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UNION OF THE COMOROS

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION— STAFF SUPPLEMENT ON THE COVID-19 PANDEMIC AND ITS IMPACT ON COMOROS' OUTLOOK AND RISKS— SUPPLEMENTARY INFORMATION

Prepared
by

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So far, the Comoros authorities have not reported a domestic outbreak of COVID-19. The pandemic is nevertheless likely to affect adversely Comoros' economic outlook, but the size of the impact is highly uncertain. This supplement discusses the transmission channels, the possible impact and downside risks, the steps Comoros is taking to prepare, and potential additional steps. The supplement does not alter the thrust of the staff appraisal.

1. **The Comoros authorities have taken some steps to ward off the COVID-19 pandemic, and no domestic outbreak has been reported so far.** In early February, they quarantined a group of students from China; and they have since banned travelers from China and some other heavily affected countries. The authorities have also met with some partners and sought funding for health system preparedness to the tune of US\$2.2 million (0.2 percent of GDP). France and Saudi Arabia have indicated that they will provide this financing.

2. **The pandemic has led to a substantial deterioration in the global economic environment and largely adverse spillovers to Comoros are expected.** The pandemic has lowered the global growth outlook; contributed to a drop of commodity prices including a very sharp decline in petroleum prices; and led to a tightening of global financial conditions. This deterioration is likely to transmit to Comoros through the following channels:

- **Lower growth in Europe may translate into lower remittances inflows**, a key component of the current account (gross remittances receipts accounted for 17.3 percent of GDP in 2019).

- **Lower international travel is likely to result in lower tourist arrivals**, notwithstanding the fact that a large part of tourism reflects family visits by the large diaspora (tourism-related exports of services account for 6.1 percent of GDP).
 - **The impact of the decline in global commodity prices on the goods trade balance is uncertain.** On the one hand, lower commodity prices, particularly petroleum prices, will make key imports cheaper. On the other hand, while the price of some of Comoros' specialized goods exports (cloves, vanilla, ylang-ylang) are fixed in longer-term contracts, the decline in global commodity prices may still adversely affect others.
 - **China's participation in public investment projects could be temporarily halted with adverse impacts on growth**, for example as concerns the ongoing upgrading of telecommunication equipment.
 - **The tightening in global financial conditions and the possible temporary disruption of global value chains centered on China would likely have little direct impact**, as Comoros does not yet access global capital markets and is not integrated in such value chains to a substantial extent. Indirect impacts are nevertheless likely, working through some of the above channels.
- 3. While these spillovers are likely to have a noticeable adverse impact, the damage would likely be much greater if the pandemic reaches Comoros, as appears increasingly likely.** The health system could be quickly overwhelmed (the WHO ranks the system's preparedness at the lowest level in international comparison). This could result in a transitory inability to work of a sizeable share of the population and possibly numerous fatalities.
- 4. As an immediate priority, the authorities should take further measures to minimize the chances of a COVID-19 outbreak in Comoros and contain any outbreak that may happen.** Essential health expenditure related to fighting the virus (e.g., prevention, detection, control and treatment) should be urgently and comprehensively assessed in coordination with health authorities and frontloaded and prioritized. The WHO's guidelines on how to scale up health expenditure to respond to COVID-19 include rapid case identification for isolation, treatment and care, contact tracing, community engagement and mobilization, safe burials, effective infection control, and laboratory testing.¹
- 5. Within their limited capacity and fiscal means, the authorities should also aim to mitigate the economic impact of COVID-19, including from global spillovers.**
- **Fiscal policies:** To the extent possible, the authorities should ensure that fiscal policy cushions the most adverse effects the COVID-19 shock may have in 2020, before bringing the fiscal position back in line with medium-term paths from 2021 onward. In

¹ <https://www.who.int/docs/default-source/coronaviruse/covid-19-sprp-unct-guidelines.pdf>

addition to expanding healthcare resources, the authorities could consider giving targeted and temporary support for impacted households. However, the authorities may lack the financing needed for a substantial deterioration in the 2020 fiscal balance: as discussed in the staff report, Comoros has no or only minimal cash buffers, very limited access to domestic sources of credit, and likely no readily available external private sources of credit. The authorities can alleviate these constraints by reaching out again to partners to seek additional grant or concessional loan financing. Given Comoros' as yet moderate risk of external debt distress (Staff Report Annex IV), such an approach would help protect the most vulnerable and contain the risk of lasting economic and social costs without compromising fiscal sustainability.

- **Monetary and exchange rate policies:** The fixed exchange rate cannot facilitate adjustment. At present, reserves are only slightly lower than adequate, suggesting the availability of some room for a temporary drawdown of reserves.
- **Financial sector regulation and supervision:** Regulators could also consider, on a targeted and time-bound basis, an extension of loan maturities to borrowers in hard-hit sectors. The authorities should monitor the impact of the COVID-19 shock on loan performance as part of their efforts to protect financial stability.

6. **Against this background, the authorities should continue to reach out to donors and IFIs** to secure grant and concessional financing to help create space for fiscal accommodation of the shock. Drawing on appropriate financing tools of the IMF and World Bank could help catalyze broader sources of grant and concessional financing.