

INTERNATIONAL MONETARY FUND

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 31

October 6 - 8, 1998

Statement by the Hon. **CHEUANG SOMBOUNKHANH**,
Governor of the Fund for **LAO PEOPLE'S DEMOCRATIC REPUBLIC**,
at the Joint Annual Discussion

**STATEMENT BY HON. CHEUANG SOMBOUNKHANH
GOVERNOR OF THE FUND
FOR THE LAO PEOPLE'S DEMOCRATIC REPUBLIC**

This 53rd Annual Meeting of the World Bank and the International Monetary Fund is convened at the juncture where the economic and financial crisis, which started in Asia more than one year ago and spread in a chain reaction manner to other regions of the world, is in the process of being addressed in order to restore stability. This meeting is therefore considered a very significant forum for members of the two institutions to gain more insight on the crisis and to learn how the problems have been tackled by the affected countries. It also provides an appropriate opportunity to assess the effectiveness of the assistance given by the Bank and the Fund to the crisis affected countries during the past year. Members can also bring forward viewpoints and recommendations on how to strengthen the role of the two institutions in the era of globalization, to ensure a stable environment conducive to sustainable growth of the world economy upon entering into the twenty first century.

Regarding the performance of the Lao economy in 1997, growth was registered at 6.7 percent, which falls within the 6-8 percent annual target range, attributed mainly to the marked growth in the agricultural and service sectors. The former grew by 5.8 percent, 3 percent higher than in 1996, mainly in rice production; while the latter grew by about 10 percent, 2 percent higher than in the previous year, largely due to the strong growth in telecommunication and tourism areas.

However, the strong economic growth performance was accompanied by rising inflation, particularly in the latter part of 1997. This was partially due to the large depreciation of the kip vis-a-vis the dollar, as a result of the regional crisis erupting during mid-1997, which led to large increases in the prices of imported goods. Furthermore, internal factors need to be recognized, namely the rapid credit expansion to the private sector (79.1 percent); and the increased public investment to develop the infrastructure needed for the agricultural sector. The latter is necessary for the attainment of self-sufficiency in rice and food supply, and also in creating conditions conducive to the sustainable growth of the economy in the future. Furthermore, the regional crisis also has adversely impacted the country's export performance and the flow of foreign direct investment capital. The resulting foreign exchange scarcity therefore adds pressures on the exchange rate and inflation.

To address the problems of high inflation and exchange rate depreciation, corrective measures have been taken during the early months of 1998. These include the use of such indirect instruments as the issuance of central bank securities and treasury bills with higher interest to draw excess liquidity into the central bank; and the issuance of a guideline by the central bank on the increase of the minimum deposit rate by banks to encourage commercial banks to raise their interest rates, aiming at

promoting deposits while discouraging borrowing. In addition, credit ceilings have been reintroduced to restrict credit expansion, while steps have been taken to address the problems of bad debt and operational weaknesses of the financial institutions to increase soundness and efficiency thereof. On the fiscal front, measures have also been taken to accelerate revenue collection, while restricting spending.

In view of creating the environment conducive to sustaining high growth with macroeconomic stability, thus improving the quality of life for our people over the medium and longer term, the Lao government resolves to continue investing in the development of the country's economic infrastructure. Emphasis is placed primarily on agriculture to ensure sufficiency in agricultural products for consumption, agro-processing and also for exports. This will help create a firm base for our national economy, through linking agriculture to industry and services. As a consequence, the agrarians, which represent over 80 percent of the total population, will have higher income; the trade and current account balances will be improved; the economy will be able to accumulate more domestic savings, thus enabling the Lao People's Democratic Republic to gradually become auto-sufficient in financial resources.

Our country is well endowed with water resources which in the past was used mainly for hydro-power production. In order to further enhance the exploitation of this economic potential to bring greater benefits to our people, the government will pursue the policy of comprehensive development of the said resources. In this connection, the exploitation of water resources for hydro-power production will be linked to the development of irrigation and other productive purposes, as well as for the improvement of the quality of life of the population, while preserving the environment. This will help ensure the sustainable development of our economy.

At this point, I would like to emphasize the important role that the World Bank and the International Monetary Fund play in helping the least developed countries of the world to build their economic base to enable them to be part of globalization. Presently, great disparities continue to exist in the levels of development among countries of the world. In order to help place the least developed countries on the path of fast development, we maintain the view that the Bank and the Fund should further broaden their important role. In this connection, their assistance to least developed countries should be focused on doing research, giving advice, providing financial support and creating conditions for marketing to enable those countries to effectively exploit their various economic potentials in order to expedite the process of development.

In so doing, the least developed countries will be able to grow and exit from poverty more expeditiously, while also being able to take part more actively in the process of international cooperation and development. Furthermore, we are also of the view that the two institutions should support the least developed countries in creating quality human resources, through offering more scholarships for higher education, organizing training courses in various areas, and also through the process of

production technology transfer. We believe that if assistance to the least developed countries given by the Bank and the Fund could focus more on the development of the countries' economic potentials and human resources, the role of the two multilateral institutions will become more prominent, while further enhancing the cooperation for the mutual benefits of the parties concerned.

In closing, I would like to express sincere thanks and appreciation to the President of the World Bank and the Managing Director of the International Monetary Fund for the support and assistance accorded to our country in the recent years. In addition, we would like to extend to the President and the Managing Director, as well as the entire management and staff of the Bank and the Fund, our best wishes of health and success in accomplishing the very important and highly honored mandate of each respective institution.

Thank You.