COMOROS

Table 1	2020
Population, million	0.9
GDP, current US$ billion	1.2
GDP per capita, current US$	1348.3
International poverty rate ($ 19)[a]	19.1
Lower middle-income poverty rate ($3.2)[a]	39.7
Upper middle-income poverty rate ($5.5)[a]	64.6
Gini index[a]	45.3
School enrollment, primary (% gross)[b]	99.5
Life expectancy at birth, years[b]	64.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2013), 2011PPPs.
(b) Most recent WDI value (2018).

The COVID-19 shock hit the economy significantly in 2020, but the fallout from the pandemic is fully materializing only this year. A prompt vaccination roll-out would allow Comoros to progressively return to normality. In a context of longstanding fragility, inadequate government response to the pandemic may cause social discontent and financial sector vulnerability. In addition, the pandemic is likely to have increased the share of those living in poverty and deepened poverty among the poor.

Key conditions and challenges

Comoros has been in a persistent low-growth equilibrium, in a context of social, political, and institutional fragility. The economy over the last decade has been primarily consumption-driven, fueled by remittances and tourism receipts from the diaspora, and relying on external aid. Low domestic revenue along with a high public wage bill and weakly managed SOEs constrain social spending and crowd out the space for critical infrastructure. Private sector development is limited by a small domestic market and a weak rule of law, a fragile financial system and an onerous business environment. Poverty reduction has remained modest while inequality has been on the rise, including between rural-urban regions and across islands. Labor force participation is remarkably low, especially among female workers, and low quality education has undermined the contribution of human capital to productivity growth, with overall factor productivity growth missing. The monetary agreement with France has contributed to fairly conservative fiscal policy, low inflation rates, and adequate levels of foreign reserves, with no signs of significant currency misalignment in recent years.

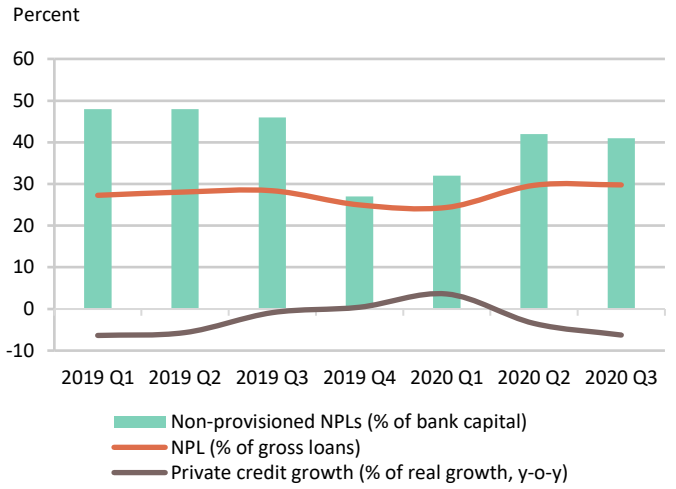
COVID-19 is exacerbating existing economic and social challenges with short-term risks aggravated by the rapid spread of the virus since the beginning of the year. High levels of non-performing loans and longstanding solvency issues are testing the stability of the financial sector. Deterioration of SOEs' financial situation, including of Comores Telecom, a national telecom provider that is facing increased competition, could intensify risks associated with SOEs' contingent liabilities. In light of the spatial inequalities between the islands, a delayed or uneven response by the government could lead to a renewed cycle of social discontent and political instability.

Recent developments

Despite a relatively contained first wave of COVID-19 in Comoros in 2020, most economic activity was disrupted due to mobility restrictions and the suspension of international travel, resulting in a drop of tourism receipts. Demand for agricultural products and services (leisure and transport) were the most hit. Notwithstanding this, the limited spread of the pandemic, along with strong support from the diaspora and sustained government health and social spending, led to a smaller contraction in growth (-0.5 percent) than previously anticipated. Inflation remained low in 2020 supported by government measures to contain the price of selected imports.

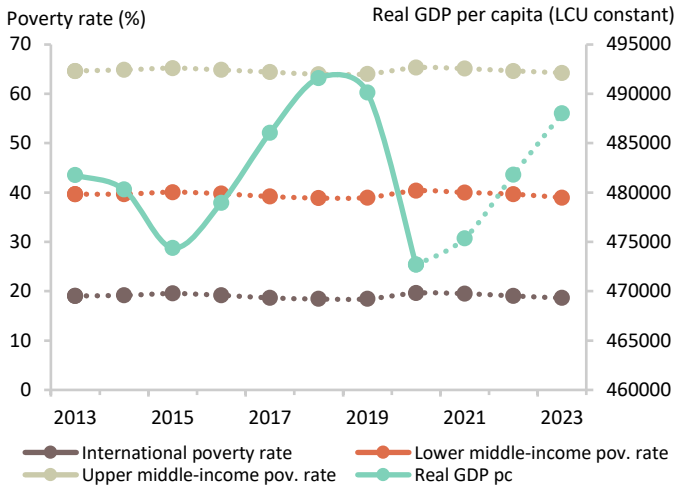
Vulnerabilities in the financial sector have intensified. After years of insolvency of SNPSF, a public systemic financial institution, the authorities started the restructuring process with the separation of the postal from banking services (planned for

FIGURE 1 Comoros / Non-performing loans and credit growth



Sources: WB Financial Stability Monitor for Comoros (December 2020).

FIGURE 2 Comoros / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

the second half of the year). Other two small banks have been under provisional administration due to capital shortfalls. The BCC eased liquidity strains through lower reserve requirements and requested banks to extend maturities for hard-hit debtors, limiting, at least temporarily, the rise of NPLs (see Figure 1).

Fiscal policy measures have been taken to mitigate the impacts of the pandemic which include reduced taxation of selected imports, increased spending on health, subsidized pay for workers in key SOEs and cash transfers to the poor. Despite a shortfall in domestic revenues, the fiscal deficit was curbed to -0.1 percent of GDP in 2020 (compared to –1.9 percent in 2019), thanks to strong external budget support from official donors and participation in the Debt Service Suspension Initiative.

The current account balance was only slightly negative in 2020 (-0.7 percent of GDP compared to –3.9 percent in 2019) despite the decrease in tourism receipts, due to lower imports and an increase in remittances, which proved to be resilient despite the economic slowdown in Europe (France in particular, where most of the diaspora lives). The poverty rate (at US$1.90 per day) is estimated to have increased from 18.5 percent in 2019 to 19.6 percent in 2020 owing to social-economic fallouts from the pandemic (Table 2).

Outlook

The new and stronger COVID-19 wave since January and the anticipated challenges to vaccine acquisition and distribution, will likely delay economic recovery. Recovery may start only during the second half of 2021, resulting in a nearly absent growth this year (0.2 percent). The tightening of social distancing measures to contain the spread of the new wave, and the decision of the French government to close its borders, would decrease tourism receipts and aggravate the economic impact of the pandemic. Despite weak domestic revenues, the government is expected to continue boosting social and health spending to mitigate the impact of the pandemic.

The economy is expected to recover in 2022 and 2023, depending on the pace of vaccination in Comoros and abroad, which would allow for a normalization of economic activity, and globally. Likewise, Comoros' fiscal stance is expected to progressively return back to pre-crisis levels, with external aid decreasing accordingly. There are significant downside risks to the outlook, however, including a prolonged pandemic and growing vulnerabilities in the financial sector. The Comorian financial sector was already highly vulnerable prior to the pandemic, with at least three financial institutions undercapitalized, including one insolvent (SNPSF). Less resilient remittances and growing difficulties among SOEs, including Comores Telecom, and political tension from growing social frustration also represent significant risks to the outlook. Poverty (measured against the US$ 3.20 poverty line) is expected to decline progressively (see Figure 2), contingent on Comoros' ability to contain the economic impacts of COVID-19, the rollout of vaccinations, and the success of mitigation measures adopted by the government.

TABLE 2 Comoros / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.4	1.9	-0.5	0.2	2.2	4.2
Private Consumption	1.8	2.0	0.9	0.1	2.5	3.8
Government Consumption	0.0	-7.2	4.0	7.0	-0.8	4.4
Gross Fixed Capital Investment	19.0	11.9	-4.9	0.4	2.8	3.7
Exports, Goods and Services	19.2	0.5	-7.7	0.1	2.2	4.8
Imports, Goods and Services	10.9	5.2	-1.7	2.3	2.4	3.3
Real GDP growth, at constant factor prices	3.0	1.9	-0.5	0.2	2.2	4.2
Agriculture	2.7	-0.9	1.1	1.7	2.0	2.2
Industry	1.7	1.4	2.0	2.2	2.6	2.9
Services	3.3	3.3	-1.7	-0.8	2.2	5.3
Inflation (Consumer Price Index)	1.7	3.3	1.4	0.9	2.0	2.0
Current Account Balance (% of GDP)	-2.4	-3.9	-0.7	-2.3	-3.5	-3.6
Fiscal Balance (% of GDP)	-1.7	-1.9	-0.1	-2.4	-2.1	-2.0
Debt (% of GDP)	17.4	23.9	29.7	33.1	34.0	35.5
Primary Balance (% of GDP)	-1.5	-1.7	0.3	-1.9	-1.5	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	18.4	18.5	19.6	19.5	19.1	18.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	38.9	39.0	40.4	40.0	39.7	39.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	63.9	64.0	65.3	65.1	64.6	64.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Calculations based on 2013-EESIC. Actual data: 2013. Nowcast: 2014-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2013) with pass-through = 0.87 based on GDP per capita in constant LCU.