



UNION OF THE COMOROS

June 2023

REQUEST FOR A FOUR-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY— PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNION OF THE COMOROS

In the context of the request for a 4-year arrangement under the Extended Credit Facility, 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 1, 2023, consideration of the staff report that approved the Request for a Four-Year Arrangement under the Extended Credit Facility 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 1, 2023, following discussions that ended on April 28, 2023, with the officials of the Union of Comoros on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 15, 2023.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for the Union of the Comoros.

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

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IMF Executive Board Approves US\$43 Million Extended Credit Facility Arrangement for the Union of the Comoros

FOR IMMEDIATE RELEASE

- *The IMF Executive Board approves SDR 32.04 million (about US\$43 million) 4-year ECF arrangement for Comoros. This decision will enable an immediate disbursement equivalent to SDR 3.56 million (about US\$4.73 million).*
- *The ECF-supported program will help preserve Comoros' macroeconomic stability and implement the authorities' plans for fiscal consolidation, financial sector stabilization, and governance and anti-corruption reforms.*
- *Program measures aim to reduce economic and institutional fragilities and create fiscal space for needed investments in human and physical capital. Continued support from Comoros' international partners, both in terms of financing and capacity development, will be critical for the success of the program.*

Washington, DC – June 1, 2023: The Executive Board of the International Monetary Fund (IMF) today approved a 4-year arrangement under the [Extended Credit Facility](#) (ECF) of SDR 32.04 million (about US\$43 million) for the Union of the Comoros. The Executive Board's decision allows for an immediate disbursement of SDR 3.56 million (about US\$4.73 million).

The ECF arrangement follows the completion of the Staff-Monitored Program in April 2023 and represents the first financing engagement with the IMF since 2013. The ECF arrangement is expected to catalyze additional bilateral and multilateral financial support for Comoros' reform program.

Successive external shocks in recent years have exacerbated already fragile economic conditions in Comoros. The surge in global commodity prices and transportation costs during 2022 severely impacted households' purchasing powers in this import-dependent island economy and substantially worsened the fiscal outlook. These shocks have coincided with increased fiscal and debt service needs, as well as the expiration of pandemic-era support and retrenchment in international aid, which have significantly tightened financing constraints.

The ECF arrangement helps preserve the reform momentum started under the SMP and aims to address sources of fragility in Comoros, including low domestic revenue, an under-capitalized banking sector, and governance weaknesses. Key policy commitments include (i) mobilizing domestic revenue supported by reforms to strengthen tax and customs administration and streamline tax exemptions; (ii) completing the restructuring of the state-owned postal bank SNPSF and enhancing the Central Bank's banking supervision and resolution capacities; and (iii) strengthening governance through public financial management and anti-corruption reforms.

At the conclusion of the Executive Board's discussion, Ms. Antoinette Sayeh, Deputy Managing Director, and Acting Chair, made the following statement:

“Comoros has experienced several shocks, including a natural disaster, in recent years. The multiplicity of these shocks has adversely affected economic growth and fiscal sustainability while hampering the government’s ability to implement needed reforms. The country faces significant development challenges stemming from low fiscal revenue, insufficient public investment in human and physical capital, and vulnerability to shocks. Institutional fragility is manifest in weak governance and limited policy implementation capacity.

To address long-term structural issues, the Comorian authorities have embarked on a reform program supported by the IMF and other international partners. This Extended Credit Facility (ECF) arrangement, which builds on progress under the recently completed Staff-Monitored Program, is the first Upper Credit Tranche-quality arrangement with the IMF in ten years.

Under the ECF program, the authorities aim to tackle long-term structural weaknesses such as inadequate fiscal revenue, an undercapitalized banking system, and corruption vulnerabilities, which are obstacles to the government’s ability to invest in human and physical capital and the private sector’s ability to thrive. Fiscal consolidation to reduce debt sustainability risks and create space for development spending will be underpinned by fiscal structural reforms to mobilize domestic revenue. To improve financial sector stability, the authorities are committed to strengthening banking supervision and resolution capacities while restructuring the postal bank Société Nationale des Postes et des Services Financiers (SNPSF) to limit fiscal contingent liabilities going forward. Continued efforts to strengthen governance and accountability, including the adoption of the revised anti-corruption law, will be key to improve the overall business climate.

Strong and timely support from donors, complemented by IMF disbursements, is critical. Given the sizeable financing needs over the coming years, the authorities need to intensify their effort to mobilize financial support, including through good progress in the reform implementation. The reform program and financing supported by the ECF will continue to play a catalytic role.”

Union of Comoros: Selected Economic and Financial Indicators, 2020-28									
	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Est.1	Proj.¹					
(Annual percentage change, unless otherwise indicated)									
National income and prices									
Real GDP	-0.2	2.1	2.6	3.0	3.5	4.0	4.3	4.5	4.3
GDP deflator	0.8	-0.3	5.3	4.3	1.8	2.1	2.0	1.9	1.9
Consumer price index (annual average)	0.8	0.0	12.4	10.3	2.0	2.1	2.0	1.9	1.9
Consumer price index (end period)	-4.8	7.1	20.6	0.4	2.2	2.2	1.9	1.9	1.9
Money and credit									
Net foreign assets	30.3	11.5	-9.3	20.0	13.1	4.3	4.3	4.0	1.7

Domestic credit	-8.7	22.1	12.7	12.2	2.3	0.2	14.0	8.1	2.5
Credit to the private sector	-2.8	9.7	15.0	11.1	8.1	9.3	9.7	9.7	9.4
Broad money	11.5	20.1	8.1	9.2	7.3	5.8	5.7	7.3	5.8
Velocity (GDP/end-year broad money)	3.2	2.7	2.7	2.7	2.6	2.6	2.7	2.6	2.6
External sector									
Exports, f.o.b.	-48.3	62.4	76.7	-20.0	8.2	8.7	9.1	13.2	8.3
Imports, f.o.b.	-2.5	2.4	16.6	17.4	4.5	3.8	6.7	6.7	6.3
Export volume	-36.7	75.4	38.3	-17.4	5.1	6.5	7.2	11.2	5.7
Import volume	7.9	-5.8	-10.1	3.0	3.7	5.6	3.2	3.1	2.9
Terms of trade	-0.1	-15.1	-4.4	22.1	2.8	1.7	2.8	2.5	1.8
(In percent of GDP, unless otherwise indicated)									
Investment and savings									
Gross fixed capital formation	15.6	15.7	16.7	17.3	17.6	17.7	17.9	18.0	18.1
Public	5.5	5.4	5.0	7.1	6.8	5.8	5.1	5.1	5.2
Private	10.0	10.3	11.7	10.2	10.7	11.9	12.8	12.9	12.9
Gross national savings	13.6	15.2	14.3	12.1	12.5	13.2	13.4	13.7	13.8
Public	1.6	-0.3	-0.8	0.2	1.5	1.8	1.4	1.6	1.7
Private	12.0	15.5	15.1	11.9	10.9	11.4	12.1	12.1	12.1
External Savings	1.9	0.5	2.4	5.2	5.1	4.5	4.5	4.3	4.3
Total revenue and grants	18.3	17.0	14.2	17.0	14.8	15.1	16.0	16.4	16.2
Total revenue	9.2	10.3	9.8	9.7	9.9	10.3	10.7	11.0	11.3
Tax Revenue	7.7	8.6	7.7	8.0	8.3	8.7	9.0	9.3	9.6
Non-tax Revenue	1.5	1.7	2.1	1.7	1.6	1.7	1.7	1.7	1.70
Total grants	9.0	6.8	4.5	7.3	5.0	4.8	5.3	5.3	4.9
Total expenditure and net lending	18.8	19.8	18.2	21.8	19.4	18.2	17.6	17.7	18.0
Current expenditure	10.7	12.8	11.2	12.5	10.3	10.5	10.6	10.8	10.9
Capital expenditure	7.8	7.0	6.9	9.3	9.1	7.7	7.0	7.0	7.1
Domestic primary balance ²	-1.4	-3.4	-1.9	-2.4	-1.8	-1.1	-0.2	0.0	-0.1
Overall balance (cash basis)	-0.8	-2.8	-3.6	-4.9	-4.6	-3.1	-1.7	-1.4	-1.7
Excluding grants	-9.8	-9.6	-8.1	-12.1	-9.6	-7.9	-7.0	-6.7	-6.7
Net Financing	1.0	2.7	3.6	4.2	3.1	1.4	0.0	0.0	0.4
Foreign	1.0	1.6	2.5	5.0	4.2	2.2	0.2	0.1	0.5
Domestic	0.0	1.2	1.1	-0.9	-1.2	-0.8	-0.2	-0.2	-0.1
Of which: Net acquisition of assets	0.0	-0.1	-0.4	-0.5	-0.3	-0.6	-0.1	-0.1	0.0
Financing gap/errors and omissions ³	-0.2	0.1	0.0	0.7	1.5	1.6	1.6	1.4	1.3
(+ = underfinancing)									
External sector									

Exports of goods and services	5.5	9.9	13.3	11.9	12.1	12.3	12.6	13.0	13.2
Imports of goods and services	28.2	32.5	37.3	37.7	36.5	35.3	34.9	34.5	34.2
Current account balance	-1.9	-0.5	-2.4	-5.2	-5.1	-4.5	-4.5	-4.3	-4.3
Excl. official and private transfers	-22.2	-22.1	-23.7	-25.4	-23.8	-22.8	-22.1	-21.3	-20.8
Private remittances, net ⁴	16.9	19.8	20.6	17.4	16.6	16.4	16.3	15.7	15.3
External debt	21.8	25.8	27.1	33.6	37.4	39.0	38.5	37.9	37.7
External public and publicly guaranteed debt	21.8	24.7	27.1	33.7	37.4	39.0	38.5	37.9	37.7
External debt, in percent of exports of goods and services	418.2	123.8	86.5	82.2	66.4	48.0	42.1	37.0	26.2
External debt service ⁵	2.6	2.0	2.1	3.6	4.5	5.8	5.7	5.5	5.3
Overall balance of payments (in millions of U.S.\$)	56.9	62.4	-24.0	51.1	42.1	15.9	14.6	13.4	6.5
Official grants and loans	10.3	8.6	7.1	12.8	10.0	8.5	7.1	7.0	6.9
Gross international reserves⁶									
In millions of U.S. dollars	292.2	329.3	281.8	325.8	359.3	370.7	382.2	390.8	391.6
In months of imports of goods & services	8.4	8.6	6.7	7.6	8.2	8.1	8.0	7.8	7.4
Gross international reserves, including fiscal gap									
In millions of U.S. dollars	292.2	329.3	281.8	341.8	403.4	442.1	480.4	512.4	535.9
In months of imports of goods & services	8.4	8.6	6.7	8.0	9.2	9.7	10.0	10.3	10.2
Exchange rate CF/US\$ (period average)	431.1	415.7	466.8						
Memorandum items:									
Public external debt (in Percent of GDP) ⁷	21.8	25.8	27.1	33.6	37.4	39.0	38.5	37.9	37.7
Public debt (in Percent of GDP)			33.7	40.7	43.8	45.1	44.4	43.6	43.3
GDP (nominal, in billions of CF)	524.9	534.3	577.3	620.1	653.6	694.0	738.7	786.6	836.0
GDP per capita (nominal, in US Dollars)	1,357	1,395	1,294	1,352	1,363	1,390	1,420	1,448	1,467
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, excluding the World Bank-financed spending to combat the COVID epidemic and epidemic and the cost of restructuring SNPSF.									
³ For 2022-23, includes unmet financing needs for restructuring SNPSF.									
⁴ From 2015, net private official transfers include estimates made by the Central Bank of Comoros of debit items other than wire transfers.									
⁵ In percent of government revenue.									
⁶ End of period. From 2021, includes new SDR allocation of \$24 million.									
⁷ Coverage of debt: The central government, the central bank and government-guaranteed debt. Definition of external debt is Residency-based.									



UNION OF THE COMOROS

May 15, 2023

REQUEST FOR A FOUR-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context. Comoros is a small, fragile island state facing significant development challenges, balance of payments needs, a high risk of debt distress, vulnerabilities in the banking system, and governance weaknesses. In recent years, the country was hit by successive shocks including Cyclone Kenneth in 2019, the COVID-19 pandemic in 2020-21, and fallout from the war in Ukraine in 2022. Two rounds of emergency support under the RCF/RFI of SDR 8.9 million each were approved in July 2019 and April 2020. A Staff Monitored Program (SMP), approved in September 2021, ended with broadly satisfactory performance, helping to establish a track record of policy implementation towards an Extended Credit Facility (ECF) arrangement. Policies under the SMP aimed to address the impact of the COVID-19 pandemic, reduce economic risks, and begin reforms to tackle sources of fragility.

ECF objectives and modalities. The authorities have requested the ECF arrangement to support their efforts to preserve macroeconomic stability, address financing gaps, and maintain momentum in their structural reform agenda. Given the fragile context, capacity constraints, and time needed to implement reforms, staff proposes a four-year ECF with bi-annual reviews to monitor a focused set of quantitative targets and structural benchmarks. Access is proposed at 180 percent of quota (SDR32.04 million) with uniform semi-annual disbursements. Financing under the arrangement will help address fiscal and balance of payments needs, estimated at about US\$97.6 million over 2023-2027. Under the program baseline, Comoros' risk of debt distress would decline to moderate by 2028. Staff assesses Comoros' capacity to repay the Fund as adequate, albeit with risks; policies and the phasing of disbursements under the program aim to mitigate these risks.

ECF policies. The program builds on the SMP and seeks to: (i) support the authorities' fiscal consolidation efforts to create fiscal space to address the country's poverty and development needs and reduce debt sustainability risks, underpinned by fiscal structural reforms aimed at domestic revenue mobilization, (ii) strengthen the financial sector including completing the restructuring of the state-owned postal bank SNPSF started under the SMP, and (iii) advance governance reforms to improve public financial management and further reduce corruption vulnerabilities. By addressing the key sources of fragility, program policies are expected to create fiscal space for much-

needed investments in human and physical capital, enhance financial system stability which promotes growth and reduce poverty through greater financial inclusion, and reduce corruption vulnerabilities to improve the functioning of the public sector and overall business climate, all of which are consistent with the government's objectives under the *Plan Comores Emergent*. Continued capacity development support is vital for the success of the program.

Staff supports the authorities' request for the ECF arrangement.

Approved By
Costas Christou (AFR)
and Johannes
Wiegand (SPR)

The staff team comprised Suchanan Tambunlertchai (mission chief), Gabriel Srour, Laila Drissi Bourhanbour, Pegdewende Nestor Sawadogo (all AFR), Ibrahim Ahamada (local economist), David Blache (MCM), and Rima Turk (incoming Resident Representative). Haya Abu Sharar, and Roberta Guarnieri (all AFR) assisted in the preparation of this report. Discussions were held in Moroni during March 8-23, 2023, with follow-up discussions virtually and in Washington, DC during April 10-28, 2023, with Minister of Finance Chanfiou, Central Bank Governor Imani, Secretary General of the Ministry of Finance Houmadi, and other senior officials.

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BACKGROUND

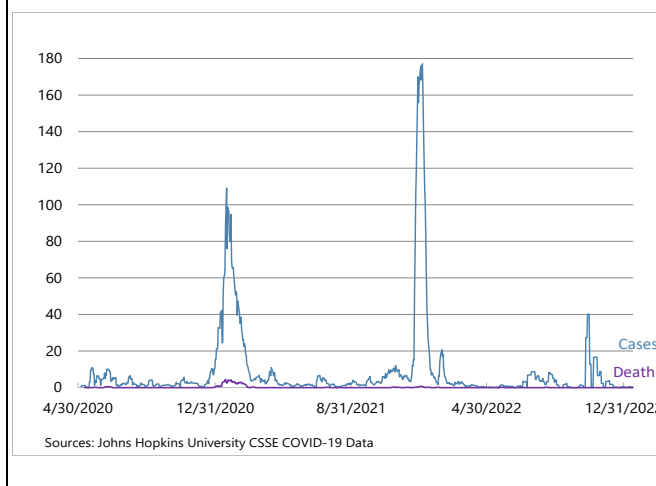
1. Comoros is a small, fragile island state in need of deep reforms and sustained support from development partners. The economy is based on agriculture, small commerce, and tourism, reliant on remittances and imports, and vulnerable to natural disasters. Annual growth averaged below 3 percent over the past decade. Institutional fragility manifests in weak governance and capacity. Economic fragility manifests in severe constraints on domestic resources and pronounced vulnerability to shocks. Average fiscal revenue of 10 percent of GDP is one of the lowest in the world. About 38.2 percent of the population live with less than US\$3.20 a day (PPP terms). A shallow financial sector coupled with a weak judicial system limit private credit, investment, and economic diversification. President Assoumani, in office since 2016, is up for re-election in 2024.

2. The COVID-19 pandemic and the war in Ukraine have exacerbated already-weak macroeconomic conditions. Notwithstanding substantial aid and remittance inflows during the pandemic, economic activity stagnated in 2020-2021 and the recovery in 2022 was interrupted by spillovers from Russia's war in Ukraine. Inflation reached double digits in 2022, the fiscal outlook worsened, and the current account deficit widened. Comoros faces a high risk of debt distress.

3. Following the completion of the Staff-Monitored Program (SMP), the authorities have requested a financing arrangement under the Extended Credit Facility (ECF) to support their reform agenda. Priorities include securing medium-term macroeconomic stability by addressing sources of fragility and increasing resilience. The program aims to safeguard debt sustainability based on a credible fiscal consolidation plan and structural reforms aimed at mobilizing revenue, strengthen the banking sector, fight corruption, and improve public sector governance and transparency. The ECF would build on progress made during the SMP and support reforms towards higher and more inclusive growth, drawing on the authorities' visions under the *Plan Comores Emergent*.

Text Figure 1. Daily Confirmed COVID-19 Cases and Deaths

(7-day rolling average. Limited testing and challenges in the attribution of cause and death mean the cases and deaths counts may not be accurate)



RECENT ECONOMIC DEVELOPMENTS

4. The fallout from the war in Ukraine continues to weigh on the economy, but signs of recovery have emerged.

- Domestic activity which had begun to pick up at the end of 2021 with the resumption of tourism and social events like the “Grands Mariages,” has been undercut by the global growth slowdown and surge in commodity prices. However, expected real GDP growth in 2022 has been revised up slightly to 2.6 percent (from 2.4 percent), reflecting still-strong remittances from the diaspora and higher-than-expected exports of cloves in the last quarter of 2022.
- Inflation (y/y) rose to 20.6 percent at end-2022 and reached a record high of 20.7 percent in January before coming down slightly to 20.0 percent in February.
- Key SOEs incurred substantial losses in 2022, with the largest impact on the oil company SCH. More favorable rice price developments have helped stabilize the situation at the rice company ONICOR. SOEs’ losses were financed through public-guaranteed loans from commercial banks. The surge in prices prompted the government to raise administered prices¹ in 2022 to contain SOEs’ losses while offering temporary subsidies and tax exemptions on certain staple goods to alleviate the cost-of-living crisis.

5. The Central Bank of Comoros (BCC) raised unremunerated reserve requirements—its main policy tool—from 10 percent to 15 percent in July 2022.

Other interest rates indexed to the European interbank rates also rose, albeit with limited passthrough to the real economy. Meanwhile, credit growth was strong in 2022, driven by the higher level of financing for higher-priced imports especially by SOEs, with the share of credit to the public sector reaching 15.5 percent at end-2022 from 7 percent the year prior. After the contractions seen in 2020 and the first half of 2021, credit to the private sector grew strongly in 2022 peaking at 25 percent (y/y) in July before gradually falling towards 13 percent in January 2023.

6. SOEs’ losses weighed on fiscal revenue in 2022, but higher non-tax revenue and lower spending helped narrow the domestic primary deficit (Text Table 1).

Forgone revenue from SOEs and tax exemptions were offset by higher non-tax revenue, including dividends from the central bank, lower COVID-19-related outlays, and delayed public outlays on the El Maarouf Hospital project. The elimination of “ghost workers” also helped

Text Table 1. Union of Comoros: Fiscal Developments
(In percent of GDP)

	2020	2021	2022
			Est. ¹
Total revenue and grants	18.3	17.0	14.2
Revenues	9.2	10.3	9.8
Tax revenue	7.7	8.6	7.7
Nontax revenue	1.5	1.7	2.1
External grants	9.0	6.8	4.5
Total expenditure	18.8	19.8	18.2
Current expenditure	10.7	12.8	11.2
Primary current expenditures	9.6	11.7	10.6
Wages and salaries	5.2	5.3	5.0
Goods and services	2.6	2.2	2.4
Transfers and pensions	1.8	4.2	3.3
Interest payments	0.2	0.3	0.2
Foreign-financed project maintenance	0.6	0.5	0.1
Technical assistance	0.2	0.3	0.3
Capital expenditure	7.8	7.0	6.9
Domestically financed investment	1.1	2.1	1.2
Foreign-financed investment	6.7	5.0	5.7
Domestic primary balance	-1.4	-3.4	-1.9
Overall balance (commitment basis)	-0.5	-2.8	-3.9
Change in net arrears	-0.3	0.0	0.3
Overall balance (cash basis)	-0.8	-2.8	-3.6

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

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

¹ In May 2022, the government raised prices of gasoline (25 percent), diesel oil (44 percent) and petroleum (40 percent).

contain the wage bill. The domestic primary deficit (excluding all foreign-supported current and capital spending and the World Bank-financed cash transfers) is thus estimated to have narrowed to 1.9 percent of GDP in 2022, although the overall fiscal deficit deteriorated as donors disbursed fewer grants and more concessional loans.²

7. The authorities are using the 2021 SDR allocation for budget financing. In December 2021, the BCC on-lent the previously exchanged SDRs (SDR 17.1 million, 1.4 percent of GDP) to the Treasury for use as a liquidity buffer.³ The amount has already been included in public debt.

8. The external current account deficit widened in the wake of the war in Ukraine.

Preliminary data for 2022 show that imports rose by more than 16 percent (y/y) following the surge in food and oil prices and the USD appreciation. Higher imports were offset by higher exports, particularly cloves. The current account balance is projected to have deteriorated to -2.4 percent of GDP in 2022 from -0.5 percent the year prior. The REER appreciated by 3.5 percent in 2022, and staff assesses that the external position of Comoros in 2022 was in line with fundamentals and desirable policies (see Annex 1).

9. The financial sector remains vulnerable and presents substantial fiscal risks. Comoros has nine deposit-taking institutions. Total banking assets and total bank credit represent 35 and 16 percent of GDP (2021), respectively. Over two-thirds of deposit-taking institutions are in breach of solvency requirements. The NPL ratio improved noticeably in 2021 (Text Table 2), albeit stabilizing at a still-high level of 17 percent as of end-June 2022. Liquidity indicators mask large differences across banks, and the higher reserve requirements in 2022 led to breaches by some banks. Credit to SOEs increased by 63.8 percent between end-2021 and end-June 2022, while deposits of SOEs with banks decreased by 25.5 percent over the same period.

10. Comoros' external and overall debt are sustainable

but remain at high risk of debt distress. Three of four external debt burden indicators breach their

Text Table 2. Union of Comoros: Financial Soundness Indicators for the Banking Sector, 2016-2022
(In percent)

	2017	2018	2019	2020	2021 (1)	2022 (1)(2)
Capital adequacy						
Regulatory Capital to Risk-Weighted Assets	21.2	22.3	27.9	25.2	8.3	8.8
Asset quality						
Non-performing Loans to Total Gross Loans	24.8	24.3	22.5	23.7	16.8	17.0
Non-performing Loans Net of Provisions to Capital	49.1	40.7	29.4	35.4	23.0	34.7
Earning and profitability						
Return on Equity	-0.7	-0.5	-0.7	-7.6	-0.5	N.A.
Liquidity						
Liquid Assets to Short Term Liabilities	84.8	94.1	88.7	104.3	N.A.	N.A.
Customer Deposits to Total (Non-interbank) Loans	122.7	132.3	134.6	154.7	163.0	141.2

(1) Central Bank of Comoros and IMF staff calculations. Due to understaffing of the Supervision Department, BCC has not reported FSI since end-June 2021

(2) End-June 2022 data. Do not include all deposit-taking institutions due to inconsistencies in the reporting of some institutions

² For technical reasons, earlier definition of the domestic primary spending under the SMP included the WB cash transfers (equivalent to ½ percent of GDP in 2022).

³ Under Comoros' institutional arrangements, use of the SDR allocation involves provision by the central bank of credit to the government in excess of existing limits that tie central bank credit to previous year's fiscal revenue.

respective thresholds under the current baseline. However, the size and duration of the breaches are limited and are expected to improve over the medium term. Additional considerations that mitigate the mechanical risk signals include the authorities' commitment to pursuing an economic reform program supported by the ECF, and the consistently strong performance of remittances, which supports external sustainability. (See Debt Sustainability Analysis (DSA) accompanying this report.)

11. External arrears increased from US\$6 million to US\$7.2 million in 2022. A large part of the outstanding stock (US\$5.2 million) is accounted for by the loan from the Arab Bank of Economic Development in Africa (BADEA) for which the authorities are seeking an alternate creditor.⁴ Of these new arrears accumulated in 2022, the authorities have paid Kuwait Fund (US\$0.12 million) and the OPEC Fund for International Development (US\$0.54 million). The authorities have engaged with the French Treasury to discuss an arrears clearance strategy for debt owed to Bpifrance Assurance Export which started accumulating arrears (US\$0.56 million) following the DSSI expiration. Discussions are also ongoing regarding the pre-existing arrears (US\$1.17 million) to Exim Bank India for a power plant project.

OUTLOOK AND RISKS

12. Effects of the shocks are expected to recede in 2023, but the outlook remains uncertain. Growth is projected to rise to 3.0 percent in 2023, and 3.5 percent in 2024, driven by investment projects, including continued work on the hospital, the construction of the Galawa Hotel, and road refurbishments. Medium-term growth is projected to rise to around 4½ percent contingent on the implementation of sound macroeconomic policies and structural reforms. Inflation is expected to continue declining throughout 2023 given strong base effects in 2022 and the recent decline in commodity prices, and to remain between 2-2½ percent thereafter. Remittances are projected to decline from earlier record levels amid lower Eurozone growth, albeit remaining at a high level over the medium term reflecting the continued importance of the Comorian diaspora. Service exports recovery would continue in 2023. Imports should see strong growth in the short term in connection with the ongoing investment projects and the normalization of freight to Comoros after the pandemic-related disruptions, normalizing over the medium term in line with international price developments and project completions. Foreign reserves are projected to strengthen from the current level, reaching around 7½ months of import coverage over the medium term.

13. Risks to the outlook are broadly balanced (Annex 2). High food and fuel prices pose risks for food security and social tensions. Renewed supply chain disruptions could put additional pressure on prices, while a global slowdown and geo-economic fragmentation could reduce trade and FDI. On the upside, Comoros' assumption of the AU presidency for this year could boost the authorities' reform efforts and engagement with partners, while good progress under the ECF could

⁴ Comoros is a shareholder of BADEA. As the institution has become focused on serving non-shareholder countries, the bank has requested that its loan to Comoros be transferred to a new creditor.

further improve donor and private sector confidence and potentially unlock financing and economic activity beyond what is assumed in the baseline.

PROGRAM OBJECTIVES AND POLICIES

Building on the recently completed SMP, the proposed ECF program seeks to foster economic resilience and reduce fragility by: (i) supporting a credible medium-term fiscal consolidation plan to increase fiscal space and reduce debt sustainability risks; (ii) reducing risks in the financial sector; and (iii) advancing anti-corruption and governance reforms.

A. Supporting the Recovery and Ensuring Medium-Term Macroeconomic Stability

Fiscal Consolidation

14. Given the fragile ongoing recovery, with growth remaining substantially below potential, the program envisages a temporary fiscal loosening in 2023.

- The revised 2023 budget seeks to support growth while containing debt and inflationary pressures. It appropriately phases out one-time subsidies and tax exemptions introduced in 2022, particularly on rice imports, as prices have stabilized, reintroduces some taxes, including the long-overdue sales tax on construction material, and reduces the subsidy for electricity. Reforms in revenue administration also will continue to expand the tax base and improve compliance (see below). The budget promotes growth through higher investment spending, mostly financed on concessional terms, while containing other expenditures. The elimination of substantial ghost workers in 2022 permitted the government to raise salaries of civil servants for the first time in several years, while containing the wage bill-to-GDP ratio to below its level in 2021. The budget also strengthens social spending, although it largely relies on social transfers aid from the World Bank (WB) to mitigate the rising cost-of-living impact on the most vulnerable.
- On an exceptional basis, the budget includes KMF 5.3 billion (about \$11.4 million) for estimated spending related to Comoros' AU presidency; the authorities have allocated KMF 1 billion in resources for the AU budget and committed to financing the remaining amount via aid from development partners.⁵
- In line with the above policies, domestic primary spending (excluding all foreign-supported current and capital spending) would expand from 11.2 percent of GDP in 2022 to 12.1 percent in 2023. Revenue would remain almost flat at 9.7 percent of GDP, as revenue gains from tax administration and policy reforms will be offset by lower revenue from SOEs. The domestic

⁵ The estimated AU budget includes nominal costs of technical assistance for various areas of expertise (e.g., climate change, security) for which the authorities will seek support from the AU and other partners.

primary deficit is thus projected to widen from 1.9 percent of GDP in 2022 to 2.4 percent in 2023. The overall deficit would increase from 3.6 percent of GDP to 4.9 percent, reflecting also expected higher project loans from development partners.

15. The program seeks to protect the vulnerable population via targeted transfers. The social safety net project (Projet de Filets Sociaux de Sécurité), funded by the WB, is responsible for direct cash transfers to the most vulnerable. Similar to the SMP, the ECF sets a floor on these cash transfers (IT) equivalent to about ½ percent of GDP annually to ensure timely disbursements of social assistance. The authorities will coordinate closely with the WB the scheduled disbursements and make appropriate provisions in advance if needed to ensure a minimum annual social assistance in case of expected delays in WB disbursements, while noting that this may require reallocation from other expenditure items. In an effort to further strengthen the social safety net, the government has made provisions (0.13 percent of GDP) to cover health insurance costs for the most vulnerable and raised its contributions to the pension fund. The authorities are also considering raising the retirement age of civil servants as a potential first step to gradually return the currently imbalanced pension fund to a sustainable financial position.

16. Fiscal consolidation would start in 2024 to alleviate debt sustainability risks and reduce financing needs over time. The consolidation will be built on: (i) a steady increase in tax revenue of at least 0.3 percent of GDP per year (QPC) through comprehensive structural reforms in tax policy and tax and customs administration; (ii) the paring back of transfers and subsidies introduced in 2021-22 to mitigate the effects of the recent shocks; and (iii) reducing investment spending to pre-pandemic levels once already committed spending is phased out. These strategies are expected to reduce the domestic primary deficit by 2.4 percent of GDP over 2024-27. The envisaged fiscal path strikes a balance between enabling growth and lowering debt risks, anchored on the reduction of debt burden indicators below their high-risk thresholds by 2028. A faster consolidation could risk undermining growth or fueling social discontent, and thereby weakening sustainability.

17. A pricing strategy is needed to address SOEs' losses, with a more comprehensive strategy to improve SOEs' medium-term performance needed. The 2022 increase in administered prices brought prices of fuel and ordinary rice broadly in line with current costs, stemming losses at SCH and ONICOR. On the other hand, despite a 50 percent increase, electricity tariffs remain over 50 percent below costs, reflecting the high inefficiency in electricity production and distribution.⁶ The authorities intend to maintain tariffs on oil products and rice at the current levels even if international prices decline to return SCH and ONICOR to profitability and enable their debt repayment. The authorities also recognize the need to raise tariffs in a timely fashion in the event of another surge in global prices (MEFP ¶4). They are considering liberalizing the importation of ordinary rice, with the WB supporting the process, as part of the WTO accession. They will examine closely if there is margin to increase electricity tariffs on some segments of the clientele

⁶ The state-owned electricity company SONELEC is planning a transition to more efficient technologies (involving a mix of solar and heavy oil use) in the future. However, this may take several years, during which the company is likely to continue to incur losses.

without unduly affecting the economy, although electricity prices are already very high relative to other countries in the region. The introduction of automatic price mechanisms for oil, rice, and electricity would be premature at this time given the government's limited capacity. But such mechanisms along with strategies to improve SOEs' financial performance and governance could be explored later on in the program.

Fiscal Structural Reform

18. Revenue mobilization, with IMF technical assistance (TA), will be a key pillar of the reform agenda supported by the ECF. The authorities rightly intend to further strengthen revenue administration and embark on tax policy reforms, making full use of continued IMF's support in capacity development.

- Key objectives on tax administration include: (i) continuing to raise the number of active taxpayers and strengthening compliance; (ii) broadening the use of the SIGIT software and disseminating the tax fiscal code; (iii) aligning tax administration on SOEs with other taxpayers; and (iv) recovering unpaid taxes. To advance tax administration reforms and implement measures already identified by IMF TA, presidential decrees will be issued, as prior actions (PAs) for the ECF arrangement, to reorganize the tax administration function Administration Générale des Impôts et des Domaines (AGID) into a tax management unit dedicated to core tax issues (Direction Générale des Impôts, DGI) and a unit charged with non-fiscal land affairs (Direction Nationale des Affaires Foncières et Domaniales, DNAFD).
- On customs administration, planned measures include: (i) completing the *de jure* transfer of the management of fuel products taxes to the customs administration after already having completed the transfer *de facto*; (ii) strengthening risk management, including by focusing inspection efforts on shipments with the highest compliance risks; (iii) deploying an internal control system and developing a decision-making information system; (iv) improving coordination between customs and the tax administration; and (v) finalizing the regulations needed to implement the customs code.
- Tax policy reforms will need to play a larger role in domestic revenue mobilization. The recent retraction of the sales tax exemption for construction materials is a welcome start. The authorities plan to establish a tax policy unit at the Ministry of Finance to spearhead tax policy related reforms, including a tax expenditure assessment to identify avenues for streamlining exemptions.

19. The authorities need to accelerate efforts to improve public financial management and strengthen oversight of SOEs. Progress in implementing the roadmap for extending the coverage of the TSA adopted under the SMP has been slow. A number of prerequisite reforms before coverage can be extended, e.g., establishing the central accounting agency, consolidating the TSA, and improving cash management capacity, remain incomplete. Progress in this area will likely require further technical assistance. The Ministry of Finance has limited oversight of SOEs' performances despite their substantial fiscal contingent liabilities risk. The authorities intend to

strengthen SOE oversight by amending the law on SOEs and creating an oversight unit, ensuring SOE tax compliance, and aligning SOE wage compensation with that of the civil service. As a first step, the authorities have committed to strengthening data reporting by SOEs and to providing annual SOE financial data for program monitoring.

20. The authorities aim to complete the audit of domestic arrears by end-2023. While the audit of domestic arrears was commissioned under the SMP, delays in data sharing and incomplete information have stalled progress. The completion of this audit exercise (structural benchmark, SB) is a critical first step for quantifying the problem in order to articulate a domestic arrears clearance strategy.

Financing and Debt

21. Comoros requires grants and highly concessional borrowings to finance its development. The contracting of non-concessional loans to finance the construction of the Galawa Hotel and the El Maarouf hospital, while intended to address infrastructure gaps in the tourism and health care sectors, respectively, has contributed to the increased financing needs in the period ahead and led to the country's high risk of debt distress rating. Under the program, therefore, it is expected that the authorities will not contract any new non-concessional debt (continuous QPC). Per the Debt Limits Policy, the program will also monitor concessional borrowing via a memo item given Comoros' limited capacity to monitor debt in real time.⁷ (See borrowing plan in the DSA accompanying this report.)

22. The authorities are committed to the non-accumulation of new external arrears and net new domestic arrears. The program includes the standard QPCs on the non-accumulation of new external arrears and net new domestic arrears. The authorities are putting in place credible plans to clear existing arrears (¶11).

Monetary Policy and Operations

23. The authorities should proceed cautiously in further tightening monetary policy. Comoros operates in a fixed exchange rate regime. Recent and expected price increases in Comoros reflect mainly supply-side factors (higher import prices). Monetary policy tightening in advanced economies is likely to have only modest spillovers to Comoros given its limited integration into global capital markets. Increases in unremunerated reserve requirements will have limited transmission given the high concentration of liquidity in the banking system, while potentially straining liquidity in weak banks. Credit growth has also been trending down. Against this background, the authorities should consider further tightening only in case of second-round impacts of higher import prices or large outflows of reserves.

⁷ Experience under the SMP revealed considerable lags in information availability at the Debt Unit of the Ministry of Finance due to lack of coordination among the parties involved in debt contract negotiations. See also World Bank Debt Reporting Heat Map (<https://www.worldbank.org/en/topic/debt/brief/debt-transparency-report>).

24. The BCC should continue their efforts to develop and strengthen the monetary policy toolkit. With support from the IMF’s Monetary and Capital Markets Department, the authorities are gradually developing the interbank market and an interest rate corridor system which would allow the use of interest rate policy to affect the real economy. The authorities recognize, however, that these efforts would need to be accompanied by financial sector reforms, as weak banks have been a key impediment to the development of the interbank market.

B. Restructuring the SNPSF and Stabilizing the Financial Sector

25. The key challenges are to address NPLs and improve banks’ financial positions and governance to support growth through more efficient credit allocation. The financial sector strategy will rely on two main pillars: (i) complete the restructuring of the systemic SNPSF; and (ii) ensure that other weak banks can be recapitalized or resolved during the course of the program.

26. The program will support the implementation of the SNPSF restructuring strategy elaborated under the SMP. The authorities’ objective is to support the newly created bank—Banque Postale des Comores (BPC)—with a strong governance and risk-management framework, which would promote financial inclusion while minimizing fiscal contingent liabilities. The key next steps for the reform are:

- Issuance by the government of debt instruments to provide BPC with sufficient assets to request a banking license (PA). These debt instruments would be redeemed for cash according to the agreed schedule over 2023-25 (see MEFP ¶15), fully capitalizing BPC by end-2025. The capitalization will be assisted by grants from the AFD and France, leaving about KMF 4.9 billion that need to be covered by the government.
- Appointment of a managing director at BPC (SB) who will work with the board of directors (appointed in October 2022) to operationalize the bank according to the business plan developed under the SMP, with the management team given a performance contract that ensures operations free from political interference.
- Submission to the BCC of an application for BPC’s banking license which would specify a business plan consistent with that developed under the SMP, a management team with adequate management expertise and experience in banking and credit risk management, and a capital injection plan that would fully capitalize BPC in cash by end-2025 (see MEFP ¶15) (SB).
- Issuance by the BCC of a banking license which complies with the above conditions (SB). The BCC should also withdraw the SNPSF’s banking license. A sunset clause (3 years) will apply to the winding down of the SNPSF’s banking assets (MEFP ¶15).
- Implementation of the business plan for BPC, which was developed under the SMP and envisages three phases, with incremental increases in credit operations as the bank strengthens its managerial and operational capacity (see MEFP ¶15).

27. The authorities are determined to take steps to stabilize the banking sector.

- *Addressing the NPL overhang is crucial to foster sustainable credit growth and improve the financial situation of banks.* The Commission on NPLs, which delivered significant results in 2020-2021 (¶9 and 1st bullet of MEFP ¶15), will resume its quarterly meetings and submit regular reports to the President. The BCC will provide technical support to the Commission.
- *Stepping up oversight and resolution capacity.* In 2022, the BCC completed onsite inspections in four major deposit-taking institutions to assess the quality of credit portfolios following the lifting of Covid-19 regulatory forbearance measures. In 2023, the BCC will prioritize onsite inspections of anti-money laundering procedures due to an FATF regional assessment this year. The onsite inspections on credit portfolios in the remaining banks will be carried out by end-June 2024 (SB). The BCC will establish a resolution unit, separate from the supervision department and which would report separately to the board (SB), as a first step towards updating the bank resolution framework for parliamentary submission (SB). IMF TA in 2022 pointed out several issues that warrant legislative adjustments to the 2020 resolution law, including solidifying the power to liquidate an entity in default, introducing a resolution funding mechanism, and establishing a depositor preference. The emergency liquidity function of the central bank remains to be created.
- *Resolving unviable banks.* In 2020, the BCC placed under administration two loss-making commercial banks, which they consider systemic, and which have continued to accumulate losses. The authorities have recently agreed with a foreign banking group on the purchase the good assets and liabilities of one of the banks. Losses will be imposed upon the previous shareholder and the fiscal costs have been assessed. The government will recapitalize the bank and retain a minority stake. The authorities now intend to apply the same approach to the second bank. Over the medium term, once the resolution and crisis management framework is in place, the BCC will require time-bound recapitalization plans for commercial banks in breach of capital adequacy requirements (SB), and ultimately the resolution of banks that are insolvent or unviable. The BCC will also address the situation of two microfinance institutions in breach of capital adequacy requirements.

C. Strengthening Governance and Reducing Vulnerability to Corruption**28. The authorities aim to advance governance, transparency, and anti-corruption reforms building on reforms started under the SMP.**

- The authorities will adopt the draft anti-corruption law that is aligned with the SMP objectives (SB). The draft law enhances preventive measures against corruption, strengthens the rules related to conflicts of interest, and improves the asset declaration system for senior public officials. While the draft law provides for access to the declarations, the criminalization of publication of asset declarations remains a concern. The law also provides for the creation of an operationally independent Anti-Corruption Chamber with the mandate to set up and coordinate the implementation of the country's anti-corruption policy priorities (SB).

- The collection for publication of information on public procurement projects including beneficial ownership information, in line with the circular and roadmap published in December 2021, has been slow. The authorities have started to publish information for COVID-19-related contracts on the [BCC website](#) while a permanent website dedicated to public procurement contracts is being developed.
- The audit of spending financed by IMF emergency support in 2020 is being conducted by the Court of Auditors and the authorities intend to publish the full audit report by June 2023 (SB).

29. Efforts to strengthen AML/CFT are ongoing, although progress has been slow.

Comoros' AML/CFT framework is expected to undergo an assessment by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) this year, with onsite visit scheduled for July 2023.

PROGRAM MODALITIES

30. The authorities have requested a 4-year ECF with access of SDR 32.04 million (180 percent of quota) to support their reform program. The arrangement would support recovery from the pandemic and the food and fuel price shocks while addressing protracted balance of payments needs through policies required to improve the fiscal position, safeguard public debt sustainability, reduce poverty and economic fragility, and foster more inclusive growth. As illustrated by the macroeconomic projections in the second review of the SMP, without the ECF arrangement, medium-term international reserves would decline to well-below adequate levels. The proposed access would be used for budget support, covering about a quarter of the external financing needs, with 9 equal disbursements over 4 years (Table 7). The BCC and the Ministry of Finance will sign a memorandum of understanding on the respective responsibilities for timely servicing of the obligations to the Fund.

31. The program is fully financed for the first 12 months, with good prospects of full financing for the remainder of the arrangement. In addition to Fund support and project financing support from various partners, financing for the first year of the ECF consists of budget support from development partners and multinational development institutions, including the WB (DPO⁸ and IDA grant financing), France (including via the Agence Française de Développement), and African Development Bank. The catalytic role of the ECF-supported program is expected to generate budget support grants, with KMF 13.8 billion (about US\$30 million) included in the 2023 budget projections. Moreover, as the program begins to provide sufficient assurances of the authorities' policy implementation, staff expects other donors to further engage via additional budget support, project grants, and concessional project loans.

32. Program performance will be monitored through biannual reviews.

⁸ The assumed Development Policy Operation of \$20 million for 2023 is subject to WB board approval and the authorities' implementation of the prior actions associated with the operation.

- **Quantitative performance criteria (QPCs)** include floors on tax revenues, the NIR, and the domestic primary balance, and ceilings on net new domestic payments arrears, new external arrears, and new non-concessional external debt. An **indicative target (IT)** is set on the social cash transfers financed by WB. (Text Table 3)
- **Prior actions (PAs)** include the submission to Parliament of a supplement to the 2023 budget in line with program projections; issuance of presidential decrees to reorganize the Ministry of Finance and restructure the tax administration function (AGID), in line with IMF recommendations; and the issuance of debt instruments by the government for the BPC's opening balance sheet (Text Table 4).
- **Structural benchmarks (SBs)** will focus on domestic revenue mobilization, strengthening the banking sector, and governance and anti-corruption reforms (Text Table 4). Consistent with the FCS Strategy Guidance Note, staff proposes parsimony in reform priorities while breaking down complex reforms into granular steps to account for weak implementation capacity. Experience with the SMP suggested that a breakdown of reforms into granular steps can help address coordination weaknesses and accountability.

33. Comoros' capacity to repay the Fund is adequate, but subject to significant risks (Table 5). Given the proposed access level, total Fund credit outstanding would peak in 2027 at SDR 34.72 million, equivalent to about 2.8 percent of GDP. Debt service to the IMF would peak in 2024 at about 5.8 percent of revenue and 4.7 percent of exports of goods and services. Indicators of debt service to the IMF are far above the 75th percentile for PRGT-eligible countries (Annex 5, Figure 1). Risks are exacerbated by Comoros' high risk of debt distress, external arrears, and slow implementation track record. Risks are mitigated by policy measures envisaged under the program and the phasing of Fund disbursements.

34. Safeguards assessment. An updated safeguards assessment will be completed by the first review and, as necessary, appropriate structural benchmarks stemming from the assessment would be incorporated into the program in due course. The BCC made significant progress in implementing the 2020 safeguards assessment recommendations. These included improving the external and internal audit mechanisms, enhancing the Audit Committee's oversight, and adopting International Financial Reporting Standards (IFRS) effective December 2021. However, the remaining recommendation on amending the BCC Law to enhance BCC autonomy has not progressed and is long overdue. The safeguards mission will review the latest draft law and provide recommendations to align the BCC's legal framework and governance arrangements with best practices.

35. Program risks. Uncertainty in the global macroeconomic outlook, the authorities' capacity constraints, and the 2024 elections may result in policy slippages. The program accounts for these risks and the fragility of the country by building in a gradual pace of policy adjustment and reforms.

STAFF APPRAISAL

36. Successive exogenous shocks, non-concessional borrowings, and the state-owned postal bank's insolvency have substantially raised Comoros' balance of payments needs and debt risks. Cyclone Kenneth in 2019, the COVID-19 pandemic in 2020-21, and fallout from the war in Ukraine in 2022 continue to have serious economic, social, and financial repercussions on Comoros. These shocks have come on top of rapidly rising fiscal and balance of payments needs, driven by sizeable debt service on non-concessional borrowings previously contracted to finance large-scale investment projects in the health and tourism sectors and the cost of restructuring the unviable postal bank.

37. The authorities' economic program aims to stabilize the economy and address the sources of fragility to foster greater economic resilience and more inclusive growth. The program rightly focuses on the key fragilities in Comoros: low fiscal revenues and high risk of debt distress, banking sector weakness, and corruption vulnerabilities. The quantitative targets under the program are designed to bolster macroeconomic stability, safeguard external buffers, and reduce debt sustainability risks. A focused set of structural reforms complement these targets as well as the overall program objectives.

- The revised 2023 budget appropriately seeks to support the recovery and safeguard social spending while phasing out subsidies and tax exemptions introduced during 2022 to limit the rising cost of living. The medium-term fiscal consolidation plan strikes a balance between enabling growth and lowering debt risks. The program elaborates coherent fiscal structural reforms to support the consolidation plan by broadening the tax base, strengthening compliance, and improving public financial management. The authorities should continue their efforts to streamline the public sector. These reforms, coupled with a medium-term plan to improve the viability of SOEs, will create fiscal space for much-needed investments in human and physical capital. Provided the reforms are implemented and non-concessional borrowing is avoided in the future, staff assesses that the risk of debt distress should fall to moderate by 2028.
- Financial sector reforms complement fiscal reforms, as poor performance in the banking sector has constituted an important fiscal risk while impeding credit allocation. The winding down of the SNPSF and the operationalization of the newly created BPC according to the business plan would contain fiscal contingent liabilities risk by limiting risk-taking activities at the new bank while risk management capacity is developed. Staff welcomes the authorities' commitment to reinvigorate efforts to reduce NPLs and complete onsite bank inspections. Measures to enhance the BCC's banking supervision and resolution capacities will ensure financial stability and a sound financial system that can promote growth and reduce poverty through greater financial inclusion.
- The adoption of the anti-corruption law and the creation of an independent anti-corruption agency constitute important steps in the fight against corruption. The authorities should ensure

sound implementation of the law, including the creation of an effective asset declaration framework, the imposition of sanctions for failure or false reporting, and the provision of access to the declarations. Efforts to collect and publish information on public procurement contracts, including beneficial ownership, should accelerate. The authorities' plan to publish the long overdue audit report of spending financed by the IMF emergency support in 2020 by June is welcome.

38. Staff assesses the program design and the pace of proposed reforms to be appropriate for Comoros' status as a fragile state. The overall program aims to tackle long-term structural weaknesses such as inadequate fiscal revenue, an undercapitalized and partly unviable banking system, and corruption vulnerabilities, which are foundational obstacles to the government's ability to invest in human and physical capital, the private sector's ability to thrive, and the public sector's ability to fully serve the population. Overcoming these obstacles would support more robust and inclusive growth over the long run. Program conditionality during the first year parsimoniously focuses on action items that would kickstart the three broad areas of reforms, breaking down complex reforms into granular steps to account for the authorities' implementation and coordination capacity.

39. Strong and timely support from donors, complemented by IMF disbursements, is critical. Given the sizeable financing needs over the program period, the authorities need to intensify their effort in mobilizing budget support, including through good progress in the reforms required to unlock budget support operations by development partners. The reform program and financing supported by the ECF will continue to play a catalytic role.

Text Table 3. Union of Comoros: Quantitative Performance Criteria and Indicative Targets Under the ECF, June 2023-June 2024¹

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

	2022		2023		2024	
	End-December	End-June	End-September	End-December	End-March	End-June
		Performance Criteria	Indicative target	Performance Criteria	Indicative target	Performance Criteria
	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Quantitative Performance Criteria						
1. Floor on tax revenues	44,356.7	22,194.4	36,990.6	49,320.8	10,811.2	24,325.1
2. Floor on the primary domestic fiscal balance	-11,012.7	-10,517.5	-11,268.5	-15,024.7	-7,056.8	-10,871.0
3. Floor on the level of net international reserves (million KMF).	131,571.4	82,608.9	106,211.4	118,012.7	109,465.5	115,226.9
4. Ceiling on the accumulation of new domestic payments arrears, net	1,860.1	0.0	0.0	0.0	0.0	0.0
5. Ceiling on new nonconcessional external debt contracted or guaranteed by the government ²	...	0.0	0.0	0.0	0.0	0.0
6. Ceiling on new external arrears ²	...	0.0	0.0	0.0	0.0	0.0
Indicative Targets						
7. Floor on social cash transfers	...	1,550.2	2,325.4	3,100.5	817.0	1,634.0
Memorandum items						
Ceiling on contracting and guaranteeing of new external concessional borrowing by the government ³		23	47	70	14	14

Sources: IMF Staff.

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

²Continuous performance criteria.

³Cumulative since the start of the program, in millions of US\$.

40. Staff supports the authorities' request for a new 4-year arrangement under the ECF with access equivalent to 180 percent of quota (SDR 32.04 million). This support is based on the protracted balance of payments needs, the country's track record of reform implementation established under the SMP, and the authorities' policy commitments.

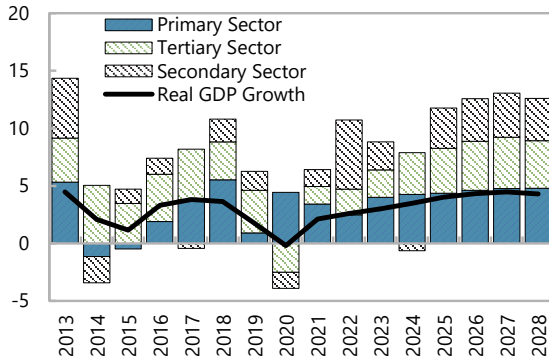
Text Table 4. Union of Comoros: Prior Actions and Structural Benchmarks, 2023-24	
Measures	Timing
A. Prior Actions	
Submit to Parliament a supplementary 2023 budget in line with program projections.	Prior to ECF approval
Issue presidential decrees to restructure the tax administration function (AGID) of the MOF into a tax management unit dedicated to core tax issues (DGI) and a unit charged with non-fiscal land affairs (DNAFD), in line with FAD recommendations	Prior to ECF approval
The government to issue debt instruments for the opening balance sheet of the Banque Postale des Comores (BPC)	Prior to ECF approval
B. Fiscal Structural Reforms	
Measures to boost Tax Revenue	
Establish the Large and Medium Taxpayer Office (Direction des Grandes et Moyennes Entreprises), in consultation with FAD	July 31, 2023
Raise the number of active taxpayers by 10 percent at the Large and Medium Taxpayer office (from 543 at the large taxpayer office and the medium and small taxpayer office, as of March 31, 2023) and send all these taxpayers requests to file tax declarations.	December 31, 2023
Remove the fee for getting a NIF (Numero d'Identification Fiscale) and the requirement to renew it every 3 years and ensure that all taxpayers have a NIF adapted to the SIGIT platform	September 30, 2023
Measures	
Interconnect the SIGIT and SYDONIA platforms to enable automated exchange of data between DGI and customs	December 31, 2023
Customs Reforms	
Complete the <i>de jure</i> transfer of the management of fuel products taxes to the customs administration (as the transfer has already been completed <i>de facto</i>)	September 30, 2023
Issue the ministerial decrees to implement the customs code	March 31, 2024
Tax Policy Measures	
Establish a Tax Policy Unit that reports to the Minister of Finance, in consultation with FAD	December 31, 2023
PFM Measures	
Complete the audit of domestic arrears, including cross-arrears between SOEs and the government	December 31, 2023
Develop a medium-term action plan to clear domestic arrears	March 31, 2024

Text Table 4. Union of Comoros: Prior Action and Structural Benchmarks, 2023-24 (concluded)	
C. Financial Sector Reforms	C. Financial Sector Reforms
SNPSF Restructuring	SNPSF Restructuring
Appoint managing director at BPC with management expertise and experience in banking and credit risk management to operationalize the BPC according to the business plan developed under the SMP.	August 31, 2023
Submit to BCC an application for a banking license for the Banque Postale des Comores, which would specify a business plan, a management team, and a capital injection plan that are in line with MEFP ¶15	August 31, 2023
BCC to issue a banking license which complies with the conditions set out in MEFP ¶15	December 31, 2023
Measures to Enhance BCC's Supervision and Resolution Capacity	
BCC to set up a resolution unit which is structurally separated from the Supervision Department, and reports separately to the BCC Board	June 30, 2023
Submit to Parliament the statutory resolution framework that includes the three points recommended in the MCM TA report, "Operationalization of the Bank Resolution Act of September 2022," to align with international standards (see 2 nd bullet of MEFP ¶15)	December 31, 2023
BCC to complete onsite inspections in banks to assess the quality of credit portfolios	June 30, 2024
Approval by the BCC of a formal timebound recapitalization plan to be adopted by each Comorian bank in breach of capital adequacy requirements	December 31, 2024
D. Governance and Anti-Corruption Reform	
Adopt into law the draft anti-corruption law that was aligned with the SMP objectives to enhance preventive measures against corruption, strengthen the rules related to conflicts of interest, and improve the asset declaration system for senior public officials, while providing for the creation of an operationally independent and autonomous Anti-Corruption Chamber with the mandate to set up and coordinate implementation of the country's anti-corruption policy priorities	June 30, 2023
Operationalize an independent and autonomous Anti-Corruption Chamber in line with the draft anti-corruption law	December 31, 2023
Publish the full audit report of spending financed by the IMF emergency support in 2020	June 30, 2023

Figure 1. Key Indicators

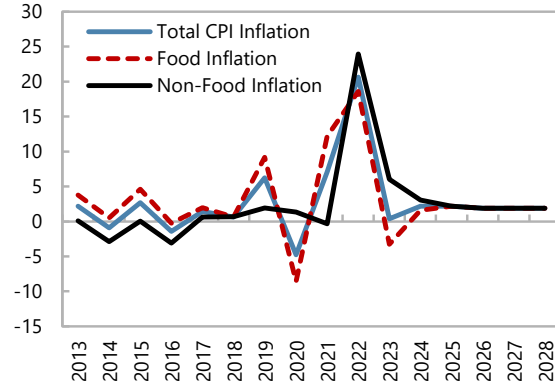
Growth recovery remains slow given considerable global uncertainties.

Contributions to Real GDP
(y-o-y percent change)



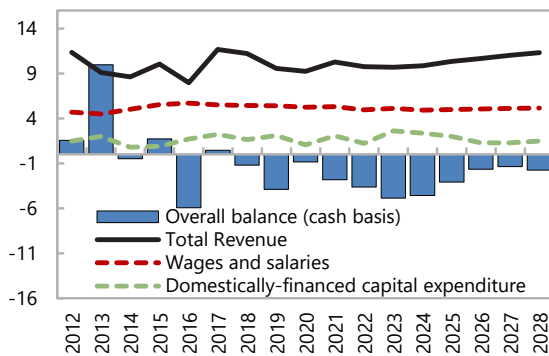
Inflation reached record double-digit levels in 2022.

Inflation
(EOP, y-o-y percent change)



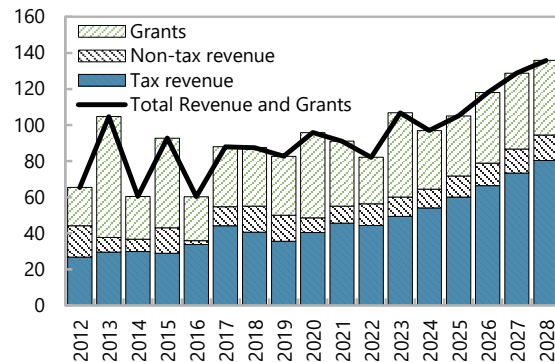
Comoros' fiscal (tax and non-tax) revenue is insufficient for shock absorption or development spending needs.

Sources of Financing of Overall Balance
(Percent of GDP)



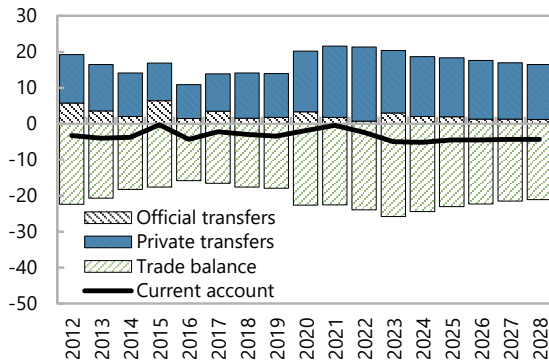
Grants have been an important part of fiscal revenues, highlighting the need to mobilize taxes.

Fiscal Revenues
(Billions of Comorian Francs)



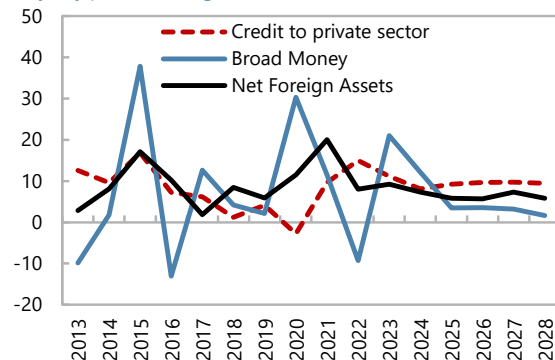
Remittances help offset trade deficits.

External Sector Developments
(Percent of GDP)



Strong credit growth in 2021-22 was driven by post-pandemic activities and the higher costs of imports.

Credit to Private Sector
(y-o-y percent change)



Source: Comorian authorities; IMF staff calculations

Table 1. Union of Comoros: Selected Economic and Financial Indicators, 2020-28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Est. ¹				Proj. ¹		
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
Real GDP	-0.2	2.1	2.6	3.0	3.5	4.0	4.3	4.5	4.3
GDP deflator	0.8	-0.3	5.3	4.3	1.8	2.1	2.0	1.9	1.9
Consumer price index (annual average)	0.8	0.0	12.4	10.3	2.0	2.1	2.0	1.9	1.9
Consumer price index (end period)	-4.8	7.1	20.6	0.4	2.2	2.2	1.9	1.9	1.9
Money and credit									
Net foreign assets	30.3	11.5	-9.3	21.0	12.1	3.5	3.5	3.2	1.6
Domestic credit	-8.7	22.1	12.7	12.2	2.3	0.2	14.0	8.1	2.5
Credit to the private sector	-2.8	9.7	15.0	11.1	8.1	9.3	9.7	9.7	9.4
Broad money	11.5	20.1	8.1	9.2	7.3	5.8	5.7	7.3	5.8
Velocity (GDP/end-year broad money)	3.2	2.7	2.7	2.7	2.6	2.6	2.7	2.6	2.6
External sector									
Exports, f.o.b.	-48.3	62.4	76.7	-20.0	8.2	8.7	9.1	13.2	8.3
Imports, f.o.b.	-2.5	2.4	16.6	17.4	4.5	3.8	6.7	6.7	6.3
Export volume	-36.7	75.4	38.3	-17.4	5.1	6.5	7.2	11.2	5.7
Import volume	7.9	-5.8	-10.1	3.0	3.7	5.6	3.2	3.1	2.9
Terms of trade	-0.1	-15.1	-4.4	22.1	2.8	1.7	2.8	2.5	1.8
	(In percent of GDP, unless otherwise indicated)								
Investment and savings									
Gross fixed capital formation	15.6	15.7	16.7	17.3	17.6	17.7	17.9	18.0	18.1
Public	5.5	5.4	5.0	7.1	6.8	5.8	5.1	5.1	5.2
Private	10.0	10.3	11.7	10.2	10.7	11.9	12.8	12.9	12.9
Gross national savings	13.6	15.2	14.3	12.4	12.5	13.2	13.4	13.7	13.8
Public	1.6	-0.3	-0.8	-0.1	1.5	1.8	1.4	1.6	1.7
Private	12.0	15.5	15.1	12.5	11.0	11.5	12.1	12.1	12.1
External Savings	1.9	0.5	2.4	5.0	5.1	4.5	4.5	4.3	4.3
Total revenue and grants	18.3	17.0	14.2	17.2	14.8	15.1	16.0	16.4	16.2
Total revenue	9.2	10.3	9.8	9.7	9.9	10.3	10.7	11.0	11.3
Tax Revenue	7.7	8.6	7.7	8.0	8.3	8.7	9.0	9.3	9.6
Non-tax Revenue	1.5	1.7	2.1	1.7	1.6	1.7	1.7	1.7	1.7
Total grants	9.0	6.8	4.5	7.5	5.0	4.8	5.3	5.3	4.9
Total expenditure and net lending	18.8	19.8	18.2	22.1	19.4	18.2	17.6	17.7	18.0
Current expenditure	10.7	12.8	11.2	12.8	10.3	10.5	10.6	10.8	10.9
Capital expenditure	7.8	7.0	6.9	9.3	9.1	7.7	7.0	7.0	7.1
Domestic primary balance ²	-1.4	-3.4	-1.9	-2.4	-1.8	-1.1	-0.2	0.0	-0.1
Overall balance (cash basis)	-0.8	-2.8	-3.6	-4.9	-4.6	-3.1	-1.7	-1.4	-1.7
Excluding grants	-9.8	-9.6	-8.1	-12.4	-9.6	-7.9	-7.0	-6.7	-6.7
Net Financing	1.0	2.7	3.6	4.2	3.1	1.4	0.0	0.0	0.4
Foreign	1.0	1.6	2.5	5.0	4.2	2.2	0.2	0.1	0.5
Domestic	0.0	1.2	1.1	-0.9	-1.2	-0.8	-0.2	-0.2	-0.1
Of which : Net acquisition of assets	0.0	-0.1	-0.4	-0.5	-0.3	-0.6	-0.1	-0.1	0.0
Financing gap/errors and omissions³ (+ = underfinancing)	-0.2	0.1	0.0	0.7	1.5	1.6	1.6	1.4	1.3
External sector									
Exports of goods and services	5.5	9.9	13.3	11.9	12.1	12.3	12.6	13.0	13.2
Imports of goods and services	28.2	32.5	37.3	37.7	36.5	35.3	34.9	34.5	34.2
Current account balance	-1.9	-0.5	-2.4	-5.0	-5.1	-4.5	-4.5	-4.3	-4.3
Excl. official and private transfers	-22.2	-22.1	-23.7	-25.4	-23.8	-22.8	-22.1	-21.3	-20.8
Private remittances, net ⁴	16.9	19.8	20.6	17.4	16.6	16.4	16.3	15.7	15.3
External debt	21.8	25.8	27.1	33.6	37.4	39.0	38.5	37.9	37.7
External public and publicly guaranteed debt	21.8	24.7	27.1	33.7	37.4	39.0	38.5	37.9	37.7
External debt, in percent of exports of goods and services	418.2	123.8	86.5	82.2	66.4	48.0	42.1	37.0	26.2
External debt service ⁵	2.6	2.0	2.1	3.6	4.5	5.8	5.7	5.5	5.3
Overall balance of payments (in millions of U.S.\$)	56.9	62.4	-24.0	54.6	42.1	15.9	14.7	13.5	6.6
Official grants and loans	10.3	8.6	7.1	13.1	10.0	8.5	7.1	7.0	6.9
Gross international reserves ⁶									
In millions of U.S. dollars	292.2	329.3	281.8	328.1	359.2	368.1	377.0	382.8	383.5
In months of imports of goods & services	8.4	8.6	6.7	7.7	8.2	8.1	7.9	7.7	7.3
Gross international reserves, including fiscal gap									
In millions of U.S. dollars	292.2	329.3	281.8	345.3	407.0	445.8	484.1	516.1	539.7
In months of imports of goods & services	8.4	8.6	6.7	8.1	9.3	9.8	10.1	10.3	10.3
Exchange rate CF/US\$ (period average)	431.1	415.7	466.8						
Memorandum items:									
Public external debt (in Percent of GDP) ⁷	21.8	25.8	27.1	33.6	37.4	39.0	38.5	37.9	37.7
Public debt (in Percent of GDP)			33.7	40.7	43.8	45.1	44.4	43.6	43.3
GDP (nominal, in billions of CF)	524.9	534.3	577.3	620.1	653.6	694.0	738.7	786.6	836.0
GDP per capita (nominal, in US Dollars)	1,357	1,395	1,294	1,352	1,363	1,390	1,420	1,448	1,467

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, excluding the World Bank-financed spending to combat the COVID epidemic and the cost of restructuring SNPSF.

³ For 2022-23, includes unmet financing needs for restructuring SNPSF

⁴ From 2015, net private official transfers include estimates made by the Central Bank of Comoros of debit items other than wire transfers.

⁵ In percent of government revenue

⁶ End of period. From 2021, includes new SDR allocation of \$24 million.

⁷ Coverage of debt: The central government, the central bank and government-guaranteed debt. Definition of external debt is Residency-based.

Table 2a. Union of Comoros: Consolidated Government Financial Operations, 2020-28
(In millions of Comorian Francs)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Est. ¹			Proj. ¹			
Total revenue and grants	95,807	91,049	82,120	105,164	96,960	105,045	117,979	128,775	135,787
Revenues	48,538	54,982	56,326	60,102	64,449	71,815	78,868	86,778	94,531
Tax revenues	40,411	45,695	44,357	49,321	54,056	60,135	66,432	73,428	80,332
Nontax revenues	8,127	9,288	11,970	10,782	10,394	11,680	12,436	13,350	14,199
External grants	47,269	36,066	25,793	45,062	32,511	33,230	39,111	41,997	41,255
Budgetary assistance	11,712	7,426	1,782	13,810	8,173	8,229	4,682	4,700	4,700
Projects (incl. techn. assist.)	35,557	28,640	24,012	31,252	24,337	25,001	34,429	37,297	36,555
Total expenditure and net lending	98,493	105,915	104,838	135,342	126,885	126,325	130,241	139,410	150,242
Current expenditure	56,225	68,270	64,876	77,558	67,558	72,819	78,513	84,712	91,057
Primary current expenditures	50,410	62,436	61,433	70,921	60,386	65,219	70,955	76,900	82,934
Wages and salaries	27,533	28,465	28,631	31,822	32,288	34,654	37,430	40,175	43,038
Goods and services	13,662	11,765	13,876	16,075	14,765	15,882	17,372	18,491	20,504
Transfers and pensions ²	9,216	22,206	18,926	23,024	13,333	14,683	16,154	18,234	19,391
Interest payments	1,292	1,560	1,134	2,030	2,317	2,445	2,391	2,376	2,323
Foreign-financed project maintenance	3,324	2,671	577	1,536	1,619	1,719	1,830	1,927	2,071
Technical assistance	1,198	1,603	1,732	3,070	3,235	3,435	3,336	3,508	3,729
Capital expenditure	40,795	37,645	39,961	57,785	59,327	53,506	51,729	54,698	59,185
Domestically financed investment	5,649	11,119	7,055	16,238	15,537	13,951	9,625	10,255	12,369
Foreign-financed investment	35,146	26,527	32,906	41,547	43,791	39,555	42,103	44,443	46,816
Domestic primary balance ³	-7,521	-18,073	-11,013	-15,025	-11,474	-7,356	-1,712	-378	-771
Overall balance (commitment basis)	-2,686	-14,866	-22,718	-30,178	-29,925	-21,280	-12,262	-10,635	-14,456
Change in net arrears	-1,626	-164	1,860	0	0	0	0	0	0
Overall balance (cash basis)	-4,312	-15,031	-20,858	-30,178	-29,925	-21,280	-12,262	-10,635	-14,456
Financing	5,311	14,575	20,645	25,783	20,050	9,881	290	-109	3,712
Foreign (net)	5,394	8,290	14,320	31,185	27,702	15,318	1,521	1,122	4,468
Drawings	6,592	9,909	15,392	34,271	32,687	25,561	13,161	12,949	16,471
Amortization	-1,198	-1,619	-1,617	-3,086	-4,985	-10,243	-11,640	-11,827	-12,002
Change in net arrears (principal)	0	0	545	0	0	0	0	0	0
Domestic (net)	-83	6,285	6,325	-5,402	-7,652	-5,437	-1,230	-1,231	-756
Bank financing	86	6,989	9,255	-2,322	-5,872	-1,497	-750	-751	-756
Central bank	-854	8,820	10,403	-2,322	-3,266	-1,497	-750	-751	-756
Of which: IMF (net)	4,128	-738	0	-3,060	-3,266	-1,497	-750	-751	-756
Commercial banks	940	-1,831	-1,148	0	-2,606	0	0	0	0
Net acquisition of assets	-169	-704	-2,500	-3,080	-1,780	-3,940	-480	-480	0
of which recapitalization of SNPSF		0	-1,500	-2,600	-1,300	-3,460	0	0	2
Errors and omissions/Financing gap ⁴ (+ = underfinancing)	-999	456	213	4,395	9,875	11,399	11,972	10,743	10,743
<i>Memorandum items:</i>									
GDP (nominal)	524,947	534,274	577,298	620,099	653,590	693,951	738,656	786,594	836,000
Wages in percentage of revenues	56.7	51.8	50.8	52.9	50.1	48.3	47.5	46.3	45.5

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 Include World Bank cash transfers spending to households.

³ Domestic revenues minus current primary expenditures and domestically financed capital expenditures, excluding the World Bank-financed spending to combat the COVID epidemic and the cost of restructuring SNPSF.

⁴ For 2022-23, includes unmet financing needs for restructuring SNPSF.

Table 2b. Union of Comoros: Consolidated Government Financial Operations, 2020-28
(In percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Est. ¹			Proj. ¹					
Total revenue and grants	18.3	17.0	14.2	17.0	14.8	15.1	16.0	16.4	16.2
Revenues	9.2	10.3	9.8	9.7	9.9	10.3	10.7	11.0	11.3
Tax revenues	7.7	8.6	7.7	8.0	8.3	8.7	9.0	9.3	9.6
Nontax revenues	1.5	1.7	2.1	1.7	1.6	1.7	1.7	1.7	1.7
External grants	9.0	6.8	4.5	7.3	5.0	4.8	5.3	5.3	4.9
Budgetary assistance	2.2	1.4	0.3	2.2	1.3	1.2	0.6	0.6	0.6
Projects (incl. techn. assist.)	6.8	5.4	4.2	5.0	3.7	3.6	4.7	4.7	4.4
Total expenditure and net lending	18.8	19.8	18.2	21.8	19.4	18.2	17.6	17.7	18.0
Current expenditure	10.7	12.8	11.2	12.5	10.3	10.5	10.6	10.8	10.9
Primary current expenditures	9.6	11.7	10.6	11.4	9.2	9.4	9.6	9.8	9.9
Wages and salaries	5.2	5.3	5.0	5.1	4.9	5.0	5.1	5.1	5.1
Goods and services	2.6	2.2	2.4	2.6	2.3	2.3	2.4	2.4	2.5
Transfers and pensions ²	1.8	4.2	3.3	3.7	2.0	2.1	2.2	2.3	2.3
Interest payments	0.2	0.3	0.2	0.3	0.4	0.4	0.3	0.3	0.3
Foreign-financed project maintenance	0.6	0.5	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Technical assistance	0.2	0.3	0.3	0.5	0.5	0.5	0.5	0.4	0.4
Capital expenditure	7.8	7.0	6.9	9.3	9.1	7.7	7.0	7.0	7.1
Domestically financed investment	1.1	2.1	1.2	2.6	2.4	2.0	1.3	1.3	1.5
Foreign-financed investment	6.7	5.0	5.7	6.7	6.7	5.7	5.7	5.7	5.6
Domestic primary balance ³	-1.4	-3.4	-1.9	-2.4	-1.8	-1.1	-0.2	0.0	-0.1
Overall balance (commitment basis)	-0.5	-2.8	-3.9	-4.9	-4.6	-3.1	-1.7	-1.4	-1.7
Change in net arrears	-0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-0.8	-2.8	-3.6	-4.9	-4.6	-3.1	-1.7	-1.4	-1.7
Financing	1.0	2.7	3.6	4.2	3.1	1.4	0.0	0.0	0.4
Foreign (net)	1.0	1.6	2.5	5.0	4.2	2.2	0.2	0.1	0.5
Drawings,	1.3	1.9	2.7	5.5	5.0	3.7	1.8	1.6	2.0
Amortization	-0.2	-0.3	-0.3	-0.5	-0.8	-1.5	-1.6	-1.5	-1.4
Change in net arrears (principal)	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	0.0	1.2	1.1	-0.9	-1.2	-0.8	-0.2	-0.2	-0.1
Bank financing	0.0	1.3	1.6	-0.4	-0.9	-0.2	-0.1	-0.1	-0.1
Central bank	-0.2	1.7	1.8	-0.4	-0.5	-0.2	-0.1	-0.1	-0.1
Of which: IMF (net)	0.8	-0.1	0.0	-0.5	-0.5	-0.2	-0.1	-0.1	-0.1
Commercial banks	0.2	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of assets	0.0	-0.1	-0.4	-0.5	-0.3	-0.6	-0.1	-0.1	0.0
of which recapitalization of SNPSF		0.0	-0.3	-0.4	-0.2	-0.5	0.0	0.0	0.0
Errors and omissions/Financing gap ⁴ (+ = underfinancing)	-0.2	0.1	0.0	0.7	1.5	1.6	1.6	1.4	1.3
<i>Memorandum items:</i>									
GDP (nominal, in millions Comorian francs)	524,947	534,274	577,298	620,099	653,590	693,951	738,656	786,594	836,000
Wages in percentage of revenues	56.7	51.8	50.8	52.9	50.1	48.3	47.5	46.3	45.5

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 Include World Bank cash transfers spending to households.

³ Domestic revenues minus current primary expenditures and domestically financed capital expenditures, excluding the World Bank-financed spending to combat the COVID epidemic and the cost of restructuring SNPSF.

⁴ For 2022-23, includes unmet financing needs for restructuring SNPSF.

Table 3. Union of Comoros: Monetary Survey, 2020- 28
(In millions of Comorians Francs, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Est. ¹				Proj. ¹		
Net foreign assets	107,782	120,222	109,083	130,948	148,083	154,389	161,026	167,500	170,294
Central bank assets ¹	118,106	143,309	130,950	151,561	167,920	173,847	179,962	185,546	187,885
Central bank liabilities ¹	-16,956	-27,523	-26,379	-25,461	-24,947	-24,883	-24,710	-24,196	-24,127
Commercial banks assets	10,156	8,319	12,149	13,050	13,755	14,604	15,545	16,554	17,594
Commercial banks liabilities	-3,523	-3,883	-7,636	-8,203	-8,646	-9,179	-9,771	-10,405	-11,058
Net domestic assets	55,765	76,121	103,070	100,759	100,571	108,681	117,022	130,885	145,391
Domestic credit	90,450	110,438	124,482	139,679	142,949	143,281	163,339	176,615	180,954
Net credit to government	9,910	17,038	24,744	28,850	23,141	12,376	19,783	19,084	8,582
<i>Of which: Treasury</i>	17,831	27,173	34,822	31,096	25,225	23,728	22,977	22,226	21,470
Bank financing	9,910	17,038	24,744	28,850	23,141	12,376	19,783	19,084	8,582
Claims on government	29,284	41,393	40,244	36,519	30,647	29,150	28,400	27,649	26,893
Deposits of government	-19,374	-24,356	-15,500	-7,669	-7,506	-16,775	-8,617	-8,564	-18,311
Claims on public enterprises	1,484	6,651	16,379	16,380	16,381	16,382	16,383	16,384	16,385
Claims on other financial institutions	-59	-43	-43	-43	-43	-43	-43	-43	-43
Claims on private sector	79,072	86,728	99,738	110,829	119,808	130,906	143,556	157,531	172,372
Other items net	-34,685	-34,317	-21,411	-38,920	-42,378	-34,600	-46,316	-45,730	-35,563
Broad money	163,547	196,343	212,154	231,707	248,654	263,071	278,048	298,385	315,685
Money	110,869	135,663	148,744	165,562	181,322	196,807	208,927	228,023	246,440
Currency in circulation	41,592	48,120	54,856	64,640	64,642	62,536	73,690	73,692	71,291
Demand deposits	69,277	87,544	93,887	100,922	116,680	134,271	135,237	154,331	175,148
Quasi-money	52,678	60,679	63,410	66,145	67,331	66,263	69,121	70,361	69,245
			<i>(in percent of beginning period broad money)</i>						
Net foreign assets	17.1	7.6	-5.7	10.3	7.4	2.5	2.5	2.3	0.9
Net domestic assets	-5.6	12.4	13.7	-1.1	-0.1	3.3	3.2	5.0	4.9
Domestic credit	-5.9	12.2	7.2	7.2	1.4	0.1	7.6	4.8	1.5
Net credit to government	-4.9	4.4	3.9	1.9	-2.5	-4.3	2.8	-0.3	-3.5
Credit to public enterprises	0.5	3.2	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	-1.5	4.7	6.6	5.2	3.9	4.5	4.8	5.0	5.0
Other items (net)	0.3	0.2	6.6	-8.3	-1.5	3.1	-4.5	0.2	3.4
Broad money	11.5	20.1	8.1	9.2	7.3	5.8	5.7	7.3	5.8
Money	8.7	15.2	6.7	7.9	6.8	6.2	4.6	6.9	6.2
Quasi-money	2.8	4.9	1.4	1.3	0.5	-0.4	1.1	0.4	-0.4
Velocity (GDP/end-year broad money)	3.2	2.7	2.7	2.7	2.6	2.6	2.7	2.6	2.6
Credit to private sector (percent change)	-2.8	9.7	15.0	11.1	8.1	9.3	9.7	9.7	9.4

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

¹ From 2021, includes new SDR allocation of \$24 million.

Table 4a. Union of Comoros: Balance of Payments, 2020-28
(In millions of Comorian Francs, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Est. ¹				Proj. ¹		
Current account	-10,125	-2,527	-13,896	-32,454	-33,504	-31,314	-33,152	-33,900	-36,154
Goods and services	-118,935	-120,480	-138,221	-160,094	-159,443	-159,871	-164,686	-169,183	-176,111
Trade balance	-94,110	-91,067	-97,424	-123,998	-128,823	-132,694	-141,033	-148,818	-157,613
Exports	8,924	14,492	25,614	20,496	22,178	24,100	26,285	29,755	32,229
Of which: Vanilla	1,951	1,940	2,023	2,147	2,303	2,456	2,621	3,304	3,516
Cloves	3,868	5,686	17,139	8,576	9,199	9,809	10,468	11,201	12,045
Ylang-ylang	1,926	2,624	1,148	2,642	2,833	3,022	3,224	3,450	3,710
Other	1,179	4,243	5,304	7,131	7,843	8,813	9,972	11,799	12,958
Imports (f.o.b.)	-103,035	-105,559	-123,037	-144,494	-151,001	-156,794	-167,318	-178,573	-189,843
Services (net)	-24,825	-29,413	-40,797	-36,096	-30,620	-27,177	-23,653	-20,365	-18,497
Receipts	20,190	38,533	51,329	53,096	57,017	61,295	66,675	72,559	77,715
Payments	-45,015	-67,947	-92,126	-89,191	-87,637	-88,472	-90,328	-92,924	-96,213
Income (net)	2,545	2,624	1,155	2,786	4,113	1,469	1,559	1,750	1,965
Current transfers (net)	106,264	115,329	123,170	124,854	121,826	127,088	129,974	133,533	137,991
Government	17,635	9,473	4,091	16,795	13,028	13,384	9,848	10,136	10,500
Private ¹	88,629	105,856	119,079	108,059	108,798	113,704	120,127	123,398	127,491
Capital and financial account	35,059	23,399	27,714	56,126	53,129	38,738	40,018	40,236	39,249
Capital account	14,979	12,458	17,514	16,275	19,016	19,847	28,942	31,493	30,345
Capital transfers	14,979	12,458	17,514	16,275	19,016	19,847	28,942	31,493	30,345
Transfer of fixed assets	14,717	10,146	17,514	16,275	19,016	19,847	28,942	31,493	30,345
Financial account	20,081	10,941	10,200	39,851	34,113	18,891	11,075	8,742	8,904
Direct investment	1,669	1,674	2,108	2,480	3,268	4,164	4,432	4,720	5,016
Net portfolio and other investment	18,411	9,267	8,092	37,371	30,845	14,727	6,643	4,023	3,888
Public sector	16,657	5,614	13,062	42,328	35,730	19,666	5,986	3,391	4,473
Disbursement	17,800	17,147	15,405	45,414	40,715	29,909	17,626	15,218	16,475
Of which: Drawings (excl. IMF)	17,800	7,233	15,405	45,414	40,715	29,909	17,626	15,218	16,475
Of which: SDR allocations		9,914							
Amortization	-1,143	-1,619	-2,343	-3,086	-4,985	-10,243	-11,640	-11,827	-12,002
Private sector (net)	1,754	3,653	-4,970	-4,958	-4,885	-4,939	658	632	-585
Banks, net	1,035	2,197	-77	-335	-262	-316	-349	-375	-386
Other	719	1,456	-4,893	-4,623	-4,623	-4,623	1,007	1,007	-199
Errors and omissions	-424	5,069	-25,034	0	0	0	0	0	0
Overall balance ("+" indicates a surplus)	24,510	25,941	-11,216	23,672	19,625	7,424	6,865	6,335	3,095
Financing	-24,163	-25,941	11,216	-23,672	-19,625	-7,424	-6,865	-6,335	-3,095
NFA of central bank (increase -)	-25,364	-25,941	11,216	-41,878	-37,673	-27,051	-23,519	-21,779	-3,095
Of which: Net IMF Credit (excl. 2023 ECF)	4,128	-738	-1,143	-3,034	-3,233	-1,516	-780	-805	-837
Program financing				18,205	18,048	19,628	16,654	15,443	
2023 ECF				4,395	4,428	4,461	4,497	2,268	
Official budget support				13,810	8,173	8,229	4,682	4,700	
Concessional borrowings from other donors				0	5,447	6,938	7,475	8,475	
<i>Memorandum items:</i>									
Current account (percentage of GDP)	-1.9	-0.5	-2.4	-5.2	-5.1	-4.5	-4.5	-4.3	-4.3
Excluding transfers	-22.2	-22.1	-23.7	-25.4	-23.8	-22.8	-22.1	-21.3	-20.8
Exports of goods and services (percentage of GDP)	5.5	9.9	13.3	11.9	12.1	12.3	12.6	13.0	13.2
Imports of goods and services (percentage of GDP)	28.2	32.5	37.3	37.7	36.5	35.3	34.9	34.5	34.2
Gross international reserves (end of period) ²									
In millions of U.S. dollars	292.2	329.3	281.8	325.8	359.3	370.7	382.2	390.8	391.6
In months of imports of goods & services	8.4	8.6	6.7	7.6	8.2	8.1	8.0	7.8	7.4
Nominal GDP (CF millions)	524,947	534,274	577,298	620,099	653,590	693,951	738,656	786,594	836,000
Nominal GDP (millions of U.S. dollars)	1,218	1,285	1,237	1,340	1,401	1,482	1,572	1,665	1,751

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.

² From 2021, includes new SDR allocation of \$24 million.

Table 4b. Union of Comoros: Balance of Payments, 2020-28
(In percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Est. ¹				Proj. ¹		
Current account	-1.9	-0.5	-2.4	-5.2	-5.1	-4.5	-4.5	-4.3	-4.3
Goods and services	-22.7	-22.6	-23.9	-25.8	-24.4	-23.0	-22.3	-21.5	-21.1
Trade balance	-17.9	-17.0	-16.9	-20.0	-19.7	-19.1	-19.1	-18.9	-18.9
Exports	1.7	2.7	4.4	3.3	3.4	3.5	3.6	3.8	3.9
Of which: Vanilla	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Cloves	0.7	1.1	3.0	1.4	1.4	1.4	1.4	1.4	1.4
Ylang-ylang	0.4	0.5	0.2	0.4	0.4	0.4	0.4	0.4	0.4
Other	0.2	0.8	0.9	1.2	1.2	1.3	1.4	1.5	1.6
Imports (f.o.b.)	-19.6	-19.8	-21.3	-23.3	-23.1	-22.6	-22.7	-22.7	-22.7
of which oil	-5.8	-6.9	-8.9	-7.1	-6.7	-6.6	-6.3	-6.1	-5.9
Services (net)	-4.7	-5.5	-7.1	-5.8	-4.7	-3.9	-3.2	-2.6	-2.2
Receipts	3.8	7.2	8.9	8.6	8.7	8.8	9.0	9.2	9.3
Payments	-8.6	-12.7	-16.0	-14.4	-13.4	-12.7	-12.2	-11.8	-11.5
Income (net)	0.5	0.5	0.2	0.4	0.6	0.2	0.2	0.2	0.2
Current transfers (net)	20.2	21.6	21.3	20.1	18.6	18.3	17.6	17.0	16.5
Government	3.4	1.8	0.7	2.7	2.0	1.9	1.3	1.3	1.3
Private ¹	16.9	19.8	20.6	17.4	16.6	16.4	16.3	15.7	15.3
Capital and financial account	6.7	4.4	4.8	9.1	8.1	5.6	5.4	5.1	4.7
Capital account	2.9	2.3	3.0	2.6	2.9	2.9	3.9	4.0	3.6
Capital transfers	2.9	2.3	3.0	2.6	2.9	2.9	3.9	4.0	3.6
Transfer of fixed assets	2.8	1.9	3.0	2.6	2.9	2.9	3.9	4.0	3.6
Financial account	3.8	2.0	1.8	6.4	5.2	2.7	1.5	1.1	1.1
Direct investment	0.3	0.3	0.4	0.4	0.5	0.6	0.6	0.6	0.6
Net portfolio and other investment	3.5	1.7	1.4	6.0	4.7	2.1	0.9	0.5	0.5
Public Sector	3.2	1.1	2.3	6.8	5.5	2.8	0.8	0.4	0.5
Disbursements	3.4	3.2	2.7	7.3	6.2	4.3	2.4	1.9	2.0
Of which: Drawings (excl. IMF)	3.4	1.4	2.7	7.3	6.2	4.3	2.4	1.9	2.0
Of which: SDR allocations		1.9							
Amortization	-0.2	-0.3	-0.4	-0.5	-0.8	-1.5	-1.6	-1.5	-1.4
Private sector (net)	0.3	0.7	-0.9	-0.8	-0.7	-0.7	0.1	0.1	-0.1
Banks, net	0.2	0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Other	0.1	0.3	-0.8	-0.7	-0.7	-0.7	0.1	0.1	0.0
Errors and omissions	-0.1	0.9	-4.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	4.7	4.9	-1.9	3.8	3.0	1.1	0.9	0.8	0.4
Financing	-4.6	-4.9	1.9	-3.8	-3.0	-1.1	-0.9	-0.8	-0.4
NFA of central bank (increase -)	-4.6	-4.9	1.9	-6.8	-5.8	-3.9	-3.2	-2.8	-0.4
Of which: Net IMF Credit (excl. 2023 ECF)	0.8	-0.1	-0.2	-0.5	-0.5	-0.2	-0.1	-0.1	-0.1
Program financing				2.9	2.8	2.8	2.3	2.0	0.0
2023 ECF				0.7	0.7	0.6	0.6	0.3	0.0
Official budget support				2.2	1.3	1.2	0.6	0.6	0.0
Concessional borrowings from other donors				0.0	0.8	1.0	1.0	1.1	0.0
<i>Memorandum items:</i>									
Current account (percentage of GDP)	-1.9	-0.5	-2.4	-5.2	-5.1	-4.5	-4.5	-4.3	-4.3
Excluding transfers	-22.2	-22.1	-23.7	-25.4	-23.8	-22.8	-22.1	-21.3	-20.8
Exports of goods and services (percentage of GDP)	5.5	9.9	13.3	11.9	12.1	12.3	12.6	13.0	13.2
Imports of goods and services (percentage of GDP)	28.2	32.5	37.3	37.7	36.5	35.3	34.9	34.5	34.2
Gross international reserves ²									
In millions of U.S. dollars	292.2	329.3	281.8	325.8	359.3	370.7	382.2	390.8	391.6
In months of imports of goods & services	8.4	8.6	6.7	7.6	8.2	8.1	8.0	7.8	7.4
Nominal GDP (CF millions)	524,947	534,274	577,298	620,099	653,590	693,951	738,656	786,594	835,999.6
Nominal GDP (millions of U.S. dollars)	1,218	1,285	1,237	1,340	1,401	1,482	1,572	1,665	1,751

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.

² End of period. From 2021, includes new SDR allocation of \$24 million.

Table 5. Union of Comoros: Indicators of Capacity to Repay the Fund, 2022-37

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
Fund obligations based on existing credit																
(SDR millions)																
Principal	1.8	4.2	5.2	2.4	1.2	1.2	1.2	1.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.2	0.7	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Fund obligations based on existing and prospective credit																
(SDR millions)																
Principal	1.8	3.4	5.2	2.4	1.2	1.2	1.6	3.0	3.5	4.6	6.1	6.1	4.6	3.2	1.8	0.4
Charges and interest	0.2	0.8	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total obligations based on existing and prospective credit																
SDR millions	2.0	4.2	6.0	3.0	1.8	1.8	2.2	3.6	4.1	5.3	6.7	6.7	5.3	3.8	2.4	1.0
In millions of CF	1,273.2	2,592.8	3,737.7	1,885.9	1,143.2	1,153.2	1,402.8	2,320.8	2,663.4	3,393.9	4,311.9	4,311.9	3,393.9	2,469.5	1,551.5	633.5
In percent of government revenue	2.3	4.3	5.8	2.6	1.4	1.3	1.5	2.3	2.4	2.8	3.3	3.0	2.2	1.5	0.9	0.3
In percent of exports of goods and services	1.7	3.5	4.7	2.2	1.2	1.1	1.3	2.0	2.1	2.5	2.9	2.7	2.0	1.3	0.8	0.3
In percent of debt service	27.4	32.2	35.8	13.4	7.7	7.7	9.3	26.3	26.8	28.5	30.0	26.2	19.6	14.0	8.9	3.8
In percent of GDP	0.2	0.4	0.6	0.3	0.2	0.1	0.2	0.3	0.3	0.3	0.4	0.4	0.3	0.2	0.1	0.0
In percent of gross international reserves	1.0	1.6	2.0	0.9	0.5	0.5	0.5	0.9	1.0	1.3	1.6	1.5	1.1	0.8	0.5	0.2
In percent of quota	11.5	23.6	33.8	16.9	10.2	10.2	12.2	20.2	23.1	29.5	37.5	37.5	29.5	21.5	13.5	5.5
Outstanding Fund credit and prospective credit																
In millions of SDRs	17.5	19.7	21.7	26.4	32.3	34.7	33.2	30.2	26.7	22.1	16.0	10.0	5.3	2.1	0.4	0.0
In millions of CF	10,825.3	12,230.8	13,514.0	16,614.7	20,486.6	22,278.0	21,565.5	19,634.6	17,359.0	14,348.8	10,415.4	6,482.0	3,471.8	1,391.3	234.1	0.0
In percent of government revenue	19.2	20.4	21.0	23.1	26.0	25.7	22.8	19.1	15.5	11.8	7.9	4.6	2.3	0.8	0.1	0.0
In percent of exports of goods and services	14.1	16.6	17.1	19.5	22.0	21.8	19.6	16.6	13.6	10.4	7.0	4.1	2.0	0.8	0.1	0.0
In percent of debt service	233.2	151.9	129.5	118.2	138.6	149.0	143.0	222.4	174.4	120.6	72.5	39.4	20.1	7.9	1.3	0.0
In percent of GDP	1.9	2.0	2.1	2.4	2.8	2.8	2.6	2.2	1.9	1.4	1.0	0.6	0.3	0.1	0.0	0.0
In percent of gross international reserves	8.3	7.6	7.1	7.9	9.0	9.1	8.3	7.3	6.3	5.3	3.8	2.3	1.2	0.5	0.1	0.0
In percent of quota	98.5	110.8	121.7	148.4	181.7	195.1	186.3	169.7	150.0	124.0	90.0	56.0	30.0	12.0	2.0	0.0
Memorandum items																
Nominal GDP (millions of CF)	577,297.8	620,098.6	653,590.4	693,950.5	738,656.1	786,594.4	835,999.6	884,560.1	935,961.1	990,369.8	1,047,652.8	1,108,269.4	1,172,414.8	1,240,295.6	1,312,130.6	1,388,151.3
Exports of goods and services (millions of CF)	76,943.0	73,592.2	79,195.2	85,394.9	92,959.9	102,314.4	109,944.6	118,264.9	127,684.2	137,728.0	148,393.1	159,758.6	171,868.8	183,513.9	196,202.1	209,663.8
Government revenue (millions of CF)	56,326.2	60,102.3	64,449.4	71,814.6	78,868.3	86,778.2	94,531.3	102,871.5	111,778.9	121,619.5	131,155.4	142,174.3	154,152.1	167,324.6	181,623.7	195,756.6
Debt service (millions of CF) ¹	4,642.9	8,052.4	10,434.5	14,051.3	14,779.4	14,951.6	15,078.8	8,826.7	9,955.0	11,893.7	14,374.3	16,442.9	17,313.4	17,700.1	17,456.9	16,575.3
CF/SDR (period average)	624.3	617.3	621.9	626.5	631.6	637.1	646.5	646.5	646.5	646.5	646.5	646.5	646.5	646.5	646.5	646.5
CF/SDR (end period)	617.7	619.9	623.6	629.1	633.5	641.6	650.2	650.2	650.2	650.2	650.2	650.2	650.2	650.2	650.2	650.2

Sources: IMF staff estimates and projections.

¹Total external debt service includes IMF repurchases and repayments

Table 6. Union of Comoros: External Financing Needs and Sources, 2023-27
(In millions USD)

	2023	2024	2025	2026	2027
Financing Needs	83.3	89.4	92.0	97.0	98.5
Current Account Deficit	70.1	71.8	66.9	70.5	71.8
Public Debt Amortization	13.2	17.6	25.1	26.4	26.7
Financing Sources	83.4	89.5	92.0	96.9	98.4
Capital Account	35.2	40.8	42.4	61.6	66.7
Financial Account (excl. amortization)	92.8	83.8	62.2	48.3	43.5
Of which: Public Debt (excl. amortization)	98.1	87.3	63.9	37.5	32.2
Change in reserves (+ = decrease)	-44.5	-35.1	-12.7	-13.0	-11.8
Fiscal financing needs	39.3	38.7	41.9	35.4	32.7
Budget support from partners (WB, AfDB, France, China)	29.8	17.5	17.6	10.0	9.9
IMF Financing ¹	9.5	9.5	9.5	9.6	4.8
in percent of BoP/fiscal needs	24.1	24.5	22.7	27.0	14.7
Concessional borrowings from other donors ²	0.0	11.7	14.8	15.9	17.9
Remaining Financing Gap	0.0	0.0	0.0	0.0	0.0

Sources: Comorian authorities, and IMF staff projections.

¹ Proposed ECF access of 180 percent of quota over 4 years.

² This line reflects potential concessional borrowings; additional budget support would reduce needed borrowings.

Table 7. Union of Comoros: Proposed Schedule of Disbursements, 2023-27

Availability Date ¹	Disbursement conditions	SDR Amount	Percent of Quota
05/31/23	Board approval of arrangement.	3,560,000	20.00
09/30/23	Observance of continuous and end-June 2023 PCs and completion of the first review.	3,560,000	20.00
03/30/24	Observance of continuous and end-December 2023 PCs and completion of the second review.	3,560,000	20.00
09/30/24	Observance of continuous and end-June 2024 PCs and completion of the third review.	3,560,000	20.00
03/30/25	Observance of continuous and end-December 2024 PCs and completion of the fourth review.	3,560,000	20.00
09/30/25	Observance of continuous and end-June 2025 PCs and completion of the fifth review.	3,560,000	20.00
03/30/26	Observance of continuous and end-December 2025 PCs and completion of the sixth review.	3,560,000	20.00
09/30/26	Observance of continuous and end-June 2026 PCs and completion of the seventh review.	3,560,000	20.00
03/30/27	Observance of continuous and end-December 2026 PCs and completion of the eighth review.	3,560,000	20.00
	Total	32,040,000	180.0

Source: International Monetary Fund.

¹ Based on Board approval upon completion of each review.

Annex I. External Sector Assessment

Overall Assessment: Staff assesses that the external position of Comoros in 2022 was in line with fundamentals and desirable policies. Based on 2022 data, the real effective exchange rate is overvalued at 7.8 percent. Comoros' external position is vulnerable to natural disasters.

Potential Policy Responses: Staff's projection shows a near-term degradation of the external position following the surge in oil and food prices and the deterioration of the fiscal balance. Tightening actions already taken by the BCC and the authorities' planned fiscal consolidation under the ECF will help stabilize the external situation, as would boosting and diversifying exports over the medium term and building resilience to climate change.

Foreign Assets and Liabilities: Position and Trajectory

Background: The Union of Comoros does not produce international investment position (IIP) data.

Current Account

Background: Preliminary data for 2022 showed that imports rose by more than 16 percent (y/y) following the surge in food and oil prices and the appreciation of the USD. The current account deficit is projected to have widened to 2.4 percent of GDP in 2022, as the terms of trade deteriorated by around 3½ percent.

Assessment: The current account deficit widened to 2.4 percent of GDP in 2022 following rising fuel and food prices. The current account is adjusted to -3 percent of GDP to account mainly for natural disasters and Covid-19 adjustor from a higher level of remittances. Compared to the current norm of -2.2 percent of GDP, the current account gap is -0.9 percent of GDP slightly stronger than the level consistent with fundamentals and desirable policies. In contrast, the REER index model finds a CA gap of -1 percent of GDP in 2022, slightly weaker than the level consistent with fundamentals and desirable policies. The two models yield to a gap of around 1 percent of GDP which is insignificant compared to the size of measurement errors of the Balance of Payment data; as such staff assess the external position to be in line with the fundamental and desirable policies.

Text Table 1. Union of Comoros: Model Estimates for 2022
(In percent of GDP)

	CA model 1/ (in percent of GDP)	REER model
CA-Actual	-2.4	
Cyclical contributions (from model) (-)	-0.5	
COVID-19 adjustors (-) 2/	1.7	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.5	
Adjusted CA	-3.0	
CA Norm (from model) 3/	-2.2	
Adjusted CA Norm	-2.2	
CA Gap	-0.9	-1.0
o/w Relative policy gap	-1.2	
Elasticity	-0.13	
REER Gap (in percent)	6.5	7.8

1/ Based on the EBA-lite 3.0 methodology

2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on remittances.

3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background: The real effective exchange rate appreciated by 3.5 percent in 2022 as average inflation in Comoros over the prior 12 months exceeded that in trading partners by around 5.2 percent.

Assessment: Estimates of the REER gap range between 6.5 percent (CA model) and 7.8 percent (REER model) indicating a small overvaluation lower than 10 percent, staff does not view the REER as misaligned.

Capital and Financial Accounts: Flows and Policy Measures

Background: Comoros receives substantial project grants, which are recorded in the capital account. They reflect predominantly grants by donors to finance their projects. While there is data weakness, the last available information puts inflows at a 4.5 percent of GDP in 2021. This level is lower compared to 2019 and 2020, where this flux picked up following the Kenneth storm.

Assessment: Comoros' heavy reliance on volatile foreign aid is a source of vulnerability but at the same time these flows are an important non-debt-creating resource to cover CA deficit.

FX Intervention and Reserves Level

Background: Following the unfavorable evolution of the current account in 2022, the foreign reserves declined by 14 percent from the very high levels of 2020-21 when they were boosted by pandemic related remittances and the SDR allocation.

Assessment: Comoros' reserves declined from a coverage of 8.6 months of imports in 2021 to 6.7 months of imports in 2022. However, reserves are projected to improve to 7.7 months of imports in 2023. The optimal level of international reserves for Comoros using the small states classification was determined at 6.8 months of goods and services imports.

Annex II. Risk Assessment Matrix¹

Sources of Risk	Relative Likelihood	Time Horizon	Impact on Comoros	Policy Responses
Global Risks				
<p>Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.</p>	Medium	ST, MT	High	<p>Improve domestic production and prepare contingency plans, including measures to protect the most vulnerable in case of renewed commodity price increases or shortages. Conduct structural reforms to enhance Comoros' private-led agricultural production.</p>
<p>Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation.</p>	High	ST, MT	Medium	<p>Maintain prudent macroeconomic policies. Implement reforms to open fiscal space by enhancing revenue and reducing inefficient spending. Diversify supply routes and provide relief to vulnerable people.</p>
<p>Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.</p>	High	ST, MT	Low	<p>Diversify supply routes and prepare contingency plans, including measures to protect the most vulnerable in case of renewed supply disruptions. Conduct structural reforms to enhance Comoros as a destination for investment.</p>

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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.

Sources of Risk	Relative Likelihood	Time Horizon	Impact on Comoros	Policy Responses
Domestic Risks				
Policy slippages. In particular, delayed structural reforms could undermine revenue mobilization, adding pressures on public finances. The taking up of additional non-concessional debt could quickly undermine debt sustainability	High	ST, MT	High	Implement macroeconomic policies and structural reforms as described in the ECF program , particularly those related to raising fiscal revenue
Inter-island, social discontent, and political instability. Tensions could erupt in a context of rising inflation, declining incomes, worsening inequality, and political instability, as the opposition continues to reject the 2018 constitution, slowing economic growth, and giving rise to economically damaging populist policies (e.g., preserving fossil fuel subsidies).	High	ST, MT	High	Provide support to the most vulnerable. Enhance governance, transparency, and the rule of law.
Deterioration of SOEs' financial situation and ensuing increase of government liabilities.	High	ST, MT	High	Improve supervision of SOEs as described in the ECF program.
Natural disasters, related to climate change or other events , for example eruption of the Karthala volcano, another hurricane, or drought.	Medium	ST, MT	High	Implement the adaptation strategy discussed in Country Report 20/198.

Annex III. Capacity Development Strategy Note

A. Context

- 1. Country profile.** Comoros is a fragile small state marked by political instability, weak institutions, and government implementation capacity that is substantially weaker than the sub-Saharan African average.
- 2. Program engagement.** Comoros received RCF/RFI support in July 2019 following Cyclone Kenneth and again in April 2020 following the outbreak of the COVID-19 pandemic. Comoros also benefitted from CCRT relief (through April 2022). A Staff Monitored Program (SMP) was approved in September 2021 to help Comoros contain and recover from the pandemic and start to overcome fragility, boost inclusive growth, and limit risks. Despite delays in some structural benchmarks, the SMP was completed in April 2023, paving the way to a discussion on a financing arrangement under the ECF.
- 3. Fund capacity development (CD) efforts of recent years.** The Comoros authorities have benefitted from intense CD efforts for a number of years with the goal of alleviating their severe capacity constraints. The bulk of missions of recent years took place in the fiscal domain, mainly on revenue administration and public financial management, in line with the country's most critical weaknesses. Substantial CD has also been provided on financial sector issues, where implementation of recommendations has been a bit better, perhaps reflecting in part the stronger capacity of staff at the central bank than at the ministry of finance. LEG provided CD to support drafting of the new anti-corruption law focused on creating legal framework for autonomous and effective anti-corruption agency and the system for conflict of interest and asset declaration of senior officials.
- 4. Impact of Fund-provided CD.** The authorities consider that Fund CD has improved their capacity and helped implement several reforms. Achievements include enhancing the tax base, strengthening the use of the SIGIT software, adoption of new Tax and Customs codes and a revised PFM organic law, creation and limited operation of the Single Treasury Account; and migration to a more modern customs data system. Nonetheless, staff assesses that implementation of CD recommendations has been slow overall. Fund CD, particularly on fiscal policy implementation, has been recommending only basic improvements that the authorities should be able to implement despite their very low capacity. Thus, the key obstacles to quicker implementation of recommendations appear to be lack of ownership at the highest levels and insufficient oversight by the Minister of Finance and senior officials.

B. Macroeconomic Objectives and CD Priorities

- 5. Macroeconomic objectives.** Key macroeconomic objectives for the coming years are to (i) create fiscal space and use it for public investment in human and physical capital; (ii) strengthen financial sector stability and financial intermediation; and (iii) improve data collection and dissemination to enable better economic policy making. In addition, Comoros will need to

strengthen investment into human and physical capital, enhance its judicial system, and strengthen management of its civil service.

6. Resulting priorities for Fund-provided CD. To help the authorities reach goal (i) above, the Fund will provide CD on revenue administration, tax policy and public financial management (PFM), including at SOEs. To help with goal (ii), the Fund will provide CD on financial sector regulation and supervision as well as central bank's liquidity management and government debt market development. To help the authorities reach goal (iii), the Fund will continue to provide CD on national accounts, government finance statistics, and external sector statistics. Table 1 provides an overview of policy priorities, objectives of Fund CD, and the challenges to ensuring progress. Text Table 1 lists CD priorities by Fund Department.

Text Table 1. Union of Comoros: Policy Priorities, Objectives of Fund CD, and Related Challenges		
Priorities	Objectives	Challenges
Reducing corruption vulnerabilities through strengthening transparency and accountability	Introduce legal framework and operationalize effective system for conflict of interest and asset disclosure by senior officials, including mandatory disclosure of beneficially owned assets, publication of asset declarations, and removing current criminal liability for publication	Apparent lack of ownership by the authorities.
Tax and customs policy and administration	Mobilize revenue by broadening the tax base and strengthening tax and customs administration	Apparent lack of ownership and weak managerial oversight; limited public trust in government
Public Financial Management, including governance aspects	Raise the efficiency and transparency of public spending by improving budget preparation, enhancing spending execution and reporting, improving oversight of, and relations with, SOEs, and reducing vulnerability to corruption	Apparent lack of ownership and weak managerial oversight, and clientelism and vested interests particularly where SOEs are concerned
Financial sector supervision	Strengthen financial stability by enhancing regulation and supervision, including developing financial resolution frameworks	Limited ability of the BCC to absorb CD
Central bank operations / public debt management	Improve interbank market liquidity management and promote credit growth by developing debt market infrastructure	Limited ability of the BCC to absorb CD,

Text Table 1. Union of Comoros: Policy Priorities, Objectives of Fund CD, and Related Challenges (concluded)		
Priorities	Objectives	Challenges
Statistics	Enhance data provision, including national accounts and price statistics (INSEED), fiscal data (Ministry of Finance), and external data (BCC, customs)	High staff turnover at INSEED, weaknesses in fiscal accounting and insufficient communication between MoF and Comissariat au Plan, and use of unclear methodologies at BCC

C. Coordinating CD Delivery with Development Partners

7. Other CD-providing partners. In addition to receiving CD from the Fund, Comoros benefits from CD delivery by several other partners, including notably the World Bank, the African Development Bank, the European Union, and France.

8. Minimizing gaps and overlaps in CD provision. To minimize gaps and overlaps, staff will propose to these partners that the Fund take the lead on CD in the areas that are key for surveillance and where we have strong expertise (i.e., on fiscal policy, monetary policy, financial sector regulation and supervision, and data issues), while other partners could usefully (i) focus on other areas that are important for economic development and/or (ii) provide CD that supports implementation of Fund recommendations. For (i), partners would help the authorities strengthen infrastructure (electricity, water, transport) investment and social (health, education, social insurance/assistance) spending; reinforce the judicial system; and enhance civil service management. For (ii), partners could provide supporting CD in areas covered by the Fund, for example helping the authorities introduce computer systems in tax and customs administration.

9. Meetings with other partners. Staff will invite partners at least once a quarter to coordinate CD delivery.

D. Incentivizing Quicker Implementation of Fund CD Recommendations

10. To help incentivize faster implementation of Fund-provided CD, staff will do the following:

- Discuss with the authorities and CD providing departments the most impactful modalities of CD delivery. Specifically, would the authorities appreciate having one or more long-term advisors at the cost of (much) fewer HQ or AFRITAC South-based missions? In this context, staff will highlight that implementation of CD recommendations was slow even during the time of Resident Representative Michel Bua, who provided substantial hand-on assistance on fiscal policy implementation.

- Suggest to the authorities to include the most essential CD recommendations as commitments/conditionality in future Fund-supported programs, and highlight that failure to meet these commitments would risk delaying Fund financial support.
- Conduct regular discussions with the authorities on progress in implementing CD recommendations, based on a rolling stocktaking of recommendations and their implementation. In these discussions, staff will highlight that implementation is not difficult but requires strong managerial oversight by senior officials.

Annex IV. Priorities by Departments

A. FAD

Topics	Objectives	Past recommendations	Challenges
Tax and customs policies	Strengthen the tax system to raise revenue.	Simplify the tax system by replacing the current income tax with a semi-dual income tax, and reduce tax exemptions.	Access to detailed data, which the authorities have promised to provide for about a year.
Revenue and customs administration	Increase revenue	<p>Tax Administration:</p> <p>Develop a multi-year reform plan, including on strengthening the management of revenue administration and its governance. Strengthen core tax administration functions: Ensure integrity of the taxpayer data base; Strengthen management of the large and medium taxpayers units and ensure they cover taxpayers in the entire territory as well as SOEs; Strengthen use of the SIGIT software; strengthen efforts to ensure on-time and accurate filing of tax returns; follow up more with delinquent taxpayers; strengthen taxpayer services.</p> <p>Customs Administration</p> <p>Excise, petroleum products, and the oil unit: Develop the capacity of the Oil Unit and give it authority to oversee imports of</p>	Slow implementation, with some progress on taxpayer registration, reflecting weak managerial oversight and low capacity of civil servants. Weak governance may also play a role, particularly at Customs. Further, inter-island tensions may hinder revenue mobilization in the smaller islands.
Public financial management	<p>Improve PFM frameworks, including in budget preparation and execution</p> <p>Strengthen implementation of the Treasury Single Account</p>	<p>Implement the revised organic law; put in place the basics of budget preparation. So far, budgets do not reflect macroeconomic forecasts and lack information on financing. On the execution side, wage bill management is one of the areas that need strengthening, while other recommendations remain to be developed.</p> <p>While the TSA exists in principle, its implementation suffers from numerous shortcomings. A key element will be the</p>	Weak managerial oversight, very weak capacity of civil servants, and other blockages that remain to be identified.

Topics	Objectives	Past recommendations	Challenges
	<p>TSA) to enhance cash management and transparency</p> <p>Strengthen fiscal reporting to enhance transparency</p> <p>Improve fiscal risk management strengthen oversight of SOEs and eliminate use of cross-arrears.</p>	<p>establishment of a Central Treasury Agency.</p> <p>Strengthen fiscal accounting. Report to parliament and the public on budget execution, including by regularly publishing the budget execution table "TOFE" on the government website.</p> <p>Strengthen capacity in fiscal risk management (fiscal risk statement and its disclosure with budget documents). Develop capacity to oversee SOEs and assess their performance. Strengthen governance and transparency at SOEs (legal framework, remuneration, auditing). Eliminate the use of offsets/cross-arrears and restore normal financial flows (payments for goods and services and of taxes and subsidies) between government and public enterprises.</p>	<p>At end-February 2022, the authorities commissioned an audit of domestic arrears including cross-arrears with SOEs.</p>
Expenditure policy (new area)	Develop spending policies that will help strengthen the country's human capital.	At this time, it is not clear what the government's sectoral strategies are in the areas of health, education, and social safety nets. These strategies would need to be reviewed (with the help of the WB) and likely strengthened, and corresponding sectoral expenditure policies developed.	The efforts have not started and it is too early to assess obstacles.

B. MCM

Priorities	Objectives	Past Recommendations	Challenges
Financial Regulation and Supervision	Enhance regulation and develop more risk-based supervision	Reinforce its enhancement of prudential regulations in line with Basel II and III, with MCM TA	Understaffing
Bank resolution	Establish a bank resolution framework	A Bank resolution law was passed in December 2020. TA is in train on applying the new powers.	Understaffing

Priorities	Objectives	Past Recommendations	Challenges
Liquidity management	Enhance the central bank's liquidity management capacities, including emergency liquidity assistance	TA efforts are in train, and uptake by BCC is fully satisfactory.	Implementing liquidity absorption operations will create costs for the BCC and affect its P&L account.
Debt market development	Creation of a government securities market	Draft legal texts prepared	Banks have little trust in the government's debt
Monetary policy	Develop a framework that sets out monetary policy goals, approaches, and procedures	Develop primary market issuance of government securities, with MCM TA	Capacity for monetary policy making is likely very low at this time and will need to be built gradually.

C. STA

Topics	Objectives	Past Recommendations	Challenges
Real sector statistics	Improve source data; strengthen methodologies for statistics compilation; enhance data dissemination; consolidate improvements achieved in recent years	<p>Conduct regular surveys and enhance collaboration between government agencies. Progress has been slow.</p> <p>Introduce several methodological improvements, including on treatment of informal data in the BoP; updating the CPI basket; and introducing a base year for GDP. Progress has been slow.</p> <p>Ensure regular online publication of statistics. Progress has been slow.</p> <p>Provide more stable forms of employment to INSEED officials. Progress has been slow.</p>	<p>Insufficient funding for statistics issues and organizational challenges.</p> <p>Insufficient funding for statistics issues.</p> <p>Organizational challenges.</p> <p>Insufficient funding for statistics issues.</p>
External sector statistics	Strengthen compilation methodology and dissemination of data	TBD	Limited ability of the BCC to absorb CD

D. LEG

Topics	Objectives	Past Recommendations	Challenges
Governance and anti-corruption	Help the authorities strengthen the legal and institutional frameworks to enhance governance and lower the vulnerability to corruption.	Strengthen framework for procurement reporting, including reporting on beneficial owner. Reform adopted. Establish a framework for asset declaration for senior public officials. Reform efforts continue.	No challenges to adopting the revised legal texts. The quality of implementation remains to be seen. Complexity of the subject matter and potentially limited ownership, particularly as concerns the publication of asset declarations.
Other reforms of the legal framework	Help the authorities draft or modify key legal texts as needed, e.g., in the fiscal area or on capital markets issues	None	TBD

Annex V. Enhanced Safeguards for Comoros

1. A key objective of Comoros' program supported by the Extended Credit Facility is to reduce debt sustainability risks. Comoros' external and overall debt are sustainable but at high risk of debt distress. The high risk of debt distress reflects elevated external debt service and PV of external debt to export ratio in the near term stemming largely from previously contracted non-concessional debt. Under the ECF, external debt service indicators fall below the high-risk thresholds during the program period while the PV of external debt to export ratio is expected to fall below its threshold over the medium term. Limits on non-concessional debt, fiscal consolidation efforts, improvements in SOE monitoring, and the prospective economic benefits from financial sector and transparency/anti-corruption reforms are expected to contain debt vulnerabilities and support more robust medium-term growth.

2. The size of Comoros' de facto senior debt plus other multilateral as a share of total external debt is below 40 percent at program initiation. This ratio indicates a significant buffer of restructurable debt, although the share of non-restructurable debt is expected to increase over the medium term. At program initiation, debt held by international

financial institutions (IFIs) with global membership—IMF, World Bank, and AfDB—accounts for 20.3 percent of external debt; adding debt held by other multilaterals brings the total to around 38 percent of external debt. The combined share of such debt is projected to rise to about 61. percent of external debt by 2025. Total multilateral debt as a share of GDP is projected to rise under the program, from 10.1 to 20.7 percent. To contain risks, the authorities are committed to mobilizing grant financing to safeguard debt sustainability.

Text Table 1. Union of Comoros: Decomposition of Public Debt by Creditor

	2021	2022	2023	2024	2025
	<i>Act</i>	<i>Est</i>	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>
Total	383.3	416.9	525.4	595.4	648.3
External	317.0	335.4	449.4	524.0	581.0
Multilateral creditors ²	116.7	131.4	195.5	265.8	327.3
o/w IMF	27.6	23.4	26.5	29.0	35.3
o/w Other IFIs	29.1	50.0	94.7	149.4	196.4
Other Multilaterals	60.0	57.9	74.4	87.3	95.6
o/w: BADEA	28.0	28.0	27.2	26.3	25.5
o/w: TDB	18.3	17.4	19.4	16.7	13.7
o/w: IsDB	7.5	6.9	22.6	26.7	26.6
Bilateral Creditors	200.3	204.1	210.8	215.2	220.2
Paris Club	2.1	2.4	1.7	1.2	1.2
o/w: France	2.1	2.4	1.7	1.2	1.2
Non-Paris Club	198.2	201.7	209.1	213.9	219.0
o/w: China	113.2	112.4	111.4	108.6	105.9
o/w: Saudi Arabia	33.7	38.0	42.2	45.9	49.5
o/w: India	26.4	26.4	31.5	36.6	41.6
o/w: Kuwait	25.0	25.0	24.0	22.9	21.9
Commercial creditors	0.0	0.0	43.1	43.1	33.5
Domestic debt	66.3	81.4	76.0	71.4	67.3
Memo items:					
Nominal GDP	1285	1237	1340	1401	1482
Multilateral debt					
<i>Percent of external debt</i>	36.8%	39.2%	43.5%	50.7%	56.3%
<i>Percent of GDP</i>	9.1%	10.6%	14.6%	19.0%	22.1%
o/w IMF					
<i>Percent of external debt</i>	8.7%	7.0%	5.9%	5.5%	6.1%
<i>Percent of GDP</i>	2.1%	1.9%	2.0%	2.1%	2.4%
o/w Other IFIs					
<i>Percent of external debt</i>	9.2%	14.9%	21.1%	28.5%	33.8%
<i>Percent of GDP</i>	2.3%	4.0%	7.1%	10.7%	13.2%

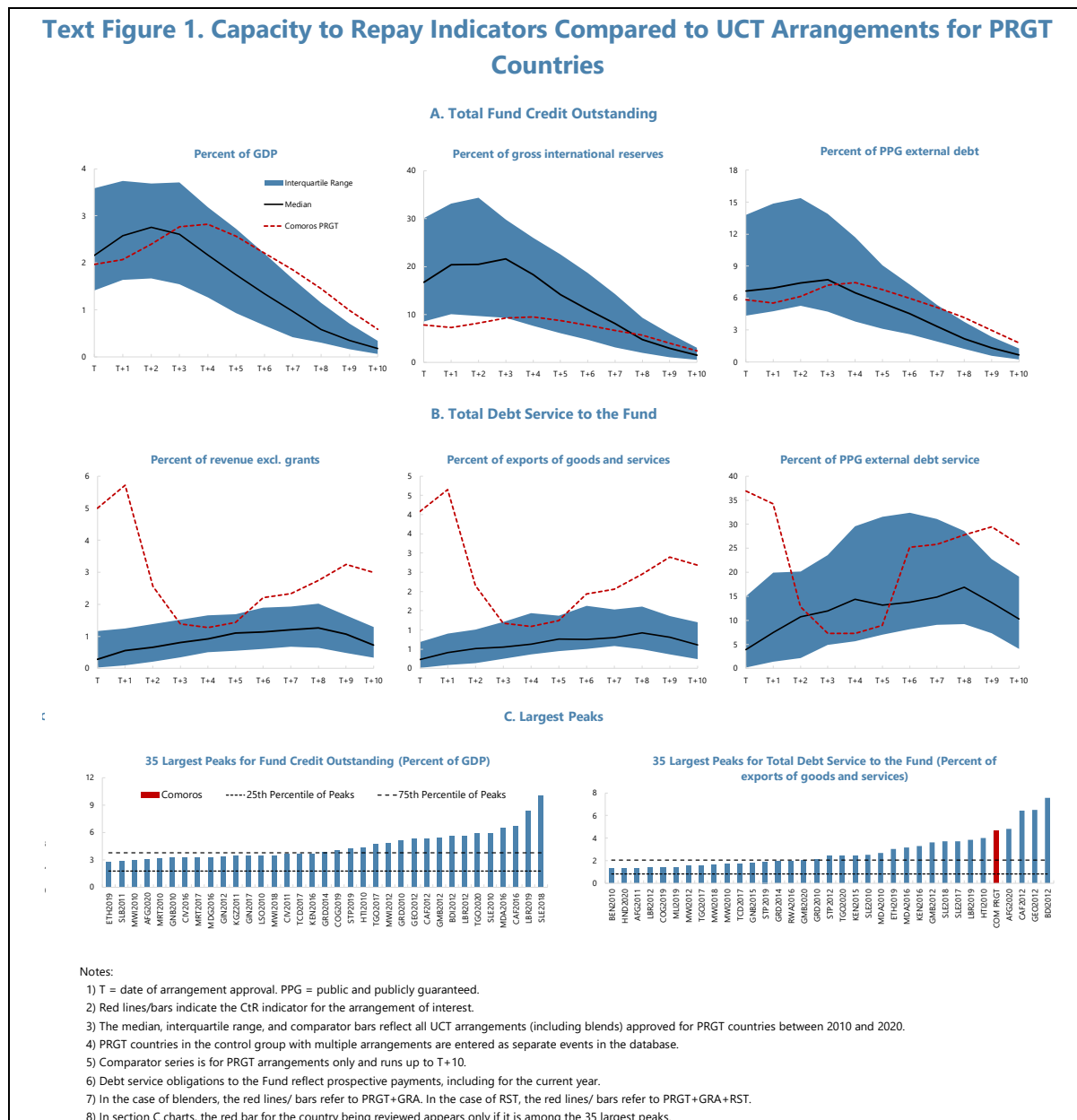
Source: Country authorities and staff estimates and projections

1/As reported by Country authorities according to their classification of creditors, including by official and commercial.

2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/ Includes central bank on lending related to the SDR allocation

3. Comoros’ capacity to repay the Fund is assessed to be adequate, but subject to significant risks. Given the proposed access level, total Fund credit outstanding would peak in 2027 at SDR 34.72 million, equivalent of about 2.8 percent of GDP. Debt service to the IMF would peak in 2024 at about 5. percent of revenue and 4.7 percent of exports of goods and services. As shown in Figure 1, indicators of debt service to the IMF are far above the 75th percentile for PRGT-eligible countries. Risks are further exacerbated by Comoros being assessed as having a high risk of debt distress, the presence of external arrears, and the country’s track record of slow structural reform implementation. Risks are mitigated by policy measures envisaged under the program, and the phasing of Fund disbursements. High levels of remittances, which are not captured by the standard capacity-to-repay metrics, are another important risk mitigating factor.



Appendix I. Letter of Intent

Moroni, Union of Comoros

May 15, 2023

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431

Madame Managing Director,

- 1.** The Government of the Union of Comoros requests a Four-Year Extended Credit Facility (ECF) arrangement.
- 2.** The economy of Comoros has been buffeted by consecutive exogenous shocks in recent years. Following Cyclone Kenneth in 2019 and the COVID-19 pandemic during 2020-21, the outbreak of the war in Ukraine has dealt another harsh blow on the country through a negative terms-of-trade shock. The surge in commodity prices, coupled with the appreciation of the dollar against the euro, has weakened the fiscal outlook, impaired financial performances of state-owned enterprises, and led to record double-digit inflation (12.5 percent in 2022) which is disproportionately affecting the poorest households.
- 3.** We have successfully completed in April 2023 the Staff Monitored Program (SMP) approved in September 2021, thus establishing a track record of policy implementation towards an Extended Credit Facility (ECF) arrangement. Policies under the SMP aimed to address the impact of the COVID-19 pandemic, reduce economic risks, and begin reforms to tackle sources of fragility.
- 4.** An ECF arrangement will help us to continue our reform agenda begun under the SMP, which includes securing medium-term macroeconomic stability and debt sustainability based on a credible fiscal consolidation plan, and advancing structural reforms aimed at reducing vulnerabilities in the banking sector, fighting corruption, and improving public sector governance and transparency.
- 5.** We are also pushing forward other reform fronts, including bolstering tax revenue, strengthening public financial management, and banking system liquidity management together with the reform of the operational framework for monetary policy. The recently adopted 2023 budget seeks to promote growth while safeguarding fiscal sustainability. We commit to continuing close engagement with the IMF team as we monitor budget execution and, if needed, make budget adjustments. As our debt burden has continued to increase, reflecting the substantial development needs of the country, we will also seek to limit non-concessional financing.
- 6.** The Government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Comoros will consult

with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. We shall provide timely information necessary for monitoring economic developments and the implementation of policies defined in the program as agreed in the TMU, or upon request.

7. In line with our commitment to transparency, we agree to the publication of this letter, attached MEFP, the related staff report, and the debt sustainability analysis (DSA) prepared by the IMF and the World Bank.

Sincerely yours,

/s/

Mzé Abdou Mohamed Chanfiou
Minister of Finance and Budget

/s/

Younoussa Imani
Governor, Central Bank of Comoros

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and presents the outlook as well as the government's objectives and economic policy plans over the coming years.

A. Recent Economic Developments and Outlook

1. Comoros started 2022 with a pickup in domestic activity as the pandemic subsided and lockdown measures were gradually lifted. The number of recorded COVID-19-related infections and deaths has remained relatively low, thanks in part to our vaccination campaign, with more than 45 percent of the population now fully vaccinated. While economic activities stagnated during 2020-21, Comoros benefited from substantial inflows and aid from the diaspora and development partners, including the IMF emergency financing provided under the RCF/RFI of April 2020. As with many countries across the world, growth was expected to accelerate in 2022 amid re-opening activities.

2. Recovery from the COVID-19 pandemic, however, was interrupted by the outbreak of the war in Ukraine and the sharp increase in global food and fuel prices. The war in Ukraine has impacted Comoros through supply chain disruptions and soaring inflation which exacerbated already weak economic conditions. Despite ongoing re-opening of the economy and increased tourism activity, growth projection for 2022 has been revised down from 3.8 to 2.6 percent. Public revenue as share of GDP fell, driven by substantial losses at state-owned enterprises as they absorb the high commodity prices, widening the public debt. Prospects for 2023 remain challenging, with the economy projected to grow by only 3 percent, a slight improvement from the 2.6% growth rate seen in 2022.

B. Government Objectives and Policies

3. Building on the recently completed SMP, we intend to continue our reform efforts. Our key short-term objectives will be to adjust to the food and fuel price shocks while also continuing to support the recovery from the pandemic and maintain debt sustainability (Table 1). Our medium-term policy objectives include fiscal structural reforms in the areas of revenue administration, public financial management (PFM), and tax policy; strengthening the financial sector; and improving governance and anti-corruption (Table 2).

Adjusting to the Global Price Shocks while maintaining Debt Sustainability

4. We have developed a plan for adjusting our policies to the sharp increase in food and fuel prices. For the first time in several years, we raised domestic prices on fuel, electricity, and ordinary rice to limit losses at SCH, SONELEC, and ONICOR. In May 2022, the government raised prices of gasoline (+25 percent), diesel oil (+44 percent) and petroleum (+40 percent). And between June and October, prices of ordinary rice were increased by 20 percent. At the same time, we introduced temporary tax exemptions on rice during August-December 2022 to help alleviate price

pressures on this staple good for the population. The three aforementioned public enterprises contracted public-guaranteed loans from commercial banks to finance their losses earlier in the year. The price increases should enable SCH and ONICOR to be profitable from 2023, and begin repaying their loans, as the expected decline in global prices should lower costs below sale prices. However, we also stand ready to adjust domestic prices upward if costs again flare up. The electricity company SONELEC will take longer to become profitable, due to high production costs and distribution inefficiencies. We will review prices to better align them with costs where possible while a plan is being elaborated to transition SONELEC to more efficient technologies. Meanwhile we are closely coordinating with the World Bank on a social safety net program to provide relief to the most vulnerable population.

5. Our 2023 budget seeks to support growth while containing non-priority or inefficient spending. We have reintroduced the sales tax on construction material, especially cement, and we plan to end one-time subsidies and tax exemptions introduced in 2022 as commodity prices stabilize. This together with strengthened tax and customs administration would allow revenue to rise to about 10½ percent of GDP. Continued work on the Maarouf Hospital, Galawa Hotel, and road construction, will support the recovery, as well as cover healthcare needs, spur growth in tourism, and build key infrastructures over the medium term. Thus, domestic primary spending (excluding all foreign-supported current and capital spending) would expand to 12.1 percent of GDP, with the domestic primary deficit projected to widen from 1.9 percent of GDP in 2022 to 2.4 percent in 2023.

6. We aim to start gradual fiscal consolidation in 2024 to decrease debt sustainability risks and reduce financing needs over time. Consolidation would be driven by (i) a steady increase in tax revenue of at least 0.3 percent of GDP per year (QPC) through comprehensive structural reforms in tax policy and tax and customs administration; (ii) the paring back of transfers and subsidies introduced in 2021-22 to mitigate the effects of the recent shocks; and (iii) reducing investment spending to pre-pandemic levels once already committed spending is phased out. The envisaged fiscal path strikes a balance between enabling growth and lowering debt risks and is in line with our objective to bring all debt burden indicators below their higher risk thresholds by 2028.

7. Despite the planned consolidation, we anticipate fiscal and corresponding external financing gaps starting in 2023 and persisting over the medium term. The gaps reflect several factors including the food and fuel price increase, the recapitalization of commercial banks notably the postal bank, and debt service obligations from previously contracted non-concessional borrowing. We commit to obtaining grants and concessional financing to fill these gaps, and we are aware that further uptakes of non-concessional debt would quickly undermine debt sustainability. We therefore commit to avoiding contracting any non-concessional borrowing over the program period (QPC).

8. We commit to not accumulating new external arrears and to find solutions for existing external arrears. We have paid arrears owed to Kuwait Fund (US\$0.12 million) in April and to the OPEC Fund for International Development (US\$0.54 million) in May. We have engaged with the French Treasury to discuss an arrears clearance strategy for debt owed to Bpifrance Assurance Export which started accumulating arrears (US\$0.56 million) following the DSSI expiration. We

envisage the clearance of arrears with the Arab Bank of Economic Development in Africa (BADEA) and we are in discussions with the institution about seeking an alternate creditor. Discussions are ongoing regarding the pre-existing arrears (US\$1.17 million) to Exim Bank India for a power plant project and we intend to find a solution by end-2023.

9. We intend to proceed prudently in tightening monetary policy, noting however that monetary policy decisions are in line with the monetary cooperation agreement with France.

We note that (i) recent price increases in Comoros reflect mainly supply-side external factors; (ii) monetary policy tightening in advanced economies is likely to have only modest spillovers to Comoros given Comoros' limited integration with global capital markets; and (iii) increases in unremunerated reserve requirements will have limited transmission given the high concentration of liquidity in the banking system. Against this background, we intend to monitor the evolution of inflation and foreign currency reserves and consider further tightening only in case of second-round impacts of higher import prices or large outflows of reserves. We will also intensify supervision of the banking system and continue our efforts to strengthen the monetary policy toolkit.

10. The government is committed to preserving external stability. Though reserves fell in 2022, due in part to the higher costs of oil and food imports, they are expected to increase to comfortable levels over the next few years. Recognizing the importance of preserving reserves at a level that can effectively cushion shocks, we will monitor balance of payments developments and engage with the IMF on any emerging difficulties and will avoid measures or policies that would give rise to or compound such difficulties.

Implementing Fiscal Structural Reforms

11. We recognize that Comoros' fiscal revenue is the lowest among all small island states, and commit to raising revenue steadily over time to enable higher public investment in human and physical capital. Work will continue to strengthen tax and customs administration and policies. Our efforts already started to bear fruit, with gains of 1.1 percent of GDP in 2021. Some of this improvement reflected one-off factors (e.g., delayed tax payments from 2020), but the remainder reflected improvements in tax and customs administration. Looking forward, we will continue to request technical assistance support from the IMF on revenue administration and tax policy to raise revenue over the medium term. Our priorities include the following:

- On domestic tax administration, we intend to (i) raise the number of active taxpayers; (ii) strengthen the use of the SIGIT software, having now folded registration numbers and other data obtained under VIGOR into the SIGIT; applying the same tax administration on SOEs as other taxpayers; and intensifying efforts to recover unpaid taxes.
- At Customs administration, we intend to: (i) complete the *de jure* transfer of the management of fuel products taxes to the customs administration after already having completed the transfer *de facto*; (ii) strengthen risk management, including by inspecting a far smaller number of shipments based on compliance risks; (iii) deploy an internal control system and develop a

decision-making information system; and (iv) issue Ministerial decrees needed to implement the customs code by March 2024 (SB).

- Tax policy reforms will need to play a larger role in domestic revenue mobilization. The recent retraction of the sales tax exemption for construction materials is a start. We plan to establish a tax policy unit at the Ministry of Finance (SB) to spearhead tax policy related reforms, including a tax expenditure assessment to identify avenues for streamlining exemptions.

12. The government will continue efforts to strengthen public financial management (PFM) and enhance spending efficiency and transparency to ensure the best possible use of our scarce resources. Key measures include

- Implementing the roadmap developed at the end of 2021 for extending the coverage of the Treasury Single Account (TSA) to all transactions relating to extrabudgetary entities, public administrative bodies, and foreign-financed projects. The roadmap includes a number of comprehensive reforms to improve the functioning of the TSA, e.g., creating a Treasury Accounting Agency, before the TSA can be extended.
- Strengthening wage bill management in line with the recommendations of IMF capacity building efforts, building on the recent merger of three separate island payroll databases into one national database, the improvement of the information system at the Ministry of Finance, and the strengthening of the physical control of civil servants within the purview of the Committee set up by decree.
- Avoiding the accumulation of domestic and external arrears. We aim to complete the audit of domestic arrears by December 2023 (SB). While the audit of domestic arrears was commissioned under the SMP, delays in data sharing and incomplete information have stalled progress. We understand that the completion of this audit exercise is a critical first step for quantifying the problem in order to articulate a domestic arrears clearance strategy by March 2024 (SB).

13. We will continue strengthening the oversight of SOEs. We intend to take the following initial steps: we will conclude performance contracts with major SOEs to ensure improved service provision quantity and quality, as well as define financial targets. Further, we intend to require SOEs to prepare certified annual balance sheets and profit and loss statements. We will seek adjustments in SOEs' staffing levels and compensation packages. Additionally, we will end cross-arrears settlement between the State and the SOEs to enable greater transparency, starting with the state-owned oil company SCH.

Strengthening the Financial Sector

14. Our banking system is facing substantial challenges:

- **Weaknesses in the banking system and its environment continue to hinder the provision of credit to the economy and undermine asset quality.** Banks suffer from weak underwriting

and risk management processes, often significant credit risk concentration, recurring government arrears, and shortcomings in the judicial system that inhibit attaching collateral. In 2021, the banking system as a whole registered losses for the fifth consecutive year. However, non-performing loans (NPL) have been brought down thanks to the work of our commission on NPLs (see below).

- **The financial safety net is not yet fully developed, which has limited the government's choices in dealing with problem banks.** For example, an emergency central bank liquidity assistance facility remains to be created. Work is ongoing with the technical assistance of the Monetary and Capital Markets Department of the IMF which has allowed the identification of a list of collateral eligible for refinancing at the BCC, and in particular within the emergency liquidity assistance framework, which is in the process of being established.
- **Further, a lack of financial infrastructure inhibits interbank lending.** Banks cannot easily borrow from, or lend to, other banks and the BCC as there is no organized market and no readily available lending instrument and collateral (neither the government nor the central bank issue bills or bonds). However, as part of the ongoing work on the operational framework of monetary policy and liquidity management, the BCC has put in place a mechanism for absorbing structural excess liquidity as well as a marginal lending facility. Some local banks utilize this mechanism every month via the call for tenders and now possess high-quality collateral (term deposits at the central bank), allowing them to refinance themselves both at the BCC's marginal loan window and with other banks. The very recent adoption of the Public Debt Management Law contributes to the improvement of guarantee and refinancing instruments.
- **Restructuring the postal bank SNPSF will require large fiscal resources** (see below).

15. To strengthen the financial sector, the government intends to do the following:

- **Improve the operating environment for banks,** including by lowering the frequency of government arrears to suppliers and further strengthening the judicial system to ensure that banks can realize pledged collateral. In this context, a commission on Non-Performing Loans (NPLs), comprising the Ministry of Finance, the Ministry of Justice, and the BCC, delivered recommendations on accelerating the drafting of court decisions, with initial positive results in 2021 as the ratio of NPLs to total gross loans improved to 16.8 percent from 23.7 percent in the previous year. The commission will resume its work, it will hold meetings at least once a quarter and will report to the President of the Union.
- **Strengthen supervision of the banking sector and the financial sector safety net.** The BCC will establish by end-June 2023 a resolution unit, structurally separated from the Supervision Department and which will report separately from the Supervision Department to the board of the BCC. The establishment of this unit will be a first step toward updating the 2020 resolution law. This will allow the submission to Parliament by end-December 2023 of the legislative adjustments recommended in the MCM Technical assistance report of September 2022 (establishing a statutory depositor preference, clarifying the resolution funding mechanism, and

solidifying the power to liquidate an entity in default). The BCC aims to complete onsite inspections of banks to assess the quality of credit portfolios by June 2024 (SB). Over the medium term the BCC will operationalize its emergency liquidity assistance function.

- **Stabilizing the financial sector.** We are seeking investors for the two banks that were placed under administration of the BCC in 2020. We will prepare contingency plans including estimates of fiscal costs in case of liquidation of these banks if such sales do not materialize. Over the medium term, the BCC will require time-bound recapitalization plans for all banks in breach of capital adequacy requirements while addressing the problems in the small microfinance institutions. Those institutions unable to comply with these time-bound recapitalization plans, or that are insolvent or unviable, will be resolved. Any provision of funding by the government would be subject to strict conditions that minimize the risk of moral hazard, and include determinations that (i) the provision of temporary funding is necessary to protect financial stability and will facilitate a resolution option that is best able to achieve resolution objectives; (ii) private sources of funding have been exhausted or cannot achieve these objectives; and (iii) losses are first allocated to shareholders and, as appropriate, to unsecured and uninsured creditors and the industry at large.
- **Strengthen financial infrastructure,** including by establishing a government securities market. With technical assistance from the IMF, we aim to set up a government securities market, strengthen the BCC's liquidity management, and create an emergency liquidity assistance framework.
- **Complete the restructuring of the SNPSF.** With the key elements for the restructuring having been prepared under the SMP, we are ready to advance the reform to ensure that the new postal bank (Banque Postale des Comores, BPC) will implement a business plan which minimizes fiscal risks and is supported by a strong governance and risk management framework, to promote financial inclusion while limiting fiscal contingent liabilities. The next steps for the reform are:
 - Issuance by government of debt instruments to provide BPC with sufficient assets to request a banking license (prior action). These instruments would be redeemed for cash over time, first in four installments of KMF 1.3 billion, inclusive of annual interest, over 2023-25 (two installments in 2023), with the final redemption equal to the remaining amount in 2025. The AFD and the French Treasury have committed to providing grants towards the restructuring process, to be disbursed as agreed milestones are met. An amount of € 2 million in budgetary aid from France has already been allocated in 2022 for the payment of maturities of the debt instruments in 2023. The net remaining needs, currently estimated at KMF 4.9 billion, will be borne by the Government of the Comoros.
 - Appointment of a managing director at the BPC (SB), who will work with the board of directors already appointed, to operationalize the BPC according to the business plan developed under the SMP (see below). A short performance contract will set out objectives for the management team to ensure they operate free from political interference.

- Submission to the BCC by end-August 2023 of an application for BPC's banking license which would specify a business plan consistent with that developed under the SMP (see below), a management team with adequate management expertise and experience in banking and credit risk management, and a capital injection plan that would fully capitalize BPC in cash by end-2025 (SB).
- Issuance by the BCC by end-December 2023 of a banking license which complies with the above conditions (SB). The BCC will withdraw the SNPSF's banking license and wind down the SNPSF's banking assets over the next 3 years.
- Implementation of the business plan for BPC in line with that developed under the SMP, which envisages three phases of operation. In phase 1, risk taking will be contained by limiting loans to existing customers, with a limit to loans to any customer of KMF 5 million. In phase 2, BPC will expand credits to new customers, including individual entrepreneurs (but no other businesses), with credit per customer limited to KMF 5 million. In phase 3, BPC will provide credit to new customers, including small businesses with fewer than fifty employees, with credit per customer limited to KMF 7.5 million. Phases 1 and 2 will each last at least 2 years. The conditions to move from phase 1 to phase 2 will include full payment of the agreed BPC capitalization schedule in cash, the establishment of improved risk management capacities with the support of AFD, and the fact that BPC has made profits during at least the previous two years. The conditions for moving to phase 3 will be the establishment of improved risk management capabilities incorporating procedures for small business credit risk and the fact that BPC has been profitable for at least the previous two years. The transition from each phase to the next will be subject to evaluation and authorization by the BCC.

Strengthening Governance and Reducing Vulnerabilities to Corruption

16. The government will continue to take measures to enhance governance and lower the vulnerability to corruption:

- **Rule of law:** Our judicial system struggles to ensure property rights and enforce contracts, which undermines private sector development. We have undertaken steps to strengthen the judicial efficiency, including by enhancing its equipment. These efforts have resulted in an acceleration of court cases. We will continue to strengthen the integrity and efficiency of the system further.
- **Fiscal transparency.** Measures discussed above on strengthening public financial management and enhancing oversight of SOEs will make an important contribution to strengthening governance, as will our efforts to enhance fiscal accounting and reporting. To strengthen fiscal transparency further, we intend to do the following:
 - Regularly publish comprehensive information on all large public procurement projects. We have laid the basis for such publications by issuing a circular regarding the submission to a

nominated procurement agency of documentation on all large public procurement contracts along with the names of awarded companies and the name(s) of their beneficial owner(s); and preparing a plan that sets out the steps and timeline for the publication of this documentation on an easily accessible website. We have begun to publish some information on the procurement contracts related to COVID-19 on the BCC website while a permanent website is being developed.

- Publish by end-June 2023 the results of the audit of the spending of IMF emergency financing provided under the RCF/RFI of April 2020 (SB). Concretely, we have asked the Court of Auditors to prepare this audit with technical assistance from the IMF. We also reaffirm our commitment to publishing semi-annual reports on any follow-up measures taken on the basis of the audit findings for as long as follow-up measures continue.
- **Anti-corruption.** We remain committed to strengthening the anti-corruption framework. We will adopt the new anti-corruption law by June 30, 2023 (SB), which met the SMP objectives and, as provided by the draft law, we will operationalize the independent and autonomous Anti-Corruption Chamber with the mandate to set up and coordinate the implementation of the country's anti-corruption policy priorities (SB).
- **Management of the civil service.** Our civil service is facing capacity constraints, and we are taking steps to strengthen it. We will continue our efforts to address absenteeism and recover wages that were paid to "ghost workers." We are also exploring the option of strengthening hiring through the use of a competition/entrance exam in all parts of the civil service, as is already the case at the central bank; strengthening the training of civil servants by creating a school of national administration; and introducing performance management. We will avoid election-related hiring.

17. The government will strengthen effectiveness of the AML/CFT framework. This work is already underway and an evaluation by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) will be conducted in July 2023. The preparation and publication of the national risk assessment has been delayed to later this year. Thereafter, we will prepare an AML/CFT law in line with the international standards set by the Financial Action Task Force and adopt it. In the meantime, the BCC will reach out to commercial banks to raise awareness of AML/CFT requirements and enhance risk-based supervision including by conducting onsite inspections to assess compliance with existing AML/CFT regulations.

Other Issues

18. The Central Bank will participate in the safeguards assessment undertaken by the IMF in June 2023. The BCC will also continue working on implementing recommendations of the IMF's 2020 safeguards assessment. To that end, the BCC adopted the International Financial Reporting Standards (IFRS) as its accounting framework effective December 2021, and we will continue to further enhance the transparency of our financial reporting. We recognize that work to amend the BCC's legal framework to enhance its autonomy has been delayed, but we remain committed to

advancing this reform in consultation with the IMF including through the incorporation of the safeguards assessment recommendation as structural benchmarks in the program, if applicable.

19. The government recognizes that Comoros' economic data have serious shortcomings in almost all sectors that hamper economic analysis and policy formulation and implementation. The government is committed to ensuring that INSEED will have sufficient human and capital resources to collect timely price data and update the national accounts, in line with the investment project to support statistical capacity.

C. Financing and Program Monitoring

20. We will continue to mobilize resources from international partners to support our economic reform program.

21. The program will be monitored through prior actions, quantitative performance criteria, indicative targets, and structural benchmarks as listed in Tables 1 and 2. The program will be monitored with reviews at semi-annual frequency. The first, second, and third reviews will be on or after September 30, 2023, March 30, 2024, and September 30, 2024 and based on end-June 2023, end-December 2023, and end-June 2024 test dates, respectively. The Technical Memorandum of Understanding describes the definitions of key indicators as well as data provision requirements.

Table 1. Union of Comoros: Quantitative Performance Criteria and Indicative Targets Under the ECF, June 2023-June 2024¹

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

	2022		2023		2024	
	End-December	End-June	End-September	End-December	End-March	End-June
		Performance Criteria	Indicative target	Performance Criteria	Indicative target	Performance Criteria
	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Quantitative Performance Criteria						
1. Floor on tax revenues	44,356.7	22,194.4	36,990.6	49,320.8	10,811.2	24,325.1
2. Floor on the primary domestic fiscal balance	-11,012.7	-10,517.5	-11,268.5	-15,024.7	-7,056.8	-10,871.0
3. Floor on the level of net international reserves (million KMF)	131,571.4	82,608.9	106,211.4	118,012.7	109,465.5	115,226.9
4. Ceiling on the accumulation of new domestic payments arrears, net	1,860.1	0.0	0.0	0.0	0.0	0.0
5. Ceiling on new nonconcessional external debt contracted or guaranteed by the government ²	...	0.0	0.0	0.0	0.0	0.0
6. Ceiling on new external arrears ²	...	0.0	0.0	0.0	0.0	0.0
Indicative Targets						
7. Floor on social cash transfers	...	1,550.2	2,325.4	3,100.5	817.0	1,634.0
Memorandum items						
Ceiling on contracting and guaranteeing of new external concessional borrowing by the government ³		23	47	70	14	14

Sources: IMF Staff.

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

²Continuous performance criteria.

³Cumulative since the start of the program, in millions of US\$.

Table 2. Union of Comoros: Prior Actions and Structural Benchmarks, 2023-24	
Measures	Timing
A. Prior Actions	
Submit to Parliament a supplementary 2023 budget in line with program projections.	Prior to ECF approval
Issue presidential decrees to restructure the tax administration function (AGID) of the MOF into a tax management unit dedicated to core tax issues (DGI) and a unit charged with non-fiscal land affairs (DNAFD), in line with FAD recommendations	Prior to ECF approval
The government to issue debt instruments for the opening balance sheet of the Banque Postale des Comores (BPC)	Prior to ECF approval
B. Fiscal Structural Reforms	
Measures to boost Tax Revenue	
Establish the Large and Medium Taxpayer Office (Direction des Grandes et Moyennes Entreprises), in consultation with FAD	July 31, 2023
Raise the number of active taxpayers by 10 percent at the Large and Medium Taxpayer office (from 543 at the large taxpayer office and the medium and small taxpayer office, as of March 31, 2023) and send all these taxpayers requests to file tax declarations.	December 31, 2023
Remove the fee for getting a NIF (Numero d'Identification Fiscale) and the requirement to renew it every 3 years and ensure that all taxpayers have a NIF adapted to the SIGIT platform	September 30, 2023
Interconnect the SIGIT and SYDONIA platforms to enable automated exchange of data between DGI and customs	December 31, 2023
Customs Reforms	
Complete the <i>de jure</i> transfer of the management of fuel products taxes to the customs administration (as the transfer has already been completed <i>de facto</i>)	September 30, 2023
Issue ministerial decrees to implement the customs code	March 31, 2024
Tax Policy Measures	
Establish a Tax Policy Unit that reports to the Minister of Finance, in consultation with FAD	December 31, 2023
PFM Measures	
Complete the audit of domestic arrears, including cross-arrears between SOEs and the government	December 31, 2023
Develop a medium-term action plan to clear domestic arrears	March 31, 2024
C. Financial Sector Reforms	
SNPSF Restructuring	

Table 2. Union of Comoros: Prior Actions and Structural Benchmarks, 2023-24 (concluded)	
Appoint managing director at BPC with management expertise and experience in banking and credit risk management to operationalize the BPC according to the business plan developed under the SMP.	August 31, 2023
Submit to BCC an application for a banking license for the Banque Postale des Comores, which would specify a business plan, a management team, and a capital injection plan that are in line with MEFP ¶115	August 31, 2023
BCC to issue a banking license which complies with the conditions set out in MEFP ¶115	December 31, 2023
Measures to enhance BCC's Supervision and Resolution Capacity	
BCC to set up a resolution unit which is structurally separated from the Supervision Department, and reports separately to the BCC Board	June 30, 2023
Submit to Parliament the statutory resolution framework that includes the three points recommended in the MCM TA report, "Operationalization of the Bank Resolution Act of September 2022," to align with international standards (see 2nd bullet of MEFP ¶115)	December 31, 2023
BCC to complete onsite inspections in banks to assess the quality of credit portfolios	June 30, 2024
Approval by the BCC of a formal timebound recapitalization plan to be adopted by each Comorian bank in breach of capital adequacy requirements	December 31, 2024
D. Governance and Anti-Corruption Reform	
Adopt into law the draft anti-corruption law that was aligned with the SMP objectives to enhance preventive measures against corruption, strengthen the rules related to conflicts of interest, and improve the asset declaration system for senior public officials, while providing for the creation of an operationally independent and autonomous Anti-Corruption Chamber with the mandate to set up and coordinate implementation of the country's anti-corruption policy priorities	June 30, 2023
Operationalize an independent and autonomous Anti-Corruption Chamber in line with the draft anti-corruption law	December 31, 2023
Publish the full audit report of spending financed by the IMF emergency support in 2020	June 30, 2023

Attachment II. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) defines the concepts, adjustment mechanisms, and data reporting requests relating to the quantitative targets provided in Table x of the Memorandum on Economic and Financial Policies (MEFP).

A. Definitions and Computation Methods

1. For the purposes of this TMU, **external** and **domestic** are defined on a residency basis, and **the program exchange rate** is the average rate projected in 2023 as of end-xx, specifically [411.91] KMF per U.S. dollar, [491.97] KMF per euro, [59.38] KMF per SDR, and [549.22] KMF per AfDB Accounting Unit.
2. Unless indicated otherwise, the term **government** refers to the government of the Union of the Comoros. Local governments, the Central Bank of Comoros (BCC), and any public entity with independent legal status, including state-owned enterprises, are excluded from the definition of government.
3. Government **domestic revenue** comprises all tax and non-tax revenue of the government as reported in the Table of Government Financial Operations (TOFE) prepared by the Treasury in the Ministry of Finance, Budget and the Banking Sector. Revenue is assessed on a cash basis. It includes any tax revenue withheld by Treasury at the source (such as on the salaries of civil servants) but not tax revenue withheld by SOEs in compensation for services provided to, or debt owed by, the government. Revenue includes recovered tax arrears but excludes outstanding tax arrears. Proceeds from grants, loans, and asset sales do not count as revenue.
4. Government **domestically financed expenditure** comprises all government spending including spending financed by budget support grants or loans, non-concessional loans, and loans contracted for spending on El Maarouf hospital, but excludes expenditure financed by all other project-specific external grants or concessional loans (such as technical assistance, project maintenance, vaccines, World Bank financing for strengthening the social safety net, external funding related to the AU presidency, or investments in fixed assets). Recapitalization and restructuring costs of state-owned enterprises, such as the SNPSF, are also excluded from expenditure; recapitalization costs are instead recorded as acquisition of assets under “financing” (i.e., “below the line”). Spending is assessed on a payment-order basis but includes also spending executed before payment authorization and not yet regularized.
5. The **domestic primary fiscal balance** is defined as domestic revenue less domestically financed expenditure, defined above, excluding interest payments.
6. **Net international reserves (NIR) of the BCC** is defined for program-monitoring purposes as reserve assets of the BCC minus short-term external liabilities at remaining maturities and all credit outstanding from the IMF. Reserve assets are defined as external assets readily available to, and controlled by, the BCC and exclude pledged or otherwise encumbered external assets, assets

used as collateral or guarantees for third-party liabilities, or assets that are not fully convertible. Securities whose market value on the last day of the year differs by over 20 percent from their original nominal issue price will be assessed at their market value as reported by the BCC. When calculating NIR, all values are to be converted to the actual mid- point market exchange rates prevailing at the test date.

7. Debt is defined as in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020). “Debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract.”

8. A debt is considered **concessional** if it includes a grant element of at least 35 percent, and non-concessional otherwise. The grant element is the difference between the nominal value of the debt and its net present value, expressed as a percentage of the nominal value. The net present value of the debt at the date on which it is contracted is calculated by discounting the future stream of debt service payments due using a 5 percent discount rate.

9. Domestic (external) payment arrears of the government are defined as any of the following: (i) invoices that a spending ministry has received from a resident (non-resident) supplier of goods and services and for which payment has not been made within 90 days from the date the payment order (*ordonnancement*) was cleared, unless it can be ascertained that the goods and services in question were not delivered; (ii) in the case of specific contracts between resident (non- resident) parties and the government, any **obligations (including debt service) that have not been paid at the time** stipulated in the contracts, including any applicable grace period; (iii) tax credits confirmed by the proper authorities after review, and not paid within 90 days from the date when the payment order was issued; or (iv) wages and salaries and any payments to a government employee that were due to be paid in a given month but remained unpaid on the 30th day of the following month. Arrears exclude debt service **that the creditor has forgiven or rescheduled to a later date.**

10. Social cash transfers refer to cash **transfers** supporting vulnerable households that have a direct effect on reducing poverty, including those financed by international development partners.

B. Quantitative Performance Criteria and Indicative Target

11. Unless stated otherwise, all quantitative targets (MEFP Table 1) will be assessed cumulatively from the beginning of the calendar year.

12. The **floor on tax revenue** is the tax portion of government revenue described in paragraph 3. Thus, the sought-after increase in tax revenue in 2023 (0.3 percent of GDP relative to 2022 outturns) will have to be realized entirely in the cash portion of revenue.

13. The **floor on the domestic primary fiscal balance** (as defined in ¶15) will be adjusted as follows:

- The floor on the domestic primary fiscal balance will be fully adjusted downward (i.e., more negative) for unexpected spending on COVID-19 vaccinations that is not financed by support for vaccinations from development partners such as the World Bank. It will be adjusted upward (i.e., less negative) for lower-than-expected spending from domestic resources on health support to the most vulnerable (KMF 800 million), the 2024 presidential election (KMF 800 million), or the AU presidency (KMF 1,000 million).
- The floor on the domestic primary fiscal balance will be adjusted upward (i.e., less negative) by one half of the amount by which domestic revenue exceeds expectations. As a result, the authorities will be able to spend half of any excess revenue. For reference, domestic revenue is projected to reach KMF 27,046 million, KMF 45,077 million, and KMF 60,102 million at end-June, end-September, and end-December 2023, respectively.
- Given the definition of domestic revenue (¶13) the floor on the domestic primary fiscal balance will not be adjusted for unexpected changes in budget grants and loans. This implies that any additional budget support above expectations must be saved or used to reduce debt, while any shortfall in budget support would not require raising revenue or cutting spending to offset the lower budget support. Note that the previous bullet continues to apply even if budget support is lower than expected.

14. The **floor on net international reserves of the BCC** will not be adjusted for unexpected changes in budget grants and loans. The reason is that the current level of reserves is adequate, hence significant further accumulation is not needed, but their level should not fall below the floor of 6.8 months of imports that is assessed to be adequate for Comoros.

15. The **ceiling on domestic arrears** applies to the net accumulation of domestic arrears from the beginning of the calendar year. This accumulation will be assessed by subtracting clearance of arrears incurred in the current year or earlier from gross accumulation of new arrears in the current year. The **ceiling on external arrears** applies continuously to the gross accumulation of new external arrears from the beginning of the calendar year. (In other words, there should be no new external arrears accumulated at any point in time in 2023.) For reference, total external arrears at end-December 2022 stood at USD 7.2 million, and there were no new external arrears accumulated as of end-April 2023. This continuous performance criterion will be monitored continuously by the authorities and any non-observance will be reported promptly to the Fund.

16. The **floor on social cash transfers** (as defined in ¶10) will not be adjusted for unexpected changes in the World Bank grants for this project or budget support grants and loans. This implies in particular that these transfers should not fall below the floor even if expected external support falls short.

17. The ceiling on the contracting or guaranteeing of new non-concessional debt by the government or the BCC will be assessed continuously and excludes IMF credit. Normal short-term import and supplier credits (e.g., revolving credit lines) are also excluded, these being self-liquidating operations because the sales of imports are used to repay the debt. Debt being rescheduled or restructured is excluded from this ceiling to the extent that such non-concessional debt is used for debt management operations that improve the overall public debt profile. A debt is considered contracted on the signature date of the contract. This continuous performance criterion will be monitored continuously by the authorities and any non-observance will be reported promptly to the Fund.

18. Standard continuous performance criteria include prohibitions on (1) the imposition or intensification of restrictions on making of payments and transfers for current international transactions; (2) the introduction or modification of multiple currency practices; (3) the conclusion of bilateral payments agreements that is inconsistent with Article VIII; and (4) the imposition or intensification of import restrictions for balance of payments reasons.

C. Reporting Requirements

19. The authorities will report to Fund staff the information and data in the form mutually agreed with the reporting agency and the frequency described in the table below. The authorities will transmit promptly to Fund staff any data revisions and consult Fund staff regarding any and all information or data not specifically addressed in this TMU but necessary for monitoring the program.

Text Table 1. Union of Comoros: Periodic Data Required for the Extended Credit Facility			
Real Sector			
Agency	Data	Frequency	Deadline
INSEED	Consumer Price Index.	Monthly	1 month
INSEED	National accounts, including GDP deflator (historical data and projections).	Annually	9 months
INSEED/BCC	Economic bulletin / note, including data in Excel file.	Quarterly	3 months
SONELEC/INSEED/BCC	Electricity production and consumption.	Quarterly	1 month
SONOLEC	Financial statement	Annually	3 months
SCH	Financial statement	Annually	3 months

Text Table 1. Union of Comoros: Periodic Data Required for the Extended Credit Facility (continued)			
ONICOR	Financial statement	Annually	3 months
Monetary Sector			
Agency	Data	Frequency	Deadline
BCC	Monetary statistics, government net position, BCC accounts and consolidated accounts of other depository corporations, and reserve position.	Monthly	45 days
Fiscal Sector			
Agency	Data	Frequency	Deadline
CREF	TOFE (including a file detailing social spending: education, health, support for the most vulnerable)	Quarterly	3 months
Treasury	Treasury cash flows	Monthly	2 weeks
Debt Division	Monitoring of public debt (contracted debt, disbursed debt, interest payments, principal repayment) due to external creditors and domestic financial institutions.	Quarterly	1 month
Debt Division	External debt arrears	As soon as incurred	As soon as incurred
Debt Division	Debt arrears with domestic financial institutions.	Monthly	1 month
Debt Division	Debt bulletin	Quarterly	3 months
Customs	Imports in detail (volume, value and corresponding revenue for each tax and duty)	Monthly	1 month
Customs	Exports in detail (volume, value and corresponding revenue for each tax and duty)	Monthly	1 month
General Planning Commission (CGP)/CREF	Monitoring of projects by donor, specifying the terms of project financing (loans or grants) and their nature (investment or current expenditure)	Quarterly	45 days

Text Table 1. Union of Comoros: Periodic Data Required for the Extended Credit Facility (concluded)			
External Sector			
Agency	Data	Frequency	Deadline
BCC	Imports including all petroleum products (volume, value)	Quarterly	2 months
BCC	Exports (volume, value)	Quarterly	2 months
BCC	Balance of payments	Annually	4 months
Financial Sector			
Agency	Data	Frequency	Deadline
BCC/Banking supervision	Financial soundness indicators of the banking system	Quarterly	1 month
BCC/ Banking supervision	Monitoring reports of SNPSF, BDC and BFC	Quarterly	1 month



UNION OF COMOROS

REQUEST FOR A FOUR-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

May 15, 2023

Approved By
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Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

Risk of external debt distress	<i>High</i>
Overall risk of debt distress	<i>High</i>
Granularity in the risk rating	<i>Sustainable</i>
Application of judgement	<i>No</i>

Comoros external and overall debt are sustainable but remain at high risk of debt distress¹. Breaches of the external debt sustainability thresholds are of limited magnitudes and durations while debt burden indicators are projected to improve over the medium term. Additional considerations that mitigate the mechanical risk signals include the authorities' recent completion of the IMF's Staff-Monitored Program (SMP) and plans for continued reforms supported by the IMF's Extended Credit Facility (ECF) and the World Bank's Development Policy Operation (DPO), as well as the consistently strong performance of remittances, which supports external sustainability. The baseline in this DSA thus reflects a policy adjustment scenario. As in the DSA of the second review of the SMP (April 2023), three of four external debt burden indicators breach their respective thresholds under the baseline. Higher level of publicly guaranteed domestic debt of State-Owned Enterprises (SOEs) has pushed up overall public debt, albeit remaining well below thresholds. This assessment is contingent on: (i) progress on domestic resource mobilization and gradual but sustained fiscal consolidation over the medium term, (ii) no additional non-concessional borrowing, and (iii) enhanced financial oversight of SOEs. The DSA suggests that Comoros is susceptible to export shocks; exchange rate and contingent liability shocks would also present downside risks to the debt outlook.

¹ Comoros' debt carrying capacity is assessed as medium, given a Composite Indicator of 2.855 based on October 2022 WEO projections and the 2021 Country Policy and Institutional Assessment (CPIA) rating.

PUBLIC DEBT COVERAGE

1. Public debt coverage includes all financing from the central bank to the Treasury. The coverage of external debt includes the entire public sector, namely external debt of the central government, the central bank borrowing on behalf of the government, and government-guaranteed debt of SOEs. Subnational government entities cannot take up external debt on their own, and they have not taken on domestic debt. SOEs cannot access the external debt market without a government guarantee. Domestic debt includes central government, SOE's guaranteed debt from domestic banks, and on-lending from the central bank including the IMF SDR allocation and statutory advances.

Text Table 1. Union of Comoros: Public Debt Coverage

Subsectors of the public sector	Sub-sectors covered
1 Central government	X
2 State and local government	
3 Other elements in the general government	
4 o/w: Social security fund	
5 o/w: Extra budgetary funds (EBFs)	
6 Guarantees (to other entities in the public and private sector, including to SOEs)	X
7 Central bank (borrowed on behalf of the government)	X
8 Non-guaranteed SOE debt	

Sources: Comorian authorities, and IMF staff

2. Contingent liabilities have built up significantly and the likelihood of their materialization is growing. The magnitude of the contingent liabilities shock is 12.5 percent of GDP reflecting: (i) preliminary outcomes of an ongoing audit pointing to a higher-than-expected level of domestic arrears² and (ii) difficulties encountered by the SOEs involved in importing food and oil in rolling over their trade loans following the deterioration of their cash flows due to higher commodity prices. and (iii) the average cost to the government of a financial crisis in a low-income country since 1980 (Text Table 2).

Text Table 2. Union of Comoros: Coverage of the Contingent Liabilities' Stress Test

1 The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	4.5	Reflects unaudited estimates of domestic arrears.
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	3	SOEs growing debt
4 PPP	35 percent of PPP stock	0	
5 Financial market (the default value of 5 percent of GDP is the minimum)	5 percent of GDP	5	
Total (2+3+4+5) (in percent of GDP)		12.5	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

Sources: Comorian authorities, and IMF staff

² These domestic arrears represent unpaid bills for goods and services and are included as contingent liabilities as the figures are still preliminary. It includes arrears from the treasury to the pension system.

BACKGROUND

A. Recent Debt Developments

3. Public debt ratio has been on an upward trend, rising from 29.8 percent in 2021 of GDP to 33.7 in 2022. External public debt, which constitutes 80 percent of total public debt, reached 27.2 percent of GDP in 2022 and is expected to rise further to 33.6 percent of GDP by end-2023, up from 21.2 percent of GDP prior to the pandemic. Domestic public debt jumped from 5.2 percent of GDP in 2021 and to 6.6 percent of GDP in 2022 7.2 by end-2023, reflecting the BCC's on-lending of the SDR allocation and a higher take-up of publicly guaranteed domestic debt by the SOEs involved in food and energy supply. The authorities have made progress in public debt management with the promulgation of a debt management law; a FY23 public policy action (PPA) of the sustainable development policy financing (SDFP).

4. Negotiations are ongoing to finalize loans for the El Maarouf Hospital. The authorities are seeking three concessional loans (amounting to USD 70 million), which are included in this baseline.

5. The composition of external public debt is dominated by non-Paris Club lenders, and especially China. At end-2022, disbursed debt owed to official bilateral creditors accounted for 61 percent of public external debt, debt to multilateral creditors for 19 percent, and debt to regional lenders for 20 percent. The share of non-concessional debt stood at 10 percent of external debt at end-2022 and is expected to grow in the next few years as the non-concessional loan for the construction of the Galawa Hotel is disbursed.

6. With the expiration of the DSSI and tightening liquidity constraints, the authorities have accumulated new external arrears.³ Between end-December 2021 and end-December 2022, external arrears increased from USD 6 million to USD 7.2 million. A large part of the outstanding stock (US\$5.2 million) is accounted for by the loan from the Arab Bank of Economic Development in Africa (BADEA). Of these new arrears accumulated in 2022, the authorities have paid the Kuwait Fund (US\$0.12 million) and plan to repay shortly the OPEC Fund for International Development (US\$0.35 million). The authorities have engaged with the French Treasury to discuss an arrears clearance strategy for debt owed to Bpifrance Assurance Export which started accumulating arrears (US\$0.56 million) following the DSSI expiration. Discussions are ongoing regarding the pre-existing arrears (US\$1.17 million) to Exim Bank India for a power plant project.

³ Projections of debt service payments to clear the arrears are included in macroeconomic assumptions underlying this exercise. The arrears represent an amount lower than 1 of GDP and hence do not trigger an in-debt distress rating.

Table 1. Union of Comoros: Decomposition of Public Debt 2020-22¹

	2020	2021	2022	2020	2021	2022
	Million USD			% GDP		
Total	318.0	383.3	416.9	26.1	29.8	33.7
External	282.5	317.0	335.4	23.2	24.7	27.1
Multilateral creditors ²	103.9	116.7	131.4	8.5	9.1	10.6
IMF	28.7	27.6	23.4	2.4	2.1	1.9
World Bank	17.6	22.0	41.8	1.4	1.7	3.4
ADB/AfDB/IADB	2.5	7.1	8.2	0.2	0.5	0.7
Other Multilaterals	55.1	60.0	57.9	4.5	4.7	4.7
o/w: BADEA	28.3	28.0	28.0	2.3	2.2	2.3
o/w: TDB	13.2	18.3	17.4	1.1	1.4	1.4
o/w: IsDB	7.5	7.5	6.9	0.6	0.6	0.6
Bilateral Creditors	178.6	200.3	204.1	14.7	15.6	16.5
Paris Club	2.1	2.1	2.4	0.2	0.2	0.2
o/w: France	2.1	2.1	2.4	0.2	0.2	0.2
Non-Paris Club	176.5	198.2	201.7	14.5	15.4	16.3
o/w: China	91.7	113.2	112.4	7.5	8.8	9.1
o/w: Saudi Arabia	33.7	33.7	38.0	2.8	2.6	3.1
o/w: India	26.4	26.4	26.4	2.2	2.1	2.1
o/w: Kuwait	24.8	25.0	25.0	2.0	1.9	2.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	35.5	66.3	81.4	2.9	5.2	6.6
Held by residents, total ³	35.5	66.3	81.4	2.9	5.2	6.6
SOEs debt ⁴	N.A	23.0	19.2	N.A	1.8	1.6
Memo items:						
Collateralized debt ⁵	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Related	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Unrelated	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities ⁶	107.2	160.7	154.6	8.8	12.5	12.5
o/w: Public guarantees	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Other explicit contingent liabilities ⁷	107.2	160.7	154.6	8.8	12.5	12.5
External arrears	N.A	6.0	7.2	N.A	0.5	0.6
Nominal GDP	1218	1285	1237			

Source: Country authorities and staff estimates and projections.

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial.

2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3/ Includes central bank on lending related to the SDR allocation.

4/ SOEs debt in Comoros is guarantee debt.

5/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt.

6/ As defined in the customized contingent liabilities stress test of the last three published DSAs.

7/ Includes other one-off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

B. Macroeconomic Forecasts

7. The current DSA baseline reflects the latest macroeconomic developments and an active policy scenario under the ECF. It assumes a moderate fiscal consolidation driven mainly by a higher tax revenue following reforms in tax and customs administrations. It also reflects gradual improvements in the external situation due to the normalization of oil and other commodities prices:

- Growth is projected to rise to 3.0 percent in 2023 and then to an average of 4.1 percent in 2024-28, driven by large investment projects, including hospital expansion, the construction of a hotel complex, and the refurbishment of roads, while remittances are expected to decline from their earlier record levels during the COVID-19 pandemic amid lower growth in the eurozone, albeit remaining strong. In the long run, the boosting effect of those investment projects will dissipate, and growth will come back to an average of 3.8 percent. The growth path is similar to the one underlying the DSA for the SMP completion; the impact on growth of the fiscal consolidation programmed under the ECF is expected to be muted due to the relatively small size of the public sector, the households' reliance on remittances, and the significant contribution of external grants to investment. Moreover, reforms under the Development Policy Operation (DPO) and Extended Credit Facility (ECF) are expected to have a long-lasting effect and will help catalyze supports from other partners. The long-term growth projections are driven by a projected increase in productivity, and private capital accumulation as the country is projected to benefit from the completion of transport and energy projects, and financial intermediation is projected to improve and support private investment.
- Inflation, as in the previous DSA for the SMP completion, will fall from an average of 12.4 percent in 2022 to 10.3 percent in 2023 due to the base effect, the end of shipment difficulties and to the ongoing impact from the tightening of the monetary policy. After 2023, inflation will stabilize at around 2-2½ percent reflecting the peg of the exchange rate to the Euro.
- The fiscal sector assumptions are different from April 2023 DSA, reflecting an active policy adjustment scenario under the ECF program during 2023-27 built on the following:
 - A steady increase in tax revenue of at least 0.3 percent of GDP per year from 2023 to 2027. Improvements will stem mainly from tax administration reforms aiming to restructure the administration, rise the number of taxpayers, strengthen the use of the IT system, improve tax recovery from the SOEs and recover unpaid taxes. From the tax policy side, the authorities will reintroduce the sales tax on construction material especially cement and end one-time subsidies and tax exemption introduced in 2022 as commodities price stabilize.
 - The paring back of transfers and subsidies introduced in 2021-22 to mitigate the effects of the recent shocks, containing current spending while phasing out some one-offs (e.g., domestic outlays on the AU presidency and spending on elections); and reducing

investment spending to pre-pandemic levels following the completion of some significant projects particularly El Maarouf Hospital.

- The domestic primary deficit is expected to widen from 1.9 to 2.4 percent of GDP in 2023 and narrow to 1.8 percent in 2024 reflecting the path of public investment spending, with fiscal consolidation (on domestic primary balance basis) during 2024-27 averaging 0.3 percent of GDP per year.
- Overall, *between 2023-2027*, the consolidation is equivalent to 3.5 percent of GDP. It essentially reflects an increase in domestic revenue (1.3%) and a drop in domestic investment (1.3%). The rest stems from a shift in the composition of external support from loans to grants and containing one-offs current spending. The fiscal financing gaps starting in 2023 mainly reflect the cost of the postal bank recapitalization, investments in the El Maarouf Hospital, and increased debt service obligations and lower revenues from key state-owned enterprises that need to recoup their earlier losses. Under the ECF, the gaps are expected to be filled by grants and concessional loans (see below). Outstanding arrears to external creditors of USD 7.2 million are assumed to be cleared over time. Compared to the previous DSA, the long-term primary fiscal deficits are lower, averaging around 0.2 percent of GDP between 2023-2043, as fiscal adjustments and the mobilization of grant financing under the ECF reduce fiscal financing needs over the medium term and fiscal structural reforms sustainably increase revenues.
- The external sector assumption improved compared to April 2023 DSA following the latest WEO assumption. The external current account deficit is estimated to have widened to 2.4 percent of GDP in 2022 and is expected to widen further in 2023 to 5.2 percent before gradually declining to 4.5 percent in 2025. Exports of goods are projected to continue recovering while tourism is already recording a stronger performance compared to pre-COVID-19 levels. Comoros would benefit from the projected increase in exports of tourism services as the quality of lodging services improves and the destination becomes more attractive with the implementation of the tourism sector strategy. Imports jumped to a high level amid the war in Ukraine and will be spurred by substantial public investment in 2023-24. Remittance inflows are expected to remain strong despite the correction from the COVID-19 levels, given the expected continued importance of the Comorian diaspora. With sustained import growth and increased interest payments from previously contracted non-concessional debt, the current account is projected to weaken over the next two years before settling at around 4.3 percent of GDP over the long term. Foreign exchange reserves coverage is projected to improve over the horizon while the fiscal financing gap translates into an external financing gap of the same size as the government faces tight domestic and external borrowing constraints.

8. This DSA assumes that the authorities will adopt a prudent borrowing strategy.

Regarding financing, the assumption is that the government mobilizes mostly external financing with an average borrowing mix of 80 percent for external borrowing over the medium-term and a gradual decline to 70 percent by the end of the projected horizon.

- **Foreign financing:** Staff assumes that disbursement from already contracted loans will continue over the coming years in line with the authorities' plans. IDA financing, including through investment projects, is projected at USD 19.7 million per year on average during the period 2023-2026. The baseline includes around USD 50 million from AfDB, USD 17 million from Saudi Arabia over 4 years, and the Galawa Hotel disbursement expected in 2023. For the purposes of this DSA, staff further assumes that the fiscal financing gap would be largely filled with concessional loans. These assumptions reflect financing under the ECF and DPO programs, which catalyzes multilateral and bilateral partners' financing, as well as Comoros' commitment to limiting non-concessional borrowing as a PPA under the SDFP.⁴ The average grant element of new borrowing is 49 percent.
- **Domestic financing:** the increase of the domestic financing in 2023 reflects mainly disbursement in 2023 for ONICOR, the SOE in charge of the rice import. Overall, domestic borrowing in this DSA reflects the rollover of SOE debt.

Text Table 3. Union of Comoros: Summary Table of Projected External Borrowing Program

PPG external debt	2023		2024		2025		2026	
	USD million	Percent	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	126.6	100	90.9	100.0	78.7	100.0	53.5	100
Concessional debt, of which	70.1	55.4	81.4	89.5	69.2	87.9	44.0	82.2
Multilateral debt	60.8	48.0	47.8	52.7	32.6	41.4	6.0	11.2
Bilateral debt	9.4	7.4	9.4	10.3	9.3	11.8	0.0	0.0
Other	0.0	0.0	24.2	26.6	27.3	34.7	38.0	71.0
Non-concessional debt, of which	56.5	44.6	9.5	10.5	9.5	12.1	9.5	17.8
Semi-concessional ¹	9.5	7.5	9.5	10.5	9.5	12.1	9.5	17.8
Commercial terms	47.0	37.1	0.0	0.0	0.0	0.0	0.0	0.0
By Creditor Type	126.6	100.0	90.9	100.0	78.7	100.0	53.5	100.0
Multilateral debt	70.3	55.5	57.3	63.1	42.1	53.4	15.5	29.0
Bilateral debt	9.4	7.4	9.4	10.3	9.3	11.8	0.0	0.0
Commercial terms	47.0	37.1	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	24.2	26.6	27.3	34.7	38.0	71.0
		0.0		0.0		0.0		0.0
Uses of debt financing	126.6	100.0	90.9	100.0	78.7	100.0	53.5	100.0
Infrastructure	74.0	58.5	57.2	62.9	41.9	53.2	28.0	52.4
Budget Financing	9.5	7.5	9.5	10.5	9.5	12.1	9.5	17.8
Other	43.1	34.0	24.2	26.6	27.3	34.7	16.0	29.9

1/ Projected ECF disbursements

9. Realism tools do not flag issues (Figures 3 and 4). The 3-year adjustment in the primary balance puts Comoros in the mid-range of adjustments seen in other LIC program countries. The projected GDP growth in 2023 is compatible with a range of plausible fiscal multipliers. The growth forecast for 2024 exceeds the fiscal multiplier expectation due to positive spillover effects from the ECF program's structural reforms and the anticipated recovery in global demand conditions which is expected to boost exports. The projected contribution of government investment over the medium

⁴ The ECF access is proposed at 180 percent of quota (SDR 32.04 million) disbursed over four years.

term is in line with historical experience. The projected contribution from the other factors reflects the recovery from the multiple successive shocks during 2019-22, and the gradual increase in private sector and export activities, reflecting improvements in the business climate due to reforms under the ECF. The residual shown in the public debt dynamics for 2023 (Table 3) captures the higher take-up of commercial bank loans by SOEs and the Galawa loan⁵. Most of the unexpected changes in the public debt ratio over the past five years reflected the expansion in the debt coverage. Trends in debt indicators under the historical scenarios (both for public external and overall public debt) mimic those of the baseline scenario providing credibility to the baseline macroeconomic scenario.

Text Table 4. Union of Comoros: Assumptions for DSA

	2020	2021	2022	2023	2024	2025	2026	2027	2028	Long Term ¹
		Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
GDP Growth Rate (percent)										
Previous DSA	-0.2	2.1	2.4	3.0	3.6	4.1	4.3	4.3	4.2	3.8
Current DSA	-0.2	2.1	2.6	3.0	3.5	4.0	4.3	4.5	4.3	3.8
Inflation, average (percent)										
Previous DSA	0.8	0.0	12.0	8.2	1.6	2.3	2.1	2.0	2.0	2.0
Current DSA	0.8	0.0	12.4	10.3	2.0	2.1	2.0	1.9	1.9	1.9
Government Revenues (percent of GDP)										
Previous DSA	9.2	10.3	9.6	9.5	9.7	10.0	10.2	10.4	10.6	12.1
Current DSA	9.2	10.3	9.8	9.7	9.9	10.3	10.7	11.0	11.3	13.6
Overall Fiscal Balance (percent of GDP)										
Previous DSA	-1.4	-3.4	-1.7	-2.7	-2.7	-1.4	-1.4	-1.4	-1.4	-1.8
Current DSA	-1.4	-3.4	-1.9	-2.4	-1.8	-1.1	-0.2	0.0	-0.1	0.0
FDI (percent of GDP)										
Previous DSA	0.3	0.3	0.4	1.5	1.1	0.6	0.6	0.6	0.6	0.6
Current DSA	0.3	0.3	0.4	0.4	0.5	0.6	0.6	0.6	0.6	0.6
Current Account Deficit (Percent of GDP)										
Previous DSA	-1.9	0.3	-4.5	-7.3	-6.4	-6.1	-6.4	-5.4	-4.7	-4.6
Current DSA	-1.9	-0.5	-2.4	-5.0	-5.1	-4.5	-4.5	-4.3	-4.3	-4.3
Export of Goods and Services (annual percentage growth)										
Previous DSA	-48.3	62.4	19.8	9.2	7.2	8.8	9.0	9.3	9.8	6.8
Current DSA	-48.3	62.4	76.7	-20.0	8.2	8.7	9.1	13.2	8.3	6.5
Import of Goods and Services (annual percentage growth)										
Previous DSA	-2.5	4.6	17.3	18.5	3.7	1.7	6.3	4.7	6.9	6.7
Current DSA	-2.5	2.4	16.6	17.4	4.5	3.8	6.7	6.7	6.3	6.8
Investment (percent of GDP)										
Previous DSA	15.6	15.7	16.7	16.9	17.2	17.3	17.5	17.6	17.7	18.3
Current DSA	15.6	15.7	16.7	17.3	17.6	17.7	17.9	18.0	18.1	18.7
Net Current transfers (percent of GDP)										
Previous DSA	20.2	20.8	18.1	17.7	17.1	15.5	14.7	14.7	14.8	15.0
Current DSA	20.2	21.6	21.3	20.4	18.6	18.3	17.6	17.0	16.5	15.1

¹ Covers the period 2029-42 for current DSA, and 2029-41 for the previous DSA.
Source: IMF staff

C. Country Classification and Determination of Stress Test Scenarios

10. Comoros is assessed to have medium debt carrying capacity, unchanged from the April 2023 DSA (Text Table 4), with a Composite Indicator (CI) of 2.855 based on October 2022 WEO projections and the 2021 Country Policy and Institutional Assessment (CPIA) rating. As a result, this DSA continues to use the same external debt burden thresholds and total public benchmarks for countries with medium debt carrying capacity (Text Table 4). The relevant thresholds indicating high risk are 40 percent for the PV of debt-to-GDP ratio, 180 percent for the PV of debt-to-exports ratio, 15 percent for the debt service-to-exports ratio, and 18 percent for the debt service-to-revenue

⁵ The Galawa loan is a balance of payment transaction and therefore not captured by the primary deficit variable in Table 3.

ratio. These thresholds are applicable to public and publicly guaranteed external debt. For the PV of total public debt-to-GDP ratio, the benchmark is 55 percent.

11. Standardized stress tests use default settings. In addition, Comoros qualifies for the natural disaster scenario given that it is exposed and vulnerable to natural disaster shocks, such as cyclones and eruptions of the Karthala volcano. The tailored stress test assumes a one-off natural disaster shock of 10 percent of GDP to external PPG debt-GDP ratio in the second year of the projection period. The financing cost of all shocks is set to the default values of the models.

Text Table 5. Union of Comoros: Calculation and Contribution of the CI Score Components

Debt Carrying Capacity		Medium		
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages	
Medium	Medium 2.85	Medium 2.89	Medium 2.89	

Applicable thresholds

External debt burden thresholds		Total public debt benchmark	
PV of debt in % of			
Exports	180		
GDP	40		
Debt service in % of			
Exports	15		
Revenue	18		
		PV of total public debt in percent of GDP	55

Source: LIC DSF

DEBT SUSTAINABILITY

D. External Debt Sustainability

12. Three out of four external debt burden indicators breach their respective thresholds under the macroeconomic assumptions underlying this exercise (Figure 1). Although breaches are temporary and not of significant importance, they occur over the medium term. With respect to the previous DSA, the breaches are shorter reflecting the fiscal consolidation and the reduced financing needs. The outstanding external arrears represented less than 1 percent of GDP at end-2022 and hence do not trigger an in-debt-distress rating. Results of the external debt sustainability assessment can be summarized as follows:

- The PV of external debt-to-GDP ratio is still below the threshold and is projected to decline more rapidly compared to the DSA from the second review of the SMP (April 2023).

- The breach of the PV of debt-to-export ratio persists during 2023-27 before declining below the threshold.
- The debt service-to-exports ratio and the debt service-to-revenue ratio breach their thresholds during 2025-26.

13. The stress tests suggest that export shock have the largest negative impact on the debt trajectory. The export shock would cause threshold breaches for two of four indicators. The depreciation shock would cause a threshold breach for the debt service to revenue ratio and the combination shock for the PV of external debt-to-GDP. The results indicate that a natural disaster shock may increase the PV of external debt-to-GDP ratio from 22 percent to 28 percent, and debt service to revenue ratio from 14 to 21.

E. Total Public Debt Sustainability

14. Overall public debt is projected to rise until 2025 before declining progressively, remaining well below its indicative benchmark under the baseline and stress tests (Figure 2). The domestic debt accumulation under this scenario is lower compared to the last DSA. The fiscal space resulting from the fiscal consolidation will be devoted to limit external debt more strongly than domestic debt. The results of the stress tests indicate that the most significant negative effects on the debt trajectory are caused by contingent liabilities and exchange rate shocks. In the medium term, a contingent liabilities shock could increase the present value of the debt-to-revenue ratio from 170 percent to just below 225 percent and the debt service to revenue ratio from 10 percent to 18 percent. However, the impact of a contingent liabilities shock is expected to be greater in the medium term but lessen in the long run.

F. Risk Assessment and Vulnerabilities

15. Comoros external and overall debt are sustainable but remain at a high risk of debt distress. Both ratings on the external public debt and overall public debt are determined by the levels and trajectories of debt, together with any breaches of the debt indicators. However, the levels and trajectories continue to be assessed as sustainable. The magnitude of the breaches of the external debt indicators is limited and the projected debt burden metrics have improved over the forecast horizon as a result of the envisaged fiscal consolidation. Additional considerations that mitigate the mechanical risk signals in support of the analysis include the authorities' plans for an economic reform program to be supported by the IMF's Extended Credit Facility (ECF) and the World Bank's Development Policy Operation (DPO), which are expected to catalyze additional grant and concessional financing. Another factor is the consistently strong performance of remittances, which supports external sustainability.

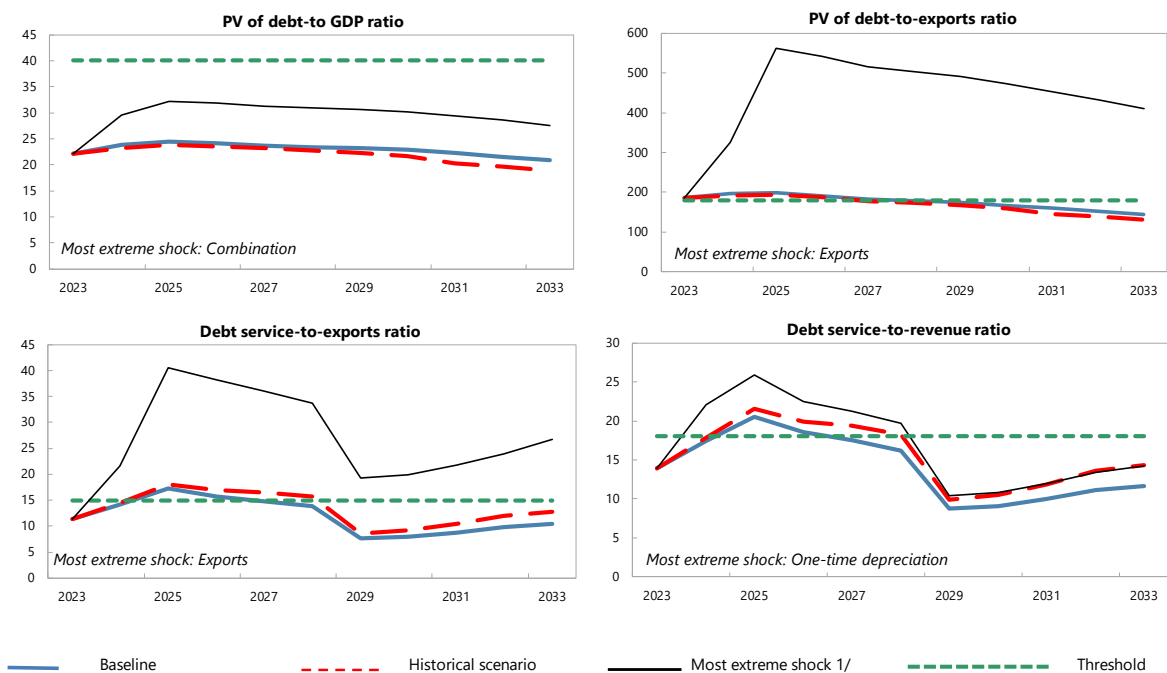
16. Mitigating risks to public debt requires several policy actions: Building on the successful completion of the SMP, the authorities have requested an ECF program that will help mitigate risks to public debt via (i) making faster progress on domestic resource mobilization and ensuring gradual but sustained fiscal consolidation over the medium term, (ii) avoiding additional

non-concessional borrowing, (iii) enhancing financial oversight of SOEs, which should help reduce the size of a contingent liability shock should it materialize. Additional measures related to the diversification of the export base could help further lessen debt vulnerabilities as underscored by the sensitivity analysis.

AUTHORITIES' VIEWS

17. The authorities broadly shared Fund staff's assessment, emphasizing that reducing debt vulnerabilities is a key priority for their development agenda. They emphasized the significant impact of recent successive shocks on the macroeconomic picture and agreed that fiscal reforms will be needed to gradually reduce risks over the medium term. They reiterated their commitment to the reforms supported by the ECF.

Figure 1. Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2023-2033



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price 2/	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

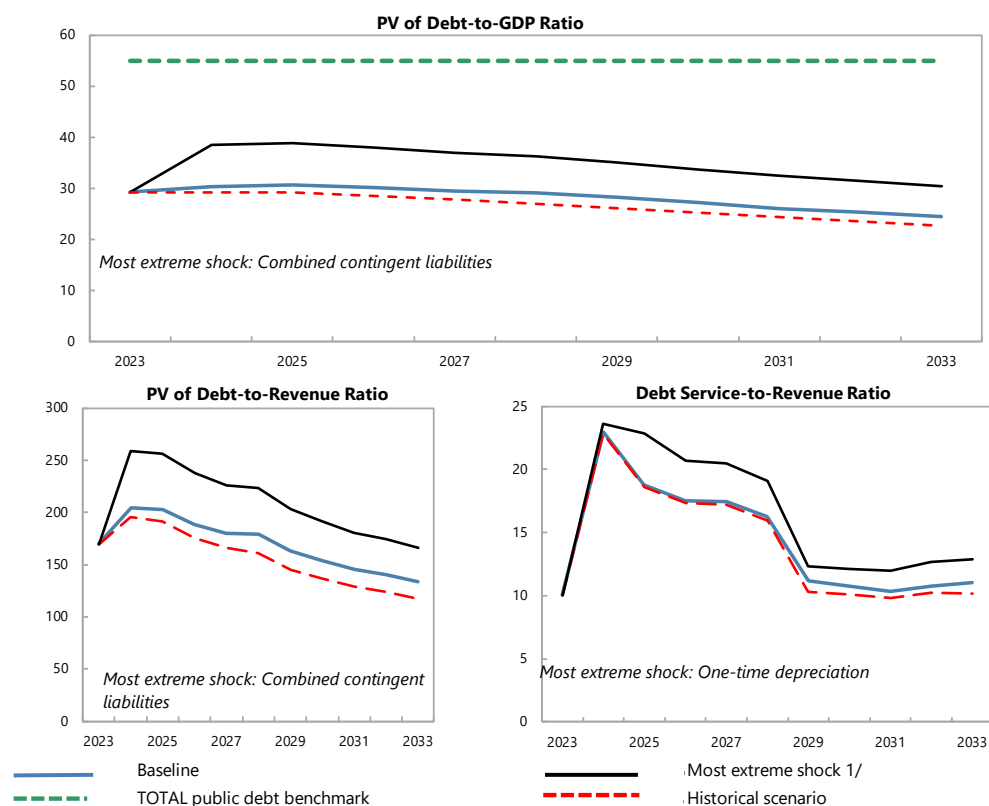
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	33	33
Avg. grace period	8	8

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Indicators of Public Debt Under Alternative Scenarios, 2023-2033


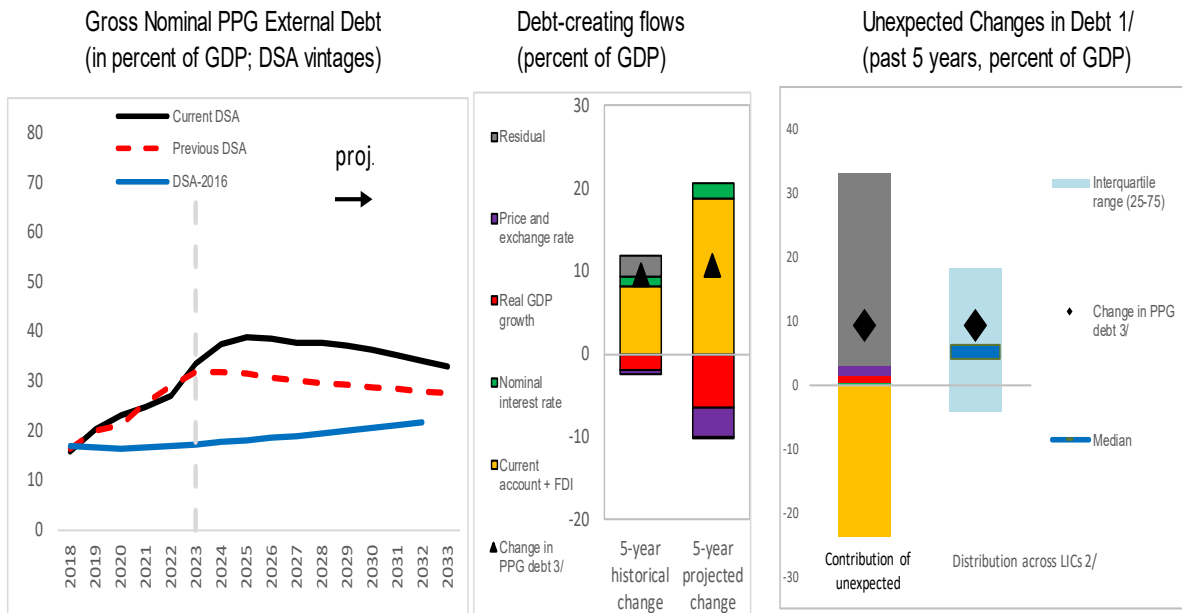
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	83%	83%
Domestic medium and long-term	16%	16%
Domestic short-term	1%	1%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
Avg. maturity (incl. grace period)	33	33
Avg. grace period	8	8
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.1%	4.1%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-4.3%	-4.3%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

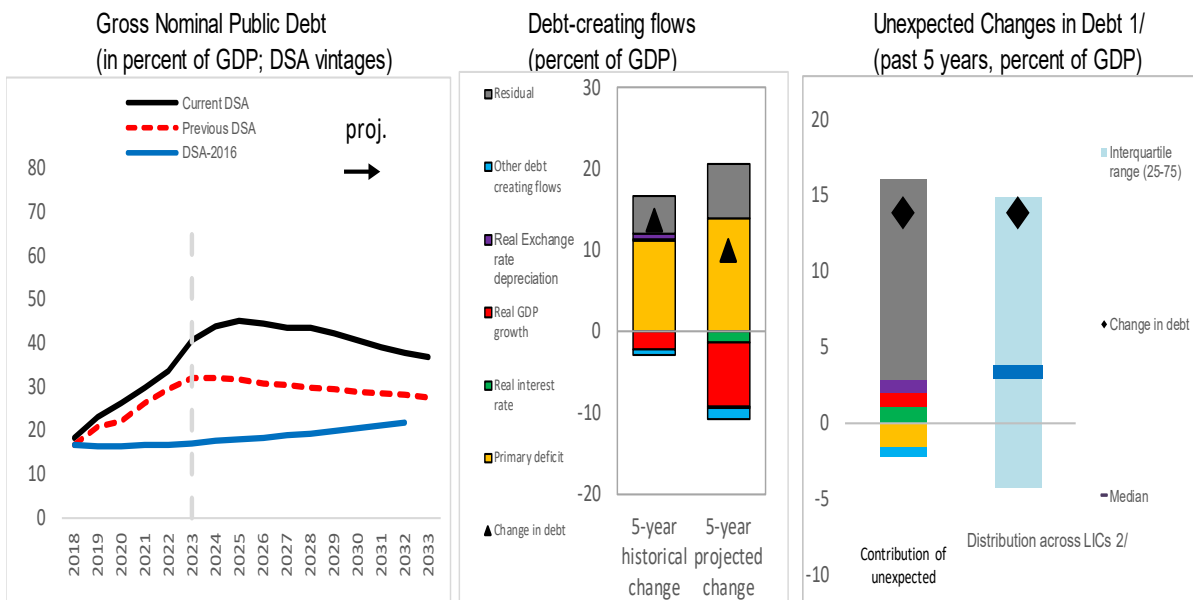
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Drivers of Debt Dynamics – Baseline Scenario External Debt



Public debt



Sources: Country authorities; and staff estimates and projections.

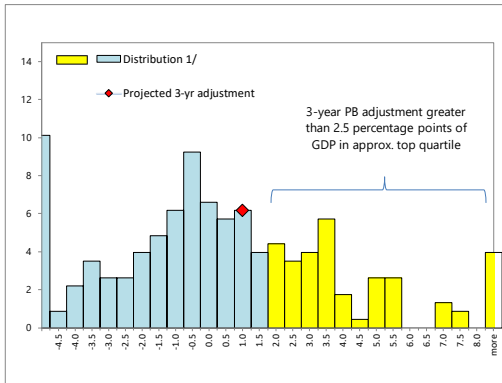
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

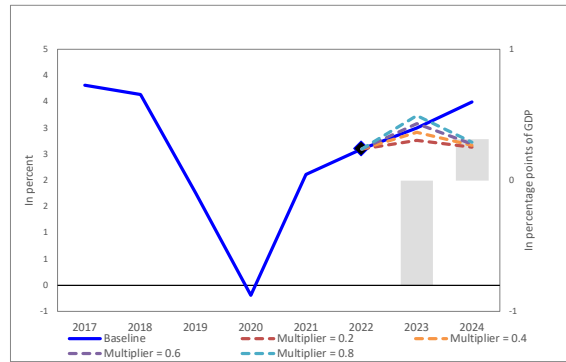
Figure 4. Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



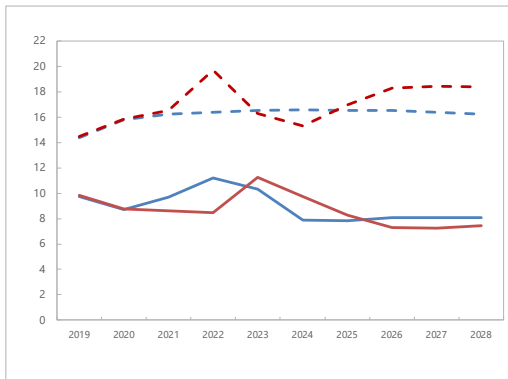
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



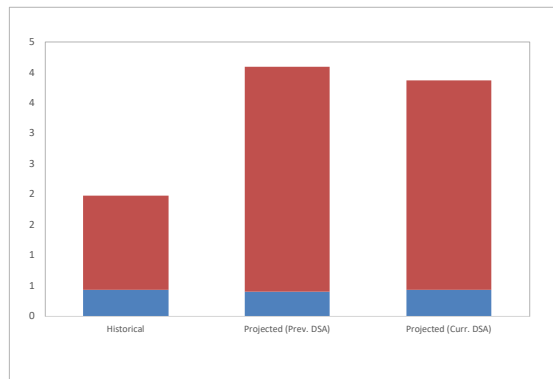
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



— Gov. Invest. - Prev. DSA — Gov. Invest. - Curr. DSA
- - - Priv. Invest. - Prev. DSA - - - Priv. Invest. - Curr. DSA

Contribution to Real GDP growth
(percent, 5-year average)



■ Contribution of other factors
■ Contribution of government capital

Sources: Country authorities; and staff estimates and projections.

The significant difference between 'Prev. DSA' and 'Curr. DSA' lines in the 'Public and Private Investment Rates' chart is predominantly due to a calculation error in the previous DSA. Specifically, foreign financed public investment was erroneously included in private investment rather than public investment, hence artificially inflating the former and deflating the latter. The sum of private and public investment in the two DSA versions is broadly similar.

Table 2. Union of Comoros: External Debt Sustainability Framework, Baseline Scenario, 2020-2043

	Actual			Projections											Average 8/		
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2043	Historical	Projections
External debt (nominal) 1/	23.2	24.7	27.1	33.5	37.3	38.8	38.4	37.7	37.7	37.1	36.3	35.2	34.1	33.0	21.7	17.8	36.3
of which: public and publicly guaranteed (PPG)	23.2	24.7	27.1	33.5	37.3	38.8	38.4	37.7	37.7	37.1	36.3	35.2	34.1	33.0	21.7	17.8	36.3
Change in external debt	2.9	1.5	2.5	6.4	3.8	1.6	-0.4	-0.7	-0.1	-0.5	-0.9	-1.1	-1.1	-1.1	-1.0		
Identified net debt-creating flows	1.1	-1.1	3.0	3.8	3.5	2.5	2.3	2.1	2.2	2.8	2.8	3.7	2.1	2.0	5.3	1.7	2.7
Non-interest current account deficit	1.7	0.2	1.9	4.6	4.7	4.1	4.1	3.9	4.0	4.4	4.4	5.3	3.7	3.5	6.5	2.4	4.2
Deficit in balance of goods and services	22.7	22.6	23.9	25.8	24.4	23.0	22.3	21.5	21.1	20.7	19.6	19.4	19.3	19.2	20.3	19.4	21.5
Exports	5.5	9.9	13.3	11.9	12.1	12.3	12.6	13.0	13.2	13.4	13.6	13.9	14.2	14.4	15.9		
Imports	28.2	32.5	37.3	37.7	36.5	35.3	34.9	34.5	34.2	34.1	33.2	33.3	33.4	33.6	36.2		
Net current transfers (negative = inflow)	-20.2	-21.6	-21.3	-20.4	-18.6	-18.3	-17.6	-17.0	-16.5	-15.7	-14.6	-13.6	-15.1	-15.2	-13.4	-16.3	-16.6
of which: official	-3.4	-1.8	-0.7	-3.0	-2.0	-1.9	-1.3	-1.3	-1.3	-1.9	-1.9	-1.9	-1.7	-1.7	-1.0		
Other current account flows (negative = net inflow)	-0.7	-0.7	-0.7	-0.8	-1.1	-0.6	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.4	-0.6	-0.6
Net FDI (negative = inflow)	-0.3	-0.3	-0.4	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.4	-0.6
Endogenous debt dynamics 2/	-0.3	-1.0	1.5	-0.4	-0.7	-1.0	-1.2	-1.2	-1.2	-1.0	-1.0	-1.0	-0.9	-0.9	-0.6	-0.4	-0.6
Contribution from nominal interest rate	0.2	0.3	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.2		
Contribution from real GDP growth	0.0	-0.5	-0.7	-0.8	-1.1	-1.4	-1.6	-1.6	-1.5	-1.4	-1.3	-1.3	-1.3	-1.2	-0.8		
Contribution from price and exchange rate changes	-0.5	-0.8	1.6	...	...	...	...	...	...	...	...	...	...	...	...
Residual 3/	1.8	2.5	-0.6	2.6	0.3	-0.9	-2.7	-2.8	-2.3	-3.2	-3.6	-4.8	-3.2	-3.1	-6.3	-1.4	-2.2
of which: exceptional financing	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Sustainability indicators																	
PV of PPG external debt-to-GDP ratio	...	...	17.8	22.1	23.8	24.4	24.1	23.7	23.4	23.2	22.8	22.2	21.5	20.8	13.3		
PV of PPG external debt-to-exports ratio	...	...	133.7	185.8	196.3	197.9	191.4	181.9	178.1	173.8	167.4	159.9	152.1	144.4	83.5		
PPG debt service-to-exports ratio	11.8	7.0	8.5	11.4	14.2	17.3	15.7	14.8	13.9	7.6	8.0	8.8	9.8	10.4	6.5		
PPG debt service-to-revenue ratio	7.0	6.7	11.8	13.9	17.5	20.5	18.5	17.5	16.2	8.8	9.1	10.0	11.1	11.7	6.5		
Gross external financing need (Million of U.S. dollars)	25.1	7.7	32.7	74.4	82.4	83.1	86.6	87.5	91.1	90.1	95.5	123.2	98.1	102.2	282.7		
Key macroeconomic assumptions																	
Real GDP growth (in percent)	-0.2	2.1	2.6	3.0	3.5	4.0	4.3	4.5	4.3	3.8	3.8	3.8	3.8	3.8	3.8	2.5	3.9
GDP deflator in US dollar terms (change in percent)	2.7	3.4	-6.2	5.2	1.0	1.7	1.6	1.4	0.8	1.9	1.9	1.9	1.9	1.9	1.9	-0.3	1.9
Effective interest rate (percent) 4/	1.0	1.2	2.1	1.5	1.4	1.2	1.0	1.1	1.0	0.9	0.9	0.9	1.0	1.0	1.1	0.8	1.1
Growth of exports of G&S (US dollar terms, in percent)	-52.1	88.9	29.2	-3.5	6.8	7.5	8.4	9.5	6.3	7.6	8.0	7.9	7.7	7.7	6.6	12.2	6.7
Growth of imports of G&S (US dollar terms, in percent)	-2.9	21.5	10.4	9.5	1.3	2.4	4.6	4.8	4.2	5.3	3.1	6.2	6.2	6.2	6.3	4.5	4.9
Grant element of new public sector borrowing (in percent)	...	...	...	35.2	48.3	45.9	43.2	43.3	50.5	54.3	55.7	55.8	54.5	53.1	54.9	...	49.1
Government revenues (excluding grants, in percent of GDP)	9.4	10.3	9.6	9.7	9.9	10.3	10.7	11.0	11.3	11.6	11.9	12.3	12.5	12.8	15.9	10.1	11.3
Aid flows (in Million of US dollars) 5/	107.7	86.8	56.7	149.7	129.8	119.0	127.2	134.2	143.4	146.0	149.4	155.9	161.6	172.8	265.8		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	10.9	8.1	7.2	6.8	6.6	6.6	6.9	6.8	6.7	6.5	6.5	6.0	...	7.2
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	63.9	70.7	71.5	77.8	79.5	80.3	87.1	88.7	89.2	88.3	87.6	92.7	...	80.4
Nominal GDP (Million of US dollars)	1,218	1,285	1,237	1,340	1,401	1,482	1,572	1,665	1,751	1,852	1,960	2,074	2,194	2,321	4,077		
Nominal dollar GDP growth	2.5	5.5	-3.8	8.3	4.6	5.8	6.0	5.9	5.2	5.8	5.8	5.8	5.8	5.8	5.8	2.3	5.9
Memorandum items:																	
PV of external debt 7/	...	...	17.8	22.1	23.8	24.4	24.1	23.7	23.4	23.2	22.8	22.2	21.5	20.8	13.3		
In percent of exports	...	...	133.7	185.8	196.3	197.9	191.4	181.9	178.1	173.8	167.4	159.9	152.1	144.4	83.5		
Total external debt service-to-exports ratio	11.8	7.0	8.5	11.4	14.2	17.3	15.7	14.8	13.9	7.6	8.0	8.8	9.8	10.4	6.5		
PV of PPG external debt (in Million of US dollars)	...	...	220.4	295.4	333.1	361.0	378.5	393.8	410.0	430.4	447.5	461.3	472.8	483.1	540.7		
(Pvt-Pvt-1)/GDPt-1 (in percent)	...	...	...	6.1	2.8	2.0	1.2	1.0	1.0	1.2	0.9	0.7	0.6	0.5	0.1		
Non-interest current account deficit that stabilizes debt ratio	-1.2	-1.2	-0.6	-1.8	0.9	2.5	4.6	4.6	4.0	5.0	5.2	6.4	4.8	4.6	7.5		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $(1 - g - p(1+g) + E\alpha(1+i)/(1+g+p+g))$ times previous period debt ratio, with $r =$ nominal interest rate; $g =$ real GDP growth rate; $p =$ growth rate of GDP deflator in U.S. dollar terms; $E =$ nominal appreciation of the local currency, and $\alpha =$ share of local currency-denominated external debt in total external debt.

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

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

6/ 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).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

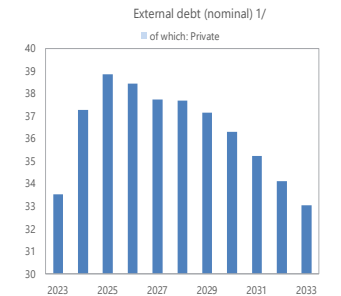
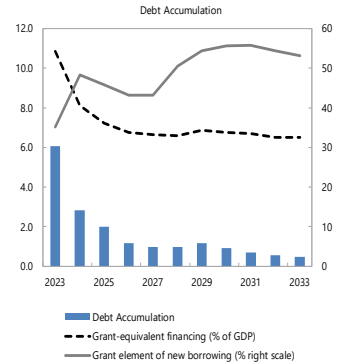


Table 3. Union of Comoros: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020-2043

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	26.1	29.8	33.7	40.7	43.8	45.2	44.5	43.6	43.3	36.6	24.5	20.3	41.6
of which: external debt	23.2	24.7	27.1	33.5	37.3	38.8	38.4	37.7	37.7	33.0	21.7	17.8	36.3
Change in public sector debt	3.2	3.7	3.9	7.0	3.2	1.4	-0.7	5.8	5.7	3.6	2.8		
Identified debt-creating flows	-0.2	1.7	5.4	3.8	2.9	1.3	-0.8	-1.0	-0.6	-1.2	-0.8	-0.2	-0.1
Primary deficit	0.0	2.5	3.7	4.5	4.2	2.7	1.3	1.0	1.5	0.5	-0.1	0.1	1.6
Revenue and grants	18.3	17.0	14.2	17.2	14.8	15.1	16.0	16.4	16.2	18.3	21.3	17.6	16.8
of which: grants	8.8	6.8	4.6	7.5	5.0	4.8	5.3	5.3	4.9	5.5	5.5		
Primary (noninterest) expenditure	18.2	19.5	18.0	21.8	19.1	17.9	17.3	17.4	17.7	18.8	21.2	17.7	18.4
Automatic debt dynamics	-0.2	-0.9	1.2	-1.3	-1.6	-2.0	-2.2	-2.2	-2.0	-1.6	-0.6		
Contribution from interest rate/growth differential	0.2	-0.7	-0.8	-1.3	-1.6	-2.0	-2.2	-2.2	-2.0	-1.6	-0.6		
of which: contribution from average real interest rate	0.1	-0.2	-0.1	-0.3	-0.2	-0.3	-0.3	-0.2	-0.2	-0.3	0.3		
of which: contribution from real GDP growth	0.0	-0.5	-0.8	-1.0	-1.4	-1.7	-1.9	-1.9	-1.8	-1.4	-0.9		
Contribution from real exchange rate depreciation	-0.4	-0.2	2.0	...	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.1	0.4	0.5	0.3	0.6	0.1	0.1	0.0	0.0	0.0	0.1	0.1
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 contingent liabilities (e.g., bank recapitalization)	0.0	0.1	0.4	0.5	0.3	0.6	0.1	0.1	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 debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	3.4	2.0	-1.5	3.2	0.3	0.1	0.1	0.1	0.3	0.0	-0.4	1.2	0.4
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	24.4	29.2	30.3	30.7	30.1	29.5	29.1	24.4	16.1		
PV of public debt-to-revenue and grants ratio	...	...	171.6	169.7	204.6	202.9	188.7	180.1	179.0	133.4	75.3		
Debt service-to-revenue and grants ratio 3/	3.9	4.6	9.1	10.0	23.0	18.7	17.5	17.5	16.3	11.0	7.4		
Gross financing need 4/	0.7	3.4	5.5	6.7	7.8	6.1	4.2	3.9	4.1	2.5	1.4		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-0.2	2.1	2.6	3.0	3.5	4.0	4.3	4.5	4.3	3.8	3.8	2.5	3.9
Average nominal interest rate on external debt (in percent)	1.0	1.2	2.1	1.5	1.4	1.2	1.0	1.1	1.0	1.0	1.1	0.8	1.1
Average real interest rate on domestic debt (in percent)	1.7	3.4	-3.6	-3.2	-0.6	-0.1	0.4	0.9	1.4	1.1	2.0	0.6	0.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.9	-0.9	8.3	...	...	...	...	...	...	...	...	1.5	...
Inflation rate (GDP deflator, in percent)	0.8	-0.3	5.3	4.3	1.8	2.1	2.0	1.9	1.9	1.9	1.9	1.5	2.1
Growth of real primary spending (deflated by GDP deflator, in percent)	-6.6	9.4	-5.6	24.8	-9.3	-2.6	1.2	5.2	5.9	5.3	4.5	5.1	4.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-3.2	-1.2	-0.1	-2.4	1.1	1.4	2.1	2.0	1.7	1.7	1.1	-1.5	1.3
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ 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 and other debt creating/reducing flows.

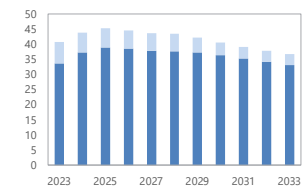
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (i.e., a primary surplus), which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/

■ of which: local-currency denominated
■ of which: foreign-currency denominated



■ of which: held by residents
■ of which: held by non-residents

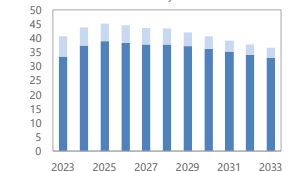


Table 4. Union of Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023-2033

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	22	24	24	24	24	23	23	23	22	22	21
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	22	23	24	24	23	23	22	22	20	20	19
B. Bound Tests											
B1. Real GDP growth	22	25	26	26	26	25	25	25	24	23	23
B2. Primary balance	22	25	27	27	26	26	26	26	25	25	24
B3. Exports	22	27	31	31	31	30	30	29	29	28	27
B4. Other flows 3/	22	27	31	30	30	29	29	29	28	27	26
B5. Depreciation	22	30	26	26	25	25	25	25	24	23	22
B6. Combination of B1-B5	22	30	32	32	31	31	31	30	29	29	27
C. Tailored Tests											
C1. Combined contingent liabilities	22	29	29	28	28	28	28	27	27	26	25
C2. Natural disaster	22	28	28	28	28	27	27	27	27	26	25
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	186	196	198	191	182	178	174	167	160	152	144
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	186	191	193	187	178	173	167	159	146	138	131
B. Bound Tests											
B1. Real GDP growth	186	196	198	191	182	178	174	167	160	152	144
B2. Primary balance	186	207	221	214	204	200	196	189	182	173	165
B3. Exports	186	325	561	542	515	504	491	473	453	432	410
B4. Other flows 3/	186	223	249	240	228	223	217	209	201	191	181
B5. Depreciation	186	196	168	163	154	151	148	142	136	129	122
B6. Combination of B1-B5	186	275	235	330	314	307	299	288	276	263	249
C. Tailored Tests											
C1. Combined contingent liabilities	186	236	234	226	216	212	208	201	193	184	175
C2. Natural disaster	186	234	233	226	216	213	209	202	194	186	178
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	11	14	17	16	15	14	8	8	9	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	11	15	18	17	16	16	9	9	10	12	13
B. Bound Tests											
B1. Real GDP growth	11	14	17	16	15	14	8	8	9	10	10
B2. Primary balance	11	14	17	16	15	14	8	8	9	10	11
B3. Exports	11	22	40	38	36	34	19	20	22	24	27
B4. Other flows 3/	11	14	18	17	16	15	8	9	10	10	12
B5. Depreciation	11	14	17	15	14	13	7	8	8	9	10
B6. Combination of B1-B5	11	17	26	24	22	21	12	12	14	15	18
C. Tailored Tests											
C1. Combined contingent liabilities	11	14	18	16	15	15	8	9	9	10	11
C2. Natural disaster	11	15	18	17	16	15	8	9	10	11	11
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	14	17	21	19	17	16	9	9	10	11	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	14	18	22	20	19	18	10	10	12	14	14
B. Bound Tests											
B1. Real GDP growth	14	18	22	20	19	18	10	10	11	12	13
B2. Primary balance	14	17	21	19	18	17	9	10	10	11	13
B3. Exports	14	18	22	21	19	18	10	10	11	12	14
B4. Other flows 3/	14	17	21	20	19	17	10	10	11	12	14
B5. Depreciation	14	22	26	22	21	20	10	11	12	13	14
B6. Combination of B1-B5	14	19	24	22	20	19	11	11	12	13	15
C. Tailored Tests											
C1. Combined contingent liabilities	14	17	21	19	18	17	9	10	11	12	12
C2. Natural disaster	14	17	21	19	18	17	9	10	11	12	12
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 5. Union of Comoros: Sensitivity Analysis for Key Indicators of Public Debt, 2023-2033

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	29	30	31	30	29	29	28	27	26	25	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	29	29	29	28	28	27	26	25	24	23	23
B. Bound Tests											
B1. Real GDP growth	29	32	35	35	35	35	34	34	33	32	32
B2. Primary balance	29	34	37	36	35	35	33	32	31	30	29
B3. Exports	29	32	36	36	35	35	34	32	31	30	29
B4. Other flows 3/	29	34	37	36	35	35	34	33	32	31	30
B5. Depreciation	29	36	35	33	31	30	28	26	24	23	21
B6. Combination of B1-B5	29	33	34	32	31	31	30	29	28	27	26
C. Tailored Tests											
C1. Combined contingent liabilities	29	38	39	38	37	36	35	34	32	31	30
C2. Natural disaster	29	37	38	37	36	36	35	34	32	31	31
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	170	205	203	189	180	179	163	154	145	140	133
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	170	196	191	175	166	161	145	137	129	124	117
B. Bound Tests											
B1. Real GDP growth	170	215	227	213	207	209	193	185	178	175	170
B2. Primary balance	170	227	244	226	215	213	194	182	172	166	158
B3. Exports	170	219	241	224	214	213	194	184	174	169	160
B4. Other flows 3/	170	226	244	227	217	216	197	186	177	171	162
B5. Depreciation	170	247	235	212	196	187	166	153	140	130	119
B6. Combination of B1-B5	170	222	225	201	192	191	174	164	154	148	141
C. Tailored Tests											
C1. Combined contingent liabilities	170	259	257	238	226	223	203	191	181	175	166
C2. Natural disaster	170	251	250	232	222	220	200	189	179	174	166
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	10	23	19	17	17	16	11	11	10	11	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	10	23	19	17	17	16	10	10	10	10	10
B. Bound Tests											
B1. Real GDP growth	10	23	20	18	18	17	12	12	12	12	13
B2. Primary balance	10	23	20	19	19	18	13	12	11	11	12
B3. Exports	10	23	19	18	18	17	12	11	11	11	12
B4. Other flows 3/	10	23	19	18	18	17	12	11	11	11	12
B5. Depreciation	10	24	23	21	20	19	12	12	12	13	13
B6. Combination of B1-B5	10	22	18	17	17	16	11	11	10	11	11
C. Tailored Tests											
C1. Combined contingent liabilities	10	23	23	20	20	18	13	13	11	11	12
C2. Natural disaster	10	23	22	20	19	18	13	13	11	12	12
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

**Statement by Mr. Sylla, Executive Director, Mr. Matungulu, Alternative Executive Director, and Ms. Nkusu, Senior Advisor to the Executive Director, on the Union of the Comoros
Requests for a Four-year Arrangement under the Extended Credit Facility**

Executive Board Meeting

June 1, 2023

On behalf of our Comorian authorities, we would like to thank staff for the constructive policy dialogue, as well as the insightful staff report. Our authorities broadly share staff's analyses and the thrust of policy recommendations.

BACKGROUND AND RECENT ECONOMIC DEVELOPMENTS

The recent multiple exogenous shocks have eroded Comoros' fiscal and external buffers and exacerbated the country's vulnerabilities. Cyclone Kenneth in 2019, the COVID-19 pandemic in 2020-21, and spillovers from the war in Ukraine have all taken a toll on the country. These shocks have compounded rapidly rising fiscal and balance of payments needs, driven by significant debt service obligations from previous non-concessional loans contracted to finance large-scale investment projects in the health and tourism sectors and the cost of bank restructuring. The authorities implemented a Staff Monitored Program (SMP), approved in September 2021, to address the impact of the COVID-19 pandemic, reduce economic risks, and begin reforms to tackle sources of fragility. Broadly satisfactory performance has helped to establish a track record of policy implementation towards an Extended Credit Facility (ECF) arrangement. Although debt is currently sustainable, the risk of debt distress remains high.

The fallout from the war in Ukraine has weighed on the economy. As a result of the global growth slowdown and higher international commodity prices, the economic recovery in 2022 was weaker than previously projected. GDP growth for 2022 is estimated at 2.6 percent compared to the original projection of 3.5 percent at the time of the SMP request in 2021. Additionally, inflation has significantly increased, reaching 20.6 percent at-end 2022, compared to 7.1 percent at-end 2021. However, inflation has slightly decreased to 20 percent at-end February 2023. The external current account deficit is estimated to have widened to 2.4 percent of GDP in 2022, from 0.5 percent of GDP in 2021.

The domestic fiscal balance improved while the overall balance deteriorated. Tax measures introduced to mitigate the cost-of-living crisis reduced tax revenue relative to 2021. However, an increase in nontax revenue offset nearly half of the tax revenue shortfall. Additionally, the authorities' substantial elimination of ghost workers from the civil service payroll in 2022 allowed for raising the salaries of civil servants while containing the wage bill-to-GDP ratio below its level in 2021. Despite the negative impact of foregone revenue from state-owned enterprises (SOEs), the domestic primary deficit improved from 3.4 percent of GDP in 2021 to 1.9 percent in 2022.

Financial sector weaknesses persist but credit to the economy picked up in 2022. Following the July 2022 central bank's increase in the unremunerated reserve requirement ratio from 10 percent to 15 percent, some banks faced liquidity challenges. However, the liquidity of the overall banking sector has remained strong. Non-performing loans subsided significantly over the two-year period to 2022 but remained high at 17 percent as of end-June 2022. Credit growth was strong in 2022, driven by credit to SOEs as well as to the private sector.

THE OUTLOOK AND THE ECF-SUPPORTED PROGRAM

The economic outlook is favorable, but uncertainty remains. Growth is projected to rise to 3.0 percent and 3.5 percent in 2023 and 2024, respectively. Over the medium-term, growth is projected to pick up to around 4½ percent, contingent on the implementation of sound macroeconomic policies and structural reforms. Inflation is expected to continue declining throughout 2023, reflecting in part the recent decline in global commodity prices, and to remain between 2–2½ percent thereafter.

The ECF program seeks to support the economic recovery and reduce economic and institutional fragility. It is designed to promote a credible medium-term fiscal consolidation plan to increase fiscal space and address debt sustainability risks; reduce risks in the financial sector; and advance anti-corruption and governance reforms. Implementation of related reforms will create the fiscal space for the financing needed investments in human and physical capital, promote growth and reduce poverty through greater financial inclusion, and improve the functioning of the public sector and overall business climate, thereby advancing the materialization of the authorities' vision under *Plan Comores Emergent*.

Fiscal Policies

In 2023, a positive fiscal impulse is expected to support the still fragile economic recovery. The 2023 budget promotes growth through higher investment spending, mostly financed on concessional terms. The budget also aims to reduce non-priority or inefficient expenditures while strengthening social spending to mitigate the rising cost-of-living impact on the most vulnerable. Revenue would remain almost flat at 9.7 percent of GDP, as gains from the phasing out of one-off tax exemptions implemented in 2022, the introduction of new taxes, as well as the improvement in tax administration would be offset by lower revenue from SOEs.

Medium-term fiscal consolidation is planned to start in 2024 to reduce debt sustainability risks. This will be achieved by a steady increase in tax revenue of at least 0.3 percent of GDP per year, a rollback of transfers and subsidies introduced during 2021–22 to mitigate the effects of the recent shocks on vulnerable groups, and a reduction of investment spending to pre-pandemic levels once already committed spending is phased out. These strategies are expected to reduce the domestic primary deficit by 2.4 percent of GDP over 2024–27. The envisaged fiscal path strikes a delicate balance between enabling growth and lowering debt risks and is in line with the authorities' objective to bring all debt burden indicators below their higher risk thresholds by 2028.

An ambitious fiscal reform agenda will support the authorities' fiscal adjustment efforts. The envisaged reforms will focus on tax policy, revenue administration, public financial management (PFM), and oversight of SOEs. As tax policy reforms are expected to play a larger role in domestic revenue mobilization, a tax policy unit will be established at the Ministry of Finance to oversee the execution of related measures, including a comprehensive tax expenditure assessment to identify avenues for streamlining exemptions. On tax administration, among other measures, the authorities intend to raise the number of active taxpayers. Furthermore, they aim to enhance spending efficiency and transparency by implementing a roadmap to extend the coverage of the Treasury Single Account (TSA) to all transactions relating to public administration bodies, and foreign-financed projects. The authorities intend to strengthen SOEs' oversight by amending the law on SOEs and creating an oversight unit, enhancing SOE tax compliance, and aligning SOEs' wage compensation with that of the civil service. Overall, the government

is committed to ensuring the best possible use of available public resources and enhancing compliance with tax policies.

Monetary and Financial Sector Policies

The authorities intend to proceed prudently in tightening monetary policy. Comoros operates in a fixed exchange rate regime and has a monetary cooperation agreement with France. Supply-side shocks have been the main drivers of inflation. Domestic spillovers from interest rate increases in advanced economies are likely to be limited. The tightening of domestic monetary policy through an increase in unremunerated reserve requirements would, as in the past, strain the liquidity of weak banks with limited transmission to credit conditions given the high liquidity concentration in the banking system. The authorities intend to monitor the evolution of inflation and foreign exchange reserves and consider further tightening only in case of second-round impacts of higher import prices or large outflows of reserves. They will continue the efforts in train to strengthen the monetary policy toolkit.

The authorities are committed to addressing the substantial challenges facing the financial sector. To this end, the government intends to improve the operating environment for banks, including by lowering the frequency of government arrears to suppliers and further strengthening the judicial system to ensure that banks can realize pledged collateral; strengthen supervision of the banking sector and the financial sector safety net; strengthen the financial infrastructure, including by establishing a government securities market; and complete the restructuring of the state-owned postal bank *Société Nationale des Postes et des Services Financiers* (SNPSF) based on key elements for the restructuring that had been prepared under the SMP.

Strengthening Governance and Reducing Vulnerabilities to Corruption

The authorities will continue to take measures to enhance governance and lower vulnerability to corruption. They will notably continue to strengthen the integrity and efficiency of the judicial system; enhance fiscal transparency, including by regularly publishing comprehensive data on all large public procurement projects; strengthening the anti-corruption framework, including by adopting the new anti-corruption law by end-June 2023 and operationalizing the independent and autonomous Anti-Corruption Chamber with the mandate to set up and coordinate the implementation of the country's anti-corruption policy priorities.

The government will strengthen the effectiveness of the AML/CFT framework. The authorities will prepare and adopt an AML/CFT law in line with the international standards set by the Financial Action Task Force. In this context, the central bank plans to reach out to commercial banks to raise awareness of AML/CFT requirements. It will also enhance risk-based supervision, including by resorting to onsite inspections to assess compliance with existing AML/CFT regulations.

CONCLUSION

Comoros needs financing from development partners to implement its reform agenda aimed at addressing fragility and promoting strong and inclusive growth. The catalytic role of IMF support will certainly help the authorities to reduce the resources gap. The authorities have requested a four-year ECF arrangement to support their efforts to address the identified domestic and external financing gaps, preserve macroeconomic stability, and maintain momentum in their structural reform agenda. Considering their forward-looking commitments and broadly satisfactory performance under the 2021 SMP, we would appreciate Executive Directors' support for the authorities' ECF request. In view of the sizeable financing

needs over the program period, the implementation of the reform program under the ECF arrangement should play a catalytic role in generating much-needed strong and broader donor support.