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

**Statement by Hon. Somdy DOUANGDY**  
**Temporary Governor of the Bank for the Lao People's Democratic Republic**  
**at the Joint World Bank and IMF Annual Meetings 2003**

On behalf of the Delegation of the Lao People's Democratic Republic, it is my great honour and pleasure to address the 2003 Joint IMF and World Bank Annual Meetings being convened today in Dubai, the beautiful city of the United Arab Emirates. 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.

The Joint Annual Meetings of this year are in the midst of an environment where the Bank and the Fund are furthering their cooperation with the international community on poverty reduction, and fulfilling their "normal role" of helping the postconflict countries reconstruction. These undertakings have been complicated by the prevailing global economic uncertainties. In this context, the Lao PDR has continued to implement the 5<sup>th</sup> Five Year Economic and Social Development Plan, covering the period of 2001-2005, whereby, the Lao PDR continues to maintain close cooperation with the international community. The cooperation with the International Financial Institutions (IFIs), the Bank and the Fund in particular has been eminent to help us implement the reform programs in support of our development goals.

Despite substantial success in several areas, our development efforts of the current year falls somewhat short of expectation. Real GDP for the year 2002/2003 is estimated at 5.9 per cent, attributable mainly to industrial and agriculture despite the floods. This falls somewhat from the planned target of 6-7 per cent due partly to weakness in tourism, and slower private investment. The former cause is linked to the SARS outbreak in the region. The latter, however, is partly caused by reduced flow of foreign Direct Investment resulting from the global economic uncertainty, and partly due to more cautious bank lending policies.

Inflation which was at 7 per cent (year on year) in early 2002, rose rapidly to 17 per cent in June 2003, reflecting the effects of higher oil prices in early 2003, and the depreciation of the nominal exchange rate during the second and third quarters of 2002. The adoption of firmer financial policies from expenditure and bank credit controls and increase in interest rates since October 2002 have stabilized the exchange rate. As a result inflation has begun to decrease during the recent months and is expected to be at single digit level by end-year.

On the structural front, substantial progress has been made. In order to improve banking operations of restructured SCBs, the reform of State Commercial Banks (SCBs) has begun. Four international advisers have been employed and started working on their assignments in the SCBs. As a consequence, significant change has been made in the lending operations of SCBs as reflected by improved loan

recoveries and reduced credit growth in the recent months. Progress has also been made in State Owned Enterprise (SOEs) reform as seen by the launching of technical work on the restructuring strategies and programs for the five large SOEs and continuing to adjust service fees of certain SOEs in order to reach cost recovery level as agreed under the Bank's Financial Management Adjustment Credit (FMAC) and the Fund's Poverty Reduction and Growth Facility (PRGF). In addition, efforts have been made in strengthening fiscal management in line with our reform program.

With regards to our efforts towards achieving our 2020 goal of exiting from the least developed country status, the Government has completed the consultation process on the National Poverty Eradication Program (NPEP). This document has been presented to our development partners at the recent Round Table Meeting for comments and support. The donor community has made significant contribution to the process through comments and pledges of necessary financial and technical assistance for implementation. The NPEP's objectives and priorities are in perfect harmony with the Lao PDR's international commitments, particularly the Millennium Development Goals, and the LDC's Summit's objectives.

In implementing the NPEP's objectives we are mindful of challenges ahead of us which are both of domestic and external origin. To ensure high sustainable growth of 6 to 7 per cent over the medium term, the Government needs to exert strong efforts towards maintaining macroeconomic stability, pursuing necessary structural reforms, and creating favourable environment to promote investments. Special focus is placed on reducing and maintaining inflation at a single digit level. To this end, a sound fiscal policy would be essential. The Government needs to strengthen tax and customs administration as well as public expenditure management. Banking and SOEs restructuring process needs to be completed, so as to enhance public confidence to invest in production and business activities. In the banking sector restructuring we also need to strengthen the supervisory and regulatory framework and implementation capacity within the central bank to ensure sound banking practices and promote competition in banking services.

In the meantime our partners in development need to adhere to their commitments made in the Monterrey Consensus, particularly to make available necessary financial and technical assistance in support of developing countries development efforts. We consider export lead growth as the key to attaining our poverty reduction goals. We are concerned with the disappointing outcome of the Cancun meeting and we strongly urge the developed countries to remove existing trade distortions and barriers to enable developing countries to have access to their markets, in order to achieve the targets of the Doha Development Agenda. We are encouraged by the prospect that the Bank and the Fund will extend the scope of their activities to include trade as an additional channel for helping the developing member countries to achieve their development goals.

As the potential for our country's economic development lies largely in the productive and sustainable use of our natural resources, for export oriented production, we highly appreciate the Bank support in the preparation of the proposed Nam Theun 2 Hydropower Project, and we will continue to work closely with the bank and the parties concerned to realize this project. We believe that the realization of this project will bring the benefit to the Lao PDR and its neighbors.

The Lao PDR supports the quest for enhancing the voice, participation, and voting power of developing countries in the decision-making processes of the Bretton Woods institutions. We reiterate the importance of restoring and maintaining world peace and political stability as prerequisite for attaining the Millennium Development Goals. With regard to the threat of terrorist activities, the Government of the Lao PDR has been cooperating with the international community to counter the financing of terrorism in line with the United Nations' Security Council Resolution 1373. In this connection we are presently working toward having in place the legal framework to combat money laundering and the financing of terrorism.

As the global environment continues to remain uncertain, we feel that there is a need to heighten the spirit of cooperation among the countries of the world to restore and maintain security to promote economic growth and trade in order to bring the benefit of globalization to all countries.

In conclusion, in the name of the Government of Lao PDR, I would like to express my sincere appreciation to the managements and staff of the Bank and the Fund and fellow member countries for the support given to the Lao PDR. I wish the meetings a great success.