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Statement by the Hon. **SOUKANH MAHALATH**,
Governor of the Bank for the **LAO PEOPLE'S DEMOCRATIC REPUBLIC**,
at the Joint Annual Discussion

Statement by H.E. Soukanh MAHALATH
Minister of Finance of the Lao People's Democratic Republic
Governor of the World Bank
at the Joint IMF and World Bank Annual Meetings 2002

On behalf of the Delegation of the Lao People's Democratic Republic, it is my great honor and pleasure to address the 2002 Joint IMF and World Bank Annual Meetings being convened today in Washington, DC, the beautiful capital city of the United States of America. I would like to express my sincere appreciation to the management and staff of both institutions, and the host country for the excellent arrangements made for the meetings.

I would also like to congratulate East Timor as a new member of the Bank and the Fund, and welcome the Governors for Afghanistan back to the Boards.

This year's Joint Annual Meetings are particularly important and meaningful because they are being held in the midst of an environment where the Bank and the Fund are cooperating with the international community on poverty reduction, based on the spirit of the Millennium Declaration and the Monterrey Consensus. However, the efforts put towards achieving the goal of poverty reduction may not bear the expected fruits due to the economic slowdown in the aftermath of September 11, 2001. The recovery of the countries affected by earlier economic and financial crises has been slow. Low consumption in industrialized countries has led to deflation. This problem, if not addressed in a timely and appropriate manner, may cause spill over to other economies, thereby adversely impacting the poverty reduction efforts.

With regard to the Lao PDR, the government is currently focussing on creating an environment conducive to high and sustainable economic growth. This in turn will contribute to poverty reduction, thus helping us to attain the strategic goal of exiting from the least developed country status by 2020. The government continues to maintain its macroeconomic stabilization policy, while pressing ahead with the structural adjustment program. The legal environment has also been strengthened to be in line with the market oriented economic mechanism to promote international cooperation and investment.

In conducting monetary policy, prudence has been maintained by limiting credits of the commercial banks to all sectors and that of the central bank to the government. Sometimes, a loosening of monetary policy was introduced, as warranted by progress in inflation control. On the fiscal front, the emphasis has been on revenue mobilization and strict expenditure management. In the areas of production and trade, we continue to pursue the open door policy to promote production of goods for domestic consumption and for export, thereby preparing the country for regional and global economic integration in the future.

As a result of our macroeconomic stabilization policy, inflation which was at the three-digit level in 1998/99 was reduced to a single digit at the end of 2000. Inflation has continued to remain, on average, at a single-digit level from 2001 through today. Concurrently, the exchange rate has been reasonably stable with seasonal fluctuation due to market movements domestically and internationally.

Macroeconomic stability has been an important factor contributing to high GDP growth of 5.7 percent in 2001, a modest reduction from 5.8 percent in 2000. In 2002, according to the preliminary forecast, the economy will continue to grow at 6 percent, due to an increase in construction and some large- and medium-sized investment projects. Adding to this more favorable environment for investment was the streamlining of the implementing of regulations for the Foreign and Domestic Investments Promotion Laws. Nevertheless, severe flooding in several provinces may result in lower agricultural output, and thereby reduce the expected GDP growth to, perhaps, the same growth level as in the preceding year.

Together with the macroeconomic stabilization policy, the government continues to implement the structural reform, particularly in the state-owned enterprise sector and state-owned commercial banks. Tariff adjustments are being made for enterprises in the service and transport sectors in order to gradually achieve financial sustainability in line with commercial principles. With regard to the banking reform, we will merge a weak State Owned Commercial Bank (SCB) with one having a stronger financial position to create a new and viable SCB, which can compete in providing banking services to society. In order to improve the quality of banking operations, particularly in the credit area, aiming at reducing nonperforming loans, foreign advisers will be hired to assist the management of two SCBs. As for the Bank of the Lao PDR, work is ongoing to increase the efficiency of prudential regulations' enforcement.

The government's efforts in maintaining macroeconomic stabilization and structural reform policies have been supported by the international financial institutions and international community. The International Monetary Fund has been supportive with its medium-term Poverty Reduction and Growth Facility. In addition, agreements have been signed with the World Bank for the Financial Management Adjustment Credit and Financial Management Capacity Building Credit. The Asian Development Bank is also preparing to assist with its Banking Sector Reform Program Loan. Other friendly countries and international organizations are also extending their support to the Lao PDR under the Roundtable Process.

To pave the way for the implementation of the poverty reduction strategy, we are in the process of finalizing the National Poverty Eradication Program (NPEP), which will clearly identify spending on poverty reduction priorities, such as education, health, and rural development—particularly the construction of roads

to facilitate market access. Sustainable environment protection is also a top priority.

Being a least developed country with several limitations, we are fully aware of the challenges and difficulties facing us in attaining the goal of the NPEP. However, with the strong aspiration of the people, who are the driving force of the development supported by the international financial institutions and international community, we are confident that the challenges and difficulties will be overcome.

At this juncture, I would like to congratulate those contributing to the implementation of the Monterrey Consensus on the increased Official Development Assistance and financial resources for the effective implementation of the heavily indebted poor countries initiatives. However, we remain concerned that the poor people of all continents may not be able to enjoy the benefit of such increased assistance in an appropriate manner. I would like to emphasize that in order to enable least developed countries to develop in a sustainable manner, the industrialized countries are urged to exert efforts towards reestablishing macroeconomic stability, and open their markets to exports from the poor countries. By doing so, the reliance on external assistance will decrease, and the sense of ownership in poverty reduction will be enhanced. Above all, maintaining peace in the world is a prerequisite for fully concentrating the available resources towards poverty reduction consistent with the spirit of the Millennium Declaration.

In conclusion, on behalf of the government of the Lao PDR, I would like to thank the Boards, managements, and staff of the World Bank and the IMF and other member countries for the support extended to the Lao PDR. I wish all the meeting participants great success.