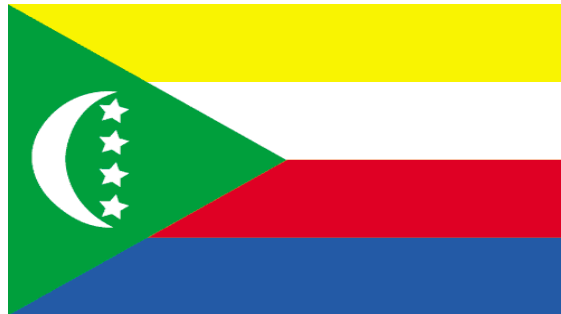


COUNTRY REVIEW

Comoros



5 August 2010

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EULER HERMES COUNTRY RISK GRADE: D

**Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.**

COUNTRY PROFILE

Capital city:	Moroni
GDP:	USD510mn (2009e)
Population:	0.7mn (2009e)
GDP per capita:	USD730 (2009e)
Currency:	Comoro Franc (KMF)
Form of state:	Federal Islamic Republic
Head of government:	Union President Ahmed Abdallah Sambi
Next elections:	Presidential (Union) scheduled for May 2010 (postponed until November 2011 but under dispute)

The largest three islands (Grande Comore, Anjouan and Mohéli) maintain a degree of autonomy and **power struggles** between them are a common feature of domestic politics. Many of the problems are caused by disagreements relating to the rights of the respective island and Union governments to collect tax receipts. The country has **experienced a large number of coup attempts** and calls for secession but, in 2006, Ahmed Abdallah Sambi took over the presidency in the country's first peaceful transfer of power. Sambi is seeking to harmonise the electoral schedules (island and Union), largely to save time and expense. As a result, **polls for the Union presidency have been postponed**, thereby raising some concerns that he is seeking to extend his own term. The military has made it clear that without political resolution to the electoral stand-off it will intercede. Indeed, the country's **fractured political history** and its tendency for **intra-island rivalries indicate that stability is far from assured and a further coup cannot be discounted**.

Comoros retains **strong links (trade and aid) with France** and its currency is linked to the euro. However, the country is an Islamic Republic and **relations within the Middle East are being promoted**. President Sambi has connections with Iran.

Comoros is classified as a low-income economy and is **largely agrarian in nature (over 50% of GDP)**, with a dependency on **exports of vanilla** (prices of which are weak largely because of competition from synthetic substitutes), **cloves and ylang-ylang** (used in perfume), in addition to tourism. Political instability has had a significant impact on macro-economic performance, contributing to low growth, wide fiscal imbalances and domestic and external public sector arrears. Economic prospects depend largely on the related outlooks for political consolidation and IFI support. The **IMF provides an Extended Credit Facility** (formerly Poverty Reduction and Growth Facility), which expires in September 2012. Even so, **real GDP growth is unlikely to exceed 2% in either 2010 or 2011, following an annual average 0.8% growth in 2006-09** and expansion of only 1.8% last year. Investment in the tourism sector is likely to remain lacklustre if political stability remains questionable.

Membership of the Franc Zone limits inflationary pressures caused through financing deficits by printing money, and also lessens the threat of transfer risk. Inflation is forecast to remain within a band of 2-5% this year and next, but could be to the higher end of the range as **oil accounts for around 20% of the import bill**. Inflationary pressures contribute to deteriorating competitiveness that is translated into current account deficits. In addition to perceptions of high political risk, the tourist sector has been adversely affected by tsunami-related concerns for personal security and by weak infrastructure investment. Despite strong net inward emigrants' remittances, the **current account is forecast to register deficits equivalent to around 10% of GDP this year and next and these provide severe financing problems**, necessitating continued donor support. The need to maintain good relations with the IMF has added significance as it could result in debt relief under the Highly Indebted Poor Countries initiative. It may also encourage much-needed foreign investment in the tourist and fishing industries.

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