

COMOROS

Key conditions and challenges

Table 1 2019

Population, million	0.9
GDP, current US\$ billion	1.2
GDP per capita, current US\$	1354.3
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), 2011 PPPs.

(b) Most recent WDI value (2018).

Despite a contained spread of COVID-19 in Comoros, the country's fragile landscape is being heavily impacted by the health shock, with severe consequences to firms and households. Limited fiscal space, incipient social safety networks and a weak financial sector limit the Government's capacity to respond to the crisis. Growth is expected to recover over the medium term, in the wake of stronger demand, and the gradual pick-up of remittances and investment. Poverty stands higher compared to its pre-COVID-19 level.

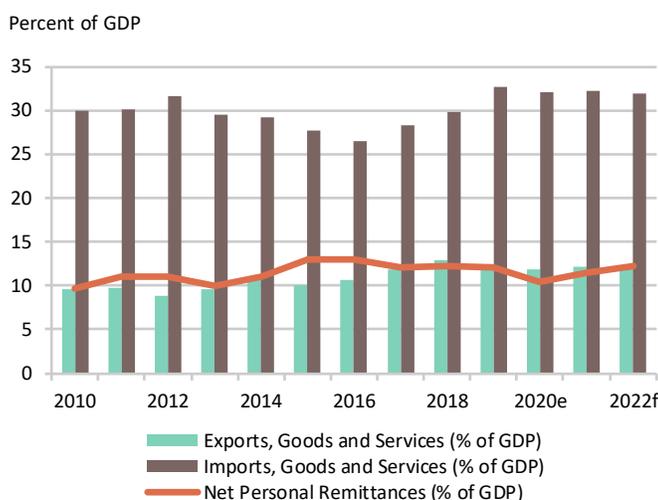
Recent progress in political stability has not yet taken Comoros out of a stagnant long-term growth trajectory. Per capita GDP growth of less than 1 percent over the last ten years was predominantly consumption-driven, fueled by remittances and tourism receipts flowing in from the diaspora. Poverty reduction has been modest, and inequality has been on the rise, including between rural-urban regions and across islands. A dearth investment, discouraged by institutional fragility, weak financial sector and an onerous business environment, has slowed the accumulation of physical capital. Labor force participation has been remarkably low, especially from female workers, and low quality of education has persistently undermined the contribution of human capital to productivity growth, with overall total factor productivity nearly absent. 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 a sustained and/or significant overvaluation of the currency in recent years. Comoros' longstanding challenges are escalating due to the COVID-19 crisis. Growing financial sector vulnerabilities, including high levels of non-performing loans and solvency issues, could intensify during the pandemic, compromising the stability of the financial system. A worsening of the

financial situation of State-Owned Enterprises (SOEs), including of Comores Telecom, a publicly owned telecommunication provider, could intensify risks associated with SOEs' contingent liabilities. Limited fiscal space, incipient social safety networks and a shallow financial sector limit the Government's capacity to respond to the economic and social ramifications of the crisis. Sustained progress towards political stability could be compromised if the Government's relief response to COVID-19 is perceived as insufficient and inequality rises.

Recent developments

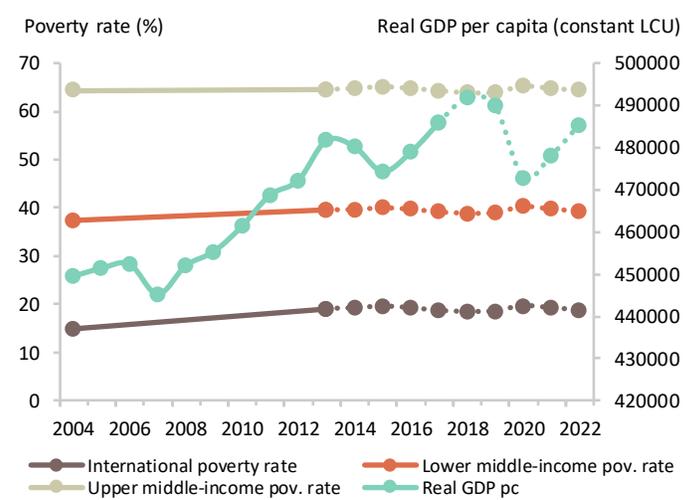
The dampening effect of COVID-19 in Comoros' economy strikes one year after the Cyclone Kenneth (April 2019), which caused substantial damages to the agricultural sector. The positive growth effects expected from the reconstruction efforts and recovery after the cyclone will be more than offset by the negative impact of COVID-19, lowering growth projections to -1.4 percent in 2020 (from 4.4 percent in pre-COVID forecasts). Social distancing measures adopted early on contained the spread of the virus, but decreased labor supply and weakened economic activity. Demand and supply effects related to external trade and the disruption of international travel are hitting Comoros' main earning sectors. The slowdown of remittances from the diaspora (which dropped in the second quarter and expected to have decreased further during

FIGURE 1 Comoros / External Sector



Sources: World Development Indicators and World Bank staff forecasts.

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



Source: World Bank. Notes: see Table 2.

summer) are cutting down domestic demand (Figure 1). Government measures to reduce the price of imported goods at customs have been relatively successful in containing price increases and the inflation rate will remain low in 2020.

Financial sector vulnerabilities have increased. The SNPSF, a public systemic financial institution, is insolvent, although it has recently taken key initial steps in its restructuring process. In May, the BDC and BFC (two commercial banks) were placed under temporal provisional administration of the Central Bank due to liquidity strains. The slowdown of economic activity along with COVID-19-related custom tax cuts are resulting in a large drop in fiscal revenues, while expenditures are on the rise, yet with some restraint (due to limited borrowing capacity), to finance higher spending in health care and other social and economic measures. External budget support from donors and participation to the Debt Service Suspension Initiative will help to contain the deficit of the fiscal account, estimated at 3.9 of GDP. A combination of lower remittances inflows, the drop of tourist arrivals and the slowdown of exports would generate a current account deficit of 3.7 percent of GDP. Disruptions in public services, including health and education, the decline in remittances and consumption, and the

reduction of informal jobs, are affecting the poor disproportionately, with extreme poverty (estimated based on \$US1.9 PPP per person per day) increasing to 19.6 percent in 2020 (from 18.6 percent in 2019).

Outlook

Despite the significant adverse short-term impact of the pandemic, the medium-term outlook for Comoros' economy remains favorable. Growth is expected to recover in 2021-2022 under the key assumption of the progressive end of the health crisis. A global recovery would bring in higher remittances and tourism receipts. Sustained economic recovery would also be supported by the take-up of delayed investments, including public and private investments related to the cyclone reconstruction, and by the recovery of the agricultural sector. Domestic revenues are projected to progressively recover with the uptake of economic activity and custom tariffs. Fiscal pressures associated with COVID-19 health costs are projected to ease and capital expenditures related to Cyclone Kenneth reconstruction efforts would resume. Measured against the lower-middle-income poverty line of \$3.2 a

day per capita (2011 PPP), absolute poverty is projected to slowly decrease to 39.3 percent by 2022 (Figure 2).

The projections for the impact of the pandemic are, however, subject to the highly uncertain spread of the disease domestically as well as overseas, with a prolonged COVID-19 outbreak slowing the recovery in 2021. A deeper recession in France (where most Comorian migrants live) would continue to push down remittances, while potential extended travel restrictions would lead to fewer visits from the diaspora, with consequent lower tourism receipts. Fiscal transfers to crisis-hit SOEs would be needed as their vulnerabilities would rise with a prolonged crisis, while intensified struggles in the financial sector could trigger a financial crisis. On the contrary, a faster than expected end of the health crisis would produce a solid global recovery, allowing for a stronger economic recovery domestically.

TABLE 2 Comoros / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.8	3.4	1.9	-1.4	2.6	3.5
Private Consumption	4.2	1.8	2.0	-3.1	2.5	3.6
Government Consumption	5.9	0.0	-7.2	17.0	-2.9	1.5
Gross Fixed Capital Investment	6.9	19.0	11.9	-2.8	3.7	3.0
Exports, Goods and Services	11.8	19.2	0.5	-1.4	4.2	3.2
Imports, Goods and Services	10.8	10.9	5.2	-0.7	1.8	2.4
Real GDP growth, at constant factor prices	3.4	3.0	1.9	-1.4	2.7	3.5
Agriculture	3.8	2.7	-0.9	1.0	1.8	2.0
Industry	-2.7	1.7	1.4	1.8	2.9	2.8
Services	4.5	3.3	3.3	-3.0	3.0	4.3
Inflation (Consumer Price Index)	1.8	1.7	3.3	1.8	2.0	2.0
Current Account Balance (% of GDP)	-2.1	-2.4	-3.9	-3.7	-3.8	-4.0
Fiscal Balance (% of GDP)	0.4	-1.7	-1.9	-3.9	-2.9	-2.1
Debt (% of GDP)	18.4	17.4	23.9	30.3	32.8	33.4
Primary Balance (% of GDP)	0.4	-1.5	-1.7	-3.5	-2.4	-1.5
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	18.7	18.4	18.6	19.6	19.2	18.8
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	39.2	38.9	39.0	40.4	39.8	39.3
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	64.4	63.9	64.0	65.3	64.9	64.4

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: 2014-2019. Forecast are from 2020 to 2022.

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