublic sector debt 1/	18.5	20.2	24.2			25.4	27.7	27.3	26.9	26.8	27.2		30.1	39.2	
of which: foreign-currency denominated	18.5	20.2	24.2			25.4	27.7	27.3	26.9	26.8	27.2		30.1	39.2	
hange in public sector debt	-22.0	1.7	4.0			1.2	2.3	-0.4	-0.4	-0.1	0.3		0.6	0.8	
lentified debt-creating flows	-22.0	0.0	-2.7			4.0	3.3	2.0	1.9	2.5	3.7		5.0	5.4	
Primary deficit	-18.4	0.5	-5.9	-3.2	6.3	5.1	4.4	3.5	3.5	3.9	5.0	4.2	6.5	7.3	6.6
Revenue and grants	43.0	23.9	31.6			22.7	24.3	24.3	24.7	25.2	25.9		25.3	24.2	
of which: grants	27.5	9.4	15.1			8.4	8.3	7.8	7.7	7.6	8.3		7.7	6.5	
Primary (noninterest) expenditure	24.5	24.4	25.7			27.8	28.7	27.8	28.2	29.1	30.9		31.8	31.5	
Automatic debt dynamics	-3.6	-0.5	3.2			-1.1	-1.2	-1.5	-1.6	-1.4	-1.3		-1.5	-1.9	
Contribution from interest rate/growth differential	-2.5	-0.7	-0.6			-1.0	-1.1	-1.4	-1.4	-1.4	-1.3		-1.5	-1.9	
of which: contribution from average real interest rate	-1.1	-0.3	-0.4			-0.5	-0.3	-0.3	-0.3	-0.3	-0.3		-0.3	-0.4	
of which: contribution from real GDP growth	-1.4	-0.4	-0.2			-0.5	-0.8	-1.1	-1.1	-1.0	-1.0		-1.1	-1.5	
Contribution from real exchange rate depreciation	-1.1	0.1	3.8			-0.1	-0.1	-0.1	-0.2	-0.1	0.1		..	..	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	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)	0.0	0.0	0.0			0.0	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	
esidual, including asset changes	-0.1	1.7	6.7			-2.7	-0.9	-2.4	-2.3	-2.6	-3.3		-4.4	-4.6	
ther Sustainability Indicators															
/ of public sector debt	..	..	14.8			15.6	17.1	17.0	16.9	17.0	17.4		20.1	27.2	
of which: foreign-currency denominated	..	..	14.8			15.6	17.1	17.0	16.9	17.0	17.4		20.1	27.2	
of which: external	..	..	14.8			15.6	17.1	17.0	16.9	17.0	17.4		20.1	27.2	
/ of contingent liabilities (not included in public sector debt)	..	..	..			..	..	..	..	..	..		..	..	
ross financing need 2/	-18.1	0.8	-5.8			5.9	5.3	4.5	4.5	4.9	5.8		7.5	8.9	
/ of public sector debt-to-revenue and grants ratio (in percent)	...	...	46.9			68.5	70.2	70.0	68.2	67.3	67.0		79.5	112.2	
/ of public sector debt-to-revenue ratio (in percent)	...	...	89.7			108.4	106.8	103.1	99.0	96.3	98.6		114.1	153.8	
of which: external 3/	...	...	89.7			108.4	106.8	103.1	99.0	96.3	98.6		114.1	153.8	
ebt service-to-revenue and grants ratio (in percent) 4/	0.7	1.0	0.5			3.5	3.7	4.2	4.4	3.9	3.3		4.0	6.3	
ebt service-to-revenue ratio (in percent) 4/	2.0	1.7	0.9			5.6	5.6	6.2	6.3	5.6	4.9		5.8	8.7	
rimary deficit that stabilizes the debt-to-GDP ratio	3.6	-1.2	-9.9			3.9	2.1	3.9	3.9	4.0	4.6		5.8	6.5	
ey macroeconomic and fiscal assumptions															
eal GDP growth (in percent)	3.5	2.0	1.0	1.8	0.9	2.2	3.3	4.0	4.0	4.0	4.0	3.6	4.0	4.0	4.0
verage nominal interest rate on forex debt (in percent)	0.2	0.1	0.2	0.5	0.3	0.7	0.9	0.9	1.0	1.0	1.0	0.9	1.1	1.0	1.1
verage real interest rate on domestic debt (in percent)	..	..	..	...	..	..	..	..	..	..	...		..	..	..
eal exchange rate depreciation (in percent, + indicates depreciation)	-2.9	0.8	19.4	1.4	8.4	-0.6	..	..	..	..	..	..	..	..	..
flation rate (GDP deflator, in percent)	3.1	1.9	2.1	3.6	1.4	2.9	2.0	2.1	2.2	2.3	2.3	2.3	2.3	2.3	2.3
rowth of real primary spending (deflated by GDP deflator, in percent)	2.5	1.4	6.5	1.1	2.1	10.5	6.7	0.4	5.7	7.5	10.2	6.8	4.6	3.9	4.1
rant element of new external borrowing (in percent)	..	..	..	..	..	44.3	43.5	42.3	42.3	42.3	42.3	42.8	42.3	42.3	..

ources: Country authorities; and staff estimates and projections.

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

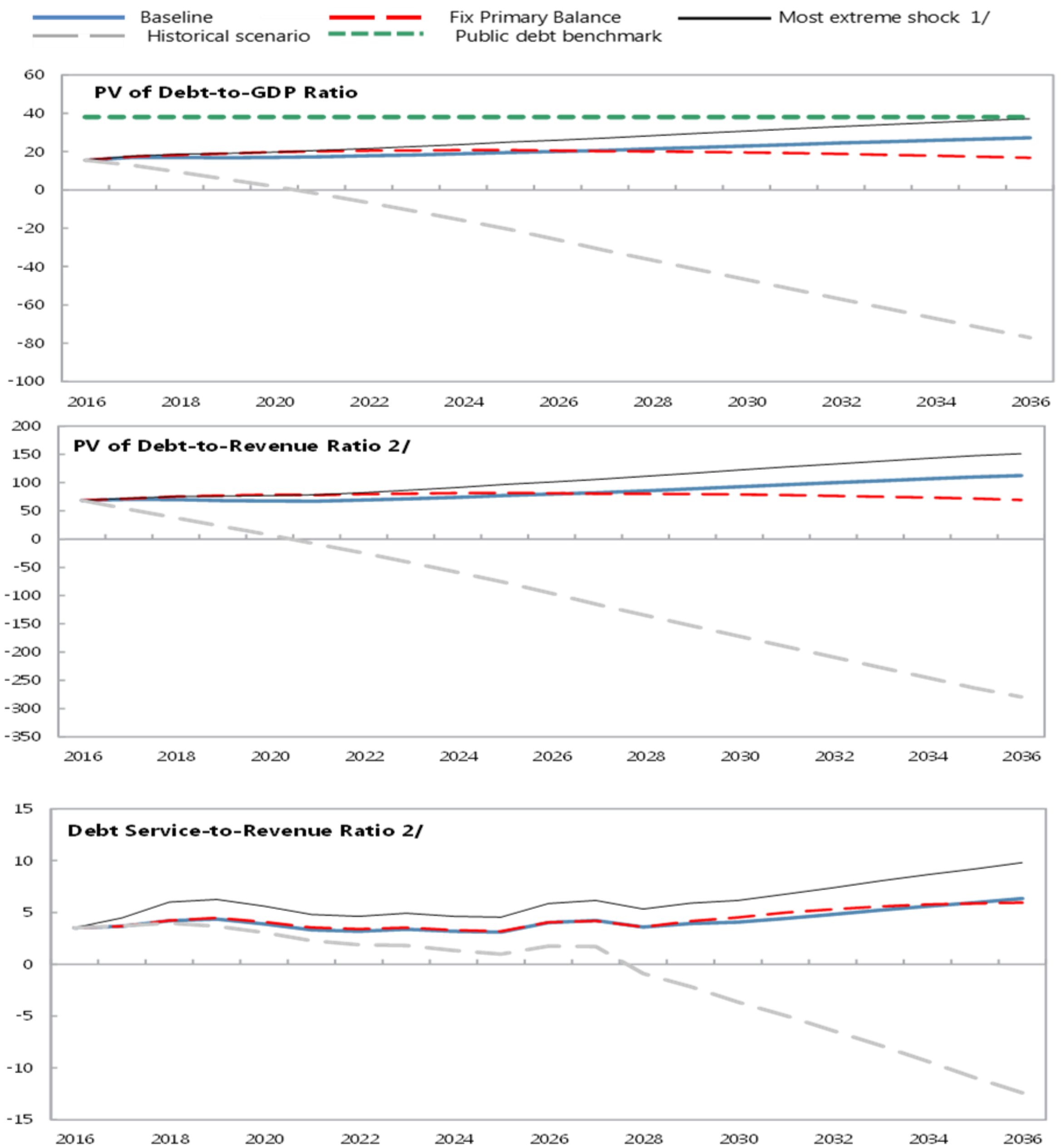
Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

Revenues excluding grants.

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

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

Figure 2. Comoros: Indicators of Public Debt Under Alternative Scenarios, 2016-2036 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

Table 4. Comoros: Sensitivity Analysis for Key Indicators of Public Debt 2016-2036

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	16	17	17	17	17	17	20	27
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	13	9	6	2	-2	-26	-77
A2. Primary balance is unchanged from 2016	16	17	18	19	20	20	21	17
A3. Permanently lower GDP growth 1/	16	17	17	17	17	18	22	32
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	16	18	19	19	20	21	26	37
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	16	16	16	16	16	16	19	27
B3. Combination of B1-B2 using one half standard deviation shocks	16	15	13	13	14	15	20	33
B4. One-time 30 percent real depreciation in 2017	16	23	22	21	21	21	22	25
B5. 10 percent of GDP increase in other debt-creating flows in 2017	16	23	23	22	22	23	25	30
PV of Debt-to-Revenue Ratio 2/								
Baseline	69	70	70	68	67	67	80	112
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	69	53	38	22	7	-9	-96	-279
A2. Primary balance is unchanged from 2016	69	72	75	77	79	78	81	69
A3. Permanently lower GDP growth 1/	69	70	70	69	68	69	85	131
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	69	72	76	76	77	78	101	151
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	69	67	66	64	64	64	76	110
B3. Combination of B1-B2 using one half standard deviation shocks	69	60	53	54	55	57	80	134
B4. One-time 30 percent real depreciation in 2017	69	94	91	87	83	81	86	104
B5. 10 percent of GDP increase in other debt-creating flows in 2017	69	94	93	90	88	87	98	123
Debt Service-to-Revenue Ratio 2/								
Baseline	4	4	4	4	4	3	4	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	4	4	4	4	3	2	2	-12
A2. Primary balance is unchanged from 2016	4	4	4	4	4	4	4	6
A3. Permanently lower GDP growth 1/	4	4	4	4	4	3	4	7
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	4	4	4	5	4	4	4	8
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	4	4	4	4	4	3	4	6
B3. Combination of B1-B2 using one half standard deviation shocks	4	4	4	4	4	3	4	7
B4. One-time 30 percent real depreciation in 2017	4	4	6	6	6	5	6	10
B5. 10 percent of GDP increase in other debt-creating flows in 2017	4	4	5	5	4	4	4	8

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.

Statement by Mr. Sembene, Executive Director for Comoros and
Mr. Sidi Bouna, Senior Advisor to the Executive Director
December 7, 2016

1. Introduction

The Comorian economy is facing growing macroeconomic imbalances. To help address these imbalances and also create the conditions for a higher, more sustainable growth, the authorities have requested the assistance of the IMF under a Staff Monitored Program. The staff's advice has been invaluable, helping to formulate strong reform measures, particularly in the fiscal area in which the design of a reform program has appropriately focused on strengthening further revenue administration and public financial management.

2. Policy Context

Following presidential elections held in April 2016, and declared free and transparent by international observers, the newly elected president, Mr. Azali Assoumani, appointed a government with a mandate to take immediate actions to address the country's weak fiscal revenue collection and the high public sector wage bill. The authorities recognize that a stable macroeconomic environment is a prerequisite for reviving economic growth. They are also aware that a precondition for macroeconomic stability is fiscal stability based on a balance between available resources and expenditures. However, fiscal imbalances in Comoros are deep-rooted and structural in nature. These result notably from a particularly narrow production base, which typically characterizes island economies like Comoros. The country also lacks the kind of dominant industries that are found in other small states notably tourism, and a financial sector. In addition, the Comorian economy is dominated by the public sector with no alternative engines of growth.

The authorities are determined to achieve progress in their efforts to address fiscal imbalances. In this process, the assistance of multilateral and bilateral partners will be critically important. My authorities are grateful to the country's partners for their continued technical and financial support.

The country's weak business environment continues to hamper economic activity due to persistent electricity shortages, a largely run down road network, and a costly and inefficient telecommunications sector. To address these bottlenecks, the authorities are also taking steps to accelerate the implementation of their development strategy adopted in 2015 (Stratégie de croissance accelérée et de développement durable, 2015-2019). As part of this strategy, greater focus is put on infrastructure investment in the electricity, road, and telecommunications sectors to overcome obstacles to growth. In addition, the authorities are aware that improving other aspects of the business environment, including the legal and judicial framework, will be key to boosting private sector activity over the medium term. However, Comoros' limited natural resource endowment and a small market impede the realization of economies of scale, making the authorities' aim of further enhancing growth outcomes particularly challenging. Addressing these deep-rooted challenges requires a comprehensive approach to the development of the country and progress will be dependent on a strong and sustained involvement of donors.

The authorities would like to reiterate their strong commitment to build a sound track record under the SMP, with a view to paving the way for an ECF-supported program as soon as possible. Such a Fund-supported program will contribute to addressing more effectively longer term challenges facing the country and helping catalyze donor support. The authorities remain committed to a prudent debt management strategy and aim to continue contracting external borrowing only on concessional terms and also only for high-priority projects that bring a clear economic benefit to the country's growth potential.

3. Recent Economic Developments and Outlook

Persistent electricity shortages and the slower-than-expected implementation of the public investment program have largely contributed to the country's recent weak growth performance. The economy grew only at an average of 1.5 percent between 2014 and 2015, and growth is projected to reach 2.2 percent in 2016. Inflation was moderate at about 2 percent in 2014-15, thanks largely to the fixed exchange rate system which continues to serve the country well. The international reserve position has reached a strong 9.1 months of imports in 2015 thanks in large part to external grant and remittances.

The fiscal situation, however, continues to be particularly challenging due to the very large imbalance between the country's domestic revenues and current expenditures. The wage bill, in particular, absorbs 80-90 percent of tax revenues. Should this unsustainable trend continue, the financing gaps would reach 3-4 percent of GDP in 2016 and 7-8 percent in 2017.

The overall outlook for the Comorian economy remains challenging, as well. The public investment program continues to encounter delays in execution and financing, and the electricity situation is yet to be resolved. To address the persistent electricity shortages, the authorities have recently invested in power generation and intend to continue taking steps in this direction. This will provide much-needed additional electricity supply in Comoros over the medium term. In the telecommunication sector, the authorities intend to lower the cost and improve the quality of telecommunication services in Comoros through increased competition between Comores Télécom and TELCO, the holder of the new telecommunications license.

These investments in the electricity and telecommunications sectors, along with other infrastructure projects should help raise growth over the medium term to approximately 3.5-4 percent.

4. Policy Agenda and Implementation

The authorities' main policies focus on containing the imbalance between domestic revenue mobilization and current spending. They plan to undertake a number of fiscal policy measures for end-2016 and 2017. These revenue measures include the application of a 5 percent consumption tax on telecommunication services, and also ensuring that the profitable state-owned enterprises contribute additional dividends to the treasury. On the spending side, the main focus is on containing the wage bill by cancelling all employment contracts granted since January 1, 2016.

The authorities' budget proposal for 2017 will be prepared based on the macroeconomic framework agreed with Fund staff under the SMP. It aims at further containing the public sector wage bill through better control of the number and salaries of public sector employees. The main near-term revenue administration reforms are derived from recent Fund TA, and include concentrating the tax treatment of all large companies in the large tax payers' unit located on Grande Comore, and expanding the lists of large and small and medium-sized tax payers while ensuring that those on the lists pay their taxes.

The authorities intend to implement a number of measures and reforms to strengthen public financial management. These measures will help ensure that the central registry of public sector workers covers the Union and the three islands and that only workers in the registry are paid. The authorities will also undertake a comprehensive audit of domestic arrears at the Union level, and make sure that all of the offsets between the government, the state-owned oil importing company, and the state-owned electricity company are eliminated.

The authorities share the staff's assessment that the Comorian financial system is overall adequately capitalized and liquid but that banks' profitability had been sluggish, the ratio of non-performing loans rising, and provisioning lagging. Against this backdrop, the central bank remains committed to continuing to closely monitoring financial sector stability. The government and the central bank will also continue to monitor developments in the postal bank (SNPSF) and will prepare an action plan for the resolution of the bank's difficulties by March 31, 2017.

5. Conclusion

The Comorian authorities are determined to undertake all necessary adjustment measures to reduce macroeconomic imbalances and place Comoros on a sustainable growth path. They look forward to embarking on a medium-term program of reforms with the Fund's support, under an ECF arrangement. The authorities believe that such an arrangement with a particular focus on addressing the country's structural impediments to growth would help catalyze donors' assistance to address the country's macroeconomic and structural challenges.