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

**Statement by H.E. Xaysomphone Phomvihane
Minster of Finance, Governor of the Bank
For the Lao People's Democratic Republic
At the 1997 World Bank/IMF Annual Meetings**

Mr. Chairman, Distinguished Governors, Ladies and Gentlemen,

It is a great privilege and pleasure for me to represent the Government of the Lao P.D.R. at the 52nd Annual Meetings of the Board of Governors of the World Bank and the IMF.

First of all, let me join my fellow Governors in thanking the Government of People's Republic of China, particularly the Authorities and the people of Hong Kong Special Administrative Region for the warm welcome accorded to us, and congratulating the Management and staff of the Bank and the Fund for the joint effort put into the excellent preparation of this meeting. Let me also take this opportunity to share with the meeting that two months ago, on July 23, 1997, Lao PDR was officially admitted into ASEAN. This is an important event for our country and demonstrates the continuous willingness of our people to contribute to the cooperation and peace in the world.

Mr. Chairman,

In 1996 the world economic growth quickened. As for the Lao PDR, the economic growth reached 6.8 percent in 1996 which is slightly lower than the 1995 level. Agriculture, which still accounts for more than half the GDP, managed to grow by about 3 percent in 1996 though affected by floods. Industry expanded by 14.5 percent and the services sector by 10.7 percent, which shows the increasing role of both sectors in the economy. The 1995 floods and harsh weather condition for the agricultural activities largely caused rising inflation in early 1996. Tight financial policies were successful in bringing inflation down from 20 percent to 7 percent at the end of the year.

For 1997 our country faced various difficulties:

- Natural adversity resulted in lower harvest, especially, that of rice. This in turn had negative impact on GDP.
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- Garment export to Europe slowed down when the General System of Preferences status for Lao PDR was withdrawn in 1996.
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- Inability of the financial system to adapt to the rapid growth of an open market economy.
- South East Asian Financial crisis.

All of these have contributed to the slower growth of the economy and caused the food price, especially rice to increase in many provinces, with obviously an impact on the overall consumer price index. Nevertheless, inflation has been maintained at the level of 10 percent. The export growth at 3.7 percent per annum compared with import is slow. To contain inflation, the Government has undertaken monetary policy by restricting credits, promoting operations in the primary market through treasury bills and bills of the Bank of Lao PDR.

To rectify the difficult situation resulted from the rapid growth of an open market economy, and to ensure the sustainable development of our country, the Government has undertaken several measures such as: focusing on Rural Development as the means to alleviate poverty, and closely linking this with the preservation of forestry and land resources and the environment. In addition, one of the Government's programs to promote import substitution is promoting the manufacturing and services sector, including textile and garment industry. Although the prospects for growing revenue from hydropower exports are reassuring in the medium term, the garment industry is important as the Government is aware that building a vital non hydropower sector in the economy is essential to ensure sustained growth and to generate employment for a fast growing population. In addition, the Government promotes the production of other commodities with the view of substituting imports and boosting exports to other countries, as well as local exports.

The Government's objectives and policies for 1997-2000 will aim at creating an environment conducive for a well-functioning market economy with sound management of public resources, while promoting prudent macroeconomic policies. Priority will be given to accelerate and deepen the reforms in the financial sector, the exchange rate system, the legal framework, and the economic policy-making capacity. We recognize that without continued reform in these areas there cannot be a favourable environment for sustained economic growth. It is also evident that the decisive factor in the implementation of Government policy is human capital. Therefore, effort is being put into human resources development, one of the eight priority programs.

Mr. Chairman,

We always regard the continued and increased support of the international community, including bilateral and multilateral donors, international financial institutions, and NGOs as one of the important factors contributing to success of the country's socio-economic development plan. In particular, during the Sixth Round Table Meeting in Geneva last June, the international community have pledged to provide financial support of more than US\$1.2 billion to our country to support the implementation of the socio-economic development plan till the year 2000. I take this opportunity to express to all concerned our sincere gratitude and assurance that we will do our utmost to use these resources efficiently and fruitfully.

As in previous years, IDA contributed to the development of the Lao economy and in 1997 extended a loan amounting to US\$48 million for the Third Highway Improvement Project. We recently completed the preparation of a new ESAF program jointly with the IMF. The Government of the Lao PDR highly appreciates the Bank's and IMF's role in supporting the socio-economic development of the Lao PDR. On behalf of the Lao Government, allow me to take this opportunity to express our sincere thanks to the World Bank and the IMF, other international financial institutions and all friendly countries for this valuable support. We truly hope that they will continue and increase their support to our country, thus helping the Lao PDR to overcome its status as least developed state, in a short period of time.

We congratulate the management of the Bank for their effort in improving its organizational structure to enable the Bank to be more efficient and responsive to the needs of the member countries.

To conclude, we would like to present our best wishes of success to the meetings.

Thank you.