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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



**Statement by the Hon. Bounngang Vorachith,  
Governor of the Bank for the Lao People's Democratic Republic,  
at the Joint Annual Discussion**

I have the greatest honor to represent the government of the Lao People's Democratic Republic at the fifty-fifth World Bank - International Monetary Fund Joint Annual Meetings.

First of all I would like to congratulate Mr. Chairman, the managements of the Bank and the Fund on the excellent preparation of this Annual Meeting, and to thank the host government for the warmest welcome extended to our delegation.

I would like to take this opportunity to congratulate Mr. H. Köhler for his recent assumption of this very important and challenging post of the Managing Director of the Fund.

This Joint Annual Meeting is being held in the midst of the improved global economic environment with a higher economic growth. Most of the Asian countries, including ours, hit by financial crisis three years ago are now experiencing a better growth path. The pace of recovery is different in countries. As for the Lao PDR, despite the generally weak economic fundamentals, the pace is faster.

At the annual discussions in 1999, I have reported on crisis and its implications on the economic situation of Lao PDR: GDP growth was at 4 percent, inflation was unprecedentedly high, the value of the kip had depreciated more than twice. However, following strong efforts in several areas, the measures undertaken by our Government—including prudent fiscal and monetary policies, and the trade policy aiming at reducing the trade deficit by promoting exports and opening up trade—started to bear fruits. As a result, inflation in August 2000 was 6.7 percent while in August 1999 it was 140.2 percent. The value of the kip has appreciated and remained stable ever since. The economy registered 7.3 percent growth in 1999.

The reduced inflation and the more stable kip were the result of the intensification of revenue collection and expenditure-management efforts. Expenditures were strictly confined within the capacity to collect revenue without borrowing from the central bank. Capital expenditure was financed primarily by issuance of treasury bills and by external grants and loans.

On the monetary policy side, the Bank of Lao PDR has adhered to a tight monetary stance to control the money supply. Starting from the end of October 1999, we have intensified savings mobilization in order to mop up excess liquidity. At the same time, strict control was exerted on commercial bank credit to restrict it within the

capacity to recover the past debt and new lending was confined to efficient projects and to those capable to repay. Central bank credit to the budget was banned.

With regard to trade, the Government continued to expand foreign trade by striving to diversify trading partners, paying closer attention to neighboring countries, promoting the export of products for which our country has comparative advantage, with the aim of gradual and continuous reduction of the trade deficit.

However, we realized that the macroeconomic stability achieved is still fragile. There are several issues revolving around our economy that need our attention. For instance, the production base and the exploitation of the country's potential are yet to be improved. To sustain the stability, the Government will continue to maintain strict and prudent fiscal and monetary policies. In this connection, the Government, within the framework of the 2000/01 budget, is going to exert efforts toward fiscal consolidation, with a revenue collection target of about 13 percent of GDP, an increase of 1 percent compared with the 1999/2000 fiscal year. Strict expenditure management will be adhered to, and we expect to realize a budget deficit not exceeding 8 percent of GDP while maintaining investments in priority sectors within the range of 12 percent of GDP. In implementing our investment projects under the budget, we will not resort to advances from the central bank, but will turn to domestic borrowing in the form of medium-term bills.

With regard to monetary policy, the prudent stance will be pursued to contain inflation within a range of not more than 10 percent (average for 2000/01) and to maintain stability of the exchange rate, allowing it to fluctuate in accordance with supply and demand in the market. Toward this end, the Bank of Lao PDR will stick to a strict control of the money supply by restricting credits and continuing the use of the existing instruments, such as treasury bills with shortened maturity and lower interest rates in line with reduced inflation. The success in reducing inflation and stabilizing the exchange rate will restore the foreign and domestic investors' confidence in our economy.

In the area of international cooperation and trade, the Government continues to follow the open door policy to foreign direct investment, to encourage domestic production for the purpose of import substitution, to promote exports with efforts put on raising quality and volume, to strive to have diverse and enduring trading partners, to concentrate our effort on developing products with which the country has comparative advantage. All of these steps are important to enable Lao PDR to obtain a favorable environment for development and poverty reduction and to be able to exit from the least-developed country status by 2020. In addition, we will make our membership in ASEAN more meaningful and will continue the preparation for the purpose of accession to WTO membership.

The future of the macroeconomic conditions and economic growth of Lao PDR and other developing countries is inseparable from the overall factors of growth in the global economy. At the same time, it depends upon the capability of the developed or

industrialized countries to maintain a sustainable growth. More importantly, it depends upon the decision of the industrialized countries to open the markets for the goods produced in developing ones. This will result in strengthening and expanding the production base in these countries, thereby helping to gradually reduce poverty that affects about 50 percent of the world population. Moreover, the decision of the industrialized countries to implement the debt relief initiatives based on the resolution of the G-7 Summit in Cologne in 1999 and that of Okinawa in 2000 will enhance and help to expedite the reduction of the debt burden of the heavily indebted poor countries and contribute to the speedy realization of the poverty reduction strategy of the Bretton Woods institutions.

We commend and support Mr. H. Köhler for his vision on the reform of the Fund. We truly believe that the reform to be undertaken will permit the member countries in need of financial support to fulfill the streamlined and focused conditionalities that better fit and reflect the actuality of each country, while ensuring a more level playing field for its members.

Our Government always regards highly the continued support of the international community, including bilateral and multilateral donors, NGOs, international financial institutions—in particular the Bank and the Fund—as one of the important factors contributing to the success of Lao PDR socio-economic development. At present, 12 loans and 6 technical assistance projects of the Bank are being implemented in our country, and the preparation of the interim Poverty Reduction Strategy Paper (PRSP) is being intensified. These will serve as a basis for cooperation with the Bank and the Fund, especially for the preparation of the Poverty Reduction and Growth Facility to be supported by the Fund. The PRSP will make the projects and programs with the Bank and the Fund more focused and more efficient in impacting on poverty, and this is consistent with the strategic goal of the Government of Lao PDR.

I would like to take this opportunity to express our sincere thanks to our bilateral donors, international financial institutions, other international organizations, NGOs and foreign investors for their support, assistance, and interest in investing in different sectors of our economy, which have contributed to our country's socio-economic development. We strongly hope that such support and assistance will continue to be forthcoming to enable Lao PDR to exit from the least-developed country status by 2020 as anticipated.

In conclusion, I wish the fifty-fifth Bank-Fund Joint Annual Meeting a great success.

Thank you.