



Governor's Statement No. 28

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Statement by the Hon. **SOMPHAO PHAYSITH**,  
Governor of the Fund for the **LAO PEOPLE'S DEMOCRATIC REPUBLIC**



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

2014 Annual Meetings, Washington D.C., USA, October 10-12, 2014

Honorable Chairman, President of the World Bank Group, Managing Director of the International Monetary Fund, Distinguished Governors, Ladies and Gentlemen,

It is a great honor for me to address the 2014 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,

After a deep financial and economic crisis, which has hit the global economy in a serious manner during the past several years, we have now entered into a more favorable conjuncture. The world economy has recently witnessed some positive developments. Today, global economic prospects are more optimistic, with global growth estimated to be at around 3.4 percent in 2014, and reaching at 4 percent in 2015. However, new challenges have emerged, such as an epidemic disease, environmental degradation, endangering the sustainability of economic growth, and climate change which is manifesting itself in more fluent floods and droughts with devastating impacts on especially the poor. Furthermore, there are political and social unrests and armed conflicts in various parts of the world, which continue to exist and there has yet to be any sign of immediate solution. This adversary affects the global and regional economy. It is more important now, than ever before, to face and deal with these challenges together in a unified manner, with the strong support from the Fund and the Bank.

Mr. Chairman, Ladies and Gentlemen

Despite unfavorable international environment, the Government of Lao PDR has steadily attempted to maintain a sound macroeconomic stability. In fiscal year 2013-14, it is a crucial and decisive moment for Lao PDR as we are striving to achieve Millennium Development Goals by 2015. We have completed the process of a review of the 7<sup>th</sup> National Socio-Economic Development Plan (NSED 7), the outcome of which shows us some remarkable improvements. However, we still need to intensify our effort to build on the success made, continue to implement the unfinished agenda in a more proactive manner by strengthening some of our key development policies, so that we can achieve our goal in a timely manner, especially the goal of graduating from the status of Least Developed Countries by 2020.

Mr. Chairman

Macroeconomic conditions are generally stable, supported by political stability and well-maintained social order, and people's livelihood has gradually been improved in a large-scale. Lao PDR continued to achieve a sustained and high economic growth, with annual GDP growth rate of 7.8 percent, annual inflation rate averaged 5.2 percent and 4.2 percent in August 2014. Exchange rate is broadly stable, moving within the annual target set. Investment climate is also favorable; attracting increased inflows of foreign direct investment amounted to 750 million USD with 21 projects. This plays a key role in shaping the country's economic growth to address the challenges in recent years.

The fiscal year 2013-14 is a crucial and decisive moment for Lao PDR as we are striving to achieve MDGs by 2015, so that the Government has continuously conducted reforms in various areas. On fiscal front, Lao PDR has introduced a series of measures to address fiscal challenges witnessed by amending value-added tax and accounting laws, revising customs and budget laws and related rules and regulations, progressing on development of public finance strategy for 2020 and vision to 2030 and upgrading financial information systems. Building on recent IMF technical recommendations, the Government will put more efforts on mobilizing revenue from available potential sources mainly in customs areas and natural resources tax administration in order to pass through the fiscal difficulties. These reform efforts will depend on the authorities' ability to achieve an unusual strong performance in revenue collection, to eliminate all kinds of tax avoidance and to maintain tight control over spending across categories. With strong Government's commitments, the fiscal deficit is projected to narrow down in fiscal year 2014-15 with higher revenues and smaller current spending, including on wages and capital spending.

On monetary front, where the central bank has focused on implementing the exchange rate-centered monetary framework to maintain the monetary and price stability by adopting adequate policies such as: continuing to set an annual target movement of exchange rate and the reference rate for commercial bank; paying close attention to the credit market by suspending loan in foreign currency to firms which are not generating incomes in foreign currency in order to wear off pressure in foreign currency and exchange rate. At the same time, taking into account of the growing numbers of commercial banks with limited capacity of bank supervision and also long-term financial stability is the ultimate goal for central banks, Lao PDR also temporarily suspended to issue bank license to private banks with non-professional banking establishment until 2016, so that the Bank of Lao PDR can have sufficient time to reassess the existing bank performance. With the implementation of policy measures indicated above, Lao monetary sector fundamentally remained stable, with YOY credit growth at 20.69 percent as of June 2014. Exchange rate is broadly stable, Kip/US\$ exchange rate slightly depreciated at 2.1 percent and the gap between parallel market and official market was minimal. International reserves continue to improve compared with last year, it can cover about 4.6 months of import as of June 2014. In addition, as banking sector continues to expand and credit growth remains strong, the authorities have continued efforts to

strengthen supervision and enforcement of prudential norms by strictly calling on commercial banks to increase commercial banks' registered capital from 100 billion Kip to 300 billion Kip (equivalent to 37 million USD) as planned and also now in the progress of introduction of BASEL II. Overall, the banking sector is generally remained in a good shape with increased deposit mobilization of commercial banks at the rate of 13% and quality of assets always keep in check as shown with a low level of NPL of 2.13 percent on aggregate level in June 2014.

In the context of such a current changing global economy and various difficulties in advanced economies, there remain numerous challenges facing us this year to overcome especially fiscal constraints, sustained and inclusive economic growth to reduce poverty and improve living conditions for our citizens. In addition, external environment associated with the volatility of global oil and gold prices, a climate change, flood and draught, epidemic diseases are permanent threats posing these daunting tasks.

To deal with above-mentioned challenges and to ensure target to be achieved, Lao authorities will pay close attention on mobilizing resources in economy into production, especially focusing on enhancing efficiency and encouraging private investment to achieve high economic growth of at least more than 7.5 percent. For public investment, emphasis should be placed on projects that can support overall economy. The Government will relentlessly reform and focus on improving public financial management, particularly the strong database on tax collection and revenue administration. GDP growth will also target at lower rate at the next five-year socio-economic development plan to focus on sustainable projects and social welfare. We will also push toward social development, particularly, access to education and health care should be improved, economic foundation should be strengthened in order to resist external shocks and respond to natural disaster. These will enable Laos to move closer to the LDC graduation criteria, at least fundamentally from 2015 onward. On the economic integration into the world, significant reforms shall be needed in order to improve trade and investment regulations instituted to satisfy commitments made to join the ASEAN Economic Community at the end of 2015. The Government of Lao PDR 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 2014, the aim of monetary policy is to continue maintaining a sound monetary stability, inflation in single-digit level and lower than growth rate, ensure international reserve to cover more than 5 months of import, control money supply growth in the rate of 24%. Central Bank of Lao PDR will continue to maintain exchange rate stability in accordance with market mechanism under state management; maintain a difference between official and parallel exchange rates within band defined. 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. Besides a mandate on maintaining price stability, Bank of the Lao PDR has balanced its capacity in overseeing the financial stability. BOL aims to modernize banking supervision by initiating the efforts of adopting Basel II principles and the

implementation of the anti-money laundering law which was recently promulgated early this year.

Mr. Chairman,

The above-mentioned achievements and the Government's macroeconomic policy direction are also attributed significantly to the donor community support, including valuable support from the Bank, and other bilateral donors as well as policy advices and recommendation from the IMF. On this occasion, the Government of the Lao PDR would like to express our gratitude to bilateral and multilateral donors and the international community for your support and contribution towards our efforts. We look 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.

The Government of the Lao PDR assures that, in the coming year, we will continue the pursuit of macroeconomic stabilization and inflation control, and ensure an appropriate economic growth and continue to accelerate the overall economic restructuring in which special focuses are paid to the fiscal budget, private investment and environment protection.

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.