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

November 30, 2012

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LETTER OF INTENT

Moroni, November 30, 2012

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

Dear Ms. Lagarde,

1. After decades of instability, the Union of the Comoros is entering a new era of peace, political calm, and renewed efforts to combat poverty. In this new context, the government intends to pursue with increased rigor the program of economic and social reforms supported by the IMF under the Extended Credit Facility (ECF). The main program measures are based on the national Poverty Reduction Strategy Paper (PRSP) adopted in 2009; its key objectives remain the expansion of fiscal space to permit increased spending on priority sectors and support growth, and increased competitiveness of the economy to promote strong, inclusive growth.

2. As expressed in our discussions with Fund staff for the fourth review of the ECF-supported program, we report that all relevant performance criteria, including the quantitative targets for the period ending June 30, 2012, were met. In particular, solid revenue collection and rigorous monitoring of expenditures helped to maintain net credit to the government within program limits; and the accumulation of new payment arrears was avoided thanks to stricter monitoring of treasury operations. Implementation of the structural program component was also satisfactory, with the timely adoption of measures programmed for the above deadline: Parliament's adoption of the law creating the General Tax Administration and the establishment of the new list of government personnel to implement the recommendations of the recent civil service census.

3. The government is determined to stay the course with the fiscal consolidation and structural reform efforts under way in order to strengthen fiscal and macroeconomic sustainability and restore lasting growth. To this end, it will ensure that its revenue targets are met and maintain the wage bill within limits compatible with its capacity to mobilize domestic revenue. Cognizant of the need to strengthen economic competitiveness, the government plans to step up implementation of its structural reform program, particularly the restructuring of public enterprises. In view of the satisfactory performance and favorable outlook for the program, the government requests the completion of the fourth review under the ECF arrangement and the disbursement of related ECF resources. Furthermore, confident that it has successfully executed all except one of the triggers for the Heavily Indebted Poor Countries (HIPC) Initiative completion point, for which a waiver is being requested, the government requests access for Union of the Comoros to the debt relief benefits under the HIPC Initiative and the Multilateral Debt Reduction Initiative (MDRI).

4. Macroeconomic developments were generally favorable in 2012. The rate of real GDP growth is projected at 2.5 percent, supported by construction and private consumption sustained by transfers from the Diaspora, and by financial support and investments by foreign public and private partners. Inflation has declined moderately, reflecting a relatively less difficult international context than in 2011, despite the flooding that had affected food crop production in the second quarter. The current account deficit is expected to decline significantly, primarily due to a strong rebound in current public and private transfers. The improvements in the public financial position begun in 2011 continued, and the domestic primary budget balance is expected to post a surplus of 2.2 percent of GDP, reflecting the impact of increased efforts to mobilize domestic resources, exceptionally high receipts from the economic citizenship program, and renewed control of the wage bill.

5. The architecture and basic objectives of the ECF-supported program remain unchanged. As indicated in the accompanying memorandum of economic and financial policies, the government will continue to conduct a prudent fiscal policy with support from the IMF, ensuring the preservation of resources allocated to social sectors in support of its efforts to combat poverty. The government also intends to expedite the structural reforms needed to strengthen the competitiveness of the Comorian economy. The Government believes that the policies set forth in this letter and the MEFP are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures and in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. We intend to remain in close consultation with Fund staff and provide timely information necessary for monitoring economic developments and implementation of policies under the ECF arrangement. It is expected that the fifth review of the ECF arrangement will take place on or after March 15, 2013, and that the sixth review will be completed on or after September 2013.

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 fourth review of our ECF-supported program.

Sincerely yours,

/s/

Ikililou Dhoinine
President of the Union of the Comoros

/s/

Mohamed Ali Soilihi
Vice President in charge of the Ministry of Finance, Economy, Budget, Investment, and Foreign Trade

/s/

Mzé Abdou Mohamed Chanfiou
Governor, Central Bank of the Comoros

ATTACHMENT 1: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2013

I. INTRODUCTION

1. This memorandum takes stock of progress made in 2011–12 in implementing the 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 and program implementation

2. Economic activity is gradually gaining momentum. According to projections, real GDP growth should rise modestly to 2.5 percent in 2012, buoyed by sustained activity in the construction and public works sector, a reasonably good harvest of cash crops, the resilience of remittances from expatriate workers, increased external financial support, and a modest return of foreign direct investment (FDI). Inflation is projected at 5 percent year-on-year, reflecting the euro's depreciation vis-à-vis the dollar and the impact of the April 2012 floods on the supply of locally produced foodstuffs. Inflation would nonetheless be lower than last year (7 percent), contained by reduced pressure on international prices of key imports.

3. The fiscal position improved considerably in 2012, reflecting satisfactory revenue mobilization and more effective control of spending, particularly the wage bill. Revenue is expected to exceed the targeted 14 percent of GDP and reach 18.2 percent of GDP thanks to increased collection of direct and indirect taxes and a marked increase in revenue from the economic citizenship program; the latter will increase to 4.5 percent of GDP in 2012 compared with a target of 1.4percent of GDP under the program, or a gain equivalent to 3.1 percent of GDP. The government has decided to save the bulk of the windfall (1.8 percent of GDP), and to allocate the remainder to urgent expenditures to rehabilitate infrastructure, primarily roads, and to spending on the malaria and HIV/AIDS program managed jointly with the World Health Organization (WHO, 1 percent of GDP); as well as to a short-term loan to the financially strained national oil importing company to help secure an adequate supply of imported petroleum products (0.2 percent of GDP). Under these circumstances, with the wage bill maintained within the programmed envelope, (i) the primary fiscal balance is expected to record a surplus of 2.2 percent of GDP (1.6 percent in 2011), and (ii) net bank financing to the government is expected to decline by 0.8 percent of GDP as against an expansion of 1 percent of GDP projected under the program.

4. The current account deficit is expected to narrow significantly in 2012. According to projections, the external current account deficit is expected to fall to 6.9 percent of GDP (9 percent in 2011), reflecting the relatively strong performance of clove exports and sharp rise in public and private transfers, despite the increase in imports financed by external assistance and resulting from the rebound of FDI, including fuel imports. International reserves are expected to increase to the equivalent of at least seven months of non-factor goods and services imports by end-2012.

5. **Determined to reduce external debt to a sustainable level, the government has implemented the triggers for reaching the Heavily Indebted Poor Countries (HIPC) Initiative and expect to obtain substantial debt relief under the HIPC and Multilateral Debt Reduction (MDRI) initiatives.** As a result, the net present value of external debt should be reduced to the equivalent of 78.9 percent of goods and services exports at end-December 2012 from 233.8 in 2011, representing a reduction of 64.3 percent.

B. Program implementation

6. **Implementation of the ECF-supported program was satisfactory in 2012** (Tables 1 and 2). All quantitative performance criteria and indicative targets, as were the structural benchmarks, for end-June were met. Revenue exceeded the programmed target by 2.7 percent of GDP (9.7 percent against 7 percent), the result of solid tax collection and continued high levels of nontax receipts from the economic citizenship program. The wage bill remained within the established target, but current primary expenditures were higher than planned due to emergency purchases of goods and services for victims of the flooding caused by heavy rainfall in April and to the rehabilitation of roads and some sports infrastructures pursuant to longstanding sub-regional commitments. The primary domestic budget posted a surplus equivalent to 2.1 percent of GDP, while the program provided for a deficit of 0.2 percent, and the performance criteria relating to net bank credit to the government was observed with a large margin, despite budgetary support falling short of the program objective by roughly 1 percent of GDP. The solid performance in the fiscal area continued in the third quarter. On the structural front, five of the six program benchmarks for end-June and end-September were observed. In particular, Parliament adopted the law creating the new tax and property administration and providing for improved functional integration; and the government prepared a new list of government employees conforming to the results of the civil service census – an indispensable measure for improved control of the wage bill. In addition, the strategy to reform the water and electricity utility (MA-MWE) was adopted. However, implementation of the new civil service organizational frameworks (*cadres organiques*, ministry staffing allocations), initially planned for end-September, is not expected to begin until January 2013 following long technical delays for various upstream actions, including filling in of newly budgeted positions by the regional entities.

III. ECONOMIC AND FINANCIAL POLICIES FOR 2013

A. Macroeconomic Framework

7. **Real GDP growth is projected to rise to 3.5 percent in 2013, with lower inflation reflecting the continued easing of pressure on international fuel and food prices**. Growth will continue to be driven primarily by activity in foodcrop agriculture thanks to satisfactory rainfall, and by continuing recovery of the construction and public works sector, which is

expected to benefit from increased foreign aid, remittances from the Diaspora, and renewed FDI, including in the hotel industry. Year-on-year inflation is expected to recede to around 3.6 percent. In the external sector, the current account deficit is expected to be contained at 7.3 percent of GDP.

B. Fiscal Policy

8. In 2013, the government is committed to rigorous execution of its fiscal policy supported by the IMF under the ECF. The domestic primary fiscal deficit (excluding exceptional economic citizenship receipts) should be contained at the equivalent of 0.9 percent of GDP (1.2 percent in 2011/12). To this end, the government will step up efforts to mobilize revenue by increasing the efficiency of the tax and customs administrations. If external budgetary support exceeds the programmed amounts, the government will consult Fund staff regarding utilization of the windfall and will prepare a supplemental budget providing for allocation of the resources. In that context, the government will accord priority to clearing domestic payment arrears and increasing its reserves and deposits with the BCC.

9. Domestic revenue is expected to increase to the equivalent of 14.5 percent of GDP in 2013 and expenditures to remain within 25 percent of GDP, with the wage bill representing 7.6 percent of GDP. Efforts to mobilize revenue will rely chiefly on continuation of the reforms to increase efficiency in the tax and customs authorities as described in paragraph 19 below. Control of spending, particularly wages, will also be intensified (paragraphs 19b and 20). The budget contribution to investment expenditures will be increased to 2.1 percent of GDP (1.5 percent of GDP in 2011-2012), and spending for the social sectors of education and health will be increased to CF 13.908 billion (CF 13.034 billion in 2012). The government will continue to strengthen cash flow monitoring to prevent any new accumulation of domestic payment arrears and ensure regular, timely payment of monthly wages to government employees.

10. The overall fiscal position (cash basis, including grants) is projected to be nearly in balance in 2013. The government's net financing needs will be covered entirely by financial support from partners in the Gulf region, the IMF, the African Development Bank (AfDB), and the World Bank. If revenue or grants fall below programmed amounts, the government will take appropriate offsetting measures including reduced spending for goods and services consumption and equipment purchases and more vigorous collection of tax arrears.

C. Money, Credit, and the Financial System

11. Monetary policy will remain prudent. It will aim to preserve the stability of prices and the macroeconomic framework while ensuring adequate supply of liquidity to the economy. In this context, the required reserves ratio was reduced to 20 percent in 2012. The rapid expansion of broad money in recent years is expected to stabilize, and credit to the private sector should increase to 11 percent in 2013. After strengthening its bank supervision department, the BCC intends to expedite the implementation of a credit information repository (*centrale des risques*) to promote the sound development of credit in the context of expanded financial intermediation in the Comoros. The BCC will also continue to implement the recommendations of the 2010 safeguards assessment, including the mandated routine and timely publication of its financial statements in accordance with applicable international standards. Publication of the 2011 BCC audited financial statement has been delayed, but will take place by end-December 2012.

12. Financial strengthening of the banking system remains a priority. The majority of financial institutions saw improved profitability and a decline in the large proportion of nonperforming loans in their portfolios in 2012. The BCC is supporting these improvements and intends to push them further in the coming years by ensuring that the country's banks and financial institutions adhere strictly to prudential standards. The reform of the banking system will focus on privatizing the Comoros Development Bank (BDC) and restructuring the National Postal and Financial Services Company (SNPSF), including separation of the banking and postal functions and the sale of a substantial stake to a new foreign partner. The details of this key reform are in preparation and expected to be available by end-March 2013. The BCC, under the government's direction, expects to ensure prompt implementation in due course.

D. Balance of Payments and External Debt

13. The external current account deficit, including grants and private and official transfers, is expected to narrow to further to 6 percent of GDP in 2013 (6.9 percent of GDP in 2012). This notably reflects a pickup in tourism services and the impact of received HIPC/MDRI debt relief, despite a decline in current public transfers after a sharp increase in 2012. In a context of improved terms of trade, the trade balance should not decline significantly, and according to projections, international reserves will represent the equivalent of 7.7 months of goods and services imports in 2013.

14. In the past two years the government successfully executed the triggers for the HIPC Initiative completion point. This will help the Union of the Comoros achieve not only debt relief under the HIPC Initiative but also substantial debt reductions under the MDRI. The net present value of the external debt to export ratio is expected to decline to 78.9 percent of GDP by end-December 2012. The union of the Comoros appreciates the debt reduction accorded by its creditors, which will enable it to devote additional resources to support its development efforts.

15. To preserve the renewed sustainability of our external debt, the government will continue pursuing a prudent budget policy and develop a comprehensive new debt strategy. In this context, the government will ensure that its financing needs are largely covered by grants, and will contract debt only under concessional terms. As in the past, any external debt contracted or guaranteed by the government will be subject to the prior approval of the Ministry of Finance of the Union, and the islands governments 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.

E. Structural Policies

16. With assistance from the development partners, the government relaunched the reform of public enterprises. The reform focuses on privatization of Comores Télécom with support from the International Finance Corporation (IFC) and restructuring of the public electricity utility (MA-MWE) and oil importer and distributor Société Comorienne des Hydrocarbures (SCH) with technical assistance from the World Bank, the AfDB, and the European Union. The government recently completed the reform strategies for the three enterprises and plans to quickly proceed with implementation.

17. The restructuring of Comores Télécom will include the sale of 51 percent of shareholding to a strategic partner of international repute. To this end, the government issued a call for expressions of interest in late November 2012, preceded by the adoption of a social plan for the company in October. The government will ensure that the new partner is effectively involved in company management before end-June 2013.

18. The government is determined to take vigorous measures to substantially improve the management of MA-MWE and SCH. It has issued a call for expressions of interest to recruit a specialized partner in charge of invigorating MA-MWE's commercial operations. The collection rate for electricity consumption bills is extremely low in the Comoros, estimated at 30 percent. In addition to a flexible, cost-based, pricing policy, a substantial improvement in the rate of collections from the company's customers is a key prerequisite to a sustainable turnaround of its operations and financial position. With assistance from the World Bank, the government expects to make significant progress in these areas in the coming months. In the context of the energy sector strategy adopted in August 2012, the government plans to revitalize SCH through a series of actions supported by the World Bank and other partners. The most important initiatives concern: (i) the development of appropriate price structures for the various petroleum products sold and a better alignment of domestic petroleum products prices to relevant parameters entailing enhanced pricing flexibility, (ii) improved supervision of financial management and governance, and (ii) the development of an investment program designed to increase the capacity and improve the security of storage facilities.

19. Reforms in the area of public finance aim to enhance the efficiency of tax and customs administrations and improve control of the wage bill.

a. **The tax and customs administrations will function more effectively following:** (i) the start of operations of the new General Tax and Property Administration (AGID) in March 2013, (ii) the establishment of an electronic network between the country's four major customs offices by June 30, 2013 (a new structural benchmark), and (iii) increased financial and human resources for the joint tax-customs investigations brigade. The government will also continue to rigorously manage the large taxpayer registry and make full use of ad valorem taxation of imports in the context of a more effective management of the Moroni Port.

b. **To better control the wage bill in the medium term**, the government will continue to adhere strictly to the new automated personnel expenditure management system (GISE). In the near term, the government intends to limit the number of civil servants to the 10,521 employees validated under the 2011 census, a 19 percent reduction from the 13,000 reported prior to verification. It will implement the delayed new civil service organizational frameworks approved by the Parliament, beginning in January 2013. Those frameworks make room for 11,666 budgeted positions, representing the optimum size of the civil service. However, cognizant of the need to preserve the medium-term sustainability of the wage bill, the government will phase in the increase gradually, subject to the condition that the wage bill not exceeds the equivalent of 6 percent of GDP.

20. The government has begun development of an ambitious integrated public financial management system. It recently completed the system feasibility study with support from the World Bank. The system's deployment is expected to improve monitoring of government revenue and expenditures in all phases of the budget cycle and substantially improve the quality of budget execution. The new system is expected to be online before end-June 2013, at a cost of US$1.5 million fully covered by the AfDB.

21. By end-June 2013, the government will complete a new strategy to improve public financial management for the period 2014–2017 (a new structural benchmark). The document will assess progress made in this area in recent years and define the new reform measures needed to consolidate the gains and establish new bases for more sound management of government finance in the context of a second three-year reform program supported by the IMF under the ECF.

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

22. The second annual progress report on PRSP implementation, completed in October 2012, reviews activities completed in 2011. It reveal the establishment of some road infrastructures, a modest recovery in the tourism and fishing sectors, and progress with respect to growth, macroeconomic stability, institutional development, and political governance. At the same time, the report notes persistent shortcomings in implementing the poverty reduction strategy and weak capacity to absorb available resources, which limit tangible gains in the social sectors. The lack of updated data on poverty remains a major constraint. The government intends to improve the effectiveness of its poverty reduction strategy by making use of the report's conclusions and recommendations. In this context, it also plans to organize a national symposium on the promotion of the most productive sectors of the economy in order to identify policies and actions to remove constraints on the development of these sectors with strong growth potential. The government has also begun preparations for the third annual progress report on PRSP implementation, which is expected to be finalized in June 2013.

23. The government will continue its efforts to improve the socio-demographic and macroeconomic databases needed for effective design and monitoring of its development policy. It will continue to receive substantial technical assistance from the AfDB in this context, including in the preparation of the national accounts and consumer price index. The program to improve the quality of national accounts and consumer price statistics is expected to be completed in 2013. With support from the European Union, the government is implementing a program to strengthen the reform monitoring unit (CREF) capacities in the area of gathering, compiling, verifying, processing, and consolidating economic and financial data and preparing the table of government financial operations (TOFE).

IV. MONITORING OF PROGRAM EXECUTION AND REPHASING OF DISBURSEMENTS

24. The program monitoring will be based on quarterly targets with performance criteria established on a semiannual basis (Tables 1 and 2). The government will transmit information required for program monitoring to the IMF 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 any multiple currency practices, conclude any bilateral payment agreements that are inconsistent with Article VIII of the IMF Articles of Agreement, or impose any restrictions on imports for balance of payments purposes.

25. The fifth review of the ECF-supported arrangement will be conducted in June 2013. In the area of structural reforms, the review will focus primarily on measures to improve budget management and implementation of reforms of public 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 SCH.

Table 1. Comoros: Quantitative Performance Criteria, Benchmarks and Indicative Targets Under ECF Through End-June 2013 [1]

(In millions of Comorian francs, cumulative since end of previous year, unless otherwise specified)

	2012								2013	
	Mar.	Jun.			Sept.		Dec.		Mar.	June
	Est.	PC	Adj. PC	Actual	Indicative Target	Est.	PC	Proj.	Indicative Target	PC
Performance criteria										
1. Ceiling on net credit to government (NCG)	1,816	508		-3,147 met	2,026	-2,821	2,214	-1,848	530	1,531
2. Ceiling on the accumulation of new domestic payments arrears [2]	0	0		0 met	0	0	0	0	0	0
3. Ceiling on new nonconcessional external debt contracted or guaranteed by the government [3, 4]	0	0		0 met	0	0	0	0	0	0
4. Ceiling on new short-term external debt contracted or guaranteed by the government [3, 4]	0	0		0 met	0	0	0	0	0	0
5. Ceiling on accumulation of external debt service arrears [3]	0	0		0 met	0	0	0	0	0	0
Indicative targets										
6. Floor on the domestic primary balance	63	-460		4,833 met	-1,821	6,876	-2,621	4,945	-1,184	-1,610
7. Floor on total domestic revenues	8,614	16,052		22,299 met	24,029	33,683	31,847	41,466	7,796	16,662
8. Ceiling on expenditures by cash advances	150	150		150 met	150	150	150	150	150	150
9. Floor on domestically financed social spending							13,034	13,034		
10. Floor on gross reduction of domestic payment arrears [2]	-684	-750	0	-780 met	-864	-1,127	-1,152	-1,352	-529	-1,058

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

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

[3] Excluding trade credits.

[4] Monitored on a continuous basis.

Table 2. Proposed Structural Benchmarks for the ECF Arrangement, 2012–13

Measure	Macroeconomic Justification	Date	Status / Rev. Date
Structural benchmarks			
Public finance management			
Adopt the law establishing the new General Tax Administration (formerly the DGI)	Increase efficiency in tax administration	June 2012	Complete
Establish the new post-census payroll file	Improve control of the wage bill and public expenditures	June 2012	Complete
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	September 2012	Not met; reset to January 2013
Adapt the terms of reference for a feasibility study for a comprehensive automated public financial management system, including a cost estimate and implementation timetable for the proposed system	Improve monitoring of expenditures and overall budget execution; facilitate progress toward the HIPC completion point	September 2012	Complete
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	In progress
Appoint the board of directors of the new General Tax Administration	Increase efficiency in tax administration	March 31, 2013	In progress
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	New
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	New
Public enterprise reform			
Maintaining the flexible petroleum pricing mechanism	Ensure a reliable supply of petroleum products and limit budgetary pressures from subsidies	Continuous.	Met.
Approve the feasibility study for the new privatized MAMWE	Ensure a reliable supply of electrical energy and limit budgetary pressures from subsidies	September 2012	Complete
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	Complete

ATTACHMENT 2: TECHNICAL MEMORANDUM OF UNDERSTANDING

Moroni, November 30, 2012

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 report 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. New quantitative performance criteria are proposed for June 30, 2013 with respect to changes in net domestic credit to the government and the zero limit on accumulation of new domestic payment arrears; with indicative targets for March 31, 2013. The following performance criteria are proposed for monitoring 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, 2011.

Performance criteria

6. The amounts set out in Table 1 of the MEFP on net credit to government for December 31, 2012 and June 30, 2013 are ceilings and constitute performance criteria. The amounts set out in the above table for September 30, 2012 and March 31, 201 are ceilings and constitute indicative targets.

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 15th 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 and December 31, 2012 constitute performance criteria. The zero limit on new domestic payment arrears for September 30, 2012 and March 31, 2013 constitute indicative targets.

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.

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[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

A. 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 2012 and 2013 calendar years, respectively, are set at CF–1.821 billion for September 30, 2012; CF –2.621 billion for December 31, 2012; CF –1.184 billion for March 31, 2013; and CF –1.610 billion for June 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.

B. 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 floor for government revenue, cumulative from the beginning of calendar years 2012 and 2013, respectively, are set at CF 24.029 billion for September 30, 2012; CF 31.847 billion for December 31, 2012; CF 7.796 billion for March 31, 2013; and CF 16.662 billion for June 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.

C. 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 January 1, 2012 and 2013, respectively, is set at CF 150 million at September 30, 2012, December 31, 2012, March 31, 2013, and June 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.

D. 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 2012 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 for the period from January 1, 2013 to December 31, 2013 is set as CF 14.908 billion. 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.

E. 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 floor for reduction of gross domestic payment arrears, cumulative for the period from January 1, 2012 to December 31, 2012 and from January 1 to June 30, 2013, respectively, is set at CF -0.864 billion for September 30, 2012; CF -1.152 billion for December 31, 2012; CF -0.529 billion for March 31, 2013; and CF -1.058 billion for June 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 4.358 billion by end-September 2012; CF 6.980 billion by end-December 2012; CF 2.460 billion by March 31, 2013; and CF 3.980 billion by June 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.