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UNION OF THE COMOROS

December 2013

SIXTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR WAIVER OF A PERFORMANCE CRITERION

In the context of the sixth review under the three-year arrangement under the Extended Credit Facility, and request for a waiver of a performance criterion, the following documents have been released and are included in this package:

- **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 13, 2013, following discussions that ended on September 30, with the officials of Comoros on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 2, 2013.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Comoros**.**

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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December 2, 2013

SIXTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR WAIVER OF A PERFORMANCE CRITERION

EXECUTIVE SUMMARY

- **Comoros is in the last year of a multi-year economic and structural adjustment program and has made significant progress in stabilizing the economy.** Further progress has also been made on the structural front. The program has and continues to receive the support of a broad range of stakeholders.

- **Macroeconomic developments are broadly as expected under the ECF arrangement.** Economic growth is expected to strengthen to 3.5 percent of GDP in 2013 and average inflation is expected to be less than 3 percent. While official transfers and remittances have remained strong, international reserve holdings are expected to decline somewhat, mainly due to strong imports that more than offset a sizeable increase in exports.

- **Performance under the ECF-supported program through end-June was broadly satisfactory.** All but one of the performance criteria and all indicative targets for end-June were met. Most structural benchmarks were also met. However, fiscal performance weakened in the third quarter of 2013. Increases in capital spending, mainly on road construction in anticipation of receipts that did not materialize, caused the end-September indicative targets on net credit to the government and the domestic primary balance to be missed. However, additional fiscal measures taken subsequently should allow stabilization gains to be broadly preserved.

- **The authorities are requesting a waiver for the non-observance of the performance criterion on net credit to the government at end-June 2013.** Staff supports this request and recommends completion of the sixth and final review under the ECF arrangement.

Approved By **David Robinson and Peter Allum**	The mission team comprised Mr. Trines (head), Messrs. Fievet, Jidoud, Touna Mama, and Ms. Kandil (all AFR), and Mr. Crispolti (FAD). The discussions were held in Moroni from September 17 to October 1, 2013. Ms. Sayeh (AFR) joined the mission September 19–21. The mission met President Ikililou and held discussions with Vice President and Finance Minister Soilihi, with Governor of the Central Bank of Comoros Chanfiou, and with other government officials, representatives of the private sector, and the donor community.

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APPENDIXES

BACKGROUND AND RECENT DEVELOPMENTS

A. Background

1. **Comoros is in the last year of a multi-year economic and structural adjustment program and has made significant progress in stabilizing the economy and helping lay the basis for sustained economic growth and poverty reduction.** The Fund supports the authorities' program with an arrangement under the Extended Credit Facility (ECF).[1] A major milestone was achieved in December 2012 when Comoros reached the completion point under the HIPC Initiative and received broad debt relief under the HIPC Initiative and the MDRI.[2] The fifth review under the ECF was completed in June 2013.[3] The authorities have expressed interest in a follow-up arrangement with the Fund; a stakeholders meeting was held in September to identify priorities for a future structural reform agenda.

2. **Economic activity continued to pick up in the first nine months of 2013 and inflation has remained subdued.** Following 3 percent real GDP growth in 2012, available data point to an acceleration of growth in 2013, with strong agricultural performance helped by favorable rains, a pickup in construction, as well as continued expansion in aggregate demand support by resilient remittances and an increase in credit to the private sector. Year-on-year inflation in October was 2.8 percent, the same as a year earlier, reflecting relatively favorable developments in foodstuff markets.

3. **As expected, the fiscal primary balance deteriorated significantly during the first half of 2013 compared to the first half of 2012,** recording a deficit of CF 1.4 billion, compared to a surplus of CF 4.3 billion the previous year. This reflected in large part a reduction in receipts under the Economic Citizenship Program (ECP) compared to 2012.[4] Nevertheless, the deficit was lower than programmed (by about CF 200 million), despite higher than expected domestically financed capital expenses, as non-tax revenues were also higher.

4. **Credit to the economy continued to expand.** Credit to the private sector expanded by about 14 percent in the first nine months of 2013, while overall credit expanded by about 21 percent, mainly driven by a rapid expansion of credit to the government in July and August 2013. Apart from one undercapitalized financial institution,[5] the banking system remains broadly sound,

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[1] *Union of the Comoros—Assessment of Performance under the Program Supported by Emergency Post-Conflict Assistance and Request for a Three-Year Arrangement under the Poverty Reduction and Growth Facility* (EBS/09/132, 8/31/09).

[2] *Union of the Comoros—Staff Report for the 2012 Article IV Consultation, Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Financing Assurances Review* (EBS/12/156, 12/3/12) and EBS/12/155, 12/3/12.

[3] *Union of the Comoros—Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and request for Modification of a Performance Criterion* (EBS/13/57, 5/22/13).

[4] See Text Box 1 on page 4 of EBS/13/57 for details on the Economic Citizenship Program.

[5] The "Societé Nationale des Postes et Services Financiers" (SNPSF), the equivalent of a postal bank.

but some vulnerability exists with respect to an undercapitalized financial institution. Non-performing loans remained steady at around 17 percent.

5. **The current account deficit widened and international reserves declined in the first half of 2013, despite a significant increase in exports.** Imports grew by 4.5 percent mainly associated with increases in the government's foreign financed investment program and strong consumption growth, which swamped the 26 percent increase in exports, resulting from strong growth in both export volumes and prices of vanilla and essential oils. Remittances, mainly from Comorians living in France, remained strong, equivalent to around 20 percent of GDP on an annual basis.

B. Program Performance

6. **Program performance in the first half of 2013 was broadly satisfactory**. All but one of the end-June performance criteria and all quantitative indicative targets were observed (Appendix 1 Table 1). The ceiling on net credit to the government was missed by 0.2 percent of GDP, despite a better-than programmed domestically financed primary balance, reflecting delays by the public oil importing company (SCH) in repaying a loan that had been extended to allow urgent payment for oil imports.

7. **Progress was also made in meeting structural benchmarks.** The authorities established an electronic network between the country's four major customs offices (a structural benchmark for end-June) and at end-September the new organizational frameworks for the Union and island governments were implemented. The latter will allow better matching of positions to people on the government payroll and improve control over the salary bill. The assessment of cross debts between the energy parastatals and the government was completed except for the company Electricité d'Anjouan (EDA). The development of a medium-term strategy for the reform of public financial management (also an end-June benchmark) was delayed and will require additional technical assistance given the government's limited capacity in the fiscal area.

8. **The Government's fiscal position deteriorated in the third quarter of 2013.** Despite overall revenues being higher than expected, the domestically financed primary deficit widened to 1.2 percent of GDP, compared to 0.9 percent anticipated under the program as domestically financed capital outlays reached 2.6 percent of GDP at end-September, compared to a government objective under the program of 1.7 percent. About half of the overspending originated from the acceleration of expenditures on road construction, in anticipation of additional external transfers, which did not fully materialize when the ECP was temporarily suspended following evidence of irregularities related to the provision of passports outside the agreed framework. Remaining overruns came from the payment of two installments for the purchase of a commercial plane to improve inter-island connectivity (the third and final installment of 0.1 percent of GDP is expected to be paid in Q1 2014). In the absence of additional external financing, net credit to the government reached 1.8 percent of GDP at end-September (compared to 0.9 percent expected under the program) as the government made full use of statutory advances and drew down its deposits at the BCC.

9. **Further advances were made in debt relief discussions with non-Paris Club creditors.** Understandings have now been reached with all the major non-Paris Club creditors, representing 16 percent of the total nominal stock of debt at end-2011. This includes, the Abu Dhabi Fund for Development, the Arab Bank for Development in Africa, the Islamic Development Bank, the Kuwait Fund, the Saudi Fund for Development, and Mauritius. A new non-concessional loan of $41.6 million dollar loan from the Export-Import Bank of India for the construction of a heavy fuel electricity plant became effective in July, 2013.[6]

POLICY DISCUSSIONS

A. Macroeconomic Outlook and Risks

10. **Macroeconomic performance is expected to be broadly in line with the program in 2013, with some worsening in the external position.** Real GDP growth continues to be projected at about 3.5 percent in 2013. Average inflation in 2013 is projected to be somewhat lower than anticipated at less than 3 percent. At the same time, Comoros' current account deficit is projected to widen to 8.7 percent of GDP, compared to 6 percent expected earlier, mainly reflecting stronger import growth. Against this backdrop, and despite positive private transfers, international reserves are expected to drop to a level of slightly over 6 months of imports, instead of remaining steady at about 7 months of imports.

11. **The medium-term outlook remains favorable.** Growth is expected to increase to 4 percent in 2014 and beyond, mainly supported by investment in tourism and fishing while inflation should remain close to 2.5 percent. The government is expected to continue its consolidation efforts and achieve a balanced primary domestic account in 2015. The external current account deficit is projected to moderate gradually, reflecting robust growth of exports and remittances.

12. **Comoros continues to face macroeconomic vulnerabilities.** External shocks, including a slowdown in official and private transfers or unexpected increases in world fuel and foodstuff prices, could negatively affect economic growth prospects. Moreover, despite some progress in fiscal stabilization, government finances remain fragile, limiting the government's capacity to make the strategic interventions that could underpin a higher path of growth or to respond to external shocks, including natural disasters.[7]

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[6] See the report on the fifth review under the program (EBS/13/57). The Executive Board approved a modification of the continuous performance criterion on the contracting of non-concessional debt to allow for this loan as the concessionality level deviated by less than 2 percent from the required level and its contracting would not impede the successful implementation of the program.

[7] The Karthala volcano on the island of Grand Comore is one of Africa's most active volcanoes and Comoros is located within the limits of the Indian Ocean tropical cyclone belt. Furthermore, Maplecroft, a UK-based firm that specializes in risk mapping, ranks Comoros as the most vulnerable country to the future impacts of global warming, such as increased storms, rising sea levels, and agricultural failure.

B. Fiscal Policy and Issues

13. **The authorities have taken a number of steps to ensure that the fiscal program for 2013 remains broadly on track.** These steps include: (i) from October 1, the customs office has taken charge of the collection of the tax on petroleum imports (0.2 percent of GDP);[8] (ii) agreement has been reached with SCH on the repayment of the outstanding loan (0.5 percent of GDP); (iii) an immediate freeze on non-priority current expenditures has been communicated to all spending units (0.2 percent of GDP) and; (iv) some capital expenditures have been delayed (0.1 percent of GDP). Staff stressed the importance of these measures to maintain the progress made on fiscal consolidation. The consolidation of petroleum tax receipts in the budget will also be an important longer term measure to increase the revenue base and enhance transparency. Staff assesses that these measures, along with enhanced fiscal discipline, will be sufficient to contain the required banking financing to a level just 0.4 percent of GDP higher than envisaged earlier. The primary domestic deficit, will be contained at 1.2 percent of GDP, slightly higher than the 1.1 percent of GDP targeted earlier.

14. **Moreover, the authorities expressed confidence that before year-end they will receive close to CF 3.0 billion in receipts related to the resumption of the ECP program**. These receipts have not been included in the current projections. It was agreed that half of any such additional receipts received before the end of the year should be saved to build a cushion against future unexpected demands and that the remainder should be dedicated to priority social and infrastructure spending.

15. **The draft 2014 budget law, submitted to the National Assembly at end-October, continues the fiscal reforms initiated under the ECF and strengthens the sustainability of the fiscal position.** The draft budget law aims at bringing the consolidation effort forward by: (i) increasing tax collection to just around 13 percent of GDP (about 12 percent in 2013) as the new General Tax and Property Administration (AGID) becomes fully operational and recent reforms to strengthen customs administration start bearing fruit and; (ii) containing current spending to 15.8 percent of GDP (16.4 percent in 2013) mainly through the strict implementation of the new civil service organizational frameworks at all entity levels. Against this backdrop, the domestic primary balance deficit is expected to decline to 0.5 percent of GDP. The government's net fiscal financing requirements in 2014 could be largely covered by additional budget support from the Gulf partners if agreement is reached on a successor ECP arrangement.

16. **The authorities are making progress in strengthening revenue administration**. The new General Tax and Property Administration (AGID) has become operational following the appointment of its board in March 2013; the country's four major customs offices have been connected through an electronic network; and the control of tax collection on petroleum product imports has been

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[8] Comoros' law requires that taxes levied on petroleum imports be collected by customs. However, in practice, SCH had been responsible for collecting taxes on petroleum products and redistributing them to different Ministries. While the transfer of responsibilities will entail additional spending at the Union level, it will increase transparency by bringing extra-budgetary activities on budget and reducing possibilities of revenue leakages in the system, thus improving the Union's net position.

transferred to customs, in line with the recommendations of a recent Fund TA mission. The government has also requested technical assistance to identify existing tax exemptions and energy subsidies with a view to better understanding their true fiscal costs and with a goal of eventually better targeting subsidies and freeing up resources for priority spending.

17. **While there was some progress in improving expenditure controls, much remains to be done.** In particular:

- An FAD TA mission in October identified a comprehensive set of recommendations for improvements in public financial management, particularly cash management and budget planning. Over the next few months the authorities plan to work with the Fund and other stakeholders to draw up an action plan and identify possible sources of technical assistance to implement this plan.

- Following the implementation of the new organizational frameworks for the public administration in all insular entities, the authorities are working with the World Bank on technical measures to further enhance their implementation and to develop a comprehensive civil service reform program.

- Following technical assistance by AFRITAC South, measures are being taken to improve the automated personnel expenditure management system (GISE).

- The authorities are seeking support from development partners to assess the cross debts between the government, SCH, and EDA, not included in the recent stock-taking exercise.[9]

C. Monetary and Financial Sector Outlook

18. **Monetary expansion has slowed but credit growth continues to be strong. As noted,** during the first nine months of 2013, credit to the private sector increased by about 14 percent and for the year as a whole is expected to at least match last year's level of 21 percent. During the same period broad money grew by about 3 percent, as a reduction in net foreign assets offset some of the increase in credit, which has allowed inflation to remain moderate.

19. **The Central Bank of Comoros has continued to pursue reforms to strengthen the soundness of the financial system**. A new banking law was adopted in June 2013, in line with international standards to strengthen banking supervision, internal audit and control and the BCC has started preparing operating procedures for its implementation. The privatization of the Development Bank of Comoros (BDC) is expected to be completed by the end of the year.

20. **While Comoros has a broadly sound banking system, concerns have arisen about delays in re-capitalizing and restructuring SNPSF (see text Box 1).** SNPSF has been slated for

[9] The stock-taking enterprise revealed total cross-debt at end-2012 of about CF 22 billion (almost 10 percent of GDP). After clearance of mutual arrears, a net amount of about CF 6 billion will be needed to resolve the remaining outstanding arrears.

privatization with the involvement of a foreign investor since early 2012, but little progress has been made since then. An audit completed in mid-2013 revealed a negative capital position and continuing losses. The authorities shared the staff's concern, especially given the large share of this institution in the deposit base of the banking system (about 23 percent). To prevent a worsening of the situation the BCC now requires that all lending and acquisition of other assets by the SNPSF in excess of CF 10 million be approved by the BCC and has raised its required reserves to 30 percent, compared to 20 percent for the other banks. Moreover the Board of the BCC has adopted a plan of actions to be implemented to restructure and recapitalize SNPSF, in case the foreign investor decides not to participate. Recapitalization will require funding equivalent to 0.5 percent, which, together with funding for restructuring will need to be identified.[10]

Box 1. Financial Sector Profile

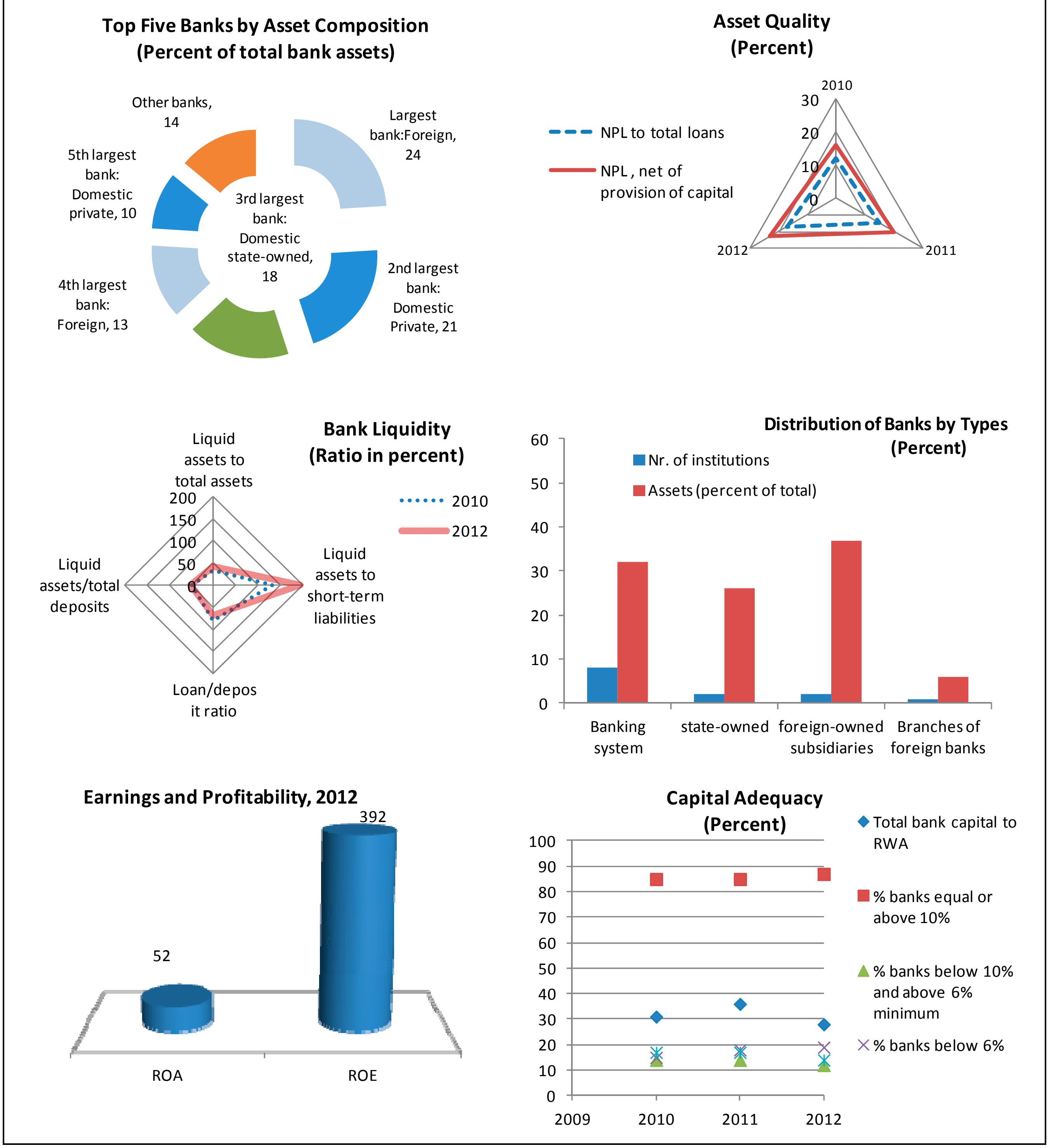
Comoros has a relatively under-developed and shallow financial system. Although it has grown in the past five years, the total assets remain relatively modest at some 41 percent of GDP in 2012. The system is dominated by banks and nonbank deposit takers but other elements of a financial sector—insurance, pensions, or capital market—are almost nonexistent. In addition to four foreign-owned banks (*Banque pour l'Industrie et le Commerce*, BIC, Exim Bank, *Banque Fédérale de Commerce,* BFC, and *Banque de Développement des Comores*, BDC, recently acquired by a consortium led by a private equity firm), three microfinance institutions (MECK, SANDUK d'Ajouan, and SANDUK de Mohéli) occupy an important place in Comoros' financial system, accounting for up to 35 percent of total assets as well as the largest geographical reach and client base. Finally, a government-owned financial institution (*Société Nationale des Postes et des Services Financiers*, SNPSF) rounds out the regulated financial institutions. SNPSF is the biggest deposit collector with nearly 25 percent of total deposits partly because it has exclusivity over civil servants wage deposits. New banks and microfinance institutions have been more aggressive in expanding their loan portfolio, while at the same time branching into new products, including a mobile banking truck. Given the high and resilient level of remittances, all banks have partnered with money-transfer companies to channel funds from the Diaspora back home. However, products such as mobile banking and money are yet to be introduced in the Comorian market.

The Comorian financial system plays a limited role in accompanying economic development. The bulk of the increase in credit to the private sector of 140 percent between 2008 and 2012, has been consumption-oriented and of short-term maturity (overdraft, commercial loans to importers, and loans for the construction sector). Secured-loans backed by gold jewelry are also very popular because of the tradition of "Grand Marriages". In general, access to long-term finance is constrained by serious limitations in the judiciary system (including weak contract enforcement and collection on non-performing loans, weak managerial and accounting practices, and poor infrastructure (electricity, ICT, road, skilled-labor).

Comoros has a broadly sound and profitable financial system although operational risks remain important (Figure 1). All financial institutions, with the exception of SNPSF, have comfortable liquidity and solvency ratios, with ratios of loans to deposits above 69 percent between 2010 and 2012. During the same period, more than 80 percent of the deposit taking institutions had ratios of regulatory capital to risk-weighted assets over 10 percent. In the meantime, Non-performing loans (NPLs) remain relatively high by regional standards, although they are well provisioned. The NPL ratio increased during 2012 to 17 percent, compared to 12 percent in 2010 following the increase in credit. The biggest risk to the financial system remains the vulnerability of SNPSF, although operational risks are also important, including, governance, internal control and risk management issues This mostly concerns microfinance institutions, which also face obsolete IT systems.

[10] Current legislation does not allow the government to issue securities.

Figure 1. Comoros—Financial Sector Profile



D. Structural Reforms

21. **Energy sector reforms are a key component of the government structural reforms agenda.** The authorities view the difficult situation in the energy sector, with loss-making electricity generation and limited availability of electricity as a major impediment to economic growth. The World Bank and the African Development Bank (AfDB) have recently approved comprehensive operations to support reforms of the energy sector. These reforms, which will also be supported by other multilateral and bilateral partners aim at rehabilitation of electricity generation on the three islands, rehabilitation of distribution and reduction in losses, rehabilitation of fuel storage, improving commercial and financial performance of the electricity companies, and preparation of renewable energy studies to enable diversification of energy production in the future. In addition, as noted above, the government has completed a stock-taking exercise to determine cross debts of the parastatals and the government with a view to eliminate legacy arrears and has requested technical assistance from the Fund to help determine the extent of direct and indirect subsidies to increase transparency with regard to the burden of energy (and other) subsidies on the budget and in the future develop an appropriate pricing strategy, including better targeting of subsidies needed to support the least well-off in the country.

22. **Legislation to privatize Comores Telecom has been submitted to the National Assembly.** While it is not clear whether the National Assembly will approve the proposed legislation, the authorities indicated that they remain committed to bringing competition into the communications sector and reduce existing high communications costs. Should the National Assembly not approve the privatization, the authorities will proceed to offer a second license to achieve this objective.

E. Debt Sustainability Analysis and Risks to IMF Resources

23. **An updated debt sustainability analysis confirms that Comoros remains at high risk of debt distress and that the debt dynamics remain vulnerable to a number of shocks over the projection period** (Appendix 2). This update applies the new uniform 5 percent discount rate approved by the Executive Board[11] and its application has not changed the staff's overall assessment compared to the use of the previous rate. In the baseline scenario, most external debt indicators are projected to remain below their relevant indicative thresholds over the medium term (Appendix Table 1a and Figure 1a). The PV of external debt to exports ratio is projected to be about 65 percent in 2013 and gradually increases to above 100 percent by 2016. However, including remittances, the ratio drops to 25 percent in 2013 and gradually increases but remains below threshold over the projection period. The PV of debt-to revenue ratio increases gradually, but remains below its threshold level.

24. **Debt sustainability indicators are vulnerable to domestic and external shocks.** As shown in Appendix 2, shocks to the fiscal balance, growth projections, and/or depreciation of the

[11] *Unification of Discount Rates Used in External debt Analysis for Low-Income Countries (*SM/13/271, 10/07/13).

exchange rate would produce a significant deterioration in debt sustainability. Scenarios that incorporate one or a combination of these shocks could threaten reserves adequacy and external sustainability. Sustained fiscal efforts to improve the fiscal primary balance are necessary to contain these risks and to achieve the overall debt outlook. The authorities broadly agreed with this assessment.

25. **Overall, the risks to IMF resources are manageable.** Comoros will begin to repay debt service to the Fund in 2015. Comoros' payments to the Fund peak at 0.4 percent of GDP in 2018 and 2019 (Table 6) and account for less than 50 percent of total projected debt service in those years or about 2.5 percent of government revenues.

F. Poverty Reduction Strategy

26. **A third annual progress report on Comoros Poverty Reduction Strategy has been prepared** (See Appendix 3). As in past reports, a lack of comprehensive data impedes a full analysis required to draw clear conclusions, although some progress is evident. Progress has been strongest in improving school enrollment and infant/maternal mortality rates, while less progress was seen on access to medical staff, water and sanitation. Progress on poverty reduction is less clear cut as different assessment methods show contradictory results. Poverty has increased by 2 percent over the period 2004–2012 based on GDP per capita criterion while it has fallen by 2 percent using a per capita consumption-based indicator.

27. **Work has started on the preparation of a new poverty reduction strategy.** A process to develop the new strategy has been approved and background studies and several surveys of the population have been launched that will provide a clearer picture of the poverty situation. The new strategy will cover the period 2015–2019 and will help to better bring together *accelerated growth* and *sustainable development* objectives as parts of a unified framework, building on progress achieved and lessons learned during the implementation of the country's first strategy.

G. Staff Appraisal

28. **The Comorian authorities have continued to make progress implementing their financial and structural adjustment program.** Structural reforms have advanced and the macroeconomic objectives of the program remain broadly within reach, despite fiscal slippages in the third quarter of 2013.

29. **Improvements in public financial management are necessary to preserve the fiscal consolidation that has been achieved.** Problems implementing the fiscal program in the third quarter of 2013 have highlighted weaknesses in overall public financial management, which combined with the continued low level of domestic resource mobilization makes it difficult to react quickly to unexpected developments. Staff welcomes the efforts by the authorities to address the fiscal slippages that occurred in the third quarter. Going forward, efforts will need to be intensified to raise domestic revenues and improve public financial management, including day to day cash management, budget preparation, and expenditure control. The results of the recent FAD technical assistance mission in the latter area can be a good starting point towards this end. Efforts in this

area will also need to be coordinated with other development partners to ensure that further technical assistance covers all important areas. In the near-term, if additional resources will be received from the ECP program, it will be important to save a fair portion to help address future financing needs and to ensure that sufficient safeguards are in place to prevent misuse of the program for illegitimate purposes.

30. **Acceleration in growth and improvement in living standards requires both structural reforms in public utilities and further investments in infrastructure and social sectors.** Staff welcomes the adjustment program for the energy sector that is currently under way with the support of the World Bank, the African Development Bank and other partners, and urges due diligence in its implementation. Going forward these efforts should be expanded by improving financial relations between the energy sector and the government. A thorough assessment of all implicit and explicit subsidies in this sector should be a first step to shed light on the overall budgetary burden of this sector. Bringing in competition in the telecommunications sector will be one avenue to improve the operating climate for the private sector and enhance the quality of services. Investments in infrastructure and social sectors should be carefully coordinated with development partners to ensure adequate financing and focus on priority areas.

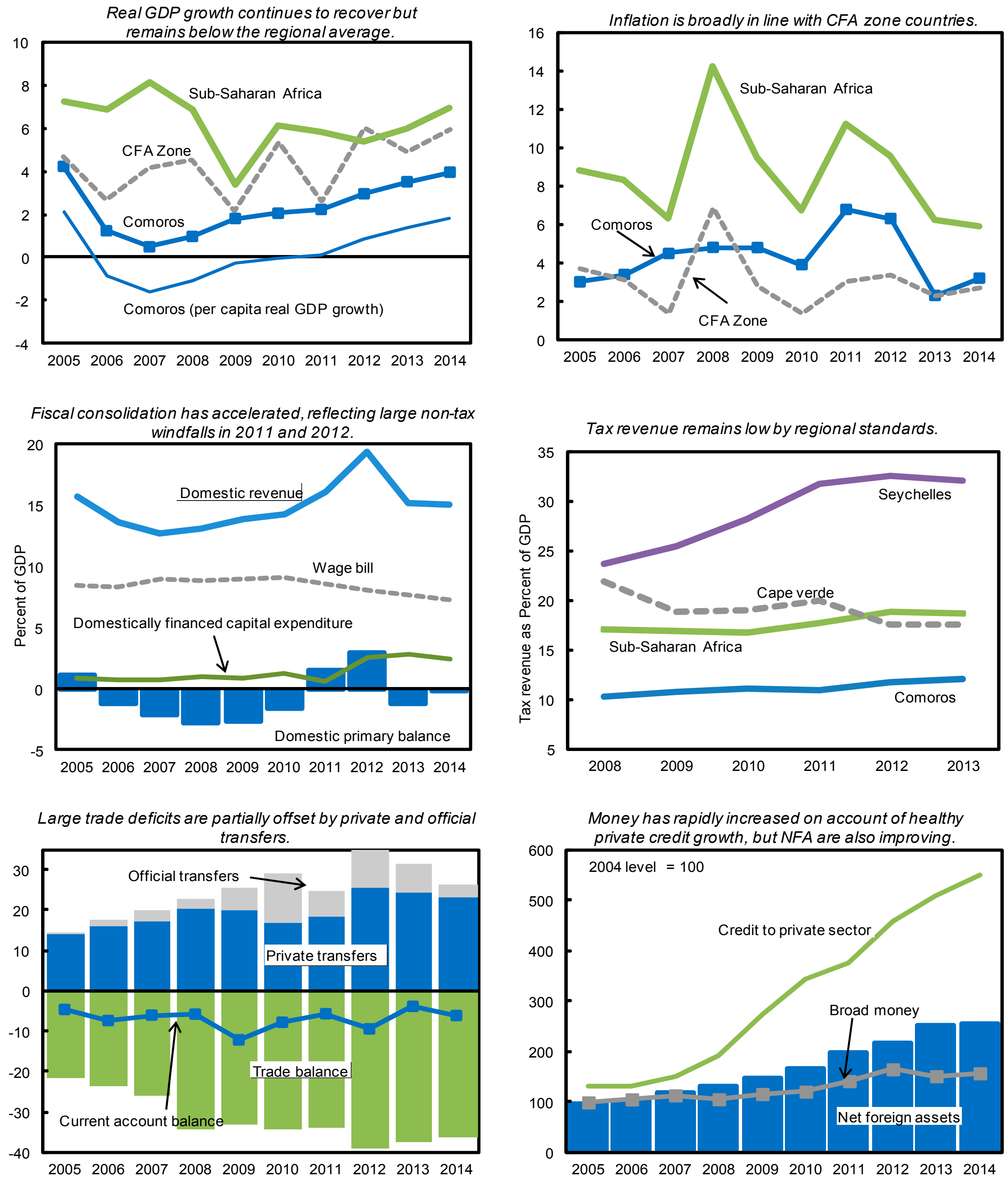
31. **Speedy actions are needed to restructure and recapitalize SNPSF.** The uncertainties about the timing of a resolution could negatively impact on the further development of the banking system and should be addressed. The recent steps to set a timetable are welcome.

32. **Given continued fragility in the fiscal accounts and uncertain external prospects preserving the gains from the debt relief achieved under the HIPC and MDRI Initiatives remains of paramount importance**. Continued efforts should be made to attract concessional financing and improve debt management practices to strengthen the country's capacity to service future debt obligations.

33. **Comoros remains vulnerable to unexpected external and domestic developments.** Developments negatively affecting the Gulf region, an important source of FDI and aid for the Comoros, or a decline in remittances from immigrants in France, could negatively impact growth in the economy and the government's ability to improve infrastructure. Natural disasters could undermine growth potential and negatively affect fiscal balances.

34. **In light of the authorities' progress in implementing the program and the recent measures that were taken to address fiscal slippages, staff supports the requests for a waiver for the non-observance of the end-June performance criterion on net credit to the government.** The deviation from the target at end-June was relatively minor (0.2 percent of GDP) and corrective actions have been taken by the authorities to address subsequent slippage. The new proposed indicative targets for end-December remain relatively close to the original targets. Staff also supports the completion of the sixth and final review under the arrangement as well as the approval of the associated disbursement.

Figure 2. Key Parameters of the Comorian Economy



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

Table 1. Comoros: Selected Economic and Financial Indicators, 2011-18

	2011	2012	2013		2014	2015	2016	2017	2018
		Act.	Program	Proj.	Projections				
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
Real GDP	2.2	3.0	3.5	3.5	4.0	4.0	4.0	4.0	4.1
GDP deflator	4.7	2.6	3.1	3.1	3.2	3.2	3.2	3.2	3.3
Consumer price index (annual averages)	6.8	6.3	4.1	2.3	3.2	3.2	3.2	3.2	3.2
Consumer price index (end period)	7.0	1.0	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Money and credit									
Net foreign assets	17.2	16.5	1.7	-8.3	3.7	3.5	3.3	3.1	8.0
Domestic credit	4.9	7.6	13.5	17.6	8.4	8.6	7.8	6.5	8.6
Net credit to government (treasury)	12.3	-38.6	49.2	60.1	6.8	8.2	3.2	-5.0	8.9
Broad money	9.6	16.0	5.2	1.9	7.3	7.3	7.3	7.4	7.5
Velocity (GDP/end-year broad money)	2.9	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7
External sector									
Exports, f.o.b.	16.4	-19.0	6.3	17.6	4.4	7.7	5.5	5.6	4.6
Imports, f.o.b.	7.2	18.1	3.2	3.3	5.6	1.4	1.6	2.0	3.0
Export volume	-24.7	-27.9	1.2	51.9	-2.4	2.1	3.1	3.2	4.5
Import volume	-10.4	14.6	6.6	5.9	8.3	3.6	3.3	3.2	3.8
Terms of trade	2.1	4.6	5.0	-3.9	5.0	4.4	3.2	2.8	1.9
	(In percent of GDP, unless otherwise indicated)								
Investment and savings									
Investment	14.9	16.8	19.2	19.7	21.0	21.6	22.3	22.9	23.5
Public	5.4	6.8	8.7	9.1	10.0	10.1	10.3	10.4	10.4
Private	9.5	10.1	10.5	10.5	11.0	11.5	12.0	12.5	13.0
Gross national savings	5.5	13.0	10.7	13.6	10.5	12.5	14.8	15.6	17.1
Public	8.7	15.3	7.5	9.0	5.1	5.4	5.9	5.3	5.6
Private	-3.2	-2.3	3.2	4.6	5.3	7.2	8.9	10.3	11.4
Government budget									
Total revenue and grants	23.6	28.9	44.9	43.7	24.1	23.9	24.1	24.2	24.4
Domestic Revenue	16.1	19.3	14.9	15.2	15.0	15.2	15.4	15.6	15.7
Total grants [1]	7.5	9.6	30.0	28.6	9.1	8.7	8.7	8.7	8.7
Total expenditure	22.0	25.1	25.2	25.5	25.8	25.6	25.5	25.5	25.4
Current expenditure	16.6	18.4	16.5	16.4	15.8	15.5	15.2	15.1	15.0
Domestic primary balance	1.6	3.0	-1.1	-1.2	-0.5	0.1	0.4	0.6	0.7
Change in arrears	-3.4	-0.7	-0.9	-0.9	-0.8	-0.8	-0.7	-0.6	0.0
External interest	-0.8	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-2.6	-0.6	-0.9	-0.9	-0.8	-0.8	-0.7	-0.6	0.0
Overall balance (cash basis)	-1.9	2.9	18.9	17.4	-2.5	-2.5	-2.1	-1.8	-1.1
Excluding grants	-9.4	-6.7	-11.1	-11.2	-11.6	-11.1	-10.8	-10.5	-9.7
Financing	0.3	-2.8	-19.0	-17.5	1.4	1.4	1.0	0.6	0.9
Foreign (net)	-0.2	-1.1	-20.3	-19.0	1.1	1.1	0.9	0.7	0.6
Domestic (net)	0.5	-1.7	1.2	1.5	0.3	0.3	0.1	-0.2	0.3
Errors and omissions	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	1.1	1.0	1.2	1.3	0.2
External sector									
Exports of goods and services	16.2	14.9	14.9	15.6	15.8	16.1	16.2	16.1	15.9
Imports of goods and services	50.2	53.9	53.1	53.1	52.3	49.7	47.3	45.3	43.7
Current account balance	-9.4	-3.8	-9.9	-6.1	-10.5	-9.1	-7.5	-7.3	-6.4
Excl. official and private transfers	-34.3	-39.2	-38.2	-37.6	-36.7	-34.0	-31.5	-29.5	-28.0
External debt, PV in percent of GDP [2]	33.1	8.4	12.8	10.0	12.3	14.4	16.0	17.2	17.3
External debt, PV in percent of exports of goods and services [2]	203.9	56.5	85.9	64.1	78.0	89.2	98.4	107.0	109.2
External debt service (in percent of exports of goods and services) [2]	10.0	10.6	0.4	0.7	1.8	2.4	4.1	4.7	5.2
Overall balance of payments (in millions of U.S. dollars)	-11.0	-5.8	-11.6	-19.4	-2.2	-2.4	-3.5	-6.0	11.4
Official grants and loans (percent of GDP)	7.5	9.6	30.2	28.8	10.5	10.0	9.9	9.8	9.7
Gross international reserves (end of period)									
In millions of U.S. dollars	170.1	191.1	204.3	177.1	185.1	192.2	198.1	202.7	214.0
In months of imports of goods & services	6.7	7.1	7.0	6.1	6.0	6.1	6.1	6.0	6.0
Real effective exchange rate (2000=100)	97.9	93.7	...	...	...	...	...	...	...
Exchange rate CF/US$ (period average)	353.6	382.7	...	...	...	...	...	...	...
Memorandum items:									
GDP (nominal, in bilions of CF)	216.0	228.2	243.6	243.5	261.3	280.4	300.8	322.9	347.1
GDP per capita (nominal, in US Dollars)	899	859	928	920	977	1,037	1,100	1,166	1,238
Education and health expenditure (in bilions of CF)	14.8	16.8	18.3	18.3	...	...	...	...	...

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

[1] Includes interim HIPC assistance (2010-12) and debt relief under HIPC and MDRI.

[2] External debt ratios after full HIPC, MDRI and beyond HIPC relief from end-2012.

Table 2A. Comoros: Consolidated Government Financial Operations, 2011–18

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

	2011	2012	2013		2014	2015	2016	2017	2018
			Program	Proj.	Projections				
Total revenue and grants	50,907	65,962	109,443	106,461	63,004	67,037	72,488	78,288	84,580
Revenues	34,793	44,137	36,324	36,926	39,211	42,696	46,379	50,253	54,444
Tax revenues	23,520	26,849	28,994	29,407	34,144	37,385	40,855	44,168	47,813
Direct and indirect taxes [1]	12,412	17,600	23,122	22,841	26,120	28,463	31,346	33,866	37,060
Taxes on international trade and transactions [1]	11,108	9,250	5,872	6,567	8,024	8,921	9,510	10,303	10,753
Nontax revenues	11,273	17,287	7,329	7,518	5,067	5,311	5,524	6,085	6,632
External grants	16,114	21,826	73,119	69,535	23,793	24,342	26,109	28,035	30,135
Budgetary assistance	53	0	3,085	2,396	1,109	0	0	0	0
Projects (incl. techn.assist.)	15,135	19,008	20,655	20,655	22,684	24,342	26,109	28,035	30,135
HIPC and MDRI assistance	926	2,817	49,379	46,483	0	0	0	0	0
Total expenditure and net lending	47,793	57,803	61,270	62,019	67,380	71,849	76,798	82,329	88,280
Current expenditure	35,785	41,898	40,173	39,822	41,291	43,433	45,813	48,783	52,088
Primary current expenditures	29,959	31,604	33,231	32,881	33,529	34,875	36,433	38,519	40,928
Wages and salaries	18,409	18,278	18,605	18,605	19,023	19,649	20,362	21,263	22,378
Goods and services	7,662	8,932	9,293	9,093	9,212	9,831	10,445	11,215	12,055
Transfers and pensions	3,889	4,394	5,333	5,183	5,294	5,395	5,626	6,041	6,494
Interest payments	952	977	290	289	456	719	971	1,235	1,455
External debt	743	780	120	89	274	522	761	1,009	1,212
Before rescheduling	652	631	…	…	…	…	…	…	…
On restructured obligations	91	148	…	…	…	…	…	…	…
Domestic debt	209	198	170	200	183	196	211	226	243
Foreign-financed project maintenance	2,636	2,860	1,179	1,179	1,295	1,389	1,490	1,600	1,720
Technical assistance	2,238	6,457	5,473	5,473	6,011	6,450	6,918	7,429	7,985
Capital expenditure	11,708	15,444	21,097	22,197	26,089	28,416	30,985	33,546	36,192
Domestically financed investment	1,417	5,747	5,828	6,928	6,293	7,417	8,699	9,852	10,959
Foreign-financed investment	10,291	9,696	14,539	14,539	19,003	20,137	21,349	22,676	24,127
Counterpart funds-financed	0	0	730	730	793	862	937	1,018	1,106
Net lending	300	461	0	0	0	0	0	0	0
Domestic primary balance	3,417	6,785	-2,735	-2,883	-611	403	1,247	1,882	2,558
Overall balance (commitment basis)	3,114	8,159	48,173	44,442	-4,376	-4,812	-4,309	-4,041	-3,701
Excluding grants	-13,000	-13,666	-24,946	-25,093	-28,170	-29,153	-30,419	-32,076	-33,836
Change in net arrears	-7,281	-1,544	-2,119	-2,119	-2,090	-2,103	-2,105	-1,905	0
Interest on external debt	-1,662	-171	0	0	0	0	0	0	0
Domestic arrears	-5,619	-1,372	-2,119	-2,119	-2,090	-2,103	-2,105	-1,905	0
Repayment	-7,985	-1,372	-2,119	-2,119	-2,090	-2,103	-2,105	-1,905	0
Accumulation	2,366	0	0	0	0	0	0	0	0
Float	2,071	45	0	0	0	0	0	0	0
Overall balance (cash basis)	-4,167	6,616	46,054	42,323	-6,467	-6,915	-6,415	-5,947	-3,701
Excluding grants	-20,280	-15,210	-27,065	-27,212	-30,260	-31,256	-32,524	-33,981	-33,836
Special adjustment [2]	3,900	-300	300	300	0	0	0	0	0
Errors and omissions (+ = underfinancing)	-419	42	0	0	0	0	0	0	0
Financing	685	-6,358	-46,354	-42,623	3,619	4,065	2,923	1,799	3,065
Foreign (net)	-404	-2,504	-49,364	-46,315	2,950	3,210	2,560	2,388	2,072
Drawings, PIP (identified)	31	5	536	536	3,625	3,634	3,648	3,670	3,697
Amortization	-2,772	-2,726	-49,900	-46,851	-675	-424	-1,088	-1,283	-1,625
Before rescheduling	-2,443	-2,391	…	…	…	…	…	…	…
On restructured obligations	-330	-335	…	…	…	…	…	…	…
Clearance of deferred arrears and debt service									
Change in net arrears (principal)	-3,470	0	0	0	0	0	0	0	0
Exceptional financing	5,808	218	0	0	0	0	0	0	0
Arrears restructuring and deferral	5,014	0	0	0	0	0	0	0	0
Current maturities restructuring and deferral	794	218	0	0	0	0	0	0	0
Domestic (net)	1,089	-3,854	3,010	3,692	669	855	363	-589	992
Bank financing	1,089	-3,854	3,010	3,692	669	855	363	-589	992
Central bank	2,260	-4,398	3,187	3,183	1,567	968	463	-589	992
Of which: IMF (net)	891	1,825	1,777	1,755	0	-56	-729	-898	-1,244
Of which: HIPC assistance	0	-1,843		0	0	0	0	0	0
Commercial banks	-1,171	544	-177	494	-898	-113	-100	0	0
Financing gap (+ = underfinancing)	0	0	0	0	2,848	2,850	3,492	4,148	636
Memorandum items:									
GDP (nominal)	216,011	228,167	243,550	243,550	261,312	280,404	300,765	322,945	347,144
Wages in percentage of revenues	52.9	41.4	51.2	50.4	48.5	46.0	43.9	42.3	41.1

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

[1] Since January 1, 2013, revenues collected at customs are classified according to their nature rather than the institution collecting them. The new classification system produced a change in the composition of tax revenues.

[2] 2010 revenues received in early 2011; and 2012 revenues received in early 2013

Table 2B. Comoros: Consolidated Government Financial Operations, 2011–18

(In percent of GDP, unless otherwise indicated)

	2011	2012	2013		2014	2015	2016	2017	2018
			Program	Proj.	Projections				
Total revenue and grants	23.6	28.9	44.9	43.7	24.1	23.9	24.1	24.2	24.4
Revenues	16.1	19.3	14.9	15.2	15.0	15.2	15.4	15.6	15.7
Tax revenues	10.9	11.8	11.9	12.1	13.1	13.3	13.6	13.7	13.8
Direct and indirect taxes [1]	5.7	7.7	9.5	9.4	10.0	10.2	10.4	10.5	10.7
Taxes on international trade and transactions [1]	5.1	4.1	2.4	2.7	3.1	3.2	3.2	3.2	3.1
Nontax revenues	5.2	7.6	3.0	3.1	1.9	1.9	1.8	1.9	1.9
External grants	7.5	9.6	30.0	28.6	9.1	8.7	8.7	8.7	8.7
Budgetary assistance	0.0	0.0	1.3	1.0	0.4	0.0	0.0	0.0	0.0
Projects (incl. techn.assist.)	7.0	8.3	8.5	8.5	8.7	8.7	8.7	8.7	8.7
HIPC and MDRI assistance	0.4	1.2	20.3	19.1	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	22.1	25.3	25.2	25.5	25.8	25.6	25.5	25.5	25.4
Current expenditure	16.6	18.4	16.5	16.4	15.8	15.5	15.2	15.1	15.0
Primary current expenditures	13.9	13.9	13.6	13.5	12.8	12.4	12.1	11.9	11.8
Wages and salaries	8.5	8.0	7.6	7.6	7.3	7.0	6.8	6.6	6.4
Goods and services	3.5	3.9	3.8	3.7	3.5	3.5	3.5	3.5	3.5
Transfers and pensions	1.8	1.9	2.2	2.1	2.0	1.9	1.9	1.9	1.9
Interest payments	0.4	0.4	0.1	0.1	0.2	0.3	0.3	0.4	0.4
External debt	0.3	0.3	0.0	0.0	0.1	0.2	0.3	0.3	0.3
Before rescheduling	0.3	0.3	…	…	…	…	…	…	…
On restructured obligations	0.0	0.1	…	…	…	…	…	…	…
Domestic debt	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign-financed project maintenance	1.2	1.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Technical assistance	1.0	2.8	2.2	2.2	2.3	2.3	2.3	2.3	2.3
Capital expenditure	5.4	6.8	8.7	9.1	10.0	10.1	10.3	10.4	10.4
Domestically financed investment	0.7	2.5	2.4	2.8	2.4	2.6	2.9	3.1	3.2
Foreign-financed investment	4.8	4.2	6.0	6.0	7.3	7.2	7.1	7.0	7.0
Counterpart funds-financed	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net lending	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance	1.6	3.0	-1.1	-1.2	-0.5	0.1	0.4	0.6	0.7
Overall balance (commitment basis)	1.4	3.6	19.8	18.2	-1.7	-1.7	-1.4	-1.3	-1.1
Excluding grants	-6.0	-6.0	-10.2	-10.3	-10.8	-10.4	-10.1	-9.9	-9.7
Change in net arrears	-3.4	-0.7	-0.9	-0.9	-0.8	-0.8	-0.7	-0.6	0.0
Interest on external debt	-0.8	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears	-2.6	-0.6	-0.9	-0.9	-0.8	-0.8	-0.7	-0.6	0.0
Repayment	-3.7	-0.6	-0.9	-0.9	-0.8	-0.8	-0.7	-0.6	0.0
Accumulation	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-1.9	2.9	18.9	17.4	-2.5	-2.5	-2.1	-1.8	-1.1
Excluding grants	-9.4	-6.7	-11.1	-11.2	-11.6	-11.1	-10.8	-10.5	-9.7
Special adjustment [2]	1.8	-0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Errors and omissions (+ = underfinancing)	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	0.3	-2.8	-19.0	-17.5	1.4	1.4	1.0	0.6	0.9
Foreign (net)	-0.2	-1.1	-20.3	-19.0	1.1	1.1	0.9	0.7	0.6
Drawings, PIP (identified)	0.0	0.0	0.2	0.2	1.4	1.3	1.2	1.1	1.1
Amortization	-1.3	-1.2	-20.5	-19.2	-0.3	-0.2	-0.4	-0.4	-0.5
Before rescheduling	-1.1	-1.0	…	…	…	…	…	…	…
On restructured obligations	-0.2	-0.1	…	…	…	…	…	…	…
Clearance of deferred arrears and debt service									
Change in net arrears (principal)	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	2.7	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears restructuring and deferral	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current maturities restructuring and deferral	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	0.5	-1.7	1.2	1.5	0.3	0.3	0.1	-0.2	0.3
Bank financing	0.5	-1.7	1.2	1.5	0.3	0.3	0.1	-0.2	0.3
Central bank	1.0	-1.9	1.3	1.3	0.6	0.3	0.2	-0.2	0.3
Of which: IMF (net)	0.4	0.8	0.7	0.7	0.0	0.0	-0.2	-0.3	-0.4
Of which: HIPC assistance	0.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	-0.5	0.2	-0.1	0.2	0.0	0.0	0.0	0.0	0.0
Financing gap (+ = underfinancing)	0.0	0.0	0.0	0.0	1.1	1.0	1.2	1.3	0.2
Memorandum items:									
GDP (nominal)	216,011	228,167	243,550	243,550	261,312	280,404	300,765	322,945	347,144
Wages in percentage of revenues	52.9	41.4	51.2	50.4	48.5	46.0	43.9	42.3	41.1

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

[1] Since January 1, 2013, revenues collected at customs are classified according to their nature rather than the institution collecting them. The new classification system produced a change in the composition of tax revenues.

[2] 2010 revenues received in early 2011; and 2012 revenues received in early 2013.

Table 2C. Comoros: Consolidated Government Financial Operations, 2011–13
(In millions of Comorian francs, cumulative, unless otherwise indicated)

	2011	2012			2013						
		Jun	Sep	Dec	Mar	Jun		Sep		Dec	
						Program	Prel.	Program	Prel.	Program	Proj.
Total revenue and grants	50,907	32,309	48,729	65,962	61,516	80,538	78,689	91,214	92,028	106,519	106,461
Revenues	34,793	22,299	33,683	44,137	7,908	18,331	19,481	26,767	27,657	36,324	36,926
Tax revenues	23,520	12,472	19,696	26,849	7,193	14,740	14,609	21,270	21,234	28,994	29,407
Direct and indirect taxes [1]	12,412	7,415	11,439	17,600	5,419	12,097	12,101	17,342	17,258	23,122	22,841
Taxes on international trade and transactions [1]	11,108	5,057	8,257	9,250	1,774	2,642	2,508	3,928	3,976	5,872	6,567
Nontax revenues	11,273	9,827	13,987	17,287	715	3,591	4,872	5,497	6,423	7,329	7,518
External grants	16,114	10,010	15,045	21,826	53,608	62,206	59,207	64,447	64,371	70,196	69,535
Budgetary assistance	53	0	0	0	1,827	2,500	2,396	2,500	2,396	3,085	2,396
Projects (incl. techn.assist.)	15,135	9,502	14,255	19,008	5,298	10,328	10,328	15,491	15,491	20,655	20,655
HIPC and MDRI assistance	926	508	790	2,817	46,483	49,379	46,483	46,456	46,483	46,456	46,483
Total expenditure and net lending	47,793	27,786	42,709	57,803	16,571	30,985	32,758	45,614	47,634	61,265	62,019
Current expenditure	35,785	20,656	31,794	41,898	10,124	20,087	20,104	29,967	29,559	40,169	39,822
Primary current expenditures	29,959	15,534	24,015	31,604	8,386	16,615	16,636	24,763	24,378	33,231	32,881
Wages and salaries	18,409	9,118	13,696	18,278	4,644	9,302	9,288	13,954	13,935	18,605	18,605
Goods and services	7,662	4,205	6,950	8,932	2,419	4,647	4,739	6,970	6,860	9,293	9,093
Transfers and pensions	3,889	2,211	3,369	4,394	1,322	2,666	2,609	3,840	3,584	5,333	5,183
Interest payments	952	463	792	977	75	145	142	214	192	286	289
External debt	743	378	629	780	22	60	45	86	67	115	89
Before rescheduling	652	324	553	631	…	…	…	…	…	…	…
On restructured obligations	91	54	77	148	…	…	…	…	…	…	…
Domestic debt	209	85	162	198	52	85	97	128	125	170	200
Foreign-financed project maintenance	2,636	1,030	1,795	2,860	295	589	589	884	884	1,179	1,179
Technical assistance	2,238	3,628	5,193	6,457	1,368	2,737	2,737	4,105	4,105	5,473	5,473
Capital expenditure	11,708	6,781	10,065	15,444	4,947	10,898	11,254	15,648	16,774	21,097	22,197
Domestically financed investment	1,417	1,933	2,793	5,747	1,312	3,264	4,252	4,196	6,272	5,828	6,928
Foreign-financed investment	10,291	4,848	7,272	9,696	3,635	7,269	7,002	10,904	10,502	14,539	14,539
Counterpart funds-financed	0	0	0	0	0	365	0	547	0	730	730
Net lending	300	350	850	461	1,500	0	1,400	0	1,300	0	0
Domestic primary balance	3,417	4,833	6,876	6,785	-1,791	-1,548	-1,407	-2,193	-2,994	-2,735	-2,883
Overall balance (commitment basis)	3,114	4,523	6,020	8,159	44,945	49,553	45,931	45,599	44,394	45,254	44,442
Excluding grants	-13,000	-5,487	-9,026	-13,666	-8,663	-12,653	-13,276	-18,848	-19,977	-24,942	-25,093
Change in net arrears	-7,281	-780	-1,127	-1,544	-659	-1,059	-1,071	-1,589	-1,601	-2,119	-2,119
Interest on external debt	-1,662	0	0	-171	0	0	0	0	0	0	0
Domestic arrears	-5,619	-780	-1,127	-1,372	-659	-1,059	-1,071	-1,589	-1,601	-2,119	-2,119
Repayment	-7,985	-780	-1,127	-1,372	-659	-1,509	-1,071	-1,589	-1,601	-2,119	-2,119
Accumulation	2,366	0	0	0	0	0	0	0	0	0	0
Float	2,071	0	0	45	1,977	0	0	0	0	0	0
Overall balance (cash basis)	-4,167	3,743	4,893	6,616	44,286	48,494	44,861	44,010	42,793	43,135	42,323
Excluding grants	-20,280	-6,267	-10,153	-15,210	-9,322	-13,713	-14,347	-20,437	-21,578	-27,061	-27,212
Special adjustment [2]	3,900	0	0	-300	300	300	300	300	300	300	300
Errors and omissions (+ = underfinancing)	-419	517	-157	42	-496	0	-604	0	0	0	0
Financing	685	-4,260	-4,736	-6,358	-44,090	-48,794	-44,557	-44,310	-42,489	-43,435	-42,638
Foreign (net)	-404	-1,113	-1,915	-2,504	-46,575	-49,372	-46,667	-46,445	-46,759	-46,441	-46,315
Drawings, PIP (identified)	31	5	5	5	0	268	0	402	0	536	536
Amortization	-2,772	-1,305	-2,107	-2,726	-46,575	-49,639	-46,667	-46,846	-46,759	-46,977	-46,851
Before rescheduling	-2,443	-1,163	-1,873	-2,391	…	…	…	…	…	…	…
On restructured obligations	-330	-141	-234	-335	…	…	…	…	…	…	…
Change in net arrears (principal)	-3,470	0	0	0	0	0	0	0	0	0	0
Exceptional financing	5,808	187	187	218	0	0	0	0	0	0	0
Arrears restructuring and deferral	5,014	0	0	0	0	0	0	0	0	0	0
Current maturities restructuring and deferral	794	187	187	218	0	0	0	0	0	0	0
Domestic (net)	1,089	-3,147	-2,821	-3,854	2,485	578	2,111	2,134	4,270	3,006	3,677
Bank financing	1,089	-3,147	-2,821	-3,854	2,485	578	2,111	2,134	4,270	3,006	3,677
Central bank	2,260	-3,183	-3,332	-4,398	2,455	666	2,038	2,267	4,158	3,183	3,183
Of which: IMF (net)	891	913	913	1,825	0	888	878	878	878	1,755	1,755
Of which: HIPC assistance	0	0	0	-1,843	0	0	0	0	0	0	0
Commercial banks	-1,171	36	511	544	30	-89	72	-133	112	-177	494
Financing gap (+ = underfinancing)	0	0	0	0	0	0	0	0	-604	0	15
Memorandum items:											
GDP (nominal)	216,011	228,167	228,167	228,167	243,550	243,550	243,550	243,550	243,550	243,550	243,550
Wages in percentage of revenues	52.9	40.9	40.7	41.4	58.7	50.7	47.7	52.1	50.4	51.2	50.4

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

[1] Since January 1, 2013, revenues collected at customs are classified according to their nature rather than the institution collecting them. The new classification system produced a change in the composition of tax revenues.

[2] 2010 revenues received in early 2011; and 2012 revenues received in early 2013 .

Table 3. Comoros: Monetary Survey, 2011-18
(In Millions of Comorian francs)

	2011	2012	2013	2014	2015	2016	2017	2018
				Projections				
Net foreign assets	53,861	62,737	57,558	59,703	61,814	63,848	65,825	71,121
Central bank assets	59,859	72,761	66,094	68,120	70,030	71,533	72,618	76,079
Central bank liabilities	-10,732	-10,589	-11,185	-11,185	-11,129	-10,401	-9,503	-8,259
Commercial banks assets	8,638	5,524	7,081	7,377	7,706	7,701	7,894	8,485
Commercial banks liabilities	-3,905	-4,959	-4,432	-4,609	-4,793	-4,985	-5,185	-5,185
Net domestic assets	21,466	24,636	31,492	35,841	40,711	46,121	52,254	55,806
Domestic credit	45,824	49,326	57,998	62,896	68,321	73,625	78,377	85,143
Net credit to government [1]	6,016	1,604	5,281	5,950	6,805	7,167	6,578	7,571
Of which: Treasury	9,974	6,120	9,797	10,466	11,321	11,684	11,095	12,087
Bank financing	6,016	1,604	5,281	5,950	6,805	7,167	6,578	7,571
Claims on government	13,791	13,779	15,716	17,486	17,724	16,900	16,632	16,124
HIPC and MDRI assistance	-7,775	-12,175	-10,436	-11,536	-10,920	-9,732	-10,054	-8,554
Deposits at Treasury	--	--	--	--	--	--	--	--
Claims on public enterprises	1,178	512	512	512	512	512	512	512
Claims on other financial institutions	-21	-4	-4	-4	-4	-4	-4	-4
Claims on private sector	38,431	47,026	52,210	56,438	61,009	65,950	71,291	77,064
Other items net	-24,357	-24,690	-26,507	-27,055	-27,611	-27,504	-26,123	-29,337
Of which: Long term liabilities	--	--	--	--	--	--	--	--
Broad money	75,327	87,373	89,049	95,544	102,524	109,969	118,079	126,926
Money	48,820	56,501	56,097	60,188	64,586	69,275	74,384	79,958
Currency in circulation	19,985	21,755	24,925	26,743	28,697	30,781	33,051	35,527
Demand deposits	28,835	34,747	31,172	33,445	35,889	38,495	41,334	44,431
Quasi-money	26,506	30,871	32,952	35,356	37,939	40,694	43,695	46,969
(in percent of beginning period broad money):								
Net foreign assets	11.5	11.8	-5.9	2.4	2.2	2.0	1.8	4.5
Net domestic assets	-1.9	4.2	7.8	4.9	5.1	5.3	5.6	3.0
Domestic credit	3.1	4.6	9.9	5.5	5.7	5.2	4.3	5.7
Net credit to government	0.4	-5.9	4.2	0.8	0.9	0.4	-0.5	0.8
Credit to public enterprises	-1.5	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	4.5	11.4	5.9	4.7	4.8	4.8	4.9	4.9
Other items (net)	-5.0	-0.4	-2.1	-0.6	-0.6	0.1	1.3	-2.7
Broad money	9.6	16.0	1.9	7.3	7.3	7.3	7.4	7.5
Money	9.0	10.2	-0.5	4.6	4.6	4.6	4.6	4.7
Quasi-money	0.6	5.8	2.4	2.7	2.7	2.7	2.7	2.8
Velocity (GDP/end-year broad money)	2.9	2.6	2.7	2.7	2.7	2.7	2.7	2.7
Credit to private sector (percent change)	8.9	22.4	11.0	8.1	8.1	8.1	8.1	8.1

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

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

Table 4. Comoros: Balance of payments, 2011-18
(Millions of Comorian francs, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018
		Prel.			Projections			
Current account	-20,346	-8,734	-14,868	-27,493	-25,455	-22,479	-23,583	-22,195
Goods and services	-73,308	-89,059	-91,364	-95,322	-94,113	-93,623	-94,357	-96,415
Trade balance	-61,686	-76,126	-77,620	-82,044	-82,636	-83,619	-84,895	-87,264
Exports	8,908	7,215	8,484	8,858	9,544	10,071	10,637	11,123
Of which: Vanilla	350	552	2,445	2,593	2,750	2,859	2,974	3,096
Cloves	6,361	5,494	4,066	4,597	5,018	5,321	5,647	5,878
Ylang-ylang	745	666	992	1,102	1,169	1,239	1,315	1,396
Other	1,451	503	981	566	607	652	700	752
Imports (f.o.b.)	-70,594	-83,341	-86,104	-90,902	-92,180	-93,690	-95,532	-98,386
of which oil	-22,190	-25,519	-26,790	-25,707	-24,495	-23,590	-22,980	-22,557
Services (net)	-11,622	-12,933	-13,745	-13,278	-11,477	-10,004	-9,461	-9,152
Income (net)	-720	-648	-239	-622	-1,118	-1,067	-939	-816
Of which: Interest on rescheduled obligations	-91	-148	-17	-56	-93	-110	-106	-94
Current transfers (net)	53,683	80,719	76,736	68,451	69,776	72,211	71,712	75,037
Government	13,863	22,306	17,770	7,716	7,218	7,812	5,358	6,008
Of which: HIPC and MDRI assistance	198	205	7,547	0	0	0	0	0
Private	39,820	58,413	58,966	60,735	62,557	64,399	66,354	69,029
Capital and financial account	20,214	21,369	7,305	26,671	24,571	21,219	21,419	26,263
Capital account	11,019	12,308	56,182	19,003	20,137	21,349	22,676	24,127
Capital transfers	11,019	12,308	56,182	19,003	20,137	21,349	22,676	24,127
Transfer of fixed assets	10,291	9,696	14,539	19,003	20,137	21,349	22,676	24,127
HIPC assistance	729	2,612	46,483	0	0	0	0	
Financial account	9,195	9,061	-48,877	7,668	4,435	-130	-1,257	2,136
Direct investment	8,171	3,973	6,413	6,366	6,322	6,281	6,250	6,130
Net portfolio and other investment	1,024	5,088	-55,290	1,302	-1,887	-6,412	-7,507	-3,994
Government	-2,742	-2,892	-46,315	6,026	6,256	5,577	5,380	5,041
Drawings	31	5	536	6,700	6,680	6,665	6,663	6,665
Amortization	-2,772	-2,726	-368	-675	-424	-1,088	-1,283	-1,625
Before rescheduling	-2,443	-2,391	…	…	…	…	…	-1,122
On restructured obligations	-330	-335	…	…	…	…	…	-503
Private sector (net)	3,766	7,980	-8,975	-4,723	-8,143	-11,988	-12,887	-9,035
Banks, net	-3,093	-2,060	-2,084	-119	-145	197	6	-591
Other	6,859	10,041	-6,891	-4,604	-7,998	-12,185	-12,894	-8,443
Errors and omissions	149	-25	300	0	0	0	0	0
Overall balance	-3,734	12,909	-7,263	-822	-883	-1,260	-2,164	4,068
Financing	3,882	-12,826	7,263	-2,026	-1,966	-2,231	-1,984	-4,704
NFA of central bank (increase -)	-4,793	-13,044	7,263	-2,026	-1,966	-2,231	-1,984	-4,704
Foreign assets	-6,050	-12,901	6,667	-2,026	-1,910	-1,503	-1,086	-3,460
Foreign liabilities	1,257	-143	596	0	-56	-729	-898	-1,244
Of which: Net IMF Credit	891	1,825	1,755	0	-56	-729	-898	0
Net change in arrears	0	0	0	0	0	0	0	0
Clearance of deferred arrears and debt service								
Exceptional financing	5,808	218	0	0	0	0	0	0
Arrears restructuring and deferral	5,014	0	0	0	0	0	0	0
Current maturities restructuring and deferral	794	218	0	0	0	0	0	0
Financing gap	0	0	0	2,848	2,850	3,492	4,148	636
Memorandum items:								
Current account (percentage of GDP)	-9.4	-3.8	-6.1	-10.5	-9.1	-7.5	-7.3	-6.4
Excluding transfers	-34.3	-39.2	-37.6	-36.7	-34.0	-31.5	-29.5	-28.0
Exports of goods and services (percentage of GDP)	16.2	14.9	15.6	15.8	16.1	16.2	16.1	-15.9
Imports of goods and services (percentage of GDP)	50.2	53.9	53.1	52.3	49.7	47.3	45.3	43.7
Gross international reserves (millions of U.S. dollars)	170.1	191.1	177.1	185.1	192.2	198.1	202.7	214.0
In months of imports of goods and services	6.7	7.1	6.1	6.0	6.1	6.1	6.0	6.0

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

Table 5. Comoros: Education and health expenditure, 2009-2013
(In millions of comorian francs)

	2009	2010	2011	2012	2013
					Proj.
Education	10,089	10,794	11,675	10,989	13,686
Wages	7,597	8,528	8,954	8,296	10,486
Goods and services	145	193	420	407	360
Transfers	649	1,054	913	1,286	1,222
Capital	1,698	1,019	1,388	1,000	1,617
Domestically funded	0	78	400	604	721
Foreign funded	1,698	941	988	396	896
Health	3,195	2,866	3,100	5,785	4,592
Wages	1,361	1,084	1,138	856	1,515
Goods and services	6	70	120	43	83
Transfers	130	934	775	1,208	948
Capital	1,698	778	1,066	3,678	2,047
Domestically funded	0	0	250	429	359
Foreign funded	1,698	778	816	3,249	1,687
Total education and health	13,284	13,660	14,775	16,774	18,278
Domestically funded	9,888	11,941	12,970	13,129	14,908
Domestically funded, in percent of GDP	5.2	5.9	6.0	5.8	6.1
Memorandum item:					
GDP, in millions of CF francs	189,536	201,841	216,011	228,167	243,550

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

Table 6. The Comoros: Indicators of Capacity to Repay the Fund, 2009-2023

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Projections										
Fund obligations based on existing credit															
(in millions of SDRs)															
Principal	0.00	0.00	0.00	0.00	0.00	0.00	0.10	1.31	1.62	2.25	2.40	1.56	1.09	0.78	0.16
Charges and interest [1]	0.02	0.00	0.00	0.00	0.00	0.00	0.03	0.03	0.02	0.02	0.01	0.01	0.00	0.00	0.00
Fund obligations based on existing and prospective credit															
(in millions of SDRs)															
Principal	1.11	0.00	0.00	0.00	0.00	0.00	0.10	1.31	1.62	2.25	2.71	1.87	1.40	1.09	0.47
Charges and interest [1]	0.03	0.00	0.00	0.00	0.00	0.00	0.03	0.03	0.03	0.02	0.02	0.01	0.01	0.00	0.00
Total obligations based on existing and prospective credit [2]															
In millions of SDRs	1.1	0.0	0.0	0.0	0.0	0.0	0.1	1.3	1.7	2.3	2.7	1.9	1.4	1.1	0.5
In millions of CF	622.8	0.0	0.0	0.0	0.0	0.0	72.6	745.2	914.8	1,254.8	1,509.1	1,039.3	779.4	602.5	259.8
In percent of government revenue	2.4	0.0	0.0	0.0	0.0	0.0	0.2	1.6	1.8	2.3	2.6	1.6	1.2	0.8	0.3
In percent of exports of goods and services	2.3	0.0	0.0	0.0	0.0	0.0	0.2	1.5	1.8	2.3	2.6	1.7	1.2	0.9	0.3
In percent of debt service [3]	21.1	0.0	0.0	0.0	0.0	0.0	7.7	40.3	39.9	44.2	39.3	25.0	16.6	12.0	4.9
In percent of GDP	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.3	0.4	0.4	0.3	0.2	0.1	0.1
In percent of quota	12.8	0.0	0.0	0.0	0.0	0.0	1.5	15.1	18.5	25.5	30.7	21.1	15.8	12.2	5.3
Outstanding Fund credit [2]															
In millions of SDRs	6.5	8.0	9.6	12.7	12.8	12.8	12.7	11.4	9.8	7.5	4.8	3.0	1.6	0.5	0.0
In millions of CF	3,514.4	4,532.0	5,342.2	7,429.1	0.0	7,194.9	7,108.1	6,345.2	5,428.0	4,168.1	2,670.0	1,636.3	862.4	259.8	0.0
In percent of government revenue	13.3	15.7	15.4	16.8	0.0	18.3	16.6	13.7	10.8	7.7	4.6	2.6	1.3	0.4	0.0
In percent of exports of goods and services	12.8	14.3	15.2	21.8	0.0	17.4	15.7	13.0	10.5	7.6	4.6	2.6	1.3	0.4	0.0
In percent of debt service [3]	119.0	181.6	197.7	147.9	0.0	758.7	751.2	343.2	236.9	146.9	69.5	39.3	18.4	5.2	0.0
In percent of GDP	1.9	2.2	2.5	3.3	0.0	2.8	2.5	2.1	1.7	1.2	0.7	0.4	0.2	0.1	0.0
In percent of quota	72.5	90.0	107.5	142.5	144.2	144.2	143.0	128.2	110.0	84.7	54.3	33.3	17.5	5.3	0.0
Net use of Fund credit (millions of SDRs)	3.1	1.6	1.6	3.1	3.1	0.0	-0.1	-1.3	-1.6	-2.3	-2.7	-1.9	-1.4	-1.1	-0.5
Disbursements	4.2	1.6	1.6	3.1	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment and Repurchases	1.1	0.0	0.0	0.0	0.0	0.0	0.1	1.3	1.6	2.3	2.7	1.9	1.4	1.1	0.5
Memorandum items															
Nominal GDP (millions of CF)	189,536	201,841	216,011	228,167	243,550	261,312	280,404	300,765	322,945	347,144	373,750	402,235	433,148	466,714	503,183
Exports of goods and services (millions of CF)	27,465	31,747	35,043	34,033	37,959	41,277	45,145	48,769	51,892	55,116	58,564	62,251	66,196	70,473	75,123
Government revenue (millions of CF)	26,401	28,875	34,793	44,137	36,926	39,211	42,696	46,379	50,253	54,444	58,143	63,286	67,687	73,704	81,183
Debt service (millions of CF) [2]	2,954	2,496	2,702	5,023	46,940	948	946	1,849	2,292	2,837	3,843	4,164	4,692	5,033	5,275
CF/SDR (period average)	545	566	558	586											

Sources: IMF staff estimates and projections.

[1] Temporary waiver of interest payments on PRGT borrowing until December 2014 is assumed.

[2] Assuming ECF disbursement of the entire amount of SDR 13.57 million (152.5 percent of quota). The entire EPCA credit of SDR 1.1 million (12.5 percent of quota) was repurchased by the first ECF disbursement.

[3] Total debt service before HIPC interim assistance; includes IMF repurchases and repayments.

Table 7. Comoros: Availability Dates of Proposed ECF Disbursements and Reviews, 2009-13

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

Source: IMF staff estimates and projections.

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

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

Appendix 1: Letter of Intent

Moroni, November 25, 2013

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Madame Lagarde:

1. Since the achievement of the HIPC/MDRI completion point in December 2012 and the completion of the fifth review under the government's economic and social reform program supported by the IMF under the Extended Credit Facility (ECF) in June 2013, the Union of the Comoros has continued to make progress in stabilizing the economy and implementing structural reforms necessary to establish a basis for sustained economic growth.

2. The outlook for economic growth in 2013 remains broadly favorable, with activity picking up in construction (buildings and roads) and agriculture, due to favorable climatic conditions, and underpinned by robust growth in credit to the private sector. Real growth is expected to reach 3.5 percent compared to 3 percent in 2012. Inflation is expected to be less than 3 percent, on average, in 2013, owing to the better agricultural production and relatively favorable developments in international petroleum and foodstuff markets. The current accounts deficit is expected to widen and reach 10 percent of GDP—in line with the program—reflecting stronger imports, mainly associated with foreign financed investment projects and lower receipts than in previous years related to the Economic Citizenship Program (ECP).

3. Program performance in the first half of 2013 was broadly satisfactory. All but one of the end-June 2013 performance criteria and all quantitative indicative targets were observed (Table 1). The ceiling on net credit to the government was exceeded slightly by about CF 600 million (0.2 percent of GDP)—mainly reflecting the provision of an emergency loan to the state oil importing company (SCH) that was not repaid as envisaged at the end of June. Current expenditures were in line with the program, but domestically financed capital expenditures were higher, mainly on account of the first payment for a new plane that we purchased to improve inter-island connectivity, which was severely reduced after a plane crash earlier in the year. The higher capital expenses were

offset by higher-than-expected receipts under the ECP, while tax revenues remained in line with the program.

4. Progress was also made on structural reforms. The end-June benchmark on establishing an electronic network among the country's four main customs offices was met, as was the end-September benchmark on the implementation of the new organizational frameworks for the Union and the island governments. The benchmark related to determining cross debts between the government and energy parastatals was also completed, except for Electricité d'Anjouan (EDA). However, the development of a medium-term Public Financial Management strategy has been delayed and will require more technical assistance. The privatization of Comores Telecom has advanced but is currently awaiting approval of the National Assembly.

5. Notwithstanding the progress made, our fiscal position deteriorated in the third quarter of 2013. A second payment for the plane and an acceleration of road construction, in anticipation of additional receipts under the ECP, which did not materialize required the government to draw down its deposits and use the statutory advances from the Central Bank (BCC). With current expenditures and revenues consistent with the program objectives, the quantitative indicative fiscal targets for end-September under the program on net credit to the government and the domestic primary balance were missed. We acknowledge that weaknesses in our internal information flows across various government agencies made it difficult to react quickly to these developments.

6. Nevertheless, the government remains committed to broadly achieving the program targets established for 2013 and has already put in place a number of measures to improve fiscal performance. First, effective October 1, 2013, steps have been taken to transfer the collection of the single tax on petroleum products from SCH to the Customs Administration, with the goal to bring these extra-budgetary receipts onto the budget. At the same time, an action plan has been adopted to implement a series of recommendations made by an IMF expert to improve the petroleum tax collection. As of October 1, the government has also frozen non-priority spending, generating expected savings of around CF350 million. Finally, SCH and the government have agreed on a repayment schedule for the outstanding loan, which should allow for a payment of about CF 1.2 billion million by end-2013. A draft 2014 budget, agreed with the IMF and aiming at continuing our adjustment efforts, was submitted to the National Assembly on October 30. We are confident that with these measures in place we will be able to broadly meet the quantitative

program objectives for 2013, although some increase in the targets on the domestic primary balance and credit from the banking system are unavoidable at this stage.

7. Nevertheless, in parallel, the government has engaged in intensive discussions with its Gulf partners to resolve a temporary suspension of the ECP program and unlock receipts under the program. Based on understandings reached during our discussions, we are confident that substantial funding from the ECP will become available before the end of the year. To build a cushion to help us pay for future expenses, during the rest of the year, we will save at least half of any ECP receipts we may receive and will target the remainder to priority social and infrastructure spending. We will consult with IMF staff in 2014 before spending any ECP resources left.

8. We realize that over the longer-term strong measures need to be taken to improve public financial management, including cash management and budgeting procedures as well as expenditure controls. To this end we have already sought assistance from the IMF and other donors to help us develop a concrete action plan that could be put in place in 2014 and beyond. We have also requested technical assistance from the IMF to help us identify all tax exemptions and all explicit and implicit subsidies, with a view to further broadening the tax base, to increase transparency, and to better understand the burden of business and consumption subsidies on the government's fiscal position. With the help of IMF staff we have also taken steps to produce better share information between government entities, the BCC, and the IMF to allow closer monitoring of the program, including the provision of regular reports on government deposits, monthly compilation of customs and excise tax receipts, and monthly reports on salary payments.

9. In the financial sector, credit to the private sector has continued to expand strongly (by about 14 percent in the first 9 months of 2013), although at a somewhat slower pace than in 2012 The banking system, in general, remains sound, but concerns have arisen about delays in recapitalizing and restructuring the postal bank (Société des Postes et Services Financiers (SNPSF)), given its significant negative capital on continuing losses and the uncertainty surrounding the participation of one of our Gulf partners. In the meantime, the BCC has imposed strict controls to prevent a worsening of the SNPSF's liquidity position, including prior approval by the BCC of new lending and investment activities in excess of CF 10 million and maintaining an increased reserve requirement of 30 percent for the bank, compared to the standard reserve requirement of 20 percent. A plan on how to deal with the Bank in case the earlier envisaged support from the Gulf

does not materialize (including possible support from the France to separate postal services from banking activities) is expected to be approved by the Board of the BCC in early December.

10. On the structural side, reforms of the energy sector remain a priority. Efforts to reform the electricity sector have gotten a boost recently through the approval by the Boards of the African Development Bank and the World Bank of substantial projects to improve production and operations, which will also be supported by other partners. The National Assembly discussed the privatization of Comores Telecom in October and a vote is expected before December 31.

11. The government believes that the actions set forth in this letter are appropriate to broadly achieve the 2013 end-year program targets and to help lay a solid foundation for future engagement with the Fund, but it will take whatever additional measures that may be required to that end. It intends to work in close consultation with Fund staff to provide the necessary information for monitoring the evolution of economic activity and the implementation of the policies under the ECF-supported program within the time frames established.

12. In light of the progress made and the additional measures we have taken to bring the program back on track, we request a waiver for the non-observance of the performance criterion on net credit to the government for end-June and the completion of the sixth review and the seventh and last disbursement under the ECF arrangement.

13. In line with our commitment to transparency in government operations, we agree to the publication of documents relating to our discussions with Fund staff under the sixth review of our ECF-supported program.

Sincerely yours,

/s/
Ikililou Dhoinine
President of the Union of the Comoros

/s/
Mohamed Ali Soilihi
Vice President responsible for the
Ministry of Finance, the Economy,
the Budget, Investment, and Foreign Trade

/s/
Mzé Abdou Mohamed Chanfiou
Governor of the
Central Bank of the Comoros

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

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

	2013					
	June			Sept.		Dec.
	PC	Prel.		Indicative Target	Prel.	New Indicative Target
Performance criteria						
1. Ceiling on net credit to government (NCG)	1,531	2,111	not met	2,134	4,270	3,677
2. Ceiling on the accumulation of new domestic payments arrears [2]	0	0	met	0	0	0
3. Ceiling on new nonconcessional external debt contracted or guaranteed by the government [3, 4, 5]	41.6	0	met	41.6	41.6	41.6
4. Ceiling on new short-term external debt contracted or guaranteed by the government [3, 4]	0	0	met	0	0	0
5. Ceiling on accumulation of external debt service arrears [3]	0	0	met	0	0	0
Indicative targets						
6. Floor on the domestic primary balance	-1,610	-1,407	met	-2,193	-2,994	-2,883
7. Floor on total domestic revenues	16,662	19,481	met	26,767	27,657	36,926
8. Ceiling on expenditures by cash advances	150	150	met	150	150	150
9. Floor on domestically financed social spending	…	…		…		…
10. Floor on gross reduction of domestic payment arrears [2]	-1,058	-1,071	met	-1,589	-1,601	-2,119

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

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

[3] Excluding trade credits.

[4] Monitored on a continuous basis.

[5] In millions of US dollars. Only for the loan agreement with Export-Import Bank of India and destined to electricty power generation.

Table 2. Comoros: Structural Benchmarks Under the ECF Arrangement, 2012-13

Measure	Macroeconomic Justification	Date	Current status
Structural benchmarks			
Public finance management			
Adopt the terms of reference for the feasibility study for the budget framework and medium-term expenditure framework.	Increase efficiency in the budget and expenditure management	December 2012	Met
Appoint the board of directors of the new General Tax Administration	Increase efficiency in tax administration	March 31, 2013	Met
Establish an electronic network between the country's four major customs offices.	Increase efficiency of customs administration and facilitate achievement of medium-term revenue and key fiscal balance targets under the program.	June 30, 2013	Met
Prepare a strategy for reform of public financial management during 2014–17	Further increase efficiency of budget management; improve the quality of public expenditure; and enhance medium-term budget and macroeconomic viability.	June 2013	Not Met Requires technical assistance
Implement the new organizational frameworks for the Union and islands governments	Establish the appropriate size of the civil service to ensure medium-term budget sustainability	September 2013	Met
Public enterprise reform			
Issue a call for expressions of interest from potential strategic partners for Comores Télécom	Ensure reliable telecommunications services and limit budgetary pressures from subsidies	December, 2012	Met
Define a framework for reform of Société Comorienne des Hydrocarbures (SCH)	Ensure a reliable supply of petroleum products and limit budgetary pressures from subsidies	March 2013	Met
Complete a stocktaking of arrears between the state, MA-Mwe, Électricité d'Anjouan and SCH	Ensure a an efficient and effective functioning of the energy sector in support economic growth	September 2013	Not met Completed for all but Électricité d'Anjouan

Appendix 2: Debt Sustainability Analysis Update

1. **This debt sustainability analysis (LIC-DSA) updates the assessment included in the HIPC completion point documentation,[1] using the forward-looking debt sustainability framework (DSF) for low-income countries.** The present analysis confirms the conclusion of the previous DSA that, despite significant debt relief, Comoros remains at high risk of debt distress and debt dynamics remain vulnerable to a number of shocks over the projection period.

2. **Comoros reached the decision point of the HIPC Initiative in July 2010 and was granted debt relief by a number of multilateral and bilateral creditors, following the completion point in December 2012.** The authorities have continued making good faith efforts toward completing agreements with Paris Club and non-Paris Club bilateral creditors, as well as other official and commercial creditors on the provision of debt relief on terms compatible with the relief accorded under the November 2009 Paris Club Agreement and in the context of the HIPC Initiative. Understandings have now been reached with all the major non-Paris Club creditors, representing 16 percent of the total nominal stock of debt at end-2011. This includes, the Abu Dhabi Fund for Development, the Arab Bank for Development in Africa, the Islamic Development Bank, the Kuwait Fund, the Saudi Fund for Development, and Mauritius. One new loan ($41.6 million) was contracted in 2013 for project financing, but fell slightly below the concessionality benchmark established under the ECF.

Text Table 1. Nominal of Stock of External Debt
(Millions of U.S. dollars; end-of-period)

	2012 [1]	2013 [2]
Total external debt	**130.9**	**172.3**
Multilateral creditors	**96.7**	**96.6**
IMF	14.7	14.7
IDA	10.7	10.6
AfDB	0.0	0.0
BADEA	28.3	28.3
Other multilateral creditors	43.1	43.0
Official Bilaterals	**32.5**	**74.0**
Paris Club creditors	5.0	5.0
Non-Paris club creditors	27.6	69.1
UAE	0.0	0.0
Mauritius	0.6	0.5
Kuwait	27.0	27.0
India [3]	0.0	41.6
Commercial creditors	**1.6**	**1.6**

[1] After HIPC and MDRI relief. Part of the debt was still under restructuring/negotiation.
[2] Following Paris Club cancellation of all of its HIPC-eligible deb, rescheduling of short-term debt in arrears, and restructuring non-Paris club debt.
[3] Disbursements are expected over a 4-year period, starting in 2014.

[1] *Union of the Comoros—Enhanced Initiative for Heavily Indebted Poor Countries—Completion Point Document and Multilateral Debt Relief Initiative (*EBS/12/155, 12/03/12).

3. **The present value of the stock of debt at 22.4 percent of GDP slightly exceeds that in the last DSA prepared in December 2012, reflecting some depreciation of the exchange rate, and new lending.** The DSA takes into account all debt relief granted to date by multilateral organizations, Paris Club creditors, and the current status of relief provided by non-Paris Club creditors. The DSA also adds arrears that are now falling due but were not included in previous estimates. Also adding to the debt profile are the remaining credits and loans with Paris Club creditors of original maturity of one year or less for which the cancellation rate was only 47 percent. Finally, the new assessment is based on a discount rate of 5 percent, in line with the approved changes to the framework.

4. **The baseline macroeconomic assumptions for the current DSA are consistent with the macroeconomic framework underlying the current ECF arrangement** (see main document tables 1 and 4) and remain unchanged from the previous assessment. Real GDP growth is projected to accelerate over the medium term to 4 percent per year, CPI inflation over the long-term is projected to remain stable at around 3 percent per year, the current account deficit (including official grants) is expected to widen in 2014 on account of lower exports reflecting decline in commodity prices, and higher import volume associated with capital spending and projected increase in import prices for food and energy products, before it gradually declines, converging to about 7 percent of GDP over the projection period, remittances and FDI are projected to remain robust, fiscal consolidation is expected to continue over the medium term, and financing are assumed to be covered initially assumed mostly on grant terms, followed by loan financing for which the concessionality level gradually drops during the projection period. Strong fiscal adjustment will be required for the present DSA projections to materialize.

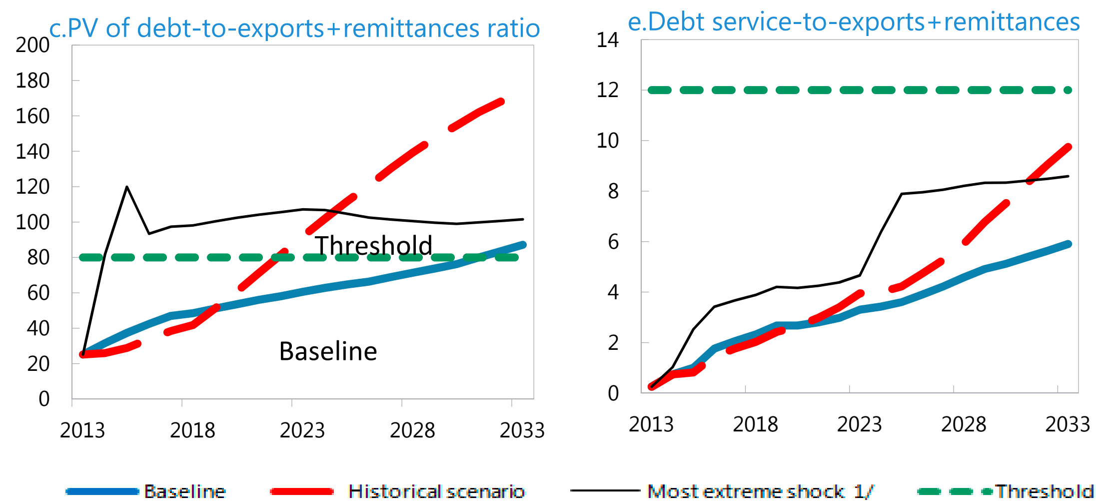
Baseline

5. **Under the baseline scenario, most external debt indicators for Comoros are projected to remain below their relevant indicative thresholds over the medium term** (Table 1a, Figure 1a). The present value of debt to GDP and revenues and debt service indicators are projected to remain below critical benchmarks over the projection span. However, compared to the external debt indicators in the last analysis, the current analysis shows some deterioration. Specifically, the debt to exports ratio is increasing at a faster pace, breaching the critical benchmark by the end of this decade, reflecting more conservative assumptions about export growth. The present value (PV) of public and publicly guaranteed (PPG) external debt to exports ratio is projected to be about 65 percent in 2013, below the critical benchmark, and gradually increases to above the 100 percent threshold for most of the projection period. In addition to the base effect, debt service is higher

compared to the previous analysis, reflecting the service falling due on arrears that had been assumed to be cancelled, but were not part of the final debt relief.

6. **Relevant debt ratios are substantially better when including remittances** (Text Figure 1). Including remittances, which account for some 20 percent of GDP and have been remarkably stable in recent years, the present value of external debt to exports is projected to be substantially lower than in the base case at around 25 percent in 2013, and although gradually increasing, remains below the 80 percent threshold over most of the projection period. The ratio of debt service to exports (plus remittances) similarly shows a substantially better picture.

Text Figure 1. Comoros: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios Including Remittances, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a Combination shock; in c. to a Non-debt flows shock; in d. to a Combination shock; in e. to a Non-debt flows shock and in figure f. to a Combination shock

Sensitivity Analysis

7. **The external debt outlook remains vulnerable to shocks, especially shocks to non-debt creating flows (e.g. FDI) and a combination of several other shocks** (Table 1b, and Figure 1b). The policy thresholds for three key ratios are breached under the most extreme stress tests for a prolonged period of time. Both the PV of external debt-to-GDP and the PV of external debt-to-revenues indicators deteriorate significantly under the scenario assuming a combined shock and a shock to non-debt creating flows.[2] Both indicators are most vulnerable to a combined-shock scenario entailing weaker GDP growth, lower exports, and subdued non-debt creating flows.

[2] In light of the exceptional amount of grants in 2013, the analysis assumes a smaller grant amount, as projected in 2014, which stabilizes the primary deficit at 1.1 percent of GDP over the projection span.

8. **The inclusion of Comoros' domestic public debt in the analysis does not significantly alter the dynamics of debt burden indicators** (Table 2a, 2b). Under the baseline scenario, the PV of total public debt-to-GDP is projected to increase moderately, but remain around 30 percent of GDP, over the medium term, reaching 35 percent by the end of the projection span. However, the present value of total public debt-to-revenue (including grants) ratio is projected to increase steadily over time, reaching rather high levels (82 percent) over the medium term. Further, the evolution of public debt indicators is sensitive to a wide range of shocks (Table 2b). The dynamics of debt appears unsustainable when key variables are kept at historical levels. While no full information on contingent liabilities is available, based on partial data, it seems that their effects are more than adequately covered in the effects of a 10 percent shock to debt creating flows in 2014.

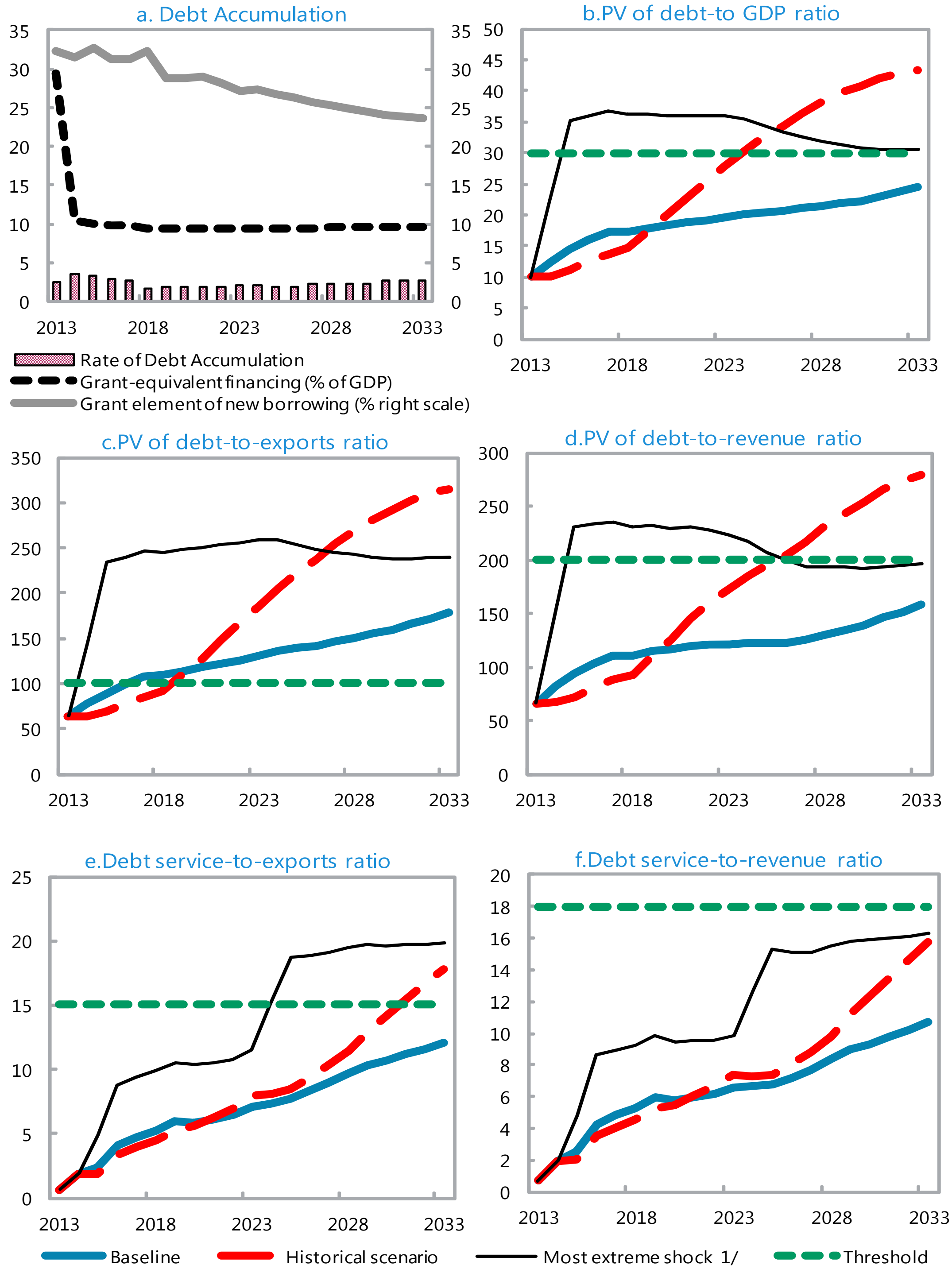
9. **The results of the assessment highlight the paramount importance of continued efforts in fiscal consolidation and structural reforms to achieve higher growth and ensure debt sustainability.** To that end, more efforts to diversify the economy and increase the scope for private sector contribution to key sectors, underpinned by steady progress in developmental and capacity building, will help sustain the growth momentum going forward.

Conclusion

10. **The DSA indicates that Comoros remains at high risk of debt distress, despite debt relief following the HIPC completion point in December 2012.** Under the baseline scenario the debt ratio and debt service indicators are rising gradually over the medium-term, increasing the risk of breaching critical benchmarks. Further, the stress tests indicate serious risks to sustainability.

11. **Ensuring sustainability and improving the external debt outlook will depend on maintaining sound macroeconomic policies.** The inclusion of Comoros' domestic debt in the analysis reinforces the conclusions of the external DSA and stresses the risks to debt prospects absent prudent policies to build the necessary buffers to be able to weather the effects of external shocks. In this context, it is essential that the authorities continue current efforts to strengthen public finance management, reform state-owned enterprises, and improve the investment climate so as to lay the foundation for rapid sustainable economic growth and ensure robust debt sustainability in the face of volatile shocks.

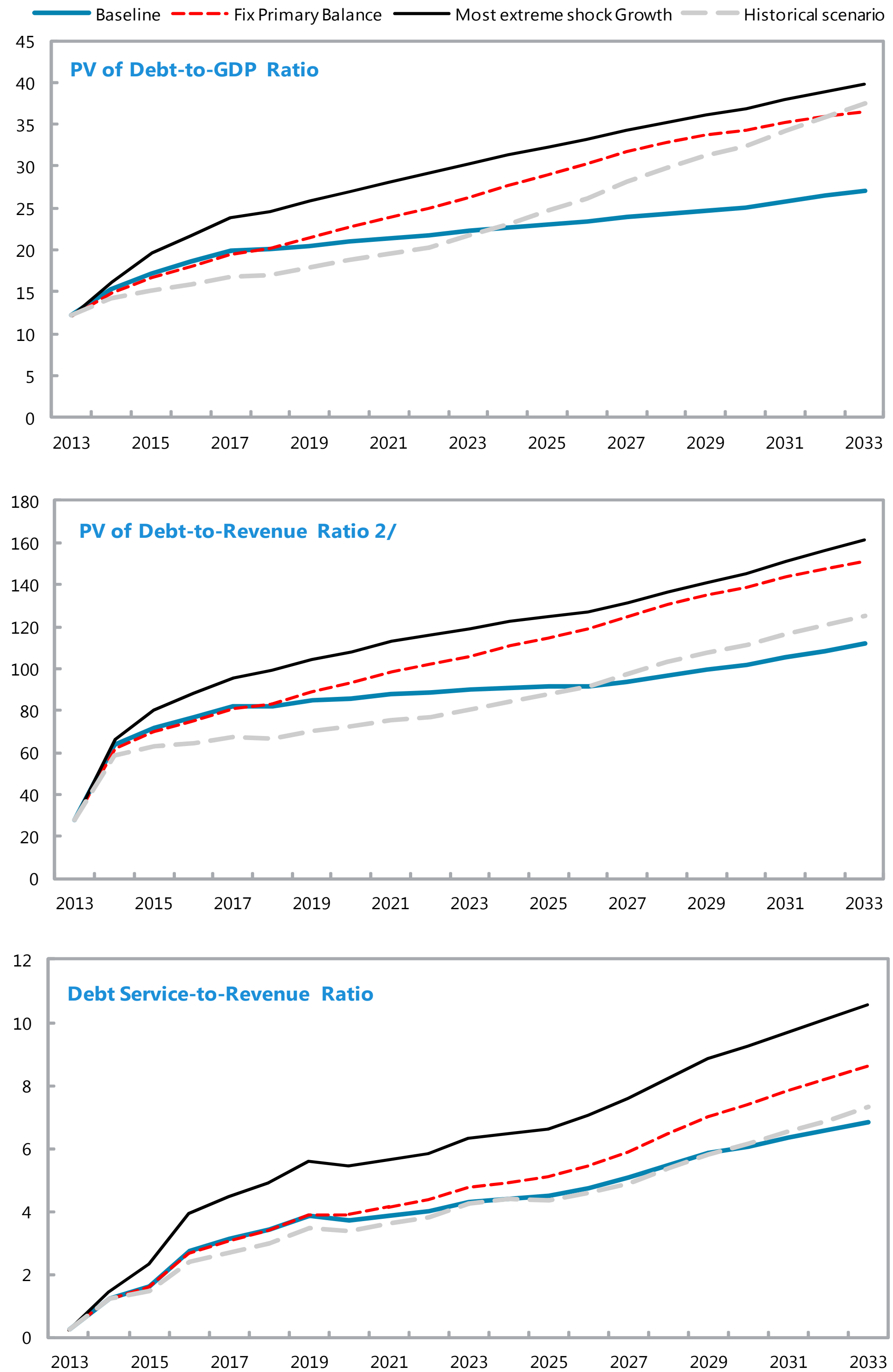
Figure 1a. Comoros: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

Figure 1b. Comoros: Indicators of Public Debt Under Alternative Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2010-2033 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**49.2**	**44.7**	**18.9**			**20.2**	**22.7**	**25.1**	**26.7**	**27.9**	**27.7**		**28.6**	**32.6**	
of which: public and publicly guaranteed (PPG)	49.2	44.7	18.9			20.2	22.7	25.1	26.7	27.9	27.7		28.6	32.6	
Change in external debt	-2.7	-4.5	-25.8			1.3	2.5	2.3	1.7	1.2	-0.2		0.4	0.7	
Identified net debt-creating flows	3.4	0.3	3.2			2.9	7.3	6.0	4.5	4.4	3.6		0.8	2.5	
Non-interest current account deficit	**5.3**	**9.1**	**3.5**	**6.2**	**2.7**	**6.0**	**10.4**	**8.8**	**7.1**	**6.9**	**5.9**		**2.5**	**3.7**	2.9
Deficit in balance of goods and services	34.2	33.9	39.0			37.5	36.5	33.6	31.1	29.2	27.8		22.6	20.4	
Exports	15.7	16.2	14.9			15.6	15.8	16.1	16.2	16.1	15.9		14.9	13.7	
Imports	49.9	50.2	53.9			53.1	52.3	49.7	47.3	45.3	43.7		37.5	34.1	
Net current transfers (negative = inflow)	-28.9	-24.9	-35.4	-21.5	7.5	-31.5	-26.2	-24.9	-24.0	-22.2	-21.6		-20.0	-16.9	-19.1
of which: official	-8.9	0.0	0.0			-2.8	1.0	1.3	1.2	1.2	1.2		0.3	0.3	
Other current account flows (negative = net inflow)	0.0	0.0	-0.2			0.0	0.1	0.1	0.0	-0.1	-0.3		-0.1	0.2	
Net FDI (negative = inflow)	**-1.5**	**-3.8**	**-1.7**	**-1.3**	**1.2**	**-2.6**	**-2.4**	**-2.3**	**-2.1**	**-1.9**	**-1.8**		**-1.1**	**-0.5**	-0.9
Endogenous debt dynamics 2/	**-0.3**	**-5.0**	**1.5**			**-0.5**	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-0.5**		**-0.5**	**-0.7**	
Contribution from nominal interest rate	0.4	0.3	0.4			0.1	0.2	0.3	0.3	0.4	0.5		0.6	0.8	
Contribution from real GDP growth	-1.0	-1.0	-1.4			-0.6	-0.7	-0.8	-0.9	-1.0	-1.1		-1.2	-1.5	
Contribution from price and exchange rate changes	0.3	-4.4	2.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-6.1**	**-4.8**	**-29.0**			**-1.5**	**-4.8**	**-3.7**	**-2.8**	**-3.2**	**-3.8**		**-0.5**	**-1.8**	
of which: exceptional financing	...	0.0	-22.6			...	...	...	...	...	...		...	...	
PV of external debt 4/	...	...	8.4			10.0	12.3	14.4	16.0	17.2	17.3		19.6	24.4	
In percent of exports	...	...	56.5			64.1	78.0	89.2	98.4	107.0	109.2		131.1	177.8	
PV of PPG external debt	**...**	**...**	**8.4**			**10.0**	**12.3**	**14.4**	**16.0**	**17.2**	**17.3**		**19.6**	**24.4**	
In percent of exports	**...**	**...**	**56.5**			**64.1**	**78.0**	**89.2**	**98.4**	**107.0**	**109.2**		**131.1**	**177.8**	
In percent of government revenues	**...**	**...**	**43.6**			**65.9**	**82.1**	**94.4**	**103.5**	**110.5**	**110.6**		**121.3**	**157.5**	
Debt service-to-exports ratio (in percent)	**11.4**	**10.0**	**10.6**			**0.7**	**1.8**	**2.4**	**4.1**	**4.7**	**5.2**		**7.1**	**12.1**	
PPG debt service-to-exports ratio (in percent)	**11.4**	**10.0**	**10.6**			**0.7**	**1.8**	**2.4**	**4.1**	**4.7**	**5.2**		**7.1**	**12.1**	
PPG debt service-to-revenue ratio (in percent)	**12.5**	**10.1**	**8.2**			**0.7**	**1.9**	**2.5**	**4.3**	**4.8**	**5.3**		**6.6**	**10.7**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.0	0.0			0.0	0.1	0.1	0.0	0.1	0.0		0.0	0.2	
Non-interest current account deficit that stabilizes debt ratio	8.0	13.6	29.3			4.7	7.8	6.5	5.5	5.7	6.1		2.1	3.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.1	2.2	3.0	1.8	1.3	3.5	4.0	4.0	4.0	4.0	4.1	3.9	4.4	5.1	4.6
GDP deflator in US dollar terms (change in percent)	-0.6	9.8	-5.2	7.4	9.4	5.6	4.3	4.2	4.2	4.0	4.1	4.4	3.3	3.3	3.3
Effective interest rate (percent) 5/	0.8	0.8	0.8	0.6	0.2	0.5	0.8	1.2	1.4	1.6	2.0	1.3	2.3	2.8	2.4
Growth of exports of G&S (US dollar terms, in percent)	10.1	15.7	-10.3	9.3	15.0	14.3	9.9	10.5	9.1	7.3	7.1	9.7	6.6	8.0	7.0
Growth of imports of G&S (US dollar terms, in percent)	6.3	12.7	5.0	15.8	11.7	7.6	6.7	3.0	3.2	3.5	4.5	4.8	6.7	8.1	6.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.3	31.5	32.8	31.3	31.2	32.3	31.9	27.1	23.6	26.3
Government revenues (excluding grants, in percent of GDP)	14.3	16.1	19.3			15.2	15.0	15.2	15.4	15.6	15.7		16.1	15.5	16.1
Aid flows (in Billions of US dollars) 7/	0.1	0.0	0.1			0.2	0.1	0.1	0.1	0.1	0.1		0.1	0.3	
of which: Grants	0.1	0.0	0.1			0.2	0.1	0.1	0.1	0.1	0.1		0.1	0.3	
of which: Concessional loans	...	...	...			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			29.5	10.5	10.1	9.9	9.8	9.4		9.5	9.6	9.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			93.8	77.9	78.0	78.7	79.9	86.1		81.9	75.6	80.7
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.5	0.6	0.6			0.7	0.7	0.8	0.8	0.9	1.0		1.4	3.1	
Nominal dollar GDP growth	1.5	12.2	-2.4			9.4	8.4	8.4	8.3	8.2	8.4	8.5	7.8	8.5	8.0
PV of PPG external debt (in Billions of US dollars)			0.1			0.1	0.1	0.1	0.1	0.2	0.2		0.3	0.8	
(PVt-PVt-1)/GDPt-1 (in percent)						2.5	3.4	3.3	2.9	2.7	1.6	2.7	2.1	2.8	2.2
Gross workers' remittances (Billions of US dollars)	0.1	0.1	0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.2	0.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	6.7			8.0	10.0	11.7	13.1	14.3	14.5		16.7	21.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	20.8			25.1	31.5	37.4	42.4	46.9	48.5		60.6	87.1	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	3.9			0.3	0.7	1.0	1.8	2.1	2.3		3.3	5.9	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

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

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

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

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b.Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	10	12	14	16	17	17	**20**	24
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	10	10	11	13	14	15	**28**	43
A2. New public sector loans on less favorable terms in 2013-2033 2	10	13	16	19	21	21	**26**	36
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	10	13	15	17	18	19	**21**	26
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	10	14	19	21	22	22	**23**	25
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	10	13	16	18	20	20	**22**	28
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	10	23	34	35	36	35	**35**	28
B5. Combination of B1-B4 using one-half standard deviation shocks	10	22	35	36	37	36	**36**	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	10	17	20	22	24	24	**28**	34
PV of debt-to-exports ratio								
Baseline	64	78	89	98	107	109	**131**	178
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	64	64	68	77	86	92	**186**	315
A2. New public sector loans on less favorable terms in 2013-2033 2	64	84	101	115	128	134	**173**	260
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	64	78	90	99	107	110	**132**	179
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	64	103	163	173	184	186	**212**	253
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	64	78	90	99	107	110	**132**	179
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	64	146	213	217	222	221	**232**	207
B5. Combination of B1-B4 using one-half standard deviation shocks	64	146	235	239	246	245	**259**	239
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	64	78	90	99	107	110	**132**	179
PV of debt-to-revenue ratio								
Baseline	66	82	94	103	110	111	**121**	157
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	66	67	72	81	88	93	**173**	279
A2. New public sector loans on less favorable terms in 2013-2033 2	66	88	107	121	133	135	**160**	230
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	66	85	101	111	119	119	**130**	169
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	66	93	126	133	139	138	**144**	164
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	66	88	107	118	125	126	**138**	179
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	66	154	226	228	229	224	**215**	184
B5. Combination of B1-B4 using one-half standard deviation shocks	66	148	230	234	236	231	**223**	197
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	66	116	133	146	156	156	**171**	222

Table 1C. Comoros: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033

(In percent)

Debt service-to-exports ratio								
Baseline	1	2	2	4	5	5	**7**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	1	2	2	3	4	4	**8**	18
A2. New public sector loans on less favorable terms in 2013-2033 2	1	2	2	4	5	6	**8**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	1	2	2	4	5	5	**7**	12
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	1	2	4	7	8	8	**11**	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	1	2	2	4	5	5	**7**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	1	2	4	8	8	9	**10**	18
B5. Combination of B1-B4 using one-half standard deviation shocks	1	2	5	9	9	10	**11**	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	1	2	2	4	5	5	**7**	12
Debt service-to-revenue ratio								
Baseline	1	2	3	4	5	5	**7**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	1	2	2	4	4	5	**7**	16
A2. New public sector loans on less favorable terms in 2013-2033 2	1	2	2	5	6	7	**7**	16
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	1	2	3	5	5	6	**7**	11
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	1	2	3	5	6	6	**7**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	1	2	3	5	5	6	**7**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	1	2	5	8	9	9	**9**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	1	2	5	9	9	9	**10**	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	1	3	4	6	7	7	**9**	15
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	26	26	26	26	26	26	**26**	26

Sources: Country authorities; and staff estimates and projections.

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

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming) an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a.Comoros: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010-2033

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	51.4	47.2	21.2			22.4	25.7	27.9	29.3	30.6	30.4		31.3	35.3	
of which: foreign-currency denominated	49.2	44.7	18.9			20.2	22.7	25.1	26.7	27.9	27.7		28.6	32.6	
Change in public sector debt	-3.3	-4.3	-26.0			1.2	3.3	2.2	1.4	1.2	-0.2		0.4	0.7	
Identified debt-creating flows	-7.6	-7.4	-13.7			-19.9	-0.1	-0.2	-0.7	-1.0	-1.3		-1.9	-1.3	
Primary deficit	-7.4	-1.8	-3.9	-0.4	3.3	-18.3	1.5	1.5	1.1	0.8	0.6	-2.1	-0.2	0.6	0.0
Revenue and grants	29.2	23.6	28.9			43.7	24.1	23.9	24.1	24.2	24.4		24.8	24.2	
of which: grants	14.9	7.5	9.6			28.6	9.1	8.7	8.7	8.7	8.7		8.7	8.7	
Primary (noninterest) expenditure	21.7	21.8	25.0			25.4	25.6	25.4	25.2	25.1	24.9		24.6	24.7	
Automatic debt dynamics	-0.2	-5.7	1.3			-1.6	-1.6	-1.7	-1.8	-1.8	-1.8		-1.6	-1.9	
Contribution from interest rate/growth differential	-2.9	-3.0	-2.2			-1.3	-1.4	-1.5	-1.6	-1.6	-1.6		-1.6	-1.9	
of which: contribution from average real interest rate	-1.8	-1.9	-0.8			-0.5	-0.5	-0.5	-0.5	-0.5	-0.4		-0.3	-0.2	
of which: contribution from real GDP growth	-1.1	-1.1	-1.4			-0.7	-0.9	-1.0	-1.1	-1.1	-1.2		-1.3	-1.7	
Contribution from real exchange rate depreciation	2.8	-2.6	3.5			-0.3	-0.3	-0.2	-0.2	-0.2	-0.2		...	...	
Other identified debt-creating flows	0.0	0.0	-11.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	-11.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	4.3	3.2	-12.3			21.1	3.4	2.5	2.1	2.2	1.1		2.2	2.0	
Other Sustainability Indicators															
PV of public sector debt	2.2	2.5	10.7			12.2	15.3	17.2	18.6	19.8	20.0		22.3	27.1	
of which: foreign-currency denominated	0.0	0.0	8.4			10.0	12.3	14.4	16.0	17.2	17.3		19.6	24.4	
of which: external	...	...	8.4			10.0	12.3	14.4	16.0	17.2	17.3		19.6	24.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-3.4	1.9	0.0			-16.1	3.8	4.6	4.4	4.0	3.8		3.3	4.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	7.7	10.6	37.2			27.8	63.3	72.1	77.1	81.8	82.2		89.8	112.1	
PV of public sector debt-to-revenue ratio (in percent)	15.7	15.5	55.6			80.2	101.8	113.1	120.6	127.5	127.6		138.2	174.9	
of which: external 3/	...	...	43.6			65.9	82.1	94.4	103.5	110.5	110.6		121.3	157.5	
Debt service-to-revenue and grants ratio (in percent) 4/	6.1	6.9	5.5			0.2	1.2	1.6	2.7	3.1	3.4		4.3	6.8	
Debt service-to-revenue ratio (in percent) 4/	12.5	10.1	8.2			0.7	1.9	2.5	4.3	4.8	5.3		6.6	10.7	
Primary deficit that stabilizes the debt-to-GDP ratio	-4.2	2.5	22.1			-19.5	-1.8	-0.8	-0.3	-0.4	0.8		-0.6	-0.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.1	2.2	3.0	1.8	1.3	3.5	4.0	4.0	4.0	4.0	4.1	3.9	4.4	5.1	4.6
Average nominal interest rate on forex debt (in percent)	0.8	0.8	0.8	0.6	0.2	0.5	0.8	1.2	1.4	1.6	2.0	1.3	2.3	2.8	2.4
Average real interest rate on domestic debt (in percent)	-4.2	-4.5	-2.5	-3.6	1.4	-3.0	-3.1	-3.1	-3.1	-3.1	-3.2	-3.1	-3.2	-3.2	-3.2
Real exchange rate depreciation (in percent, + indicates depreciation	5.6	-5.7	8.2	-2.8	7.8	-2.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.4	4.7	2.6	3.8	1.5	3.1	3.2	3.2	3.2	3.2	3.3	3.2	3.3	3.3	3.3
Growth of real primary spending (deflated by GDP deflator, in percer	0.0	0.0	0.2	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	32.3	31.5	32.8	31.3	31.2	32.3	31.9	27.1	23.6	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 2b.Comoros: Sensitivity Analysis for Key Indicators of Public Debt 2013-2033

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	12	15	17	19	20	20	22	27
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	14	15	16	17	17	22	38
A2. Primary balance is unchanged from 2013	12	15	17	18	20	20	26	37
A3. Permanently lower GDP growth 1/	12	15	17	19	20	21	24	34
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	12	16	20	22	24	25	30	40
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	12	16	19	21	22	22	24	28
B3. Combination of B1-B2 using one half standard deviation shocks	12	15	18	20	22	23	28	37
B4. One-time 30 percent real depreciation in 2014	12	19	20	21	22	22	23	28
B5. 10 percent of GDP increase in other debt-creating flows in 2014	12	23	24	25	26	26	28	30
PV of Debt-to-Revenue Ratio 2/								
Baseline	28	63	72	77	82	82	90	112
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	28	58	63	65	67	67	80	125
A2. Primary balance is unchanged from 2013	28	62	70	75	81	83	106	151
A3. Permanently lower GDP growth 1/	28	64	73	78	84	85	98	138
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	28	66	80	88	96	99	119	161
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	28	68	81	85	90	90	96	116
B3. Combination of B1-B2 using one half standard deviation shocks	28	64	73	81	88	91	110	149
B4. One-time 30 percent real depreciation in 2014	28	78	84	87	89	89	94	115
B5. 10 percent of GDP increase in other debt-creating flows in 2014	28	94	101	105	108	108	111	124
Debt Service-to-Revenue Ratio 2/								
Baseline	0	1	2	3	3	3	4	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	0	1	1	2	3	3	4	7
A2. Primary balance is unchanged from 2013	0	1	2	3	3	3	5	9
A3. Permanently lower GDP growth 1/	0	1	2	3	3	3	5	8
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	0	1	2	3	4	4	5	9
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	0	1	2	3	3	4	4	7
B3. Combination of B1-B2 using one half standard deviation shocks	0	1	2	3	3	4	5	9
B4. One-time 30 percent real depreciation in 2014	0	1	2	4	4	5	6	11
B5. 10 percent of GDP increase in other debt-creating flows in 2014	0	1	3	4	4	4	5	8

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Appendix 3: Third Annual Progress Report on the Poverty Reduction and Growth Strategy

Comoros's progress in implementing the Poverty Reduction and Growth Strategy (PRGS 2010–14) has been broadly satisfactory. Significant improvements have been realized on several key quantitative indicators of development—especially malaria prevalence, school enrollment ratios and infant/maternal mortality rates. Nevertheless, challenges remain in securing improved access to clean water and energy and progress on overall poverty reduction in not clear.

1. **Comoros 's PRGS was adopted in September 2009.** Its long-term objective is to achieve the Millennium Development Goals (MDGs), while supporting the achievement of the HIPC completion points.

2. **The GPRS seeks to induce patterns of inclusive growth by increasing the allocation of funds for investment through the following pillars:** (i) stabilizing the economy and laying the foundation for inclusive growth, (ii) strengthening sectors with high growth potential by promoting private sector development; (iii) strengthening governance and social cohesion and (iv) enhancing social and human development. The strategy's macroeconomic context is favorable after Comoros has reached the HIPC and MDRI initiatives completion point in end-December 2012, permitting the resulting savings to help fund the strategy. Text Box 1 contains additional background information on the third pillar of the strategy.

3. **The current Annual Progress Report (APR) details a number of improvements in social indicators.** Progress has been strongest in improving school enrollment and infant/maternal mortality rates, with less progress on access to medical staff, water and sanitation. Progress on poverty reduction is less clear cut as different assessment methods show contradictory results. Poverty increased by 2 percent over the period 2004–2012 based on GDP per capita criterion while it fell by 2 percent using a per capita consumption-based indicator. It is expected that more complete data on the poverty impact will be available by the end of year, when several household surveys will be completed. The report does not provide an assessment of the dynamics of inequalities in Comoros over the relevant period.

Table 1: Poverty and Social Indicators.

Indicator	*2005*	*2011*	*2012*	*2005-2012*	*2013 Targets*
GDP per capita (CF)	142,188	135,302	135,721	137,974	136,788
Consumption per capita (CF)	136,131	132,734	135,084	137,461	136,131
Poverty reduction (GDP per capita based)[1] in percent	-0,1	0,0	-0,1	+2	-0,3
Poverty reduction (consumption per capita based) in percent	-2,2	-0,5	-0,7	-2	-0,7
Electricity coverage (percent	--	45	45	--	60
Access to clean water (percent)	--	11	12	--	25
Infant mortality (per 1000)	--	79	53	--	--
Maternal mortality (per 100,000)	--	340	280	--	--
School enrollment net rate (percent)	--	73	86	--	--

Source: Commissariat General du Plan (CGP), Comoros

[1] In the latest available figures 2005, poverty was estimated to be at 36.9 percent.

4. **The report highlights the following lessons and challenges identified as impediments to the implementation and evaluation of the GPRS in Comoros.**

- Insufficient funding for all activities including in the economic stabilization pillar of the original strategy has impeded efforts to build a strong foundation for inclusive growth. Efforts should be devoted to reallocate excess of resources from other pillars of the strategy to meet the financing needs in this area, which remains the core of the government strategy.

- The implementation arrangements for the GPRS were very complex and did not work well. In particular, absence of coordination and misalignment between the GPRS plans and the government's programs, both at the Union and island levels, have hampered the success of the strategy. It will thus be important that all parties involved in the implementation align their strategies to ensure consistency with the GPRS.

- After two years of implementation, only 24 percent of the targeted resources necessary for the implementation of the GGPRS could be mobilized (against a target of 64 percent by 2012). This is mainly attributed to insufficient coordination of activities and targeting of activities to lower priority areas. A fully integrated framework among donors involved in the realization of the GPRS should be put in place to focus on priorities.

- Lack of statistical data has made the reporting on progress exceedingly difficult. Most of the available data are based on sectoral surveys that are seriously out-of-date. The lack of a central nation-wide statistical institute and lack of coordination among sectoral data collectors undermines the relevance of the report and the reliability of the findings. The creation of the National Institute of Statistics (NSI), as foreseen by law, will be crucial to make progress in this area.

Text Box 1: Governance and Social Cohesion

Comoros' government places *governance and social cohesion* among the central pillars of its *growth and poverty reduction strategy* (GPRS). The objective is to address the political instability faced by Comoros over the last decades by building up institutional arrangements and solidarity mechanisms to strengthen social cohesion. In the absence of a developed formal social protection scheme, these mechanisms could act as substitutes to help low income segments of the population mitigate adverse shocks, improve social and human development, and allow for more inclusive growth.

Social cohesion, as a byproduct of peace consolidation, should be achieved through governance capacity development, specific work programs and transfers to vulnerable individuals. With the support of Peace Consolidation Fund (FCP), weapons have been collected from former police forces in Anjouan and an amnesty law was promulgated in 2012 to fully integrate these forces into the social network. Social safety nets have been strengthened through training to enhance skills especially in breeding animals and food transfers. To further strengthen governance based on democratic principles, new equipment for the electoral census was acquired in 2012 with support of the United Nations Development Program.

A budget of 5.7 billion CF was devoted to *governance and social cohesion* activities in 2012. This represents 6.3 percent of the total amount projected for this objective over 2011-2014, reflecting the commitment of both donors and authorities to address the roots of political instability that have undermined the country's development over the previous decades. Nevertheless, lack of sufficient data coupled with lack of coordination among stakeholders makes it difficult to consistently assess the country's progress in this area.

Going forward several implementation challenges have to be addressed. Lack of ownership of the program by the national authorities along with misalignment of sectoral programs with the GPRS has seriously impeded the success of the program in achieving its main objectives. For 2013 sectoral departments have designed and adopted their programs to fit within the national GPRS framework.

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IMF Executive Board Concludes the Sixth and Final Review under the Extended Credit Facility Arrangement with the Union of the Comoros

The Executive Board of the International Monetary Fund (IMF) today completed the sixth and final review under the three-year arrangement under the Extended Credit Facility (ECF) for the Union of the Comoros. The completion of the review enables the disbursement of an amount equivalent to SDR 1.55 million (about US$2.4 million). In completing the review, the Board approved a waiver for the nonobservance of the performance criterion on net credit to the government at end-June 2013.

The three-year Extended Credit Facility (ECF) arrangement for the Union of the Comoros was approved in September 2009, for the equivalent of SDR 13.5725 million (US$13.57 million, or 152.5 percent of quota, see Press Release No. 09/315).

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

"The authorities are to be commended for significant progress in implementing their Fund-supported adjustment program. As the financing arrangement under the Extended Credit Facility draws to a close, structural reforms have advanced and the main macroeconomic objectives have been achieved. Growth with low inflation has been sustained, and the fiscal position has strengthened. Looking ahead, it will be important to safeguard macroeconomic stability and further reduce poverty through prudent policies and continued reforms.

"Additional efforts are needed to strengthen cash management, budget preparation, and expenditure control as well as bolster domestic revenue mobilization. It will also be critical to preserve the gains from debt relief through continued reliance on concessional financing and improved debt management.

"Structural reforms of public utilities and further investment in infrastructure will help accelerate growth and poverty reduction. Plans to reform the energy sector and address other supply-side bottlenecks hold out the promise to improve the business environment and strengthen medium-term prospects.

"Going forward, strong policies remain crucial, and continued close engagement with the Fund will be important."

Statement by Mr. Kossi Assimaidou, Executive Director and Mr. Woury Diallo, Alternate Executive Director on Union of the Comoros December 13, 2013

I. Introduction

The authorities of the Union of the Comoros have continued to make steady progress in their efforts to stabilize the economy and implement structural reforms under the ECF. With the ECF coming to an end, my authorities thank the Board, Management and Staff for their continued support. The Staff's advice and guidance in formulating sound policies to address the country's economic challenges have been instrumental in helping achieve an overall satisfactory performance under the program.

Under the current sixth and final review of the program, the authorities met all but one of the performance criteria. They exceeded the *ceiling on net credit to the government* at end-June —for which they are requesting a waiver— following the disbursement of a loan to *Société Comorienne des Hydrocarbures* (SCH) that was not paid back to the government by end-June as initially expected.

The authorities also made progress on the structural reforms front, meeting key fiscal benchmarks. They established an electronic network between the country's main customs offices and, implemented new organizational frameworks for the overall civil service. However, they delayed the preparation of a medium-term strategy for public financial management reform until further technical assistance is provided.

While Comoros' economic outlook remains favorable, the authorities share the assessment that the country remains vulnerable to a number of potential shocks. They are aware of the daunting challenges ahead and are taking important measures to address them. They have launched key development projects in the promising areas of fishing and tourism —taking advantage of their geographical location—, with the intention to accelerate the diversification of the economy away from subsistence agriculture and cash crops.

The authorities understand that the macroeconomic progress achieved so far remains fragile and will require close and coordinated support from the Fund and the donor community. As indicated by Staff, the authorities have expressed interest in a follow-up arrangement with the IMF and will further discuss with the Staffs of the Fund and the World Bank along with other key partners, the priorities for future engagement.

The authorities also would like to reiterate their firm commitment to accelerating the fight against poverty which remains at the core of their development agenda.

II. Recent Economic Developments

Economic growth strengthened and is projected to reach 3.5 percent in 2013 —compared to 3 percent in 2012. Construction, road building, and agriculture remain the main engines of growth while high levels of remittances from the diaspora and robust credit to the private sector helped support private consumption and investment. Inflation is projected to reach a moderate average 2.3 percent in 2013 thanks to a good harvest and favorable international food and fuel prices. Despite a sizeable increase in exports, the current account deficit will widen to 6.1 percent of GDP, led by stronger imports associated with foreign financed investment projects which more than offset the increase in exports.

Fiscal policy. The fiscal position weakened during the third quarter due to a combination of factors that affected both spending and budget revenues. On the expenditures side, the authorities increased capital spending —including the purchase of small commercial airplane— in anticipation of revenues from the Economic Citizenship Program. Unfortunately, these revenues failed to materialize as the ECP program was suspended unexpectedly.

In close coordination with the Fund, the authorities swiftly took remedial actions to address the deterioration in the fiscal accounts. Most notably, SCH and the government reached an agreement on a repayment schedule for the outstanding loan while also agreeing on transferring the collection of the single tax on petroleum products from SCH to the customs administration. Furthermore, non-priority expenditures were frozen.

The authorities are confident that these measures will help contain both the primary fiscal deficit and credit to the government within the end-year targets under the program. They also believe, based on ongoing discussions with the external partner involved in the ECP that the suspension of the program will be lifted soon and that receipts from the ECP will resume before end-year. Nevertheless, to avoid a repeat of such slippages, my authorities have agreed with Staff that half of these receipts will be saved while the other half will be allocated to social and infrastructure spending.

To further strengthen government finances over the medium-term, the government has submitted a draft 2014 budget to Parliament that targets an increase in revenues to GDP thanks to the strengthening of the country's revenue administration while curtailing current expenditures, especially the wage bill through the implementation of the organizational frameworks of the civil service.

In the longer run, the focus remains on reinforcing public financial management, especially given the findings of the recent FDA TA mission mentioned in the Staff report. The authorities will work closely with the Fund and the donor community to implement the recommendations made and address the highlighted shortcomings.

Financial sector. Overall, the Comorian banking system remains sound. All banks are solvent and liquid except for the undercapitalized *Société Nationale des Postes et des Services Financiers* (SNPSF). The authorities are exploring every venue to accelerate the recapitalization and restructuring of SNPSF given the persistent uncertainties regarding its takeover by a Gulf investor. Should the envisaged participation of the Gulf partner fail to materialize, a back up plan to recapitalize and restructure SNPSF has been adopted by the board of the central bank. The central bank has also imposed stricter controls on the financial institution to prevent a worsening of its situation.

III. Conclusion

Under difficult circumstances, the Comoros has made important progress in their reform efforts with the assistance of the Fund and development partners. My Comorian authorities are fully determined to pursue these reform efforts and to take steps to address the challenges facing the economy. It is their intention, as noted above, to request a follow-up arrangement with the Fund to assist them in these efforts. In the meantime, and in light of the progress achieved under the sixth review and the measures taken, I would like to request the support of the Board for a waiver for the non-observance of the performance criterion on net credit to the government for end-June and the completion of the sixth and final review.