



**2015**  
**L I M A**  
ANNUAL MEETINGS  
WORLD BANK GROUP  
INTERNATIONAL MONETARY FUND

Governor's Statement No. 25

October 9, 2015

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



**Statement of H.E. Dr. Somphao Phaysith, Governor of the Bank of Lao PDR,  
Governor of the International Monetary Fund for  
Lao People's Democratic Republic**

**2015 Annual Meetings of the World Bank Group (WBG) and the International Monetary Fund (IMF) Lima, Peru, October 9-11, 2015.**

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 2015 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. At the outset, I would like to extend my sincere appreciation to Mr. Chairman, the President of the World Bank Group, the Managing Director of the IMF and the Peruvian Government and people for their excellent preparation and wonderful arrangement made for the Meetings in the splendid city of Lima, Peru.

Mr. Chairman,

**Global Economic Environment**

Despite positive prospects for the world economy as witnessed by some improvements in economic recovery in the major advanced economies, the global economy continued to remain uncertain and some new challenges and risks emerge, including the weakness in world trade, volatility of currency movement, the sign of tighter external financial condition. The global economic growth rate is anticipated to expand at a moderate and uneven pace amid a number of challenges and risks above. The revised global GDP projection is expected to be 3.5 percent in 2015, which marginally lower than the growth rate of 4 percent previously projected by World Economic Outlook. Meanwhile, economic growth in Asia and emerging Asia is expected to be 5.6 percent and 6.6 percent. While growth in emerging market and developing economies is projected to be slightly lower, from 4.5% in 2014 to 4.2% in 2015 due to lower commodity prices and the re-balancing policy in China. But Asian economies will remain as the driving engine of growth. It is encouraging to note that a number of Asian economies have achieved good performance by constantly undertaking structural policy reforms, and overcoming the obstacles posed by unfavorable external environment. They also have benefited from lower oil prices and improved global financial conditions. However, a full recovery process in the advanced economies will have a positive impact on Asia through creating an improved opportunity for external trade and investment. Therefore, there is a need to implement a prudent monetary policy and fiscal adjustment to supporting both the recovery and long-term growth.

## **Recent Economic and Financial Situation and Monetary Policy Developments**

Despite some challenges and uncertainties prevailed in external environment, Lao PDR's economic growth has continued to expand at sustained and high growth rate with strong effort by the government to implement sound macroeconomic policies and structural and financial reforms. These efforts have resulted in creating favorable investment climate and robust growth in the country with a more diversified economic structure and a more stable and financial system. The economy continued to expand with GDP growth rate of 7.5 per cent per annum in the FY 2013-2014, marginally lower than previous year due to number of measures taken in fiscal consolidation, moratorium of new investment projects related to infrastructure development, the weaker global demand for minerals, decline of global commodity price and the slowdown in credit growth. Key drivers of high economic growth in Lao PDR have been supported by the strong inflow of foreign direct investments in power generation sector expansion, strong growth in service sector. As a result, the Lao PDR's economy continued to record a strong performer in the region with a GDP growth above 7 percent for the past decade. The sustained and high economic growth has broadly improved the living standard of its people and poverty levels have significantly declined from 33.5 percent in 2002-2003 to about 26 percent in 2009-2010 and about 10 percent in 2013-2014. In light of monetary developments, Lao PDR continued to achieve price and exchange rate stability as depicted by a single and low inflation rate and stable exchange rate. Average inflation rate was significantly declined from 4.2 percent in 2014 and 6.4 percent in 2013 and for the first eight months of 2015, inflation rate was averaged 1.3 percent. This is largely due to significant benefit from oil price decline in the world market, supported by controlling money supply and credit expansion. Exchange rate has remained broadly stable against major foreign currencies despite the fluctuation in global foreign exchange market, moving in line with regional currencies, and remains flexible within target band. Level of international reserve has continued to increase at present, equivalent to 5 months of imports. The credit growth, which had been high of 35 percent in the past three years, was contained below 15 percent in the second quarter of 2015 and the level of NPL is always kept in check, broadly maintaining in line with the benchmark (3%) despite some few commercial banks indicated a rising trend in NPL. Overall, the banking sector continue to expand with number of commercial banks rise to 41 banks and they remain broadly sound with adequate liquidity and average capital adequacy ratio above minimum ratio of 8 percent, which is now about 20 percent on aggregate level. On fiscal performance, in the eleventh month period, the government has achieved both revenue and expenditure targets more than 90 percent, and it is expected to achieve 95 percent of planned target for FY2014/2015. Budget deficit is projected to be about 5 percent of GDP.

In maintaining stable macroeconomic conditions amid unfavorable external environment, the Government of Lao PDR has implemented monetary and fiscal policies to safeguard the economic and financial stability. On monetary front, strong efforts was made to build up international reserves as buffer against sudden shocks, suspension of currency lending to local governments and to firms without income generation in foreign currencies, promotion of close collaboration with the Ministry of Finance to resolve debt arrears associated with commercial banks, introduction of interim measures to deal with financial

performance of banks, introduction of caps on deposit rate and lending rate in order to stimulate the economic activities and to promote the financial access to SMEs. In the context of strengthening bank supervision, supervisory capacity and regulatory framework are being strengthened to preserve a safe and sound banking system through revision of existing regulatory framework, and development of Financial Soundness Indicators (FSI) with technical support from the World Bank. More importantly, the AML/CFT law has been recently enacted, which would help create favorable business environment and boost confidence in banking system.

On fiscal front, the Government had continuously to make a good progress in conducting reforms in various areas and accelerate the achievement of MDGs by 2015. The Government has introduced a series of policies and measures to smooth the fiscal tension, to ensure the sustainability of the macroeconomic situation and prudent public finance management. Moreover, the Government has implemented the mechanism to enhance the domestic revenue collection, strengthened the coordination among the central and local government, among Government and private sectors, introduced modern IT program to enhance tax collection. The government also disseminated and enforced the implementation of the relevant laws and regulations, intensified effort to conduct monitoring process and inspection, and strengthened public debt management.

Mr. Chairman,

In the process of economic development, it is particularly important moment for Lao PDR as we are striving towards the completion of the implementation of 7<sup>th</sup> Five-Year National Socio-Economic Development Plan (NSEDP). It is now entering the stage of reviewing the outcome of the past implementation of development achievements and unfinished agenda in order continue implementation in the next 8<sup>th</sup> Five-Year NSEDP to bring the country to the next stage of development and progress. Under the new plan, the efforts to formulate development policy to promote sustainable and inclusive economic growth with sound economic and financial environment continues to be the key priority of Lao PDR, aiming at creating necessary macroeconomic conditions conducive to graduating from the status of Least Developed Country by 2020.

In recognizing the great importance of maintaining a sound macroeconomic conditions favorable for the implementation of the 8<sup>th</sup> Five-Year NSEDP in the coming years with recognition of risks and uncertainties of the external environment that will have some implications in Lao PDR's economy, therefore, the government of Lao PDR will continue to pursue prudent fiscal and monetary policies to achieve macroeconomic stability, with GDP growth of more than 7 percent, low inflation rate and stable exchange rate. Fiscal policy will target in particular for fiscal consolidation, including improvement in tax administration, restraints on public wage increase, rationalizing capital spending (including off-budget investment) and limit on the growth of administrative spending. The government will continue to implement the necessary measures to cope with public debt arrears in parallel with the efforts on revenue collection in order to maintain a budget deficit within 5% of GDP. We will also continue to strengthen fiscal position by improving efficiency of revenue collection to create some fiscal space. On monetary

front, the monetary policy is to continue maintaining a sound monetary stability with low inflation and stable exchange rate, strengthening the external position by maintaining level of the international reserve to cover more than 5 months of import, control credit growth of banking sector to increase by 19 percent and money supply growth of 20 percent compared to 2014. The Bank of Lao PDR will continue to maintain exchange rate stability in line with market-oriented mechanism, keeping the exchange rate within our target band. Besides that the Bank of the Lao PDR will pay a close attention to oversee the financial stability taking into account the growing numbers of banks and financial institutions by implementing strict compliance with prudential regulations.

Mr. Chairman,

Lao PDR and the World Bank /the IMF have established long and excellent relations. Over 50 years, the World Bank/IMF have continued to play an important role in providing financial and technical assistance and economic policy advice to support of the implementation of National Socio-Economic Development Plan that aims to develop and assist the transition of the country for the development programs with the stated goal of reducing poverty. With valuable support provided, the livelihood of the people has been improved. People have enjoyed better basic service delivery, including access to electricity in rural areas, improvements in education and health, and so forth. Since the establishment of relationship, the World Bank has particularly provided financing support to Lao PDR in the amount of \$440 million in active ongoing support to programs which comprise of US\$359 million in IDA financing and US\$81 million in trust funds. The Government will continue to seek cooperation and support from the Bank for accelerating the socio-economic development to achieve the MDGs and to graduate from LDCs by 2020 as well as to facilitate the integration to the regional and global level, which will be reflected in the 8<sup>th</sup> NSEDP.

We take this opportunity to express our deepest gratitude for the Bank and the Fund for their significant engagement in Lao PDR to provide valuable financial and technical assistance for socio-economic development and policy advice through annual Article 4 consultation. We will continue to work closely with the Bank and the Fund for promoting effective cooperation and macroeconomic stability. We look forward to receiving continued support from the Bank and the IMF in realizing the 2020 strategies and policies set out in the next 8<sup>th</sup> Five-Year NSEDP.

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 excellent support and contribution to promoting the socio-economic progress and development and macroeconomic stability in Lao PDR. I wish the meetings a great success.

Thank you.