

Recent macroeconomic and financial developments

Economic activity rebounded in 2021 with GDP growth of 1.9%, up from 0.2% in 2020. On the supply side, it was supported by agriculture, which grew by 3.7% and which benefited from favorable weather conditions. On the demand side, it was driven by external demand—exports grew by 19.5% in 2021 after a crash of 52.4% in 2020. The central bank continued its expansionary monetary policy in 2021 by maintaining the reserve requirement rate, which it had lowered to 10% in March 2020. The rate of NPLs in the banking system remained high, at 20.3% in 2021. Inflation reached 1.4% in 2021, up from 0.9% in 2020, owing to increasing food prices resulting from supply constraints in imported goods.

Transfers from the diaspora increased by 18.3% in the first 9 months of 2021; foreign exchange reserves are estimated at 9 months of imports. The budget deficit widened to 2.3% of GDP, given increased public expenditure (44.8% year on year in June 2021) generated by the economic recovery. The country received \$24.3 million under the SDR allocation. Public debt is estimated at 29.8% of GDP in 2021, but the risk of debt distress is high mainly because of the large volume of nonconcessional loans. The current account deficit widened in 2021 to 3.6% of GDP from 2% in 2020 due to the drop in external aid, coupled with the trade deficit increase. The poverty rate is estimated at 39.8% in 2021, little changed from the 40.4% in 2020.

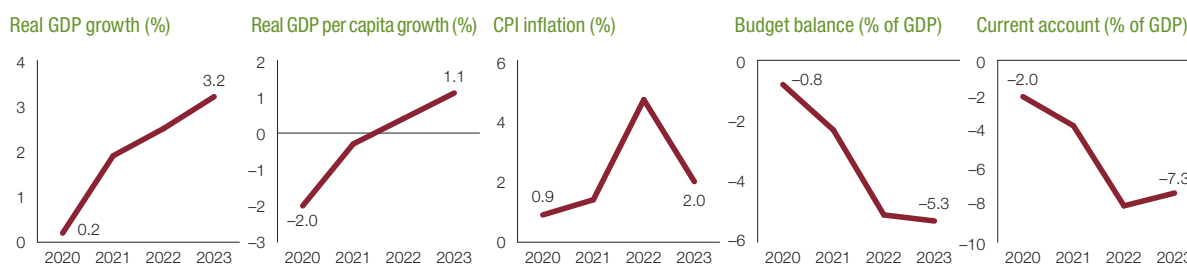
Outlook and risks

The outlook is favorable, with average growth of 2.8% in 2022–23, but remains fragile. It is buttressed by good vaccination coverage against COVID-19, implementation of the Emerging Comoros Plan, and the IMF's

Staff-Monitored Program. Services and agriculture should remain the engines of growth, buoyed by the rise in prices of the main export products, particularly cloves. Inflation is expected to increase, owing to the rising price of food products and oil, due to the Russia–Ukraine conflict. The budget deficit is likely to remain high at 5.1% of GDP in 2022, reflecting the increase in public spending to support economic recovery. The current account deficit is projected to widen further to 8.0% of GDP in 2022 owing to large needs for external resources. In 2022, public debt is projected to rise to 33.1% of GDP and foreign exchange reserves to decline to 8.6 months of imports. Risks to the outlook include new waves of COVID-19 and declines in external funding.

Climate change issues and policy options

Comoros is 97 on the 2021 GCRI. Climate change is seen in increased frequency and intensity of cyclones, a longer dry season, and rising sea levels. The agriculture and biodiversity sectors are the most vulnerable. The average annual cost of climate change was estimated at \$23 million in 2014. Comoros ratified the UNFCCC in 1994 and the Paris Agreement in 2017. Its 2015 NDC helped to mainstream climate change adaptation into national policies and strategies. The updated 2020 NDC aimed to strengthen the country's ambition and resilience for climate change. Comoros forecasts a net reduction in its GHGs of 23% and an increase in its net CO₂ absorption sink of 47% by 2030 against the reference scenario. Its energy transition is only in its infancy, despite the country's potential for RE. Comoros needs €1.3 billion for implementing its NDC, including €902 million for mitigation and €399 million for adaptation.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.