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Maldives: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

March 16, 2010

The following item is a Letter of Intent of the government of Maldives, which describes the policies that Maldives intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Maldives, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

LETTER OF INTENT

Malé, March 16, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

This Letter of Intent (LOI) and attached Memorandum of Economic and Financial Policies (MEFP) review recent developments and update our policy intentions as enumerated in the LOI and MEFP of November 24, 2009, at the time of approval of the program. Those earlier documents remain in force.

Recent economic developments have been relatively favorable, and program performance has been strong, with all end-December performance criteria met except for small deviations in reserve money and net credit of the Maldives Monetary Authority to the government. We are requesting waivers for the non-observance of both of these performance criteria. Also, we would like to request a modification of the way the performance criterion for reserve money is measured, as reflected in the accompanying Technical Memorandum of Understanding.

While a number of risks to the fiscal adjustment have emerged, we remain committed to a tight stance and to the program targets. Thus, we have decided to adopt a set of measures that would ensure meeting the 2010 fiscal deficit target, and are committed to identifying over the course of the next review measures that would bring the fiscal deficit in 2011 and 2012 down in line with the program targets. With these additional policies, we are confident that we will be able to maintain macroeconomic stability and get back to a path of sustainable and equitable growth. Therefore, we hereby request the completion of the first review under the Stand-by Arrangement and the arrangement under the Exogenous Shocks Facility, as well as disbursement of the associated amounts.

The Government of Maldives will consult with the Fund on the implementation of MEFP policies—and in advance of any revisions to these policies—in accordance with the Fund's policies on such consultation.

The government has authorized the publication of this LOI and the attached MEFP.

Sincerely yours,

/s/

Ali Hashim
Minister of Finance and Treasury

/s/

Fazeel Najeeb
Governor, Maldives Monetary Authority

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. **Economic developments since the approval of the program last November have been better than expected:** the 2009 recession was shallower; inflation was below expectations; and pressures on the foreign exchange peg and on the banking sector seem to be abating. Also, the 2009 fiscal deficit was 26¼ percent of GDP, about 2½ percentage points below program projections. But despite these favorable trends, underlying fiscal and external imbalances remain, and a comprehensive policy response is still required.
2. **We continue to be guided by our Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) of November 24, 2009, as amended in the current, supplementary documents.** The difficult and ambitious policy package we adopted then was designed to put the economy on a sound footing, with the support of a blended IMF arrangement, comprising a three-year Stand-By Arrangement (SBA) for SDR 49.2 million and a two-year arrangement under the Exogenous Shock Facility (High Access Component) for SDR 8.2 million. Substantial support is also being delivered by the Asian Development Bank and the World Bank, and a pledging forum on March 28-29 should yield additional financing from bilateral and multilateral donors.
3. **Program performance through end-2009 was strong.** All end-December performance criteria (PC) were met, with the exception of two monetary PCs. The ceiling on the reserve money stock was breached slightly on account of an unexpected increase in bank reserves in the last few days of the year. If measured, however, on a month-average basis, which is more sensible for such a volatile series, the PC would have been met. Also, the ceiling on net Maldives Monetary Authority (MMA) credit to the government was exceeded slightly, driven up by accrued interest on the stock of T-bonds held by the MMA. We hereby request a waiver for the nonobservance of both PCs, as well as a modification of the way this PC is measured going forward, based on monthly averaging (the detail is included in the accompanying Technical Memorandum of Understanding). Separately, Treasury bill auctions were started in December, as programmed, but parliamentary passage of the business profits tax (BPT) has been delayed (both structural benchmarks).
4. **Some recent developments would imply possible fiscal slippages later in 2010.** The delay in the passage of the BPT is likely to reduce its yield this year. Our program of public sector downsizing has proceeded slower than expected and will likely take through the end of 2011 to complete. The government has committed to paying public employees' pension contributions from May 2010 as long as their salaries are cut, as partial compensation for their hardship. Finally, the Majlis recommended the restoration from January 2010 of the salaries of independent commissions to their September 2009 levels, which the government has implemented.
5. **We are taking compensatory actions to offset the fiscal impact of these developments in 2010.** We intend to bring passage of the goods and services tax on tourism forward from September to June, with the tax to take effect by August 1. We also undertake to expedite passage of the BPT and with quarterly, rather than semiannual, payment periods, so as to ensure substantial collections in 2010.

6. **We are also committed to adopting compensatory fiscal measures to bring the fiscal deficit in 2011 and 2012 in line with program projections.** We undertake to identify those measures in the course of the second review under the program.

7. **The program also faces a risk that public sector wage cuts will be reversed.** The Majlis, in passing the 2010 budget, recommended reversing the civil service wage cuts that were a key component of the fiscal adjustment, and the Civil Service Commission (CSC) mandated such a reversal effective January 1, 2010. However, we intend to continue paying wages for civil servants, the army and the police at their reduced levels until the agreed domestic revenue threshold of Rf 7 billion is reached. The CSC has taken the issue to the court system. However, we will continue to seek an out-of-court settlement, and will be submitting a written proposal to the CSC, including a full report on the nation's continued economic difficulties, justifying the continuation of the wage cuts. We have furthermore made public statements clarifying the economic justification for the wage cuts.

8. **We will continue to tighten monetary policy in line with the program targets.** The end of deficit monetization in September 2009 and the launching of open market operations (OMOs) have brought rufiyaa liquidity under control. However, with external financing projected to increase sharply in 2010, OMOs may need to be stepped up to absorb yet more liquidity. We therefore plan to align OMOs and the associated interest rates more clearly with our monetary policy objectives. We continue to view the rufiyaa's peg to the dollar as appropriate, and while the situation necessitating the rationing of foreign exchange provided by the MMA to commercial banks exists and a parallel market continues to be present, we take comfort in the low and stable premium in that market. We remain committed to eliminating rationing altogether as conditions improve.

9. **We continue to make steady progress in strengthening the financial sector.** We are pressing ahead with the implementation of the prudential regulations introduced in May 2009 on provisioning and single borrower limits, and in January 2010 on banks' net open positions. We are working out implementation plans with each bank to allow them to adapt their balance sheets to comply with the new requirements. We submitted a new Banking Act to the Majlis and are working on a draft bill to reform the MMA Act; passage of each of these constitutes a structural benchmark for end-2010.

10. **We are following up on the recommendations made by the IMF in its safeguards assessment exercise.** The MMA has appointed an external auditor and will soon appoint an internal one, and the process whereby foreign payments are authorized has been automated.

11. **The program will continue to be monitored on the basis of quarterly reviews.** Completion of the second and third reviews, scheduled for June and September 2010, will require observance of the quantitative performance criteria for end-March 2010 and end-June 2010, respectively. These performance criteria are specified in the updated Table 1. The reviews will also assess progress toward observance of the structural benchmarks listed in Table 2. Program understandings are further specified in the accompanying Technical Memorandum of Understanding.

Table 1. Maldives: Quantitative Performance Criteria and Indicative Targets

	2009						2010			
	Mar. Act.	Jun. Act.	Sep. Act.	Dec. Est.	Dec. PC	Dec. Adjusted PC	Mar. PC	Jun. PC	Sep. IT	Dec. IT
I. Performance criteria 1/										
Usable reserves of MMA (floor on stock, in million \$)	125	87	60	112	100	43	120	150	150	150
Reserve money (ceiling on stock, in million MRF)	5,669	5,974	5,966	6,161	6,050	N/A	5,950	5,950	5,750	5,750
Total financing of the central government's budget deficit (ceiling on cumulative flow from beginning of FY, in million MRF)	1,342	2,271	3,300	4,926	4,970	4,970	1,170	2,200	2,700	3,100
Net credit of MMA to central government (ceiling on cumulative flow from beginning of FY, in million MRF)	416	674	1,075	792	750	N/A	100	100	100	100
Contracting or guaranteeing of new nonconcessional external debt 2/ (ceiling on stock, in million \$)	0	70	N/A	120	120	120	120
Accumulation of external payments arrears 3/ (ceiling on stock, in million \$)	0	0	0	0	0	N/A	0	0	0	0
II. Indicative target										
Domestically financed expenditure by government (ceiling on cumulative flow from beginning of FY, in million MRF)	1,647	4,284	6,411	8,302	8,800		2,500	5,000	7,500	10,000
III. Adjusters										
External financial support to the government and MMA (grants and loans), excl. IMF 4/ (cumulative flow from beginning of FY, in million \$)	119	132	157	230	287		37	112	147	168
Central government revenue (cumulative flow from beginning of FY, in million \$)	1,157	2,561	3,886	5,233	5,410		1,374	2,817	4,800	6,784
IV. Memorandum items										
Program exchange rates										
MRF/\$	12.80	12.80	12.80	12.80	12.80		12.80	12.80	12.80	12.80
\$/SDR	1.50	1.50	1.50	1.50	1.50		1.50	1.50	1.50	1.50
V. Consultation clause										

If the level of usable reserves falls at any time during a given quarter by more than US\$25 million below the performance criterion for the previous quarter, the authorities will consult with the IMF staff.

1/ Evaluated at the programmed exchange rate.

2/ The ceiling is set on the stock of new debt contracted or guaranteed at any time after the approval of the program.

3/ This performance criterion is assessed on a continuous basis.

4/ Includes \$100 million in dollar-denominated bonds to be purchased by the Male branch of the State Bank of India; excludes swap arrangement with Sri Lanka.

Table 2. Maldives: Structural Benchmarks

Actions	Test date/Status
Launch of t-bill auctions	December, 2009; implemented
Passage by Parliament and entry into effect of business profit tax	December, 2009; not implemented. Currently expected by July 2010.
Passage by Parliament and entry into effect of goods and services tax on tourism industry	August, 2010
Passage by Parliament of Banking Bill and revised MMA Act	December, 2010
Passage by Parliament and entry into effect of goods and services tax on the rest of the economy	January, 2011

ATTACHMENT

MALDIVES—TECHNICAL MEMORANDUM OF UNDERSTANDING

1. **This Technical Memorandum of Understanding sets out a framework for monitoring the performance of Maldives under the program, supported by a Stand-by Arrangement (SBA) and an arrangement under the Exogenous Shock Facility (ESF).** It specifies the definitions for quantitative performance criteria and indicative targets, on the basis of which Maldives's performance under the program will be assessed through quarterly reviews. Monitoring procedures and reporting requirements are also specified. The first review will take place in or after March 2010 and the second review in or after June 2010.

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

2. Performance criteria for end-March 2010 and end-June 2010 have been established. The targets in Table 2 for end-September 2010 and end-December 2010 are indicative and will be converted to performance criteria in subsequent reviews. Targets have been set with respect to:

- Floor on the level of usable reserves of the MMA;
- Ceiling on the level of reserve money of the MMA;
- Ceiling on the level of total financing of the central government's deficit;
- Ceiling on the level of net credit of MMA to central government;
- Ceiling on the contracting and guaranteeing by the central government or the MMA of new nonconcessional external debt.
- Ceiling on the accumulation of new external payment arrears of the central government and the MMA. This performance criterion is applicable on a continuous basis.

3. Indicative targets for end-March 2010, end-June 2010, end-September 2010 and end-December 2010 have been established with respect to a ceiling on the overall domestically financed expenditure by the government, excluding debt amortization payments.

II. INSTITUTIONAL DEFINITIONS

4. The central government includes all units of budgetary central government.
5. The domestic banking system is defined as the MMA, the existing and any newly licensed commercial banks incorporated in Maldives, and their branches.

6. The domestic non-bank sector is defined as comprising private individuals as well as any business or institution, private or public, that is not classified as part of the domestic banking system.

III. MONETARY AGGREGATES

7. **Valuation.** Foreign currency-denominated accounts will be valued in rufiyaa at the program exchange rate between the rufiyaa and the U.S. dollar of Rf 12.80 per U.S. dollar. Foreign currency accounts denominated in currencies other than the U.S. dollar, excluding SDRs, will first be valued in U.S. dollars at actual end-of-period exchange rates used by the MMA to calculate the official exchange rates. SDR-denominated accounts will be valued at the program exchange rate of U.S. dollar 1.50 per SDR. Monetary gold will be valued at US\$950 per ounce.

A. Usable Reserves of the MMA

8. A floor applies to the level of usable reserves of the MMA. The floor on usable reserves will be adjusted upward (downward) by the amount of external support (loans and grants) to the government and MMA (excluding from the IMF) in excess (short) of the programmed level.

9. Usable reserves will be calculated as gross international reserves less international reserve liabilities less foreign currency deposits at the MMA. For program monitoring purposes, the stock of foreign assets and foreign liabilities of the MMA shall be valued at program exchange rates and gold price as described in paragraph 7 above.

10. **Gross international reserves** of the MMA are defined as the sum of

- Monetary gold holdings of the MMA;
- Holdings of SDRs;
- Maldives's reserve position in the IMF;
- Cash in foreign currencies
- Foreign currency assets held abroad that are under the direct and effective control of the MMA and readily available for intervention in the foreign exchange market or the direct financing of balance of payments imbalances and are of investment grade or held with an investment-grade institution.

11. **International reserve liabilities** of the MMA are defined as the sum of

- All outstanding liabilities of Maldives to the IMF¹; and
- Any foreign convertible currency liabilities of the MMA to nonresidents with an original maturity of up to and including one year.

12. **Foreign currency deposits** at the MMA include foreign currency deposits of commercial banks, state-owned enterprises and the government held with the MMA.

B. Reserve Money of the MMA

13. A ceiling applies to the level of reserve money of the MMA.

14. Reserve money consists of currency issued by the MMA (excluding MMA holdings of currency), commercial banks' deposits held with the MMA and public enterprises' deposits held with the MMA. For the purposes of this performance criterion, reserve money is calculated as an average over the four weeks immediately preceding the test date.

C. Net Credit of the MMA to the Central Government

15. A ceiling applies to the net credit of MMA to the central government measured cumulatively from the beginning of the year.

16. Net credit of the MMA to the central government is defined as the net borrowing of the central government from the MMA (ways and means advances, loans, overdrafts, holdings of restructuring bonds, holdings of treasury bills or other government bonds, and all other accounts on account of the government, minus central government deposits at the MMA).

IV. FISCAL AGGREGATES

A. Total Financing of the Central Government's Deficit

17. A ceiling applies to the total financing of the deficit of the central government, measured cumulatively from the beginning of the year. The ceiling on the total financing of the central government's deficit will be adjusted downward by eighty percent of the amount of total central government's revenue in excess of the programmed levels.

¹ Allocations of special drawing rights (for a total of 7,691,108 SDRs) are reflected in the capital accounts of the MMA. The asset counterpart of these allocations (holdings of SDRs) is reflected in the gross international reserves of the MMA. Therefore, the recent general and special SDR allocations, for a total of 7,408,708 SDRs, resulted in an increase in the gross international reserves and the net usable reserves of the MMA.

18. For the purpose of program monitoring, total financing of the central government's deficit is defined as the sum of (i) net domestic financing; (ii) net external financing and (iii) privatization receipts.

- Net domestic financing is the sum of net domestic bank financing and net nonbank domestic financing.
- Net domestic bank financing is defined as the sum of: (i) net MMA credit to the central government (defined above), and (ii) the change in the commercial banks' claims on the central government in domestic and foreign currency, including the change in the holdings of government securities by the commercial banks; minus the balances of the central government held in the commercial banks.
- Net nonbank domestic financing is defined as the sum of: (i) the change in the holdings of government securities by the domestic non-bank sector, calculated as the difference between the change in the stock or net issuance of government securities and the change in the holdings of government securities by the banking system; and (ii) the net change in the float. The float consists of the value of checks issued and not yet cashed by the beneficiaries.
- Net external financing is the sum, in national currency valued at program exchange rates, of (i) the disbursements of external loans to the central government; (ii) exceptional financing (rescheduled principal plus interest); (iii) proceeds from bonds issued abroad; less (iv) amortization due; (v) net reduction in external arrears; and (vi) changes in cash, deposits, and securities held for liquidity purposes outside the domestic banking system.
- Privatization proceeds are defined as the cash receipts from asset sales by the government from abroad or domestically.

19. For the purposes of program monitoring, total central government revenue is defined as the sum of tax revenue and non-tax revenue, and excludes (i) subsidiary loan repayments; (ii) government loan account repayments; (iii) the MMA revaluation account; and (iv) any receipts from privatization.

B. Domestically Financed Expenditure by Government

20. An indicative ceiling target applies to the central government domestically financed expenditure, measured cumulatively from the beginning of the year.

21. The central government domestically financed expenditure, excluding amortization payments, is defined as actual domestically financed central government expenditure on a cash basis, excluding amortization payments, calculated on the basis of expenditure reports submitted by Accountable Government Agencies.

V. PUBLIC DEBT

A. External Debt

22. A ceiling applies to the stock of non-concessional debt of any maturity contracted or guaranteed by the public sector with non-residents at any time after the approval of the program, regardless of when the corresponding disbursements are made. For the purposes of this ceiling, the public sector is defined as the central government, the MMA, or other agencies acting on behalf of the central government.

23. The definition of debt, for the purposes of the program, is set out in Executive Board Decision No. 12274, Point 9, as revised on August 24, 2000 and as amended effective December 1, 2009 (see Annex I).

24. Excluded from the ceiling are (i) the use of Fund resources; (ii) lending from the World Bank, the Asian Development Bank, and the International Fund for Agricultural Development; (iii) debts incurred to restructure, refinance, roll over, or prepay existing debts, to the extent that such debt is incurred on terms at least as favorable as the terms of the existing debt; (iv) concessional debts; (v) any rufiyaa-denominated treasury bills and government bonds, and MMA bills held by nonresidents; (vi) debts classified as international reserve liabilities of the MMA; (vii) the rollover of existing guarantees; and (viii) normal import financing. A financing arrangement for imports is considered to be “normal” when the credit is self-liquidating.

25. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the central government, the MMA, or other agencies on behalf of the central government to service a loan in the event of nonpayment by the recipient (involving payments in cash or in kind), or indirectly through any other obligation of the central government, the MMA, or other agencies on behalf of the central government to finance a shortfall incurred by the loan recipient.

26. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the NPV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD would continue to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). Loans provided by a

private entity will not be considered concessional unless accompanied by a grant or grant element provided by a foreign official entity, such as both components constitute an integrated financing package with a combined grant element equal to at least 35 percent.

VI. EXTERNAL PAYMENT ARREARS

27. A continuous performance criterion applies to the nonaccumulation of external payments arrears on external debt contracted or guaranteed by the central government or the MMA. External payments arrears consist of external debt-service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements. However, overdue debt and debt service obligations that are in dispute will not be considered as external payments arrears for the purposes of program monitoring.

VII. DATA PROVISION

28. The authorities have committed to using the best available data, so that any subsequent data revisions will not lead to a breach of a performance criterion. All revisions to data will be promptly reported to the Fund's Asia and Pacific Department. The likelihood of significant data changes, including definitional changes, will be communicated to Fund staff as soon as the risk becomes apparent to the authorities.

29. Data required to monitor performance under the program, including those related to performance criteria and indicative targets, will be provided electronically or in hard copy to the Fund. The data to be reported are listed below, and the reporting responsibilities are indicated in parentheses.

A. Monetary Data (MMA)

- The monetary survey, the balance sheet of the MMA, and the consolidated balance sheets of the commercial banks. Data will be provided on a monthly basis, with the exception of the balance sheet of the MMA and the consolidated balance sheets of the commercial banks, which will be provided on a weekly basis within ten working days of the end of the respective week and on a monthly basis within fifteen working days of the end of the respective month.
- Interest rates and volume on standing facilities and market operations, to be provided on a weekly basis within ten working days of the end of the respective week, and on a monthly basis within fifteen working days of the end of the respective month.
- A detailed breakdown of net credit to the central government from the MMA, the commercial banks and the nonbank sector, to be provided on a weekly basis within ten working days of the end of the respective week and on a monthly basis within fifteen working days of the end of the respective month.

- Results of reverse repurchase operations by the MMA, to be provided within five working days of each operation, including total bids received, accepted amount, and average interest rate.

B. Fiscal Data (Ministry of Finance and Treasury—MOFT)

- Domestically financed central government expenditure on a cash basis, excluding amortization payments, calculated on the basis of expenditure reports submitted by Accountable Government Agencies to be provided on a monthly basis within four weeks of the end of the respective month.
- Net domestic bank financing to the central government (as defined above), to be provided on a monthly basis within four weeks of the end of the respective month.
- Net nonbank domestic financing to the central government (as defined above), to be provided on a monthly basis within four weeks of the end of the respective month.
- Net external financing to the central government (as defined above), to be provided on a monthly basis within four weeks of the end of the respective month.
- Privatization receipts from asset sales by the government on a cash basis, to be provided on a monthly basis within four weeks of the end of the respective month.
- Results of outright sales and auctions of treasury bills, to be provided within five working days of each operation, including total amounts sold to banks and the non-bank sector, and the average yield.

C. External Sector Data (MMA and MOFT)

- Outstanding stock, disbursements, amortization, and interest payments of short-term external debt contracted or guaranteed by the government or the MMA by creditor in original currency and U.S. dollars, to be provided on a quarterly basis within four weeks of the end of the respective quarter.
- Outstanding stock, disbursements, amortization, and interest payments of medium- and long-term external debt contracted or guaranteed by the government or the MMA by creditor in original currency and U.S. dollars, to be provided on a quarterly basis within four weeks of the end of the respective quarter.
- External debt newly contracted or guaranteed by the government or the MMA, including terms (interest rate and grace and repayment periods), to be provided on a quarterly basis within 4 weeks of the end of the respective quarter.

- Arrears on the external debt contracted or guaranteed by the government or the MMA by creditor in original currency and U.S. dollars, to be provided on a quarterly basis within four weeks of the end of the respective quarter.
- Exports and imports in value terms, to be provided by the MMA on a monthly basis within four weeks of the end of the respective month.

D. Other Data (Department of National Planning)

- Consumer price index data, including a detailed breakdown by major categories of goods and services, to be provided on a monthly basis within four weeks of the end of the respective month.

ANNEX I. GUIDELINES ON PERFORMANCE CRITERIA WITH RESPECT TO FOREIGN DEBT

Excerpt from Executive Board Decision No. 12274, as revised on August 24, 2000, and as amended effective December 1, 2009.

9. (a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.