

GREEN/20/4

March 17, 2020

Joint Green Statement from Mr. Buisse, Mr. Ronicle, Mr. Rozan, Mr. Comolet, and Ms. Nelson on the Union of the Comoros—Staff Report for the 2019 Article IV Consultation (SM/20/60)

We thank staff for the well written set of reports and Mr. Raghani and Mr. Sidi Bouna for the insightful Buff statement.

We broadly agree with staff’s assessment of the economic and financial situation of Comoros. Indeed, it remains fragile, though the authorities have had some recent policy successes despite having faced challenging situations in the past couple years, due to political uncertainty and the aftermath of the Tropical Cyclone Kenneth, which hit the archipelago last year. Therefore, it is critical for the Union of the Comoros to improve on the fragilities underlined by staff, in particular those pertaining to its institutional and economic framework. We note and support that the authorities have expressed interest in closer Fund engagement through a Staff-Monitored Program (SMP) and a potential future ECF arrangement. *We would be interested in more detail regarding the state of those discussions and the preconditions for Fund engagement.*

On the fiscal side, many challenges remain, as shown by the continuing decline in tax revenues and overreliance on international aid. We also note that external arrears are on the rise. Restoring a sound and credible fiscal policy is needed through higher domestic resources mobilization and lower dependency on international aid. Rationalizing the wage bill and other current expenditure is also paramount to creating more room for development expenditure, especially in social sectors and infrastructure. Regarding current expenditure, we concur with staff that fiscal consolidation needs to be implemented without reducing service delivery. We also support staff recommendations on the supervision of SOEs and the clearance of domestic arrears. *Could staff also elaborate on the timeline and financing required for the restructuring of the SNPSF, and in the involvement of other IFIs?*

We support the need to increase domestic revenue mobilization in order to ensure fiscal sustainability and to boost inclusive growth. In addition to fiscal measures, strengthening public financial management will be crucial. In this regard, we encourage the authorities to take strong actions, including the increasing centralization of tax receipts in the Treasury Single Account and the closure of government banks accounts that still lie outside of the TSA. We would also be interested in more details on the potential impact of the AfCTFA on customs receipts for Comoros given that receipts consistently represent over 2.5% of GDP?

Regarding public debt, we note that Comoros remains in moderate risk of debt distress. At the same time, the updated Debt Sustainability Analysis (DSA) stresses that Comoros has limited space to absorb shocks. Against this background, we encourage the authorities to carefully manage their debt policy, in close collaboration with staff, with limits on non-concessional borrowing as established with the World Bank. We underscore the importance of this given Comoros' weak external debt service capacity, its narrow base of exports and limited domestic revenue. We note the delays in the implementation of the plan to clear external arrears and urge the authorities to get back on track as soon as possible.

The capacity of the central bank is to be reinforced. We welcome staff overall support in this regard. Nonetheless, we remain concerned with the situation in the banking sector, which requires close supervision. Several banking institutions are facing challenges related to their profitability (asset quality remains weak with ratios of gross NPLs to loans at 24 %) and to their liquidity. In particular, the SNPSF has faced extreme difficulties in recent years. We welcome the decision of the authorities to resolve SNPSF and to split, as a first step, the postal and banking activities into two entities. The implementation of this split should lead to a clear separation of banking and postal activities, based on an audit for which we would welcome additional detail.

On the external side, Comoros has structural current account deficits which result in important financing needs. We note the continuing importance of remittances from the Comorian diaspora and Official Development Assistance (ODA) as key financing instruments

Impediments to economic growth are a key policy challenge. Improving physical infrastructure and creating fiscal space is critical for funding appropriately the investment needs in key economic sectors. The business environment should also be strengthened, especially in relation to contract enforcement and business dispute resolution.

Improving governance remains paramount to enhancing the prospects of the country. The capacity of the government and its performance need support. In particular, we support the strengthening of the implementation capacity and of the anti-corruption and anti-money laundering measures, and staff recommendations to strengthen the asset declaration regime for high-level officials, including publication of the declarations. Moreover, an increase in judicial independence will be important for the rule of law, a development for which the support of the international financial institutions will remain critical. More generally, we would like to underscore the usefulness of the analysis done by staff on fragility, and the clear, focused and comprehensive analysis of the policy reforms to address it.

Finally, we note that Comoros is exposed and vulnerable to natural disasters with the expectation for this risk to grow as climate change progresses. In this regard, we are encouraged that the authorities have started to implement a natural disaster resilience strategy. We encourage staff to maintain a close watch on its implementation to ensure that improving resilience is adequately reflected in macro-fiscal and financial frameworks.