International Monetary Fund

Union of the Comoros and the IMF

Press Release: Union of the Comoros: Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Request for Modification of a Performance Criterion June 7, 2013

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Union of the Comoros: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

May 18, 2013

The following item is a Letter of Intent of the government of Union of the Comoros, which describes the policies that Union of the Comoros intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Union of the Comoros, 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

Moroni, May 18, 2013

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Madame Lagarde:

1. Now that the Union of the Comoros has reached the completion point under the HIPC initiative, it is undertaking a new phase of economic reforms aimed at reducing poverty and improving the competitiveness of its economy. The government intends to move forward with economic development efforts aided by an environment of political calm. Implementation of the Fund-supported economic and social reform program under the Extended Credit Facility (ECF) remains therefore of the highest priority.

2. Following our discussions with Fund staff regarding the fifth review of the ECF-supported program, we determined that all the quantitative performance criteria and quantitative targets for the period ended December 31, 2012 were met. In particular, owing to sound management of government finances and solid receipts from the economic citizenship program, the primary domestic balance reached a surplus equivalent to 3 percent of GDP. However, one of the program's five structural benchmarks has not been met: implementation of new organizational structures for the civil service, originally planned for January 2013, has been completed at the national level but there have been some delays at the level of island administrations. We propose resetting this benchmark for September 2013.

3. In accordance with the objectives set out in the national Poverty Reduction Strategy Paper (PRSP), the government will use savings from debt relief under the HIPC and MDRI initiatives to expand fiscal space for the benefit of the high-priority areas identified in the PRSP, namely health, education, water supply, road infrastructure, and energy. In the energy sector, with a view to promoting strong, inclusive growth, the government remains determined to implement a strategy agreed with the World Bank, the African Development Bank, and the European Union. A preliminary step, from now until September 2013, will be to take stock of the arrears between the government, the Société Comorienne des Hydrocarbures (SCH), the water and electric power utility MA-MWE, and Électricité d'Anjouan (EDA), a proposed new benchmark.

4. The architecture and basic objectives of the ECF-supported program remain unchanged. The government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are appropriate to achieve the program objectives, but it will take whatever additional measures may be required to that end. When necessary, it will consult Fund staff before any revisions to the policies described in the memorandum are made, in accordance with the Fund's provisions in that respect. It intends to work in close consultation with Fund staff and to provide the necessary information for monitoring the evolution of economic activity and the implementation of the policies under the ECF-supported program within the time frames established. The sixth and final review is expected to take place in December 2013.

5. In light of the progress made, we request the completion of the fifth review and the sixth disbursement under the ECF arrangement. We also request a modification of the performance criterion on the contracting of nonconcessional debt and of two structural benchmarks as described in the MEFP.

6. In line with our commitment to transparency in government operations, we agree to the publication of documents relating to our discussions with Fund staff under the fifth review of our ECF-supported program.

Sincerely yours,

/s/
Ikililou DHOININE
President of the Union of the Comoros

/s/
Mohamed Ali SOILIHI
Vice President responsible for
the Ministry of Finance, the Economy,
the Budget, Investment, and
Foreign Trade

/s/
Mzé Abdou Mohamed CHANFIOU
Governor of the
Central Bank of the Comoros

Attachment 1. Memorandum of Economic and Financial Policies for 2013

I. INTRODUCTION

1. This memorandum takes stock of the progress made in 2012 in implementing the government reforms supported by the International Monetary Fund under the Extended Credit Facility (ECF) and sets out the measures and policies that the government plans to implement in 2013 in order to achieve its objectives.

II. ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

A. Recent Economic Developments

2. **Economic activity strengthened significantly in 2012.** Real GDP posted 3 percent growth, up from 2.2 percent in 2011, mainly due to sustained activity in the construction and public works sector, a reasonably good harvest of cash crops, the resilience of remittances from Comorians working abroad, increased external financial support, and a modest rebound in foreign direct investment (FDI). On a year-to-year basis, inflation was 1 percent (down from 7 percent in 2011) owing to a drop in domestic demand at the end of the year following the month of Ramadan and *Grands Marriages*. As a yearly average, however, inflation has slipped only slightly (6.3 percent versus 6.8 percent in 2011).

3. **The fiscal position improved considerably in 2012, reflecting satisfactory mobilization of public resources and more effective control of spending, particularly personnel expenditure.** Government revenue exceeded the figure programmed, equivalent to 14 percent of GDP, and reached 19.3 percent of GDP due to improved collection of direct and indirect taxes and a spike in revenue from the economic citizenship program. The latter increased to 7.6 percent of GDP in 2012. The government has opted to set aside a portion of this surplus as a reserve in the central bank (BCC) (2.7 percent of GDP) and allocated the remainder to (i) financing urgent expenditures to rehabilitate infrastructure, mainly roadworks, (ii) contributing to the program to combat malaria and HIV/AIDS, managed jointly with the World Health Organization (WHO) (1 percent of GDP), and (iii) granting a loan to the Société Comorienne des Hydrocarbures (SCH) to make sure the country has a regular supply of petroleum products. With the wage bill kept within the programmed envelope, the primary fiscal balance recorded a surplus equivalent to 3 percent of GDP; and net bank financing to the government fell by 1.7 percent of GDP.

4. **The money supply grew strongly in 2012 driven by revenue from the economic citizenship program and the regular paying of civil service salaries. Inflationary risk nevertheless remained** low because only a fraction of the increased money supply was injected

into the economy while a substantial part of the revenue from the economic citizenship program served to increase deposits at the central bank. Banks and other financial institutions saw their level of activity strengthen significantly in 2012 because civil service salaries were being regularly paid and that had a direct impact on deposits and an indirect impact on lending, especially to individuals. At the same time, corporate lending increased owing to the resumption of government investment, particularly road infrastructure. As a result, most financial institutions saw increased profits in 2012.

5. **The current account deficit also narrowed significantly in 2012.** The current account balance posted a deficit of 7.3 percent of GDP (down from 9.4 percent in 2011), reflecting sharply higher government nontax revenue (from the economic citizenship program) which more than compensated for the increasing deficit in the goods and services balance attributable largely to the increase in imports. Foreign-exchange reserves increased to the equivalent of at least seven months' worth of goods and services imports by the end of 2012.

6. **In December 2012, the Union of the Comoros reached the completion point under the Heavily Indebted Poor Countries initiative (HIPC) and obtained substantial debt relief under the HIPC initiative and the Multilateral Debt Relief Initiative (MDRI).** This reduced the country's external debt by 67.7 percent so that, by the end of December 2012, it represented only the equivalent of 65.8 percent of goods and services exports at net present value (down from 203.9 percent in 2011). Paris Club creditors granted comparable debt relief in February 2013.

B. Program Implementation

7. **Implementation of the ECF-supported program remained satisfactory** (see Tables 1 and 2). All performance criteria and indicative quantitative targets for end-December were met. Revenue exceeded the originally programmed target by the equivalent of 5.3 percent of GDP (19.3 percent versus 14 percent) as a result of satisfactory collection of domestic taxes and continuing high levels of nontax revenue. Personnel expenditure remained within the established target, but current primary expenditure was higher than planned owing to urgent purchases of goods and services for victims of flooding caused by heavy rainfall in April and the rehabilitation of roadworks and sports infrastructure, including longstanding subregional commitments. The primary domestic budget posted a surplus equivalent to 3 percent of GDP whereas the original program envisaged a deficit of 1.2 percent; and the performance criterion for net bank credit to the government was achieved with a significant margin despite the fact that budgetary support fell short of the programmed objective by roughly 2.3 percent of GDP. The solid performance of the fiscal program continued in the first quarter of 2013. From a structural perspective, four of the five end-December and end-March benchmarks were met. In particular, the government issued a call for expressions of interest from potential strategic partners for Comores Télécom, adopted terms of reference for a study of the medium-term budget framework and expenditure frameworks, appointed the board of directors of the new General Tax Administration, and

established a strategy to reform the SCH with the assistance of development partners. Implementation of new organizational structures for the civil service, originally planned for January 2013, has been completed at the national level, but there have been some delays at the level of island administrations (see paragraph 21 (b)).

III. ECONOMIC AND FINANCIAL POLICIES FOR 2013

C. Macroeconomic Framework

8. **Economic activity is expected to remain steady in 2013, with real GDP growth of approximately 3.5 percent.** Growth will continue to be driven primarily by the subsistence agriculture and cash crop sectors, provided that rainfall is as abundant as it was in 2012, and by the rebound in the construction and public works sectors which are expected to benefit from continued external aid, remittances from expatriate Comorians, the reduction in interest payments due to the HIPC initiative, and the resumption of foreign direct investment. Tourism and fishing are also expected to make a significant contribution to economic activity in 2013. With world oil and food prices expected to ease, the annual average rate of inflation is expected to decline to about 4 percent.

D. Fiscal Policy

9. **By June 2013, the government will approve a supplementary budget to allocate the savings from debt relief under the HIPC and MDRI initiatives.** Given the time frames for negotiating with creditors after the completion point (see paragraph 14), only the amounts of debt relief already obtained will be taken into account in the supplementary budget. The revised budget will maintain the key fiscal objectives under the ECF-supported program while at the same time calling for increased social spending in the high-priority areas identified in the Comoros' poverty reduction strategy. The budget has four targets: (i) tax revenue equivalent to 11.8 percent of GDP (up from 11.3 percent in 2011–12), by stepping up efforts to make tax and customs administration more effective (see paragraph 21); (ii) a wage bill equivalent to 7.6 percent of GDP (down from 8 percent in 2012), the savings to be achieved by reforming the civil service and gradually implementing the new organizational structures for the public administration; (iii) a reduction in domestic arrears to 0.9 percent of GDP; and (iv) net credit to the government of 1.2 percent of GDP. Moreover, the revised budget calls for nontax revenues to be no more than 3 percent of GDP (down from 7.6 percent in 2012), since the economic citizenship program will expire at the end of September 2013, and fiscal support equivalent to 1.3 percent of GDP following the disbursement of funds by the World Bank and the African Development Bank (AfDB). Owing to the uncertainty of outside support and nontax revenues, the government intends to use the savings resulting from the lowering of debt service payments prudently by increasing social expenditure up to the equivalent of 0.7 percent of GDP and holding the remainder (about 1.3 percent of GDP) for now at the central bank. Should there be any additional external resources—such as under the economic citizenship program—the

government will consult the Fund regarding the appropriate use of those resources. Priority will be given to social expenditures and the clearing of domestic arrears.

10. **With the support of development partners, the authorities have identified the high-priority areas where increased social spending is needed, in line with the objectives of Comoros' poverty reduction strategy,** namely health, education, social protection, water supply, energy, and infrastructure. In the hospital sector, the authorities have increased transfers to hospitals to improve the services offered to certain categories of patients, particularly expectant mothers. In the energy sector, the water and electric power utility MA-MWE has received emergency financial support to deal with its ongoing cash problems and avoid prolonged power disruptions. In addition, at the island level, the representatives of various sectors are engaged in discussions with development partners to identify specific measures to be taken to support primary health care and primary and secondary education, particularly through better access to vaccines, medicines, and teaching materials. We will ask the World Bank to make an expert team available to support us in these endeavors.

E. Money, Credit, and the Financial System

11. **The BCC will continue to oversee bank liquidity to support sound, noninflationary economic activity.** Reserve requirements remain the primary monetary policy tool, and membership of the Franc Zone provides an anchor to keep inflation rates low. The BCC will continue to implement recommendations from the 2010 assessment on safeguards, particularly preparations for setting up an internal audit office.

12. **The BCC intends to pursue reforms to strengthen bank supervision.** The draft banking law is expected to be approved during the parliament's first session in 2013. Technical assistance from the Fund in May and November 2012 and comments from other national and international institutions, including the Banque de France, have provided support in preparing it. To consolidate the banking system, the government is privatizing the Comoros Development Bank (BDC). Delays in the privatization process have come about because of a change in how the acquisition is to be organized. Furthermore, a feasibility study is now under way on restructuring the National Postal and Financial Services Company (SNPSF), which inter alia includes the separation of the banking and postal functions and the sale of a substantial stake to a new foreign partner.

F. Balance of Payments and External Debt

13. **The external current account deficit, including grants and private and official transfers, is expected to stabilize at the equivalent of 10 percent of GDP in 2013.** According to projections, foreign-exchange reserves will remain equivalent to seven months' worth of goods and services in 2013, taking into account the substantial growth of those reserves in 2012.

14. **The Union of the Comoros has seen a substantial reduction of its external debt since reaching the completion point for the HIPC and MDRI initiatives and agreement with Paris Club creditors on rescheduling on comparable terms.** The government intends to undertake negotiations with non-Paris Club creditors to follow through on their promised debt relief similar to the debt reductions obtained under the HIPC initiative.

15. **To preserve the renewed sustainability of the country's external debt, the government will continue to pursue a prudent budget policy and develop a new debt strategy consistent with the country's development objectives.** In this context, the government will ensure that its financing needs are largely covered by grants, and will contract debt only on concessional terms. As in the past, any external debt contracted or guaranteed by the government will be subject to the prior approval of the Minister of Finance, and the island administrations will not be authorized to a contract or guarantee external loans. Furthermore, the government will not contract or guarantee short-term external or nonconcessional debt as defined in the Technical Memorandum of Understanding (TMU). The authorities will continue to consult Fund staff before contracting or guaranteeing any concessional external debt in excess of US$20 million.

16. **Notwithstanding the above, the government signed a loan with the Export-Import Bank of India in February 2013 in the amount of US$41.6 million to build a new electric power station.** When the loan agreement was signed, the grant component was only 48 percent, below the 50 percent threshold required under the program (one of the performance criteria). When the government asked Fund staff for their technical opinion in November 2012, the grant component was larger than 50 percent. It was the Fund's change in the discount rate in January 2013 that reduced the grant component below the 50 percent threshold when the loan agreement was finally signed. We expect that the loan agreement will become effective in the next few months. Because this error came about for technical reasons, and given the urgent need for financing to build the new electric power station, the government is requesting a modification of this performance criterion. In future, we will also consult Fund staff only a few days before signing new loan agreements under paragraph 15.

G. Structural Policies

17. **With support from our development partners, the government will continue its efforts to reform public enterprises,** focusing on the privatization of Comores Télécom and the restructuring of MA-MWE, the electric power utility, and SCH, the importer and distributor of petroleum products. The World Bank, the AfDB, the European Union, and the International Finance Corporation (IFC) are providing assistance.

18. **Some foreign firms have indicated preliminary interest in acquiring Comores Télécom.** Calls for tenders have been sent to these investors so that the privatization process can proceed according to the timetable drawn up by the government and the IFC. At the same time,

we are working with the World Bank on a project to provide regulatory support, finance a new cable, and strengthen the information and communication technology sector. Approval for this project, which forms part of a regional telecommunications project, is expected in the second half of 2013.

19. **In the energy sector, improving the commercial performance of MA-MWE remains a high priority,** and the government continues to work to resolve this problem with World Bank assistance. Starting in December 2013, MA-MWE will provide quarterly statements on its output of electric power and its performance in collecting charges owed to it measured against quantitative targets. We will also assess the current system of penalties and devise a new system to replace it. In response to the urgent need for additional electric power generation, the government has also concluded a contract to build a new electric power station burning heavy fuel oil, financed by a loan from the Export-Import Bank of India. We will consult our development partners to make sure that this project fits into our long-term strategy for the energy sector.

20. **The new SCH Director General has already taken significant steps to make sure the country has a regular supply of petroleum products.** However, additional reform efforts, including the setting of proper prices for petroleum products at the national level, face two serious obstacles: (i) the fuel purchase contract negotiated by the previous government, which results in prices being much higher than reference prices in other countries; and (ii) the weak financial position of MA-MWE, which is SCH's main customer. Reform of the two utilities will have to go hand in hand. The first step, from now until September 2013, will be to take stock of the arrears between the government, the SCH, MA-MWE, and Électricité d'Anjouan (EDA) (a proposed new benchmark). This will also identify the various financial flows by estimating direct and indirect subsidies and assessing cross debts, contractual claims, in addition to arrears. That will enable us to settle cross debts and implement a policy of transparency in government transfers to state enterprises. Other measures will then be instituted to make the SCH's financial and cost data available to the public and carry out a study on the mechanisms for setting fuel prices. The eventual aim is to develop a mechanism that provides for the automatic adjustment of prices at the pump, provided that the fuel supply contract allows for this and that other reforms in the sector have been implemented. Given that this study has not yet been undertaken and that the current supply contract is disadvantageous, we propose that the program benchmark on maintaining a flexible price mechanism be replaced with the new benchmark described above, which is more closely aligned with our immediate reform efforts.

21. **The government is also continuing its efforts to improve efficiency in the tax and customs administrations and strengthen control of the wage bill.**

(a) The directors of the new General Tax and Property Administration (AGID) have been named, work is continuing on the electronic network that will connect the four main customs offices (a June 2013 benchmark), and the joint tax/customs investigation squad has been strengthened. The government will also continue rigorously to manage the large taxpayer rolls and make full use of ad valorem taxation of imports as part of making the management of the Port of Moroni more efficient.

(b) To strengthen control of the wage bill in the medium term, the government will adhere strictly to the new automated personnel expenditure management system (GISE). All current public servants are included in the system. Progress has been made at the national level to implement the new civil service organizational frameworks approved by the parliament, but that work has proceeded more slowly than originally expected, partly because of technical problems and the difficulty in matching skills and positions in island administrations. Nevertheless, it is expected that these new organizational frameworks will be implemented at the island level by September 30, 2013.

22. **Work is also proceeding in implementing a new strategy to improve fiscal management for the period 2014 to 2017.** The new system is expected to improve the tracking of government revenue and expenditure throughout the budget cycle, and consequently the quality of budget execution. At the same time, with the assistance of technical and financial partners, we are working to institute a medium-term fiscal and expenditure framework to make budget execution easier to forecast.

H. Poverty Reduction Strategy Paper (PRSP) and Improvement of Economic and Social Statistics

23. **The government has begun preparing the third annual progress report on implementation of the PRSP and expects to complete it by June 2013.** It covers 2012 and part of 2013. The government is now consulting development partners and proceeding with activities laid out in the timetable established in agreement with the partners concerned.

IV. MONITORING OF PROGRAM EXECUTION AND REPHASING OF DISBURSEMENTS

24. **Program monitoring will be based on quarterly targets with performance criteria established on a semiannual basis** (see Tables 1 and 2). The government will transmit information required for program monitoring to the Fund in accordance with the TMU. During the program period, it will refrain from instituting or increasing restrictions on payments or transfers for current international transactions and will not introduce or modify multiple

exchange rate practices, conclude any bilateral payment agreements that are not consistent with Article VIII of the Fund's Articles of Agreement, or impose any restrictions on imports for balance of payments purposes.

25. **The sixth review of the ECF-supported program will be conducted in December 2013.** In the area of structural reforms, the review will focus primarily on measures to improve budget management and implementation of reforms of State enterprises, including (i) implementation of the civil service organizational frameworks, (ii) development of the new integrated public financial management system, (iii) establishment of the new AGID, and (iv) restructuring of Comores Télécom, MA-MWE, and the SCH.

Table 1. Comoros: Quantitative Performance Criteria, Benchmarks and Indicative Targets Under ECF Through End-September 2013 [1]
(In millions of Comorian francs, cumulative since end of previous year, unless otherwise specified)

	2012				2013				
	Sept.	Dec.			Mar.		June		Sept.
	Est.	PC	Act.		Indicative Target	Prel.	PC	Revised PC	Indicative Target
Performance criteria									
1. Ceiling on net credit to government (NCG) [2]	-2,821	2,214	-3,854	met	530	2,485	1,531	1,531	2,138
2. Ceiling on the accumulation of new domestic payments arrears [3]	0	0	0	met	0	0	0	0	0
3. Ceiling on new nonconcessional external debt contracted or guaranteed by the government [4, 5, 6]	0	0	0	met	0	0	0	41.6	41.6
4. Ceiling on new short-term external debt contracted or guaranteed by the government [4, 5]	0	0	0	met	0	0	0	0	0
5. Ceiling on accumulation of external debt service arrears [4]	0	0	0	met	0	0	0	0	0
Indicative targets									
6. Floor on the domestic primary balance	6,876	-2,621	6,785	met	-1,184	-1,791	-1,610	-1,610	-2,193
7. Floor on total domestic revenues	33,683	31,847	44,137	met	7,796	7,908	16,662	16,662	26,767
8. Ceiling on expenditures by cash advances	150	150	150	met	150	150	150	150	150
9. Floor on domestically financed social spending		13,034	13,129	met	…	…	…	…	…
10. Floor on gross reduction of domestic payment arrears [3]	-1,127	-1,152	-1,372	met	-529	-659	-1,058	-1,058	-1,589

[1] Definitions of targets and adjusters are provided in the Technical Memorandum of Understanding (TMU).

[2] HIPC assistance from the Fund was disbursed on December 20 2012, instead of Q1-2013 as assumed in 4th ECF review. Actual for Dec. 2012 excluding HIPC assistance would have been CF -1,890 million (compared to CF -3,854 million). The corresponding adjusted indicative target for March 2013 would have been CF 2,495 million (compared to CF 530 million).

[3] Targets and realizations adjusted as specified in the TMU.

[4] Excluding trade credits.

[5] Monitored on a continuous basis.

[6] In millions of US dollars. Only for the loan agreement with Export-Import Bank of India and destined to electricty power generation.

Table 2. Comoros: Structural Benchmarks Under the ECF Arrangement, 2012–3

Measure	Macroeconomic Justification	Date	Current status
Structural benchmarks			
Public finance management			
Implement the new organizational frameworks for the Union and islands governments	Establish the appropriate size of the civil service to ensure medium-term budget sustainability	January 2013	Not met. Reset to September 30, 2013
Adopt the terms of reference for the feasibility study for the budget framework and medium-term expenditure framework.	Increase efficiency in budget and expenditure management	December 2012	Met
Appoint the board of directors of the new General Tax Administration	Increase efficiency in tax administration	March 31, 2013	Met
Establish an electronic network between the country's four major customs offices.	Increase efficiency of customs administration and facilitate achievement of medium-term revenue and key fiscal balance targets under the program.	June 30, 2013	In progress
Prepare a strategy for reform of public financial management during 2014–17	Further increase efficiency of budget management; improve the quality of public expenditure; and enhance medium-term budget and macroeconomic viability.	June 2013	In progress
Public enterprise reform			
Issue a call for expressions of interest from potential strategic partners for Comores Télécom	Ensure reliable telecommunications services and limit budgetary pressures from subsidies	December 2012	Met
Define a framework for reform of Société Comorienne des Hydrocarbures (SCH)	Ensure a reliable supply of petroleum products and limit budgetary pressures from subsidies	March 2013	Met
Complete a stocktaking of arrears between the state, MA-Mwe, Électricité d'Anjouan and SCH	Ensure a an efficient and effective functioning of the energy sector in support economic growth	September 2013	New

Attachment 2. Technical Memorandum of Understanding

Moroni, May 18, 2013

1. This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets, and structural benchmarks to be used to monitor implementation of the program supported by the three-year arrangement under the Extended Credit Facility (ECF). It also identifies the data to be reported for program monitoring purposes.

I. DEFINITION

2. Unless otherwise indicated below, "the government" is meant to include the government of the Union of the Comoros and the autonomous island governments. Local governments, the central bank, and any government-owned entity with independent legal status are excluded from the definition of government. The units covered under this definition of government are consolidated for the needs of the program.

II. QUANTITATIVE PERFORMANCE CRITERIA

3. Quantitative performance criteria have been established for June 2013 and indicative targets are proposed for September 30, 2013. The following performance criteria are monitored on a continuous basis: (i) the government's external payment arrears; (ii) the contracting or guaranteeing of new nonconcessional external debt by the government; and (iii) the contracting or guaranteeing of new short-term external debt by the government.

A. Change in Net Domestic Credit to the Government

Definitions

4. Net domestic credit to the government is defined as overall net credit extended to the government from domestic bank and nonbank sources. Net bank credit to the government reflects the net debt position of the government vis-à-vis the central bank, commercial banks, and the National Postal and Financial Services Company (SNPSF), as well as microfinance institutions. It is the difference between the government's gross indebtedness to the banking system and its claims on the banking system. These government claims include all deposits at the central bank and commercial banks, as well as Treasury cash holdings. The government's debt to the banking system includes central bank credit (statutory advances as well as any long-term credit and IMF net credit) and commercial bank credit, as well as net deposits at the SNPSF. Domestic nonbank credit to the government includes changes in the stock of Treasury bills placed in the domestic market, privatization receipts, and any other domestic financial debt of the government held outside the banking sector other than arrears.

5. The change in net domestic credit to the government as at the date for the performance criterion or indicative target is defined as the difference between the stock on the date indicated and the stock on December 31, 2012.

Performance criteria

6. The amount set out in Table 1 of the MEFP on net credit to government for June 30, 2013 is a ceiling and constitutes a performance criteria. The amounts set out in the above table for September 30, 2013 ceiling and constitutes an indicative target.

Reporting requirements

7. The Central Bank of the Comoros (BCC) will report the provisional data on net bank credit to the government to Fund staff on a monthly basis, with a lag of no more than 45 days after the end of each observation period. Final data will be reported with a maximum lag of two months. The Ministry of Finance will report monthly on any financing from nonbank sources.

B. New Domestic Payment Arrears

Definition

8. New domestic payment arrears of the government are defined as any of the following: (i) invoice that a spending ministry has received from a supplier of goods and services, delivered and verified, and for which payment has not been made within 90 days from the date the payment order (*ordonnancement*) was cleared; (ii) in the case of specific contracts between the suppliers and the government, any invoice received and not paid on the due date stipulated in the contracts; (iii) tax credits confirmed by the proper authorities after review, and not paid within 60 days from the date when the payment order was issued; or (iv) wages and salaries and any payments to a government employee that were due to be paid in a given month but remained unpaid on the 15^{th} day of the following month.

Performance criterion

9. Under the program, the government will not accumulate any new domestic payment arrears. The zero limit on new domestic payment arrears for June 30, 2013 constitutes a performance criteria. The zero limit on new domestic payment arrears for September 30, 2013 constitutes an indicative target.

C. External Payment Arrears

Definition

10. External payments arrears are defined as the sum of payments due but unpaid on outstanding external debt (for a definition of external debt see paragraph 15) that has been contracted or guaranteed by the government, with the exception of external payments arrears arising from public debt being renegotiated with creditors, including Paris Club members.

Performance criterion

11. Under the program, the government will not accumulate any external payments arrears with respect to the public debt, except for payments being renegotiated with creditors, including Paris Club members. This performance criterion will be monitored on a continuous basis.

Reporting requirements

12. The authorities will report to Fund staff any accumulation of external payments arrears as soon as the due date has been missed. They will provide each month, within a maximum lag of 15 days, a table showing external debt due (after rescheduling) and paid.

D. Ceiling on the Contracting or Guaranteeing of New Nonconcessional External Debt or Short-Term Debt by the Government

Definition

13. This performance criterion applies not only to debt as defined in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 6230-(79/140), last amended by Executive Board Decision No. 1441-(09/91), effective December 1, 2009), but also to commitments contracted or guaranteed by the government for which value has not been received.

14. Short-term debt refers to external debt with a contractual maturity of less than one year. External debt refers to debt owed to nonresidents.

15. The definition of debt, as specified in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, reads as follows: "(a) For the purposes 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. Debt can take a number of forms, including: (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 sometime 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), 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."

16. For program purposes, a debt is concessional if it includes a grant element of at least 50 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt1. 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 PV 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 need 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).

17. For the purposes of this performance criterion, the government is understood to include the government (as defined in paragraph 2 above), as well as local administrations, public institutions of an industrial and commercial nature (EPICs), public administrative institutions (EPAs), public enterprises, and government-owned or -controlled independent companies (i.e., public enterprises with financial autonomy of which the government holds at least 50 percent of the capital).

Performance criterion

18. The government as defined in paragraph 19 will not contract or guarantee nonconcessional or short-term external debt as defined above. This performance criterion will be monitored on a continuous basis. It does not apply to debt rescheduling and restructuring operations. In addition, import-related credit and pre-export financing secured on export contracts of less than one year maturity are excluded from this performance criterion on short-term debt.

Reporting requirements

19. The authorities will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government.

[1]The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

III. INDICATIVE TARGETS

E. Domestic Primary Balance

Definition

20. The consolidated domestic primary fiscal balance (payment order basis) is calculated as total government revenue (defined below), excluding foreign grants, less expenditure, excluding interest payments, and foreign-financed technical assistance and investment expenditure.

Indicative targets

21. The targets for the floor for the domestic primary fiscal balance, cumulative from the beginning of the 2013 calendar year are set at CF -1,610 million for June 30, 2013; and CF -2,193 million for September 30, 2013.

Reporting requirements

22. During the program period, data on the domestic primary fiscal balance (payment order basis) will be forwarded to Fund staff monthly by the Ministry of Finance of the Union within 45 days following the end of each month.

F. Government Revenue

Definition

23. Government revenue is defined as reported in the consolidated government financial operations table (TOFE), and includes all tax and nontax receipts and excludes external grants.

Indicative targets

24. The floors for government revenue, cumulative from the beginning of calendar year 2013, are set at CF 16,662 million for June 30, 2013; and CF 26,767 million for September 30, 2013. These amounts are considered indicative targets under the program for the respective dates indicated.

Reporting requirements

25. The Ministry of Finance will report preliminary revenue data to Fund staff monthly, with a lag of no more than 45 days, on the basis of actual collections as recorded in Treasury accounts. Final data will be provided once the final Treasury accounts are available, but not later than two months after the reporting of preliminary data.

G. Expenditures Made by Cash Advance

Definition

26. Expenditures made by cash advance include all expenditures paid without prior commitment order.

Indicative targets

27. Responsibility for complying with the ceiling on expenditures made other than through normal procedures rests with both the Union government and the autonomous island governments. This ceiling, cumulative from the beginning of calendar year 2013 is set at CF 150 million for June 30, 2013 and September 30, 2013.

Reporting requirements

28. Data on expenditures made other than through normal procedures will be forwarded to Fund staff monthly by the Ministry of Finance of the Union, within 30 days following the end of each month.

H. Domestically Financed Social Spending

Definition

29. Total domestically financed social spending (current and capital) is calculated, for each category of current expenditure (wages, goods and services, transfers and subsidies) and capital expenditure as: (1) expenditure executed by the Ministry of Health (under "health"), and (2) expenditure executed by the Ministry of Education (under "education"). Domestically financed social spending is classified according to the above categories (health and education) based on a classification of each project presented in the 2013 budget as health or education. Total domestically financed current and capital social spending includes social spending financed by domestic resources, including revenues, domestic financing, and general external budget support, and excludes all social spending financed by project-specific foreign grants and/or loans.

Indicative targets

30. The floor for total domestically financed social spending from the beginning of calendar year 2013 is set as CF 14,908 million for December 31, 2013. This amount is considered an indicative target under the program.

Reporting deadline

31. During the program period, data on domestically financed social spending will be forwarded to Fund staff by the Ministry of Finance within 45 days following the end of the period.

I. Reduction of Gross Domestic Payment Arrears

Definition

32. Domestic payment arrears of the government are defined as any of the following: (i) any invoice that a spending ministry has received from a supplier of goods and services, delivered and verified, and for which payment has not been made within 90 days from the date the payment order (*ordonnancement*) was cleared; (ii) in the case of specific contracts between the suppliers and the government, any invoice received and not paid on the due date stipulated in the contracts; (iii) tax credits confirmed by the proper authorities after review, and not paid within 60 days from the date when the payment order was issued; or (iv) wages and salaries and any payments to a government employee that were due to be paid in a given month but remained unpaid on the 15th day of the following month.

Indicative targets

33. The floors for reduction of gross domestic payment arrears, cumulative from the beginning of calendar year 2013, are set at CF -1,058 million for June 30, 2013; and CF -1,589 million for September 30, 2013. These amounts are considered indicative targets under the program.

Adjuster

34. If the amount of external budget support is below the programmed level, the floor for quarterly reduction of gross domestic payment arrears as reported in the government financial operations table (TOFE) will be adjusted downward by the full amount of the shortfall. If the amount of external budget support is above the programmed level, the floor for quarterly reduction of gross domestic payment arrears will be adjusted upward by the full amount of the surplus. Cumulative from January 1 of the year concerned, the program assumes external (including IMF) budget support of CF 3,388 million by June 30, 2013; and CF 3,388 million for September 30, 2013.

Reporting requirements

35. The authorities will report to Fund staff any accumulation of domestic payments arrears as defined above as soon as incurred, as well as the status of outstanding Treasury balances payable (*restes à payer*).

IV. ADDITIONAL INFORMATION FOR PROGRAM MONITORING

36. The authorities will report to Fund staff the following information and data according to the schedule provided, either directly (e-mail or facsimile) or by airmail. Barring any agreement to the contrary, the data will take the form mutually agreed by the authorities and the IMF. The fiscal data, monetary data, external debt data, the consumer price index, and any information on important legislative and/or other developments will be provided not later than 45 days after the date to which they pertain.

Monthly:

The monetary survey and the monthly balance sheets of the BCC and commercial banks; Classification of commercial bank loans by economic sector; Interest rates;

TOFE data on a cash and payment order basis, the related detailed tables on revenue, and a table showing the link between the payment order basis and cash basis for expenditures;

External public debt operations (debt contracted and guaranteed by the government, settlement of external payments arrears, and debt service paid, broken down between interest and principal);

Consumer price index; and

Imports and exports, production of electricity, tourist arrivals, and any other indicators of economic activity that may be available on a monthly basis.

Quarterly:
Production of major agricultural products (vanilla, cloves, ylang-ylang).

Annually:

National accounts data;

Balance of payments data.

Moreover, information on important measures adopted by the government in the economic and social areas that would have an impact on program developments, amendments of laws, and any other pertinent legislation, will be reported to Fund staff by the authorities on a timely basis.