

GREEN/20/7

March 18, 2020

**Green Statement from Mr. Lischinsky and Ms. Moreno on the Union of the Comoros—
Staff Report for the 2019 Article IV Consultation (SM/20/60)**

We thank staff for the reports and Mr. Raghani and Mr. Sidi Bouna for their informative Buff statement.

Outlook and Risks

Economic development in the Union of the Comoros has been challenging due mainly to political uncertainty and cyclone Kenneth. Under the baseline scenario, staff projects a growth rebound in 2020 but then estimates it will remain moderate in the medium term. Nevertheless, there are several downside risks, both in the short- and medium-term. As many other economies, one of these risks is the vulnerability of the impact of the COVID-19 pandemic.

Fiscal stress is one of the short-terms risks that calls for implementing prudent fiscal policy, including the creation of fiscal space. Comoros now has limited ability to cushion shocks. We take positive note of the authorities' willingness to build a cash buffer. Structural reforms to enhance budget transparency are encouraged, as well as strengthening budget execution.

The banking system faces structural weaknesses that need to be addressed. The banking sector is concentrated, lending is limited, and bank penetration remains low. Moreover, stress tests reveal fragility. We agree with staff's recommendations, including lowering the incidence of government arrears to banks and suppliers, and enhancing the financial safety net. It is also important to strengthen the tools to achieve financial stability

Trade finance and remittances are important. Even though staff considers the large flow of remittances as an advantage, the authorities should consider safeguards as they might be a volatile source of income and be prepared for a possible sharp reversal. Policies to improve labor market participation and the stability and quality of jobs helps to prepare for a sudden drop in income.

Strengthening resilience to natural disasters should accompany the implementation of fiscal and monetary policy. Building fiscal space will allow to have resources to invest and accelerate the pace of implementation of the strategy proposed by staff, which we endorse. In addition, efforts to improve the judicial system might help develop the financial system as it should ensure that banks can move against delinquent borrowers.

We echo Mr. Heo and others in their joint Green statement in welcoming the authorities' commitment to transforming Comoros into a dynamic emerging market economy over the next decade. In this regard, we encourage them to address the fragility underscored by staff regarding the interlocking vicious circles—namely institutional and economic fragility. An active policy agenda, beginning with strengthening the civil services, will be key to achieve this goal and aim for inclusive growth.

With these comments, we wish the authorities every success in their future endeavors.