GREEN/20/9

March 18, 2020

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

We note the challenging period that the Comoros Islands economy is experiencing and encourage the authorities to remain committed to a pro-poor growth agenda and continual reform efforts. Higher growth rates are required to sustain poverty reduction, however the economy seems to be locked in a low-growth path with average per-capita GDP growth below zero over the past 5 years. We therefore encourage the authorities to maintain a pro-poor growth focus, as poverty and inequality concerns remain and could fuel social and political instability if not addressed. We broadly agree with staff's analysis and policy recommendations and provide the following comments for emphasis.

Growth and outlook: While growth slowed significantly in 2019, in the wake of cyclone Kenneth which caused sizable infrastructure damage estimated at 12.5 percent of GDP (African Development Bank), and inter-island political uncertainty amid constitutional change and elections, it is reassuring that a V-shaped recovery is projected. Risks to the outlook remain tilted to the downside, however, with potential adverse impacts from the global COVID-19 pandemic adding to political uncertainty and ongoing climate risks. We therefore encourage the authorities to focus on growth-oriented structural reforms that will boost exports and jobs, while addressing institutional, governance and economic fragilities that limit growth prospects and the transformation of the Comoros economy. We note that geographic isolation and lack of connectivity are likely to constrain economic activity and growth. Therefore, the high-speed submarine cable project that addresses this constraint could potentially be a significant boost to growth. In view of recent developments with the pandemic, we also encourage the authorities to consider the Comoros' vulnerability, and implications of COVID-19 for tourism, remittances and other aspects of the economy.

Fiscal Policy: The Comoros' extreme vulnerability to exogenous shocks, alongside limited savings and fiscal space needed to absorb these shocks, highlights the importance of mobilizing additional revenues both to manage recurring shocks and to support an inclusive growth agenda. While the small production base limits how much revenue can be mobilized, we nevertheless urge the authorities to take measures that help to broaden the tax base such as rationalizing tax exemptions, improving tax and customs administration, and addressing weaknesses in taxpayer identification procedures. We welcome the significant progress made on improving budget credibility, and encourage measures to enhance budget transparency, including tightening TSA controls, addressing accumulation of government arrears, and reporting regularly on budget execution to the parliament and public.

We note the significant fiscal risks from state-owned enterprises (SOEs) such as the postal bank and welcome the authorities' intention to strengthen the oversight of SOEs. We encourage the authorities to take decisive measures, in this regard, to safeguard fiscal sustainability. Among other things, we also encourage enhancing the transparency of SOE financial positions and reconsidering the rationale for SOEs. If the authorities plan to implement price recovery policies, they may also wish to consider taking advantage of the recent collapse in oil prices to start implementing energy subsidy reforms.

We concur with staff on the need to set aside resources to build up a cash deposit at the central bank that could be used in the case of shocks. In the same vein, building cash buffers could be pursued in the context of a comprehensive natural disaster resilience strategy. We would urge that such a strategy include an integrated resilience management system. We also encourage the authorities to consider adopting a fiscal strategy that balances investment needs with preserving debt sustainability in light of the increase in debt vulnerabilities.

Monetary, Exchange Rate and Financial Policies: We concur with the staff's advice to maintain the exchange rate peg, as it continues to anchor inflation. We however note the decline in international reserves coverage, and wonder if staff could elaborate on advice given to rebuild foreign reserve buffers. On monetary operations, we underscore the need to strengthen central bank autonomy and enhance internal audit activities.

For financial sector policies, addressing vulnerabilities in the financial sector remains critical. We encourage the authorities to adopt international financial reporting standards and risk-based supervision with a view to preserving and entrenching financial stability. We also encourage the authorities to press ahead with reforms aimed at promoting access to financial services, including addressing impediments to credit.

Structural Reforms: We commend the authorities' reform efforts in recent years, including with electricity provision and increased private sector participation. We encourage further reforms to address impediments to investment and private sector activity in general. In this context, plans to reform the judicial system and enhance its independence are welcome. We also support the authorities' plans to improve the management of the civil service and the careful consideration being given to staff proposals on this issue.

Finally, we encourage the authorities in their efforts to address AML/CFT deficiencies, strengthen the asset declaration regime, and bolster corruption investigation processes, as these measures will improve both governance and the business climate. We note the authorities' views on the publication of asset declarations. They may wish to consider the experience of other countries with a tailored disclosure approach that helps to strike some balance between privacy concerns and preventing corruption.

With these comments, we wish the Comorian authorities successful reforms.