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INFORMATION

February 1, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Comoros - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with the Comoros. A draft decision appears on page 21.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Buu Hoan, ext. (5)73720.

Att: (1)

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INTERNATIONAL MONETARY FUND

COMOROS

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the  
1984 Consultation with the Comoros

Approved by G. E. Gondwe and S. Kanesa-Thasan

January 31, 1985

I. Introduction

The 1984 Article IV consultation discussions with the Comoros were held in Moroni during the period October 27-November 10, 1984. The representatives of the Comoros included Mr. Ali Nassor, Minister of Finance and Budget; Mr. Said Hassane Said Hachim, Minister of State for Production, Industry, and Handicrafts; Mr. Ahmed Ali Mohamed, Minister of Planning and Regional Development; Mr. Mohamed Halifa, Director General of the Central Bank of Comoros; and other senior economic and financial officials. The staff representatives were Messrs. D. Syvrud (head-AFR), Buu Hoan (AFR), B. Sarr (FAD), E. Bell (AFR), and Mrs. I. Klotz (secretary-AFR). The consultation discussions took place shortly after the presidential elections and a cabinet change.

As of December 31, 1984, the Fund's holdings of Comorian francs amounted to SDR 4.5 million, or 100 percent of quota. The Comoros has not entered into a stand-by arrangement with the Fund, nor has it used any of the special facilities of the Fund. A member of the CBD panel is serving as advisor on debt management and a member of the FAD panel is tax advisor, both in the Ministry of Finance. The Comoros continues to avail itself of the transitional arrangements of Article XIV. Summaries of the Comoros' relations with the Fund and with the World Bank Group, the basic data on the Comoros, and statistical issues are provided in Appendices I, II, III, and IV, respectively.

II. Background to the Discussions

The Federal Islamic Republic of the Comoros (the Comoros) consists of three volcanic islands (Grande Comore, Anjouan, and Moheli) located in the Mozambique Channel of the Indian Ocean. The three islands, with an estimated population in 1984 of 348,000, achieved their independence from France in 1975, and the Comoros became a member of the Fund in 1976. <sup>1/</sup>

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<sup>1/</sup> A fourth island of the Comoros Archipelago, Mayotte, with a population of an estimated 57,000, remains a French territory.

The Comoros is among the poorest countries of the world with a per capita income in 1984 estimated at SDR 254. Economic development has been constrained by several unfavorable factors, including limited natural resources, remoteness from major markets, and a rapid increase in population. The population growth rate of an estimated 2.7 percent per year, and a population density of 160 persons per square kilometer are relatively high. <sup>1/</sup> Only about half of the total area is suitable for agriculture; most of the land is too steep or rocky (volcanic ash) for cultivation. There are no known mineral resources, only limited energy sources, and the fishing potential remains unexploited because of the lack of appropriate infrastructure. According to the World Bank, the potential for traditional in-shore fishing is limited because of the narrowness of the continental shelf, and unfavorable weather conditions often limit the number of fishing days for traditional boats.

The Comorian economy is predominantly rural and of a subsistence nature. The agricultural sector accounts for about 80 percent of the work force, 40 percent of GDP, and practically 100 percent of exports. Four products, vanilla, cloves, ylang-ylang (perfume essence), and copra accounted for 98 percent of total exports in 1982. The service sector comprises a relatively high percentage of GDP (about 48 percent), as public works and the civil service are major sources of employment for the rapidly growing population.

In view of its limited resources, the Comoros relies heavily on foreign concessional assistance. Virtually the entire investment program is financed externally, and, because of the shortage of trained personnel, the country relies heavily on expatriate staff to implement the program.

In addition to structural problems in the economy, the transition from independence in 1975 created another set of problems for the Comoros. Severe civil disturbances and abrupt changes in political leadership prior to 1980 complicated economic management. The federal nature of the political system, in particular the fiscal autonomy of the three island Governorates, further limited the ability of the Federal Government to manage the economy. By 1982 the Federal Government had achieved a degree of political stability, and steps were initiated to deal with the economic problems. The first significant measure was the consolidation of the budgets of the three-island Governorates into the federal government budget. During 1983 the receipts and expenditures of the Governorates were transferred to the federal Treasury, giving the Federal Government, for the first time, centralized control over Treasury operations.

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<sup>1/</sup> The island of Anjouan has a population density of 348 persons per square kilometer.

Also in 1983, the authorities initiated an Interim Plan for Economic and Social Development for 1983-86. This Plan was presented to the donors at the First Conference of International Solidarity for the Development of the Comoros, which was held in Moroni in July 1984. The Plan emphasizes public works (51 percent), social infrastructure (22 percent), and rural development (18 percent). About 15 percent of the total projected investment is for the construction of a deep-water port at Mutsamudu on the island of Anjouan, which is to be completed in mid-1985.

Two World Bank missions, an economic assessment mission and a technical assistance project mission, overlapped with the Fund mission. The economic assessment mission concentrated on the expenditure side of the government budget, with particular attention to the preparation and implementation of investment projects. The Bank has been particularly concerned about the effectiveness of the Comorian administration and its ability to manage and monitor the investment program. It is therefore negotiating a technical assistance project to assist in improving performance in these areas.

### III. Recent Economic Developments

#### 1. Economic growth and price developments

The Comorian economy grew at an estimated average annual rate of about 4 percent during 1981-84 while the rate of inflation declined from about 15 percent to about 7 percent during these same years <sup>1/</sup> (Table 1). With a population growth rate estimated at 2.7 percent, there has been a modest increase in per capita incomes in the Comoros over these years. The share of services in the GDP rose during the period from an estimated 44 percent to 47 percent while the share of the agricultural sector declined from 41 percent of GDP to 38 percent. <sup>2/</sup> Within agriculture, there has been a discernible trend toward increased food crop production for domestic consumption whereas the production of export crops other than cloves has stagnated. The production of food crops increased by about 4 percent per annum; corn production almost doubled; and poultry and egg production virtually tripled.

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<sup>1/</sup> The statistical base in the Comoros is exceptionally weak. The data on the real sector have been compiled by the staff from a variety of sources. They are more indicative of trends than of absolute levels of GDP and its components. Because of data inadequacies, it has not been possible to publish an IFS page for the country (see Appendix IV).

<sup>2/</sup> Hurricane Suraisy damaged part of the copra crop on Anjouan during 1983.

Table 1. Comoros: Selected Economic and Financial Indicators, 1980-85

|   | 1980  | 1981 | 1982  | 1983 | 1984               | 1985 |
|---|-------|------|-------|------|--------------------|------|
| (Annual percentage change, unless otherwise specified)                      |       |      |       |      |                    |      |
| National income   |       |      |       |      |                    |      |
| GDP at constant prices  | 7.4   | 5.5  | 3.9   | 3.7  | 3.3                | 3.3  |
| GDP at current prices   | 18.9  | 18.2 | 19.7  | 12.3 | 6.9                | 9.5  |
| Prices  |       |      |       |      |                    |      |
| Consumer prices   | 15.0  | 12.0 | 15.0  | 7.8  | 7.0                |      |
| GDP deflator  | 10.7  | 6.5  | 15.2  | 8.3  | 3.5                | 6.0  |
| Government budget   |       |      |       |      |                    |      |
| Domestic revenue  | 6.7   | 34.4 | 12.6  | 51.0 | -16.8              | 47.9 |
| Total expenditures  | 45.0  | 10.9 | 35.9  | 29.1 | 18.0               | 20.4 |
| Grants  | 50.7  | 23.3 | 17.3  | 39.9 | 29.1               | -8.4 |
| Money and credit  |       |      |       |      |                    |      |
| Domestic credit   | 81.3  | 7.2  | -18.8 | 45.4 | 31.7               | 21.0 |
| Government (net)  | ...   | 48.8 | -15.5 | 26.6 | -19.7              | 29.7 |
| Private sector  | 54.5  | 0.7  | -19.3 | 50.0 | 42.3               | 20.0 |
| Money and quasi-money   | 56.5  | 13.7 | 31.3  | 34.4 | 10.2               | 22.7 |
| External sector (on SDR basis)  |       |      |       |      |                    |      |
| Exports, f.o.b.   | -36.2 | 61.9 | 27.4  | 2.7  | -12.0              | 20.2 |
| Imports, f.o.b.   | 0.1   | 22.8 | 7.7   | 10.1 | 16.7               | 12.8 |
| Nominal effective exchange rate (Index 1978 = 100)                          | 99.5  | 97.9 | 96.9  | 96.1 | 90.3 <sup>1/</sup> | ...  |
| (In percent of GDP, unless otherwise specified)                             |       |      |       |      |                    |      |
| Investment  | 33    | 39   | 40    | 44   | 52                 | 53   |
| Consumption   | 88    | 90   | 86    | 83   | 86                 | 83   |
| Resource gap  | 22    | 29   | 26    | 27   | 38                 | 36   |
| Domestic revenue (excluding grants)   | 11    | 12   | 11    | 15   | 12                 | 16   |
| Total expenditure   | 48    | 45   | 51    | 59   | 65                 | 72   |
| Budgetary deficit (including grants)  | 3     | 2    | 4     | 2    | 1                  | --   |
| Overall government deficit  |       |      |       |      |                    |      |
| Including grants  | 17    | 12   | 19    | 17   | 21                 | 29   |
| Excluding grants  | 37    | 33   | 40    | 43   | 53                 | 55   |
| External current account deficit  |       |      |       |      |                    |      |
| Including public transfers  | 11    | 7    | 10    | 10   | 22                 | 23   |
| Excluding public transfers  | 32    | 29   | 28    | 29   | 41                 | 40   |
| External public debt (disbursed only)                                       | 38    | 47   | 64    | 95   | 120                | 132  |
| (In millions of SDRs, unless otherwise specified)                           |       |      |       |      |                    |      |
| Overall balance of payments surplus or deficit (-)                          | -2.3  | 3.5  | 3.4   | 1.9  | -1.2               | 1.0  |
| Gross foreign reserves (months of imports)                                  | 2.6   | 3.3  | 6.9   | 6.5  | 3.0                | 2.8  |
| External debt service as percent of exports of goods and nonfactor services | 2.2   | 2.9  | 4.2   | 6.9  | 15.2               | 15.4 |

Sources: Data provided by the Comorian authorities; and staff estimates.

<sup>1/</sup> First three quarters.

## 2. Fiscal developments

Comorian fiscal developments since 1981 have been characterized by: (a) a high and growing role of government expenditures, which rose from 45 percent of GDP in 1981 to an estimated 65 percent of GDP in 1984; (b) an extraordinarily high dependence on foreign loans and grants, which financed about 63 percent of total expenditures in 1981 and an estimated 80 percent in 1984; (c) the resulting high overall cash deficit of the Government, excluding grants, which amounted to 33 percent of GDP in 1981 and rising to an estimated 53 percent of GDP in 1984 (Table 2).

The overall cash deficit of the Government, which includes Treasury operations plus extrabudgetary operations, continued to increase in both 1983 and 1984. As a percentage of GDP the overall cash deficit, excluding grants, increased from 39.8 percent in 1982 to 43.4 percent in 1983 and to 53.1 percent in 1984. Extrabudgetary expenditures increased by about 30 percent in each year while extrabudgetary grants increased by 39 percent in 1983 and by 27 percent in 1984; thus, the overall cash deficit of the Government, including grants, declined from 18.7 percent in 1982 to 17.3 percent in 1983, but rose sharply to 21.4 percent in 1984.

The overall deficits of the Government have been financed primarily by foreign loans. Domestic financing through the Central Bank is statutorily limited to 15 percent of the average fiscal receipts during the three previous years. The Central Bank's ordinary advance which should be repaid normally at the end of the year has been outstanding since 1980. As a result, the Central Bank's yearly disbursements to the Treasury are limited to the difference between the outstanding amount and the statutory limit. Given this situation, the Treasury has been forced to finance its deficit by drawing on deposits of public and private entities, particularly in 1982 (about 3 percent of GDP). However, starting in 1983, with a new commercial bank becoming fully operational, most of the deposits were removed from the Treasury, thereby limiting its capacity to finance the deficit. This situation contributed to a liquidity squeeze for the Treasury in 1984. Despite the high level of foreign financing, the Treasury will have an unfinanced gap in 1984 estimated at 1.4 percent of GDP. This financing gap is likely to result in an accumulation of arrears.

## 3. Public enterprises

The Comorian Government created a number of public enterprises during 1979-82 in response to the periodic speculative shortages of essential commodities, such as petroleum, meat, rice, and pharmaceuticals, and in sectors where private sector investment was considered inadequate, such as transportation and tourism. Although operations of these enterprises are subject to the control of federal ministries, this

Table 2. Comoros: Government Operations, 1980-85 <sup>1/</sup>

|  | 1980    | 1981    | 1982    | 1983    | 1984     |             | 1985     |            |
|--|---------|---------|---------|---------|----------|-------------|----------|------------|
|  |         |         |         |         | Budget   | Provisional | Budget   | Staff Est. |
| (In millions of Comorian francs)         |         |         |         |         |          |             |          |            |
| Total revenue and grants                 | 7,959   | 10,114  | 11,687  | 16,809  | 17,516   | 18,847      | 20,167   | 20,028     |
| Domestic revenues                        | 2,716   | 3,650   | 4,109   | 6,205   | 5,981    | 5,162       | 7,637    | 6,353      |
| Tax revenues                             | 2,532   | 3,159   | 3,798   | 5,149   | 5,267    | 4,692       | 6,805    | 5,943      |
| Nontax revenues                          | 183     | 490     | 310     | 1,055   | 714      | 470         | 832      | 410        |
| External grants                          | 5,243   | 6,463   | 7,578   | 10,604  | 11,535   | 13,685      | 12,530   | 13,675     |
| Budgetary grants                         | (1,832) | (862)   | (680)   | (1,020) | (1,535)  | (1,540)     | (1,530)  | (1,530)    |
| Extrabudgetary grants <sup>2/</sup>      | (3,411) | (5,601) | 6,898   | (9,584) | (10,000) | (12,145)    | (11,000) | (12,145)   |
| Total expenditure and net lending (cash) | 12,216  | 13,548  | 18,419  | 23,779  | 29,607   | 28,060      | 33,781   | 30,527     |
| Current expenditure                      | 5,037   | 4,008   | 5,750   | 7,206   | 7,017    | 6,616       | 8,081    | 7,800      |
| Capital expenditure                      | 557     | 501     | 358     | 830     | 1,053    | 500         | 1,254    | 600        |
| Net lending                              | 116     | 348     | 124     | ...     | ...      | ...         | ...      | ...        |
| Adjustment <sup>3/</sup>                 | -345    | 123     | -136    | -209    | ...      | ...         | ...      | ...        |
| Extrabudgetary expenditure <sup>4/</sup> | 6,851   | 8,566   | 12,323  | 15,953  | 21,537   | 20,944      | 24,446   | 22,127     |
| Financed by grants                       | (3,411) | (5,601) | (6,898) | (9,584) | (10,000) | (12,145)    | (11,000) | (12,145)   |
| Financed by loans                        | (3,440) | (2,965) | (5,425) | (6,369) | (11,537) | (8,799)     | (13,446) | (9,982)    |
| Overall deficit                          | -4,256  | -3,434  | -6,732  | -6,970  | -12,091  | -9,213      | -13,614  | -10,499    |
| Foreign financing (net)                  | 3,586   | 3,087   | 5,461   | 6,571   | 11,335   | 8,619       | 12,875   | 9,411      |
| Drawing                                  | 3,586   | 3,087   | 5,468   | 6,632   | 11,537   | 8,799       | 13,446   | 9,982      |
| Amortization                             | --      | --      | -6      | -60     | -202     | -180        | -571     | -571       |
| Domestic financing (net)                 | 670     | 346     | 1,270   | 399     | 756      | 594         | 739      | 1,088      |
| Banking system                           | 457     | 285     | -135    | 195     | ...      | -183        | ...      | ...        |
| Of which: Central Bank                   | (558)   | (6)     | (-34)   | (-78)   | (...)    | (158)       | (...)    | (...)      |
| Other <sup>5/</sup>                      | 213     | 61      | 1,407   | 204     | ...      | 779         | ...      | ...        |
| Memorandum items:                        |         |         |         |         |          |             |          |            |
| Treasury cash deficit <sup>6/</sup>      | -816    | -469    | -1,307  | -601    | -554     | -414        | -168     | -517       |
| Treasury deficit excluding grants        | -2,649  | -1,332  | -1,987  | -1,621  | -2,089   | -1,954      | -1,698   | -2,047     |
| Overall deficit excluding grants         | -9,500  | -9,998  | -14,310 | -17,574 | -23,626  | -22,898     | -26,144  | -24,174    |
| (As percent of GDP)                      |         |         |         |         |          |             |          |            |
| Revenues and grants                      | 31.3    | 33.7    | 32.6    | 41.7    | 40.6     | 43.7        | 42.6     | 42.4       |
| Total expenditure and net lending (cash) | 48.0    | 45.2    | 51.3    | 59.0    | 68.7     | 65.1        | 71.6     | 64.7       |
| Treasury cash deficit                    | 3.1     | 1.6     | 3.6     | 1.5     | 1.3      | 1.0         | 0.4      | 1.1        |
| Including grants                         | 10.2    | 4.3     | 5.3     | 4.0     | 4.6      | 4.4         | 3.6      | 4.3        |
| Excluding grants                         | 16.7    | 11.7    | 18.7    | 17.3    | 28.1     | 21.4        | 28.8     | 22.2       |
| Overall government deficit               | 37.4    | 33.3    | 39.8    | 43.4    | 54.8     | 53.1        | 55.3     | 51.1       |
| Including grants                         | 2.6     | 1.2     | 3.5     | 1.0     | 1.8      | 1.4         | 1.6      | 2.3        |
| Excluding grants                         | 14.1    | 10.3    | 15.2    | 16.3    | 26.3     | 20.0        | 27.3     | 19.9       |
| Domestic financing                       |         |         |         |         |          |             |          |            |
| Net foreign financing                    |         |         |         |         |          |             |          |            |

Sources: Data from the Comorian authorities; and staff estimates.

<sup>1/</sup> Includes the Federal Government, the annexed budgets, the governorates, and extrabudgetary operations.

<sup>2/</sup> Based on donors' survey.

<sup>3/</sup> Adjustment made for float.

<sup>4/</sup> Extrabudgetary expenditures are primarily capital investment, but includes a large element of technical services.

<sup>5/</sup> Including deposits of public enterprises and private entities with the Treasury.

<sup>6/</sup> Equal to domestic revenues and budgetary grants minus (-) budgetary expenditure.



control has been only rarely exercised for want of qualified personnel in the ministries. Only limited quantitative data on the enterprises are available to the ministries. These data indicate wide differences in the performance among the enterprises with some in a reasonably sound position while others were experiencing serious problems, owing mainly to undercapitalization, lack of competent staff, and government controls on prices in the face of rising costs.

#### 4. Monetary and credit developments

Public confidence in the banking system seems to have returned fairly quickly following the collapse of the two Comorian banks in 1981. By the end of 1983, the level of demand deposits at the newly established commercial bank, Banque Internationale des Comores (BIC), exceeded by 55 percent that of its defunct predecessor in its last year of operation. Quasi-money (savings deposits in the BIC and savings funds in the postal system) more than doubled from December 1981 to December 1983 and increased again by 68 percent in 1984. Consequently, money and quasi-money almost doubled between 1981 and 1984 (Table 3). As a percentage of GDP, money and quasi-money rose from an estimated 16 percent of GDP in 1981 to 20 percent of GDP in 1984 suggesting a gradual monetization of the economy.

The major source of the monetary expansion in 1981 and 1982 was the relatively large increases (67 percent and 71 percent, respectively) in net foreign assets, reflecting the large increases in Comorian exports, relative to the increase in imports, and external grants and loans. In 1983, a 47 percent increase in domestic credit was the major determinant of the increase in the money supply. Credit to the private sector rose by 50 percent, while net credit to the Government increased by 27 percent. The expansion of credit reflected the resumption of normal credit transactions when the new commercial bank began operations. Private sector credit accounts for the major share of domestic credit in the Comoros. Net credit to the Government, constrained by statutory limitations, comprised only 15 percent of the total.

Monetary and credit trends in 1984 reflected the serious liquidity problems of the Treasury, and a continued increase in private sector credit. Net credit to the Government declined by 20 percent through September 1984 as a result of substantial withdrawals from Treasury deposits by the private sector and public enterprises. Credit to the private sector, on the other hand, continued to increase at only a slightly slower pace than in 1983. Private sector credit is expected to rise by about 42 percent in 1984, in part for the financing of foreign trade, particularly for bulk imports of petroleum and foodstuffs during the final quarter. Because of the large share of trade financing in the Comoros' financial system, there is a strong seasonal volatility. As a result, domestic credit continued to increase while net foreign assets declined by about 30 percent through September. The decline in net

Table 3. Comoros: Monetary Survey, 1980-84 1/

|   | 1980    | 1981    | 1982  | 1983  |       | 1984    |                 |
|---|---------|---------|-------|-------|-------|---------|-----------------|
|   |         |         |       | Sept. | Dec.  | Sept.   | Dec.<br>(Proj). |
| (In millions of Comorian francs; end of period) |         |         |       |       |       |         |                 |
| Foreign assets (net)                            | 1,481   | 2,467   | 4,220 | 3,814 | 4,741 | 3,654   | 4,232           |
| Central Bank                                    | 1,040   | 2,372   | 3,471 | 3,629 | 4,262 | 3,114   | 3,752           |
| Commercial banks                                | 441     | 95      | 749   | 185   | 479   | 540     | 480             |
| Domestic credit                                 | 4,288   | 4,598   | 3,734 | 5,797 | 5,430 | 6,595   | 7,152           |
| Claims on Government (net)                      | 584     | 869     | 734   | 902   | 929   | 746     | 746             |
| Claims on private sector                        | 3,704   | 3,729   | 3,000 | 4,895 | 4,501 | 5,819   | 6,406           |
| Of which: rediscounts                           | (1,405) | (1,203) | (472) | (945) | (174) | (1,356) | (2,000)         |
| Money and quasi-money                           | 4,166   | 4,737   | 6,221 | 7,369 | 8,362 | 8,024   | 9,216           |
| Money   | 3,927   | 4,255   | 5,368 | 6,668 | 7,341 | 6,338   | 7,503           |
| Currency in circulation                         | 1,964   | 1,988   | 2,433 | 3,339 | 3,428 | 3,405   | 3,496           |
| Demand deposits                                 | 1,963   | 2,267   | 2,935 | 3,329 | 3,913 | 2,933   | 4,007           |
| Quasi-money                                     | 239     | 482     | 853   | 700   | 1,021 | 1,686   | 1,713           |
| Counterpart funds                               | 42      | 93      | 13    | 80    | 39    | 1       | 1               |
| Other items (net)                               | 1,561   | 2,235   | 2,806 | 3,527 | 2,115 | 2,723   | 2,696           |
| (Annual growth, in percent)                     |         |         |       |       |       |         |                 |
| Foreign assets (net)                            | ...     | 66.6    | 71.1  | (...) | 12.3  | (-4.2)  | -10.7           |
| Domestic credit                                 | ...     | 7.2     | -18.8 | (...) | 45.4  | (13.2)  | 31.7            |
| Claims on Government (net)                      | ...     | 48.8    | -15.5 | (...) | 26.6  | (-17.3) | -19.7           |
| Claims on private sector                        | ...     | 0.7     | -19.5 | (...) | 50.0  | (18.9)  | 42.3            |
| Money and quasi-money                           | ...     | 13.7    | 31.3  | (...) | 34.4  | (8.9)   | 10.2            |
| Money   | ...     | 8.4     | 26.2  | (...) | 36.8  | (-4.9)  | 2.2             |
| Quasi-money                                     | ...     | 101.7   | 77.0  | (...) | 19.7  | (140.9) | 67.8            |
| (As percent of GDP)                             |         |         |       |       |       |         |                 |
| Money and quasi-money                           | 16.4    | 15.8    | 17.3  | 18.2  | 20.7  | 18.5    | 19.5            |

Sources: Data provided by the Comorian authorities; and staff estimates.

1/ Data series since January 1, 1982 are not entirely comparable to historical series due to structural change in the banking system (collapse of the BCC and CREDICOM; creation of two new banks), and revision of recent data based on the recommendations of a technical assistance mission of the Fund.

foreign assets is expected to be partially reversed by the end of 1984, so that the money supply, which declined slightly through September, is projected to show a 10 percent increase by the end of the year.

Monetary policy in the Comoros is circumscribed by its membership in the French franc area. Within these constraints, the Central Bank is authorized to establish rediscount rates and ceilings, reserve requirements, and deposit rates. The Central Bank establishes an overall rediscount ceiling for short-term credit twice a year depending upon the prospective financing requirements of the economy and the level of foreign exchange reserves. Current rediscount rates were set in June 1983 at a range of 6-10 percent depending upon the nature and the maturity of the rediscounting transaction. Minimum deposit rates currently range from 4.5-12 percent for term deposits and 7.5 percent for savings deposits. Lending rates of the commercial bank are 17 percent for normal credits and 10-11 percent for credits eligible for the privileged rediscount rates. Medium-and long-term rates for credits extended by the development bank vary from 9 percent to 16 percent according to the nature of the project being financed.

#### 5. External developments

The balance of payments of the Comoros reflects the heavy reliance on foreign grants and concessional credits (Table 4). The current account deficit, excluding public unrequited transfers, averaged SDR 28 million per year from 1981 to 1983. With public transfers averaging over SDR 18 million per year, the residual current account deficit remained in the range of SDR 10 million, or about 10.4 percent of GDP. These deficits were more than covered by long-term concessional credits, such that the Comoros was able to build up its foreign exchange reserves in each year from 1981 to 1983.

In 1984 the balance of payments of the Comoros deteriorated sharply. The current account deficit, excluding public unrequited transfers, rose from 29 percent of GDP in 1983 to 41 percent in 1984. Including these transfers, the current account deficit more than doubled from 10 percent of GDP in 1983 to 22 percent of GDP in 1984. Even taking into account a substantial increase in foreign concessional loans, the balance of payments registered an overall deficit (SDR 1.2 million) for the first time since 1980.

The deficit on goods and services increased by an estimated 36 percent in 1984, with both imports and exports contributing to the higher deficit. Imports rose by an estimated 17 percent in 1984, following a steady increase since 1980 of goods and services associated with the large public sector investment program. Exports declined by an estimated 12 percent in 1984, although the trend varied among the major exports. Vanilla export earnings increased by 19 percent, while cloves declined by 37 percent. Moreover, the trends of unit prices and volume

Table 4. Comoros: Balance of Payments, 1980-86 <sup>1/</sup>

(In millions of SDRs)

|  | 1980    | 1981   | 1982    | 1983                | 1984<br>Estimates | 1985<br>Projections | 1986<br>Projections |
|--|---------|--------|---------|---------------------|-------------------|---------------------|---------------------|
| Balance on goods and services          | -28.54  | -27.50 | -25.21  | -27.13              | -36.85            | 37.73               | 43.82               |
| Exports, f.o.b.                        | 8.60    | 13.92  | 17.73   | 18.21               | 16.03             | 19.27               | 16.44               |
| Imports, f.o.b.                        | -15.64  | -19.21 | -20.69  | -22.77              | -26.57            | -29.97              | -31.80              |
| Trade balance                          | -7.04   | -5.28  | -2.95   | -4.56               | -10.46            | -10.70              | 15.36               |
| Freight and insurance                  | -5.88   | -8.23  | -8.87   | -12.26              | -13.85            | -16.14              | -17.12              |
| Other transportation                   | -1.85   | -1.55  | -1.81   | -1.80               | -1.84             | -2.01               | -2.34               |
| Travel                                 | -4.65   | -3.63  | -4.59   | 0.66                | 0.15              | 0.17                | 0.20                |
| Investment income                      | 0.45    | 0.21   | 0.50    | -0.43               | -0.41             | -0.87               | -1.11               |
| Other                                  | -9.57   | -9.01  | -7.48   | -8.74               | -10.44            | -8.18               | -8.08               |
| Services (net)                         | -21.50  | -22.22 | -22.25  | -22.57              | -26.39            | -27.03              | -28.46              |
| Private unrequited transfers           | -1.45   | 0.41   | -2.18   | -2.02               | -2.41             | -2.15               | -1.47               |
| Balance on current account             | -29.99  | -27.09 | -27.39  | -29.15              | -39.26            | -39.88              | -45.29              |
| (Percent of GDP)                       | (32.4)  | (28.9) | (27.6)  | (29.4)              | (41.4)            | (39.9)              | (41.2)              |
| Public unrequited transfers            | 19.65   | 20.18  | 17.45   | 18.81               | 17.57             | 16.45               | 16.45               |
| Balance on current account             | 10.34   | -6.92  | -9.94   | -10.34              | -21.69            | -23.43              | -28.83              |
| (Percent of GDP)                       | (11.2)  | (7.3)  | (10.0)  | (10.4)              | (22.1)            | (23.3)              | (26.8)              |
| Capital account                        | 7.78    | 10.18  | 13.29   | 12.28               | 20.53             | 24.45               | 24.22               |
| Direct foreign investment              | -0.31   | -0.27  | 0.37    | --                  | --                | 2.32 <sup>2/</sup>  | 8.87 <sup>2/</sup>  |
| Government long-term capital           | 12.51   | 9.25   | 17.71   | 17.56               | 23.27             | 22.13               | 15.35               |
| Credit                                 | (12.51) | (9.25) | (17.71) | (17.56)             | (24.61)           | (23.50)             | (19.06)             |
| Debit                                  | --      | --     | --      | --                  | (-1.34)           | (-1.37)             | (-3.71)             |
| Suppliers' credits                     | 4.23    | 2.53   | -1.40   | -2.58 <sup>3/</sup> | -0.70             | --                  | --                  |
| Other (including errors and omissions) | -8.65   | -1.34  | -3.39   | -2.70               | -2.04             | --                  | --                  |
| SDR allocations                        | 0.27    | --     | --      | --                  | --                | --                  | --                  |
| Overall balance                        | -2.31   | 3.27   | 3.35    | 1.94                | -1.16             | 1.02                | 4.61                |
| Monetary authorities                   | 2.31    | -3.27  | -3.35   | -1.94               | 1.16              | -1.02               | 4.61                |
| Foreign assets                         | 1.55    | -3.60  | -3.40   | -2.34               | ...               | ...                 | ...                 |
| Foreign liabilities                    | 0.76    | 0.33   | 0.05    | 0.40                | ...               | ...                 | ...                 |

Sources: Data provided by the Comorian authorities; and staff estimates.

<sup>1/</sup> CF francs have been converted at a period average of: SDR 1 = CF 275.01 for 1980  
 SDR 1 = CF 320.41 " 1981  
 SDR 1 = CF 362.80 " 1982  
 SDR 1 = CF 407.36 " 1983  
 SDR 1 = CF 440.00 " 1984  
 SDR 1 = CF 470.00 " 1985 and 1986.

<sup>2/</sup> Official estimates based on potential direct investment in tourism.

<sup>3/</sup> Includes payments of arrears.

of individual exports varied widely. In the case of vanilla, the volume declined while prices rose, and in the case of cloves, both unit prices and volume fell.

A notable feature of the Comorian balance of payments is the magnitude of official unrequited transfers, which amounted to almost 20 percent of GDP in each of 1983 and 1984, and foreign concessional credits, which amounted to 18 percent of GDP in 1983 and are estimated at 24 percent in 1984. With these transfers and credits, the Comoros was able to build up its gross foreign exchange reserves by the end of 1983 to a level equivalent to six months of 1983 imports. With the 1984 deficit, gross reserves fell at year-end to the equivalent of about three months imports.

The disbursed external public debt of the Comoros has risen sharply over the past three years. In 1980 the disbursed external debt amounted to SDR 34 million, or about 38 percent of GDP (Table 5). By the end of 1983 the disbursed external public debt had increased to SDR 86 million, or 95 percent of GDP. Undisbursed balances under loan agreements amounted to an additional SDR 86 million. This rapid growth in external debt over the past few years has been primarily the result of large borrowings for road construction, telecommunications projects, and the Mutsamudu Harbor project. Foreign credits for the latter project amounted to SDR 31.2 million, about one third of total outstanding debt, including undisbursed. The major creditors of the Comoros are Arab Governments and institutions, the African Development Bank group, the IDA, China, France, and EEC institutions. Lending terms are highly concessional, with grant elements averaging 66 percent. However, the debt profile deteriorated recently mainly as a result of the terms of the Mutsamudu loans, 45 percent of which was obtained at interest rates of 5-7 percent with a grace period of two years; the remainder is on concessional terms of less than one percent and grace period averaging five years.

The Comorian franc (CF) is pegged to the French franc, the intervention currency, at CF 50 = FF 1. The exchange system is free of restrictions on payments and transfers for current international transactions, except for some restrictions on travel allocations.

#### IV. Report on the Discussions

##### 1. General economic policies

The Comorian representatives expressed satisfaction with economic performance during 1983 and 1984. They said that they had implemented in 1982 most of the measures that had been recommended by the 1982 consultation mission. These measures included the consolidation of federal control over the budget, constraints on expenditures, tax

Table 5. Comoros: Public External Debt and Debt Service, 1980-89

(In millions of SDRs, unless otherwise specified)

|   | 1980            | 1981        | 1982        | 1983        |                          |             |
|---|-----------------|-------------|-------------|-------------|--------------------------|-------------|
| Total outstanding   | (End of period) |             |             |             |                          |             |
| In value  |                 |             |             |             |                          |             |
| Disbursed only  | 33.80           | 41.16       | 60.41       | 85.69       |                          |             |
| Including undisbursed   | 72.89           | 82.94       | 138.94      | 170.99      |                          |             |
| In percent of GDP   |                 |             |             |             |                          |             |
| Disbursed only  | 38.2            | 47.3        | 64.0        | 94.5        |                          |             |
| Including undisbursed   | 82.4            | 95.3        | 147.1       | 188.5       |                          |             |
| Average terms of newly committed debt                               | (During period) |             |             |             | (Total debt at end-1983) |             |
| Average interest rates (percent)                                    | 1.25            | 1.63        | 2.43        | 0.89        | 1.59                     |             |
| Average maturity (years)  | 43.1            | 27.6        | 28.7        | 36.9        | 32.3                     |             |
| Average grace period (years)  | 9.0             | 7.6         | 6.4         | 9.4         | 7.9                      |             |
| Grant elements (percent)  | 74.5            | 63.9        | 56.3        | 76.1        | 66.5                     |             |
| Debt service, total   | 0.23            | 0.42        | 0.82        | 1.42        |                          |             |
| Principal   | --              | --          | 0.12        | 0.38        |                          |             |
| Interest  | 0.23            | 0.42        | 0.70        | 1.04        |                          |             |
| Exports of goods and nonfactor services                             | 10.31           | 14.85       | 19.31       | 20.69       |                          |             |
| Debt service, as percent of exports of goods and nonfactor services | 2.2             | 2.9         | 4.2         | 6.9         |                          |             |
|   | <u>1984</u>     | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>1988</u>              | <u>1989</u> |
| Projected debt service, total                                       | 2.82            | 3.36        | 6.59        | 8.52        | 9.17                     | 10.15       |
| As of 12/31/83  | 2.82            | 3.36        | 6.39        | 8.12        | 8.37                     | 8.95        |
| From new commitments  | --              | --          | 0.20        | 0.40        | 0.80                     | 1.20        |
| Exports of goods and nonfactor services                             | 18.51           | 21.85       | 19.32       | 22.65       | 24.77                    | 27.10       |
| Debt service, as percent of exports of goods and nonfactor services | 15.2            | 15.4        | 34.1        | 37.6        | 37.0                     | 37.5        |

Sources: Data provided by the Comorian authorities; the IBRD Debt Reporting System; and staff estimates.

reforms, and a reduction in domestic arrears. They felt that these measures had improved significantly the operations of the Government, the public enterprises, and the economy as a whole. There was now a reliable and adequate supply of electricity and petroleum, the retail outlets were well supplied with goods, food production for domestic consumption had increased substantially, and all of this in a relatively stable economic and political environment. Moreover, with the administrative consolidation of the three islands, the Comorian representatives believed the potential for further progress had been improved.

While noting these achievements, the mission expressed concern about the composition and adequacy of economic growth. The composition of growth raises questions about its sustainability. Economic growth during these years has been heavily dependent upon the service sector and has been associated with international trade and, in particular, infrastructure projects. The agricultural sector has not kept pace with the growth in the economy in general. Growth rates in agriculture have averaged an estimated 2.7 percent per annum, with the result that the contribution of the agricultural sector to the GDP declined from 41 percent in 1981 to 38 percent in 1984. The manufacturing sector has also lagged behind overall economic growth; its contribution to GDP declined from 5 percent of GDP in 1981 to 4 percent in 1984.

The Comorian representatives emphasized that the focus of the development strategy on infrastructure, roads, ports, and communications, was an essential first step and that perhaps it was now time to shift their strategy toward agriculture. According to the Comorian representatives, a rate of real GDP growth of over 4 percent is needed to generate enough jobs to alleviate the present unemployment problem, which appears to be increasing because of the high rate of demographic growth. A shift in their strategy toward agriculture, they believe, would tend to create new jobs. They are also discussing a population planning project with the World Bank. At the same time, they pointed out that measures had been taken to increase agricultural production and that some results had already appeared. Two new institutions, which were established in 1981 to provide extension services to the private sector, are fully operational and are growing rapidly.

## 2. Fiscal policies

The Comorian representatives attributed the improved fiscal performance in 1983 to two factors: first, the Federal Government had strengthened its control over revenues and expenditures with the transfers to the federal budget of the receipts and expenditures of the three island Governorates and with its first steps to consolidate the three treasuries into a single unit. Second, the improvements in 1983 reflected the impact on a full-year basis of revenue measures adopted in 1982. Specific import duties on rice, sugar, salt, and petroleum products were converted to ad valorem rates, while customs valuation for vanilla,

cloves, and ylang-ylang were adjusted upward. In addition, the turnover tax was extended to cover rice imports (1 percent and 3 percent rates, respectively, for lower and higher grade rice). These measures combined with the introduction of a single tax administration and an improved tax collection resulted in a 35.6 percent increase in tax revenue. Nontax revenues also increased more than threefold due mainly to extraordinary nonrecurrent revenues from sales of goods expropriated by the customs department.

The Comorian representatives added that control of budgetary expenditure was improved in 1983 due to the rationalization of gasoline purchases for ministerial departments and to the control and centralization of other purchases. Official travel abroad was also curtailed. However, these expenditure control measures were applied only to the Federal Treasury. The three island treasuries were still permitted in 1983 to spend their share in total revenues equivalent to 40 percent.

The deterioration in the fiscal situation in 1984 was attributed in part to the presidential elections, which resulted in a laxity in tax collection, and in part to the shortfall in customs duties due to delayed shipment of vanilla and a 37 percent drop in clove exports. At the same time, there was an increase in capital expenditures financed by foreign loans.

While acknowledging the progress made since 1982, the mission pointed out the increasingly serious domestic disequilibria and suggested that efforts be intensified to correct them. Despite the high level of external grants, amounting to about 30 percent of GDP, the Government had been running overall deficits of about 20 percent of GDP in each of the past two years. The mission emphasized that the priority task was to contain and even reverse the upward trend of Treasury expenditures.

The mission suggested that revenues could also be increased with the implementation of measures along the lines of those recommended by the recent FAD mission to the Comoros. These recommendations included a measure to collect the turnover tax at the import stage, to provide for more timely collection of this tax, and to reduce the degree of under-reporting. This measure is expected to yield an additional CF 300 million above the 1984 level. The FAD mission also recommended, at a subsequent stage, a general reform of the tax system, the main elements of which are: reduction of the corporate profit tax from 40 percent to 20 percent; modification of the income tax schedule to increase tax yield from higher income brackets; increase in the minimum taxation level for property, business, and transport; simplification of the tax system by eliminating a number of small taxes (e.g., unimproved urban property and tax on profits converted to reserves) that unduly burden the administrative capacity; and a substantial increase in penalty rates for tax evaders. Given the low rate of tax collection, the mission



suggested that the authorities concentrate on tax enforcement and limit revenue earmarking to the Chamber of Commerce and to the Stabilization Fund to their strict budgetary needs. These measures are projected to yield additional revenues equivalent to 2 percent of GDP.

The mission also emphasized that financing the deficits by payments arrears and by drawing on deposit balances of public enterprises at the Treasury was not a sustainable position for either the Treasury or the public enterprises. In regard to arrears, the Comorian representatives explained that in 1981 a commission was set up to study the matter and devise solutions. Most of the arrears were incurred during the previous regime and were largely undocumented claims or fictitious bills for which the new Government did not consider itself liable. Only genuine arrears were liquidated by cash grants from France in 1982. Since that time, the Treasury has been making every effort in the framework of the adjustment measures not to accumulate domestic arrears. They added that a small amount of external arrears was incurred in 1983 and repaid early in 1984.

At the time of the consultation discussions, the 1985 budget had not yet been approved by the newly formed Parliament. Based on the budget estimates, the mission found that without further fiscal measures, the government situation will deteriorate significantly in 1985. The overall government deficit is expected to increase from 21.4 percent of GDP in 1984 to 28.8 percent in 1985. Tax and nontax revenues are projected to increase by 48 percent over 1984 estimates and grants are expected to decline by 8.4 percent. Therefore, total revenue will increase only by 7 percent, while total expenditure is due to increase by 21 percent. Interest payment for external debt is estimated to represent 10 percent of current budgetary expenditure in 1985. Capital expenditure is budgeted to increase threefold from the estimated 1984 level. Drawings on foreign loans are projected to increase by 53 percent over the estimated 1984 level, while amortization payments are budgeted to increase by over 200 percent.

### 3. Public enterprise policy

The Comorian representatives stated that the program implemented by the Government in 1982 included several measures to improve the viability of public enterprises and the supply conditions in the economy. In July 1982 prices of most products were raised; meat by 10-12 percent, rice by 14 percent, and petroleum products and electricity by an average of 21 percent and a further 6 percent in March 1984. Since then the authorities had further adjusted upward the prices of rice, meat, and petroleum products that are imported from outside the franc zone and that experienced import price increases brought about by the depreciation of the franc. Measures were also adopted to ensure prompt collection of overdue bills.

The mission took note that progress had been made in a few public enterprises, particularly following the management changes and reorganization in 1982, but expressed concern about the overall situation of the public enterprises. While the matrix of debt among the Eau et Electricité des Comores (EEDC), Société des Hydrocarbures des Comores (SHC), and the the Federal Government was solved in 1983, the problem of intra-public sector debts remains for most of the enterprises. On the one hand, some enterprises have accumulated large tax arrears to the Government and payments arrears to each other and to other suppliers. On the other hand, the Government has delayed in paying its obligations to the enterprises or has utilized their deposits with the Treasury.

The Comorian representatives indicated that they were fully aware of these issues. They believed, however, that many of these could be met if parastatals could have adequate technical assistance to improve management, technical operations, and auditing. Therefore, they were looking to the World Bank for such a technical assistance project to be financed by IDA. The technical assistance mission of the World Bank, concurrent with the Fund mission, agreed that rehabilitation of public enterprises should receive high priority, and was willing to consider a request for a technical assistance project.

#### 4. Monetary and credit policies

Although confidence has returned to the banking system, the mission underscored the potential serious problems which might eventually result in undermining the system. These include: the weak liquidity problems of the Treasury, the inadequacy of credit to the productive sectors, and the growing debt service. The mission discussed with the authorities a series of measures designed to mobilize domestic savings to meet the credit requirements of a growing economy. Specifically, the mission suggested that (a) a second commercial bank be established to provide competition to the existing bank; (b) the Development Bank of the Comoros (BDC) be authorized to accept deposits, either directly or through the intermediary of the National Savings Fund; (c) that the rediscount rates be raised to levels consistent with rates prevailing in France; (d) the savings deposit rate be increased from the present level of 7.5 percent to 10 percent; (e) incentives be offered to Comorians living abroad to repatriate their savings; and (f) the Commercial Bank be induced to provide credit to the productive sectors.

The Comorian representatives expressed general agreement with the views expressed by the mission but indicated that more time would be needed to study the several suggestions. They noted that incentives to attract transfers by Comorians living abroad were already under study by the Central Bank. They stated that, recognizing the need to channel additional credit to agriculture and manufacturing, the monetary authorities initiated in June 1983 concessional rediscount rates for credit to these sectors, and they were considering imposing reserve requirements

that would be released only for selected purposes. Finally, they pointed out that the BIC had been given a monopoly through 1987 as a necessary inducement to attract it to the Comoros in the aftermath of the collapse of the banking system in 1981. Once the agreement runs out, the authorities will encourage the establishment of new banks.

#### 5. External policies

The Comorian representatives explained that a major reason for the deterioration in the balance of payments in 1984 was the reduction in exports of vanilla as part of this year's output would not be exported until early 1985. The increase in imports was attributed mainly to requirements of projects financed by long-term concessional credits (Table 4). They acknowledged that the country was heavily dependent on foreign grants and concessional credits, but they saw no alternative for the near future.

Concerning external arrears, the Comorian representatives noted that the Comoros had accumulated some external payments arrears following independence in 1975. These arrears had arisen, they said, primarily as a result of incomplete record keeping and poor administration. Most of these arrears were rescheduled or repaid in 1983, but some new external arrears have arisen in recent months, including payments to the Fund of charges on SDR holdings. The authorities expressed their intention to reduce the existing external arrears as expeditiously as possible.

The Comorian representatives affirmed their intention to pursue a trade and payments system free from restrictions on international transactions. They expressed their satisfaction with the current negotiations with France to amend the monetary agreement to increase credit to the Government from 15 percent to 20 percent and to provide a guarantee for the exchange risk on foreign exchange reserves placed at the French Treasury. They believed that their present exchange arrangements and the pegging of the Comorian franc to the French franc at the current level are working satisfactorily. Although the bulk of their trade is with France, there has been some effective depreciation of the Comorian franc as a result of the strengthening of the U.S. dollar, and the Comorian representatives believed that the major exports remained competitive in international markets.

#### 6. Medium-term outlook

With current account deficits, excluding unrequited public transfers, averaging 40 percent of GDP and rising, the medium-term prospects for the Comorian economy depend primarily on the availability of external assistance. Such assistance is expected to be forthcoming for the next few years, as undisbursed balances on existing commitments remain high (Table 5). But debt service is also rising sharply as a consequence of the extensive borrowing in recent years. Debt service

remained relatively modest through 1981, equivalent to less than 3 percent of export earnings, but rose to an estimated 15 percent in 1984 and is projected to rise to 34 percent in 1986 even assuming that further current account deficits will be financed only from grants and concessional loans.

Balance of payments projections for 1985 indicate a modest and temporary overall surplus of SDR 1 million. Nevertheless, the current account deficit in 1985 is expected to remain at SDR 40 million, or 40 percent of GDP, despite a carry-over of 87 tons of vanilla from the 1984 crop. As vanilla exports return to normal levels in 1986, the current account deficit is projected to rise to SDR 45 million, or 41 percent of GDP. The deficit is projected to be financed by official grants and by net capital inflows. It is assumed that official grants will decline in real terms, in view of difficulties in many donor countries. It is also assumed that as net long-term inflow decreases, due to increases in amortization and declines in gross drawings after the completion of large-scale investment projects, direct foreign investment will increase, particularly in the tourism industry.

The Comorian representatives acknowledged the structural weakness of their balance of payments position. They indicated that the scope for increasing exports is limited and that imports will continue to increase with the implementation of the investment projects financed by foreign grants and concessional credits. They believed, however, that it would be possible to reduce the rate of growth of imports somewhat through import substitution. They indicated that some success has already been recorded in the production of corn and poultry and further efforts will be made in this direction. The development of tourism is also expected to have a net positive impact starting in 1986. The new air route of the Comoros airline, established in October 1984 and linking Johannesburg-Moroni-Jeddah is expected to add a stimulus to tourism in coming years. Finally, the Mutsamudu port project should have a positive impact on the balance of payments beginning in 1987 with a reduction in freight rates from the currently high level of 35 percent of import value.

With regard to capital flows, the Comorian representatives expected the revised investment code, promulgated in 1984, to have a positive effect. They expressed concern, however, about the increasing debt service burden, particularly after 1986, and indicated that at that time renegotiation of some individual debts might be necessary. They expressed the hope that an increased portion of the public investment program could be financed with grants.

#### IV. Staff Appraisal

On the surface, the Comorian economy would appear to be developing reasonably well with an average annual growth rate of an estimated 4 percent and a gradual decline in the rate of inflation during the years 1981 to 1984. Below the surface, however, there are increasing signs of disequilibria in the balance of payments and in the financial system and of distortions in the economy. With a population growth rate of about 2.7 percent per year, per capita incomes are barely rising, and the economy is not creating enough jobs for a rapidly growing work force. Moreover, there are some serious questions about the structure of the economic growth. The service sector, heavily dependent upon foreign finance outlays, is the leading sector, while the agricultural sector, which produces virtually all of the exports and which employs 80 percent of the work force, is stagnant. In fact, the contribution of agriculture to GDP appears to have declined slightly between 1981 and 1984.

The huge development expenditures of the Comorian public sector portend serious budgetary and balance of payments problems in the medium term. Extrabudgetary expenditures are estimated at 49 percent of GDP in 1984, and the projected level for 1985 would amount to 47 percent of GDP. These extrabudgetary expenditures are financed entirely by grant aid (60 percent) and concessional loans (40 percent). Yet, the projects financed by these foreign sources, i.e., the Mutsamudu port and the highway system, inevitably generate recurrent expenditures and eventually the loan portion (however concessional) will have to be serviced. It seems unlikely that, despite the large grant component, the investments being financed by these foreign sources will generate in a timely way the necessary surplus to cover these additional costs.

The staff believes that the time has come to be very selective in investment and to shift the direction of investments toward agriculture and small-scale manufacturing. Such a shift will require the attention of a high level policy committee, the support of the donor community, and technical assistance from the World Bank. It will also require a coordinated set of measures to provide extension services, credit to producers, and improved marketing facilities.

The most urgent financial problem facing the Comorian authorities is the chronic cash deficits of the Treasury. Despite a high level of budgetary grants, amounting to about 3 percent of GDP, the Government has been running deficits of about 1 percent of GDP in each of the past two years. This is an improvement over the deficit of 3.6 percent of GDP in 1982, but it is still unsustainable. Having reached its borrowing limit with the Central Bank, the Treasury resorted to using the deposits of public enterprises, with adverse consequences for the latter's operations. The staff urges the Comorian authorities to reinforce budgetary discipline, strengthen measures to collect revenues,

and establish a mechanism for expenditure control. A review of the financial structure of the public enterprises would also help increase revenue collections as well as improve the efficiency of these enterprises.

Analysis of the banking and credit system reveals that, apart from the newly established Comorian Development Bank (CDB), the financial system essentially finances foreign trade and the service sector with little or no credit to agriculture or manufacturing. The existing financial institutions, instruments, and policies tend to induce the transfer abroad of existing financial savings. In view of this, the staff recommends that the Comorian authorities consider a series of measures designed to mobilize domestic savings and to channel these savings to productive enterprises.

The medium-term outlook for the balance of payments remains bleak. The huge deficits in the current account are expected to continue and the debt service ratio is projected to rise rapidly even if concessional forms of financing are used to meet the current account deficits. This is largely the result of the high level of foreign-financed investment projects, which have failed to generate an adequate surplus to service the related debt. Greater selectivity in such projects, as well as the reorientation of overall economic policies, are essential to narrow the current account deficits to levels that could be financed largely from grants. However, in view of the high level of external debt service on existing debt, particularly in 1986, the authorities may have to consider debt rescheduling.

The Comoros maintains an exchange system that is free of restrictions on payments and transfers from current international transactions, except for some limits on travel allocations. These limits were in existence at time that the Comoros became a member of the Fund and are not subject to Fund approval under Article VIII. Convertibility of the Comorian franc has also been continuously maintained. External payments arrears in Treasury operations, which were eliminated in 1983 through cash payments on rescheduling, re-emerged in 1984. This development was the result, however, of the limitations on the availability of domestic currency to purchase foreign exchange from the Central Bank and was not due to direct government limitations on the availability or use of foreign exchange. As such, the external payments arrears do not constitute exchange restrictions subject to Fund approval.

The Comoros is currently on the 18-month consultation cycle. The authorities have suggested that this cycle be maintained. However, in view of the difficult balance of payments outlook, the staff recommends that the next Article IV consultation with the Comoros be held on a 12-month cycle.

V. Proposed Decision

In view of the foregoing, the following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1984 Article XIV consultation with the Comoros, in the light of the 1984 Article IV consultation conducted under Decision No. 5392-(77/76) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that the Comoros continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

COMOROS - Fund Relations  
(As of December 31, 1984)

(Amounts in millions of SDRs)

I. Membership status

- |                       |                    |
|-----------------------|--------------------|
| a. Date of membership | September 26, 1976 |
| b. Status             | Article XIV        |

A. Financial Relations

II. General Department (General Resources Account)

- |  |  |
|--|--|
| a. Quota                                       | SDR 4.5 million                                |
| b. Total Fund holdings of member's<br>currency | SDR 4.5 million or 100.0 per-<br>cent of quota |
| c. Fund credit                                 | --   |
| d. Reserve tranche position                    | --   |
| e. Current Operational Budget                  | --   |

|                        | <u>Limits</u> | <u>Outstanding</u> | <u>Uncalled</u> |
|------------------------|---------------|--------------------|-----------------|
| f. Lending to the Fund | --            | --                 | --              |
| GAB )                  |               |                    |                 |
| SFF )                  |               |                    |                 |
| Enlarged access )      | --            | --                 | --              |
| Total )                |               |                    |                 |

III. Current stand-by or extended arrangement and special facilities

- |   |      |
|---|------|
| a. Current stand-by or extended<br>arrangement                                | None |
| b. Previous stand-by and extended<br>arrangements during the last<br>10 years | None |
| c. Special facilities   | None |



IV. SDR Department

- |                              |  |
|------------------------------|--|
| a. Net cumulative allocation | SDR 0.72 million                                   |
| b. Holdings                  | SDR 0.23 million or<br>32.6 percent of allocation. |
| c. Current Designation Plan  | --   |

V. Administered accounts

- |                        |    |
|------------------------|----|
| a. Trust Fund loans    | -- |
| b. SFF subsidy account | -- |

VI. Overdue obligations to the Fund

- |                                    |    |
|------------------------------------|----|
| a. General Department: Repurchases | -- |
| Charges                            | -- |
| b. SDR Department Net charges      | -- |
| c. Trust Fund (i) Repayments       | -- |
| (ii) Interest                      | -- |

VII. Country has not used Fund resources to date

B. Nonfinancial Relations

VIII. Exchange rate arrangement

The currency of the Comoros is the Comorian franc which is pegged to the French franc, the intervention currency, at the fixed rate of CF 1 = F 0.02.

IX. The last Article IV consultation

The last Article IV consultation was held from August 11-25, 1982; Board discussions of the staff reports (SM/82/216 and SM/82/220) took place on February 16, 1983 and the following decision was adopted:

1. The Fund takes this decision in concluding the 1982 Article XIV consultation with the Comoros, in the light of the 1982 Article IV consultation conducted under Decision No. 5392-(77/76), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that the Comoros continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

The Comoros has been classified for the 18-month cycle with regard to Article IV consultations.

X. Technical assistance

1. CBD experts have been serving as statistical advisors in the Ministry of Finance since January 1980. CBD also provided advisors on monetary and banking affairs to the Ministry of Finance during the period May 1979 to November 1981.

2. An FAD expert served as tax advisor from April 1981 to June 1983 assisting the authorities in implementing the recommendations of a Fund technical mission that visited the Comoros in 1980. He has been replaced by another tax administration advisor assigned to the Ministry of Finance since February 1984.

XI. Resident representative/advisor

None.

COMOROS - Relations with the World Bank Group

The last IBRD report on the economic situation of the country was issued in March 1983, with an updating note in June 1983. A new report is expected in 1985 based on the work of the economic mission of October-November 1984.

The IDA is currently financing a coconut rehabilitation and rodent control project (US\$5.2 million), a highway project (US\$6.3 million), an education project (US\$6.0 million), a population and health project (US\$2.8 million), a line of credit to the Development Bank of the Comoros (US\$2.3 million), and rural services project (about US\$5.0 million). The last one was approved by the Executive Board on May 1, 1984.

The IBRD participated in the organization of a donors' conference held in July 1984 in Moroni.

The World Bank has agreed to assist in carrying out the work initiated at this conference. A technical assistance project is under preparation to strengthen the technical capacity of the Government to implement the obligations it undertook at the conference. The project will focus on (a) the investment program, (b) budgetary procedures, and (c) public enterprises. The Bank has already provided a consultant to assist the Government on budgetary reform, both in the preparation and execution of the budget. A Bank staff member has also been seconded to the Planning Directorate.

COMOROS--Basic Data

Area, population, and GDP per capita

|                          |                         |
|--------------------------|-------------------------|
| Area                     | 2,166 square kilometers |
| Population: Total (1984) | 348,000                 |
| Growth rate              | 2.7 percent             |
| GDP per capita (1984)    | SDR 254                 |

| <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> | <u>1984</u><br>(Prov.) | <u>1985</u><br>(Proj.) |
|-------------|-------------|-------------|-------------|------------------------|------------------------|
|-------------|-------------|-------------|-------------|------------------------|------------------------|

(In millions of Comorian francs)

Gross domestic product

|                                   |        |        |        |         |         |         |
|-----------------------------------|--------|--------|--------|---------|---------|---------|
| At current market prices          | 26,746 | 30,048 | 35,968 | 40,380  | 43,166  | 47,266  |
| Consumption                       | 23,645 | 27,073 | 30,890 | 33,378  | 37,268  | 39,347  |
| Gross fixed capital formation     |        |        |        |         |         |         |
| Net imports of goods and services | -5,850 | -8,878 | -9,324 | -10,876 | -16,624 | -17,327 |
| At constant (1980) prices         | 26,746 | 28,217 | 29,317 | 30,402  | 31,405  | 32,441  |

(In percent)

Changes in prices

|                   |      |      |      |       |       |     |
|-------------------|------|------|------|-------|-------|-----|
| GDP deflator      | 10.8 | 6.5  | 15.2 | 8.3   | 3.5   | 3.5 |
| Export unit value | ...  | 10.3 | 27.3 | 10.6  | -13.7 | ... |
| Import unit value | ...  | 10.3 | 32.2 | -12.2 | 7.9   | ... |

Government finance

|                                   |         |        |        |         |         |         |
|-----------------------------------|---------|--------|--------|---------|---------|---------|
| Total revenue and grants          | 7,959   | 10,114 | 11,687 | 16,809  | 18,847  | 20,028  |
| Domestic revenue and              |         |        |        |         |         |         |
| budgetary grants                  | 4,548   | 4,512  | 4,789  | 7,225   | 6,702   | 7,883   |
| Of which: grants                  | (1,832) | (862)  | (680)  | (1,020) | (1,540) | (1,530) |
| Extrabudgetary grants             | 3,411   | 5,601  | 6,898  | 9,584   | 12,145  | 12,145  |
| Total expenditure and net lending | 12,216  | 13,548 | 18,419 | 23,779  | 28,060  | 30,527  |
| Budgetary current expenditure     | 5,037   | 4,008  | 5,750  | 7,206   | 6,616   | 7,800   |
| Budgetary capital expenditure     |         |        |        |         |         |         |
| and net lending                   | 673     | 849    | 482    | 830     | 500     | 600     |
| Extrabudgetary expenditure        | 6,851   | 8,566  | 12,323 | 15,953  | 20,944  | 22,127  |
| Overall surplus or deficit (-)    | -4,256  | -3,434 | -6,732 | -6,970  | -9,213  | -10,499 |
| Financing                         |         |        |        |         |         |         |
| Foreign (net)                     | 3,586   | 3,087  | 5,461  | 6,571   | 8,619   | 9,411   |
| Domestic (net)                    | 670     | 346    | 1,270  | 399     | 594     | 1,088   |
| Banking system                    | 457     | 285    | -135   | 195     | -183    | 221     |
| Nonbank                           | 213     | 61     | 1,407  | 204     | 779     | 867     |

COMOROS--Basic Data (concluded)

|   | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> | <u>1984</u><br>(Prov.) | <u>1985</u><br>(Proj.) |
|---|-------------|-------------|-------------|-------------|------------------------|------------------------|
| (In millions of Comorian francs)        |             |             |             |             |                        |                        |
| <u>Money and credit (end of period)</u> |             |             |             |             |                        |                        |
| Foreign assets (net)                    | 1,481       | 2,467       | 4,220       | 4,741       | 4,232                  | 4,711                  |
| Domestic credit                         | 4,288       | 4,598       | 3,734       | 5,430       | 7,152                  | 8,654                  |
| Claims on Government (net)              | 584         | 869         | 734         | 929         | 746                    | 967                    |
| Claims on private sector                | 3,704       | 3,729       | 3,000       | 4,501       | 6,406                  | 7,687                  |
| Money and quasi-money                   | 4,166       | 4,737       | 6,221       | 8,362       | 9,216                  | 11,308                 |
| Money                                   | 3,927       | 4,255       | 5,368       | 7,341       | 7,503                  | 9,206                  |
| Quasi-money                             | 239         | 482         | 853         | 1,021       | 1,713                  | 2,102                  |
| Other items (net)                       | 1,561       | 2,235       | 2,806       | 2,115       | 2,696                  | 2,057                  |

(In millions of SDRs)

Balance of payments

|  |         |         |         |         |                 |         |
|--|---------|---------|---------|---------|-----------------|---------|
| Goods and services (net)               | -28.54  | -27.50  | -25.21  | -27.13  | -36.85          | -37.73  |
| Exports, f.o.b.                        | 8.60    | 13.92   | 17.73   | 18.21   | 16.03           | 19.27   |
| Imports, f.o.b.                        | -15.64  | -19.21  | -20.69  | -22.77  | -26.57          | -29.97  |
| Trade balance                          | -7.04   | -5.28   | -2.95   | -4.56   | -10.46          | -10.70  |
| Services (net)                         | -21.50  | -22.22  | -22.25  | -22.57  | -26.39          | -27.03  |
| Unrequited transfers (net)             | 18.20   | 20.59   | 15.27   | 16.79   | 15.16           | 14.30   |
| Of which: official                     | (19.65) | (20.18) | (17.45) | (18.81) | (17.57)         | (16.45) |
| Current account                        | -10.34  | -6.92   | -9.94   | -10.34  | -21.69          | -23.43  |
| Capital account (net)                  | 7.78    | 10.18   | 13.29   | 12.28   | 20.53           | 24.45   |
| Official                               | 12.51   | 9.25    | 17.71   | 17.56   | 23.27           | 22.13   |
| Suppliers' credit                      | 4.23    | 2.53    | -1.40   | -2.58   | <u>1/</u> -0.70 | -0.70   |
| Other (including error and omissions)  | -8.65   | -1.34   | -3.39   | -2.70   | -2.04           | ...     |
| SDR allocation                         | 0.27    | --      | --      | --      | --              | --      |
| Overall balance                        | -2.31   | 3.27    | 3.35    | 1.94    | -1.16           | 1.02    |
| Changes in official net foreign assets | 2.31    | -3.27   | -3.35   | -1.94   | 1.16            | -1.02   |

Gross official reserves (end of period)

|                                       |     |     |     |      |     |      |
|---------------------------------------|-----|-----|-----|------|-----|------|
| Total                                 | 4.7 | 7.3 | 9.8 | 10.5 | 9.3 | 10.3 |
| In number of months' imports (c.i.f.) | 2.6 | 3.3 | 6.9 | 6.5  | 3.0 | 2.8  |

External public debt

|  |       |       |       |       |        |        |
|--|-------|-------|-------|-------|--------|--------|
| Total disbursed and outstanding                      | 33.80 | 41.16 | 60.41 | 85.69 | 108.96 | 131.09 |
| Debt service payments                                | 0.23  | 0.42  | 0.82  | 1.42  | 2.82   | 3.36   |
| As percent of exports (goods and nonfactor services) | 15.2  | 15.4  | 34.1  | 37.6  | 37.0   | 37.5   |

1/ Includes payments of arrears.

Comoros - Statistical Issues

1. Coverage, currentness, and reporting of data and IFS

There is no country page in IFS. While there is an IFS correspondent to whom IFS monthly letters and report forms are being sent, no data are currently being reported.

2. Outstanding statistical issues

Real sector

The Bureau of Statistics has no information concerning a consumer price index.

Population data obtained from the U.N. are current through 1983, but show a significant difference with official data.

Government finance

There are no data in the GFS Yearbook.

Monetary accounts

A technical assistance mission visited Moroni on May 3-11, 1983 to improve Monetary Accounts (see Report on Mission to the Comoros, December 23, 1983). There was, however, no follow-up on the part of the authorities. The last consultation mission (October-November 1984) obtained data for December 1982, September 1983, December 1983, and September 1984. The authorities intend to provide to STAT monthly data in the future, for publication in the IFS.

Merchandise trade

Complete export data are published in the Annual Report of the Central Bank with a delay of one year. Data on imports, published in the same Report, are incomplete. Complete data on imports can be obtained with two or three years delays.

Balance of payments

Estimates on balance of payments are also published in the Annual Report of the Central Bank. The method of collecting data still remains to be improved. The country has not yet received technical assistance from the Fund in that area.