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Statement by the Hon. **PHOUPHET KHAMPHOUNVONG**,
Governor of the Bank for the **LAO PEOPLE'S DEMOCRATIC REPUBLIC**

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Governor of the Bank for the Lao People's Democratic Republic**

Mr. Chairman, the President, the Managing Director, Ladies and Gentlemen,

It is a great honor for me to address the 2013 Annual Meetings of the Board of Governors of the World Bank Group and International Monetary Fund on behalf of the Government of Lao People's Democratic Republic. Before I start, let me extend my sincere appreciation to Mr. Chairman, the President of the World Bank Group and the Managing Director of the IMF for their hard work and remarkable contribution made for these important meetings.

Mr. Chairman,

The global economy has been showing a sign of recovery due to ease of risk from developed countries and growth rebound in several emerging economies. This primary recovery comes from execution of the right policies from the world major economies with timely and comprehensive supports provided by international community, the World Bank Group and International Monetary Fund are key players in the field. However, capacity constraints in many middle income economies, natural catastrophes and political instability remain key challenges to the world economy in the year to come.

In Lao PDR, the fiscal year 2012-2013 is the third year of implementing the 7th five-year National Social and Economic Development Plan 2011-2015 (7th NSEDP), which is crucial and decisive movement for the country in striving to achieve Millennium Development Goals (MDGs) by 2015 and to graduate from the status of the Least Developed Countries by 2020. This year is very important for us as we have conducted midterm review of the NSEDP 7 implementation, and the outcomes have shown that Lao PDR has remained politically stable, peaceful and its social order has been maintained; people's livelihood has gradually been improved. This plays a key role in shaping the country's economic growth in recent years. The Government will reinforce the successes made and actively tackle the weaknesses of implementation by strengthening some of our key policies in timely manner.

In 2013, overall macroeconomic situation has remained manageable; the year-to-year inflation declined from 7.58 percent in 2011 to 4.26 percent in 2012, but keeps increasing in 2013 as the first seven months reach 6.04 percent in average. The nominal exchange rate of kip has slightly appreciated against US dollar and other major currencies. The investment climate is still in a good condition despite the land concession suspended. The real GDP growth will remain strong with projected growth of over 8 percent in 2013. The main driving forces of the growth are based on hydropower and labor-intensive industries such as construction, manufacturing, services, and agriculture. The Government recognizes that challenges have remained in diversifying the sources of growth and in

enhancing the capacity for a more prudent public financial management to ensure the sufficient fund availability for social sector development.

Despite uncertainty of external environments in recent times, I am delighted to report that in the first three years of carrying out the NSEDP 7, the economic growth targeted at 8% has been exceeded. To continue this achievement, the Government will keep reforming and focusing on stronger improvement of business environment, enhancement of investment efficiency, continuing reform of public financial management, particularly centralization of revenue administration and treasury and redesign the inter-government fiscal relationship, accelerating the banking sector reform. On the economic integration into the world, structural reforms has been made in order to improve trade and investment regulations instituted to satisfy commitments made to join the ASEAN Economic Community at the end of 2015. Also, I am contented to report that Lao PDR became a full member of WTO on 2 February 2013.

Mr. Chairman,

During 2012-2013, the Government has continuously conducted reform in various areas. On public finance front, the revenue collection has benefited from buoyant revenue from hydropower and coupled with rising income from a value-added tax introduced in 2010 and external grants. The outstanding reforms in public finance arena have been witnessed by development of long-term public financial sector strategy to guide the country's public financial management, implementation of treasury single account and deployment of Debt Management and Financial Analysis System (DMFAS). Also, the customs revenue management is expected to benefit from the implementation of one-stop-service customs clearance. Besides these, with the technical assistances from the IMF for the improvement of Natural Resource Tax Administration and General Tax Administration will further help the public financial management reform in Lao PDR. Although the economy advances from these reforms, there are some challenging issues to work upon especially a fiscal deficit of 5% of GDP in FY 2012-2013 due to sharply increase salaries of state employees and decline in tax revenue from the mining sector because of lower price of gold in the world market. To respond to the shortfall, the Government will diversify revenue bases by encouraging more private investment to non-resource industries and other necessary actions to rebalance the economy.

For financial sector, the Government will continue to develop the sound and robust financial and capital markets in the wake of international financial integration, enable to provide financial resources for long-term economic development. In 2013, the aim of monetary policy is to continue maintaining a sound monetary stability, stable exchange rate, ensure international reserve to cover more than 5 months of import, improve balance of payment and control money supply in line with Lao economy conditions. To meet the said targets, the Bank of Lao PDR will further conduct a combined monetary policy framework; continue to create favorable conditions, necessary rules and regulations.

Mr. Chairman,

The Government of Lao PDR highly appreciates the supports of the World Bank to key prioritized sectors that has contributed to achieving significant development outcomes. Lao PDR will continue to support reform initiatives that have been underway within the Bank and the Fund. These include the World Bank Group initiatives of transforming from “knowledge bank” to “solutions bank”, operational reforms, repositioning of the Bank and IDA 17 overarching theme on “Maximizing Development Impact”.

Lao PDR aims to lift the country out of the status of the least developed country by 2020. To achieve this, economy needs to grow by 8% annually over the next decade. This is an ambitious undertaking, and we are committed to achieve it by further reforming our policies and institutions to strengthen governance, expanding private sector’s role in the economy, improving people’s social welfare through education, health and poverty reduction, and protecting the environment.

The Government of Lao PDR looks forward to receiving continued support from the World Bank and the IMF in realizing the 2020 vision through policy advice, investment supports and technical assistances. Despite the challenging times for many advanced economies, we urge development partners to contribute to the ongoing replenishment of IDA led by the World Bank so that Lao PDR and other least developed countries could fulfill the aspirations of their people for better lives.

Ladies and gentlemen,

In conclusion, on behalf of Government of the Lao PDR, I would like to express my sincere appreciation to the Bank and the Fund’s staff for their wholehearted contribution to organizing this year annual meetings and the fellow member countries for supporting the Lao PDR. I wish the meetings a great success.

Thank you.