7. Meanwhile, the current account deficit widened to 22 percent of GDP in 2024, from 17 percent of GDP in 2023, largely reflecting a deteriorating trade balance – driven by a simultaneous decline in exports and an increase in imports – as well as a reduction in secondary income inflows. In this context, the authorities made a deliberate policy stance to safeguard the importation of essential goods and maintain social spending. As a result, official reserves assets declined to a level covering less than one months of import requirements.

Fiscal Policy and Debt Management

8. The authorities have reaffirmed their strong commitment to restoring fiscal and debt sustainability through a comprehensive medium-term strategy anchored in structural reforms and strengthened public financial management (PFM). They fully concur with staff assessments that enhancing domestic revenue mobilization remains the most viable path to achieving fiscal consolidation and supporting a sustainable fiscal adjustment and macroeconomic stability under current conditions. In the 2024/25 fiscal year, the authorities accelerated the implementation of revenue-enhancing measures and reinforced existing tax policies, consistent with recommendations from previous technical assistance missions. These efforts yielded a 39.9 percent nominal increase in tax revenue collections compared to the previous fiscal year. Key initiatives included the digitalization of tax administration systems, the introduction of tax stamps, the strengthening of audit and VAT inspection frameworks, and intensified debt recovery efforts. As a result, total revenues increased to an estimated 19.1 percent of GDP, from 18.5 percent in FY2023/24. However, this improvement was insufficient to fully meet public expenditure needs, which reached 29.2 percent of GDP. Consequently, the overall fiscal deficit, while modestly reduced, remained elevated at 10.1 percent of GDP, compared to 10.6 percent in the previous year.

9. The authorities recognize that the current fiscal trajectory is unsustainable and presents significant risks to inclusive growth, macroeconomic stability, and long-term debt sustainability. Persistent high deficits have driven up public debt, increased refinancing risks, and limited fiscal space for priority investments. In response, they are pursuing reforms to strengthen revenue administration, improve spending efficiency and transparency, rationalize tax incentives, and enhance budget planning and execution. Near-term efforts focus on consolidating revenue gains by broadening the VAT base - especially through informal sector integration - and advancing PFM reforms including strengthening expenditure controls, enhancing cash and debt management frameworks, and improving the quality and timeliness of fiscal reporting. Supported by coordinated macroeconomic stabilization measures, these efforts aim to reduce the fiscal deficit to 6 percent of GDP over the medium term, representing a targeted fiscal adjustment of 4 percent of GDP.

10. Restoring debt sustainability remains a paramount objective for the authorities, as it is crucial not only for creating the fiscal space needed to promote inclusive economic growth, but also for strengthening investor confidence. In this regard, securing the full participation of all creditor groups is a fundamental component of the authorities’