

SUR/08/117*

December 16, 2008

**The Acting Chair's Summing Up
Union of the Comoros—2008 Article IV Consultation and
Requests for Emergency Post-Conflict Assistance and for Disbursement Under the
Rapid-Access Component of the Exogenous Shocks Facility
Executive Board Meeting 08/110
December 15, 2008**

Executive Directors agreed with the thrust of the staff appraisal. They noted that after a long period of political instability, that had taken a severe toll on various economic and social indicators, the return to political stability is allowing the authorities to address deep-rooted macroeconomic distortions and structural rigidities. In addition, the economy has been confronted with the impact of recent food and fuel price shocks. Directors welcomed therefore the authorities' intention to implement a broad-ranging macroeconomic and structural reform program aimed at achieving fiscal sustainability, while improving the investment climate and strengthening institutions and governance.

Directors considered the authorities' fiscal consolidation efforts to be properly focused on restoring inter-island cooperation, mobilizing revenue, containing the wage bill, and refocusing spending on pro-growth and poverty-reducing programs. They welcomed the introduction of measures to improve customs and tax administration, refocus civil service recruitment policies, and streamline government ministerial portfolios. Directors recognized that Comoros' fiscal prospects remain difficult as illustrated by sizeable financing requirements for 2009 and beyond and by unsustainable public debt levels. They urged additional donor financing to support the authorities' efforts, while encouraging prudent public debt management.

Directors noted that the exchange rate peg continues to anchor macroeconomic stability, and the staff's assessment that the real effective exchange rate is in line with economic fundamentals. Recognizing nonetheless, the erosion of external competitiveness and narrow export base, they supported the authorities' plans to bolster the export sector and diversify the economy.

Directors encouraged the authorities to vigorously implement their structural reform agenda in order to place the Comoros economy on a more rapid growth path. Accordingly, they welcomed the recent upward revisions of petroleum products prices and electricity tariffs, following several years of a freeze, and the establishment of a flexible-pricing

* Being reissued to reflect the correct document series (previously issued as BUFF/08/182).

mechanism for fuel products; these actions should make power supply more reliable, easing a key constraint on growth. Directors endorsed the authorities' plans to reform public enterprises and improve the business environment, particularly in the agricultural sector, by streamlining business licensing requirements and strengthening investor protection and the legal system. They emphasized that an early completion of the PRSP would help set clearer priorities for the structural reforms and identify needs for technical and financial assistance.

Directors underscored the importance of enhancing financial intermediation to facilitate private sector growth and development. They welcomed the recent decision to allow entry of additional foreign commercial banks. Directors also stressed the importance of enhancing financial sector supervision. A few Directors called for a strengthening of the AML/CFT framework and in this context, Directors welcomed the recent parliamentary approval of AML/CFT legislation. Directors supported the ongoing reforms of the central bank's statutes aimed at enhancing its independence, and encouraged the authorities to address all areas identified in the 2007 safeguards assessment.

Successful implementation of the EPCA-supported program would in the view of Directors permit a follow on PRGF arrangement and progress toward HIPC and MDRI debt relief, which would be essential to restore public debt sustainability and would contribute importantly to creating fiscal space for poverty-reducing expenditures.

It is expected that the next Article IV consultation with the Union of the Comoros will be held on the standard 12-month cycle.

