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IMF Executive Board Approves US\$5.1 Million in Emergency Post-Conflict Assistance and Exogenous Shocks Facility Disbursements to the Union of the Comoros

The Executive Board of the International Monetary Fund (IMF) has approved a disbursement in an amount equivalent SDR 2.2 million (about US\$3.4 million) under the rapid-access component of the Exogenous Shocks Facility (ESF) to the Union of the Comoros.

In September 2008 the Executive Board approved modifications to the ESF, which provided for faster and higher access, made the facility easier to use, and enhanced its flexibility. Those modifications came into effect in late November. The disbursement under the rapid-access component of the ESF helps mitigate the impact of higher fuel and food prices on the balance of payments in 2008.

The Executive Board has also approved a loan disbursement in an amount equivalent to SDR 1.1 million (about US\$ 1.7 million) in Emergency Post-Conflict Assistance (EPCA) to Comoros, bringing total support to Comoros to SDR 3.3 million (about US\$5.1 million). The support through the EPCA aims to address the immediate post-conflict challenges of re-establishing inter-island cooperation, initiating restoration of fiscal viability, tackling core economic distortions, and gradually putting the economy on a path of stronger and sustainable growth.

Following the Executive Board's discussion on December 15, 2008, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

“Against a backdrop of persistent political instability, Comoros’ growth performance has suffered, while higher food and energy costs have weakened the external position and adversely affected vulnerable groups. The external debt burden, including accumulated arrears, is unsustainable. Membership in the franc zone, however, has served as an anchor of stability. With political tensions declining, the authorities are to be commended for timely introduction of a comprehensive economic and program to tackle these challenges.

“In the macroeconomic area, the government has resumed inter-island cooperation in budget and economic management, and is endeavoring to strengthen the fiscal position through implementation of strong revenue-enhancing measures and better control of the wage bill.

Achieving the 2008 fiscal targets will provide confidence to donors and to the private sector regarding government readiness to put the budget on a sustainable path. To prevent a worsening of the debt situation, the authorities will limit their fiscal deficits to levels that can be covered by identified external assistance, mostly in the form of grants.

“On the structural front, the government has started tackling key structural impediments to growth. The recent upward revision of petroleum products prices and electricity tariffs, which reverses a freeze in effect over the last several years, is welcome. The authorities have also established a flexible-pricing mechanism for fuel products, cognizant that this is critical to making power supply more reliable—a key growth-supporting ingredient. Furthermore, with technical support from the World Bank and other donors, the government has initiated preparations for reform of state-owned enterprises, and is working to ensure completion of the PRSP by end-March 2009. Other structural reforms are aimed at enhancing the efficiency of public administration, including right sizing staffing levels for the civil service and streamlining its organizational structure.

“At the same time, reform implementation risks remain considerable for Comoros, given institutional capacity constraints, the challenging political environment, and the country’s vulnerability to external shocks. In this challenging environment, close adherence to reforms will be key to securing increased donor support, restoring economic competitiveness, and more generally, creating conditions for accelerated growth; all of which would enhance the effectiveness of the country’s poverty reduction strategy. To achieve a resolution of the unsustainable debt situation will require moving to a PRGF-supported program and attaining HIPC and MDRI debt relief.” Mr. Kato said.

Recent Economic Developments

Economic conditions have dramatically deteriorated in the Union of the Comoros in the last two years. In 2007, real GDP grew a scant 0.5 percent, compared with an annual average of 2.5 percent during 1999-2006. Economic activity remained subdued in the first half of 2008, and real GDP is likely to stagnate at 0.5 percent for the year as whole. In addition to a decline in the terms of trade, growth is held back by a difficult energy situation following cancellation in April 2008 of a long-standing fuel supply contract with a major French oil company.

In 2007, inflation rose sharply to 4.5 percent driven by higher food and fuel prices. End-year inflation is projected to accelerate to 9.6 percent in 2008, spurred by continuing pressures from rising world food and fuel prices in the initial 9 months of the year.

Fiscal performance has weakened further in 2007-08, although corrective measures are being taken for 2009 and the medium term. The domestic primary fiscal deficit increased to 2.2 percent of GDP in 2007, and fiscal data through end-September suggest that the deficit will further rise to 2.7 percent of GDP in 2008.

In the face of steady real appreciation of the euro-pegged Comoros franc, and with the terms of trade declining by an annual average of 16 percent in the last three years, the external current account deficit hit the equivalent of 6.7 percent of GDP in 2007. The deficit is projected to widen further to 8.7 percent of GDP in 2008—mostly on account of higher food and energy prices in the first 9 months of the year. At a projected 236 percent of exports in net present value terms by end-2008, the country's external debt is unsustainable.

Program Summary

Against a background of low growth, the EPCA-supported program focuses on revenue mobilization and containing the wage bill. The structural agenda seeks to gradually restore inter-island cooperation, tackle selected structural impediments to medium-term expenditure viability, and begin addressing core economic distortions. If successfully implemented, the program could count as track record toward the decision point for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. This could create conditions for longer-term donor reengagement in strengthening the authorities' capacity to implement macroeconomic policies.

The IMF support under the rapid access component of the ESF will help smooth adjustment to a sizeable terms of trade shock in 2008. To address the shock, the authorities have initiated critical corrective measures. Especially noteworthy are a tightening of fiscal policy and the gradual introduction of market-based prices for key import and export commodities, all of which should contribute to a narrowing of the Comoros' external imbalances over time.

The Comoros: Selected Economic and Financial Indicators, 2006-13

	2006	2007	2008	2009	2010	2011	2012	2013
			Prog.		Proj.			
(Annual percentage change, unless otherwise indicated)								
National income and prices								
Real GDP	1.2	0.5	0.5	1.0	2.0	3.0	3.5	4.0
Consumer price index (average)	3.4	4.5	5.9	4.9	1.5	2.9	3.1	3.1
Real effective exchange rate	134	129
Terms of trade	-6.9	-20.3	-21.2	17.1	-3.1	-1.4	0.3	0.7
Money and credit								
Net foreign assets	6.3	5.0	0.8	0.8	0.4	0.8	1.0	1.1
Domestic credit	5.0	6.0	11.9	-0.4	2.7	4.2	5.1	6.1
Credit to government	63.9	-0.2	31.6	-3.5	0.6	2.3	3.5	4.2
Broad money	4.3	1.1	7.1	7.2	5.5	8.3	9.3	7.7
(in percent of GDP, unless otherwise indicated)								
Investment and savings								
Investment	9.2	10.4	10.5	12.8	13.9	14.5	15.1	15.8
Gross national savings	3.2	3.7	1.8	2.2	3.6	3.5	4.7	5.2
Government budget								
Domestic Revenue	13.6	12.7	12.4	12.7	13.0	13.4	13.9	14.3
Total grants	5.0	7.6	8.9	5.9	6.1	6.3	6.5	6.7
Total expenditure	21.2	22.3	21.7	21.2	21.3	21.4	21.6	21.6
Domestic primary balance	-1.2	-2.2	-2.7	-1.6	-1.3	-0.8	-0.3	0.3
Overall balance (cash basis)	-1.7	-3.4	0.0	-3.4	-2.5	-2.2	-1.7	-1.2
Excluding grants	-6.7	-11.0	-8.9	-9.3	-8.6	-8.4	-8.2	-7.8
External sector								
Current account balance	-6.1	-6.7	-8.7	-10.5	-10.3	-11.0	-10.4	-10.6
Excl. official and private transfers	-24.3	-26.5	-28.4	-26.6	-27.1	-27.4	-27.3	-27.9
NPV of external debt to exports of goods and services	390	249	236	218	208	193	175	160

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