International Monetary Fund

Bangladesh and the IMF

Press Release:
IMF Executive Board Completes Fourth Review Under Bangladesh's PRGF Arrangement and Approves US$97.2 Million Disbursement
February 3, 2006

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

January 9, 2006

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

Dhaka, Bangladesh
January 9, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C., U.S.A.

Dear Mr. de Rato:

1. On behalf of the Government of Bangladesh, I hereby transmit the attached Memorandum of Economic and Financial Policies (MEFP) that reviews recent economic developments and progress in implementing the program supported by the PRGF arrangement, and sets out the objectives and policies that the Government intends to pursue in 2006. These are in line with the priorities set forth in *the National Strategy for Accelerated Poverty Reduction* (NSAPR), which was approved by the National Economic Council and published in October 2005. Implementation of the NSAPR, which sets pro-poor growth, human development, and good governance as the pillars of the country's development agenda, will begin in FY05/06. In this regard, the Government remains committed to maintaining macroeconomic stability, implementing structural reforms, particularly in tax administration, nationalized commercial banks, and the energy sector, and improving governance. By implementing the measures set forth in the attached MEFP, the Government can make progress in meeting these objectives.

2. Owing to delays in the disbursement of external program assistance and in implementing structural reforms, several quantitative and structural performance criteria for the fourth review were not observed. The targets for net international reserves, net domestic assets of the central bank, and net bank credit and total domestic financing of the government were missed (MEFP, Table 2). We have taken corrective actions and the fiscal and monetary programs are being brought back in line with the objectives for FY05/06. Reflecting difficulties in reaching internal consensus and capacity constraints, slight delays were also experienced with respect to establishing an audit unit in the National Board of Revenue (NBR) and to revising the terms of reference for the PWC consultants to allow them to serve as financial advisors for the eventual divestment of Agrani Bank. The measures with respect to NBR have now been implemented, and the revised contract for the Agrani consultants is expected to be finalized by January 19, 2006. We have also revived the process of divesting Rupali Bank, which had been delayed by a court injunction. On this basis, and in view of the policies set out in the attached MEFP, the Government requests waivers for the nonobservance of these quantitative and structural performance criteria, completion of the fourth review, and disbursement of the fifth loan under the PRGF of SDR 67.28 million.

3. The Government believes that the policies set out in the attached MEFP are adequate to achieve the objectives of the program, but it will take any further measures that may

become appropriate for this purpose. The Government of Bangladesh will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

4. The Government of Bangladesh will continue to provide the Fund with such information as the Fund may request in connection with progress in implementing the economic and financial policies, and achieving the objectives of the program.

5. The Government of Bangladesh intends to make this letter and the attached MEFP available to the public, and authorizes their publication on the IMF website, together with the Fund staff report on the fourth review under the PRGF arrangement and the Joint Staff Advisory Note (JSAN) on the NSAPR, once the Executive Board completes the review.

Sincerely yours,

/s/

M. Saifur Rahman
Minister for Finance and Planning
Ministry of Finance and Ministry of Planning

Attachments

BANGLADESH

Memorandum of Economic and Financial Policies for 2006

January 9, 2006

I. INTRODUCTION

1. The government continues to implement the reform strategy adopted in June 2003 to move Bangladesh to a higher growth path and faster poverty reduction. This strategy is being supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) and is further articulated in the National Strategy for Accelerated Poverty Reduction (NSAPR), which was approved by the National Economic Council and published in October, and was discussed with development partners during the PRS Implementation Forum held in Dhaka during November 15-17. This memorandum assesses recent economic performance, updates the medium-term policy framework, and lays out the objectives and policies that the government intends to pursue in the remainder of FY06 (ending June) and the first half of FY07, supplementing our Memorandum of Economic and Financial Policies (MEFP) dated May 26, 2005.

II. RECENT PERFORMANCE

2. Bangladesh's economy continues to expand. Despite the impact of higher oil prices and devastating floods, real GDP grew by 5½ percent in FY05, while industrial production increased by 10 percent. The economy benefited from a continued expansion in the construction, manufacturing, and service sectors. Annual average inflation increased to 6½ percent, as projected, on account of higher prices for food imports. Increases in international oil prices and strong import demand more than offset higher export growth and remittances leading to a deterioration in the current account balance in FY05 to a deficit of about 1 percent of GDP.

3. Macroeconomic management was broadly on course in FY05 and all indicative targets for end-June 2005 were met. The overall budget deficit was contained to 3½ percent of GDP, about ¾ percentage point below the program target. Total expenditure was 0.6 percent of GDP lower than programmed, on account of lower-than-projected recurrent and development spending. Tax revenue collections by the National Board of Revenue (NBR) were also short of both the original budget estimates (by 0.6 percent of GDP) and the revised budget (by 0.1 percent of GDP). While shortfalls in revenue collections reflected delays in the implementation of tax administrative reforms and weaknesses in collection enforcement, NBR revenue still increased by 14.5 percent, a marked improvement over the 10 percent growth rate achieved in FY04.

4. In the aftermath of extensive flooding, monetary conditions were accommodative during the first nine months of FY05. While this policy stance helped support growth in the

face of rising energy prices and uncertainty about the impact from the phase-out of the MFA quotas, it contributed to an increase in inflation, which stood at 6.9 percent (y/y) as of end-June. Moreover, the growth in money and credit aggregates, at 17 percent, was significantly above program targets.

5. Underlying financial performance remained broadly on track in the first quarter of FY06. However, largely owing to delays in the disbursement of $200 million under the World Bank's DSC and $100 million under a World Bank education sector loan, the end-September quantitative performance criteria on NIR, NDA of Bangladesh Bank, and domestic financing and net bank borrowing of the central government were missed. Financing of the government increased further in October and November. This is due to an acceleration in government spending related to advanced implementation of budgetary allocations to address food shortages in the northern regions, but steps have been taken to ensure that annual expenditure and overall financing do not exceed budgetary allocations (see paragraph 18). While NBR revenue performance was slightly below target in the first quarter, total NBR receipts for July to November increased by 14 percent relative to the previous year.

6. Since March 2005, Bangladesh Bank has gradually tightened monetary policy. BB raised the Cash Reserve Requirement (CRR) by half a percentage point in March and again in October (to 5 percent). Furthermore, the Statutory Liquidity Requirement was increased effective October 1 (from 16 to 18 percent). Rates on treasury securities have also risen, with the one-month and three-month treasury bill rates increasing by nearly 3 percentage points since late February, to 7 percent, although this is still below the rate of inflation. BB has also actively used the repo and reverse-repo facilities to enhance daily monetary operations. The tighter monetary stance has led to some reduction in annual private credit growth from 20 percent in February to 16.3 percent in November, but this is still high. Meanwhile, annual broad money growth has remained at 17 percent as of November, while the level of excess banking reserves has generally been maintained at low levels. A rebound in food production and the somewhat tighter monetary stance have helped prevent a further increase in inflation, despite the rising fuel prices, as CPI inflation increased only marginally from 7 to 8 percent (y/y) between March and November.

7. Notwithstanding the strong inflows from exports and worker remittances, pressures on the foreign exchange market began to emerge towards the end of FY05 and BB sold about $500 million to the market from March through early August. After limiting sales to the foreign exchange market for most of August and September, BB sold about $100 million during October and November, but has refrained from further sales since then. The taka/dollar exchange rate has depreciated by about 9 percent during 2005.

8. Some further progress has been made on the fiscal structural reform agenda, although tax administration efforts have yet to translate into substantial revenue gains. In the FY06 budget, we further strengthened the income tax LTU by defining a turnover threshold above which taxpayers will be included in the LTU. Sustained efforts are being made to identify tax evaders through information gathered by the Central Intelligence Cell (CIC), and by

implementing standard and transparent procedures, including notifying delinquent taxpayers and imposing penalties for late payments. Reflecting these efforts, 26,000 new individual taxpayers submitted tax returns under self assessment. As a result, income tax receipts increased by 16 percent in the first four months of the fiscal year compared with the previous year (from Tk 12.4 billion to Tk 14.4 billion). The LTU system was also expanded to cover domestic VAT, and joint audits for income tax and VAT LTUs are now being conducted to improve tax compliance. However, lack of resources has thus far constrained the effective operation of the VAT LTU.

9. With respect to NCB reform, management support teams are now in place in Agrani, Janata, and Sonali banks. The teams have submitted reports to the Working Group on NCB reform on how to improve the banks' operational performance and put their finances on a more solid footing. For Rupali Bank, we finalized the Preliminary Information Memorandum (PIM) and issued the public announcement for the request of expression of interest to the public on May 12. Twenty potential strategic investors expressed interest, but a court injunction, which was finally dismissed in November, temporarily delayed the Government from moving further with the divestment of the bank. The Memoranda of Understanding (MOUs) will be strengthened for all four NCBs and BB will continue to closely monitor the MOUs. While performance under the MOUs has been mixed, they have served to effectively limit any further deterioration in the operations of the banks. There have been delays in meeting some of the conditions such as foreign exchange and risk management guidelines, and cash recoveries from the largest defaulters. Limits on credit extension have been observed except for state-mandated extensions of credit, particularly to the Bangladesh Petroleum Corporation (BPC) for oil financing.

10. Energy sector SOEs continue to create contingent liabilities (amounting to almost one percent of GDP in FY05). The weak performance of the energy sector SOEs is due mainly to the BPC and the Dhaka Electricity Supply Authority (DESA). BPC incurred significant losses in the last two years due to sharp increases in world oil prices. To reduce the losses of energy sector SOEs and improve their financial viability over the medium term, the government has passed through about 60-75 percent of the increase in world oil prices over the last two years. Domestic retail prices for petrol and octane have increased by 27 and 29 percent, and those for kerosene and diesel by 76 and 50 percent, respectively (with the most recent adjustments being 15-18 percent in September). Although these adjustments still fall short of what is implied by the official pricing formula, they have helped to contain quasi-fiscal losses in an environment of rising global energy prices.

III. Macroeconomic Framework and Policies

11. We remain committed to the reform strategy of private sector-led growth and poverty reduction, as outlined in the NSAPR. Consultations were held at the regional and national levels and with the donor community. Attention was placed on: (i) prioritizing near-term policies in key sectors and programs and aligning them with the NSAPR; (ii) incorporating the costing of the proposed sectoral projects into the medium-term budgetary framework; and (iii) improving the monitoring and evaluation mechanism of social development.

12. We have updated the medium-term macroeconomic framework to incorporate the impact of external shocks. Bangladesh's economy remains resilient and could achieve a growth rate of 6 percent in FY06, which is expected to accelerate further to 6½-7 percent in FY07-09 if structural reforms create a more robust business climate. Despite rising prices for food and energy and a possible exchange rate adjustment in response to the oil price shock, the rate of inflation as of June 2006 (y/y) is projected to decrease to about 7 percent. The external current account deficit is projected to deteriorate to 1.9 percent of GDP, despite stronger than anticipated growth in exports and remittances, reflecting a further increase in the oil import bill.

13. Uncertainty remains about the magnitude of the impact from the phase-out of MFA quotas. Thus far, the impact has been more benign than anticipated, and exports of ready-made garments (RMG) and RMG-related imports have both risen at a faster pace than originally envisioned under the program. Moreover, there are indications of continued investment in the sector, especially in knitwear. Nevertheless, over the medium term, RMG export prospects will depend on measures to improve competitiveness. Funding and operational constraints for upgrading infrastructure, particularly for improvements in port operations, remain a major problem and governance problems will also need to be addressed.

A. Fiscal Policy

14. Our fiscal strategy is to protect fiscal sustainability while ensuring adequate support for human capital, physical infrastructure, and anti-poverty programs. To this end, we are making efforts to expand the tax base and improve revenue administration. We remain fully committed to pursuing a revenue effort of about ½ percent of GDP in FY06 and FY07. The overall deficit for FY06 was budgeted to increase to 4½ percent of GDP to allow for increased public spending on human capital and infrastructure. Taking into account less than full implementation of ADP spending, the deficit is now projected to be 4 percent of GDP. Domestic financing will continue to be capped at 2 percent of GDP and external support will remain primarily on concessional terms. With prudent debt management, and steps to eliminate the creation of contingent liabilities in the SOE sector, the ratios of external debt to GDP and the net present value of debt to exports should remain within comfortable zones over the medium term.

15. To improve revenue administration, efforts will continue to enhance the near-term effectiveness of the LTU system. The existing system of multiple taxpayer identification numbers will eventually be replaced with a single number. As a first step, unique tax identification numbers will be established in the LTU system (comprising both income tax and VAT) by end-April 2006. Regarding the VAT LTU, the Ministry of Establishments approved the organogram on December 21, 2005 (prior action for completing the 4th PRGF review), and we will ensure that permanent staffing and adequate resources are put in place.

16. A number of other initiatives will also be pursued in the period ahead related to revenue administration. We will continue to focus on the modernization of the NBR along functional lines. With assistance from the World Bank, a strategic reform plan is being

developed that will be supported by time-bound actions to be implemented over the next three years. The plan includes the introduction of a rigorous self-assessment system, a risk-based auditing system supported by third-party information, and the use of modern technology, particularly an integrated computer system for handling assessment, audit case selection, and collection. An improved board structure will be critical to enhancing NBR management. A circular was issued on January 4, 2006 to establish an audit unit that will operate independent from the tax and customs departments and report directly to the NBR Chairman. All auditors within NBR will be under the supervision of the head of this unit and/or the NBR chairman, and all audit activities will be under the purview of this unit. The head of this audit unit has also been selected (an audit advisor with the rank and status of a member reporting directly to the Chairman) (prior action for the 4th review given the November 30 deadline that was set as a structural performance criterion). The government will ensure that adequate funding is available for the audit unit. The audit advisor will prepare a six-month audit program of implementation that is expected to be approved by the NBR Chairman by end-February 2006. In addition, other key personnel will be appointed to facilitate work on tax administration reform, including a tax expert to advise on key aspects of the NBR modernization project, supported by an HR advisor, and an IT manager. For customs administration, an external audit of pre-shipment inspection (PSI) companies will be initiated by end-April 2006.

17. With respect to revenue policy, we intend to undertake a thorough review of tax exemptions and incentives and their associated revenue losses by end-April 2006, with a view to broadening the tax base (structural performance criterion for the fifth review). To supplement near term revenue performance until improved administration produces more significant results, prices of natural gas will be adjusted this fiscal year to provide for increased royalty/dividend payments to the budget. We plan to request a TA mission from the Fund's Fiscal Affairs Department in early 2006 to review our fiscal reform efforts and discuss modalities for possible further TA support.

18. On the expenditure side, we will ensure that pro-growth and pro-poor spending is given priority, and that public sector wages are contained. In light of delays in the disbursements of external program loans this fiscal year, low-priority spending has been reduced and a concerted effort has been taken to root out wasteful expenditures. Interest payments are now projected to exceed the budget estimate by about Tk 3 billion and other current expenditure will be reduced to ensure that total current expenditure does not exceed Tk 361 billion. Expenditure related to poverty reduction has increased from 6.1 percent of GDP in FY04 to 6.7 percent of GDP in FY05 and will increase further to 8.4 percent of GDP in FY06. We have stepped up our efforts to strengthen expenditure management by improving project selection and execution under the ADP. Expenditure tracking systems have been put in place in three key ministries along with new procedures for project implementation. We also plan to roll out the medium-term budget framework to six more line ministries in the FY07 budget bringing the total to 10 ministries. In consultation with relevant development partners, the government has initiated an expenditure review to improve public expenditure management and enhance fiscal transparency and accountability. This review is expected to be completed in FY07. Meanwhile, we have streamlined the

project approval process; implemented new procurement regulations; delegated more financial authority to the line ministries; and required line ministries to strengthen their own project monitoring capacity.

19. We are cognizant of the need to limit expenditures on wages and salaries of public servants while providing a compensation structure that is competitive with what is offered by the private sector. The overall increase in the government wage and pensions bill arising from the 2005 Pay Commission recommendations will be limited to TK 40 billion, and is being phased in over three years with the increase in FY06 limited to Tk 16 billion. The government will maintain its selective hiring freeze to reduce employment through attrition while eliminating unnecessary and redundant posts. To ensure medium-term fiscal sustainability, we are working with the World Bank on a plan for civil service reform in the context of the EMTAP that will include improving recruitment, performance evaluation and merit-based promotion, training and career planning, and development of a senior civil service.

20. Reform of the energy sector SOEs is key to improving their financial performance and reducing infrastructure bottlenecks to growth. We are monitoring oil market developments closely, in coordination with the World Bank in the context of the DSC. In view of the substantial surge in energy prices since the beginning of FY05, we recognize that further price adjustments are needed, especially for kerosene, diesel, and gas. However, in light of the price increases already taken, and continuing inflationary pressures, further adjustments will need to be made gradually while taking into account social considerations. Increases in domestic prices already implemented have reduced the monthly operating losses of BPC from levels experienced in FY05. In addition, we intend to make further price adjustments this fiscal year to further reduce and eventually eliminate these losses. To strengthen DESA, we intend to take measures to improve bill collections, curb system losses, and reduce illegal connections, while reducing DESA's arrears using a combination of loan restructuring and collections. We will also prepare a report quantifying quasi-fiscal costs arising from prices below international levels in the energy and power sector, including the implicit subsidies and revenue foregone by underpricing of natural gas, and identifying measures to mitigate the impact of price adjustments on vulnerable groups (structural performance criterion for the 5th review).

B. Monetary and External Sector Policies

21. A tightening of the monetary policy stance will be needed in the near-term to ensure stability in the money and foreign exchange markets and contain inflation. The growth rates of broad money and private credit are still above program targets and will need to be further reigned in. BB will continue to actively employ indirect monetary instruments for conducting monetary policy. Interest rates on treasury securities have already increased further in November and December and will continue to be raised as needed to meet monetary objectives. The decision to increase the cash reserve requirement has necessitated an increase in the reserve money path. However, while the revised monetary program will incorporate a higher growth rate of reserve money (16 percent compared to 10 percent in the previous

MEFP), the rate of growth of currency in circulation and the level of excess reserves will be maintained as originally envisioned.

22. With MFD technical assistance, further steps are being taken to improve the functioning of the interbank and treasury bill markets, including strengthening the primary dealer system, deepening the secondary market for treasury securities, and developing liquidity forecasting. BB intends to introduce volume-based auctions for bond issues in January and will eventually extend this to all government securities, and is also taking steps to strengthen the primary dealer system by working closely with dealers to define the rules and obligations that will govern their conduct. Instructions have been issued to all banks for making mark-to-market based revaluations of their government securities holdings. In addition, BB and the Securities and Exchange Commission (SEC) have agreed to allow government bonds to be traded in the stock exchange. BB, SEC and NBR have also developed an enabling regulatory framework for the issuance of corporate bonds and the securitization of receivables.

23. We are committed to the floating exchange rate regime, and will confine interventions to countering disorderly conditions and building reserves to a more comfortable level. We have taken steps to ensure that no bank is given preferential treatment in the foreign exchange market. The taka/dollar rates offered by the NCBs and private dealers have now converged. Interventions in the foreign exchange market by BB are now being conducted in a transparent manner by selling foreign exchange to the highest bidder, rather than conducting intervention solely through the NCBs. The government will rely on market-based mechanisms when the system comes under stress. In this regard, changes in a market-based exchange rate would be an expected part of adjusting to the adverse external environment without jeopardizing the program's NIR targets or prospects for export-led growth. In view of the considerable pressures in the foreign exchange market associated with oil financing needs, we expect the need for some further intervention at times, but this will be designed to smooth adjustment in the rate, not prevent it.

24. In line with our previous commitments, we intend to remove the only remaining restriction under Fund jurisdiction pertaining to the convertibility and transferability of funds from nonresident taka account by end-June 2006 if the balance of payments position is favorable. Attention will be paid to having regulatory safeguards in place to prevent illegal transactions and limit the scope for capital outflows.

25. BB has taken steps to improve regulatory oversight of the banking system. In addition to the core risk management guidelines that were introduced last year, guidelines have been developed covering information technology processes, consumer and small business lending, and Islamic banking. Provisioning standards have also been tightened through the creation of special mention accounts for loans that have become non-performing after 90 days. Five percent of the gross amount of the loan is now required as a general provision and interest on these loans can no longer be booked as profit. Additionally, a National Steering Committee led by BB has been formed to move forward with the implementation of Basel II banking standards. BB has also strengthened its capacity to supervise and regulate banks effectively

by performing comprehensive systems audits and taking action against banks that are in violation of regulatory and prudential norms. The NCBs continue to breach their net open position exposure limits while settling large oil import bills of the state-owned BPC. In response, BB has instructed the banks to strengthen their internal forecasting systems to better anticipate net shifts in demand for foreign exchange. In cases where outflows are not sufficient to match inflows, BB has instructed the NCBs to bid more aggressively for foreign exchange in the interbank market.

26. In the face of the phase-out of MFA quotas, we are adopting further measures to reduce anti-export bias and improve the investment climate. We will reduce further the number of regulatory stages involved in the clearance of imports and exports. At the same time, we are seeking duty-free access for RMG exports to the U.S. market. With respect to overall trade policy, we have eliminated all quantitative restrictions except those on grounds of health, national security, religion, and environmental protection. However, overall rates of protection remain high and the government plans to further reduce average tariffs (including any surcharges) by at least two percentage points in the context of the FY07 budget.

C. Reforming the Nationalized Commercial Banks

27. Given the unfortunate delays already experienced, the government has intensified efforts to ensure the successful divestment of Rupali Bank. All outstanding legal challenges to Rupali's divestment have been resolved and we have extended and signed GBRW's contract to ensure that they continue to provide their expertise throughout the divestment process. We have also obtained all the necessary waivers or approvals form relevant regulatory authorities to proceed with Rupali's divestment. Renewed expressions of interest have been sought and the preliminary information memorandum will be updated by end-January 2006. We expect that tender documents will be sent to short-listed firms by March 2006 and that a preferred bidder will be announced, in line with tender procedures and selection processes for technical and financial evaluations, by end-June 2006 (structural benchmark for the fifth review). The government has already worked out the details for recapitalizing Rupali. In addition, at the point of transaction, the government will remove from Rupali's books and assume full responsibility for the liabilities of existing pensioners and for the accrued rights of current employees, with cash payments made from the government's budget as these payments become due. The eventual majority shareholder will have management control over all aspects of the bank's operations, including on HR policies and pay scales.

28. With respect to the other three NCBs, we are committed to bringing Agrani to the point of divestment in the near term. To this end, we will redraft PWC's contract to give the existing consultants the authority to act as financial advisors for the eventual sale of the bank in line with the program's structural performance criterion (prior action for the 4th review given the December 15 deadline that was set as a structural performance criterion) and we initiated corporatization of the bank in December. We will also ensure that at least two members of the boards of directors for Sonali, Agrani, and Janata, with sufficient financial

and banking experience, as well as meeting BB's fit and proper criteria, have been put in place.

29. We recognize that NCB restructuring and divestment will be facilitated by granting bank managements and their support teams greater autonomy over day to day operations and strategic reforms, and by strengthening the role of the NCB Working Group. BB will regularly monitor the implementation of the reforms measures in the NCBs and will be consulted in an advisory capacity in the matters of privatization of banks. In the context of the Enterprise Growth and Bank Modernization Project (EGBM), we are creating a matrix of near-term actions, in consultation with the World Bank. This action plan supports our commitment to operationalize the NCB reform agenda as previously outlined in the MEFP for the Third Review, and an updated action plan is attached. Key actions focus on: (i) revising the terms of reference for the consulting teams to give them authority to implement recommendations in collaboration with the management of the banks; (ii) reconstituting the boards of directors of Agrani and Janata; (iii) reviewing the practices of management and the boards of directors, and advising as necessary, to ensure that they are cognizant of their authority to take decisions on operational policies without prior consent from the Ministry of Finance (as defined in the Bangladesh Banks (Nationalization) Order); (iv) holding NCB boards and management accountable against annual performance targets; and (v) corporatizing Janata and Sonali (in addition to Agrani).

D. Program Monitoring and Governance

30. Progress has been made in addressing the recommendations under the safeguards assessment. An audit of BB's financial statements for FY05, conducted by two local affiliates of international accounting firms, has been completed and the audited financial statements and the audit opinion have been published. The audit was unqualified, disclosures in the financial statements are being continuously expanded, and the accounting and internal audit departments are being strengthened, supported by technical assistance from the IMF and World Bank.

31. To improve the investment climate, concerted actions have been taken to develop an anti-corruption strategy and improve the law and order situation. A skeleton organizational chart (organogram) of the Anti-Corruption Commission (ACC), established in November 2004, has been approved to enable the ACC to recruit essential staff and start its work. The full organogram is being developed with the assistance of the AsDB. Additional technical assistance in support of the government's overall anti-corruption strategy is being provided by the World Bank and USAID. The government has also drafted a new Money Laundering and Terrorist Financing Prevention Act (2005).

32. With regard to program monitoring, quantitative performance criteria for end-March 2006 and indicative targets for June-December 2006 are being proposed. The fifth review will assess compliance with the end-March 2006 quantitative performance criteria and specified structural conditionality. Key structural benchmarks and structural performance criteria for the fifth review will continue to focus on fiscal, NCB, and energy sector reforms.

To stress our commitment to meeting revenue targets under the PRGF-supported program, we propose to convert the quarterly indicative revenue targets for NBR revenue to a performance criterion starting from March 2006. Technical assistance coordinated closely with the World Bank and DFID will remain essential to building capacity, especially in tax administration and NCB reform.

33. The composition of domestic financing from sales of National Savings Certificates is shifting towards the treasury market. In the near term, the bulk of domestic financing will be through treasury bill sales to commercial banks while we bolster the ability of nonbank institutions and investors to purchase treasury securities. In view of this, we have requested modification of the performance criterion on central government financing. Since government financing is through marketable securities and recourse to central bank credit is controlled by the ceiling on NDA of Bangladesh Bank, we view the PC on total domestic financing as sufficient for maintaining a credible commitment to reducing inflation and therefore request that the separate sub-ceiling on bank financing be dropped.

Attachments

MEFP Table 1.	Key Economic Indicators
MEFP Table 2.	Indicative Targets and Quantitative Performance Criteria Under the PRGF Arrangement
MEFP Table 3.	Structural Performance Criteria and Benchmarks Under the PRGF Arrangement
MEFP Annex	Near-term Reform Action Plan for NCBs

MEFP Table 1. Bangladesh: Key Economic Indicators, FY2003–09 1/

	2002/03	2003/04	Prog. 2004/05	Act. 2004/05	Rev. Prog. 2005/06	Projections 2006/07	Projections 2007/08	Projections 2008/09
National income and prices (percent change)								
Real GDP	5.3	6.3	5.2	5.4	6.0	6.0	6.5	6.5
GDP deflator	4.5	4.2	6.0	5.0	6.0	6.0	5.0	4.5
CPI inflation (annual average) 2/	4.4	5.8	6.5	6.5	7.5	6.0	5.0	4.5
Central government operations (percent of GDP)								
Total revenue	10.3	10.2	10.5	10.6	11.0	11.5	11.7	11.9
Tax	8.3	8.2	8.6	8.5	9.0	9.5	9.7	9.9
Nontax	2.0	1.9	1.9	2.0	2.0	2.0	2.0	2.0
Total expenditure	13.7	13.1	14.7	14.1	15.1	15.4	15.5	15.6
Current expenditure	8.1	7.8	8.6	8.5	8.7	8.7	8.6	8.6
Of which : Interest payments	1.9	1.6	1.7	1.7	1.8	1.7	1.7	1.7
Annual Development Program	5.4	5.0	5.3	5.0	5.4	5.7	6.0	6.0
Other expenditures 3/	0.2	0.3	0.8	0.6	1.0	1.0	0.9	1.0
Overall balance (excluding grants)	-3.4	-2.9	-4.2	-3.5	-4.0	-3.9	-3.8	-3.7
Primary balance	-1.5	-1.3	-2.4	-1.9	-2.3	-2.2	-2.2	-2.1
Financing (net)	3.4	2.9	4.2	3.5	4.0	3.9	3.8	3.7
Domestic	1.2	1.8	2.0	1.7	2.0	1.9	1.8	1.7
External	2.1	1.1	2.2	1.8	2.0	2.0	2.0	2.0
Total central government debt (percent of GDP)	51.1	48.7	47.9	48.4	48.5	47.4	46.1	44.9
Money and credit (end of year; percent change)								
Net domestic assets	12.2	13.4	14.8	17.1	15.0	13.5	13.5	13.1
Credit to private sector	12.6	12.0	14.7	17.0	13.9	13.1	12.8	12.8
Broad money (M2)	15.6	13.8	14.2	16.7	14.3	13.4	13.0	13.0
Balance of payments (in billions of U.S. dollars) 4/								
Exports, f.o.b.	6.5	7.5	7.8	8.6	9.6	10.5	11.5	12.6
(Annual percent change)	9.5	15.8	4.1	14.0	11.7	9.8	9.4	9.3
Imports, f.o.b.	8.7	9.8	11.6	11.9	13.7	14.9	16.1	17.5
(Annual percent change)	13.1	13.0	18.0	20.6	15.0	9.1	8.3	8.2
Current account	0.1	0.2	-1.1	-0.5	-1.2	-1.2	-1.3	-1.3
(Percent of GDP)	0.1	0.3	-1.8	-0.9	-1.9	-1.8	-1.7	-1.6
Gross official reserves (in billions of U.S. dollars)	2.5	2.7	2.9	3.0	3.3	3.5	3.8	4.1
In months of imports of goods and nonfactor services	2.9	2.8	2.4	2.6	2.5	2.5	2.5	2.5
Memorandum item:								
Nominal GDP (in billions of taka)	3,006	3,330	3,731	3,685	4,142	4,653	5,202	5,790

Sources: Data provided by the Bangladesh authorities; and Fund staff estimates and projections.

1/ Fiscal year begins July 1.
2/ CPI has recently been rebased using FY96 weights.
3/ Consists of other capital, net lending, and food accounts (including check float and discrepancy).
4/ Balance of payments is presented on the basis of BPM5.

MEFP Table 2. Bangladesh: Indicative Targets and Quantitative Performance Criteria Under the PRGF Arrangement, June 2005-Dec 2006 1/

(Cumulative flows, end of period) 2/

	Jun-05 Indicative Targets		Sept-05 Performance Criteria		Dec-05 Indicative Targets		Mar-06 Indicative Target/PC	Jun-06 Indicative Target/PC	Sept-06 Indicative Targets	Dec-06 Indicative Targets
	Target	Prel.	Target	Prel.	Prog.	Prel.	PC	Target		
	(In billions of taka)									
Ceiling on net domestic assets of Bangladesh Bank 3/	29	28	2	19	11	42	46	44	0	12
Ceiling on net domestic financing of central government 3/	76	64	8	13	28	...	55	83	16	40
Ceiling on net central government bank borrowing 3/	36	35	-4	8	4	22	...	...	...	...
Taxes collected by National Bureau of Revenue 4/ 5/	...	...	73	70	154	...	244	356	87	184
	(In millions of U.S. dollars)									
Floor on cumulative increase of net international reserves of Bangladesh Bank 3/ 6/	-25	128	-30	-199	-65	-86	-181	0	120	145
Contracting or guaranteeing of short-term external debt by the central government 7/	0	0	0	0	0	0	0	0	0	0
Contracting or guaranteeing of nonconcessional medium- and long-term debt by the central government 3/	250	8	100	0	150	0	200	250	100	150
Of which: External debt with an initial maturity of over one year and up to five years 7/	0	0	0	0	0	0	0	0	0	0
Accumulation of external payments arrears 7/	0	0	0	0	0	0	0	0	0	0
Memorandum item:										
Projected World Bank loan disbursements (in millions of US dollars, cumulative flow)										
DSC	...	...	200	0	200	200	200	200	100	100
Education sector loan	...	...	100	0	100	0	0	100	...	...

1/ The aggregates are defined in the Technical Memorandum of Understanding dated January 9, 2006.
2/ Cumulative flow since start of financial year beginning July 1.
3/ Performance criteria assessed on a periodic basis under the program period.
4/ Indicative targets assessed on a quarterly basis under the program period for September 2005 and December 2005.
5/ To be assessed as a performance criterion from March 2006.
6/ Adjusted downward by $100 million for September 2005, December 2005, and March 2006, reflecting delay in disbursement of World Bank education sector loan as per addendum to TMU (IMF Country Report No. 05/241).
7/ Performance criteria assessed on a continuous basis under the program period.

MEFP Table 3. Bangladesh: Structural Performance Criteria and Benchmarks Under the PRGF Arrangement

	Measures	Timing	Status
	I. Performance Criteria and Benchmarks for the Fourth Review		
1.	Establishment in the NBR of an independent audit unit headed by an advisor of the rank and status of a member reporting directly to the Chairman 1/	November 30, 2005	Independent audit unit was established and the advisor selected on January 8, 2006.
2.	Reconstitution of Sonali Bank's Board of Directors to meet BB's fit and proper test for board membership, and ensuring that at least two board members have relevant banking experience.	December 15, 2005	Observed.
3.	Signature of final contract for appointment of financial advisor for Agrani Bank. 1/	December 15, 2005	Revisions to the terms of reference of the consultants to include the role of financial advisor were completed on January 19, 2006.
	II. Performance Criteria and Benchmarks for the Fifth Review		
1.	Further improving LTU operations by introducing risk-based tax payer audit procedures, developing computerized support for LTU operations, and introducing a uniform taxpayer identification number.	April 30, 2006	
2.	Finalize a comprehensive report reviewing all tax exemptions and incentives and evaluating the associated revenue losses. 1/	April 30, 2006	
3.	Finalize a report quantifying all quasi-fiscal costs arising from prices below international levels in the energy and power sector, including the implicit subsidies and revenue foregone by underpricing of natural gas, and identifying measures to mitigate the impact of price adjustments on vulnerable groups. 1/	April 30, 2006	
4.	Announcement of preferred bidder for Rupali Bank in line with the agreed tender procedures and selection process for technical and financial evaluations.	June 30, 2006	

1/ Indicates structural performance criteria.

NEAR-TERM REFORM ACTION PLAN FOR NATIONALIZED COMMERCIAL BANKS

1. This Annex updates Annex I in the Memorandum of Economic and Financial Policies dated May 26, 2005 and highlights steps that will be taken during 2006. The government remains committed to the restructuring and eventual divestment of the NCBs and will take all necessary steps to ensure the timely implementation of the NCB reform program.

2. An International Bank Restructuring Expert has been appointed to assist the Working Group in monitoring the performance of the management teams in each of the three NCBs and to help operationalize the NCB reform strategies. To facilitate the effectiveness of the Bank Restructuring Expert, the government has strengthened the role of the Working Group and given bank managements and their support teams greater autonomy over day-to-day operations and strategic reforms. Bangladesh Bank will monitor the implementation of the restructuring measures by the NCBs on a regular basis and will report the implementation status of the restructuring measures taken by the banks to the Ministry of Finance every two weeks.

3. The government will grant NCB managements and boards full autonomy in decisions pertaining to the operational restructuring of the banks. In turn, bank managements and boards will be held accountable and their performance will be measured against quantitative and qualitative performance targets being designed in consultation with the World Bank.

4. As was done in finalizing the Preliminary Information Memorandum (PIM) and Expression of Interest (EOI) of Rupali Bank, Bangladesh Bank will be regularly consulted, in an advisory capacity, in all phases of privatization of the banks as well as be part of the committee evaluating the fitness and propriety of the prospective investors.

I. BANK-BY-BANK ACTION PLANS

A. Rupali Bank

5. The objective is to revive the privatization of Rupali Bank, which had been delayed by a court injunction. To this end, the following steps will be taken by end-February 2006:

- Removal of all the legal obstacles relating to the bank's privatization.
- Receipt of the necessary waivers or approvals from the Ministry of Finance, Bangladesh Bank, Securities and Exchange Commission, and local stock exchanges.
- Re-publication of the request for Expression of Interest (EOI) to the public.

- Updating of financial data in preliminary information memorandum (PIM) through December 31, 2005.

- Contracting an accounting firm to perform a closing audit based on international accounting standards for the period ending December 2005 as per the special audits conducted by HVC.

- Reconfirming in the PIM the government's commitment that successful strategic investors will be given full management control, including over HR policy.

- Reconfirming in the PIM the government's commitment to recapitalize Rupali Bank to zero capital level through the issuance of government bonds to offset the capital shortfall in the bank's statutory accounts and a loan from Rupali to the government to cover all other non-performing assets. The accrued pension obligations of Rupali will also be removed from the bank's balance sheet, and will become the responsibility of the government.

- Reconfirming in the PIM that under no circumstances will capital forbearance be granted to the newly privatized bank. As such, all shareholders will be expected to inject new equity to bring Rupali's capital up to CAR, which may require the issuance of new shares to cover the obligations of existing minority shareholders in the bank.

- Extending the existing MOU beyond December 2005, and strengthening the MOU in consultation with the World Bank. Performance under the MOU will continue to be monitored closely by Bangladesh Bank and the MOU will be maintained until Rupali's eventual divestment.

B. Agrani Bank

6. The objective is to bring Agrani Bank to the point of divestment in the near term. To prepare for this objective, the following steps are being taken:

- MOF has instructed Bangladesh Bank to corporatize the bank, and this process is underway.

- Revising the terms of reference of the consulting team (PWC) to provide them with authority to implement operational restructuring, in collaboration with the management of the bank, and contract with PWC to serve as the financial advisor during Agrani's divestment.

- Ensuring that at least two members of the boards of directors have sufficient financial and banking experience as well as meeting BB's fit and proper criteria.

- Reviewing the practices of management and the boards of directors, and advising as necessary, to ensure that they are cognizant of their authority to take decisions on operational policies and matters referred by the Working Group (including on branch closure, staff retrenchment, VRS, and pay scales) without prior consent from the Ministry of Finance (as defined in the Bangladesh Banks (Nationalization) Order).

- Extending the existing MOU beyond December 2005 . The MOU will also be strengthened in consultation with the World Bank. The MOU will continue to be monitored closely by Bangladesh Bank and will be maintained until Agrani's eventual divestment.

C. Janata Bank

7. The objective is to restructure Janata Bank and bring it to the point of divestment. To prepare for this objective, the following intermediate steps are being taken:

- MOF has instructed Bangladesh Bank to corporatize the bank, and this process is underway.

- Revising the terms of reference of the consulting team (IDI Ltd.) to provide them with the necessary authority to implement operational restructuring, in consultation with the World Bank.

- Ensuring that at least two members of the boards of directors have sufficient financial and banking experience as well as meeting BB's fit and proper criteria.

- Reviewing the practices of management and the boards of directors, and advising as necessary, to ensure that they are cognizant of their authority to take decisions on operational policies and matters referred by the Working Group (including on branch closure, staff retrenchment, VRS, and pay scales) without prior consent from the Ministry of Finance (as defined in the Bangladesh Banks (Nationalization) Order).

- Extending the existing MOU beyond December 2005 . The MOU will also be strengthened in consultation with the World Bank. The MOU will continue to be monitored closely by Bangladesh Bank and will be maintained until Agrani's eventual divestment.

D. Sonali Bank

8. The objective is to contain Sonali's future losses by restricting the bank's lending activities and restructuring its operations to the point where a minority shareholding can be divested. To prepare for this objective, the following intermediate steps are being taken:

- Ensuring that at least two members of the boards of directors have sufficient financial and banking experience as well as meeting BB's fit and proper criteria (to be completed by December 15, 2005 as a structural benchmark for the 4^{th} review).

- Revising the terms of reference of the consulting team (IBTC) to provide them with the necessary authority to implement operational restructuring, in consultation with the World Bank.

- Reviewing the practices of management and the boards of directors, and advising as necessary, to ensure that they are cognizant of their authority to take decisions on operational policies and matters referred by the Working Group (including on branch closure, staff retrenchment, VRS, and pay scales) without prior consent from the Ministry of Finance (as defined in the Bangladesh Banks (Nationalization) Order).

- Extending the existing MOU beyond December 2005 . The MOU will also be strengthened in consultation with the World Bank. The MOU will continue to be monitored closely by Bangladesh Bank and will be maintained until Sonali's eventual divestment.

- Corporatizing the bank (this action to be completed by end-2006).

BANGLADESH—TECHNICAL MEMORANDUM OF UNDERSTANDING
January 9, 2006

This memorandum sets out (i) the definitions for the proposed quantitative performance criteria and benchmarks under the period January-December 2006; and (ii) related reporting requirements. The data are to be based mainly on balance sheets of BB and the banking system as compiled by BB Research Department for management.

Item 1: *Net domestic assets of Bangladesh Bank* (BB) are defined as reserve money minus net international reserves (NIR) of BB valued in taka using the program exchange rates specified in Table 1 below.

Reserve money consists of currency issued by BB (excluding its own holdings) plus government currency held outside the BB plus balances of deposit money banks (DMBs) with BB (excluding foreign exchange clearing accounts) plus balances of other financial institutions with BB.)

NIR is defined in item 4 below.

Item 2: *Net domestic financing of central government* is defined as the sum of the flow of net bank credit to central government and nonbank claims on central government during the specified period.

Net bank credit to central government is defined as the sum of: (i) BB holdings of government securities and treasury bills; (ii) BB Ways and Means advances to the government; (iii) BB credit to autonomous and semi-autonomous bodies; (iv) government currency liabilities; (v) DMBs holdings of government securities and treasury bills; (vi) DMBs credit to Food Ministry; (vii) DMBs credit to other ministries, autonomous and semi-autonomous bodies; (viii) any other loans, advances and bills discounted extended to central government by the banking system, minus all bank deposits, including lending and onlending accounts, of central government.

Nonbank claims on central government is defined as the sum of: (i) all national savings certificates and related instruments held by nonbank residents, as reported by the National Savings Directorate; (ii) all outstanding U.S. Dollar Premium and Investment Bonds; (iii) all treasury bills and bonds held by nonbank residents, as reported by BB; and (iv) all loans and advances extended by nonbank residents to central government, if any.

Item 3: *Net bank borrowing of central government* is defined as the change in bank credit to central government as defined above during the specified period. As of January 2006, this item will be dropped as a performance criterion under the PRGF program.

Item 4: *Net international reserves of BB* are defined as gross foreign assets of BB (less BB's blocked account with the Central Bank of Iraq) minus international reserve liabilities of BB.

Gross foreign assets of BB consist of its holdings of monetary gold, exchange balances held outside Bangladesh, foreign securities (valued in market prices), foreign bills purchased and discounted, net Fund position and SDR holdings, and the net forward position, if any, of BB. Excluded from gross foreign assets will be: (i) illiquid foreign assets including real property; and (ii) any other foreign assets over which the Bangladesh Bank does not have effective control or which it cannot readily sell, including blocked accounts, pledged, collateralized or other encumbered assets. Also excluded are participation in international financial institutions, holdings of nonconvertible currencies, holdings of precious metals other than monetary gold, and claims in foreign exchange arising from derivative transactions (such as futures, forwards, swaps and options).

International reserve liabilities of BB consist of all foreign currency denominated liabilities of the BB to residents and nonresidents with outstanding maturity up to and including one year, including: (i) Asian Clearing Union debit balances; (ii) all obligations in respect of swap and outright forward transactions; and (iii) any overdue obligations of the central government with respect to foreign debt service. Liabilities also include those arising from balance of payments support borrowing by the Bangladesh Bank, irrespective of maturity, including all liabilities to the Fund.

Item 5: *Contracting or guaranteeing of short-term external debt* is defined for debt with original maturity of up to one year owed or guaranteed by central government. The term debt is defined as set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000),[1] but excludes normal

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[1]The definition is as follows: “9. (a) For the purpose of this guideline, the term debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(continued)

import-related credits, forward contracts, swaps, other future market contracts, and short-term liabilities of the banking system. The definition also includes debt instruments with put options that would be triggered within one year after the contracting date.

Item 6: *Contracting or guaranteeing of medium- and long-term nonconcessional external debt* is defined as contracting or guaranteeing nonconcessional external debt by central government with an original maturity of more than one year. *Nonconcessional debt* is defined as borrowing containing a grant element of less than 35 percent. This definition includes not only debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000), but also commitments contracted or guaranteed for which value has not been received. Excluded from this definition are credits extended by the Fund and Asian Development Bank, and U.S. Dollar Premium and Investment Bonds purchased by nonresidents. Debt falling within the limit shall be valued in U.S. dollars at the bilateral exchange rates prevailing at the time of the contract is entered into, or guarantee issued.

The *grant element* is to be calculated by using the currency-specific discount rates reported by the OECD as Commercial Interest Reference Rates (CIRR) as of the date of contracting or guaranteeing the debt; for maturities of less than 15 years, the grant element will be calculated based on six-month averages of the CIRR, and for maturities of 15 years or longer, the grant element will be calculated based on 10-year CIRR averages. Maturity will be determined based on the original contract.

Item 7: *External payments arrears* are the stock of overdue payments (interest and principal payments) on short-term debt in convertible currencies with an original maturity of up to and including one year (spot, money market, letters of credit, and others) and medium- and long-term debt contracted or guaranteed by the government (including BB). The limit excludes overdue payments that relate to debts which are subject to rescheduling, or that are in dispute and under discussion with creditors.

* * *

1. For the quarters ending in September 2005, and March and June 2006, any foreign asset, liability or cash flow denominated in a currency other than U.S. dollars shall be converted into U.S. dollars by applying the appropriate end of period exchange rate for March 31, 2005, as published in the Fund's *International Financial Statistics* (Table 1). For the quarters ending September and December 2006, the March 31, 2006 exchange rates will be used.

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

Table 1. Selected End-of-Period Exchange Rates, March 31, 2005

Taka per U.S. dollar	63.5220	Indian rupee per U.S. dollar	43.7550
SDR per U.S. dollar	1.5108	Pakistani rupee per U.S. dollar	59.1240
Australian dollar per U.S. dollar	1.2955	Swedish kroner per U.S. dollar	7.0526
British pound per U.S. dollar	0.5312	Japanese yen per U.S. dollar	107.3500
Canadian dollar per U.S. dollar	1.2096	Gold price in U.S. dollars per troy ounce (London PM fixed)	433.9000
Euro per U.S. dollar	0.7714		

Source: Fund's *International Financial Statistics.*

2. For the purposes of program monitoring, the following information, including any revisions to historical data, will be provided by BB and Ministry of Finance, or PRGF Monitoring Unit, unless specified otherwise, to the Asia and Pacific Department of the Fund, through the office of the Resident Representative in Dhaka, as set out in Table 2.

3. In accordance with the recommendations of the Safeguards Assessment, the data on the international reserves and balance sheet of BB should be reconciled with the final accounts of BB for each period. Annual data will also be reconciled with the final audited accounts when they become available.

4. The macroeconomic scenario under the program envisions the disbursement of US$100 million under the World Bank's education section loan in the fourth quarter of FY06 and US$100 million under the World Bank's DSC IV in the first quarter of FY07. If the amount or timing of these disbursements differ from that envisioned under the program, the quantitative performance criteria under the PRGF program for NIR and NDA of Bangladesh Bank, and central government net domestic financing will be adjusted accordingly.

Table 2. Bangladesh: Monitoring and Reporting Requirements (attached)

Table 2. Bangladesh: Monitoring and Reporting Requirements

Item	Reporting Requirement	Periodicity / Reporting Lag
Item 1: Net domestic assets of BB	Balance Sheet of BB (Form 10G), Consolidated Balance Sheet of DMBs (Form 20G), Monetary Survey (Form	Monthly / within six weeks of end of corresponding period.
Item 2: Net domestic financing of central government Item 3: Net bank borrowing of central government 1/	Balance Sheet of BB (Form 10G) Consolidated Balance Sheet of DMBs (Form 20G), Monetary Survey (Form 30G) outstanding stock of national savings certificates, nonbank holdings of government securities	Monthly / within six weeks of end of corresponding period.
Item 4: Net international reserves of BB	Foreign Assets and Liabilities of BB	Monthly / within three weeks of end of corresponding period.
Item 5: Contracting of short-term external debt Item 6: Contracting or guaranteeing of new medium- and long-term nonconcessional external debt	Contracting or guaranteeing of new external debt by the public sector/government, with details on creditor, amount and terms of each loan	Monthly / within three weeks of end of corresponding period.
Item 7: External payments arrears	Level of external payments arrears during period	Monthly / within three weeks of end of corresponding period.

1/ Performance criteria in Item 3 to be dropped starting January 2006.