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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

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It is an honor and a great pleasure for me to represent the Government of the Lao People's Democratic Republic at the 2004 Annual Meetings of the Boards of Governors of the World Bank and International Monetary Fund.

Let me join my fellow Governors in congratulating Mr. Chairman, the President of the World Bank, the Managing Director of the IMF, and the Government and people of the United States of America for the excellent arrangements made for this important meeting and for the very warm hospitality extended to our delegation.

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." In this context, the Lao PDR continues to maintain close cooperation with the international community. Cooperation with the international financial institutions (IFIs), the Bank and the Fund in particular, has been eminent in helping us to implement the reform programs in support of our development goals.

I would like to take this opportunity to inform the meeting on the Lao PDR's current economic situation. In 2003, our economic growth was at 5.9%, showing an increase of 0.2% compared with the previous year. Growth in the industrial sector was at 11.5%, while growth in the service and agricultural sectors were at 5.8% and 2.2%, respectively. The high rate of growth in the industrial sector was partly due to the export of US\$60 million of gold ore from the Sepone Gold Mine, one of the major foreign direct investment projects in the country. There was also an overall increase in the country's exports, resulting from the improved economic performance of the countries in the region.

Despite the fact that the economic growth rate was quite high, led by a large volume of exports from foreign investment projects, which helped to stabilize the exchange rate, inflation remained high, averaging 15.5% for 2003. Among the main factors contributing to the high inflation rate are the rise in world petroleum prices, which resulted in higher import prices, the increase in prices of domestic commodities and foods, and the shortage of some commodities, particularly the construction materials. This high inflation has placed the lives of the Lao people in a more difficult situation and has also discouraged domestic investment because of the high interest rate.

With regard to our efforts toward achieving our 2020 strategic goal of exiting from the least developed country status, the Government has completed the consultation process on the National Growth and Poverty Eradication Strategies (NGPES). The

Government has also established the Central Government Level Unit under the Committee for Planning and Investment to coordinate and monitor the implementation of goals and priorities of NGPES, which are in perfect harmony with the Lao PDR's international commitments, particularly the Millennium Development Goals, and the LDC's Summit's objectives.

Our partners for Development, namely the donor countries and international organizations, including the international financial institutions have extended the strong support to the Lao PDR in working forward these strategies through the direct support to the sectoral development in the country. In addition, the international financial institutions have also assisted in the efforts of the Government in the areas of macroeconomic stabilization and structural adjustment. Many actions under these adjustment efforts are well under way, particularly those relating to the Financial Management Adjustment Credit (FMAC), the program supported by the World Bank, which was completed in June 2004. We also worked closely with the IMF in August 2004 on the completion of the fourth review of the arrangement under the Poverty Reduction and Growth Facility.

Under the adjustment programs, the Government has completed the first stage in the reform of the state-owned commercial banks and the restructuring plans for the important large and medium state-owned enterprises. The Government will continue the reform process in the telecommunication, water supplies and electricity sectors, as well as in the area of public finance management, in compliance with the law and with the Government's regulation and reform plans. Furthermore, in order to promote more investment, the Government will put more effort into enhancing the investment environment of the country.

In the meantime, partners in development need to adhere to their commitments made in the Monterrey Consensus, particularly to make available the necessary financial and technical assistance in support of the development efforts of developing countries. As export-led growth is the key to attaining poverty reduction goals at the national and global level, 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 Round.

The potential for our country's economic development lies largely in the productive and sustainable use of our natural resources and in export-oriented production, particularly in the areas of mineral extraction such as gold, copper, and zinc, as well as hydropower. In this connection, we greatly appreciate the international financial institutions' support in the preparation for the proposed Nam Theun 2 Hydropower Project. We will continue to work closely with the IFIs and the parties concerned to realize this very important project, which we believe will benefit not only the Lao PDR, but also its neighboring countries.

In conclusion, in the name of the Government of Lao PDR, I would like to express my sincere appreciation to the managements and staffs 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.