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

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I have the greatest honor to represent the government of the Lao People's Democratic Republic at the 54th World Bank – International Monetary Fund Joint Annual Meeting. This Joint Annual Meeting is being held in the midst of an improving global economy as compared to the past year. With the assistance from the international financial institutions especially the World Bank, the International Monetary Fund and developed countries, the economies of the countries encumbered with the financial crisis in Asia and other parts of the world have been able to restore the confidence of investors enabling the economies of those countries to emerge from the recession. This is the preliminary achievement of the concerted efforts of the international financial institutions and developed countries towards solving the adverse effects of the crisis. However, the challenge in the future is the maintenance of the coordination and cooperation so as to ensure that the global economy in the 21st century be truly rid of the recession trend. In my view, I think that it is the responsibility of this Joint Annual Meeting to consistently explore approaches and measures to guarantee the persistent efficiency of the international coordination, particularly ensuring that the concentration of efforts for solving problems in countries facing the economic crisis does not impede the needs of other groups of countries of the world.

Lao PDR is one of the least developed countries in Asia that is being affected by the financial crisis in the region. During the 1998 Annual Meetings, the impacts of the regional financial crisis to our economy were not clearly portrayed in our report to the Meeting. Even though macroeconomic problems started to emerge, specifically the devaluation of the Kip and the increase in the consumer price index, the annual growth rate of the economy of Lao PDR was sustained at a level of around 7 % ; a level witnessed by the years during which Lao PDR has embarked on the open-door policy in investment and cooperation with other countries. For 1998, the adverse effects regional financial crisis could be clearly seen, particularly in the decrease in the flows of foreign investments that were reduced by 48 percent as compared to 1997. Moreover, due to the rigidity of the conditionalities of the external assistance, disbursements of foreign loans were also diminished. Meanwhile the volume of Lao commodity exports were limited. This adverse situation caused the growth rate of the economy to be reduced to a level of 4 percent in 1998.

The growth of the economy in Lao PDR could have dropped to even a lower level had it not been for the government's effort to concentrate public investment in the agricultural sector, the base of the Lao economy, by expanding the irrigation network. The agricultural production in 1998 increased by 3.7 percent, accompanied by the growth in hydropower production following the completion of Theun Hinboun dam,

which began producing in the second quarter of 1998. In addition, the recovery of the textile industry following the restoration of the Generalized System of Preferences(GSP) given to garments made in Lao PDR by the European Union has substantially contributed to the maintenance of the recorded level of economic growth in 1998.

Due to the fact that the domestic production base has not expanded in recent years, the demand for consumption and capital goods of the society continues to depend heavily on imports. Public investments are largely dependent on domestic loans in the form of advances from the central bank, as a result of the short fall of budget revenue collection due to slow growth of production in the economy . As a consequence, Broad Money (M2) increased by 113 percent by the end of 1998 compared to 65 percent at the end of 1997. This has resulted in increasing pressure on foreign exchange demand to finance imports which, in turn, caused the Kip to depreciate even further resulting in CPI increase to a three-digit level that continues to persist through the present days. With such a high inflation, even the upward adjustment of public service salaries by 100 percent at the end of 1998 could not resolve the hardships in the living conditions of the poor and low-income public servants. The devaluation of Kip and the increase in the consumer price index can be explained by the deterioration of balance of payments which witnessed the reduction in official foreign reserves from a level equivalent to 2.7 months of imports at the end of 1997 to only 2.2 months at the end of 1998.

The prevalent macroeconomic instability can be attributed to the lack of conduct of appropriate and prudent fiscal and monetary policies. In order to restore macroeconomic stability in the immediate and medium terms, the government of Lao PDR has committed to implement more prudent fiscal and monetary policies, with an aim of bringing down the inflation to a two-digit level and confining the devaluation of Kip within a limit acceptable to the society.

In this connection, the government, within the framework of 1999/2000 Budget is going to exert efforts toward fiscal consolidation, with a revenue collection target of about 12 % of GDP. By adhering to a prudent and tight fiscal stance, the government expects to realize a budget deficit not exceeding 5-6 % of GDP, while maintaining investments in the priority sectors within the range of 11-12 % of GDP.

With respect to monetary policy, the Bank of Lao PDR is determined to implement measures to curb inflation by limiting credits to all sectors. Furthermore, in view of limiting the devaluation of Kip and support the exchange rate policy, a policy involving the use of interest rate as a means to absorb excess liquidity into the banking system has been put in place. The structural adjustment, especially the reform of the banking system, will be steadfastly carried out. The newly merged state-owned commercial banks have set up the reserves for non-performing loans to improve their financial situation. Concurrently, the process is ongoing to establish plans for re-capitalization and to upgrade the knowledge and skills of managers of the newly merged state-owned commercial banks through the process of modern banking technology

transfer training to be conducted by foreign experts. To enhance the confidence in the Lao banking system, the Bank of the Lao P.D.R. has committed to improve its regulatory and supervisory role through the prudential regulations for commercial banks. In this connection , emphasis will be placed on the importance of external auditing and the publication of an annual report to increase transparency and promote public confidence in the Lao banking system.

In the area of international cooperation and trade, the government continues to implement the open door policy to foreign direct investment and to promote production of tradable goods and services. This is particularly important to enable the country to make greater benefits from the present era of globalization, especially after having integrated itself into the ASEAN. To promote trade as a means to attain sustainable growth and poverty reduction, work is underway to prepare the ground for future involvement under the regional free trade agreement, the AFTA. Furthermore, preparation is on going for the purpose of accession to WTO membership in the near future.

Prior to the outbreak of the regional financial crisis, the Lao PDR was able to witness strong growth and thereby the improvement in the quality of life for the multi-ethnic people thanks to the strong foreign investment and assistance flows. The future efforts to sustain high growth and stability are highly dependent on the external environment, particularly the continuing recovery in the crisis stricken countries in the Asian region. The speedy recovery of those economies becomes, therefore, imperative to enable the investment projects presently on hold to resume and the negotiation or implementation of new projects to be expedited. We, therefore, commend the authorities of the economies concerned for their remarkable progress made thus far and wish them all the best for their continuing endeavors.

The improved global economic environment is also very important for the purpose of ensuring the environment of a more balanced treatment among groups of countries of the world. In the recent past, we feel that the concentration of efforts by the international community to address the problems of the crisis stricken emerging markets and large economies was made at a cost to other groups of countries. While appearing more accommodative to countries in crisis, the treatment given by the international community to other countries also suffering from the adverse impact of the crisis seemed to have become orchestratively more rigid. Had a more flexible and balanced approach been followed in the recent past, the much needed financial aid flows would have been forthcoming to enable our authorities to stabilize the Kip and thereby reduce inflation. As a consequence, our already poor population and low income public servants would have been salvaged from the intense hardship caused by the long lasting high inflation. We strongly believe that any efforts toward macroeconomic stabilization without availability of financial support and assistance from the international community would not be productive, particularly, in the case of a least developed economy in the process of transition, having a very small and fragile economic base and also suffering from contagion effects of the regional crisis like the Lao P.D.R.

However, we have been very encouraged by the developments during the recent months and days leading to the present Annual Joint Meeting. We welcome and fully endorse the proposals made by G-24 countries concerning the attenuation of conditionalities attached to assistance and loans provided by the international community to countries with low level socio-economic development. At the same time, we welcome the initiative made at the G-7 Summit in Cologne to further enhance the HIPC Initiative and the proposal to replace the ESAF by the New Poverty Reduction and Growth Facility. We congratulate those institutions, countries and individuals concerned for their contribution to this very desirable and timely move to address the long lasting problems of debt and poverty in the world and to expeditious and successful realization thereof.

At this juncture, our government would like to thank countries, international financial institutions, international organizations and non-government organizations for their past financial and technical supports, as well as for the investment flows that our country has received. We strongly hope that you will continue to give us your support and assistance in the future to enable people to exit from poverty and enjoy their share of the fruits of globalization in the next Millennium.

Lastly, allow me, on behalf of the Lao delegation, to wish the Chairman a glorious success in presiding over this historical Joint Annual Meeting.