INTERNATIONAL MONETARY FUND

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UNION OF THE COMOROS

June 2018

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNION OF THE COMOROS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Article IV consultation with the Union of the 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 June 13, 2018 consideration of the staff report that concluded the Article IV consultation with the Union of the Comoros.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 13, 2018, following discussions that ended on April 6, 2018, with the officials of the Union of the Comoros on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 30, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Union of the Comoros.

The documents listed below have been or will be separately released

Selected Issues

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FOR IMMEDIATE RELEASE
June 18, 2018

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

On June 13th, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with The Union of the Comoros.

The Comorian economy's performance improved in 2017. Growth is estimated at 2.7 percent for 2017, half a percentage point higher than in the previous year. A combination of factors contributed to this outcome, notably an improved electricity situation relative to 2016, increased exports, and stronger remittances flows. However, the economy was held back by a perceived deterioration in the business climate and tensions in the financial sector. Inflation remained moderate.

Reform measures aimed at improving revenue performance, and the first steps towards clearing external arrears, started to bear fruit in 2017, despite challenges in fiscal policy implementation. Cash revenue collections increased substantially in 2017, by some 2.5 percentage points of GDP over the 2016 outturn, driven by both tax and customs. Revenue execution, which fell well short of the ambitious supplementary budget target and was insufficient to meet current expenditure needs, was supplemented by budget support grants from Saudi Arabia and the Emirate of Sharjah (about a combined 3 percent of GDP) and borrowing from the financial sector. At the same time, investment budget execution was far below the level required to close the significant infrastructure gap and support medium-term growth prospects.

The near-term outlook remains challenging in the absence of further reform efforts. Containing vulnerabilities and achieving sufficiently-high sustainable growth rates that can boost living standards require building on current reform efforts through implementing a comprehensive set of policy measures. Overcoming persistent and severe physical and human capacity constraints—particularly bottlenecks in basic infrastructure provision such as roads and electricity—improving the business climate, further boosting revenue mobilization, strengthening governance and judicial effectiveness, and addressing financial sector fragilities, will all be key to boosting long-term growth prospects.

The authorities' reform agenda and investment plans, undertaken in the context of their revised strategic development plan (SCA2D), will help raise potential growth rates going

[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.

forward. A realistic budgetary framework, based on achievable revenue and investment targets and continued reform implementation, is essential to underpin development plans. To obtain much-needed external development financing on favorable terms, greater engagement with the donor community will be needed, to preserve the hard-won gains on debt sustainability of recent years.

Executive Board Assessment[2]

Executive Directors welcomed Comoros's recent economic performance despite continued difficulties. Noting the challenging medium-term outlook, Directors encouraged the authorities to build on the progress made thus far and to continue to pursue comprehensive policy measures and structural reforms, to achieve a higher and more inclusive growth rate.

Directors emphasized that sustained efforts are needed to create fiscal space needed to scale up priority infrastructure and social spending. They highlighted the importance of controlling current public expenditure and further strengthening revenue mobilization by strengthening tax and customs administration. Directors also called for continued steps to improve budget execution through public financial management reform. They underscored that maintaining commitment to prudent debt management, including relying mainly on concessional borrowing, is necessary to preserve debt sustainability.

Directors welcomed the steps taken to modernize the monetary policy framework and encouraged the authorities to carefully sequence the envisaged reforms. They noted that although the financial sector is well capitalized and liquid, addressing growing financial sector vulnerabilities, including high NPLs, will be key to enhancing credit growth and private sector development. Directors encouraged the authorities to ensure that the AML/CFT framework is in line with international standards, as this would also help counter problems with correspondent banking relationships.

Directors commended the progress made in implementing structural reforms. However, they agreed that deeper reforms are needed to improve growth prospects. Directors emphasized that priority needs to be given to addressing infrastructure gaps, maintaining a stable electricity supply, strengthening governance, and reducing gender inequality. They stressed that implementing the ambitious development agenda will require the identification of sustainable financing sources in the context of a realistic budgetary framework, to safeguard debt sustainability. Directors took positive note of the authorities' interest in closer Fund engagement. They emphasized that continued efforts to improve the statistical capacity and enhance the reliability, timeliness and consistency of economic data are critical for macroeconomic surveillance and policymaking.

[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.

Comoros: Selected Economic and Financial Indicators, 2015-23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Prel.[1]			Proj.[1]			
	(Annual percentage change, unless otherwise noted)								
National income and prices									
Real GDP	1.0	2.2	2.7	2.8	2.8	2.9	3.1	3.2	3.3
GDP deflator	1.6	2.4	1.2	2.4	2.2	2.3	2.3	2.3	2.3
Consumer price index (annual averages)	2.0	1.8	1.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer price index (end period)	2.0	0.8	2.9	1.9	1.6	1.8	1.7	1.9	1.9
Money and credit									
Net foreign assets	37.9	-13.1	10.4	2.4	2.7	2.0	1.7	1.5	1.0
Domestic credit	-4.7	33.5	-0.4	2.3	3.9	5.0	5.5	5.9	6.3
Credit to the private sector	16.8	7.2	6.3	5.4	5.4	5.8	6.4	6.5	6.2
Broad money	17.1	10.3	1.8	5.3	5.1	5.3	5.5	5.6	5.7
Velocity (GDP/end-year broad money)	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
External sector									
Exports, f.o.b.	-21.7	82.0	26.2	-12.8	5.5	5.7	6.0	6.7	7.4
Imports, f.o.b.	-7.8	-0.4	14.2	3.0	3.1	4.4	5.6	5.7	6.2
Export volume	-21.0	32.3	-0.9	-10.2	4.7	4.8	5.0	5.4	5.9
Import volume	-4.9	13.4	9.7	8.9	6.0	6.1	6.2	6.3	6.3
Terms of trade	3.5	22.3	8.6	-0.2	2.6	1.7	1.2	1.3	1.2
	(in percent of GDP, unless otherwise noted)								
Investment and savings									
Investment	18.4	21.0	21.4	21.6	21.8	22.1	22.5	22.8	23.1
Public	8.4	10.3	9.9	10.7	10.9	11.1	11.1	11.2	11.3
Private	10.0	10.7	11.6	10.9	10.9	11.0	11.4	11.5	11.8
Gross national savings	18.0	13.6	17.3	15.6	14.1	14.7	15.2	15.7	16.2
Public	10.7	-0.8	5.1	3.8	0.4	0.1	-0.1	-0.3	-0.6
Private	7.3	14.5	12.2	11.8	13.7	14.6	15.3	16.0	16.8
Government Budget									
Total revenue and grants	31.6	23.4	28.5	28.3	25.5	25.7	26.0	26.3	26.6
Tax Revenue	11.1	13.0	15.5	15.6	14.7	14.8	14.9	15.0	15.0
Total grants	15.1	8.9	11.7	10.6	8.6	8.6	8.5	8.5	8.6

Total expenditure and net lending	27.4	30.8	27.9	30.2	30.8	31.5	32.0	32.6	33.3
Current expenditure	17.4	18.2	16.9	19.5	19.4	19.8	20.3	21.0	21.6
Capital expenditure	8.4	10.3	10.4	10.7	11.3	11.7	11.7	11.6	11.6
Domestic primary balance	-1.4	-5.1	-1.8	-3.5	-5.1	-5.6	-5.7	-6.0	-6.4
Change in arrears	-1.6	0.0	-0.2	-1.2	-0.1	0.0	0.0	0.0	0.0
External (Interest)	0.0	0.1	0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Domestic	-1.6	-0.1	-0.3	-1.2	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	2.8	-8.1	0.4	-3.1	-5.4	-5.8	-6.0	-6.3	-6.7
Excluding grants	-12.3	-17.0	-11.3	-13.7	-13.9	-14.4	-14.6	-14.9	-15.3
Financing	-1.5	6.9	-0.3	3.1	5.4	5.8	6.0	6.3	6.7
Foreign (net)	3.2	2.0	-0.4	3.5	5.5	5.8	6.0	6.3	6.7
Domestic (net)	-4.7	4.9	0.1	-0.3	-0.2	0.0	0.0	0.0	0.0
Financing gap/errors and omissions	-1.3	1.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
External sector									
Exports of goods and services	16.5	17.9	19.1	18.1	18.2	18.3	18.5	18.8	18.9
Imports of goods and services	45.4	43.8	46.9	47.0	47.0	47.0	47.0	47.1	47.3
Current account balance	-0.4	-7.4	-4.1	-6.0	-7.7	-7.4	-7.3	-7.1	-7.0
Excl. official and private transfers	-42.1	-25.0	-27.1	-28.2	-28.0	-27.8	-27.8	-27.7	-27.7
Private remittances, net [2]	17.1	16.1	18.6	18.6	18.7	18.8	19.0	19.1	19.2
External debt	22.8	26.4	28.8	25.8	25.7	26.0	26.3	26.7	27.3
External debt service[3]	0.8	1.2	1.2	3.6	2.0	1.9	1.7	1.6	1.5
Overall balance of payments (in millions of U.S. $)	47.1	-38.3	23.6	1.9	3.2	0.0	0.0	0.0	0.0
Official grants and loans	18.3	11.1	11.7	12.7	10.8	10.9	11.0	11.1	11.2
Gross international reserves (end of period)									
In millions of U.S. dollars	204.0	167.3	205.6	216.6	219.2	221.1	222.7	223.9	224.8
In months of imports of goods & services	9.2	7.5	8.1	7.3	7.0	6.6	6.3	5.9	5.6
Real effective exchange rate (2010=100)	81.7	76.3	71.1	…	…	…	…	…	…
Exchange rate CF/US$ (period average)	443.4	444.6	435.7	…	…	…	…	…	…
Memorandum items:									
GDP (nominal, in bilions of CF)	260.9	273.1	283.9	298.8	314.0	330.6	348.8	368.2	389.1
GDP per capita (nominal, in US Dollars)	751	763	788	887	918	952	984	1,020	1,055

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

[1] From 2017, includes budgeted-for revenues and expenses related to fuel subsidies of SOEs.

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

[3] In percent of exports of goods and services and private remittances.

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

May 30, 2018

KEY ISSUES

Context. Despite continued headwinds, the Comorian economy's performance slightly improved in 2017. Growth increased to 2.7 percent in 2017 thanks to amongst other factors an improved electricity supply relative to 2016 and favorable external sector developments (exports and remittances). This was despite a persistent deterioration of the business climate and isolated financial sector tensions. A strong reform commitment and deeper engagement with the donor community will be needed to ensure that the authorities' detailed strategic development plan (SCA2D) is underpinned by sustainable financing sources and will meet its inclusive growth objectives.

Outlook and Risks. Absent further reform implementation, growth is expected to remain below potential over the medium-term and will be insufficient to significantly improve real per capita incomes. The main downside risks emanate from a deterioration in electricity supply, weak budgetary execution, an inability to address pressing infrastructure needs through quality investment, continued financial sector fragility and continued political uncertainty associated with proposed constitutional changes.

Policy Recommendations. Containing vulnerabilities and achieving sufficiently-high sustainable growth rates that can boost living standards require a comprehensive set of policy measures:

- Overcoming persistent and severe physical and human capacity constraints—particularly bottlenecks in basic infrastructure provision (roads, electricity)—improving the business climate, and strengthening governance and judicial effectiveness, will be key to encouraging investments in key sectors (agriculture, fisheries, tourism), diversifying the economy and boosting long-term growth prospects;
- Ensuring realism in revenue and expenditure targets, as well as expediting reform implementation, particularly on revenue administration, are urgently needed to improve budget execution, and will help avoid recourse to potentially costly debt financing, which may endanger hard-won gains in debt sustainability;
- Enhancing monetary policy transmission by reinforcing contract enforcement and judicial effectiveness to address structural excess liquidity—which is symptomatic of risk aversion induced by a high non-performing loan level and a lack of good collateral; and
- Addressing growing banking sector vulnerabilities by close monitoring of financial institution NPL portfolios and isolated liquidity tensions, resolving ongoing governance problems, and moving swiftly with the recapitalization of the state-owned postal bank.

Approved By
David Owen and Johannes Wiegand

Discussions took place in Moroni from March 26th to April 6th. The team comprised Mr. Tsangarides (Mission Chief), Mr. Bua (Resident Representative), Mr. McLoughlin, Mr. Benlamine, Mr. O'Sullivan, and Mr. Ahamada (all AFR). Mr. Sidi Bouna (OED), and Mr. Diaz Sanchez (World Bank) participated in most policy discussions. The mission held discussions with the Vice President and Minister of Economy Said Hassani, Minister of Finance Chayhane, the Secretary-General of the Government Hamadi Idarousse, Governor of the Central Bank of Comoros Imani Younoussa, Secretary of the CREF Oubeidi, and other government officials. The mission also held discussions with representatives of the government of the island of Grande Comore, parliament, state-owned enterprises, the private sector, banks, and the donor community. Ms. Bieleu and Mr. Bari provided excellent assistance for the preparation of this report.

CONTENTS

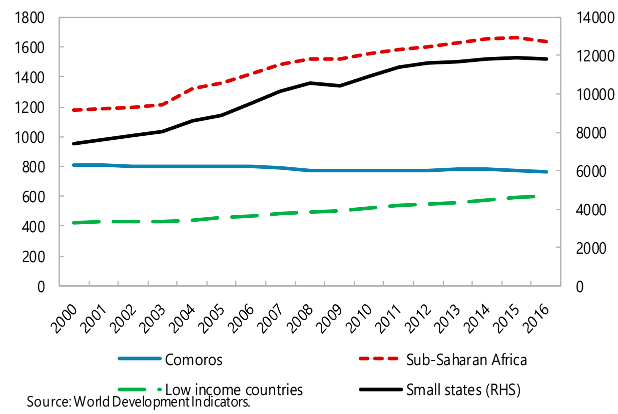
TABLES

ANNEXES

CONTEXT

1. **Comoros remains highly vulnerable and fragile, despite a prolonged period of post-conflict stability.** After a quarter-century of post-colonial turmoil, Comoros has over the last sixteen years enjoyed a period of relative peace and stability. Yet the country remains highly fragile, with per capita GDP stagnant or declining (Text Figure 1), continued vulnerability to external shocks, and severe capacity limitations (Box 1).

Text Figure 1. Comoros: Trends in Real GDP per Capita, 2000–2016 (2010 US Dollars)



Source: World Development Indicators.

2. **Energy infrastructure investment supported an uptick in growth in 2017.** The authorities announced in March 2017 an ambitious goal for the country to achieve emerging market economy status by 2030. Comoros' development roadmap is outlined in the authorities' ambitious five-year development strategy (SCA2D). Under the SCA2D, 2017 saw the very first steps taken towards project and some "quick win" reform implementation, which supported a moderate growth increase.

3. **However, the outlook remains challenging.** Political uncertainty is overshadowing economic developments in early 2018 and constraining private sector activity and growth. Recent National Conferences concluded that current constitutional arrangements hamper long-term development plans, and are likely to be changed via a referendum scheduled for July 30, 2018. The fiscal situation remains fragile, with ongoing capital spending under-execution and deficiencies in medium-term fiscal planning. Persistently elevated non-performing loans (NPLs) constrain lending to the private sector, while the troubles of the state-owned postal bank (SNPSF) continue.

4. **Recent Fund engagement with Comoros and traction of policy advice has been limited, but there are recent signs of enhanced desire for closer engagement and greater reform commitment.** A six-month Staff-Monitored Program (SMP) was signed in November 2016, but neither of the reviews could be completed. The authorities however recently expressed a desire to work closely with the Fund and other donors to further implement reforms to achieve their development goals.

Box 1. Fund Strategy for Addressing Fragility–Update

After a quarter-century marked by inter-island tensions and conflicts that spilled over into political instability and violence, Comoros has enjoyed an extended period of relative calm and stability during the last sixteen years. During this period, successive democratic transitions of presidential power were based on the 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. Yet Comoros remains fragile, with per capita GDP stagnant or declining, due to a combination of factors. First, the country remains riven by persistent underlying inter-island tensions, intensified recently by mooted constitutional reforms. Second, severe capacity limitations continue to impede effective macroeconomic management and reform implementation. Third, basic infrastructure provision remains weak.

The engagement strategy for Comoros continues to focus on "quick win" capacity building efforts. Reinforcing the capability of the tax collection authority will benefit national cohesion through ensuring an equitable contribution from all three islands to the national budget. Enhancing revenue mobilization, along with improvements to fiscal expenditure reporting and the budgetary framework, will also create the fiscal space necessary for plugging infrastructure gaps. Additionally, an ongoing intensive Technical Assistance (TA) program, provided in conjunction with AFRITAC South, helps alleviate severe capacity limitations.

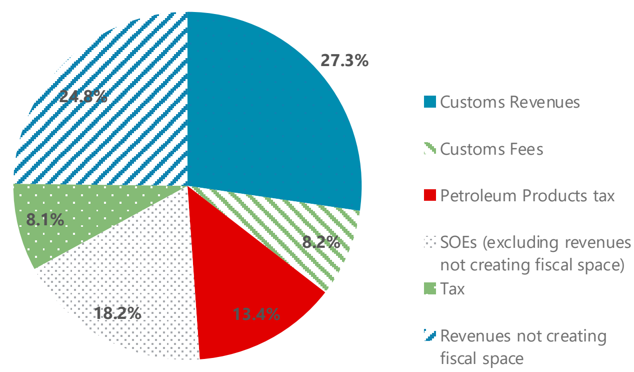
In the near-to-medium term, the capacity-building program focuses on building domestic finance capacity through improved RA and PFM, improving oversight of SOEs, addressing financial sector fragility, and reinforcing statistical capacity. In the near term, full and urgent implementation of existing recommendations to boost capacity of tax and customs administrations is key to raising tax revenues from their precariously low level. Medium-term viability of the public finances will also need to be addressed through PFM reforms, particularly improving budgetary realism, preparation and execution, as well as enhancing fiscal reporting and cash flow management procedures. TA on implementing central bank bills will promote an interbank market and help address financial sector fragilities. In conjunction with other development partners, a continuing TA program seeks to address weak statistical capacity, particularly in national accounts and price statistics.

RECENT ECONOMIC DEVELOPMENTS

5. **A combination of factors contributed to a moderate growth pickup in 2017.** Preliminary estimates show that growth in 2017 increased by half a percentage point over the previous year to 2.7 percent, close to the authorities' forecasts. Stronger growth was underpinned by the purchase of diesel electricity generators at end-2016 as well as the budgeting-for and execution of the fuel subsidy, both of which improved the electricity situation relative to 2016; greater activity and competition in the telecommunications market; increased exports (due to higher prices and destocking in the vanilla and ylang-ylang sectors); and stronger remittance flows. Nevertheless, growth was negatively impacted by the persistence of physical infrastructure bottlenecks, a perceived deterioration in the business climate in private sector surveys (in parallel with the return of isolated power outages) that continued to affect private sector activity, as well as tensions in the financial sector. Inflation remained moderate.

6. Although cash revenue collections increased sharply in 2017, they did not meet the ambitious supplementary budgetary target. Overall net cash revenue collections in 2017 were KMF 47.7bn (16.8 percent of GDP), a welcome increase over the 2016 outturn (KMF 39.5bn / 14.5 percent of GDP). The improved performance was driven by both tax and customs revenues, which formed the lion's share of revenues in 2017 (Text Figure 2). Measures underpinning this result included reminding taxpayers of their compliance obligations; revenues from the state-owned oil import monopoly (SCH) (KMF 3bn / 1 percent of GDP); reversing customs exemptions, introducing a minimum customs value, and effective cross-checking of import and turnover data by the mixed brigade of customs and tax administration officials. Non-tax revenues disappointed, while overall revenues fell well short of the supplementary budget target (KMF 64bn / 23 percent of GDP). Cash revenues were supplemented by external financing (about 5 percent of GDP), including budget support grants from Saudi Arabia and the Emirate of Sharjah (combined about 3 percent of GDP) and drawing on the counterpart to SDR holdings to pay for electricity generators, as well as by borrowing from the financial sector.

Text Figure 2. Comoros: Revenue Structure in 2017
(percent of total)



7. The improved revenue outlook, combined with compression in current expenditures, and a marginal increase in capital expenditures on the back of one-off factors, significantly reduced the primary deficit for the year. Current expenditures came in underbudget. Transfers reverted to their normal level after an exceptional result in 2016, and included an identical amount as on the revenue side for fuel-subsidy-related expenditures (KMF 3bn / 1 percent of GDP).[1] The nominal wage bill was stable but fell markedly as a percentage of revenues. Capital expenditures increased marginally, due mainly to one-off factors (fully accounting for the purchase of electricity generators at end-2016, the first tranche of the three-year recapitalization of SNPSF). But capex execution *vis-á-vis* the supplementary budget target decreased substantially, mainly because the lack of shovel-ready projects. Combined with the improvements in revenues, the expenditure outturn led to a reduction in the domestic primary deficit of 3.3 percentage points of GDP.

8. The 2018 budget is ambitious and supposes a significant net contribution of revenues related to uncertain cross-arrears settlements between the State and publicly owned enterprises. The large budgeted-for increase in revenue in 2018 largely reflects the settlement of cross-arrears between the state and the publicly-owned telecoms company (Comores Telecom, CT). These cross-arrears relate mainly to unpaid company taxes due to the State from CT, and unpaid

[1] Fuel subsidy payments to the public water and electricity utility (MAMWE) came from general budget revenues, and were not specifically linked to particular taxes paid to the State, including those paid by the state-owned oil importing monopoly (SCH).

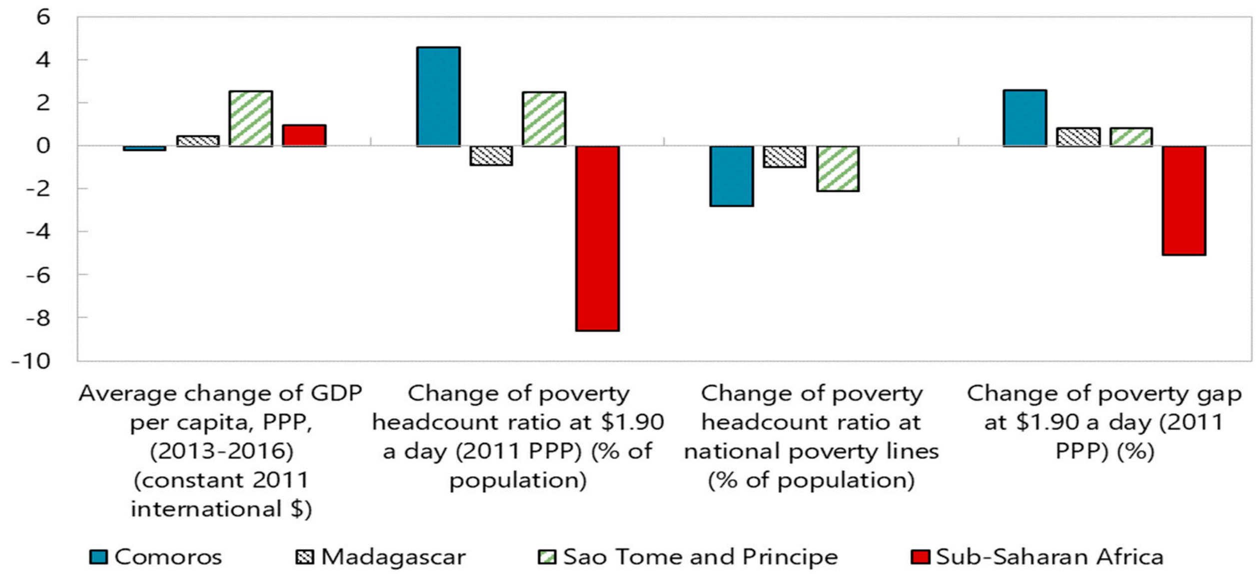
telephone bills of the State owed to CT. However, the exact nature of such cross-arrears claims, and whether their settlement would create any additional fiscal space, remains unclear. Moreover, the finance law also foresees an ambitious increase in investment expenditures. Yet apart from a large hospital project and plans for a deep-water port for Grande Comore island—both of which will take time to implement—the lack of shovel-ready investment projects and weak implementation capacity imply that it will be difficult for the authorities to reach their 2018 investment target, heightening also the risk that domestic arrears may reemerge.

9. Growth in private sector credit slowed further in 2017. Associated with ongoing lending risk stemming from persistently-high NPLs, growth in credit to the private sector, at 6.3 percent in 2017, continued the slowing trend experienced since 2015. Meanwhile, structural excess liquidity persisted, with continued high lending risk leading banks to eschew the significant spread (7 to 14 percent over the central bank's zero deposit rate) available from lending to the private sector. After a decline in 2016, robust growth in the net foreign assets (NFA) position (10.4 percent) during 2017 was principally driven by the receipt of external grants and the associated marked increase in central bank reserves.

10. Although the trade deficit widened in 2017, the current account deficit decreased, due principally to higher current transfers. Despite stronger exports, largely driven by soaring vanilla export prices at end-2017 and destocking in the ylang-ylang and vanilla sectors, imports increased significantly and hence the trade balance widened further. External grants originating in the Middle East (about 3 percent of GDP) contributed to a significantly lower current account deficit than in 2016. Gross workers' remittances remained a key component of the current account, reaching 26.0 percent of GDP at end-2017. The large overall balance of payments surplus led to a rise in international reserves, providing cover for prospective imports of goods and services of more than 8 months at end-2017, well above standard adequacy metrics (Annex III). Despite the challenging business environment, statistical analysis (EBA-lite tool) indicates that the external position at end-2017 was broadly in line with medium-term fundamentals and desirable policies (Annex III).

11. Progress in improving socio-economic indicators has been limited. While there were some improvements, notably in some health and gender equality indicators, limited headway was made in most of the Sustainable Development Goals (Table 5). Deepening Comoros' fragility, per capita incomes have recently been on the decline, with limited progress in reducing poverty (Text Figure 3).

Text Figure 3. Comoros: Poverty Indicators



Sources: World Bank Development Indicators; and staff estimates.
Note: For the poverty indicators, a positive number suggests a deterioration; also, the change represents the difference between the latest available observation and the previous one.

OUTLOOK, RISKS AND DEBT SUSTAINABILITY

12. A more rapid improvement in living standards requires further reform implementation, without which growth will remain below its potential. Although the electricity situation is much-improved over recent years, its unreliability remains a significant medium-term growth constraint. Despite the ambitious plans of the 2018 budget, in the absence of further reform measures fiscal space for much-needed growth enhancing capital expenditure is likely to remain tight in the coming year (Text Table 1). With domestic revenues unable to keep pace with primary current expenditures, the primary deficit would increase from 1.8 percent of GDP in 2017 to a deficit of 3.5 percent of GDP in 2018, widening further to 6.4 percent of GDP in the medium term.[2] On this basis, and in the absence of new reforms, growth is expected to pick up marginally, remaining however below its medium-term potential and will be insufficient to significantly improve real per capita incomes.

13. An adjustment scenario—based on further reform implementation, particularly in the fiscal domain—would further boost growth and living standards over the medium term (Text Table 1). Despite potential implementation lags associated with structural reforms, several growth-enhancing reforms could be implemented in relatively short order. For example, immediate action to ensure resumption of electricity supply stability and implement a level playing field in the telecommunications sector could boost near-term private sector activity. Continued reforms to the tax agency and Customs service (SYDONIA WORLD implementation, reinforcing customs value control)

[2] For Comoros, the primary balance is a less-volatile measure of fiscal effort.

would boost revenues. Complementary PFM reforms (for example, savings on the wage bill by fully implementing software for automatic public service salary payments) would streamline expenditures, improve project execution capacity, and free fiscal space for capital investments. Financial sector reforms, improving available lending collateral and increasing judicial effectiveness to resolve persistently high NPLs, would unlock credit to the private sector, which could be channeled into productive industries. If fully implemented, these reforms could substantially boost medium-term growth.

Text Table 1. Comoros: Baseline vs. Adjustment Scenario

	2017	Baseline Scenario 2018	2019	2020	2021	2022	2023	Policy Scenario 2018	2019	2020	2021	2022	2023
	Prel.[1]			Proj.[1]						Proj.[1]			
	(Annual percentage change, unless otherwise indicated)												
National income and prices													
Real GDP (percent change)	2.7	2.8	2.8	2.9	3.1	3.2	3.3	3.4	3.8	4.0	4.2	4.5	4.7
Consumer price index (annual averages)	1.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Real GDP per capita (percent change)	0.0	0.1	0.1	0.2	0.4	0.6	0.7	0.7	1.1	1.3	1.4	1.9	2.0
	(In percent of GDP)												
Investment and savings													
Investment	21.4	21.6	21.8	22.1	22.5	22.8	23.1	23.3	24.1	24.8	25.6	26.3	27.3
Public	9.9	10.7	10.9	11.1	11.1	11.2	11.3	10.4	10.7	11.4	11.7	12.0	12.4
Private	11.6	10.9	10.9	11.0	11.4	11.5	11.8	12.8	13.4	13.4	13.9	14.3	14.9
Gross national savings	17.3	15.6	14.1	14.7	15.2	15.7	16.2	17.3	18.1	19.0	19.9	20.8	22.1
Public	5.1	3.8	0.4	0.1	-0.1	-0.3	-0.6	1.2	0.7	0.8	1.0	1.3	1.6
Private	12.2	11.8	13.7	14.6	15.3	16.0	16.8	16.1	17.4	18.2	18.8	19.5	20.5
Current account balance	-4.1	-6.0	-7.7	-7.4	-7.3	-7.1	-7.0	-6.0	-6.0	-5.8	-5.8	-5.6	-5.2
Excl. Official and Private Transfers	-27.1	-28.2	-28.0	-27.8	-27.8	-27.7	-27.7	-28.4	-28.4	-28.1	-28.0	-27.7	-27.4
Total revenue and grants	28.5	28.3	25.5	25.7	26.0	26.3	26.6	31.2	30.5	30.8	31.2	31.6	32.0
Tax revenue	15.5	15.6	14.7	14.8	14.9	15.0	15.0	15.7	14.9	15.0	15.2	15.4	15.5
Non-tax revenue	1.3	2.0	2.2	2.4	2.5	2.7	3.0	2.0	2.2	2.4	2.7	2.9	3.2
Grants	11.7	10.6	8.6	8.6	8.5	8.5	8.6	13.5	13.3	13.3	13.3	13.3	13.3
Total expenditure and net lending	27.9	30.2	30.8	31.5	32.0	32.6	33.3	32.5	32.4	33.2	33.6	33.9	34.3
Current expenditure	16.9	19.5	19.4	19.8	20.3	21.0	21.6	19.5	18.9	18.9	18.9	18.9	18.8
Capital expenditure	10.4	10.7	11.3	11.7	11.7	11.6	11.6	13.0	13.4	14.2	14.7	15.0	15.5
Overall balance (cash basis)	0.4	-3.1	-5.4	-5.8	-6.0	-6.3	-6.7	-2.5	-2.0	-2.4	-2.4	-2.3	-2.3
Domestic primary balance[2]	-1.8	-3.5	-5.1	-5.6	-5.7	-6.0	-6.4	-2.9	-3.6	-3.9	-3.8	-3.6	-3.5

Source: Comorian authorities and IMF staff.

[1] From 2017, includes budgeted-for revenues and expenses related to fuel subsidies of SOEs.

[2] Domestic revenues minus current primary expenditures and domestically financed capital expenditures.

14. Risks to the outlook are balanced. On the upside, better-than-expected implementation of further "quick win" reforms and an accelerated pickup in remittances would brighten medium-term prospects. On the downside, political uncertainty surrounding the forthcoming constitutional referendum may further inhibit private sector activity and discourage investment. An inability to maintain a stable electricity supply, address infrastructure needs through quality investment, and continued poor financial sector health would greatly impact Comoros' short to medium term growth prospects. Limited debt management capacity will also put the economy's long-term debt sustainability at risk. On the external side, the main risks emanate from policy and geopolitical uncertainties and a potential retreat from cross-border integration. Comoros remains exposed to exogeneous natural disaster shocks.

15. A DSA update indicates that Comoros remains at moderate risk of debt distress under both baseline and policy scenarios, although this rating would be endangered in the case of large projects funded by a mixture of concessional and non-concessional financing (Annex IV). Indications are that infrastructure loans from India and China (USD 41.6 million and USD 32 million respectively) were nearly fully disbursed by end-2017. Another infrastructure loan of UAC 2.7bn (KMF 1.54bn or 0.5 percent of GDP) was contracted with the African Development Bank in 2017.[3] At the same time, the external arrears stock increased to USD 4.8mn (0.7 percent of GDP) at end-2017. The mission confirmed that a mooted non-concessional loan to finance El-Maarouf hospital (USD 50mn / about 8 percent of GDP) with a loan from Trade and Development Bank (TDB) was in fact not contracted.[4] The authorities are also exploring financing options for the new large-scale deep-water port project (USD 115mn / about 18 percent of GDP) with China. A staff simulation highlights the combined dangers of large project size and non-concessional financing. In a hypothetical "baseline + new loan" scenario, in which financing for the deep-water port materializes on concessional terms, and a project on the same scale as the El-Maarouf hospital is funded on non-concessional terms similar to those of the potential loan from TDB, there would be a significant deterioration in Comoros' debt sustainability outlook.

16. Authorities' views. The authorities emphasized that the SCA2D underpins their greater optimism on medium-term growth prospects. The revised strategy includes detailed sectoral reforms and investment plans designed to address infrastructure and other constraints and raise potential growth rates going forward. Enhanced donor commitments are expected to contribute significantly to this effort and in this regard, the authorities are planning to organize a donor conference in the latter half of 2018 to ensure that SCA2D is fully financed. The authorities acknowledge the importance of maintaining debt sustainability and understand the importance of negotiating external debt on concessional terms, to the extent that such financing is available.

POLICY DISCUSSIONS: REFORMS FOR MACROECONOMIC STABILITY AND INCLUSIVE GROWTH

17. Implementing a comprehensive set of policy measures remains urgent to bolster the country's prospects of achieving and sustaining a higher medium-term growth path. Discussions focused on measures to address Comoros' significant infrastructure gaps and promote inclusive growth; stabilize the fragile fiscal situation and preserve debt sustainability; modernize the monetary framework to promote financial development and financial inclusion; and address nascent threats to financial stability, all in the context of weak implementation capacity. The mission

[3] Ten years grace period, 0.75 percent interest, 0.5 percent commitment fee.

[4] The financing terms of the loan from TDB were reportedly a 7.5 percent floating interest rate, 12 years maturity, with no grace period.

emphasized that greater engagement with the donor community will help to obtain much-needed external financing, but will also require a more active approach to reform implementation.

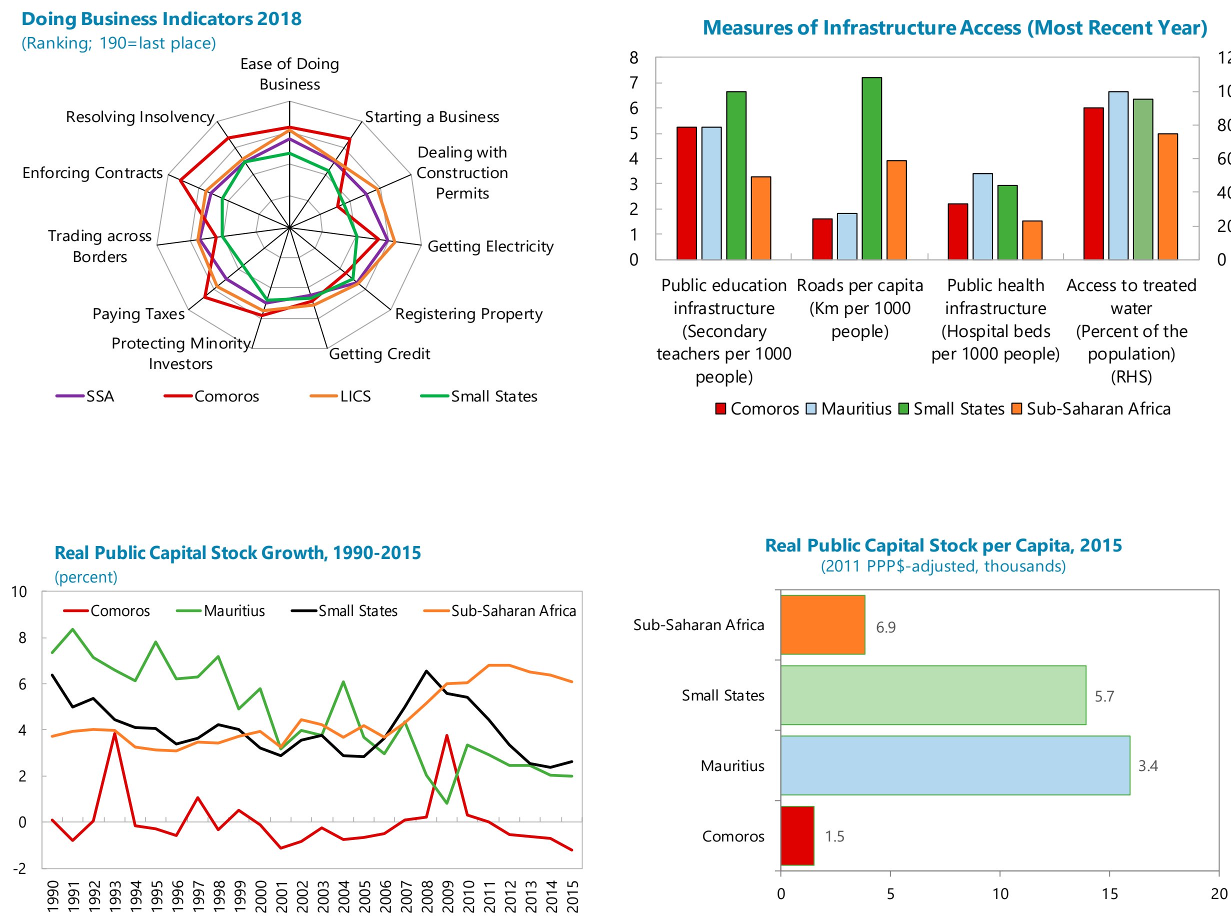
A. Structural Policies: Reforms to Support Inclusive Growth and Employment

18. Despite some recent improvements in energy supply and road infrastructure, Comoros' overall business climate remains comparatively inhospitable, hindering competitiveness, and there are severe physical and human capacity constraints. The purchase of new diesel-generators at end-2016 brought welcome improvements to electricity supply stability, while an ongoing donor-funded road works program has brought some improvements in this area, notably on the route from Moroni airport to the capital. But much work to be done to improve the many aspects of the business environment and infrastructure provision in which Comoros lags comparators (Text Figure 4). Some reforms, such as allowing local subsidiary of the Malagasy telecoms company TELMA to operate in a free and unfettered manner, could be implemented relatively quickly.

19. Sustained reform implementation, based on a coherent, realistic and adequately-financed development plan, is needed to achieve the authorities' development goals. The mission underlined that overcoming persistent and severe physical and human capacity constraints, and the inhospitable business climate, as well ensuring respect of the law, are key to boosting competitiveness and achieving inclusive and sustainable growth that would help reduce poverty. Successfully implementing the authorities' ambitious SCA2D development strategy will require that yearly project plans are well-aligned with overall development objectives and can be realistically executed in the planned timeframe; that projects are prioritized according to expected net economic benefit; and that sustainable financing sources are identified.

20. Authorities' views. The authorities are fully aware of the need for structural reforms to improve the business climate and harbor ambitious infrastructure development plans, aimed at reducing poverty and achieving inclusive growth, as enumerated in the SCA2D. They also assured that yearly project plans are well-aligned with the overall development strategy and are also cognizant of the need to improve contract enforcement and judicial effectiveness, particularly in the financial sector. Moreover, they acknowledged that deeper engagement with donor organizations on financing and TA needs will help coordinate external assistance with the authorities' development needs.

Text Figure 4. Comoros: Indicators of Structural Competitiveness



Sources: World Bank Doing Business 2018; FAD PIMA template and IMF staff calculations.
Note: The Doing Business Ranking reflects perceptions of Comoros' business climate is subject to uncertainty around the point estimate.

B. Fiscal Policy and Debt Sustainability

21. Despite significant fiscal effort in 2017, particularly on revenues, further reform efforts are essential to underpin Comoros' development strategy and avoid a potentially unsustainable debt buildup. In the active policy scenario, higher revenues and streamlining current expenditures would create fiscal space for much-needed growth-enhancing capital expenditures, aimed at attending to Comoros' significant development needs. The medium-term primary deficit expansion would be contained to about 1.7 percentage points of GDP (Text Table 1), striking a balance between the need to borrow for essential infrastructure projects, and the need to preserve debt sustainability. Against this background, the mission held constructive discussions with the authorities on the 2017 fiscal outturn and 2018 budgetary framework, focusing on the realism of revenue targets and plans for reform implementation; and the nature and size of net revenues available from settling claims between the State and SOEs (principally the public telecoms utility, Comores Telecom).

22. The mission underlined that revenue targets must be based on a realistic assessment of capacity to achieve sustainable and growth-friendly increases in revenues. Significant potential exists in Comoros for achieving sustainable and growth friendly increases in revenues, which in fragile states take time to achieve and would be the result of a continued reform effort (see Selected Issues chapter on Weak Domestic Revenue and Volatile Windfall Revenues). In this light, the mission welcomed the increased effort on tax and customs, which led to a much-improved cash revenue outcome in 2017, and plans to deepen these efforts in 2018. Based on recent Fund TA advice, the mission suggested that upcoming reform efforts could for example focus on recovering the stock of tax arrears; recovering unpaid corporate taxes; intensifying the tax audit program; following up on income tax non-declaration; and maintaining the reversal of costly tax expenditures, such as Customs exemptions. The mission also advised that the tax base could be enlarged through reducing economic informality (see Selected Issues chapter on Informality and Gender Inequality in Comoros)**.**

23. Based on budgetary good practice, the mission detailed guidelines for including revenues and expenses related to settling claims between SOEs and the State in 2017 and 2018. The mission underscored that (i) the amount of revenues and counterpart expenses must be validated before they could be included in the fiscal outturn, and (ii) revenues and expenses must also be enumerated in the budget law for the year in question. On this basis, the mission welcomed the inclusion of KMF 3bn for fuel-subsidy-related revenues and expenses related to SCH and MAMWE in the 2017 outturn and 2018 budget. This measure was, and will continue to be, an important stabilizing factor for the electricity supply and a support for economic growth.[5]

24. In this light, a supplementary 2018 budget is required to improve budgetary realism and credibility, and sustain reform implementation to create fiscal space for growth-enhancing capital investments. The mission highlighted that once the amount of revenues and expenditure associated with cross-arrears settlement is clarified, these could be included in detail in a supplementary budget to be submitted to Parliament. Based on a more realistic assessment of potential net revenues arising from cross-arrears settlement, the mission proposed an alternative indicative budgetary framework to the authorities, with more prudent overall revenue (KMF 58bn) and expenditure and net lending (KMF 93bn) targets. Further incorporating additional budgetary reforms to improve capital project execution capacity would allow the projected primary deficit under the adjustment scenario to come in at 2.9 percent of GDP.

[5] For 2017 the mission discounted KMF 2.13bn of revenues and expenses related to the ex-post regularization of Customs taxes; KMF 2.96bn related to SCH and MAMWE for the reduction of 2016 arrears on subsidy payments from the State; and KMF 4bn in revenues from the CT license. None of these transactions were foreseen in the 2017 supplementary budget, passed in October of that year. For 2018, the cross-arears claims with CT remain highly uncertain and in line with previous practice (e.g. in Gabon, IMF Staff Country Report 95/129) must be validated before proceeding with their liquidation. See also IMF Fiscal Affairs Department technical note on 'Prevention and Management of Government Expenditure Arrears, May 2014.

25. A prudent debt strategy is necessary to finance the authorities' investment plans to maintain the current moderate risk of debt distress rating. Discussions are underway regarding the launch of several large infrastructure projects, notably the El-Maarouf hospital and a deep-water port for Grande Comore island, which foresee financing to the tune of USD50mn (about 7 percent of GDP) and USD115mn (about 18 percent of GDP) respectively. A third large project, an ambitious extension of Moroni airport, was reportedly shelved for the moment. The mission urged better cross-governmental coordination and oversight of debt issues and underscored that future borrowing to fund the authorities' ambitious infrastructure agenda must be exclusively on concessional terms. Contracting loans on non-concessional terms would have severe adverse consequences for debt sustainability.

26. The mission welcomed the beginning of external arrears repayment process. The authorities aim to clear all the external arrears by end-March 2019, and in April 2018 paid the first tranche in their action plan for achieving this goal to a multilateral creditor for missed payments in the post-HIPC period. The authorities' action plan entails regular repayments during 2018, as well as ongoing and / or future discussions with certain bilateral and multilateral creditors to cancel part or all of arrears owing to them.

27. Authorities' views. The authorities agreed, in principle, that reform implementation is essential to sustainably boost revenues and welcomed the mission's presentation of suggested revenue administration reforms, based on Fund TA advice. They highlighted their ongoing efforts in this vein on both tax and customs. On taxation reforms, the authorities underscored that their ongoing comprehensive action plan already includes some of the suggested TA reforms, including tax arrears recovery. Other measures in their action plan include an increase in the telecommunications consumption tax by 2.5 percent, estimated to yield about KMF 0.87bn (0.3 percent of GDP); tax procedures simplification to increase compliance; and better monitoring of SOE tax revenues. On cross-arrears settlement, the authorities agreed that the size and nature of the claims must be clarified and that, if necessary, a supplementary budget will be submitted to Parliament. Regarding debt issues, the authorities were open to maintaining an exclusively concessional borrowing policy, depending on the availability of financing on such terms. Concerning external debt arrears, the authorities assured the IMF that all external arrears will be paid by end-March 2019.

C. Monetary Policy

28. The mission noted that steps to modernize the monetary policy framework, which remains well-anchored by the monetary cooperation agreement with France and the peg to the euro, will require careful sequencing in the context of the currently-adequate monetary conditions and available monetary policy tools. Current monetary conditions are adequate in view of current low inflation and a more-than-adequate international reserve position. Monetary policy tools are limited to statutory reserve requirements and the remuneration on obligatory and excess financial institution deposits (See Selected Issues chapter on Financial Sector Risks and Monetary Policy Effectiveness for further details). Central bank bill issuance is a crucial step in developing an interbank market and would clearly improve collateral availability in the banking system. In view of the imminent proposed launch date in July, the mission advised the authorities to urgently ensure that they had adequate TA on sequencing issues, particularly taking account of concerns regarding payment systems adequacy and credit market operation, as well as the merits and risks of central bank bill issuances.

29. Authorities' views. The authorities are aware that monetary policy framework modernization needs to be carefully sequenced and intend to consult with the BCEAO on additional TA needs prior to the planned launch in July. They pointed out that they are already in discussion with commercial banks on the proposals, and that many key actions in the reform implementation plan are already underway.

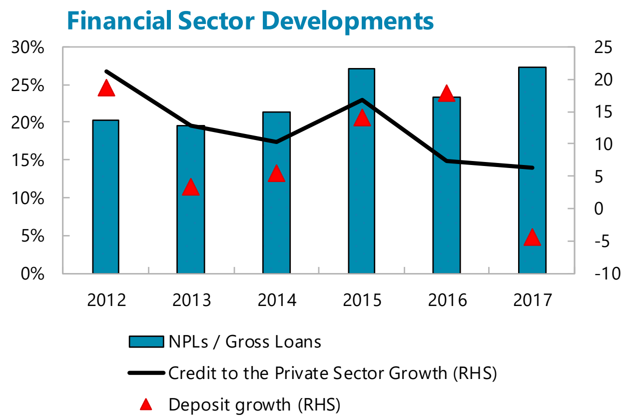
D. Financial Sector Risks

30. Although the Comorian financial sector remains well-capitalized and liquid, it faces growing vulnerabilities related to the persistently troubling NPL level, isolated liquidity tensions, and ongoing governance problems. Changes in financial soundness indicators (FSIs) since end-2015 were mixed. The well-capitalized and highly liquid character of Comorian financial institutions, also in relation to peers in sub-Saharan Africa, of recent years remained an ongoing feature throughout 2017. The NPL ratio, at greater than 20 percent— the second-highest amongst sub-Saharan African fragile states—remains at troublingly elevated levels, and provisioning is lagging. But the health of Comorian financial institutions is heterogenous, with a noticeable spread of FSIs for individual institutions around the sector-wide indicator. Also, while NPL portfolios are large, they tend to be concentrated in smaller banks (ranked by proportion of system-wide assets held) that have higher provisioning rates (Text Figure 5).

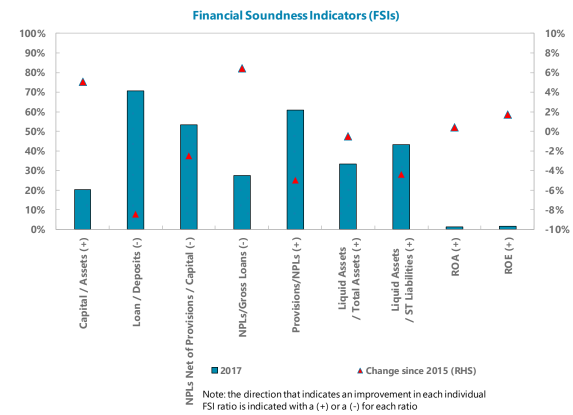
31. The mission advised that in the absence of good collateral and a well-functioning justice system, the high NPL level heightens financial institution risk aversion, hinders lending to the private sector and generates structural excess liquidity that inhibits monetary policy effectiveness (see Selected Issues chapter on Financial Sector Risks and the Effectiveness of Monetary Policy). In the current risky lending environment, only microfinance institutions (which tend to engage in collateralized lending against gold) exhibited positive loan growth in 2017. For other institutions, the lack of good collateral and an inability to recover doubtful loans heightens risk aversion to such an extent that they unwilling to lend, even despite significant spreads (7 to 14 percent) on offer over the zero-interest rate offered on central bank deposits. This leads to structural excess liquidity and inhibits the pass-through of variations in the money supply to private sector credit. In encouraging the authorities to continue close monitoring of financial institution NPL portfolios, the mission noted however that the larger NPL portfolios are well provisioned and are held by less-systemically-important banks.

Text Figure 5. Comoros: Financial Sector Developments and Risks

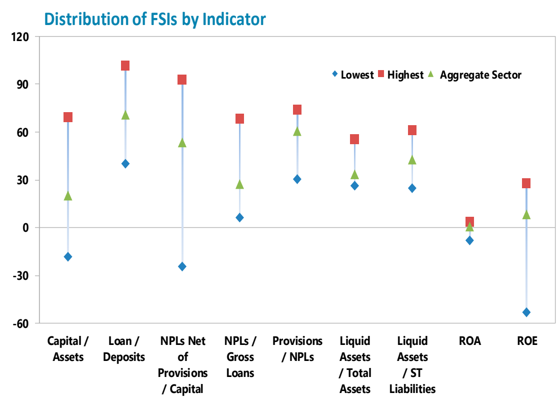
The Comorian financial sector remained fragile throughout 2017…



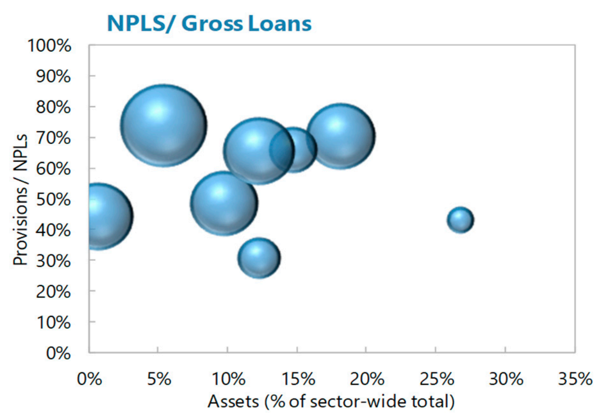
… reflected by minor changes in FSIs.



FSIs are heterogeneous across institutions…



…as is the quality of loan portfolios.



Sources: Comorian authorities; and IMF staff calculations.

32. **Despite implementation of the first phase of the authorities' recovery plan, SNPSF's continuing troubles remain a source of financial sector vulnerability**. SNPSF is a macro-critical financial institution, accounting for about 20 percent of financial sector deposits. In December 2017, the authorities implemented the first phase of their SNPSF recovery plan, using funds from the central bank's statutory advance facility. However, the amount required for SNPSF's full recovery remains uncertain and may increase once an ongoing accounting audit report (originally expected to report by end-April) is completed.

33. **Several Comorian financial institutions are experiencing correspondent banking relationship (CBR) issues**. Many financial institutions in the sector have problems finding correspondent banks for transactions in US dollars, while only foreign-owned banks have no issues in this regard. Others, including one microfinance institution, lack a correspondent bank for transactions in both dollars and Euros. The mission advised that to counter looming CBR problems, the authorities

should ensure that regulatory frameworks relating to anti-money laundering are on par with international standards on this issue.

34. Authorities' views. The authorities are aware of the need to improve collateral to overcome lender risk aversion, highlighting that the recently-instituted Risk Information Centre (*Centrale des Risques*) is functioning well but not helping boost private sector credit. They also underscored that the persistently high NPL level partially relates to some financial institutions refusing to write-off NPLs remaining on their books for an excessive period. In this vein, a new regulation, with a compliance date of end-2018, for the better classification of, provisioning for, and if necessary the write-off, of doubtful loans, will permit reduction of the NPL ratio. The authorities indicated that a roadmap for optimizing the financing of the economy will be put in place in coordination with the banks, the private sector and the public administration. On SNPSF, the authorities acknowledged that in view of the fragile fiscal situation, future recovery funds will be sought elsewhere than from the public finances, but noted that the estimated need may be lower after the ongoing audit is finished. The authorities noted that problems in finding correspondent banks affect not only Comorian financial institutions, but also those in many developing countries, notably in the Zone Franc, and they are cognizant that the issue may affect formal migrant remittances.

OTHER SURVEILLANCE ISSUES

35. The mission discussed TA needs across sectors. Taking account of the imminent launch deadline for central bank bill issuance, the authorities were urged to rapidly consult with the IMF's MCM Department on monetary policy framework modernization reform sequencing. Other urgent TA needs include the ongoing program to rebase GDP estimates; continuing the TA program in the fiscal domain (RA and PFM); SOE governance and fiscal risks; reinforcing financial sector supervision; addressing the lack of coordination between responsible debt management agencies; and developing contingency plans for a financial crisis. The authorities look forward to further engaging with relevant Fund departments on TA needs.

36. Comoros has benefited from a multi-year program of intensive TA on rebasing the national accounts and will soon launch their newly-rebased GDP series. The initial proposed outcome of the GDP rebasing and updating the standard for the Comorian national accounts from SNA68 to SNA93 was to increase GDP by more than 100 percent. Recent TA validation missions from both the Fund and World Bank subsequently brought down this figure to a somewhat more realistic level. The mission raised concerns regarding the new GDP rebasing calculations and urged the authorities not to sacrifice quality of the new GDP series for the sake of meeting an arbitrary release deadline, and to ensure that the national accounts are validated through 2017.

37. Despite recent welcome steps to publish some data on the statistical agency's website, data provided to the Fund particularly balance of payments, central government finance and national accounts statistics continue to have serious shortcomings that significantly hamper surveillance and effective policymaking. The mission reiterated that timely and accurate data are critical for effective macroeconomic surveillance and policy making. The Fund stands ready to assist Comoros in addressing their TA needs in this area.

38. The most recent safeguards assessment was conducted in 2010. The BCC publishes its annual audited financial statements, but has not yet implemented International Financial Reporting Standards (IFRS). Other key recommendations included the establishment of an internal audit function, progress on which has been slow.

STAFF APPRAISAL

39. Comoros' growth improved modestly in 2017 and the country is reaping the first dividends of renewed structural reform implementation. Contributors to the growth pickup were an improvement in the electricity supply *vis-à-vis* 2016, greater activity and competition in the telecommunications market, as well as positive external sector developments. Structural reforms are starting to bear fruit, with an impressive increase in cash revenue collections in 2017. The welcome implementation of the first stage of the authorities' plan for clearing external arrears also underscored a reinvigorated reform commitment.

40. Nevertheless, Comoros remains fragile and faces considerable challenges. Overcoming these challenges will require additional urgent reforms, particularly to sustain the improvements in electricity supply stability, to build on the progress already made and realize the country's full potential. Further accelerating economic growth and achieving sustainable improvements in living standards will require further urgent reforms that build on and deepen the progress already made. Much work remains to be done to nurture and promote key sectors, for example tourism, that will underpin future growth and unlock Comoros' economic potential.

41. Comoros' external position remains broadly in-line with medium-term fundamentals and desirable policies, while international reserve buffers are more than adequate. Yet, competitiveness challenges persist, including persistent structural bottlenecks and infrastructure gaps that manifest themselves in a continued narrow export base, large trade deficit and a heavy reliance on transfers. Given the medium-term economic risks faced by Comoros, the country's small size and lack of export diversification, the authorities should consider maintaining a substantial international reserves buffer.

42. Successfully implementing the authorities' ambitious development strategy will require an assessment of net economic benefit of each project, and carefully matching projects with sustainable financing sources in the context of a realistic budgetary framework. The authorities' ambitious SCA2D development plan envisages an extensive infrastructure investment program, including several large projects (for example a large hospital and a deep-water port), that is designed to plug the country's chronic infrastructure gaps. However, project scale must consider prevailing capacity constraints and potential net economic benefit so as not to further undermine budgetary credibility and leave the country with unnecessary white-elephant infrastructure. Given also the fragile fiscal situation and budget execution challenges, potential projects must be matched with a sustainable mix of domestic and external financing sources, the latter relying on concessional financing to safeguard debt sustainability. Successfully mobilizing donor resources will contribute significantly to achieving the latter objective.

43. The authorities acknowledge that further reforms, particularly in the fiscal domain, are necessary to create the much-needed fiscal space for public investment. Fully implementing the authorities' action plan for tax administration and customs will in time boost tax-revenue mobilization and help fund the authorities' ambitious investment agenda. Similarly, continued public financial management reform, will improve budgeting and free-up funds that can be redirected to meeting investment needs.

44. Explicitly budgeting for revenues and expenses for transactions between the state-owned import monopoly (SCH) and the public electricity and water utility (MAMWE) related to fuel subsidies is an appropriate and welcome step towards enhancing budgetary transparency and assuring electricity supply stability. The subsidy transactions were budgeted-for and executed in 2017 and therefore rightly contributed to the fiscal outturn. The fuel subsidy contributed also to electricity supply stability and economic growth during the year.

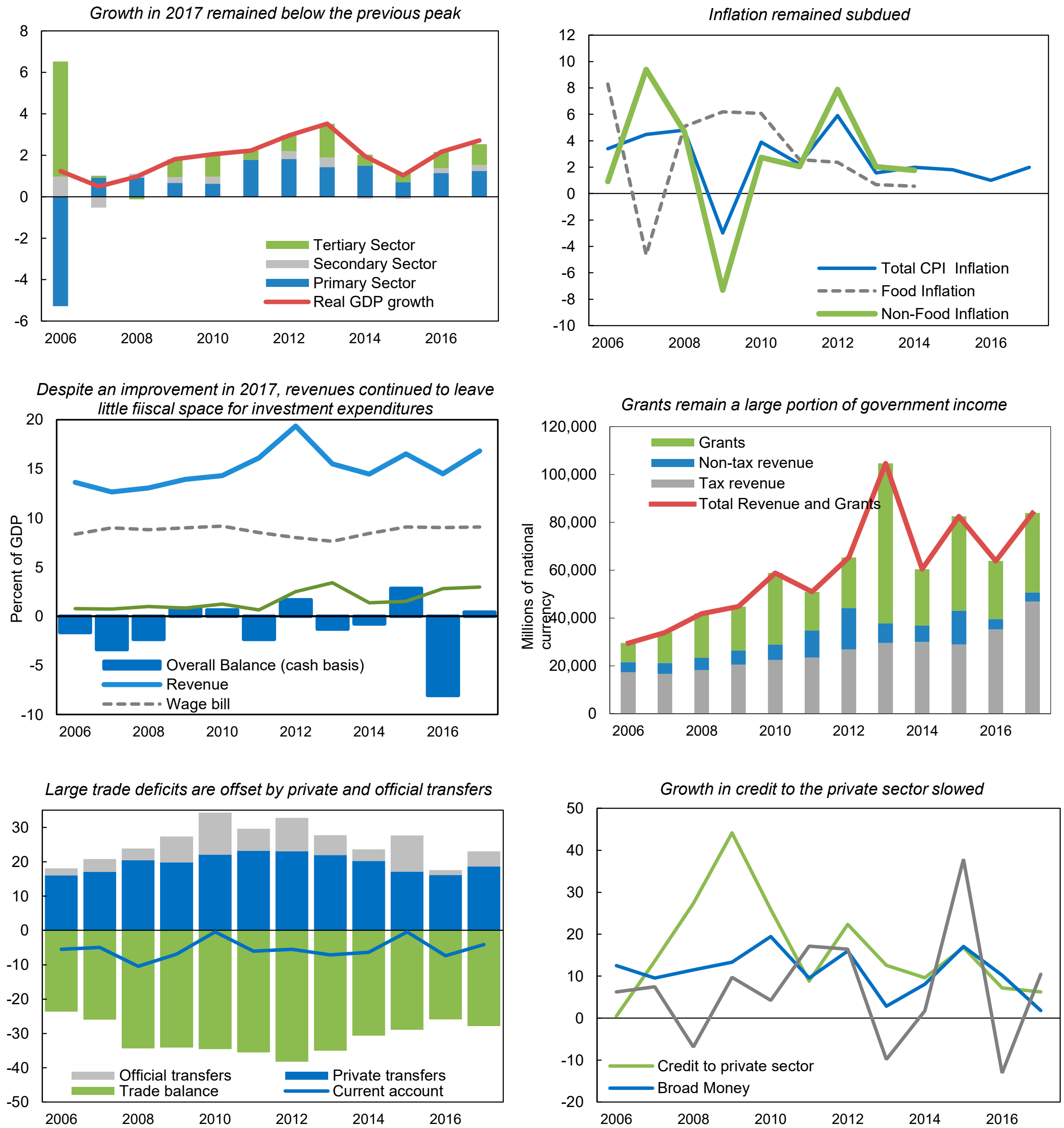
45. However, the full nature and amount of cross-arrears settlement claims are uncertain and should be verified before proceeding with their settlement. Particularly the transactions relating to Comores Telecom are unclear and relate at least in part to previous budgetary exercises. A full validation of revenues and expenses associated with these claims should be undertaken before they are settled, and they should also be detailed in a supplementary 2018 budget.

46. The first steps towards resolving the difficulties of the state-owned postal bank are welcome, but closer supervision of the fragile financial system is required, particularly to mitigate lender risk aversion and stimulate lending to the private sector. Additional funds to continue the rescue of the state-owned postal bank must be speedily identified. Meanwhile, the high NPL level, which inhibits financial institutions from lending to the private sector and leads to structural excess liquidity, must be resolved.

47. Despite some recent welcome steps in the right direction, addressing the persistent and severe shortcomings in economic data provision is key for effective macroeconomic policymaking and surveillance. The authorities must continue to work with external partners to improve statistical capacity and enhance the reliability, timeliness and consistency of economic data, particularly for central government finances, balance of payments and national accounts statistics.

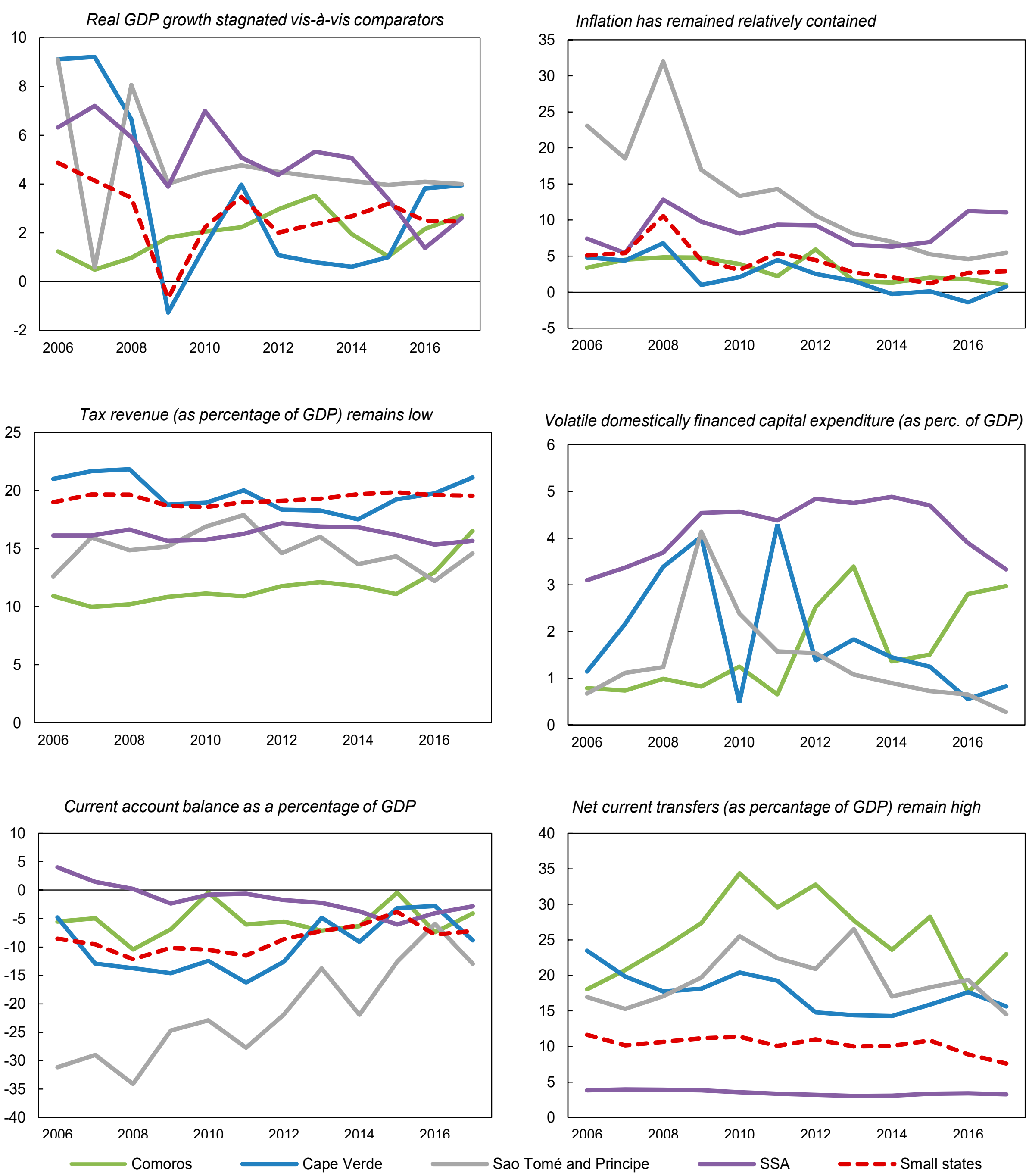
48. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Comoros: Key Indicators of the Comorian Economy



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

Figure 2. Comoros: Cross-Country Comparisons



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

Table 1. Comoros: Selected Economic and Financial Indicators, 2015–23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Prel.[1]			Proj.[1]			
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
Real GDP	1.0	2.2	2.7	2.8	2.8	2.9	3.1	3.2	3.3
GDP deflator	1.6	2.4	1.2	2.4	2.2	2.3	2.3	2.3	2.3
Consumer price index (annual averages)	2.0	1.8	1.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer price index (end period)	2.0	0.8	2.9	1.9	1.6	1.8	1.7	1.9	1.9
Money and credit									
Net foreign assets	37.9	-13.1	10.4	2.4	2.7	2.0	1.7	1.5	1.0
Domestic credit	-4.7	33.5	-0.4	2.3	3.9	5.0	5.5	5.9	6.3
Credit to the private sector	16.8	7.2	6.3	5.4	5.4	5.8	6.4	6.5	6.2
Broad money	17.1	10.3	1.8	5.3	5.1	5.3	5.5	5.6	5.7
Velocity (GDP/end-year broad money)	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
External sector									
Exports, f.o.b.	-21.7	82.0	26.2	-12.8	5.5	5.7	6.0	6.7	7.4
Imports, f.o.b.	-7.8	-0.4	14.2	3.0	3.1	4.4	5.6	5.7	6.2
Export volume	-21.0	32.3	-0.9	-10.2	4.7	4.8	5.0	5.4	5.9
Import volume	-4.9	13.4	9.7	8.9	6.0	6.1	6.2	6.3	6.3
Terms of trade	3.5	22.3	8.6	-0.2	2.6	1.7	1.2	1.3	1.2
	(In percent of GDP, unless otherwise indicated)								
Investment and savings									
Investment	18.4	21.0	21.4	21.6	21.8	22.1	22.5	22.8	23.1
Public	8.4	10.3	9.9	10.7	10.9	11.1	11.1	11.2	11.3
Private	10.0	10.7	11.6	10.9	10.9	11.0	11.4	11.5	11.8
Gross national savings	18.0	13.6	17.3	15.6	14.1	14.7	15.2	15.7	16.2
Public	10.7	-0.8	5.1	3.8	0.4	0.1	-0.1	-0.3	-0.6
Private	7.3	14.5	12.2	11.8	13.7	14.6	15.3	16.0	16.8
Government Budget									
Total revenue and grants	31.6	23.4	28.5	28.3	25.5	25.7	26.0	26.3	26.6
Tax Revenue	11.1	13.0	15.5	15.6	14.7	14.8	14.9	15.0	15.0
Total grants	15.1	8.9	11.7	10.6	8.6	8.6	8.5	8.5	8.6
Total expenditure and net lending	27.4	30.8	27.9	30.2	30.8	31.5	32.0	32.6	33.3
Current expenditure	17.4	18.2	16.9	19.5	19.4	19.8	20.3	21.0	21.6
Capital expenditure	8.4	10.3	10.4	10.7	11.3	11.7	11.7	11.6	11.6
Domestic primary balance	-1.4	-5.1	-1.8	-3.5	-5.1	-5.6	-5.7	-6.0	-6.4
Change in arrears	-1.6	0.0	-0.2	-1.2	-0.1	0.0	0.0	0.0	0.0
External (Interest)	0.0	0.1	0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Domestic	-1.6	-0.1	-0.3	-1.2	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	2.8	-8.1	0.4	-3.1	-5.4	-5.8	-6.0	-6.3	-6.7
Excluding grants	-12.3	-17.0	-11.3	-13.7	-13.9	-14.4	-14.6	-14.9	-15.3
Financing	-1.5	6.9	-0.3	3.1	5.4	5.8	6.0	6.3	6.7
Foreign (net)	3.2	2.0	-0.4	3.5	5.5	5.8	6.0	6.3	6.7
Domestic (net)	-4.7	4.9	0.1	-0.3	-0.2	0.0	0.0	0.0	0.0
Financing gap/errors and omissions	-1.3	1.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
External sector									
Exports of goods and services	16.5	17.9	19.1	18.1	18.2	18.3	18.5	18.8	18.9
Imports of goods and services	45.4	43.8	46.9	47.0	47.0	47.0	47.0	47.1	47.3
Current account balance	-0.4	-7.4	-4.1	-6.0	-7.7	-7.4	-7.3	-7.1	-7.0
Excl. official and private transfers	-42.1	-25.0	-27.1	-28.2	-28.0	-27.8	-27.8	-27.7	-27.7
Private remittances, net[2]	17.1	16.1	18.6	18.6	18.7	18.8	19.0	19.1	19.2
External debt	22.8	26.4	28.8	25.8	25.7	26.0	26.3	26.7	27.3
External debt service[3]	0.8	1.2	1.2	3.6	2.0	1.9	1.7	1.6	1.5
Overall balance of payments (in millions of U.S. $)	47.1	-38.3	23.6	1.9	3.2	0.0	0.0	0.0	0.0
Official grants and loans	18.3	11.1	11.7	12.7	10.8	10.9	11.0	11.1	11.2
Gross international reserves (end of period)									
In millions of U.S. dollars	204.0	167.3	205.6	216.6	219.2	221.1	222.7	223.9	224.8
In months of imports of goods & services	9.2	7.5	8.1	7.3	7.0	6.6	6.3	5.9	5.6
Real effective exchange rate (2010=100)	81.7	76.3	71.1	…	…	…	…	…	…
Exchange rate CF/US$ (period average)	443.4	444.6	435.7	…	…	…	…	…	…
Memorandum items:									
GDP (nominal, in bilions of CF)	260.9	273.1	283.9	298.8	314.0	330.6	348.8	368.2	389.1
GDP per capita (nominal, in US Dollars)	751	763	788	887	918	952	984	1,020	1,055

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

[1] From 2017, includes budgeted-for revenues and expenses related to fuel subsidies of SOEs.

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

[3] In percent of exports of goods and services and private remittances.

Table 2a. Comoros: Consolidated Government Financial Operations, 2015–23

(in millions of Comorian francs, unless otherwise specified)

	2015	2016	2017			2018			2019	2020	2021	2022	2023
			Suppl. Budget	TOFE	Prel.[1]	Budget	Budget (Adj.)	Proj.[1]			Proj.[1]		
Total revenue and grants	82,521	63,841	112,581	109,188	80,910	100,371	92,113	84,480	79,974	85,001	90,577	96,679	103,356
Revenues	43,089	39,558	64,360	56,605	47,703	66,632	58,374	52,813	53,127	56,732	60,758	65,195	70,085
Tax revenues	28,942	35,364	51,735	47,291	44,012	50,732	46,864	46,703	46,240	48,934	51,890	55,089	58,546
Direct and indirect taxes	25,295	30,999	40,378	32,145	30,992	40,795	36,927	29,999	31,839	33,770	35,894	38,200	40,699
Taxes on international trade and transactions	3,647	4,365	11,357	15,146	13,020	9,937	9,937	16,704	14,401	15,164	15,996	16,889	17,847
Nontax revenues[2]	14,147	4,194	12,625	9,314	3,691	15,900	11,510	6,110	6,887	7,799	8,868	10,106	11,539
External grants	39,433	24,283	48,221	52,583	33,207	33,739	33,739	31,667	26,847	28,269	29,819	31,485	33,271
Budgetary assistance	23,464	135	8,880	8,407	8,407	6,000	6,000	6,000	0	0	0	0	0
Projects (incl. techn.assist.)	15,969	24,148	39,341	44,176	24,800	27,739	27,739	25,667	26,847	28,269	29,819	31,485	33,271
Total expenditure and net lending	71,392	84,003	116,342	111,739	79,087	100,253	92,775	90,251	96,557	104,295	111,558	119,964	129,439
Current expenditure	45,485	49,739	50,082	70,184	48,097	59,570	56,252	58,284	60,983	65,579	70,831	77,370	84,118
Primary current expenditures	42,708	45,798	45,851	53,125	44,238	52,364	49,046	52,297	55,426	59,647	64,490	70,585	77,052
Wages and salaries	23,713	24,640	25,930	25,812	25,812	27,384	27,384	29,789	29,756	32,120	34,321	36,717	39,321
Goods and services	12,099	13,079	10,872	16,440	13,145	13,243	9,925	13,823	15,301	16,720	18,324	20,115	22,112
Transfers and pensions[2]	6,896	8,080	9,049	10,874	5,281	11,737	11,737	8,685	10,368	10,808	11,845	13,752	15,618
Interest payments	363	289	816	497	110	205	205	1,236	690	807	935	1,078	1,035
External debt	363	289	816	497	110	205	205	1,062	525	634	752	885	1,035
Domestic debt	0	0	0	0	0	0	0	175	165	173	183	193	0
Foreign-financed project maintenance	911	1,378	1,289	10,698	1,415	2,917	2,917	1,315	1,256	1,323	1,395	1,473	1,557
Technical assistance	1,503	2,273	2,126	5,864	2,334	4,084	4,084	3,436	3,611	3,802	4,011	4,235	4,475
Capital expenditure	22,005	28,148	57,760	40,055	29,490	34,683	30,523	31,967	35,575	38,716	40,727	42,594	45,321
Domestically financed investment	3,929	7,651	18,419	12,440	8,440	13,945	9,785	11,051	13,594	15,572	16,314	16,817	18,081
Foreign-financed investment	18,076	20,497	39,341	27,615	21,050	20,738	20,738	20,916	21,980	23,144	24,413	25,777	27,239
Net lending	3,902	6,116	8,500	1,500	1,500	6,000	6,000	0	0	0	0	0	0
Domestic primary balance[3]	-3,548	-13,891	90	-8,961	-4,975	323	-457	-10,535	-15,893	-18,487	-20,046	-22,207	-25,048
Overall balance (commitment basis)	11,130	-20,162	-3,761	-2,551	1,823	118	-662	-5,771	-16,583	-19,294	-20,981	-23,285	-26,083
Excluding grants	-28,303	-44,445	-51,982	-55,134	-31,384	-33,621	-34,401	-37,439	-43,430	-47,563	-50,801	-54,770	-59,354
Change in net arrears	-4,290	-106	0	-231	-586	0	0	-3,594	-235	0	0	0	0
External arrears	-116	224		497	142			-141	-235	0	0	0	0
Domestic arrears	-4,174	-329		-728	-728			-3,453	0	0	0	0	0
Repayment	-6,928	-2,208			-4,182			-3,453	0	0	0	0	0
Accumulation	2,754	1,878			3,453			0	0	0	0	0	0
Float	573	-1,737	0	0	0	0	0	0	0	0	0	0	0
Overall balance (cash basis)	7,412	-22,004	-3,761	-2,782	1,237	118	-662	-9,365	-16,817	-19,294	-20,981	-23,285	-26,083
Excluding grants	-32,021	-46,287	-51,982	-55,365	-31,970	-33,621	-34,401	-41,033	-43,665	-47,563	-50,801	-54,770	-59,354
Financing	-3,932	18,863		463	-853			9,365	16,817	19,294	20,981	23,285	26,083
Foreign (net)	8,384	5,508		299	-1,018			10,345	17,299	19,294	20,981	23,285	26,083
Drawings, PIP (identified)	8,424	6,116			0			6,275	6,908	7,605	8,370	9,206	10,118
Amortization	-524	-1,166		-1,772	-1,446			-3,643	-2,309	-2,158	-1,886	-1,682	-1,556
Change in net arrears (principal)	484	557		2,071	428			-611	-1,018	0	0	0	0
Exceptional financing	0	0		0	0			0	0	0	0	0	0
Unidentified	0	0		0	0			8,325	13,847	14,497	15,761	17,521	23,335
Domestic (net)	-12,316	13,356		165	165			-980	-482	0	0	0	0
Bank financing	-12,316	13,356		165	165			-980	-482	0	0	0	0
Central bank	-12,085	13,500		-1,063	-1,063			0	0	0	0	0	0
Of which: IMF (net)	-64	-823			-1,018			-1,408	-1,701	-1,171	-879	-683	-293
Commercial banks	-231	-144		1,228	1,228			-980	-482	0	0	0	0
Errors and omissions/Financing gap (+ = underfinancing)	-3,480	3,141		2,319	-384			0	0	0	0	0	0
Memorandum items:													
GDP (nominal)	260,925	273,051	283,890	283,890	283,890	298,805	298,805	298,805	314,003	330,634	348,763	368,241	389,136
Wages in percentage of revenues	55.0	62.3	40.3	45.6	54.1	41.1	46.9	56.4	56.0	56.6	56.5	56.3	56.1

[1] From 2017, includes budgeted-for revenues and expenses related to fuel subsidies of SOEs.

[2] Including RAU from 2018.

[3] Domestic revenues minus current primary expenditures and domestically financed capital expenditures.

Table 2b. Comoros: Consolidated Government Financial Operations, 2015–23

(In percent of GDP, unless otherwise specified)

	2015	2016	2017			2018			2019	2020	2021	2022	2023
			Suppl. Budget	TOFE	Prel.[1]	Budget	Budget (Adj.)	Proj.[1]			Proj.[1]		
Total revenue and grants	31.6	23.4	39.7	38.5	28.5	33.6	30.8	28.3	25.5	25.7	26.0	26.3	26.6
Revenues	16.5	14.5	22.7	19.9	16.8	22.3	19.5	17.7	16.9	17.2	17.4	17.7	18.0
Tax revenues	11.1	13.0	18.2	16.7	15.5	17.0	15.7	15.6	14.7	14.8	14.9	15.0	15.0
Direct and indirect taxes	9.7	11.4	14.2	11.3	10.9	13.7	12.4	10.0	10.1	10.2	10.3	10.4	10.5
Taxes on international trade and transactions	1.4	1.6	4.0	5.3	4.6	3.3	3.3	5.6	4.6	4.6	4.6	4.6	4.6
Nontax revenues[2]	5.4	1.5	4.4	3.3	1.3	5.3	3.9	2.0	2.2	2.4	2.5	2.7	3.0
External grants	15.1	8.9	17.0	18.5	11.7	11.3	11.3	10.6	8.6	8.6	8.5	8.5	8.6
Budgetary assistance	9.0	0.0	3.1	3.0	3.0	2.0	2.0	2.0	0.0	0.0	0.0	0.0	0.0
Projects (incl. techn. assist.)	6.1	8.8	13.9	15.6	8.7	9.3	9.3	8.6	8.6	8.6	8.5	8.5	8.6
Total expenditure and net lending	27.4	30.8	41.0	39.4	27.9	33.6	31.0	30.2	30.8	31.5	32.0	32.6	33.3
Current expenditure	17.4	18.2	17.6	24.7	16.9	19.9	18.8	19.5	19.4	19.8	20.3	21.0	21.6
Primary current expenditures	16.4	16.8	16.2	18.7	15.6	17.5	16.4	17.5	17.7	18.0	18.5	19.2	19.8
Wages and salaries	9.1	9.0	9.1	9.1	9.1	9.2	9.2	10.0	9.5	9.7	9.8	10.0	10.1
Goods and services	4.6	4.8	3.8	5.8	4.6	4.4	3.3	4.6	4.9	5.1	5.3	5.5	5.7
Transfers and pensions[2]	2.6	3.0	3.2	3.8	1.9	3.9	3.9	2.9	3.3	3.3	3.4	3.7	4.0
Interest payments	0.1	0.1	0.3	0.2	0.0	0.1	0.1	0.4	0.2	0.2	0.3	0.3	0.3
External debt	0.1	0.1	0.3	0.2	0.0	0.1	0.1	0.4	0.2	0.2	0.2	0.2	0.3
Domestic debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Foreign-financed project maintenance	0.3	0.5	0.5	3.8	0.5	1.0	1.0	0.4	0.4	0.4	0.4	0.4	0.4
Technical assistance	0.6	0.8	0.7	2.1	0.8	1.4	1.4	1.2	1.2	1.2	1.2	1.2	1.2
Capital expenditure	8.4	10.3	20.3	14.1	10.4	11.6	10.2	10.7	11.3	11.7	11.7	11.6	11.6
Domestically financed investment	1.5	2.8	6.5	4.4	3.0	4.7	3.3	3.7	4.3	4.7	4.7	4.6	4.6
Foreign-financed investment	6.9	7.5	13.9	9.7	7.4	6.9	6.9	7.0	7.0	7.0	7.0	7.0	7.0
Net lending	1.5	2.2	3.0	0.5	0.5	2.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance[3]	-1.4	-5.1	0.0	-3.2	-1.8	0.1	-0.2	-3.5	-5.1	-5.6	-5.7	-6.0	-6.4
Overall balance (commitment basis)	4.3	-7.4	-1.3	-0.9	0.6	0.0	-0.2	-1.9	-5.3	-5.8	-6.0	-6.3	-6.7
Excluding grants	-10.8	-16.3	-18.3	-19.4	-11.1	-11.3	-11.5	-12.5	-13.8	-14.4	-14.6	-14.9	-15.3
Change in net arrears	-1.6	0.0	0.0	-0.1	-0.2	0.0	0.0	-1.2	-0.1	0.0	0.0	0.0	0.0
External arrears	0.0	0.1		0.2	0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
Domestic arrears	-1.6	-0.1		-0.3	-0.3	0.0	0.0	-1.2	0.0	0.0	0.0	0.0	0.0
Repayment	-2.7	-0.8		0.0	-1.5	0.0	0.0	-1.2	0.0	0.0	0.0	0.0	0.0
Accumulation	1.1	0.7		0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float	0.2	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	2.8	-7.4	-1.3	-1.0	0.4	0.0	-0.2	-3.1	-5.4	-5.8	-6.0	-6.3	-6.7
Excluding grants	-12.3	-16.3	-18.3	-19.5	-11.3	-11.3	-11.5	-13.7	-13.9	-14.4	-14.6	-14.9	-15.3
Financing	-1.5	6.9		0.2	-0.3			3.1	5.4	5.8	6.0	6.3	6.7
Foreign (net)	3.2	2.0		0.1	-0.4			3.5	5.5	5.8	6.0	6.3	6.7
Drawings, PIP (identified)	3.2	2.2		0.0	0.0			2.1	2.2	2.3	2.4	2.5	2.6
Amortization	-0.2	-0.4		-0.6	-0.5			-1.2	-0.7	-0.7	-0.5	-0.5	-0.4
Change in net arrears (principal)	0.2	0.2		0.7	0.2			-0.2	-0.3	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0		0.0	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	0.0	0.0
Current maturities restructuring and deferral	0.0	0.0		0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0
Unidentified	0.0	0.0		0.0	0.0			2.8	4.4	4.4	4.5	4.8	6.0
Domestic (net)	-4.7	4.9		0.1	0.1			-0.3	-0.2	0.0	0.0	0.0	0.0
Bank financing	-4.7	4.9		0.1	0.1			-0.3	-0.2	0.0	0.0	0.0	0.0
Central bank	-4.6	4.9		-0.4	-0.4			0.0	0.0	0.0	0.0	0.0	0.0
Of which: IMF (net)	0.0	-0.3		0.0	-0.4			-0.5	-0.5	-0.4	-0.3	-0.2	-0.1
Commercial banks	-0.1	-0.1		0.4	0.4			-0.3	-0.2	0.0	0.0	0.0	0.0
Errors and Omissions/ Financing gap (+ = underfinancing)	-1.3	1.2		0.8	-0.1			0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
GDP (nominal)	260,925	273,051	283,890	283,890	283,890	298,805	298,805	298,805	314,003	330,634	348,763	368,241	389,136
Wages in percentage of revenues	55.0	62.3	40.3	45.6	54.1	41.1	46.9	56.4	56.0	56.6	56.5	56.3	56.1

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

[1] From 2017, includes budgeted-for revenues and expenses related to fuel subsidies of SOEs.

[2] Including RAU from 2018.

[3] Domestic revenues minus current primary expenditures and domestically financed capital expenditures.

Table 3. Comoros: Monetary Survey, 2015–23

(in millions of Comorian francs, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Prel.			Proj.			
Net foreign assets	79,363	69,000	76,195	78,009	80,124	81,747	83,119	84,332	85,193
Central bank assets	90,892	74,638	85,479	85,479	85,479	85,479	85,479	85,479	85,479
Central bank liabilities	-13,367	-12,505	-10,802	-9,394	-7,693	-6,521	-5,643	-4,960	-4,667
Commercial banks assets	5,904	14,198	7,723	8,128	8,542	8,994	9,487	10,017	10,586
Commercial banks liabilities	-4,067	-7,331	-6,205	-6,205	-6,205	-6,205	-6,205	-6,205	-6,205
Net domestic assets	34,397	56,431	51,514	56,410	61,132	66,990	73,774	81,323	89,861
Domestic credit	64,219	85,745	85,430	87,416	90,841	95,377	100,641	106,585	113,277
Net credit to government	-4,264	10,241	5,946	3,850	2,850	2,404	1,854	1,516	1,813
Of which: Treasury	11,603	9,270	8,139	11,603	10,604	10,158	9,607	9,270	9,567
Bank financing	-4,264	10,241	5,946	3,850	2,850	2,404	1,854	1,516	1,813
Claims on government	12,062	18,293	18,405	16,309	15,310	14,863	14,313	13,975	14,273
Deposits at Treasury	-16,325	-8,051	-12,459	-12,459	-12,459	-12,459	-12,459	-12,459	-12,459
Claims on public enterprises	797	2,899	2,268	2,268	2,268	2,268	2,268	2,268	2,268
Claims on other financial institutions	-197	-64	-91	-91	-91	-91	-91	-91	-91
Claims on private sector	67,773	72,669	77,229	81,389	85,813	90,795	96,609	102,891	109,286
Other items net	-29,823	-29,314	-33,916	-28,828	-27,531	-26,210	-24,689	-23,085	-21,238
Of which: Long term liabilities	--	--	--	--	--	--	--	--	--
Broad money	113,759	125,431	127,709	134,419	141,256	148,737	156,893	165,655	175,055
Money	76,379	84,251	85,934	90,448	95,049	100,083	105,571	111,467	117,792
Currency in circulation	30,387	28,679	32,904	34,632	36,394	38,321	40,423	42,680	45,102
Demand deposits	45,992	55,572	53,030	55,816	58,655	61,762	65,148	68,787	72,690
Quasi-money	37,380	41,180	41,776	43,971	46,207	48,654	51,322	54,188	57,263
	(in percent of beginning period broad money)								
Net foreign assets	22.4	-9.1	5.7	1.4	1.6	1.1	0.9	0.8	0.5
Net domestic assets	-5.3	19.4	-3.9	3.8	3.5	4.1	4.6	4.8	5.2
Domestic credit	-3.3	18.9	-0.3	1.6	2.5	3.2	3.5	3.8	4.0
Net credit to government	-13.1	12.8	-3.4	-1.6	-0.7	-0.3	-0.4	-0.2	0.2
Credit to public enterprises	-0.1	1.8	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	10.0	4.3	3.6	3.3	3.3	3.5	3.9	4.0	3.9
Other items (net)	-2.0	0.4	-3.7	4.0	1.0	0.9	1.0	1.0	1.1
Broad money	17.1	10.3	1.8	5.3	5.1	5.3	5.5	5.6	5.7
Money	14.5	6.9	1.3	3.5	3.4	3.6	3.7	3.8	3.8
Quasi-money	2.6	3.3	0.5	1.7	1.7	1.7	1.8	1.8	1.9
Velocity (GDP/end-year broad money)	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Credit to private sector (percent change)	16.8	7.2	6.3	5.4	5.4	5.8	6.4	6.5	6.2

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

Table 4. Comoros: Balance of Payments, 2015–23

(in millions of Comorian francs, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Prel.	Proj.					
Current account	-1,099	-20,179	-11,731	-17,885	-24,088	-24,608	-25,394	-25,984	-27,100
Goods and services	-75,508	-70,719	-79,044	-86,523	-90,414	-94,619	-99,551	-104,215	-110,449
Trade balance	-74,647	-68,167	-76,235	-81,278	-83,423	-86,909	-91,758	-96,765	-102,517
Exports	7,519	13,682	17,267	15,051	15,878	16,778	17,781	18,972	20,380
Of which: Vanilla	1,087	2,009	3,609	2,783	2,871	2,957	3,056	3,259	3,590
Cloves	3,057	8,442	9,442	8,335	8,878	9,480	10,150	10,883	11,684
Ylang-ylang	862	479	1,776	1,396	1,487	1,587	1,700	1,822	1,956
Other	2,513	2,752	2,440	2,538	2,642	2,754	2,876	3,008	3,150
Imports (f.o.b.)	-82,166	-81,849	-93,502	-96,329	-99,301	-103,686	-109,540	-115,737	-122,897
of which oil	-17,873	-16,131	-25,312	-23,443	-22,571	-22,211	-22,469	-23,158	-24,218
Services (net)	-860	-2,552	-2,809	-5,245	-6,992	-7,710	-7,793	-7,450	-7,932
Receipts	35,492	35,081	36,910	39,011	41,232	43,868	46,676	50,122	53,142
Payments	-36,352	-37,633	-39,719	-44,256	-48,224	-51,578	-54,469	-57,572	-61,073
Income (net)	2,222	2,453	2,011	2,165	2,625	2,771	2,497	2,233	2,470
Of which: Interest on rescheduled obligations	-363	-289	-110	-1,062	-525	-634	-752	-885	-1,035
Current transfers (net)	73,769	48,087	65,303	66,473	63,702	67,240	71,660	75,998	80,879
Government	27,462	4,015	12,535	10,751	4,867	5,125	5,406	5,708	6,032
Private [1]	44,724	44,072	52,768	55,722	58,835	62,115	66,254	70,291	74,847
Capital and financial account	-118	24,166	-1,948	18,637	25,341	24,608	25,394	25,984	27,100
Capital account	13,772	8,370	13,279	14,641	15,072	15,540	16,043	16,571	17,122
Capital transfers	13,772	8,370	13,279	14,641	15,072	15,540	16,043	16,571	17,122
Transfer of fixed assets	9,652	14,381	21,050	14,641	15,072	15,540	16,043	16,571	17,122
Financial account	-13,890	15,796	-15,227	3,995	10,268	9,069	9,351	9,413	9,978
Direct investment	2,189	1,186	1,220	3,287	3,454	3,637	3,836	4,051	4,280
Net portfolio and other investment	-16,079	14,610	-16,447	709	6,814	5,432	5,515	5,362	5,697
Government	7,376	3,785	-1,446	2,632	4,599	5,447	6,485	7,524	8,562
Drawings	8,424	6,116	0	6,275	6,908	7,605	8,370	9,206	10,118
Amortization	-1,048	-2,331	-1,446	-3,643	-2,309	-2,158	-1,886	-1,682	-1,556
Private sector (net)	-23,455	10,825	-15,002	-1,923	2,216	-15	-970	-2,162	-2,864
Banks, net	-1,268	-5,029	5,349	-406	-413	-452	-493	-530	-568
Other	-22,188	15,855	-20,350	-1,517	2,629	437	-477	-1,632	-2,296
Errors and omissions	22,114	-21,022	23,950	0	0	0	0	0	0
Overall balance	20,896	-17,036	10,271	752	1,253	0	0	0	0
Financing	-20,896	17,035	-10,271	-752	-1,253	0	0	0	0
NFA of central bank (increase -)	-21,264	16,254	-10,841	0	0	0	0	0	0
Foreign assets	-21,264	16,254	-10,841	0	0	0	0	0	0
Foreign liabilities	0	0	0	0	0	0	0	0	0
Of which: Net IMF Credit	-64	-823	-1,018	-1,408	-1,701	-1,171	-879	-683	-293
Net change in arrears	368	781	570	-752	-1,253	0	0	0	0
Clearance of deferred arrears and debt service									
Exceptional financing	0	0	0	0	0	0	0	0	0
Arrears restructuring and deferral	0	0	0	0	0	0	0	0	0
Current maturities restructuring and deferral	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account (percentage of GDP)	-0.4	-7.4	-4.1	-6.0	-7.7	-7.4	-7.3	-7.1	-7.0
Excluding transfers	-28.7	-25.0	-27.1	-28.2	-28.0	-27.8	-27.8	-27.7	-27.7
Exports of goods and services (percentage of GDP)	16.5	17.9	19.1	18.1	18.2	18.3	-18.5	-18.8	-18.9
Imports of goods and services (percentage of GDP)	45.4	43.8	46.9	47.0	47.0	47.0	47.0	47.1	47.3
Gross international reserves (millions of U.S. dollars)	204.0	167.3	205.6	216.6	219.2	221.1	222.7	223.9	224.8
In months of imports of goods and services	9.2	7.5	8.1	7.3	7.0	6.6	6.3	5.9	5.6
Nominal GDP (CF millions)	260,925	273,051	283,890	298,805	314,003	330,634	348,763	368,241	389,136
Nominal GDP (millions of U.S. dollars)	589	614	652	753	800	852	905	963	1,022

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. Comoros: Progress on the Sustainable Development Goals, 2000–17

	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
GOAL 1: No Poverty										
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population)	..	..	..	..	..	17.7	..	..	..	..
Poverty headcount ratio at national poverty lines (% of population)	..	..	..	..	..	..	..	..	..	..
Urban poverty headcount ratio at national poverty lines (% of urban population)	..	..	..	..	..	..	..	..	..	..
GOAL 2: Zero Hunger										
Prevalence of undernourishment (% of population)	..	..	..	..	..	..	..	..	..	..
Prevalence of underweight, weight for age (% of children under 5)	25.0	..	..	..	16.9	..	..	..	..	..
Prevalence of wasting, weight for height (% of children under 5)	13.3	..	..	..	11.1	..	..	..	..	..
GOAL 3: Good Health and Well-being										
Immunization, measles (% of children ages 12-23 months)	70.0	67.0	72.0	79.0	85.0	85.0	86.0	90.0	99.0	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	499.0	436.0	388.0	376.0	365.0	354.0	344.0	335.0	..	..
Mortality rate, neonatal (per 1,000 live births)	41.6	41.0	37.5	36.7	35.9	35.1	34.3	33.5	32.8	..
Mortality rate, under-5 (per 1,000 live births)	102.9	100.2	88.2	85.5	83.2	80.8	78.3	75.8	73.3	..
GOAL 4: Quality Education										
Literacy rate, adult total (% of people ages 15 and above)	68.5	..	..	..	49.2	..	..	..	..	..
Lower secondary completion rate, total (% of relevant age group)	..	..	..	..	..	45.1	47.7	..	..	..
School enrollment, tertiary (% gross)	1.4	..	5.7	7.9	8.6	8.7	8.9	..	..	..
GOAL 5: Gender Equality										
Nondiscrimination clause mentions gender in the constitution (1=yes; 0=no)	..	..	..	..	..	..	..	..	..	..
Proportion of seats held by women in national parliaments (%)	..	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	6.1
GOAL 6: Clean Water and Sanitation										
People using basic sanitation services (% of population)	26.8	29.4	32.0	32.5	33.1	33.6	34.1	34.2	..	..
People using basic drinking water services (% of population)	86.4	85.4	84.4	84.2	84.1	83.9	83.7	83.7	..	..
GOAL 7: Affordable and Clean Energy										
Access to electricity (% of population)	39.4	51.6	63.8	66.3	69.3	71.3	73.8	..	..	..
Access to electricity, rural (% of rural population)	29.1	41.6	54.5	57.1	61.4	62.4	65.0	..	..	..
Access to electricity, urban (% of urban population)	65.8	77.3	88.0	90.1	85.1	94.1	96.1	..	..	..
GOAL 8: Decent Work and Economic Growth										
GDP growth (annual %)	10.8	2.8	2.2	2.6	3.0	3.5	2.1	1.0	2.2	..
Unemployment, total (% of total labor force) (national estimate)	..	..	..	..	..	..	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24) (modeled ILO estimate)	37.5	37.6	37.6	37.6	37.6	37.6	37.6	37.5	38.1	38.5
GOAL 9: Industry, Innovation and Infrastructure										
Investment in telecoms with private participation (current US$)	..	..	..	..	..	..	..	..	..	..
New business density (new registrations per 1,000 people ages 15-64)	..	..	..	..	..	..	..	..	..	..
GOAL 10: Reduced Inequality										
Personal remittances, received (% of GDP)	..	14.2	16.4	18.4	19.3	18.7	19.4	22.8	21.2	..
GOAL 11: Sustainable Cities and Communities										
Urban population (% of total)	28.1	27.9	27.9	28.0	28.0	28.1	28.2	28.3	28.4	..
Urban population growth (annual %)	2.4	2.3	2.5	2.6	2.6	2.7	2.7	2.7	2.7	..
Population living in slums (% of urban population)	65.4	68.9	..	..	..	..	69.6	..	..	..
GOAL 12: Responsible Consumption and Production										
Renewable electricity output (% of total electricity output)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..	..	..
Renewable energy consumption (% of total final energy consumption)	48.3	44.3	46.4	47.8	48.0	44.1	46.5	..	..	..
Water productivity, total (constant 2010 US$ GDP per cubic meter of total freshwater withdrawal)	..	..	..	..	..	..	59.2	..	..	..
GOAL 13: Climate Action										
PM2.5 air pollution, mean annual exposure (micrograms per cubic meter)	21.1	20.4	16.9	17.2	17.1	17.4	17.1	17.1	..	..
PM2.5 air pollution, population exposed to levels exceeding WHO guideline value (% of total)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	..	..
CO2 emissions (kg per PPP $ of GDP)	0.2	0.2	0.2	0.1	0.1	0.2	0.1	..	..	..
Terrestrial and marine protected areas (% of total territorial area)	0.0	..	..	..	..	..	2.4	..	..	..
GOAL 14: Life Below Water										
Aquaculture production (metric tons)	..	..	..	..	..	..	..	..	..	..
Capture fisheries production (metric tons)	12003.0	10738.0	63517.0	38158.0	36296.0	43732.0	9255.0	12674.0	..	..
Total fisheries production (metric tons)	12003.0	10738.0	63517.0	38158.0	36296.0	43732.0	9255.0	12674.0	..	..
GOAL 15: Life on Land										
Forest area (% of land area)	24.2	22.6	21.0	20.7	20.5	20.3	20.1	19.9	..	..
GOAL 16: Peace and Justice Strong Institutions										
Tax revenue (% of GDP)	..	..	..	..	..	..	..	..	..	..
Overall level of statistical capacity (scale 0 - 100)	..	56.7	50.0	50.0	41.1	43.3	40.0	42.2	34.4	30.0
GOAL 17: Partnerships to achieve the Goal										
Individuals using the Internet (% of population)	0.3	2.0	5.1	5.5	6.0	6.5	7.0	7.5	7.9	..
Net official development assistance and official aid received (current US$)	19310000	23140000	68330000	52210000	98810000	81230000	74950000	65780000	..	..

Source: World Bank Sustainable Development Goals.

Table 6. Comoros: Financial Soundness Indicators for the Banking Sector, 2012–16

(end of period, in percent, unless otherwise indicated)

	2012	2013	2014	2015 March	2015 June	2015 Sep.	2015 Dec.	2016 March	2016 June	2016 Sep.	2016 Dec.
Capital adequacy											
Regulatory capital to risk-weighted assets [2]	24.2	22.5	24.8	24.0	21.6	21.7	22.4	22.7	20.8	22.5	19.6
Regulatory Tier I capital to risk-weighted assets	22.8	21.0	23.1	22.3	19.1	19.0	19.9	20.3	18.5	20.1	17.4
Asset composition and quality											
Sectoral distribution of loans to total loans											
Residents	99.1	98.7	99.0	99.0	99.1	99.1	99.2	99.3	98.9	99.1	99.0
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	2.0	1.9	2.0	1.9	1.8	1.8	1.7	1.4	1.2	1.2	4.5
Deposit-takers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other domestic sectors	48.2	46.1	48.3	49.0	50.6	51.1	49.6	52.3	52.1	54.1	47.2
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial corporations	49.0	50.6	48.7	48.1	46.8	46.3	47.8	45.7	45.7	43.8	47.4
Nonresidents	0.9	1.3	1.0	1.0	0.9	0.9	0.8	0.7	1.1	0.9	1.0
Nonperforming loans (NPLs) to total gross loans	19.8	18.9	20.3	21.2	21.2	22.5	20.5	25.9	23.7	26.0	21.7
NPLs net of provisions to capital	26.2	27.0	33.3	36.6	42.2	46.3	36.0	55.0	53.9	49.3	38.7
NPLs provisions to NPLS	66.4	66.0	60.9	61.1	58.3	56.9	61.2				
Earnings and Profitability											
Return on assets	-1.1	0.6	1.0	0.0	0.0	0.0	1.0				0.6
Return on equity	-6.1	6.3	7.7	0.0	0.0	0.0	7.7				9.0
Interest margin to gross income	49.3	57.5	60.3				65.5				55.5
Noninterest expenses to gross income	70.4	67.3	69.6				73.0				68.7
Liquidity											
Liquid assets to total assets (liquid asset ratio)	43.5	37.8	35.9	36.7	29.4	31.1	33.8	36.0	32.4	36.8	36.5
Sensitivity to market risk											
Net open positions in FX to capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Comoros authorities.

Annex I. Status of Key Recommendations for the 2016 Article IV Consultation

Recommendation	Status
Fiscal	
- Create fiscal space for growth-enhancing infrastructure investment through strengthening revenue administration and public financial management. - Ensure that revenues and expenses of the state-owned oil importing company (SCH), and the state-owned electricity company (MAMWE) relating to the fuel subsidy are budgeted-for. - Undertake a comprehensive audit of domestic payment arrears as at 30th June 2016.	- The authorities have commenced implementing revenue administration reforms, which are already bearing fruit. Progress on public financial management has been more limited, but reforms thus far helped to contain the wage bill. - The authorities' ambitious 2018 revenue target is underpinned by their action plan for tax and customs administrations. - The government has budgeted for revenues and expenses of SCH and MAMWE related to the fuel subsidy. - An audit of domestic arrears was not undertaken.
Financial	
- Enhance banking sector resilience through enhanced financial sector supervision, resolution of ongoing NPL issues and resolution of the difficulties of the state-owned postal bank (SNPSF).	- The BCC has stepped up monitoring of the situation of individual financial institutions and continues to implement a regulation for better classification, provisioning of, and where necessary write-off of doubtful loans. - The first phase of the authorities' recovery plan for SNPSF was implemented at end-2017.
Structural	
- Improve the electricity situation. - Provide a level playing field of competition in the telecoms market between the state-owned Comores Telecom and the new market entrant, TELCO. - Implement structural reforms to improve the business environment and facilitate foreign investment in key economic sectors (tourism, fisheries). - Implement an automatic payment mechanism for external debt service payments.	- The purchase of new diesel generators at end-2016 has done much to improve the electricity situation, despite some continued power outages. - TELCO is still facing hurdles in competing in the telecommunications market in an unfettered manner. - An automatic payment mechanism for external debt service payments was not implemented.

Annex II. Risk Assessment Matrix[1]

Sources of Risk	Relative Likelihood	Time Horizon	Impact on Comoros	Policy Responses
		External Risks		
Decline in remittances A protracted economic slowdown in Europe reduces remittances from the diaspora in France.	Low	ST, MT	Medium	• **Enhance economic competitiveness** through improving the business climate. • **Enhance revenue mobilization.**
Forced repatriation of Comorian migrants in Mayotte Continued tensions between the Comorian diaspora in Mayotte and the local population leads to the forced repatriation of the former.	Medium	ST	Medium	• **Enhance revenue mobilization** and **enhance economic competitiveness** to provide economic opportunities for returned migrants.
Retreat from cross-border integration. Fraying consensus about the benefits of globalization leads to protectionism and economic isolationism, resulting in reduced global and regional policy collaboration with negative consequences for trade, capital and labor flows, sentiment, and growth.	Medium	ST, MT	High	• **Enhance economic competitiveness** through improving the business climate to facilitate investment in key economic sectors (e.g. fisheries, tourism). • **Enhance revenue mobilization and reprioritize spending** to unlock growth potential. • Address significant **infrastructure gaps**.
Policy and geopolitical uncertainties: **Policy uncertainty,** including two-sided risks to U.S. growth; uncertainties associated with post-Brexit arrangements and NAFTA and associated market fragmentation risks; and evolving political processes, including elections in several large economies, weigh overall on global growth.	Medium	ST, MT	High	• **Enhance economic competitiveness** and **reprioritize spending** to unlock potential new export sectors.
Intensification of risks of fragmentation/security dislocation in part of the Middle East, Africa, and Europe, leading socioeconomic disruptions .	High	ST, MT	High	

[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. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Policy Responses	Relative Likelihood	Time Horizon	Impact on Comoros	Policy Responses
Financial conditions: **Tighter global financial conditions.** Against the backdrop of continued monetary policy normalization and increasingly stretched valuations across asset classes, an abrupt change in global risk appetite (e.g., due to higher-than-expected inflation in the U.S) could lead to sudden, sharp increases in interest rates and associated tightening of financial conditions. Higher debt service and refinancing risks could stress leveraged firms, households, and vulnerable sovereigns, including through capital account pressures in some cases.	High	ST, MT	Low	• **Enhance economic competitiveness** and **reprioritize spending** to unlock potential new export sectors.
Further pressure on traditional bank business models: Legacy problems, and potential competition from non-banks curtail banks' profitability globally. Loss of confidence if such profitability challenges are not addressed could increase the risk of distress at one or more major banks with possible knock-on effects on the broader financial sector and for sovereign yields in vulnerable economies. Migration of activities outside of the traditional banking sector, including provision of financial services by fintech intermediaries, raises competitive pressures on traditional banks, making risk monitoring and mitigation more difficult.	Medium	MT	Low	

Policy Responses	Relative Likelihood	Time Horizon	Impact on Comoros	Policy Responses
Weaker-than-expected global growth: **Structurally weak growth in key advanced economies:** Low productivity growth (U.S., euro area and Japan), high debt, and failure to fully address crisis legacies by undertaking structural reforms amidst persistently low inflation (euro area and Japan) undermine medium-term growth.	High	MT	Medium	• **Enhance economic competitiveness** and **reprioritize spending** to facilitate investment in key economic sectors (e.g. fisheries, tourism)
Significant U.S. slowdown and its spillovers: As the current recovery ages and vulnerabilities build up, the risks of a sharper-than-expected slowdown increase. The proximate causes could be a fiscal contraction associated with the eventual planned withdrawal of the tax stimulus or market fears of overheating. A sharp adjustment necessitated by relatively limited fiscal policy space would create global spillovers.	Medium	MT	Medium	
Significant China slowdown and its spillovers: While ongoing efforts by the Chinese authorities to "de-risk" the financial system are welcome, too fast an adjustment and improper sequencing of actions may adversely affect near-term growth (low likelihood). Over the medium term, overly ambitious growth targets, including by over reliance on credit stimulus and investment, lead to unsustainable policies, reducing fiscal space, further increasing financial imbalances. A sharp adjustment would weaken domestic demand, with adverse international spillovers, including a pullback in capital flows to EMs (medium likelihood).	Low/ Medium	ST, MT	Medium	
Lower energy prices, driven by weakening OPEC/Russia cartel cohesion and/or recovery of oil production in the African continent.	Low	ST, MT	Medium	Ensure that **subsidies to the state-owned oil importer (SCH) are budgeted for in a transparent manner** to accurately reflect the impact of oil price changes in the fiscal accounts.
Cyber-attacks on interconnected financial systems and broader private and public institutions that trigger systemic financial instability or widely disrupt socio-economic activities.	Medium	ST, MT	Low	**Reinforce application of AML / CFT frameworks** to limit implications for correspondent banking.

Policy Responses	Relative Likelihood	Time Horizon	Impact on Comoros	Policy Responses
		Domestic Risks		
Political Developments: Political uncertainty surrounding potential forthcoming constitutional changes holds back private sector activity.	High	ST	High	**Resolve political uncertainty as soon as possible** to avoid economic spillovers.
Infrastructure: Failure to consolidate recent hard-won gains in electricity supply stability.	Medium	ST, MT	High	Ensure that **subsidies to the state-owned electricity utility (MAMWE) are sufficiently budgeted for** and **adequate electricity distribution networks are adequately developed**.
Poor investment quality does not yield medium-term growth benefits.	Medium	MT	High	• **Improve project selection** so that only projects with net economic benefits are undertaken.
Natural disasters: Eruption of the Karthala volcano or hurricane landfall.	Medium	ST, MT	High	• Limited mitigation options. To the extent possible, **enhance revenue mobilization** to increase fiscal space available for disaster recovery.
Financial Sector: Persistently high NPL level.	High	ST, MT	High	**Reinforce judicial contract enforcement** in the financial sector to reduce lending risk.
Failure to resolve difficulties of SNPSF in an adequate and timely manner	High	ST, MT	High	**Improve the quality of lending collateral** to reduce lending risk. **Speedily implement a comprehensive resolution plan** for SNPSF and **prepare financial crisis contingency plans**.

Annex III. External Sector Assessment

Despite some slight improvements, Comoros continues to have a narrow export base, large trade deficit, and a heavy reliance on transfers. The current account deficit narrowed from 7.4 percent in 2016 to an estimated 4.1 percent of GDP at end-2017. A widening of the goods and services deficit of 1.9 percentage points of GDP, despite soaring vanilla prices and destocking in the ylang-ylang and vanilla sectors, was more than offset by increased current transfers, including one-off grants from the Middle East (3 percent of GDP). The latter contributed to an increase in foreign exchange reserves of about 4.5 percentage points of GDP throughout 2017, to reach 31.6 percent of GDP at the end of the year (8.1 months of current-year goods and services imports). While statistical tools indicate that Comoros' external position at end-2017 was broadly in line with medium-term fundamentals and desirable policies, competitiveness remains impeded by the inhospitable business climate. The reserves adequacy assessment for credit-constrained economies suggests that that international reserves are currently well above adequate levels.

A. External Sector—Recent Developments

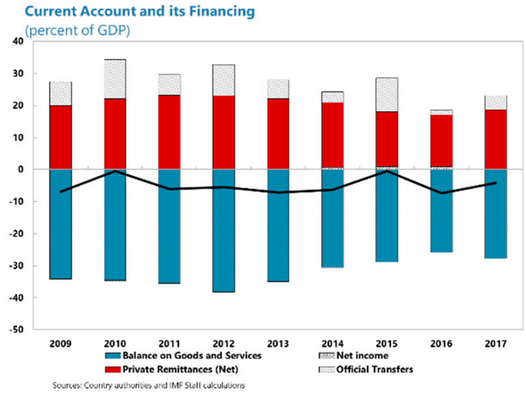
1. **The current account deficit decreased from 7.4 percent of GDP in 2016 to 4.1 percent of GDP at end 2017.** This result was mainly driven by higher private remittances and grants from the Emir of Sharjah and Saudi Arabia, to the tune of about 3 percent of GDP. Net current transfers increased by 5.4 percentage points to reach 23 percent of GDP. Despite soaring vanilla prices and destocking in the ylang-ylang and vanilla sectors, which increased goods exports to their highest level since 2004 (6.1 percent of GDP), an increase in goods and services imports widened the goods and services deficit by 1.9 percentage points of GDP.

2. **Comoros' external position is vulnerable, with a heavy reliance on transfers, which however helped boost foreign exchange reserves in 2017.** Excluding net transfers, the current account deficit remained greater than 25 percent of GDP. Hence transfers, largely private remittances, are an important counterweight to the goods and services deficit. Public transfers (budget support to the rune of about 3 percent of GDP) from the Middle East also played a key role in 2017, contributing to a boost in foreign exchange reserves of about 4.5 percent of GDP (to 31.6 percent of GDP, covering 8.1 months of current-year imports).

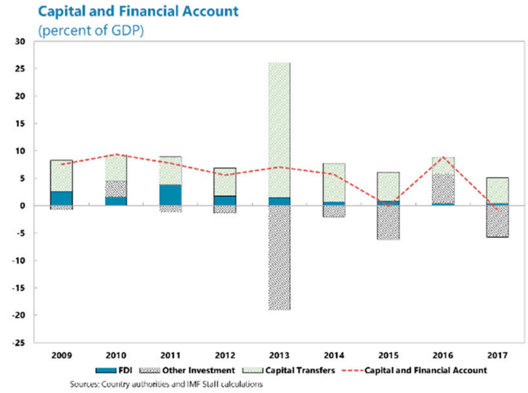
3. **Although Comoros' real effective exchange rate depreciated by about 6.8 percent throughout the year, export performance in volume terms remains disappointing.** The value of Comoros' goods exports increased by 26.2 percent in 2017, reflecting in part record-high vanilla prices. In volume terms however, exports decreased by 0.9 percent, highlighting ongoing structural problems faced by producers in sectors such as vanilla and ylang-ylang that have high potential output and natural advantages.

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

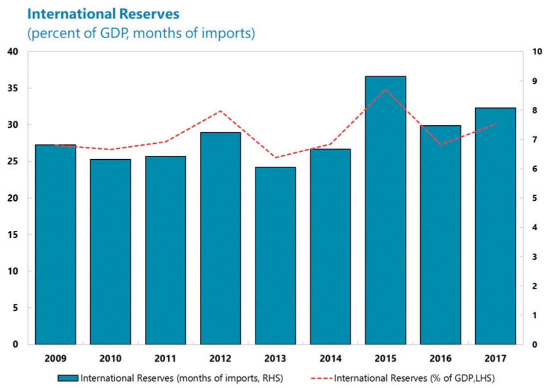
The trade deficit is financed principally by remittances.



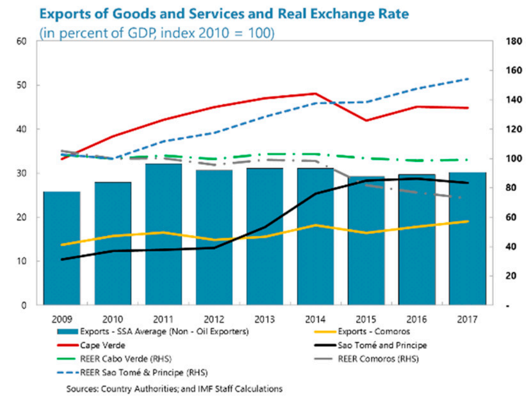
The capital and financial accounts are marked by limited FDI and debt relief in 2013.



Foreign exchange reserves are broadly adequate



The real effective exchange rate depreciated further in 2017, while export volumes stagnated further.



Sources: Country Authorities; and IMF Staff Calculations.

B. External Position Assessment

4. **Per the EBA-lite methodology, the workhorse current account (CA) model is complemented by the Index of the Real Effective Exchange Rate (IRER) and staff judgement to assess Comoros' external position.** Based on panel regressions, the CA and IRER models analyze the CA and real exchange rate deviations from an estimated norm. The third external sustainability (ES) approach requires international investment position (IIP) data, which is unavailable for Comoros.

5. **The CA model and staff judgement suggest that Comoros' external position at end-2017 was broadly in line with the medium-term fundamentals and desirable policies (Table 1).** The model-based CA norm indicates a deficit of 3.9 percent of GDP, a difference ('CA Gap') with the actual CA deficit of 0.2 percentage points. This implies a REER misalignment of about 1 percent (Table 1), almost the same as the 2016 evaluation. The IRER approach suggests a considerably large undervaluation of the real exchange rate. However, the IRER approach is not suited for small island economies with large concessional financing. The estimates of this approach are subject to considerable uncertainty (large residuals) and should be treated with caution.

Table 1. Comoros: EBA-lite Exchange Rate Assessment
(percent)

	Norm	Underlying	Implied REER Deviation
CA model (CAB/GDP)	-3.9	-4.1	1.0
IRER (log REER)	4.62	4.26	-35.0

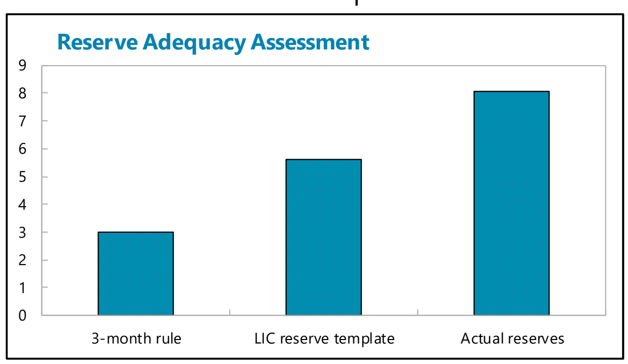
Source: IMF Staff Estimates

C. Indicators of Structural Competitiveness

6. **Non-price and survey-based indicators indicate ongoing problems faced by some private investors due to a perceived inhospitable business climate, which underline important structural and competitiveness concerns (Figure 2).** Even though the value of Comoros' exports more than doubled between 2015 and 2017, export volumes, particularly vanilla, decreased on average over the same period. According to the World Bank's 2018 Doing Business, Comoros ranks in terms of ease of doing business at the 158th position out of 190 countries. The overall quality of the business environment remains poor, particularly in enforcing contracts, resolving insolvency, starting a business and paying taxes. These results highlight the ongoing complexities and structural bottlenecks faced by the private sector in Comoros.

D. Reserves Adequacy

7. **International reserve coverage remains broadly adequate at over 8 months of current-year imports.** The Fund's ARA-Credit Constrained Economies framework (ARA-CC) is used to compare Comoros' current international reserves level with an estimated adequate level that balances the marginal benefits and costs of holding reserves. The framework accounts for the structural characteristics of economies such as Comoros, for example a high vulnerability to adverse exogenous current account shocks (to the terms of trade, remittances and aid flows) and limited access to capital markets. The analysis suggests that the optimal level of international reserves for Comoros is 5.6 months of current-year imports. International reserves were also equivalent to 67 percent of broad money at end-2017, providing sufficient coverage against resident-based capital flight; 20 percent is a typical upper-bound benchmark.[1] Given the medium-term economic risks faced by Comoros, as well as factors such as the country's small size and lack of export diversification, staff advises the authorities to maintain substantial international reserve buffers.

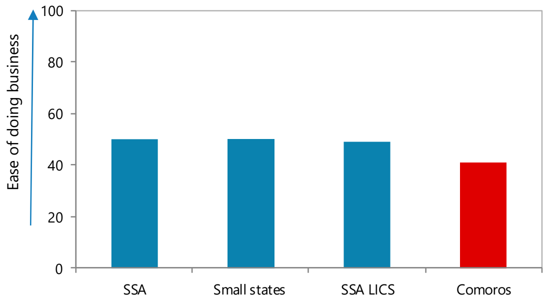


[1] See paragraph 59 in *Assessing Reserve Adequacy—Specific Proposals.*

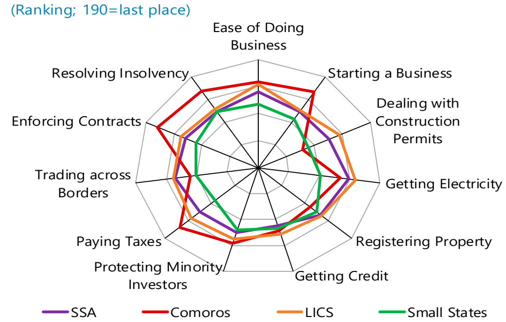
Figure 2. Comoros: Selected Indicators of Business Environment and Governance

The business climate in Comoros is inhospitable, relative to peers

Ease of Doing Business 2018
(Percentile rank; 100= best)

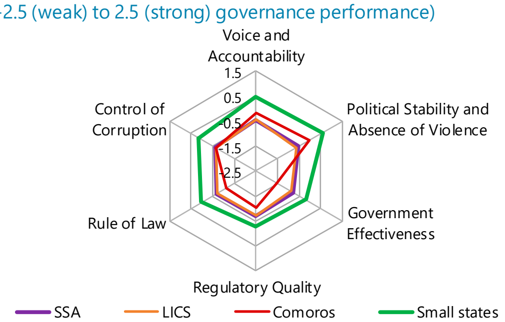


Doing Business Indicators 2018
(Ranking; 190=last place)

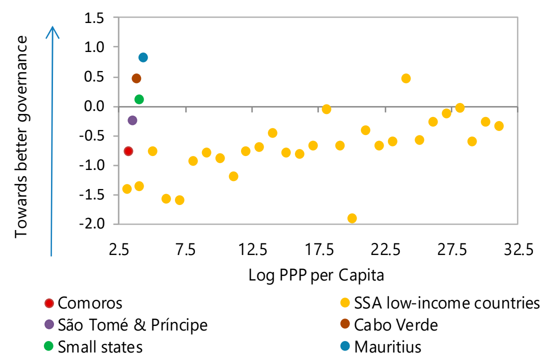


The quality of governance lags comparators…

Worldwide Governance Indicators (WGI), 2016
(-2.5 (weak) to 2.5 (strong) governance performance)

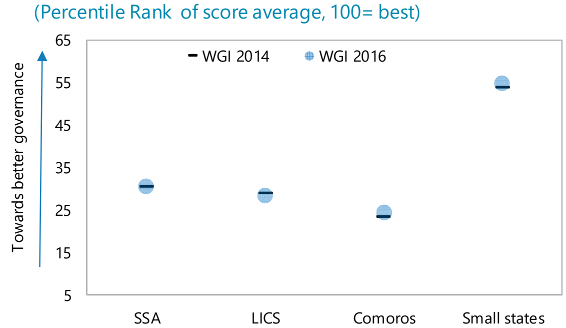


Governance and GDP per Capita, 2016



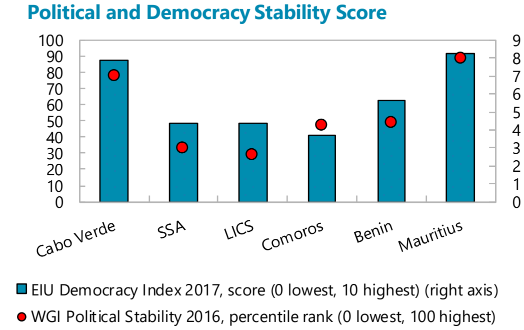
…but is much improved in recent years.

Change in Governance Indicator
(Percentile Rank of score average, 100= best)



Comoros fares well regarding political stability, compared to low-income peers and SSA.

Political and Democracy Stability Score



Sources: World Bank Doing Business 2018, World Development Indicators; EIU Democracy Index 2017; and Worldwide Governance Indicators 2018.
Note: the rankings used reflect perceptions of Comoros' business climate and are subject to uncertainty around the point estimate. Rankings reflect the relative, not the absolute, performance of the country.

Annex IV. External Debt Sustainability

The update of the Joint Fund-Bank Debt Sustainability Analysis for Low-Income Countries maintains Comoros' risk of external debt distress at moderate. Both private and public net current transfers are sizeable in Comoros, and shocks to transfers therefore poses significant risk to debt sustainability. The strong upward external public debt trajectory during the projection period has the potential to become unsustainable without corrective actions. The results also highlight the importance of exchange rate stability and improving external competitiveness for the external debt sustainability outlook, and that any future borrowing must take place exclusively on concessional terms. In these circumstances, simulations suggest that a scenario in which large-scale infrastructure projects are funded by a mix of concessional and non-concessional borrowing would significantly worsen Comoros' debt sustainability outlook. Public sector domestic debt and private sector external debt are minimal in Comoros and are expected to remain so for the foreseeable future.[1]

A. Background

1. Comoros' external public and publicly guaranteed (PPG) debt[2] stock at end 2017 was chiefly held by official bilateral creditors (Text Table 1). Upon reaching the HIPC Completion Point in December 2012, Comoros received extensive irrevocable debt relief, reducing nominal external debt by 22 percentage points of GDP, to 18.5 percent of GDP at end-2013. Since then, it has contracted four external loans, totaling a disbursed amount of US$73.7 million. Two loans were allocated to the construction of a heavy-fuel electricity generation plant and to strengthen domestic telecommunications infrastructure. In addition, two other loans were contracted for rehabilitating the road network: one from the African Development Bank (AfDB) for US$3.7 million and the second from the Saudi Fund for US$30 million, of which only US$0.2 million was disbursed in 2017. The DSA includes the Saudi Fund loan disbursement schedule provided by the authorities for the period 2018-2020. Domestic borrowing by the government is limited to a three-year, KMF 4.8bn (1.6 percent of GDP) loan that was contracted with EXIMBANK in 2017.

Text Table 1: Nominal Stock of External PPG Debt, 2017[1]
(Millions of U.S. Dollars; end-of-period)

Total External Debt[2]	**191.6**
Multilateral Creditors	**76.4**
IMF	14.3
IDA	12.9
BADEA	28.3
Other multilateral creditors	20.9
Official Bilateral	**115.2**
Paris Club Creditors	3.4
Non-Paris Club Creditors	111.8
India	38.9
China	30.9
Kuwait	25.9
Mauritius	0.9

[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 $2.72mn of hospital debt owed by Comoros to France that is the subject of ongoing negotiations.
Source: Comorian authorities.

[1] Comoros' three-year average CPIA score is 2.8, implying a weak policy performance rating for the current DSA.
[2] As in the last DSA exercise, debt is defined as including direct debt and SOEs debt with an explicit state guarantee.

B. Underlying Assumptions

2. **Compared to the DSA prepared for the 2016 Article IV consultation, the medium to long-term scenario underlying the present DSA reflects some slight changes in the macroeconomic assumptions, particularly in the growth path** (Text Table 2). These changes reflect near-term economic challenges and political difficulties faced by Comoros and ongoing macroeconomic imbalances.

Text Table 2. Comoros: Assumptions for DSA

	2016 Article IV DSA			2018 Article IV DSA		
	2016-2020	2026	2036	2018-2023	2028	2038
GDP Growth Rate (percent)	3.5	4.0	4.0	3.0	3.3	3.3
Inflation, end of period (percent)	2.0	2.0	2.0	1.8	2.0	2.0
Government Revenues and Grants (percent of GDP)	24.3	25.3	24.2	26.4	27.5	28.0
Overall Fiscal Balance (percent of GDP)	-4.7	-6.8	-7.7	-5.6	-8.0	-9.1
FDI (percent of GDP)	1.3	1.6	1.6	1.1	1.6	1.6
Current Account Deficit (Percent of GDP)	10.3	12.0	9.8	7.1	7.7	8.3
Export of Goods and Services (annual percentage growth)	2.8	2.9	3.2	5.3	4.8	4.7
Import of Goods and Services (annual percentage growth)	8.3	3.3	3.8	5.5	5.5	5.7
Net Current transfers (percent of GDP)	19.1	16.9	14.6	20.8	20.9	21.0

- **Real growth** in 2017 was revised downward to 2.7 percent, compared to a projected 3.3 percent in the last DSA. Growth increased between 2016 and 2017 by half a percentage point, but economic activity was slower than expected, even despite the improved electricity supply. This was reflected by the return of isolated power outages and the perceived deterioration of the business climate in parallel with emerging tensions in the financial sector. Also, the baseline medium-term growth rate was slightly revised down from 3.5 percent per year in the last DSA to an average 3 percent, which would eventuate in the absence of continued economic reforms and ongoing political uncertainty associated with the National Conferences.

- Guided by the peg to the euro and the monetary cooperation agreement with France, **inflation** is expected to remain moderate, averaging 2 percent over the long-term.

- **The current account deficit** for 2017 came in at 4.1 percent of GDP, compared to a projected 10.1 percent of GDP in the 2016 DSA. This was largely due to stronger private remittances and grants received from the Middle East (about 3 percent of GDP). Over the medium-to-long term, the current account is projected to increase to about 8 percent on average. This is lower than in the previous DSA and reflects the reduction in growth forecasts and the associated slowdown in consumption, investment, and imports.

- **Net current transfers** allow Comoros to partially balance its large goods and services deficit. Net private remittances increased by 2.4 percentage points to 18.6 percent of GDP in 2017 and are expected to remain stable at around 19 percent of GDP over the medium-to-long term. After recent volatility due to the receipt of budget support, especially from the Middle East, net public transfers are assumed to stabilize at 1.7 percent of GDP over the forecast horizon.

- **Gross investment** increased from 18.4 percent of GDP in 2015 to 21.4 percent in 2017. The forecast assumes a gradual improvement over the medium term to 23.1 percent of GDP in 2023, driven by both public and private investments, and a stabilization at around the same level in the long term.

- **Public investment** was volatile and averaged about 6 percent of GDP over the period 1995-2009. Between 2012 and 2017, public investment averaged 8.9 percent of GDP and is expected to reach 10.7 percent of GDP in 2018. In the medium-term, public investment is expected to increase gradually to 11.3 percent by 2023. Due mainly to the disbursement of the Chinese and Indian loans, net foreign borrowing increased by a total of US$59.6 million (21.8 percent of GDP) between 2015 and 2017. New external borrowing, on concessional terms, is projected to rise from 2.1 percent of GDP in 2018 to 4 percent in 2038. As in the previous DSA exercise, this assumption of increased external borrowing to finance the country's development needs plays a key role in the DSA and explains to some extent the upward slope of the debt burden indicators. This assumption is not based on concrete borrowing plans, but it remains reasonable to expect that Comoros will need to borrow into the future to finance productive infrastructure investments (in roads, tourism, electricity and other sectors). Comoros is also expected to continue to benefit from significant grant financing well into the foreseeable future, leaving the grant element of new borrowing roughly at about 10 percent. No further domestic borrowing by the government is assumed.

- The **overall fiscal deficit,** on a cash basis, is projected to temporarily be limited to 3.1 percent of GDP in 2018 due mainly to the expected receipt of 2 percent of GDP in grants from the World Bank and AFDB. In the baseline scenario; and under the assumption of no further budget support, the fiscal deficit would widen to 6.7 percent of GDP by 2023. The primary balance is expected to remain negative over the horizon, with the deficit mainly financed through external loans for investment purposes.

C. External DSA

3. **Private remittances are included in the denominator of the debt and debt service indicators for the purposes of the DSA baseline, due to their importance to the Comorian economy**. Between 2009 and 2016, personal remittances averaged 19.4 percent of GDP, ranking Comoros as one of the largest recipients of remittances in Sub-Saharan Africa (SSA). Considering the ongoing political tensions in the aftermath of the National Conferences, the sustainability of remittance inflows constitutes an important source of vulnerability.

4. **While there has been marginal increase in the overall debt burden, this DSA update maintains the previous moderate external debt distress rating**. As in the previous DSA, all baseline debt and debt service indicators remain below their respective thresholds over the forecast horizon (Figure A1; Tables A1 and A2). However, both debt service indicators exhibit an upward trend from 2025 onwards, reflecting increased debt service commitments and a persistent deterioration in the revenue outlook.

5. **The results of the stress tests and alternative scenarios exhibit some similarities and differences with those of the previous DSA.** As in the previous DSA, the ratio of debt to GDP plus remittances, as well as the PV of debt to revenue ratio, breach the threshold in the later part of the

projection period under a one-time depreciation shock (in the former case the breach is a sustained one).[3] The susceptibility to a one-time depreciation shock underscores the importance of exchange rate stability brought by the currency peg. A shock to exports, which is now the most extreme shock[4] to the PV of debt to exports plus remittances, results in this ratio breaching the relevant threshold. A shock to the terms of new borrowing, while not the most extreme shock in this case, would result in a sustained threshold breach by the end of the forecast horizon.[5] These results highlight that improving external competitiveness through removing structural impediments to export activity is critically important. Also, vulnerability to a future deterioration in the terms of new borrowing underlines the importance of maintaining a prudent debt management strategy and borrowing exclusively on concessional terms. Under the historical scenario, as in the previous DSA there are no breaches of the different thresholds. The initial improvement in the debt and debt service indicators in the baseline continues to reflect that the current account deficits in the baseline are larger than historical deficits over the medium-term.

6. The policy adjustment scenario (see section: Outlook, Risks and Debt Sustainability in the Staff Report) would see marginal improvements in Comoros' external debt sustainability, although key vulnerabilities related to remittances would remain. Here, growth is projected to accelerate to 4.7 percent in 2023 and to stabilize around this level in the long term. While the current account deficit would average 5.7 percent of GDP over the medium term, the overall fiscal deficit is projected to decrease on average from 5.6 percent of GDP in the baseline to an average 2.3 percent of GDP in the adjustment scenario. Yet vulnerabilities related to the high economic importance of remittances, as well as shocks to exports and a one-time currency depreciation would remain (Figure A3). Under a one-time depreciation shock, the most extreme shocks induce a breach of the threshold of the PV of debt-to-GDP plus remittances. Also, even if not the most extreme shock this threshold is breached under a shock of the terms of new borrowing. Borrowing on non-concessional terms would also continue to pose problems for debt sustainability, but the authorities would have greater room for maneuver were additional financing are on concessional terms.

7. Discussions are underway on financing a project for a large new deep-water port for *Grande Comore* island (US$115 million / 18 percent of 2017 GDP), while plans to finance the rebuilding of El Maarouf hospital (US$50 million/ 8 percent of 2017 GDP) through non-concessional borrowing have reportedly been shelved. A simulation illustrates the implications for debt sustainability of borrowing for such large infrastructure projects (Figure A1 and A3, dotted blue line) in both baseline and policy scenarios, using the latest available project information and conservative assumptions on financing terms that are typical of such projects. For the total amount of US$165 million needed for both projects, a combination of concessional terms for the new deep-water port project and non-concessional terms for a project similar in scale to the hospital are

[3] Defined as a one-time 30 percent nominal depreciation relative to the baseline in 2019.

[4] The most extreme stress test is defined as the test that yields the highest level of debt on or before the tenth year of the projection period.

[5] A shock to exports refers to export value growth at its historical average minus one standard deviation in 2019 – 2020. A shock to new borrowing terms refers to public sector loans on less favorable terms during the period 2018–2038. Less favorable terms are defined as 2 percent increase in the interest rate for new borrowing, while grace and maturity periods are the same as in the baseline.

assumed.[6] The results of this simulation show a significant deterioration in the debt profile in both baseline and policy scenarios, with near-breaches of the thresholds in 2019 for the debt-to-revenue ratio as well as the debt-to-GDP plus remittances. This simulation highlights that large-scale new borrowing could have adverse implications for Comoros' debt sustainability, even assuming a sizable proportion of concessional borrowing.

Authorities' views

8. The authorities acknowledge the importance of maintaining debt sustainability and understand the importance of negotiating external debt on concessional terms, to the extent that such financing is available, and were open to maintaining a purely concessional borrowing policy. Concerning external debt arrears, the authorities maintained that according to their external arrears repayment plan, all external arrears will be paid by the end-March 2019. They further noted that the first repayment installment had already been made.

D. Conclusion

9. The present DSA update maintains Comoros' external debt distress rating at moderate. The debt increases related to the new disbursements have been offset by higher remittances and grants. The results continue to indicate that there are no breaches of debt and debt-service thresholds in the baseline. However, the shocks considered by the DSA framework continue to highlight the economy's high degree of vulnerability to exchange rate instability, and a deterioration in export performance or new borrowing terms. These DSA results underscore the need to strengthen both the business climate to improve both external competitiveness and debt management capacity. It also highlights that future external borrowing, particularly for large infrastructure projects, must be exclusively on concessional terms. The simulation highlights that large-scale new borrowing, even with a sizable proportion on concessional terms, would significantly worsen Comoros' debt sustainability outlook.

[6] This simulation assumes a total concessional loan amount of USD 115 million, with a maturity of 30 years, a grace period of 5 years, and an interest rate of 2.1 percent. Apart from the assumed interest rate, these terms are similar to those of the previously-contracted loan from Exim Bank China and imply a grant element of 35.1 percent. Based on the available information, the simulation assumes for the hospital project an interest rate of 12 percent and a maturity of 12 years.

Table 1. Comoros: External Debt Sustainability Framework, Baseline Scenario, 2015-2018 1/

(in person of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2018-2023			2024-2038
	2015	2016	2017			2018	2019	2020	2021	2022	2023	Average	2028	2038	Average
xternal debt (nominal) 1/	**22.8**	**26.4**	**28.8**			**27.0**	**27.3**	**27.5**	**27.8**	**28.2**	**28.8**		**32.0**	**38.5**	
of which: public and publicly guaranteed (PPG)	22.8	26.4	28.8			27.0	27.3	27.5	27.8	28.2	28.8		32.0	38.5	
hange in external debt	3.6	3.6	2.3			-1.8	0.3	0.2	0.2	0.4	0.6		0.6	0.5	
lentified net debt-creating flows	2.2	6.0	2.2			4.2	5.9	5.6	5.4	5.1	5.0		5.1	5.5	
Non-interest current account deficit	**-0.3**	**7.3**	**4.1**	**5.2**	**3.2**	**5.7**	**7.5**	**7.2**	**7.1**	**6.8**	**6.7**		**7.3**	**7.7**	7.4
Deficit in balance of goods and services	28.9	25.9	27.8			29.0	28.8	28.6	28.5	28.3	28.4		28.7	28.9	
Exports	16.5	17.9	19.1			18.1	18.2	18.3	18.5	18.8	18.9		17.8	16.0	
Imports	45.4	43.8	46.9			47.0	47.0	47.0	47.0	47.1	47.3		46.5	44.9	
Net current transfers (negative = inflow)	-28.3	-17.6	-23.0	-26.8	5.0	-22.2	-20.3	-20.3	-20.5	-20.6	-20.8		-20.9	-21.0	-20.9
of which: official	-11.1	-1.5	-4.4			-3.6	-1.6	-1.6	-1.6	-1.5	-1.5		-1.7	-1.7	
Other current account flows (negative = net inflow)	-1.0	-1.0	-0.7			-1.0	-1.0	-1.0	-0.9	-0.9	-0.9		-0.6	-0.2	
Net FDI (negative = inflow)	**-0.8**	**-0.4**	**-0.4**	**-1.4**	**1.1**	**-1.1**	**-1.1**	**-1.1**	**-1.1**	**-1.1**	**-1.1**		**-1.6**	**-1.6**	-1.6
Endogenous debt dynamics 2/	**3.4**	**-0.8**	**-1.5**			**-0.4**	**-0.5**	**-0.5**	**-0.6**	**-0.6**	**-0.6**		**-0.6**	**-0.6**	
Contribution from nominal interest rate	0.1	0.1	0.0			0.3	0.2	0.2	0.2	0.2	0.3		0.4	0.6	
Contribution from real GDP growth	-0.2	-0.5	-0.7			-0.7	-0.7	-0.7	-0.8	-0.8	-0.9		-1.0	-1.2	
Contribution from price and exchange rate changes	3.4	-0.5	-0.8			...	...	...	...	...	...		...	...	
esidual (3-4) 3/	**1.4**	**-2.4**	**0.1**			**-6.0**	**-5.5**	**-5.4**	**-5.1**	**-4.7**	**-4.4**		**-4.4**	**-5.0**	
of which: exceptional financing	...	...	...			...	...	...	...	...	...		...	...	
V of external debt 4/	...	...	17.1			15.4	15.7	16.1	16.7	17.4	18.2		22.3	28.4	
In percent of exports	...	...	89.4			85.4	86.3	87.8	90.3	92.8	96.6		125.4	177.3	
V of PPG external debt	**...**	**...**	**17.1**			**15.4**	**15.7**	**16.1**	**16.7**	**17.4**	**18.2**		**22.3**	**28.4**	
In percent of exports	**...**	**...**	**89.4**			**85.4**	**86.3**	**87.8**	**90.3**	**92.8**	**96.6**		**125.4**	**177.3**	
In percent of government revenues	**...**	**...**	**101.5**			**87.4**	**92.8**	**93.9**	**95.8**	**98.4**	**101.3**		**117.2**	**144.2**	
ebt service-to-exports ratio (in percent)	**2.1**	**3.0**	**3.0**			**8.4**	**5.1**	**4.7**	**4.1**	**3.8**	**3.6**		**5.9**	**12.2**	
PG debt service-to-exports ratio (in percent)	**2.1**	**3.0**	**3.0**			**8.4**	**5.1**	**4.7**	**4.1**	**3.8**	**3.6**		**5.9**	**12.2**	
PG debt service-to-revenue ratio (in percent)	**2.0**	**3.7**	**3.4**			**8.6**	**5.5**	**5.0**	**4.4**	**4.0**	**3.7**		**5.5**	**9.9**	
otal gross financing need (Millions of U.S. dollars)	-4.9	45.3	27.6			46.0	58.5	59.6	60.9	61.7	64.0		91.7	197.2	
lon-interest current account deficit that stabilizes debt ratio	-3.9	3.7	1.8			7.5	7.1	7.0	6.8	6.4	6.1		6.6	7.2	
ey macroeconomic assumptions															
eal GDP growth (in percent)	1.0	2.2	2.7	2.1	0.8	2.8	2.8	2.9	3.1	3.2	3.3	3.0	3.3	3.3	3.3
DP deflator in US dollar terms (change in percent)	-15.2	2.2	3.3	1.5	8.0	12.5	3.4	3.5	3.0	3.0	2.7	4.7	2.6	2.6	2.6
ffective interest rate (percent) 5/	0.6	0.5	0.2	0.5	0.2	1.1	0.7	0.8	0.9	0.9	1.0	0.9	1.4	1.7	1.5
rowth of exports of G&S (US dollar terms, in percent)	-22.5	13.1	13.4	6.7	14.7	9.6	6.8	7.4	7.0	7.9	6.9	7.6	4.8	4.7	4.8
rowth of imports of G&S (US dollar terms, in percent)	-20.3	0.5	13.8	5.6	14.4	15.9	6.1	6.5	6.4	6.4	6.6	8.0	5.5	5.7	5.6
rant element of new public sector borrowing (in percent)	...	...	...	...	...	49.8	49.1	42.0	36.1	35.1	35.1	41.2	35.1	35.1	35.1
overnment revenues (excluding grants, in percent of GDP)	16.5	14.5	16.8			17.7	16.9	17.2	17.4	17.7	18.0		19.0	19.7	19.2
id flows (in Millions of US dollars) 7/	88.9	54.6	76.2			101.6	90.0	94.2	99.1	106.4	113.9		158.1	302.5	
of which: Grants	88.9	54.6	76.2			79.8	68.4	72.9	77.4	82.3	87.3		116.0	204.2	
of which: Concessional loans	0.0	0.0	0.0			21.8	21.6	21.3	21.7	24.1	26.6		42.0	98.3	
rant-equivalent financing (in percent of GDP) 8/	...	...	...			12.0	9.9	9.6	9.4	9.4	9.5		9.6	9.8	9.6
rant-equivalent financing (in percent of external financing) 8/	...	...	...			89.2	87.8	86.9	86.0	85.3	84.9		82.8	78.9	81.6
lemorandum items:															
lominal GDP (Millions of US dollars)	588.5	614.2	651.6			753.0	800.3	852.4	905.5	962.7	1021.6		1366.2	2443.2	
lominal dollar GDP growth	-14.3	4.4	6.1			15.6	6.3	6.5	6.2	6.3	6.1	7.8	6.0	6.0	6.0
V of PPG external debt (in Millions of US dollars)			116.5			116.9	126.4	137.8	151.6	168.0	186.7		304.8	694.3	
Vt-PVt-1)/GDPt-1 (in percent)						0.1	1.3	1.4	1.6	1.8	1.9	1.4	2.1	2.1	2.1
ross workers' remittances (Millions of US dollars)	167.8	156.0	169.4			195.3	207.4	220.3	234.7	249.1	264.4		337.5	562.9	
V of PPG external debt (in percent of GDP + remittances)	...	...	13.5			12.3	12.5	12.8	13.2	13.8	14.5		17.9	23.1	
V of PPG external debt (in percent of exports + remittances)	...	...	37.8			35.1	35.6	36.5	37.6	39.0	40.7		52.4	72.7	
ebt service of PPG external debt (in percent of exports + remittances)	...	...	1.3			3.4	2.1	1.9	1.7	1.6	1.5		2.5	5.0	

ources: Country authorities; and staff estimates and projections.

/ Includes both public and private sector external debt.

/ 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.

/ 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.

/ Assumes that PV of private sector debt is equivalent to its face value.

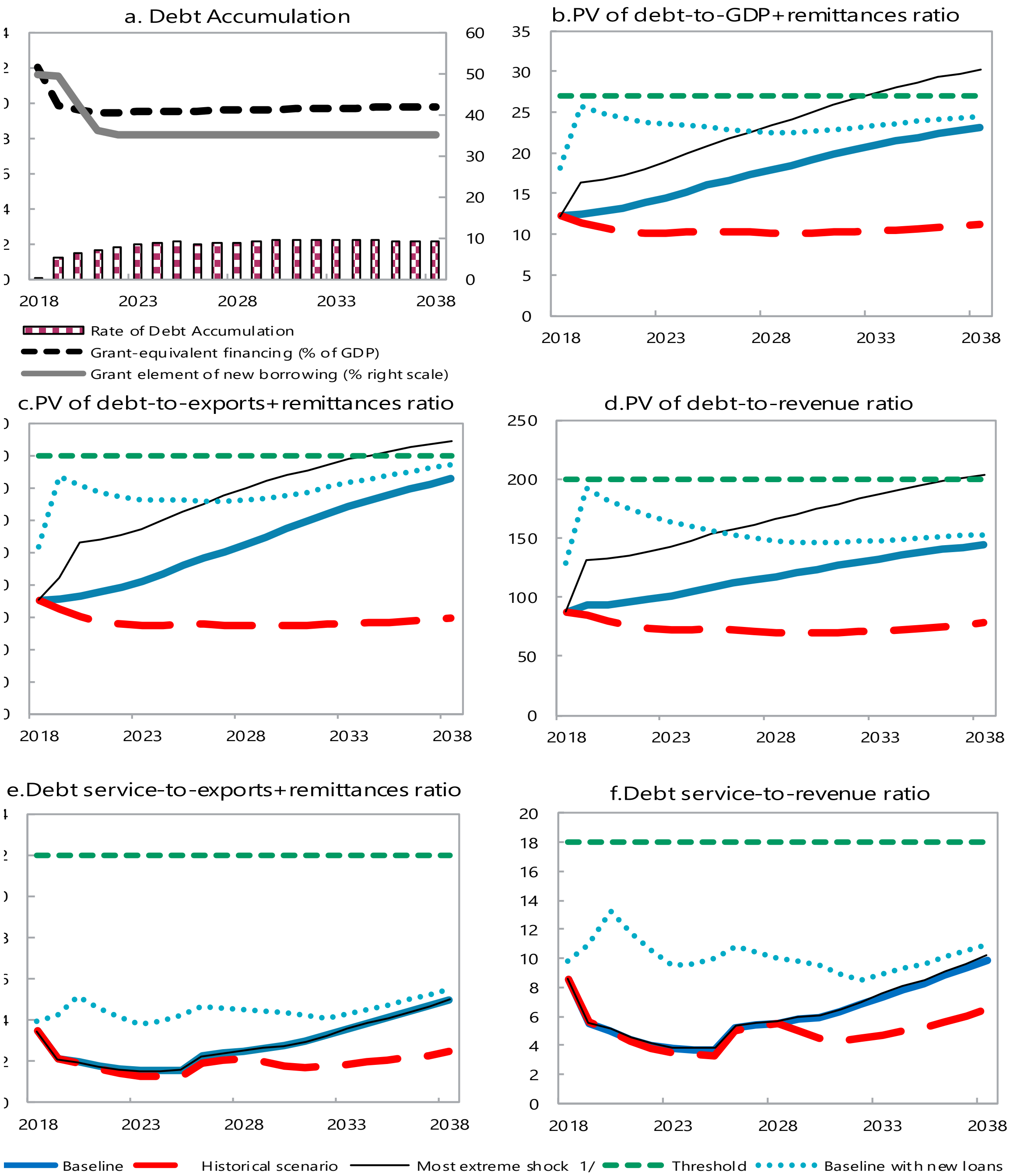
/ Current-year interest payments divided by previous period debt stock.

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

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

/ 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, 2018-2038 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 2028. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Growth shock and in figure f. to a Growth shock

Table 2. Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External debt, 2018-2038 (in percent)

	Projections							
	2018	2019	2020	2021	2022	2023	**2028**	2038
PV of debt-to-GDP+remittances ratio								
Baseline	12	12	13	13	14	14	**18**	23
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	12	11	11	10	10	10	**10**	11
A2. New public sector loans on less favorable terms in 2018-2038 2	12	13	14	15	16	17	**22**	33
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	12	13	13	14	14	15	**18**	24
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	12	14	17	17	17	18	**21**	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	12	14	15	16	16	17	**21**	27
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	12	12	12	12	13	14	**17**	23
B5. Combination of B1-B4 using one-half standard deviation shocks	12	12	14	15	16	16	**20**	25
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	12	16	17	17	18	19	**23**	30
PV of debt-to-exports+remittances ratio								
Baseline	35	36	36	38	39	41	**52**	73
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	35	32	30	28	28	27	**27**	29
A2. New public sector loans on less favorable terms in 2018-2038 2	35	37	39	42	44	47	**66**	103
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	35	36	37	38	39	41	**53**	73
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	35	42	53	54	55	57	**70**	84
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	35	36	37	38	39	41	**53**	73
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	35	33	33	35	37	39	**50**	72
B5. Combination of B1-B4 using one-half standard deviation shocks	35	32	36	38	40	41	**53**	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	35	36	37	38	39	41	**53**	73
PV of debt-to-revenue ratio								
Baseline	87	93	94	96	98	101	**117**	144
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	87	85	80	76	74	73	**70**	78
A2. New public sector loans on less favorable terms in 2018-2038 2	87	97	102	106	112	117	**147**	205
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	87	95	97	99	102	105	**121**	149
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	87	103	122	123	124	126	**139**	149
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	87	103	115	117	120	124	**144**	177
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	87	90	88	90	93	96	**113**	143
B5. Combination of B1-B4 using one-half standard deviation shocks	87	96	113	115	118	121	**139**	167
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	87	131	133	135	139	143	**165**	204

Table 2. Comoros: Sensitivity Analysis is for Key Indicators of Public and Publicly Guaranteed External Debt, 2018-2038 (Concluded) (in percent)

Debt service-to-exports+remittances ratio

Baseline	3	2	2	2	2	2	**2**	5.0
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	3	2	2	2	1	1	**2**	2
A2. New public sector loans on less favorable terms in 2018-2038 2	3	2	2	2	2	2	**3**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	3	2	2	2	2	2	**2**	5
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	3	2	2	2	2	2	**3**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	3	2	2	2	2	2	**2**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	3	2	2	2	2	1	**2**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	3	2	2	2	2	2	**2**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	3	2	2	2	2	2	**2**	5

Debt service-to-revenue ratio

Baseline	9	5	5	4	4	4	**6**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	9	6	5	4	4	3	**5**	6
A2. New public sector loans on less favorable terms in 2018-2038 2	9	5	5	5	5	5	**7**	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	9	6	5	5	4	4	**6**	10
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	9	5	5	5	5	4	**6**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	9	6	6	5	5	5	**7**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	9	5	5	4	4	4	**5**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	9	6	6	5	5	4	**6**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	9	8	7	6	6	5	**8**	14
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	36	36	36	36	36	36	**36**	36

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, 2015-2038 (in percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2015	2016	2017	Average 5/	Standard Deviation 5/	2018	2019	2020	2021	2022	2023	2018-23 Average	2028	2038	2024-38 Average
Public sector debt 1/	22.8	27.5	29.3			27.1	27.3	27.5	27.8	28.2	28.8		32.0	38.5	
of which: foreign-currency denominated	22.8	26.4	28.8			27.0	27.3	27.5	27.8	28.2	28.8		32.0	38.5	
Change in public sector debt	3.6	4.7	1.8			-2.1	0.2	0.2	0.2	0.4	0.6		0.6	0.5	
Identified debt-creating flows	-2.6	4.2	-4.0			-0.9	3.7	4.2	4.4	4.7	5.1		6.2	6.9	
Primary deficit	-5.9	5.0	-1.2	-3.2	6.5	1.6	5.1	5.6	5.8	6.1	6.4	5.1	7.6	8.5	7.8
Revenue and grants	31.6	23.4	28.5			28.3	25.5	25.7	26.0	26.3	26.6		27.5	28.0	
of which: grants	15.1	8.9	11.7			10.6	8.6	8.6	8.5	8.5	8.6		8.5	8.4	
Primary (noninterest) expenditure	25.7	28.4	27.3			29.9	30.6	31.3	31.8	32.3	33.0		35.1	36.5	
Automatic debt dynamics	3.3	-0.9	-2.8			-2.6	-1.4	-1.4	-1.4	-1.4	-1.3		-1.4	-1.5	
Contribution from interest rate/growth differential	-0.4	-0.9	-1.0			-1.2	-1.1	-1.2	-1.2	-1.2	-1.2		-1.4	-1.5	
of which: contribution from average real interest rate	-0.2	-0.4	-0.3			-0.4	-0.4	-0.4	-0.4	-0.4	-0.3		-0.4	-0.3	
of which: contribution from real GDP growth	-0.2	-0.5	-0.7			-0.8	-0.7	-0.8	-0.8	-0.9	-0.9		-1.0	-1.2	
Contribution from real exchange rate depreciation	3.7	0.0	-1.7			-1.4	-0.3	-0.2	-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	
Residual, including asset changes	6.2	0.5	5.7			-1.2	-3.5	-4.0	-4.2	-4.3	-4.5		-5.5	-6.4	
Other Sustainability Indicators															
PV of public sector debt	...	...	17.6			15.6	15.7	16.1	16.7	17.4	18.2		22.3	28.4	
of which: foreign-currency denominated	...	...	17.1			15.4	15.7	16.1	16.7	17.4	18.2		22.3	28.4	
of which: external	...	...	17.1			15.4	15.7	16.1	16.7	17.4	18.2		22.3	28.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-5.6	5.6	-0.6			3.2	6.0	6.5	6.6	6.8	7.1		8.6	10.4	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	61.7			55.2	61.6	62.7	64.2	66.3	68.7		81.0	101.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	104.6			88.3	92.8	93.9	95.8	98.4	101.3		117.2	144.2	
of which: external 3/	...	...	101.5			87.4	92.8	93.9	95.8	98.4	101.3		117.2	144.2	
Debt service-to-revenue and grants ratio (in percent) 4/	1.1	2.3	2.0			5.3	3.6	3.3	2.9	2.7	2.5		3.8	6.9	
Debt service-to-revenue ratio (in percent) 4/	2.0	3.7	3.4			8.6	5.5	5.0	4.4	4.0	3.7		5.5	9.9	
Primary deficit that stabilizes the debt-to-GDP ratio	-9.5	0.4	-3.0			3.8	4.9	5.4	5.6	5.6	5.9		6.9	7.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.0	2.2	2.7	2.1	0.8	2.8	2.8	2.9	3.1	3.2	3.3	3.0	3.3	3.3	3.3
Average nominal interest rate on forex debt (in percent)	0.6	0.5	0.2	0.5	0.2	1.1	0.7	0.8	0.9	0.9	1.0	0.9	1.4	1.7	1.5
Average real interest rate on domestic debt (in percent)	...	...	...			...	...	...	...	...	...		...	...	
Real exchange rate depreciation (in percent, + indicates depreciation)	19.4	0.1	-6.8	1.8	8.1	-5.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.6	2.4	1.2	3.2	1.4	2.4	2.2	2.3	2.3	2.3	2.3	2.3	2.6	2.6	2.6
Growth of real primary spending (deflated by GDP deflator, in percent	7.0	12.8	-1.4	1.9	4.5	12.7	5.0	5.5	4.5	5.0	5.4	6.4	3.7	3.8	4.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	49.8	49.1	42.0	36.1	35.1	35.1	41.2	35.1	35.1	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

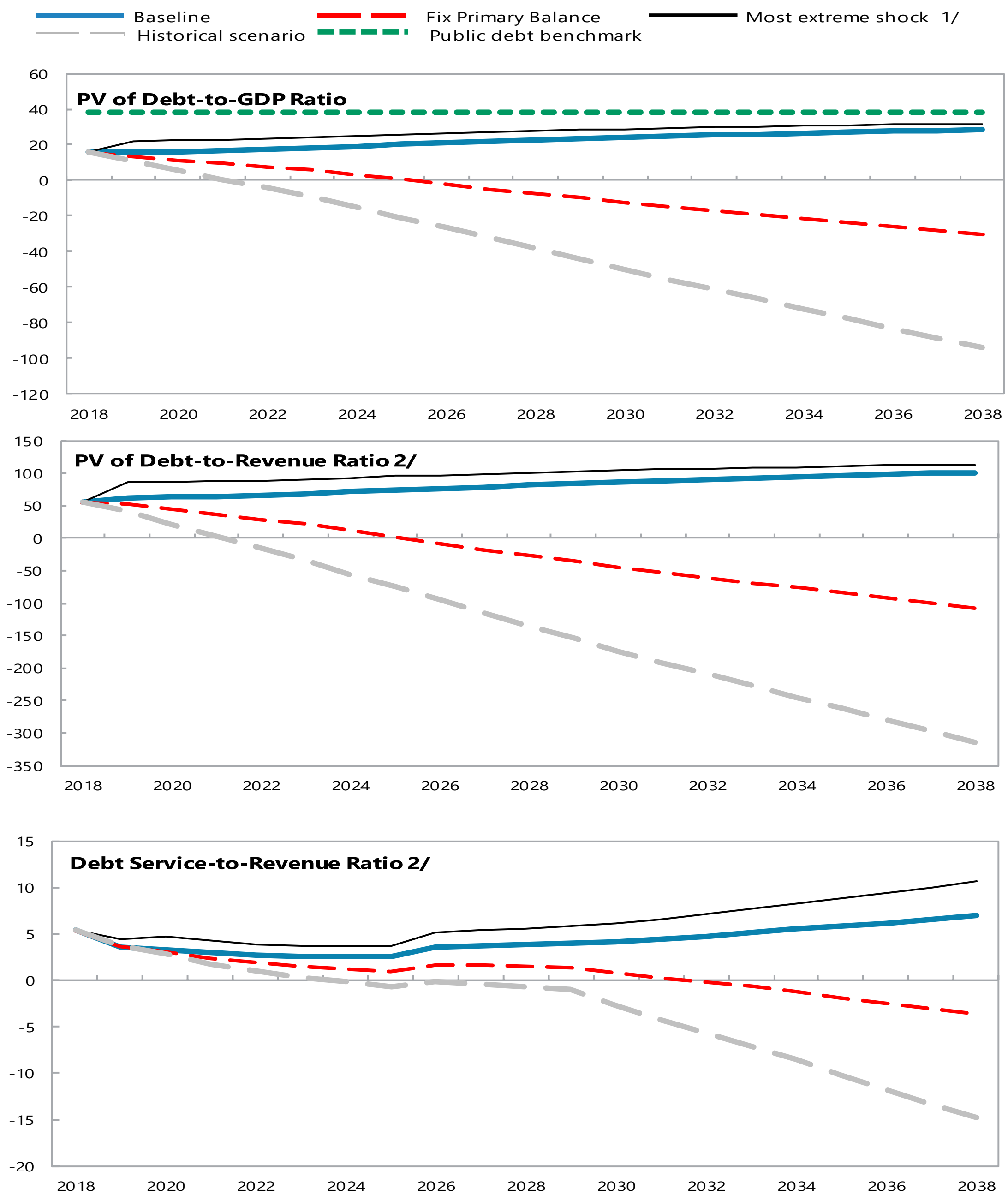
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Comoros: Sensitivity Analysis for Key Indicators of Public Debt 2018-2038
(baseline scenario)

		Projections						
	2018	2019	2020	2021	2022	2023	2028	2038
PV of Debt-to-GDP Ratio								
Baseline	16	16	16	17	17	18	22	28
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	11	5	1	-4	-9	-38	-94
A2. Primary balance is unchanged from 2018	16	14	11	9	8	6	-7	-31
A3. Permanently lower GDP growth 1/	16	16	16	17	18	19	24	33
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	16	16	17	18	19	20	26	35
B2. Primary balance is at historical average minus one standard deviations in 2019-202	16	15	13	14	15	16	20	27
B3. Combination of B1-B2 using one half standard deviation shocks	16	13	10	11	12	13	19	29
B4. One-time 30 percent real depreciation in 2019	16	22	21	21	22	22	25	29
B5. 10 percent of GDP increase in other debt-creating flows in 2019	16	22	22	23	23	24	28	32
PV of Debt-to-Revenue Ratio 2/								
Baseline	55	62	63	64	66	69	81	101
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	55	41	21	2	-16	-35	-135	-314
A2. Primary balance is unchanged from 2018	55	53	44	37	29	21	-27	-109
A3. Permanently lower GDP growth 1/	55	62	63	65	67	70	86	117
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	55	63	66	69	72	75	93	123
B2. Primary balance is at historical average minus one standard deviations in 2019-202	55	57	52	54	57	59	73	96
B3. Combination of B1-B2 using one half standard deviation shocks	55	49	37	41	44	48	68	103
B4. One-time 30 percent real depreciation in 2019	55	85	83	83	83	84	90	102
B5. 10 percent of GDP increase in other debt-creating flows in 2019	55	87	87	88	89	91	100	113
Debt Service-to-Revenue Ratio 2/								
Baseline	5	4	3	3	3	3	4	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	5	4	3	2	1	0	-1	-15
A2. Primary balance is unchanged from 2018	5	4	3	2	2	2	1	-4
A3. Permanently lower GDP growth 1/	5	4	3	3	3	3	4	8
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	5	4	3	3	3	3	4	8
B2. Primary balance is at historical average minus one standard deviations in 2019-202	5	4	3	3	2	2	4	6
B3. Combination of B1-B2 using one half standard deviation shocks	5	4	3	2	2	2	4	6
B4. One-time 30 percent real depreciation in 2019	5	4	5	4	4	4	6	11
B5. 10 percent of GDP increase in other debt-creating flows in 2019	5	4	4	4	3	3	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.

Figure 2. Comoros: Indicators of Public Debt Under Alternative Scenarios, 2018-2038 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 2028.
2/ Revenues are defined inclusive of grants.

Table 5. Comoros: External Debt Sustainability Framework, Policy Adjustments Scenario, 2015-2038 1/ (in percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2018-2023			2024-2038
	2015	2016	2017			2018	2019	2020	2021	2022	2023	Average	2028	2038	Average
External debt (nominal) 1/	**22.8**	**26.4**	**28.8**			**26.7**	**26.8**	**26.8**	**27.0**	**27.2**	**27.5**		**29.8**	**35.4**	
of which: public and publicly guaranteed (PPG)	22.8	26.4	28.8			26.7	26.8	26.8	27.0	27.2	27.5		29.8	35.4	
Change in external debt	3.6	3.6	2.3			-2.0	0.1	0.0	0.2	0.2	0.3		0.5	0.5	
Identified net debt-creating flows	2.2	6.0	2.2			4.1	4.0	3.7	3.6	3.3	2.9		3.6	2.6	
Non-interest current account deficit	**-0.3**	**7.3**	**4.1**	**5.2**	**3.2**	**5.7**	**5.9**	**5.6**	**5.5**	**5.3**	**4.9**		**6.1**	**5.2**	5.9
Deficit in balance of goods and services	28.9	25.9	27.8			29.1	29.2	28.9	28.7	28.3	28.0		27.3	25.9	
Exports	16.5	17.9	19.1			18.1	18.2	18.5	18.8	18.9	19.1		18.5	17.8	
Imports	45.4	43.8	46.9			47.2	47.4	47.4	47.5	47.2	47.1		45.8	43.7	
Net current transfers (negative = inflow)	-28.3	-17.6	-23.0	-26.8	5.0	-22.4	-22.3	-22.3	-22.3	-22.2	-22.2		-20.8	-20.6	-20.7
of which: official	-11.1	-1.5	-4.4			-3.6	-3.4	-3.3	-3.2	-3.1	-3.0		-1.7	-1.7	
Other current account flows (negative = net inflow)	-1.0	-1.0	-0.7			-1.0	-1.0	-1.0	-0.9	-0.8	-0.8		-0.5	-0.1	
Net FDI (negative = inflow)	**-0.8**	**-0.4**	**-0.4**	**-1.4**	**1.1**	**-1.1**	**-1.1**	**-1.1**	**-1.1**	**-1.1**	**-1.1**		**-1.6**	**-1.6**	-1.6
Endogenous debt dynamics 2/	**3.4**	**-0.8**	**-1.5**			**-0.6**	**-0.8**	**-0.8**	**-0.8**	**-0.9**	**-0.9**		**-0.9**	**-1.0**	
Contribution from nominal interest rate	0.1	0.1	0.0			0.3	0.2	0.2	0.2	0.2	0.3		0.4	0.6	
Contribution from real GDP growth	-0.2	-0.5	-0.7			-0.8	-1.0	-1.0	-1.0	-1.1	-1.2		-1.3	-1.5	
Contribution from price and exchange rate changes	3.4	-0.5	-0.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**1.4**	**-2.4**	**0.1**			**-6.1**	**-3.9**	**-3.7**	**-3.4**	**-3.2**	**-2.6**		**-3.1**	**-2.1**	
of which: exceptional financing	...	...	...			...	...	...	...	...	...		...	...	
PV of external debt 4/	...	...	17.1			15.2	15.3	15.6	16.1	16.7	17.4		20.6	25.9	
In percent of exports	...	...	89.4			84.4	84.0	84.3	85.9	88.1	90.7		111.4	145.7	
PV of PPG external debt	**...**	**...**	**17.1**			**15.2**	**15.3**	**15.6**	**16.1**	**16.7**	**17.4**		**20.6**	**25.9**	
In percent of exports	**...**	**...**	**89.4**			**84.4**	**84.0**	**84.3**	**85.9**	**88.1**	**90.7**		**111.4**	**145.7**	
In percent of government revenues	**...**	**...**	**95.6**			**86.1**	**89.5**	**89.2**	**90.3**	**91.3**	**92.7**		**103.3**	**124.3**	
Debt service-to-exports ratio (in percent)	**2.1**	**3.0**	**3.0**			**8.3**	**4.9**	**4.5**	**3.9**	**3.5**	**3.3**		**5.1**	**9.3**	
PPG debt service-to-exports ratio (in percent)	**2.1**	**3.0**	**3.0**			**8.3**	**4.9**	**4.5**	**3.9**	**3.5**	**3.3**		**5.1**	**9.3**	
PPG debt service-to-revenue ratio (in percent)	**2.0**	**3.7**	**3.2**			**8.5**	**5.3**	**4.7**	**4.1**	**3.7**	**3.4**		**4.7**	**7.9**	
Total gross financing need (Millions of U.S. dollars)	-4.9	45.3	27.6			46.5	46.0	46.9	48.7	49.7	48.4		84.1	165.5	
Non-interest current account deficit that stabilizes debt ratio	-3.9	3.7	1.8			7.8	5.7	5.6	5.4	5.2	4.6		5.6	4.7	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.0	2.2	2.7	2.1	0.8	3.4	3.8	4.0	4.2	4.5	4.7	4.1	4.6	4.6	4.6
GDP deflator in US dollar terms (change in percent)	-15.2	2.2	3.3	1.5	8.0	12.5	3.4	3.5	3.0	3.0	2.7	4.7	2.6	2.6	2.6
Effective interest rate (percent) 5/	0.6	0.5	0.2	0.5	0.2	1.1	0.7	0.7	0.8	0.9	1.0	0.9	1.4	1.7	1.5
Growth of exports of G&S (US dollar terms, in percent)	-22.5	13.1	13.4	6.7	14.7	10.0	8.5	9.2	9.0	8.6	8.6	9.0	6.8	6.9	6.9
Growth of imports of G&S (US dollar terms, in percent)	-20.3	0.5	13.8	5.6	14.4	16.9	8.0	7.7	7.4	7.1	7.3	9.1	6.7	6.9	6.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	51.9	50.6	42.5	36.6	35.1	35.1	42.0	35.1	35.1	35.1
Government revenues (excluding grants, in percent of GDP)	16.5	14.5	17.8			17.7	17.1	17.5	17.9	18.3	18.7		20.0	20.9	20.2
Aid flows (in Millions of US dollars) 7/	88.9	54.6	76.2			123.4	130.3	138.5	149.0	160.0	173.1		230.7	493.1	
of which: Grants	88.9	54.6	76.2			102.2	108.5	116.7	125.1	134.7	144.8		182.9	365.8	
of which: Concessional loans	0.0	0.0	0.0			21.2	21.9	21.8	23.9	25.3	28.3		47.8	127.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			14.9	14.7	14.4	14.2	14.2	14.2		12.8	13.0	12.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			91.7	91.7	90.9	89.8	89.7	89.4		86.6	83.3	85.6
Memorandum items:															
Nominal GDP (Millions of US dollars)	588.5	614.2	651.6			757.8	813.8	876.2	940.4	1012.5	1088.9		1554.0	3162.7	
Nominal dollar GDP growth	-14.3	4.4	6.1			16.3	7.4	7.7	7.3	7.7	7.5	9.0	7.4	7.4	7.4
PV of PPG external debt (in Millions of US dollars)			116.5			116.2	125.4	137.0	152.2	169.5	189.4		321.2	821.9	
(PVt-PVt-1)/GDPt-1 (in percent)						-0.1	1.2	1.4	1.7	1.8	2.0	1.4	2.1	2.3	2.2
Gross workers' remittances (Millions of US dollars)	167.8	156.0	169.4			197.2	211.4	226.7	241.9	258.2	277.5		371.3	688.9	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.5			12.1	12.2	12.4	12.8	13.3	13.8		16.7	21.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	37.8			34.6	34.7	35.1	36.2	37.6	38.9		48.6	65.5	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.3			3.4	2.0	1.9	1.6	1.5	1.4		2.2	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.

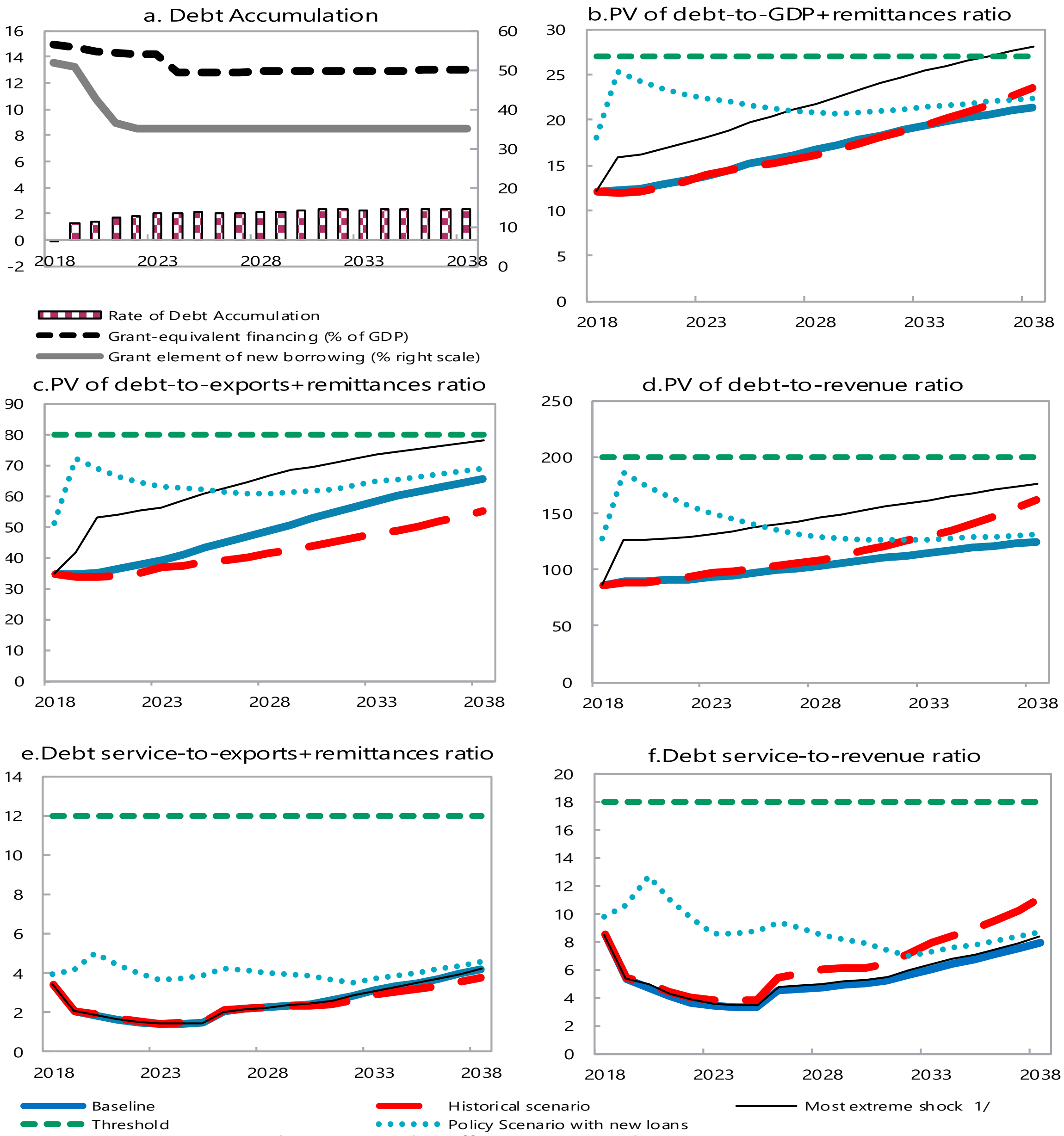
5/ Current-year interest payments divided by previous period debt stock.

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 3. Comoros; Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios for the Policy Adjustments Scenarios, 2018-2038 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 2028. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Growth shock and in figure f. to a Growth shock

Table 6. Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt for the Policy Adjustments Scenario, 2018-2038 (in percent)

	Projections							
	2018	2019	2020	2021	2022	2023	**2028**	2038
PV of debt-to-GDP+remittances ratio								
Baseline	12	12	12	13	13	14	**17**	21.3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	12	12	12	13	13	14	**16**	24
A2. New public sector loans on less favorable terms in 2018-2038 2	12	13	13	14	15	16	**21**	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	12	12	13	13	14	14	**17**	22
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	12	14	16	17	17	18	**20**	22
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	12	13	15	15	16	16	**20**	25
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	12	13	14	14	14	15	**18**	22
B5. Combination of B1-B4 using one-half standard deviation shocks	12	14	18	18	18	18	**21**	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	12	16	16	17	17	18	**22**	28
PV of debt-to-exports+remittances ratio								
Baseline	35	35	35	36	38	39	**49**	66
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	35	34	34	34	35	37	**41**	55
A2. New public sector loans on less favorable terms in 2018-2038 2	35	36	38	40	43	45	**61**	93
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	35	35	35	36	38	39	**49**	66
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	35	41	53	54	55	56	**66**	78
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	35	35	35	36	38	39	**49**	66
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	35	37	39	40	41	42	**52**	66
B5. Combination of B1-B4 using one-half standard deviation shocks	35	37	46	44	45	46	**55**	66
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	35	35	35	36	38	39	**49**	66
PV of debt-to-revenue ratio								
Baseline	86	89	89	90	91	93	**103**	124
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	86	89	89	90	93	97	**108**	162
A2. New public sector loans on less favorable terms in 2018-2038 2	86	94	97	101	104	108	**130**	176
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	86	92	94	95	96	98	**109**	131
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	86	100	119	118	118	118	**124**	129
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	86	99	109	111	112	114	**126**	152
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	86	95	98	99	99	100	**109**	126
B5. Combination of B1-B4 using one-half standard deviation shocks	86	104	133	133	133	133	**141**	150
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	86	127	126	128	129	131	**146**	176

Table 6. Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt for the Policy Adjustments Scenario, 2018-2038 (in percent) (Concluded)

Debt service-to-exports+remittances ratio								
Baseline	3	2	2	2	2	1	**2**	4.2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	3	2	2	2	2	1	**2**	4
A2. New public sector loans on less favorable terms in 2018-2038 2	3	2	2	2	2	2	**3**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	3	2	2	2	2	1	**2**	4
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	3	2	2	2	2	2	**3**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	3	2	2	2	2	1	**2**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	3	2	2	2	2	1	**2**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	3	2	2	2	2	2	**2**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	3	2	2	2	2	1	**2**	4
Debt service-to-revenue ratio								
Baseline	8	5	5	4	4	3	**5**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	8	5	5	4	4	4	**6**	11
A2. New public sector loans on less favorable terms in 2018-2038 2	8	5	5	4	4	4	**6**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	8	5	5	4	4	4	**5**	8
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	8	5	5	5	4	4	**5**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	8	6	6	5	4	4	**6**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	8	5	5	4	4	4	**5**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	8	6	6	5	5	5	**6**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	8	7	7	6	5	5	**7**	11
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	36	36	36	36	36	36	**36**	36

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 7. Comoros: Public Sector Debt Sustainability Framework, Policy Adjustments Scenario, 2015-2038 (in percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2015	2016	2017			2018	2019	2020	2021	2022	2023	2018-23 Average	2028	2038	2024-38 Average
ıblic sector debt 1/	22.8	27.5	29.3			26.9	26.8	26.8	27.0	27.2	27.5		29.8	35.4	
of which: foreign-currency denominated	22.8	26.4	28.8			26.7	26.8	26.8	27.0	27.2	27.5		29.8	35.4	
ıange in public sector debt	3.6	4.7	1.8			-2.4	-0.1	0.0	0.2	0.2	0.3		0.5	0.5	
entified debt-creating flows	-2.6	4.2	-4.0			-1.7	0.0	0.5	0.6	0.5	0.4		3.2	4.2	
Primary deficit	-5.9	5.0	-1.2	-3.2	6.5	1.1	1.7	2.2	2.2	2.1	2.1	1.9	4.9	6.1	5.2
Revenue and grants	31.6	23.4	29.5			31.2	30.5	30.8	31.2	31.6	32.0		31.7	32.4	
of which: grants	15.1	8.9	11.7			13.5	13.3	13.3	13.3	13.3	13.3		11.8	11.6	
Primary (noninterest) expenditure	25.7	28.4	28.3			32.2	32.2	33.0	33.4	33.7	34.1		36.6	38.5	
Automatic debt dynamics	3.3	-0.9	-2.8			-2.7	-1.7	-1.7	-1.6	-1.7	-1.6		-1.6	-1.8	
Contribution from interest rate/growth differential	-0.4	-0.9	-1.0			-1.3	-1.4	-1.4	-1.4	-1.5	-1.5		-1.6	-1.8	
of which: contribution from average real interest rate	-0.2	-0.4	-0.3			-0.4	-0.4	-0.4	-0.4	-0.3	-0.3		-0.3	-0.3	
of which: contribution from real GDP growth	-0.2	-0.5	-0.7			-1.0	-1.0	-1.0	-1.1	-1.2	-1.2		-1.3	-1.5	
Contribution from real exchange rate depreciation	3.7	0.0	-1.7			-1.4	-0.3	-0.2	-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	6.2	0.5	5.7			-0.7	-0.1	-0.5	-0.4	-0.3	-0.1		-2.7	-3.7	
:her Sustainability Indicators															
/ of public sector debt	...	...	17.6			15.4	15.3	15.6	16.1	16.7	17.4		20.6	25.9	
of which: foreign-currency denominated	...	...	17.1			15.2	15.3	15.6	16.1	16.7	17.4		20.6	25.9	
of which: external	...	...	17.1			15.2	15.3	15.6	16.1	16.7	17.4		20.6	25.9	
/ of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
'oss financing need 2/	-5.6	5.6	-0.6			2.6	2.6	3.0	3.0	2.8	2.7		5.8	7.7	
' of public sector debt-to-revenue and grants ratio (in percent)	...	...	59.5			49.4	50.3	50.6	51.8	52.9	54.2		65.0	80.0	
' of public sector debt-to-revenue ratio (in percent)	...	...	98.5			87.0	89.5	89.2	90.3	91.3	92.7		103.3	124.3	
of which: external 3/	...	...	95.6			86.1	89.5	89.2	90.3	91.3	92.7		103.3	124.3	
ebt service-to-revenue and grants ratio (in percent) 4/	1.1	2.3	1.9			4.8	3.0	2.7	2.3	2.1	2.0		3.0	5.1	
ebt service-to-revenue ratio (in percent) 4/	2.0	3.7	3.2			8.5	5.3	4.7	4.1	3.7	3.4		4.7	7.9	
imary deficit that stabilizes the debt-to-GDP ratio	-9.5	0.4	-3.0			3.5	1.8	2.2	2.1	1.9	1.7		4.4	5.5	
ey macroeconomic and fiscal assumptions															
eal GDP growth (in percent)	1.0	2.2	2.7	2.1	0.8	3.4	3.8	4.0	4.2	4.5	4.7	4.1	4.6	4.6	4.6
'erage nominal interest rate on forex debt (in percent)	0.6	0.5	0.2	0.5	0.2	1.1	0.7	0.7	0.8	0.9	1.0	0.9	1.4	1.7	1.5
'erage real interest rate on domestic debt (in percent)	...	...	...			...	...	...	...	...	...		...	...	
eal exchange rate depreciation (in percent, + indicates depreciation)	19.4	0.1	-6.8	1.8	8.1	-5.1	...	...	...	...	...	...	...	...	...
flation rate (GDP deflator, in percent)	1.6	2.4	1.2	3.2	1.4	2.4	2.2	2.3	2.3	2.3	2.3	2.3	2.6	2.6	2.6
'owth of real primary spending (deflated by GDP deflator, in percent	7.0	12.8	2.4	2.3	4.3	17.7	3.6	6.6	5.5	5.5	5.9	7.5	5.2	5.2	5.5
'ant element of new external borrowing (in percent)	...	...	...	...	...	51.9	50.6	42.5	36.6	35.1	35.1	42.0	35.1	35.1	...

ıurces: 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.

Table 8. Comoros: Sensitivity Analysis for Key Indicators of Public Debt 2018-2038
(policy adjustment scenario)

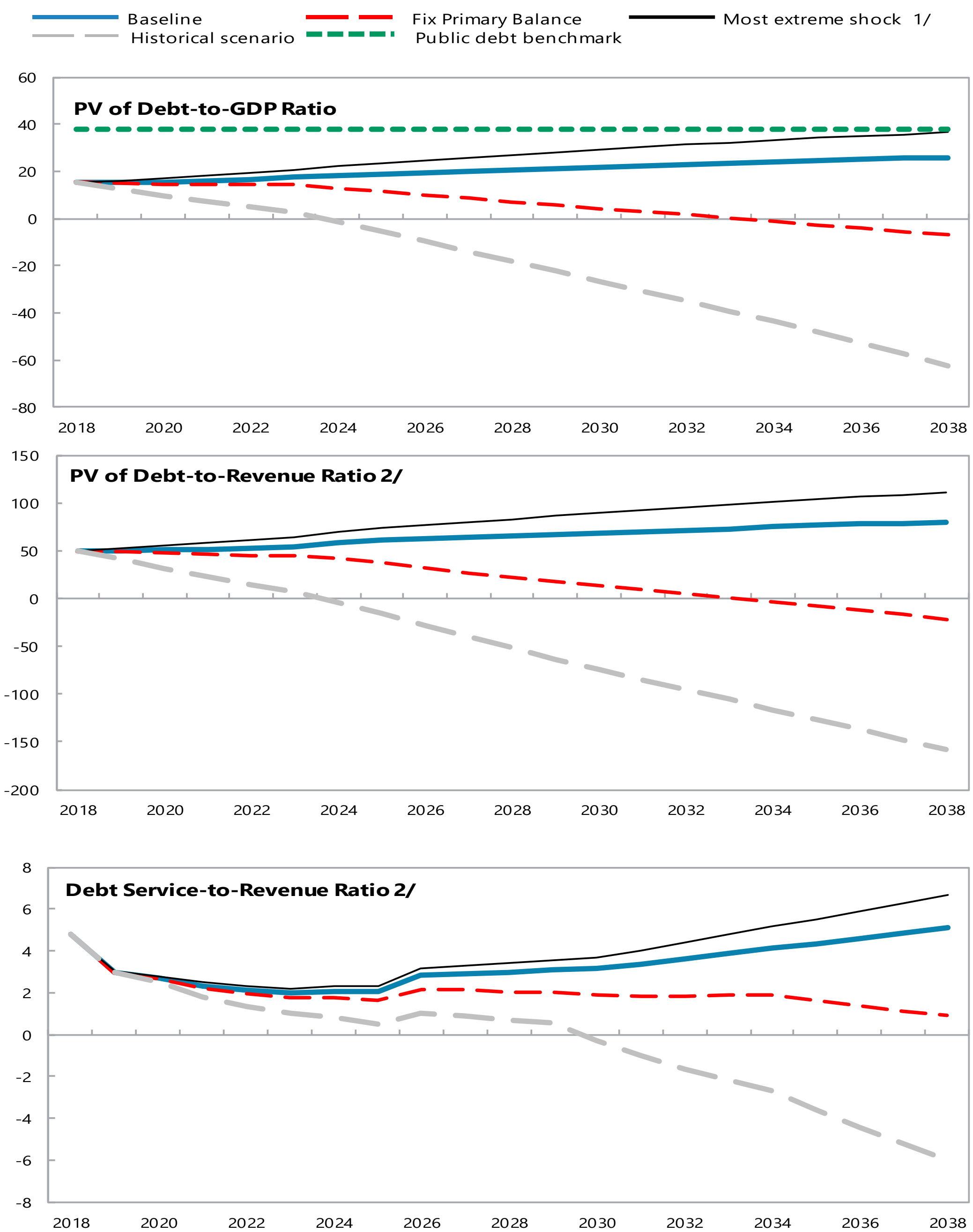
		Projections						
	2018	2019	2020	2021	2022	2023	2028	2038
PV of Debt-to-GDP Ratio								
Baseline	15	15	16	16	17	17	21	26
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	15	12	10	7	5	3	-18	-62
A2. Primary balance is unchanged from 2018	15	15	14	14	14	14	7	-7
A3. Permanently lower GDP growth 1/	15	15	16	16	17	18	22	31
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	15	16	17	18	20	21	27	37
B2. Primary balance is at historical average minus one standard deviations in 2019-202	15	16	17	18	18	19	22	27
B3. Combination of B1-B2 using one half standard deviation shocks	15	15	14	15	16	17	23	33
B4. One-time 30 percent real depreciation in 2019	15	21	21	21	21	21	23	25
B5. 10 percent of GDP increase in other debt-creating flows in 2019	15	22	22	22	22	23	25	29
PV of Debt-to-Revenue Ratio 2/								
Baseline	49	50	51	52	53	54	65	80
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	49	41	31	22	14	8	-52	-159
A2. Primary balance is unchanged from 2018	49	49	47	46	45	45	22	-22
A3. Permanently lower GDP growth 1/	49	50	51	52	54	55	69	93
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	49	52	55	58	60	63	83	111
B2. Primary balance is at historical average minus one standard deviations in 2019-202	49	54	56	57	58	59	69	82
B3. Combination of B1-B2 using one half standard deviation shocks	49	47	44	47	50	53	72	102
B4. One-time 30 percent real depreciation in 2019	49	69	67	66	66	65	71	78
B5. 10 percent of GDP increase in other debt-creating flows in 2019	49	71	71	71	71	72	80	88
Debt Service-to-Revenue Ratio 2/								
Baseline	5	3	3	2	2	2	3	5
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	5	3	2	2	1	1	1	-6
A2. Primary balance is unchanged from 2018	5	3	3	2	2	2	2	1
A3. Permanently lower GDP growth 1/	5	3	3	2	2	2	3	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	5	3	3	2	2	2	3	7
B2. Primary balance is at historical average minus one standard deviations in 2019-202	5	3	3	3	2	2	3	5
B3. Combination of B1-B2 using one half standard deviation shocks	5	3	3	2	2	2	3	6
B4. One-time 30 percent real depreciation in 2019	5	4	4	3	3	3	4	8
B5. 10 percent of GDP increase in other debt-creating flows in 2019	5	3	3	3	3	2	3	6

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.

Figure 4. Comoros: Indicators of Public Debt Under Alternative Scenarios for the Policy Adjustments Scenario, 2018-2038 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 2028.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

May 30, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By African Department

CONTENTS

FUND RELATIONS

(As of March 31, 2018)

Membership Status: Joined September 21, 1976, Article VIII

General Resources Account:	**SDR Millions**	**% Quota**
Quota	17.80	100.00
Fund holdings of currency (Holdings Rate)	14.98	84.15
Reserve position in Fund	2.84	15.94
SDR Department:	**SDR Millions**	**% Allocation**
Net cumulative allocation	8.50	100.00
Holdings	6.38	75.05
Outstanding Purchases and Loans:	**SDR Millions**	**% Allocation**
ECF Arrangement	9.06	50.88

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	1.51	2.71	1.87	1.4	1.09
Charges/interest	0.01	0.02	0.02	0.02	0.02
Total	**1.53**	**2.73**	**1.89**	**1.42**	**1.11**

[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

Safeguards assessments were completed in 2007 and 2010. In addressing recommendations, the Banque Centrale des Comores (BCC) started publishing its financial statements with enhanced disclosures on transactions with the IMF. In addition, the external audit process was strengthened, including through increased oversight by the audit committee. However, the BCC has not yet implemented International Financial Reporting Standards (IFRS) and continues to lack an internal audit function.

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 December 7th, 2016 (Country Report No. 16/393). Directors noted that the Comorian economy was experiencing weak growth due to difficult challenges and that poor tax revenue performance and a rising public wage bill had led to a structural fiscal imbalance. 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 already taken to rebalance the budget and minimize and eventually eliminate domestic arrears. They saw the need however for further measures to enhance revenue mobilization and contain the wage bill, and welcomed the authorities' commitment to implement a six-month staff monitored program aimed at stabilizing the fiscal situation. Directors noted that Comoros will need additional external support, however they stressed that borrowing to meet development needs should be on concessional terms only. Directors noted that the recent acquisition of new diesel generators was necessary to address inadequate electricity provision in the country, and recommended further reforms to the business environment to catalyze additional private sector investment.

Recent Technical Assistance

Department	Date	Subject
MCM, AFS	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	Mar-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
FAD, AFS	Jan-17	PFM priority action plan for 2017-2019
MCM, AFS	Jan-17	Risk Based Supervision
STA, AFS	Apr-17	National Accounts
AFS	Apr-17	Revenue Administration
MCM, AFS	Apr-17	Risk Based Supervision
STA, AFS	May-17	Price Statistics
AFS	Jun-17	Development of Customs value evaluation
AFS	Jul-17	Revenue Administration
FAD, AFS	Aug-17	Macro-fiscal framework and budget credibility
STA, AFS	Aug-17	Consumer Prices/Producer Price
MCM	Sept-17	Introduction of Central Bank Securities
AFS	Sept-17	Pension Fund
AFS	Sept-17	Revenue Administration
STA, AFS	Dec-17	National Accounts
AFS	Jan-18	Pension Fund
AFS	Jan-18	Strengthening the Accounting System
AFS	May-18	Strengthening of large enterprises Service
AFS	May-18	National Accounts
AFS	May-18	Improve the preparation of the budgetary implementation

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, 2018–2019

Title	Products Title	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 Protection TA.		February 2017
	6. CL4D- Multi-stakeholder leadership TA.		December 2016
	7. Poverty Assessment EWt.		May 2017
	8. DeMPA and MTDS training TA		November 2016
	9. From Remittances to Savings TA		June 2017
	10. Action plan for targeting and UHC AA		June 2016
	12. Strengthening Payment Systems & Fin Infra		March 2018
Bank work program in next 12 months	13. Agri Value Chains & Food Security		May 2018

	14. Revenue Management NTLA	June 2018
	15. Governance & Political Economy Filter of DRM	June 2018
	16. Regional Com. Infra Program (AF)	May 2018
	17. Solar Energy Development (ComoSol)	October 2018
	18. Integrated Business Dev. Project	September 2019
	19. Health & Nutrition Systems For Universal Health Coverage	September 2019
	20. Financial Sector Development Project	April 2019
	21. Development Policy Operation	April 2019
IMF work program in next 12 months	2019 Article IV Consultation	March 2019
	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 and financial sector.	Continuous
	TA on the Restructuring of SNPSF	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

	Launch of the New National Statistical Data through SN98 Sharing info on new loans, & contracts signed by the Government	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	To improve economic governance & transparency, and competition & management of the electricity and ICT sectors
Emergency Response Project (Additional Financing)	IDA Grant	3.0	3/28/2013	The objective of the project is to increase access to short-term employment and to basic and social services in areas affected by the crises, both global and internally-generated.
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 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 (24) operations and seven (7) economic and sector work (ESW).** Cumulative Bank Group commitments net of cancellation amounted to UA 133.5 million as of April 2018. 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 10 million representing 7.5% 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 41.1 million. On the Pillar I, Comoros received UA 10 million in ADF 12 and UA 15 million in ADF 13 and ADF14, respectively addressed to support Energy Sector in the ADF 12 and Road sector in the ADF 13 and ADF14 . The resources on Pillar III have supported the statistical capacity building in the PRCI (UA 595.000), the preparation of SCA2D (UA 241.000), 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). Recently there has been in November 2017 under pillar III a support to investment promotion (UA 1.1 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 Transport sector (39.8 percent), multi-sector (27 percent) and Energy sector (11.5 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 60.54 million, including UA 25 million from the Transition States Facility (TSF). These resources will primarily aim to finance (i) a

road project (UA 15.165 million), (ii) an energy investment project (UA 17.38 million), (iii) Capacity building for resource mobilization and economic governance (UA 5.0 million) and (iv) a sectoral budget support –energy and road- operation (UA 5.0 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 April 2017, the Bank's ongoing portfolio in resources amounts to UA 37.6 million comprising 5 operations: (i) Energy Sector Support Project (ii) Energy Production, Transport & Distribution Plan, (iii) Rehabilitation of road network project, (iv) Support to Investment Promotion Agency, and (v) 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	03/01/2020	13.380	19.45
Energy Production, Transport & Distribution Plan	Power	11/27/2015	07/30/2018	2.000	2. 907
Institutional Capacity Building	Multisector	11/27/2015	01/31/2020	6.000	8.72

Road rehabilitation project	Transport	04/17/2017	12/31/2021	15.165	22.05
Investment Promotion project	Multisector	11/22/2017	12/03/2021	1.1	1.6
Total				37.64	54.727

Source: AfDB, 2018.

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

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 recently published annual national accounts series 2007-2015 have many shortcomings and are currently under revision. . 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 next STA technical assistance missions will coordinate with the World Bank and AFRISTAT in order to enhance the finalization of the GDP estimates for the period 2007-2017. No quarterly estimates are produced. **Consumer prices.** Comoros adopted the Common Market for Eastern and Southern Africa (COMESA) Harmonized Consumer Price Index (HCPI) as its national consumer price index (CPI) from January 2017. The results are of superior quality to those produced with the previous methodology. The base year is 2011 and the expenditure weights are based on the results of the 2014 household survey. Prices are collected across the islands and the CPI is only compiled for the country's capital. The end in 2019 of the African Development Bank's fund that supports data collection and compilation is a risk and lack of funds has already disrupted the dissemination of the CPI in the past. Understaffing and poor IT infrastructure also limit the scope of the CPI. The Institut National de la Statistique et des Etudes Economiques et Démographiques (INSEED) could continue the process of improvement by adopting best practice compilation methodology, namely the use of a geometric mean rather than an arithmetic mean in the calculation of the elementary indexes, and the imputation of price changes for missing seasonal items.
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. Two officials from Comoros participated in a joint AFC-AFS workshop on GFS during April 23-27, 2018 in Libreville.
Monetary and financial statistics. The Central Bank of Comoros (BCC) produces adequate monetary statistics on its own accounts, for the commercial banks, the development bank, the deposits collected by the Société nationale des postes et des services financiers (chèques

postaux and saving passbooks), and for two microfinance networks. The Franc Zone arrangement has established accounting and prudential standards that prevent data disruptions. A major shortcoming is the absence of data on the large amount of Euro cash in circulation, handicapping surveillance. In June 2009 the BCC started reporting monetary and financial statistics to the IMF using Standardized Report Forms (SRFs). The current presentation and content of monetary statistics accords largely with the methodology in the IMF's *Monetary and Financial Statistics Manual 2000*.	
External sector statistics. 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 economists are responsible for compiling balance of payments statistics. BOP data up to 2012 are published in BOPSY. No data on IIP and external debt are reported. The April 2016 mission recommended to incorporate revised trade data into the BOP and to use the new average CIF / FOB coefficient. The Central Bank of Comoros should collaborate with Customs to identify other transfers and update the registry of direct investment enterprises established in 2012 using the updated questionnaire. 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). A TA mission is planned for FY19.	
II. Data Standards and Quality	
Comoros has participated in the enhanced General Data Dissemination System (eGDDS) since February 2013 and disseminates metadata for 11 of the 15 recommended data categories, as well as one supplementary category (industrial production index). The metadata was last updated in February 2013.	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. The Central bank of Comoros (CBO) compiles monetary statistics for the central bank and other depository corporations (ODCs) using the standardized	

report forms (SRFs), which are published in the International Financial Statistics (IFS). The CBO does not compile the SRFs for the other financial corporations.
Financial Sector Surveillance. Comoros compiles eleven of the twelve core Financial Soundness Indicators for deposit takers. Reporting to the Statistics Department of the IMF is irregular. The latest reported data refer to December 2016.
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.

Comoros Table of Common Indicators Required for Surveillance (As of May 10, 2018)					
	Date of Latest Observation (mm/yy)	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Jun. 2018	Jun. 2018	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May 2018	Jun. 2018	M	M	M
Reserve/Base Money	May 2018	Jun. 2018	M	M	M
Broad Money	May 2018	Jun. 2018	M	M	M
Central Bank Balance Sheet	May 2018	Jun. 2018	M	M	M
Consolidated Balance Sheet of the Banking System	May 2018	Jun. 2018	M	M	M
Interest Rates[2]	May 2018	Jun. 2018	M	M	M
Consumer Price Index	May 2018	Jun. 2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	Dec. 17	Mar. 2018	I	I	I
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	Dec. 17	Mar. 2018	I	I	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 17	Mar. 2018	I	I	I
External Current Account Balance	Dec. 17	Mar. 2018	I	I	I
Exports and Imports of Goods and Services	Dec. 17	Mar. 2018	I	I	I
GDP/GNP	2017	Mar. 2018	A	A	A
Gross External Debt	2017	Mar. 2018	NA	NA	NA
International Investment Position[6]	NA	NA	NA	NA	NA

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

Statement by Mr. Sembene, Executive Director for Comoros,
and Mr. Sidi Bouna, Advisor to the Executive Director
June 13, 2018

I. Introduction

The Comorian authorities are appreciative of the candid and constructive policy discussions they held with staff in the context of the Article IV consultation. They have continued to take decisive steps to address the country's macroeconomic imbalances and impediments to growth, including infrastructure bottlenecks. Fiscal performance improved significantly in 2017, following renewed efforts to better mobilize revenues and contain nonpriority expenditure. Power supply and distribution improved substantially, which impacted positively the country's business climate and growth prospects. Favorable external factors have also played a role in Comoros' positive macroeconomic performance in 2017, including higher prices of the commodities exported, strong remittances inflows, and significant grants from the country's Middle Eastern partners.

While welcoming the recent improvement in growth performance, the authorities are keenly aware that continued reform efforts will be needed to place Comoros on a higher and more inclusive growth path that would help improve the population's living standards in a sustainable manner. In view of the challenging medium-term outlook, they intend to build on the progress they have achieved so far, and pursue growth-enhancing reforms as part of their development strategy, SCA2D *("Stratégie de croissance accélérée et de dévelopment durable, 2015-2019").* The authorities recognize that a stable macroeconomic environment is a prerequisite for strong and inclusive growth, and look forward to Fund's capacity development support as they deepen their reform efforts ahead.

II. Medium-Term Policies

The authorities expect medium-term economic prospects to be more sanguine than anticipated under the staff's baseline scenario characterized by slight improvement in the growth outlook. Underpinned by a strong commitment to macroeconomic stability, their ambitious policy and reform agenda under the SCA2D is poised to go a long way toward stimulating growth performance, notably by removing infrastructure bottlenecks and enhancing the business environment.

Fiscal Policy and Debt Management

In 2017, Comoros experienced a strong fiscal performance. The fiscal deficit narrowed substantially following successful efforts to enhance tax administration and revenue collection to rein in current expenditures as a share of GDP, and keep capital expenditures relatively stable.

Looking ahead, the authorities agree with staff that sustained reforms are needed to create fiscal space for public investment and priority social spending. In particular, this will entail further strengthening revenue mobilization and maintaining strict control over public expenditure. Due consideration will be paid to the so-called “quick-win” measures detailed in the excellent Selected Issues Paper as well as other recommendations formulated by staff in the context of the recent Fund technical assistance. The analysis and recommendations made in the SIP provide welcome insights about the experience of comparable small states. It is noteworthy that implementation of a number of measures is underway, consistent with some staff’s recommendations, including the recovery of the stock of tax arrears.

The authorities take note of staff’s assessment that the country’s risk of debt distress remains moderate. They remain committed to prudent debt management, including by continuing to prioritize external borrowing on concessional terms subject to the availability of such financing. The clearance of remaining external arrears has been initiated in the past few months and is intended to be completed by the end of the first quarter in 2019.

To improve competitiveness and basic services, overcoming infrastructure gaps will be key. As the authorities work to implement high priority public investments, including the deep-water port and hospital, they will continue to carefully review available financing options with a view to preserving debt sustainability.

Monetary Policy and Financial Sector Reforms

Comoros’ central bank has initiated a reform to the monetary policy framework in an effort to modernize policy tools and address potential vulnerabilities, including structural excess liquidity. In this endeavor, the monetary authorities intend to carefully sequence the envisaged reform measures in line with staff’s advice.

While the financial sector is well-capitalized and liquid, high NPLs continue to weigh on the growth of credit to the private sector. As rightly indicated in the Selected Issues Paper, it is important to note that large NPLs are held by smaller, non-systemic financial institutions which tend to have larger provisioning. The authorities are fully aware that addressing high NPLs is key to optimizing the contribution of the financial sector to the ongoing economic recovery. They will pursue efforts to address existing vulnerabilities in the financial system, including structural excess liquidity which hinder the adequacy of lending to the private sector. In parallel, compliance with the new regulatory will contribute to improving loan classification and provisioning and help enhance asset quality by facilitating timely write-off of NPLs, whenever warranted.

As indicated in Annex III of the staff report, Comoros' external position remains in line with medium-term fundamentals and desirable policies. The current account deficit narrowed substantially thanks to strong commodity exports partly driven by an increase in international prices of vanilla as well as higher remittances and external grants. In parallel, international reserves remain at a comfortable level, covering over 8 months of prospective imports of goods and services.

Structural Reforms

The authorities are determined to take necessary steps to strengthen the business climate and improve competitiveness. Economic activity in Comoros has been hampered for many years by persistent electricity shortages, inadequate transportation infrastructure, and cost-ineffective telecommunications services. While meaningful progress has been achieved in these areas in recent years, especially in the electricity sector, ample scope exists for making further inroads in addressing remaining bottlenecks. Thus, as part of their development strategy SCA2D, a great focus is put on infrastructure investment in the electricity and transportation 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.

III. Conclusion

The Comorian authorities are determined to pursue their efforts to address Comoros' daunting policy challenges and place the country on a higher and more sustainable growth path. They intend to advance their reform agenda to make further progress in this direction, as envisioned in the context of their development strategy. In this regard, the support of multilateral and bilateral partners will be critical for the successful implementation of this strategy. In particular, the authorities look forward to maintaining a close engagement with the IMF, as they pursue their policy and development objectives.