

Table 1. Lao P.D.R.: Quantitative Performance Criteria and Benchmarks, September 2001 - March 2003

	2000	2001		2002								2003
	Stock at end-Dec.	Sept. Prog. 2/	Dec. Est.	Mar. 1/ Prog.	Mar. Est.	Apr. Est.	May Est.	June Prog.	Sept. 1/ Prog.	Sept. 1/ Rev. Prog.	Dec. Prog.	Mar. 1/ Prog.
(In billions of kip)												
1. Net domestic assets of the Bank of Lao P.D.R. (BOL) 3/ 4/	-33	-130	-85	-100	-143	-150	-102	-102	-134	-134	-152	-185
2. Net credit to the government from the banking system 4/	-420	-141	-117	-112	-134	-166	-157	-140	-91	-59	-28	-13
3. Net domestic assets of the state commercial banks (excluding net claims on government) 5/	1,188	1,501	1,568	1,460	1,533	1,578	1,583	1,533	1,537	1,537	1,570	1,610
4. Net official international reserves 4/ 6/	57	65	67	68	70	71	75	69	66	72	81	85
5. Publicly contracted or guaranteed nonconcessional external debt 7/												
- up to one-year maturity		0	0	0	0	0	0	0	0	0	0	0
- maturity of more than 1 year 7/		0	0	0	0	0	0	0	0	0	0	0
of which: 1-5 years' maturity		0	0	0	0	0	0	0	0	0	0	0
6. External payments arrears 8/	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum item:												
Nonproject budget support (cumulative flows from start of fiscal year)	11.5	0.0	0.0	5.0	5.0	5.0	5.0	5.0	15.0	12.0	5.0	10.0
External debt service payments (cumulative from start of fiscal year)	...	0.0	5.4	14.1	13.4	21.7	29.4	32.5	4.5	15.9
Program exchange rate (kip per dollar)	8,218	9,500	9,500	9,500	9,500	9,500	9,500	9,500	9,500	9,500	9,500	9,500
Foreign currency component of required reserves	27	28	29	30	28	31	29	29	32	30	31	32

Sources: Data provided by the Lao P.D.R.. The full definition of terms is contained in the technical memorandum of program monitoring.

1/ Performance criteria.

2/ This column shows the revised program figures based on the new program exchange rate (US \$1=KN 9,500).

3/ Net domestic assets of the BOL are defined as reserve money minus net foreign assets (NFA) of the BOL adjusted for the valuation changes arising from the difference between the program and actual exchange rates.

The 2001 levels have been reduced from the end of December 2000 level to take account of the netting of KN 150 billion of banks reserves with BOL credit to banks.

4/ For purposes of verifying compliance with the program, the ceiling for net domestic assets of the BOL, net bank credit to the government will be adjusted upward (downward), while the floor on net official international reserves will be adjusted downward (upward) by any shortfall (excess) in external nonproject budget support, and any excess (shortfall) in debt service payments.

and net claims on government, all calculated at the program exchange rate.

6/ Net official reserves are calculated as net international reserves on a BOP basis less foreign currency component of required reserves. The Japanese grant is not included in the definition of net official reserves except in all of the original program targets. This resulted in a downward revision of the March and June estimates by \$12 million compared to the series originally envisaged under the program.

7/ Ceiling applies to debts contracted or guaranteed by the government, public enterprises, or the BOL on nonconcessional terms. Ceilings are flows from the start of the program, September 2001. Excludes normal import-related credit, any borrowing associated with debt rescheduling, and the loan from Exim Bank of China for the telecommunications enterprise (ETL), for a maximum amount equivalent to US \$ 38 million (with a 15 year repayment schedule, 2 year grace period and an interest rate of 2 percent) expected to be contracted in 2002, with a grant element of 34.4 percent. This performance criterion applies to 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).

8/ Continuous performance criterion.

Table 2. Lao P.D.R.: Structural Policy Actions
For the Second Review of the PRGF-Supported Program

Policy Action	Conditionality	Status
Strictly implement BOL Regulation 98, including on loan classification (Article 2.0–2.4) and cease making new loans to defaulting borrowers (Article 6.0); to be monitored by quarterly reporting of the 30 largest borrowers from SCBs.	Structural benchmark, March 2002	Met. No increase from September 2001 to March 2002.
Implement banking supervision measures to ensure that SCBs: cease accrual of interest on all nonperforming loans, set up full provisions on nonperforming loans approved after 1/1/2000, and reflect these in their income statement and balance sheet for 2001.	Structural performance criterion, April 2002	Met with delay at end-May. Restatement of 2001 accounts is a prior action for the second review.
Formulate key elements of the individual SCB business plans, especially qualitative and quantitative targets, and timetable for actions consistent with MoURs.	Structural benchmark, May 2002	Met at end-May, but work ongoing to refine the plans.
Complete a high-level review of the internal financial controls of the BOL as recommended in the audit by the National Audit Office.	Structural benchmark, May 2002	Met at end-June
Agree on an action plan for improving public expenditure management, including controls on commitments, management of bank accounts, expanding budget nomenclature and improving the quality of fiscal data.	Structural benchmark, April 2002	Not met. Work underway in improving expenditure tracking. Agreement on plan postponed to November 2002, see Table 3.

Table 3. Lao P.D.R.: Key Structural Policy Actions Under the Second-Year PRGF-Supported Program

Policy Action	Conditionality
<p><i>Banking sector</i></p> <p>Restate end-2001 accounts of SCBs to reflect full provisioning of new loans in accordance with BOL Regulation 98.</p> <p>Agree on a plan to subject the weakest state commercial bank to upfront restructuring.</p> <p>Implement two rounds of quarterly targeted inspection of the three SCBs including their 5 largest branches to verify asset quality, and implementation of instructions to limit the increase in lending and the issue of off-balance sheet commitments.</p> <p>Maintain, in accordance with BOL 98, accurate loan classification on all loans, and full provisioning on all new and rescheduled loans from the start of 2000, and compliance with other key BOL bank supervision directives.</p> <p>Complete the 2001 audit of the BOL by the National Audit Office, with the assistance of an international auditing firm, and in accordance with international auditing standards and prepare pro-forma 2001 financial statements in accordance with international accounting standards.</p>	<p>Prior action, second review</p> <p>Prior action, second review</p> <p>Structural performance criterion, November 2002</p> <p>Subject of third review</p> <p>Structural benchmark, August 2002</p>
<p><i>Public sector</i></p> <p>Identify key issues in public expenditure management and agree on the detailed terms of reference for the requested Fund technical assistance mission.</p> <p>Strengthen central tax and customs departments, organize them on a functional basis, and transfer an additional large provincial customs point to the national customs service.</p> <p>Continue improvements in revenue administration, including the national coordination of collections, and the preparation of the VAT.</p> <p>Agree on a medium-term plan for expenditure management, including controls on commitments, management of bank accounts, expanding budget nomenclature and improving the quality of fiscal data, and implement a system to identify expenditure by type of administrative unit for the education and health sectors for an important proportion of these sectors in the 2002/03 budget.</p>	<p>Prior action, second review</p> <p>Structural benchmark, November 2002</p> <p>Subject of third review</p> <p>Structural benchmark, November 2002</p>