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Lao People's Democratic Republic—Recent Economic Developments

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INTERNATIONAL MONETARY FUND
LAO PEOPLE'S DEMOCRATIC REPUBLIC

Recent Economic Developments

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Approved by Asia and Pacific Department

May 30, 1997

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I. INTRODUCTION

1. For almost a decade, the Lao P.D.R. has been going through a profound transformation of its economy. The reforms—since 1989 supported by Fund arrangements—have had beneficial effects. The economy has been growing annually at 5-8 percent since the beginning of the 1990s, the macroeconomic conditions have been relatively stable, and market processes have been introduced in most segments of the economy. These trends broadly continued in 1996 (Table 1).

2. The first part of this document briefly highlights the main developments in 1996, complementing the previous Recent Economic Developments paper (SM/96/94) which gave a more complete overview of the period since 1992. **Chapter II, "Income and Production"** notes that real GDP growth of nearly 7 percent was reached despite disappointing growth in the agricultural sector in the aftermath of the floods. **Chapter III, "Prices, Employment and Wages"** notes that the significant reduction in inflation in 1996 (from 25 percent to 7-9 percent) was brought about despite significant hikes in food prices as a result of those floods. **Chapter IV, "Public Finance"** indicates how the 1995/96 budget contributed to the financial tightening needed after the 1995 surge in inflation. While the budgetary outcome was better than anticipated, it is also noted that the 1996/97 budget is facing some shortfalls that need to be addressed in the immediate future. **Chapter V** covers "Privatization" and points out that the divestiture of the state-owned enterprises is largely completed. The attention is now focusing on the commercialization of the 32 "strategic" state-owned enterprises (SOEs), a process started in 1996 which is to be carried through in 1997. **Chapter VI, "Money and Banking"** discusses the policy measures taken in 1996 to reduce inflation. It notes that the use of indirect instruments became the main method of monetary policy during the year. Finally, **Chapter VII, "External Sector,"** notes that the current account worsened somewhat in 1996, while overall balance of payments developments remained favorable. The commercial bank exchange rate remained stable during the first three quarters of 1996 and was subsequently adjusted in line with the movements in the parallel market rate.

3. The second part of the document contains four chapters focusing on specific issues of importance for the Lao P.D.R. **Chapter VIII** addresses the issue of medium-term fiscal sustainability. **Chapter IX** discusses the adoption of and refinements to the indirect monetary policy framework against the background of ongoing banking sector reforms. **Chapter X** analyzes the origins and current determinants of dollarization in the Lao P.D.R. and concludes that building credibility in policy making, in conjunction with banking sector reform, is the key to a lasting reversal. **Chapter XI** highlights the short-term costs and medium- and long-term benefits for the Lao P.D.R. from joining ASEAN and AFTA. Lastly, recent trends in inflation, comparing the old and the new CPI indices, are discussed in the Appendix.

II. INCOME AND PRODUCTION

A. Overall Developments

4. In 1996, real output grew by 6¾ percent, close to the 1995 rate of 7 percent. While the agricultural sector grew at a below-target rate of only 2¼ percent in 1996, owing to poor harvests (in particular, of rice) as a result of flooding in mid-year, output remained buoyant in the industrial and the services sectors, which grew at 17 percent and 8¾ percent respectively, slightly faster than in 1995 (Table 2).

B. Developments by Major Economic Sectors

5. The share of agriculture (including crops, livestock, fishery, and forestry) in real GDP has gradually declined, while industry and services have expanded their share (Table 8 and Chart 1). In 1996, agriculture accounted for 52 percent of real output, down from 58 percent in 1991. Meanwhile, the share of industry (mining, manufacturing, construction, and the production of electricity and water) grew to 21 percent in 1996, up from 17 percent in 1991. The services sector (transportation, communications, wholesale and retail trade, and others) retained a share of 25 percent. Of the different sectoral developments, the recent expansion of production capacity of hydropower, mining, telecommunications, and tourism has benefited the most from foreign direct investment.

6. **Agriculture.** Rice remains the most important crop although its share in crop production has declined (from 68 percent in 1991 to about 60 percent in 1996) (Table 9). Droughts and floods in recent years have hampered rice production. Farmers are increasingly turning to production of cash crops (including coffee, tobacco, and sesame seeds), an increasing volume of which has been exported to neighboring countries.

7. **Forestry.** The implementation of the hydropower projects in recent years has required clearing of forests in would-be-flooded reservoirs. Over the past few years, logging averaged about 400,000 - 600,000 cubic meters a year, some 80-90 percent from hydropower development areas. One-third to one-half of the log production is used domestically (mainly in the construction industry), the rest is exported. New machines have been imported to process timber more efficiently, and the country's exports of timber have increased.

8. **Industry.** Manufacturing still accounts for the largest share of industrial output (70 percent in 1996), but mining, the production of electricity (both grew by 37 percent in 1996) and the supply of water (15 percent growth) expanded rapidly in 1996. The most noteworthy developments are:

9. **Mining and quarrying.** These activities consist mainly of the extraction of tin and gypsum, mostly for domestic consumption in the fast-growing construction sector. Recently,

important lignite and coal deposits were discovered,¹ and exploration for oil and gas has begun.

10. **Manufacturing.** Overall, this sector grew in 1996 at a rate comparable to that of 1995, with food manufacturing, wood processing, and garment production remaining the most important components. However, the garments industry lost its Generalized System of Preferences (GSP) status with the European Union (EU) in 1996, as a result of which the country's garment production declined by 25 percent from its 1995 level. Ten enterprises, employing 3,000 workers closed their doors in 1996, while many of the other garment enterprises worked at 50 percent of their capacity. Negotiations are ongoing between the government and the EU to reinstate GSP status.

11. **Electricity.** The development of the country's hydropower resources remains one of its key economic initiatives. The Lao P.D.R. has an estimated technically exploitable hydroelectric potential of 18,000 MW, of which less than 2 percent has been developed. Growth in electricity production was boosted by the heavy rainfall in mid-1996. About 60 percent of the total output was exported (to Thailand and Vietnam), generating approximately 10 percent of the country's total export earnings. Meanwhile, domestic electricity consumption has been growing at 8-10 percent a year. Domestic demand for electricity is still concentrated in urban areas (with the largest consumption in Vientiane). Nationally, less than 20 percent of households are electrified. Domestic electricity is provided at subsidized rates. In 1996, the government signed an agreement with Cambodia to cooperate in supplying electricity to areas along the common border.

12. **Services.** Growth in this sector in 1996 continued to reflect expansion in transportation and communications, wholesale and retail trade, and tourism. Relating to infrastructure development in the country, construction services have also expanded but are not adequately measured in official statistics.

III. PRICES, EMPLOYMENT AND WAGES

A. Price Developments

13. Based on the Bank of the Lao P.D.R. (BOL) consumer price index, the twelve month inflation rate declined from 25 percent in December 1995 to 7 percent in December 1996, averaging about 13 percent in 1996. Based on the CPI compiled by the National Statistics Center (NSC)—the official CPI since the beginning of 1997—the 12 month rate of inflation was 13 percent at the end of the year (Table 3). This new index is compiled on the basis of a

¹A large project has been proposed to use the lignite to supply electricity to Thailand.

more recent consumer basket of goods and services, as well as prices in several provinces.² The divergence between the two inflation rates is almost entirely due to the broader coverage of the new CPI. The higher recorded inflation stems from developments in the Khammouane, Savannakhet, and Champassak provinces, where the price of rice rose considerably in the wake of the floods.³ As discussed in the Appendix, calculation of the CPI excluding the food component, points to a core inflation of only 6½ percent during the year. At end-March 1997 inflation was 12½ percent, still reflecting the aftermath of the food price increases.

B. Employment and Wages

14. There are no official statistics on unemployment and wage rates for the country as a whole. A survey in the Vientiane municipality, conducted in 1992 and repeated in 1994, showed an unemployment rate of 2.6 percent. About 50 percent of the unemployed had work experience. There is a growing shortage of skilled workers in the country, and demand for such workers (managers, professionals, and technicians) in the private sector has bid up their wages, which have reached levels comparable to those of the neighboring countries (Table 10). Meanwhile, foreign workers have filled the void. In 1996, about 11,000 foreign workers were employed in Lao P.D.R., nearly 65 percent in construction projects. Official estimates of average wages for foreign workers are not available.

IV. PUBLIC FINANCE

15. The Lao P.D.R.'s public finances have undergone dramatic changes since 1988. The general budget has been unified (1992), the tax system has undergone substantial innovations, the expenditure control system has been centralized, and expenditure discipline has been greatly enhanced. Together with improvements in the administration, these measures have put the Lao P.D.R. on the road to fiscal sustainability.⁴ The 1995/96 budget delivered a generally better than planned outcome (Table 4).⁵ The goals set for the 1996/97 budget maintained the trend toward consolidation.

²See also the Appendix on the Lao consumer price indices.

³Transportation problems account for most of the differences in rice prices across the country.

⁴A detailed description of the reform of public finance is given in *Lao P.D.R. - Recent Economic Developments* (SM/96/94) and *Lao P.D.R. - Public Expenditure Review* (World Bank 16094-LA, February 28, 1997).

⁵The fiscal year is October-September.

A. The 1995/96 Budget

16. The government objectives for the 1995/96 budget—augment budgetary savings and reduce net domestic bank credit—were largely met. The current surplus, at 2¼ percent of GDP was ½ percent of GDP higher than originally budgeted, mainly stemming from higher than expected revenue collection and strict control over current expenditure. In contrast, the overall balance excluding grants (9 percent of GDP) was only marginally better than budgeted, because of higher-than-budgeted capital expenditure. In the end, grants were about KN 30 billion lower than budgeted, which left the deficit after grants at 5½ percent of GDP.

17. Revenue collection reached 13 percent of GDP (compared to 12½ percent planned), mainly because of favorable developments in nontax revenue. Tax revenue reached 10¼ percent of GDP. A new, comprehensive tax law came into effect in January 1996. Its highlights were a reduction in the profit tax rate from 60 to 35 percent, the introduction of *ad valorem* excise duties, a broadening of the income tax base accompanied by an adjustment of the rates, and an expansion of the turnover tax base with the introduction of two new rates. Tax inflows were very slow during the first quarter of the fiscal year, which prompted the government to take corrective measures. Timber royalty collection was stepped up, the urban land tax was increased from KN 8 to 30 per square meter, and excise duties on selected petroleum products were increased.⁶ In the end, income and turnover tax, excise duties and timber royalties exceeded the plan while there was a shortfall in profit taxes and trade taxes, the latter because of an unsold stock of cars held in customs warehouses. Nontax revenue, at 2¼ percent of GDP was KN 12 billion higher than originally budgeted. Dividend payments from SOEs and higher leasing revenues—partly the result of a higher exchange rate—were the main factors behind this outcome.⁷

18. Firm control over expenditure kept current expenditure at 10¼ percent of GDP, slightly lower than planned. The wage bill, at 4.8 percent of GDP, represented 47 percent of current expenditure. The wage bill increase over 1994/95 was under 15 percent, less than the average inflation in the fiscal year. The new decree on procurement was instrumental in ensuring improved control over spending for materials and supplies. Transfers also remained within the budget limits, despite high spending at the beginning of the fiscal year in the wake of the severe floods. Severance payments remained significantly below the original budget provision because voluntary departures were a minor fraction of total separations from civil service (2,700). With 800 new hirings, the civil service was further reduced to 68,108

⁶To avoid the need to change the newly adopted tax law, the increase in excise duties was not expressed as a new percentage but as a fixed kip amount on top of the *ad valorem* rate.

⁷The higher dividends came largely from the state-owned banks which were requested to offset in part the government revenue loss from lowering the profit tax rate to 35 percent.

(Table 11).⁸ This signaled the end of the downsizing of the civil service as the government is now focusing increasingly on reallocation, retraining and selective hiring. A ceiling of 70,000 civil servants was announced for the remainder of this century.

19. Capital expenditure, at 12¼ percent of GDP, was higher than budgeted, because the government bought a small airplane for official use. Foreign financed capital spending was roughly as budgeted, with project loans higher and project grants lower than originally budgeted. Capital spending on social sectors went up from 13½ percent of total capital spending in 1994/95 to 17½ percent, offset by lower spending on economic sectors (still nearly 70 percent).

20. As concessional foreign financing exceeded the deficit, government domestic debt could be substantially reduced. The banking sector's net claims on the government were reduced by KN 15 billion while the government also reduced its debt toward the nonbank sector. Government deposits in the BOL increased by KN 14 billion mainly reflecting the release of the first tranche of the World Bank SAC III.

B. The 1996/97 Budget

21. **Targets.** The 1996/97 budget aimed to raise the current surplus to 3½ percent of GDP and reduce the overall deficit excluding grants to below 8 percent of GDP. Concessional foreign financing was expected to exceed the deficit, which together with the proceeds from the sale of Lao Telecom would enable the government to further build up deposits with the banking system. Revenue was targeted to increase by ½ percent of GDP, benefitting from the full-year effect of the tax measures taken in 1995/96 and the introduction of excise duties on electrical goods.⁹ Current expenditure was set to remain broadly unchanged at 10 percent of GDP. There was to be a shift to spending on education and health. Despite an adjustment in base salaries by about 12 percent to compensate for past purchasing power loss, the wage bill would remain below 5 percent of GDP. Capital expenditure was set to be guided by the Public Expenditure Review (PER) recommendations, with a further increase in spending on social sectors.

22. **First six months.** While expenditure has been broadly on track, revenue collection has been suffering from delays, stemming from a variety of factors. One reason is the continued lack of qualified personnel and computer equipment, in particular in the provinces. Fast improvements in the tax administration are becoming an urgent matter, to enable the authorities to keep pace with an increasingly sophisticated tax regime in a growing economy. Transitory factors of a technical nature are (a) the coming into effect of the Business Law,

⁸Down from more than 76,000 civil servants in 1991.

⁹The lowering of the remaining exceptional import tariffs (on vehicles, beer and cigarettes) to a maximum of 40 percent was to be offset by an equivalent rise in excise duties on those goods and, therefore, broadly revenue neutral.

requiring re-registration of all companies. Only after registration can they register with the tax department and pay income taxes; and (b) a change in the practice of paying dividends, moving from quarterly payments to payments at the end of the financial year—which for most of the 32 SOEs is February-March. Finally, leasing receipts suffer from the fact that some leases have not been renewed and that some companies are facing problems and therefore requested to be exempt from lease payments in 1996/97. The government is taking measures to meet the revenue targets by improving collection of timber royalties, increasing excise duties on selected petroleum products and introducing a stamp duty. As a last resort, nonpriority capital expenditure may be curtailed to achieve the overall deficit target.

V. PRIVATIZATION

A. Overview

23. Divestiture of the “nonstrategic” public enterprises in the Lao P.D.R. has gained impetus since the early 1990s and is nearing completion. The focus is currently shifting to the commercialization of the remaining 32 “strategic” SOEs, eight of which are banks and the remainder mainly utility companies and the logging concerns. In 1996, 15 enterprises were divested and commercialization of five selected SOEs was initiated. Plans for 1997 call for a start of the commercialization of the other strategic SOEs and privatization of the remaining 44 nonstrategic ones.

B. Progress in 1996

24. By 1996, most of the small and medium-sized SOEs and a considerable portion of the larger ones had been privatized. In 1996, 15 of the remaining 59 nonstrategic SOEs were divested, totaling 2,000 staff (Annex II). Lao Telecom was by far the largest with 850 employees. In line with the strategy to retain partial ownership in the larger, more modern enterprises, after lengthy negotiations, 49 percent of the equity in Lao Telecom was sold in November to Thai investors for US\$ 45 million, providing a substantial contribution to the country’s international reserves and the financing of the 1996/97 budget. The total value of SOEs sold in 1996 was US\$47.2 million. Of these 15 enterprises, 5 were leased and the remainder were sold, mainly to domestic partners through management buy-outs.

C. Remaining Agenda

25. The 44 enterprises that remain to be divested are mostly small (with the exception of Lao Tobacco for which the government is rethinking its strategy) and most of them are located in the provinces. Management buy out or liquidation will be the dominant divestiture techniques.

26. In 1997, the government intends to finalize the commercialization of five selected strategic SOEs, Electricité du Laos (EDL), Nam Papa (Water), Postes du Laos, Industrie Pharmaceutique No.2, and Imprimerie Nationale (Printing). This is to be accomplished by

(i) converting and registering them into public joint-stock companies; (ii) appointing Boards of Directors; and (iii) agreeing on performance plans setting out technical, commercial and financial objectives, and specifying performance improvement targets. In 1997, commercialization of the other nonbank SOEs will also start. Commercialization of these SOEs may in some cases involve a major financial restructuring. Both EDL's and Nam Papa's financial positions, for instance, have recently weakened reflecting EDL's participation in large-scale projects on a debt basis and Nam Papa's investment program. Such financial restructuring would have implications for the government budget. Responsibility for all aspects of privatization and commercialization was transferred to the State Assets Department (MOF) in the course of 1996. The Department is establishing a computerized data-base management system to monitor leases, state assets, and the performance plans of the strategic enterprises.

VI. MONEY AND BANKING

A. Banking System

27. The commercial banking system in the Lao P.D.R is dominated by eight state-owned banks, including an agricultural promotion bank. At end-1996, the largest of these banks, the Banque du Commerce Extérieur (BCEL), managed about 45 percent of the sector's deposits and 30 percent of the loans. In addition to these banks, there are two joint-venture banks with foreign participation, six branches of Thai banks and one of a Malaysian bank (Public Bank).¹⁰ Only the state-owned banks have branches outside Vientiane. The BOL, the country's central bank, has no branch network. The market shares of the three segments of the commercial banking system were as follows at the end of 1996 (in percent):

Share of Loans and Deposits

	Loans		Total Deposits
	To private sector	Total	
State-owned banks	65	74	72
Joint ventures	10	7	9
Foreign banks	24	19	19

¹⁰Standard Chartered Bank opened a representative office in Vientiane in 1996. For a more detailed description, including a listing of all banks, see *The Lao P.D.R. - Recent Economic Developments* (SM/96/94), April 24, 1996.

B. Financial Sector Reform

28. Following the 1994 recapitalization of the state-owned banks, banking reform lost momentum, and the situation in the sector deteriorated slightly.¹¹ Many reforms, to be implemented with technical assistance by the Asian Development Bank (AsDB) and the World Bank, were delayed owing to technical problems or difficulties in setting priorities. In 1996, reform was resumed with the implementation of new prudential regulations for commercial banks, including foreign exchange exposure limits, improvements in the BOL's banking supervision capacity, and the introduction of a new accounting system for commercial banks. However, its implementation at the beginning of 1997 has been delayed by software and training problems. Delays have also been incurred in the external audits of the state-owned banks, delaying their planned restructuring. This restructuring is intended to reduce the number of banks, strengthen their balance sheets, and improve the quality of their services. A government working group issued a plan to reform agricultural lending policies. As part of this plan, commercial banks are no longer required to lend 10 percent of their deposits to the agricultural sector. In addition, the 1997/98 budget will contain the subsidy element involved in lending to the agricultural sector.

C. Monetary Developments

29. Following successful tightening in 1995, monetary developments in 1996 were slightly less favorable, with broad money increasing by 25 percent (compared to 16 percent in 1995). In particular, the first and fourth quarters of 1996 were expansionary with quarterly growth rates exceeding 10 percent (Tables 5 and 6).

30. Following a jump in credit to the private sector in the first quarter of 1996, the authorities managed to constrain this component of domestic credit. During the year as a whole, private sector credit grew by 20¾ percent. About 30 percent of the stock of commercial bank credit to the private sector at end-1996 was directed to agriculture, 24 percent to manufacturing, 20 percent to commerce, and 17 percent to construction.¹² Credit to SOEs increased by 33½ percent during 1996, mainly due to higher than targeted disbursements in November and December, explaining part of the excessive growth in broad money at the end of 1996. In addition, net government deposits with the banking system decreased in December, in spite of a loan disbursement by the AsDB.

31. Reflecting a period of expansion of the banking system, monetization accelerated in 1991-94. However, little progress was made in 1995 and 1996. The income velocity of money (broad money including foreign currency deposits) declined from 15 in 1991 to 7¾ in 1994,

¹¹There are indications that nonperforming loans have re-emerged in certain state-owned banks. The external audits currently being conducted will address this issue in depth.

¹²About 91 percent of total credit to the private sector was extended by the commercial banks and the remaining by the BOL.

and has remained fairly stable since.¹³ U.S. dollars and Thai baht circulate freely and the share of foreign currency deposits in broad money increased during 1995 from 30 percent to over 42 percent at year end, and peaked at 45 percent by March 1996, reflecting a loss of confidence in the domestic currency. As the exchange rate was stabilized, confidence in the kip increased, and the ratio declined to about 40 percent by December 1996.¹⁴ The economy is still largely cash based and progress in improving the payment system has been slow. Paying by check, however, has increased steadily during 1996 and this trend should be reinforced following the issuance of the decree on the use of checks in October 1996. New banknotes with denominations larger than KN 1,000 are scheduled to be issued in the third quarter of 1997. Taken together, these measures are expected to help reduce dollarization.

32. The BOL removed its guidelines on commercial bank kip lending rates in June 1995 and on deposit rates in January 1996. Nevertheless, interest rate movements have remained limited, reflecting lack of competition in the financial system. Real interest rates became positive with the decrease in inflation in 1996, though the premium for kip deposits over dollar/baht accounts was marked by the kip depreciations between October 1996 and March 1997. Also, although the spread between lending and deposit rates decreased somewhat (to about 8 percent for the BCEL), it remained large (Table 13).

D. Monetary Policy Instruments

33. Monetary restraint, imposed in 1995, was continued in 1996. The authorities reacted to the credit expansion in the first quarter of 1996 by a combination of moral suasion and increased open market sales. The measures were successful in stemming the excessive growth in money and credit, and the credit ceilings were lifted by the end of 1996.

34. Progress in developing indirect instruments of monetary policy continued in 1996. The effectiveness of the sale of Treasury bills to the commercial banks is still hampered by the limited responsiveness of interest rates. BOL bills, on the other hand, have an immediate impact on private sector liquidity, as they are sold to the public, through the commercial banks (see Chapter IX). The size of the open market sales is guided by a programming framework for reserve money, that was introduced during 1996.

VII. EXTERNAL SECTOR

A. Overview

35. The orientation of external trade toward regional markets and the Lao P.D.R.'s integration into the world economy have continued. Estimates indicate that in 1996 about 80 percent of bilaterally recorded merchandise exports went to East Asian countries, while

¹³Measured as the ratio of GDP over an annual average of the stock of broad money.

¹⁴Chapter X on dollarization deals in more detail with this topic.

about two-thirds of bilaterally recorded merchandise imports came from these countries (Tables 19 and 20). In addition, total merchandise exports and imports rose two percentage points of GDP in 1996 to 55 percent. Given its geographical location, the country's trade depends largely on neighboring Thailand and Vietnam which, in 1996, accounted for about 30 percent and 50 percent of total merchandise exports, respectively.¹⁵

B. Recent Developments in the Balance of Payments

36. The overall performance in the balance of payments continued to be generally strong in 1996, with continued reserve accumulation (Table 7). However, the current account deficit (excluding official transfers) widened from 13 percent of GDP in 1995¹⁶ to 16½ percent, reflecting a decline in garments exports to the European Union after the loss of GSP status, and strong capital goods imports linked to investment in the hydropower sector. The value of exports increased by an estimated 6 percent—mainly driven by sales of processed wood and coffee—while the value of imports increased by about 19 percent. Thus, exports maintained their share of GDP at 17½ percent, while the share of imports rose from 33 percent in 1995 to 37 percent of GDP. The share of consumption goods in total recorded imports declined somewhat from 48 percent to 45 percent.

37. Net nonfactor services remained broadly unchanged. Income flows continued to be dominated by travel while payments were largely determined by travel and construction-related services. Reflecting the global trend, grants declined further from a total of US\$109 million in 1995 to US\$82 million in 1996. Bilateral grants accounted for about 90 percent, with Japan remaining the most important donor. Japan also provided program grants in the form of commodity aid.

38. Loan disbursements increased to US\$155 million, led by concessional loans from the AsDB. Foreign investment rose sharply from US\$95 million in 1995 to US\$176 million in 1996, reflecting an increase of investment in hydropower projects and the privatization proceeds from the sale of 49 percent of Lao Telecom. As a result of these capital inflows, net foreign assets of the banking system almost doubled to US\$167 million. The level of gross reserves of the banking system rose faster than imports, reaching about five months of imports. Official gross reserves rose from 2 to 3 months of imports.

¹⁵See Chapter XI for a discussion on the Lao P.D.R.'s prospective membership in ASEAN and integration in the South-East Asian economic group.

¹⁶Exports in 1995 were adjusted downward by US\$35 million, following a correction in the trade data, thus revising the current account deficit in 1995 to 13 percent of GDP.

C. External Debt

39. External convertible currency debt amounted to US\$0.8 billion at end-1996 (Table 28), while debt incurred through the Council of Mutual Economic Assistance (CMEA) was valued at US\$1.37 billion at the official exchange rate of the Central Bank of Russia of TR 0.59 per U.S. dollar. Total debt is equivalent to 118 percent of GDP, or in net present value terms, to about 47 percent of GDP and 202 percent of exports of goods and non-factor services. About 94 percent of convertible debt is to multilateral creditors, of which the main ones are the AsDB (US\$343 million) and IDA (US\$307 million).

D. Exchange and Trade System

40. In September 1995, the Lao P.D.R. formally adopted a managed floating exchange rate system. In practice, however, the BCEL, the largest state-owned commercial bank and the dominant transactor in the bank exchange market, has been setting the rate in consultation with the authorities. Other banks and exchange bureaus generally follow this rate. During most of 1996 the exchange rate remained stable at about KN 930 per U.S. dollar while the spread between the commercial bank rate and the parallel market rate remained below 2½ percent (Table 29 and Chart 2). Starting in August-September, the parallel rate began to depreciate slowly and by October the spread between the two rates had reached 5 percent. Responding to this widening spread and signs of a worse than anticipated export performance, the BCEL started to adjust the commercial bank rate to close the gap with the parallel rate. By end-January 1997, the commercial bank rate had depreciated by a total of 8½ percent compared to September 1996.

41. The trade system is, in principle, free of restrictions. In practice, however, a number of informal trade barriers, quotas and licence requirements limit imports in certain categories of goods. The import tariff structure maintained six rates (5, 10 15, 20, 30 and 40 percent). The exceptional, higher rates, applied to vehicles, cigarettes and beer, were abolished in April 1997 and replaced by equivalent excise duties on these items. A very limited number of food items still are protected by an exceptional 50 percent tariff.

VIII. ISSUES IN ACHIEVING MEDIUM-TERM FISCAL SUSTAINABILITY¹⁷

A. Introduction

42. Fiscal performance in the Lao P.D.R. has improved substantially since 1989 and has contributed in a significant way to macroeconomic stability in the 1990s. Continued improvements in the tax system—replacing the former “extraction” system by a market-based tax system—the tax administration, the budgetary process, and expenditure control, combined with tight fiscal policies since 1988 have put the Lao P.D.R. on the path to medium-term fiscal sustainability.

¹⁷Prepared by Marc Quintyn.

43. This chapter addresses the medium-term outlook for fiscal sustainability, taking into account the challenges that fiscal policy in the Lao P.D.R. will be facing. Following a brief overview of recent achievements (section B), section C develops a fiscal path that would ensure sustainability in the medium term and discusses the policies to support this scenario, as well as problems that may arise. The conclusion is that further efforts to generate revenue are the key to realizing this path and are not without risks. In addition, strict expenditure control in general and improved management of the capital budget as set out in the Public Expenditure Review (PER), conducted in 1996 with the World Bank, remain necessary.

B. Recent Achievements

44. From the beginning of the reforms in 1988, the Lao government —supported by Fund financial arrangements—has embarked on an overhaul of its fiscal system. The tax system has been transformed into a market-based system, comprising most modern tax categories, tax administration is being strengthened, the general budget has been unified, the expenditure control system has been centralized. Expenditure discipline has been enhanced and hard budget constraints were immediately imposed on the state-owned enterprises (SOEs), followed by a successful divestiture program which has provided additional funds to finance the budget. In addition, grants and concessional borrowing facilitated the financing of the overall deficit without imposing debt service problems.

45. Total revenue increased from 8 percent of GDP in 1989 to around 13 percent in 1995/96.¹⁸ Together with effective expenditure control (through a paring down of nonessential expenditures) these efforts have generated current surpluses since 1992/93 (Chart 3). In 1995/96, the surplus reached 3.2 percent of GDP. The overall deficit before grants declined markedly from its peak of almost 20 percent of GDP in 1988 to 8.8 percent in 1995/96. After grants, the deficit has been reduced from 7 percent of GDP (1991/92) to 5 percent of GDP (1995/96).

46. The inflow of foreign aid (project and program loans) has typically been larger than the deficit after grants (Chart 4). Since 1991/92 foreign financing of the budget deficit varied from 3 to 7 percent of GDP. Only in 1991/92 was there a need for domestic financing. In later fiscal years, the government was able to repay its debt towards the domestic banking and nonbanking sector, owing in part to proceeds of assets sales. The latter were particularly high in 1996/97 with the partial sale of Lao Telecom (US\$45 million, almost 3 percent of GDP).

47. As a result of the above developments, the outstanding stock of domestic debt has become insignificant (about KN 35 billion, consisting of KN 14 billion bonds issued to recapitalize the banks in 1994, KN 10 billion of government bonds issued in the early 1990s, and KN 10 billion of treasury bills mainly issued as a monetary intervention instrument). The foreign government debt stock was at 116 percent of GDP in 1995/96. With external

¹⁸Since the 1992 reforms, the budget is on an October-September basis.

government debt service at 9½ percent of government revenue and domestic and foreign interest payments at ½ percent of GDP, fiscal sustainability does not seem to be a major issue.

Domestic and Foreign Government Debt 1/
(In millions of U.S. dollars)

	1992/93	1993/94	1994/95	1995/96	1996/97
Domestic debt	22	22	53	34	35
Foreign debt	1,857	1,934	1,999	2,107	2,253
Total debt stock	1,879	1,956	2,045	2,140	2,288
Total debt as percent of GDP	141.7	126.9	114.2	115.9	112.6

Source: Data provided by Lao authorities; and staff calculations.

1/ Excludes publicly guaranteed debt and debt held by public enterprises.

C. A Medium-Term Path

48. These favorable results notwithstanding, the medium term perspective remains fragile. Hence, efforts to further strengthen the fiscal position have to be continued. In general, the revenue base is still weak and in need of further improvements. Compared to neighboring countries, revenue as a percent of GDP is still low. Current expenditure is still prone to slippages while capital expenditure needs to be prioritized in line with the country's absorptive capacity. Unlike in many other developing countries, fiscal sustainability problems do not stem from the prospect of a heavy or sharply increasing foreign debt burden.¹⁹ The challenge almost entirely lies with the fiscal policy and budgetary management.

49. A sustainable path, covering the period until 2004 (Chart 5) requires a sustained effort to raise revenue to 16 percent of GDP in 1999/2000 with continued growth thereafter, be it at a slower pace. Throughout the period, current expenditure needs to be kept constant in GDP terms. Such a development is consistent with the PER which indicates that the level of current

¹⁹A simulation whereby all concessional financing (grants and loans) is replaced in the near future by commercial debt indicates that with unchanged revenue and expenditure policies the fiscal external debt service would be at 5 percent of GDP by 2003/04, compared to 2 percent under the current scenario.

expenditures is broadly sufficient in the medium term, but that reorientations are needed. The civil service has been downsized from over 76,000 staff in 1991 to 69,000 and the authorities plan to stay with that number. The PER recommended that general wage increases be limited but that selective increases be used to make the civil service more attractive in key job categories. Capital expenditure is projected to remain constant in GDP terms throughout the first years of the next century. The scenario envisages a gradual decline in terms of GDP in foreign finance, combined with a shift from grants—reflecting a worldwide trend—towards concessional loans.

50. Based on these developments, the current surplus is projected to increase to 7 percent of GDP by the middle of the next decade, thereby enhancing domestic savings. The overall deficit (including grants) would narrow to 2 percent. With government debt mostly contracted on concessional terms, fiscal sustainability would not be threatened. The total debt stock would gradually decline to below 80 percent of GDP in 2003/04 and the external debt service would decrease into the range of 10–12 percent of government revenue (Chart 5). Interest costs (domestic and foreign) as a percent of GDP would decline somewhat and remain below ½ percent of GDP. On this path—which takes into account that, with the end of privatization nearing, no more proceeds from assets sales are to be expected—foreign finance sources continue to be larger than the financing needs of the budget, thereby broadly eliminating the need for domestic borrowing. The government would be building up deposits with the banking sector.

D. Risks Associated with this Path

51. Several risks are associated with this path. The revenue path is feasible, but depends to a large extent on the government's ability to generate more domestic taxes. The crucial part here, and thus for the overall strategy, are improvements in the tax administration.²⁰

52. The strategy underlying a further increase in revenue as a percent of GDP is based on:

- A gradual shift from trade taxes and timber royalties to domestic taxes. Trade taxes, currently close to 3 percent of GDP will gradually decrease as part of the country's AFTA membership and continued trade liberalization. Timber royalties are set to decline as a percent of GDP in the medium term, consistent with the government's environmental policies aiming at a reduction in logging to a sustainable level.
- These decreases are projected to be offset by a continued growth of domestic taxes. In particular, reliance on indirect taxes would need to increase. As a first step, turnover taxes rates would have to go up in preparation of the adoption, around the turn of the century, of a VAT system. Increases in excise duties are the second pillar of this strategy. These measures would increase buoyancy of the domestic taxes. In addition,

²⁰Technical assistance is currently being provided by UNDP and IMF to improve tax and customs administration.

improvements in the tax administration would be needed. Domestic taxes were close to 6 percent of GDP in 1995/96 and are projected to be just under 8 percent in 1999/2000 and close to 10 percent at the end of the projection period.

- The government will also benefit from additional revenue sources, generating approximately 2 percent of GDP by the first years of the next century. Lao Satellite will provide royalties in the region of 1 percent of GDP from 1999/2000 onward, according to current estimates. The 1997/98 budget will also be boosted by revenue from two hydropower projects that will have come on stream by that time. They will deliver approximately 1 percent of GDP in the form of export taxes, royalties and dividends.

53. If the government goes ahead with the large Nam Theun 2 hydropower project, it will be able to generate additional revenue, however, beyond the medium term.²¹ Under the present plans, none of the financing of the project will be borne by the budget, so whether the project goes ahead or not, no additional burden on the budget is expected during the projection period. Electricité du Laos (EDL), the state-owned electricity company, will borrow directly and service the debt. The government will accrue revenue through export taxes, royalties and dividends (through EDL).²²

54. On the expenditure side, the main risks are associated with reversals of current policies, in particular regarding the civil service, as well as potential costs from recapitalizing state-owned banks and restructuring strategic state enterprises.

- According to the 1996 PER, the Lao civil service, currently at about 69,000, is large enough in size to perform its duties. Upgrading and reorientation should be the current focus and can be done without much additional hiring. Following several years of prudent policies (during which the civil service was downsized by nearly 10 percent), there are signs of a reversal. At the end of 1996, personnel management was transferred to the Party administration and since then plans have been made to hire an additional 900 staff, mainly to fill new positions in the police and justice departments and in ASEAN-related jobs. The government will need to monitor the staffing policies closely to keep the wage bill, currently below 5 percent of GDP, under control.

²¹ The feasibility study currently undertaken at the request of the World Bank includes some budgetary costs during the construction phase in the form of environmental and social (mainly resettlement) costs. These have not been included in the present scenario.

²² According to the latest plans, Nam Theun 2 could come on stream in 2003, starting to generate revenue in the following year. During the first years revenue would remain modest. It would increase gradually (to ½ percent of GDP) and will be at its highest in 2010-2020. This broad outlook is likely because, even if Nam Theun 2 was put on the shelves, the government would still develop some other (smaller) hydropower projects which would also generate additional revenue.

- The ongoing audits of state commercial banks may reveal the need for bank recapitalization as part of their restructuring. It is too early to derive an estimate of the nonperforming loan portfolio in these banks, but the need for recapitalization must be borne in mind.
- The ongoing commercialization of the strategic SOEs indicates that some larger enterprises will have to undergo financial restructuring with implications for the budget. More particularly, EDL's financial position has weakened in recent years because of its participation in large scale projects on a debt basis. Nam Papa, the water company, has also engaged in an ambitious investment program to improve its infrastructure, which has weakened its financial position.
- In addition to the above risk factors, expenditure control and monitoring need to be strengthened and the efficiency of capital investments enhanced. The PER identified several areas for further improvement, including (i) the need for cost-benefit analyses of project inputs and outcomes, (ii) better assessment of the complementarity of public investment—does public investment encourage private investment? (iii) the establishment of cost recovery policies where desirable, (iv) sufficient allocations for operations and maintenance to enhance the effectiveness of public investments, and (v) assessment of the impact on the poor of government projects. Indirectly, proper focus on these issues will improve expenditure control.

IX. THE ADOPTION OF INDIRECT MONETARY INSTRUMENTS IN THE CONTEXT OF FINANCIAL SECTOR REFORM²³

A. Introduction

55. This chapter analyzes financial reform and the transition to indirect instruments of monetary policy in the Lao P.D.R. since the late 1980s. The existence of a healthy and competitive financial system is conducive, if not essential, for indirect monetary instruments to be effective in securing monetary stability. The chapter concludes that further financial sector reform is needed, as well as a strengthening of banking supervision. Development of the financial system, including a desirable decrease in dollarization, is likely to temporarily complicate monetary policy. This constitutes an additional argument for improving monetary policy implementation, through close and systematic monitoring of monetary developments, and by increased flexibility for the central bank in the conduct of open market operations.

56. Until 1988, the financial sector in the Lao P.D.R. consisted of just one institution, the State Bank. Currently, there are 17 commercial banks and a largely autonomous central bank, the Bank of the Lao P.D.R. (BOL). Nevertheless, the financial system remains underdeveloped, as it offers only a limited range of services, has a low degree of competition,

²³Prepared by Jan Kees Martijn

and is probably burdened by a weak loan portfolio. There is thus a clear need for further reform. Financial reform in the Lao P.D.R. follows earlier liberalization efforts in many other Asian countries. Most countries in South and East Asia liberalized their domestic financial system in the 1980s. This move was part of a more general shift in policy orientation, allowing market forces to play a greater role in economic development.²⁴

57. Recent changes in the conduct of monetary policy in the Lao P.D.R. are also comparable to earlier developments elsewhere in Asia. In most Asian countries, financial reform was complemented by a change in monetary policy. As direct credit controls were discarded, new, more market-based, instruments, such as open market operations, had to be developed. At the same time, the emergence of more developed financial markets, especially secondary markets, and more flexible interest rates, greatly enhanced the effectiveness of indirect intervention.²⁵

58. The chapter is set up as follows. The next section gives an overview of financial reform in the Lao P.D.R. The third section explains the changes in monetary policy, and specifically addresses the complications of the economic environment, in particular from dollarization. In section D, a comparison with other countries' experience is provided. Finally, lessons for policy are drawn in section E.

B. The Status of Financial Reform

59. Financial sector reform has been aimed at strengthening the role of market incentives and reducing the importance of central bank credit. Since the late 1980s, the banking system in the Lao P.D.R. has developed from a monobank, the State Bank, to the present two-tier banking system with 17 commercial banks. The main elements of this ongoing process of institutional reform are the following:

- The State Bank was split up in 1988, into a central bank, the Bank of the Lao P.D.R. and eight state-owned commercial banks.
- Preferential access to credit for public enterprises was abolished in 1988. Banks were generally allowed to determine the allocation of credit.
- Two joint venture banks were created, in 1989 and 1993, with state, domestic private sector, and foreign participation.
- Since 1992, foreign banks have been allowed to set up branches in Vientiane.

²⁴See Goldsborough and others (1996) on the role of monetary and financial sector policies in economic development.

²⁵See Alexander, Baliño, and Enoch (1995), for an analysis of the adoption of indirect monetary instruments.

- Prudential regulations were introduced in 1990, and revised several times, including a substantial revision in 1996. Commercial banks are audited by the BOL.
- Interest rates have been gradually liberalized since 1990; remaining controls were eliminated in June 1995 for kip lending, and in January 1996 for kip deposits.²⁶
- A decree on checks was issued in September 1996, defining the rights and obligations of banks, payers, and payees.
- A new accounting system for the commercial banks was introduced in the first months of 1997.

60. While financial sector reform has led to the gradual expansion of the banking system, thus facilitating monetization of the economy, the banking system remains underdeveloped and weak. A 1994 recapitalization of the state-owned banks, with financial support provided by the AsDB, failed to induce a change in banking practices. As a result, it is likely that most of these banks again have a weak loan portfolio. The main deficiencies of the current banking system are:

- A high degree of market segmentation, both by region and by customer group. The state-owned banks operate on a regional basis while, so far, the other banks have not been allowed to set up branches outside Vientiane. Only one state-owned bank engages in foreign currency transactions on a substantial scale. The seven Thai banks in practice restrict their clientele to Thai firms operating in the Lao P.D.R.
- A relatively high degree of dollarization, reflected by a high share of foreign currency deposits and loans, especially for the Thai banks.
- A lack of competition among the banks, as evidenced by the large interest rate spread, the rigidity of interest rates, credit and foreign exchange rationing, and often poor customer services.
- An absence of interbank markets.²⁷
- A lack of commercial orientation on the part of the bankers.
- A weak loan portfolio troubling the state-owned banks.

²⁶However, agricultural lending rates charged by the Agricultural Promotion bank continue to be subsidized and are determined by the authorities at a level far below the market rate.

²⁷One exception is the existence of a thin interbank market among the Thai banks in kip, dollars and baht.

C. The transition to Indirect Monetary Instruments

61. The principal aims of monetary policy in the Lao P.D.R. are to limit inflation and to stabilize the exchange rate of the kip relative to the U.S. dollar. In general, the BOL has been reasonably successful in achieving monetary stability. Inflation has come down from its peak level of almost 90 percent in August 1989, to single digit levels in most years of the present decade. As the BOL can not directly influence its ultimate targets, it uses the banking system's net domestic assets as an intermediate target and base money as an operational target. Monetary policy makes use of a variety of instruments, with emphasis on indirect control of broad money. The first part of this section describes the move from direct to indirect monetary instruments. The second part addresses some underlying issues that complicate the formulation of monetary policy, in particular dollarization.

The Development of Policy Instruments

62. The development of indirect policy instruments has been an ongoing process during the 1990s. Initially, the authorities relied on direct instruments, including instructions to reduce credit to state-owned enterprises and moral suasion to limit and target credit expansion. The latter instrument is still of considerable importance. An important step in the development of indirect instruments was the introduction in 1990 of a 5 percent reserve requirement. A credit window was opened at the central bank in 1992. Several innovations were introduced in 1994 in an attempt to give new impetus to indirect monetary policy: the reserve requirement was doubled to 10 percent; the BOL started the regular auctioning of transferable six-month treasury bills; and the credit window was replaced by a discount facility.²⁸

63. The successful control of monetary expansion and the gradual move to indirect policy instruments was interrupted in late 1994 and 1995. Excessive money growth in the second half of 1994 was reflected in rising inflation in 1995, of more than 20 percent on an annual basis in the second half of the year. The resulting decline in competitiveness triggered an exchange rate crisis; the kip was depreciated and the official exchange rate was abolished in September 1995. Monetary policy was tightened in response to these developments. In June 1995, reserve requirements were raised to 12 percent. The overdraft rate was increased, and the BOL started issuing central bank bills. Temporary direct controls complemented these indirect measures: the BOL imposed bank-specific credit ceilings and enforced compliance with the existing credit/deposit ratios (minimum of 60 percent; maximum of 80 percent).

64. Currently, indirect monetary policy is based on the following set of instruments:

- A uniform 12 percent reserve requirement on both domestic and foreign currency deposits. Required reserves are held in kip and are remunerated at 1.5 percent.

²⁸Before 1994, treasury bills were non-transferable, and were sold directly to banks and a few large enterprises.

- The auctioning of six-month treasury bills to the banks. Although the bills sold at the two-weekly auctions are transferable, no secondary market has developed. The size of the overall allocation is determined by the Ministry of Finance, in consultation with the BOL, and the proceeds are available for government expenditure.
- The sale of six-month central bank bills to the nonbank public, through the commercial banks. In contrast to the sale of treasury bills, this instrument has a direct quantitative impact on private sector liquidity. However, selling BOL bills through the present system can take considerable time, and the BOL does not control the amount sold in a particular time period.
- An overdraft facility for commercial bank borrowing, at a 35 percent interest rate.
- A discount facility for borrowing secured against treasury bills. In practice, this facility is hardly used as most banks with a negative clearing balance make use of the overdraft facility.

65. In addition to the use of moral suasion to control monetary expansion, the required loan/deposit ratio, while officially categorized as a prudential ratio, also constitutes an effective direct limit on credit growth for several banks. The authorities have declared that they wish to avoid direct credit ceilings.

66. In order to enhance monetary policy, the BOL introduced a reserve money programming framework in mid-1996. For the short-term management of the banking system's liquidity, the framework focuses on the commercial banks' clearing accounts at the BOL. The objective is to have balances that are just sufficient for the system to clear on a daily basis, without inhibiting real growth and allowing for a low and stable rate of inflation. According to the current procedures, the BOL makes a projection of reserve money one month ahead. The required intervention is determined by comparing this projection of base money to a target level that is derived from the official targets for inflation and real growth.

Issues in the Design of Monetary Policy

67. The effectiveness of monetary instruments reflects the functioning of the underlying transmission channels. Thus, the limited responsiveness of interest rates to changes in the commercial banks' liquidity limits the scope of indirect monetary policy in the form of open market sales of treasury bill to the banks. Attempts by the BOL to curtail excessive growth of bank credit would result in increased credit rationing, distorting resource allocation, rather than higher interest rates. Decreasing the liquidity of private sector savings through the sale of BOL bills, the alternative intervention technique, also reduces banking sector liquidity.²⁹

²⁹However, if a secondary market in BOL bills were to develop, these bills would become
(continued...)

However, because of its immediate impact on money demand (rather than just through interest rates), using this instrument instead of treasury bill sales requires a smaller intervention, implying less rationing.

68. The effectiveness of the BOL's monetary policy also depends on stable and predictable relationships between several key variables. Crucial for reserve money programming, is the relationship between base money and the targeted monetary aggregate, broad money (the money multiplier). Also important is the relationship between broad money, economic activity, prices, and interest rates (the money demand function). In the Lao P.D.R., these relationships are affected by three related processes: the gradual monetization of the economy, financial sector reform, and dollarization and currency substitution.

69. Because of the various deficiencies of the banking system, the degree of monetization of the Lao economy is limited, especially in the provinces, and the payment system is still largely cash based. Between 1991 and 1994, the velocity of broad money decreased from 15 to 7.8.³⁰ But since 1994, velocity has remained fairly stable.³¹ Once the commercial banks increase their range of services, start competing more vigorously for customers, and (are allowed to) set up more branches in the provinces, velocity would probably decrease further. The emergence of new financial instruments and the liberalization of interest rates (or, more importantly, increased flexibility of interest rates) should induce portfolio shifts and raise interest elasticities, thus affecting the money demand function. In addition to changing money demand, financial reform is also likely to affect the money multiplier. The emergence of an interbank market and a more predictable cash flow pattern would reduce the required level of the commercial banks' clearing balances at the BOL, thus increasing the multiplier.

70. There is a high degree of dollarization (the use of foreign currency, mainly bank deposits, as a store of value) and currency substitution (the use of foreign currency, mainly in cash, for transaction purposes), with extensive holdings of U.S. dollar and Thai baht.³² Foreign currency deposits accounted for 41 percent of broad money by the end of 1996. This feature of the Lao financial system complicates monetary policy in several ways. First, there is a measurement problem, since there are no data on the holdings of foreign currency cash.

²⁹(...continued)

more liquid and, accordingly, less effective in curtailing private sector spending. Moreover, in the future, if BOL bills could be rediscounted to commercial banks, the instrument would lose all of its advantage for monetary policy over issuing treasury bills.

³⁰Velocity is measured as the ratio of GDP over an annual average of the stock of broad money.

³¹However, if foreign currency deposits are excluded from broad money, measured velocity increased in 1995 and 1996, as monetary instability encouraged further dollarization.

³²See Chapter X on dollarization.

Thus, changes in measured broad money may not correspond to the actual development of private sector liquidity. Secondly, shifts between foreign and domestic monetary assets complicate the interpretation of monetary developments, and the link between broad money and economic activity in nominal terms may be less clear. Thirdly, there could be a loss of monetary control as the central bank does not directly control the foreign currency component of the money supply and because changes in kip interest rates have only a limited impact on aggregate demand. However, since all required reserves must be held in kip, the central bank does have full control over base money. Moreover, the reserve money programming framework, combined with the uniform reserve requirements on domestic and foreign currency deposits, provides for a mechanism to sterilize excessive increases in foreign currency deposits that reflect an increase in net foreign assets.

D. A Comparison with Other Asian Countries

71. Financial liberalization and the reforms of monetary policy instruments in the Lao P.D.R. follows similar moves in most Asian countries, and to some extent parallels current reforms in neighboring Vietnam. In general, the experience of other Asian countries with financial reform has been favorable, lending support to the Lao reform process. Allocative efficiency and growth were promoted by higher savings and by more efficient financial intermediation. In an evaluation of the move to indirect monetary policy in ten Asian countries, Tseng and Corker (1991) conclude that, in general, the effectiveness of monetary policy was enhanced.³³ In Indochina, monetary policy is hindered by extensive dollarization, though Vietnam's experience illustrates that financial reform and macroeconomic stability can reverse this process. On the downside, changes in the relationship between money, income and interest rate resulting from financial reform have complicated policy formulation and, in some cases, monetary instability could not be adequately addressed by open market operations.

72. The scope of the reform process varied widely across countries, from swift and almost complete liberalization in Singapore in the mid-1970s, and significant reforms in Indonesia, Malaysia, and the Philippines in the first half of the 1980s, to more gradual reform efforts in e.g., Korea, Thailand, and Nepal in the second half of this decade. In Indochina (Vietnam, Cambodia, and the Lao P.D.R.) and Myanmar, the authorities tightly controlled financial activity throughout the 1980s, and only embarked on financial reform in the 1990s.

73. The main elements of financial reform in Asian countries were:³⁴

- Liberalization of interest rates, leading to positive real interest rates. Positive real interest rates promote financial savings, leading to a deepening of financial markets

³³The countries included in the study were: Indonesia, Korea, Malaysia, Myanmar, Nepal, the Philippines, Singapore, Sri Lanka, and Thailand.

³⁴See Tseng and Corker (1991).

and a more efficient allocation of capital. Also, flexible interest rates provide a more responsive transmission channel for monetary policy.

- A reduction in both overall credit ceilings and credit allocation schemes. Overall credit controls restrict competition within the financial system and can lead to financial disintermediation. Credit allocation schemes that set investment priorities for the commercial banks tend to distort capital allocation and negatively affect the banks' loan portfolios.
- The lowering of reserve requirements. Unremunerated reserve requirements act as a tax on the banking system.
- Banking sector reform. Competition was stimulated and market segmentation reduced by allowing greater freedom of entry (domestic and foreign banks), expanding financial institutions' activities, and the commercialization or privatization of state-owned banks. These measures were accompanied by a strengthening of banking supervision.
- Promoting the development of money and capital markets, through the introduction of new financial instruments.

74. Often, financial reform was accompanied by the introduction of more flexible exchange rates and a reduction in the controls on international capital mobility.

75. The following table gives an overview of some key measures in financial sector and monetary policy reform in seven Asian countries at an approximately comparable stage of financial reform.

Financial Policies in Selected Asian Countries

	Reserve Requirements	Credit Controls	Liberalization of Interest Rates
The Lao P.D.R. (1996)	12 percent	Moral suasion	Yes
Vietnam (1996)	10 percent	Bank-by-bank credit ceilings	No
Cambodia (1996)	5 percent	No	Yes
Thailand (1990)	7 percent	Selective credit policy; no ceiling	Partly (maximum lending rate)
Indonesia (1990)	2 percent	No	Yes
Malaysia (1990)	6.5 percent	Moral suasion	Yes
Philippines (1990)	Actively varied	Selective credit policy; no ceiling	Yes

Sources: Tseng and Corker (1991), International Monetary Fund (1996 and 1997).

76. The reform process in the Lao P.D.R. is similar to that in Vietnam. In the financial sector, in both countries the banking system is dominated by state-owned banks, there is a high degree of dollarization, and the exchange rate follows the parallel rate.³⁵ Overall, financial sector reform in Vietnam has been less rigorous than in the Lao P.D.R., as the country still maintains interest rate and bank-specific credit controls. Vietnam, however, has been reasonably successful in countering dollarization. After foreign currency deposits were legalized in 1988, these deposits initially increased to about 40 percent of broad money in 1991. Owing to macroeconomic stability and financial reform, this share subsequently decreased to about 20 percent by mid-1996.

77. Financial reform in Asia changed the environment for monetary policy and induced adjustments in the targets of monetary policy. In general, financial liberalization and the associated weakening of nonprice rationing forced the authorities to limit the number of targets, since attaining a certain target then implied that other financial variables were determined endogenously. During the 1980s, there was a shift from targeting credit to targeting interest rates or broad money. This shift reflected the greater control over broad money owing to increased exchange rate flexibility as well as the increased importance of foreign sources of credit as a result of increased capital mobility.

78. The overall conclusion that financial sector reform and the move to indirect monetary policy positively affected economic development and policy effectiveness, should be qualified in three respects. A first qualification concerns macroeconomic stability. Several of the countries, in particular Indonesia and the Philippines, experienced periods of severe macroeconomic instability due to large capital flows and fiscal deficits, shortly after they had started the process of financial and monetary policy reform. At the time, financial markets and the indirect instruments had not yet been sufficiently developed to counter these disturbances.

79. Secondly, as Asian countries that liberalized interest rates in the 1980s were generally successful in raising real interest rates, real lending rates increased significantly, up to nearly 20 percent in Indonesia and the Philippines. In the latter countries, these excessive rates resulted in a serious deterioration of loan portfolios. The source of the problem was not, however, the liberalization process itself, but macroeconomic instability, fueling expectations of higher inflation, and weak banking supervision.

80. Finally, the experience of Asian countries that liberalized their financial system in the 1980s suggests that such reform temporarily undermines the stability of money demand relationships.³⁶ There were one-time shifts in money demand, changes in elasticities, and new explanatory variables that had to be added. In general, interest rates became more important in determining both narrow and broad money. In most Asian countries, velocity is well below

³⁵See Dodsworth and others (1996a and 1996b), and International Monetary Fund (1996).

³⁶See Dekle and Pradhan (1997).

7.8, the current level in the Lao P.D.R., illustrating the likelihood of a further decline in velocity as financial reform progresses.³⁷ The introduction of higher denomination bank notes in Cambodia in 1995 is of particular interest for the Lao P.D.R. This measure was followed by a marked increase in demand for the domestic currency.³⁸

E. What Needs to be Done

81. Financial sector reform will need to continue in the Lao P.D.R., leading to a more developed banking and nonbank financial system. Such development is envisaged by the authorities, would fit the development needs of the country, and would follow the example set by most other countries in the region. Establishing a developed and healthy financial system without risking monetary instability, will require parallel action in financial sector reform, including bank restructuring, banking supervision, and financial market development, and monetary policy.

82. For bank restructuring to provide the foundation for a competitive and healthy banking sector, it would have to result in a clear change in banking practices. In the event of a second recapitalization operation, it is essential to provide a credible signal that no further bailing out will occur. That would require the operation to start with rigorous banking audits to ensure that the newly formed and recapitalized banks are indeed viable. Also, a possible cash injection as part of a recapitalization operation should be kept very small, to prevent giving banks an unwarranted incentive to increase credit supply. Commercialization or privatization of the banks would be a further step to change banks' behavior, especially with foreign participation. A second building block of financial sector reform would be to minimize market segmentation, by ending the regional focus of state-owned banks and by allowing all banks to set up branches outside Vientiane.

83. The BOL needs to strengthen its supervisory capacity to ensure sound banking practices. The Lao banking system requires close supervision, given the upcoming restructuring, the limited experience of the domestic banks, and the unstable nature of the economy. In addition, creating confidence in the banking system is essential for increasing the country's monetization.

84. Creating secondary markets in financial assets would increase the BOL's flexibility in affecting the domestic money market and promote the rapid transmission of price signals throughout the economy. The authorities have tried to promote the development of these markets by issuing standardized securities and by enacting the required regulations. A book

³⁷For example, velocity was 4.6 in Vietnam by mid-1996 and 1.3 in Thailand at end-1995.

³⁸This reflected a portfolio shift out of foreign currency cash, which is not included in broad money. The highest denomination note was increased from the equivalent of 20 US cents to almost \$40. See International Monetary Fund (1997).

entry system for treasury bills and for BOL bills, expected to be introduced by mid-1997, should boost secondary market development for these securities. In addition, effective bank restructuring and commercialization would promote the development of interbank markets, as banks would become more eager to exploit new opportunities.

85. As the BOL's familiarity with reserve money programming increases, interventions should become more frequent and more targeted in terms of their duration. That would require the BOL to obtain sufficient flexibility in determining the sale of treasury bills, and to develop new instruments, such as reverse repurchase agreements. The use of treasury bills for the purpose of conducting monetary policy should not affect the government expenditure. Ultimately, in a more mature financial system, selling BOL bills to the nonbank public might outlive its usefulness, because private sector liquidity could be influenced effectively by managing interest rates.

X. THE DYNAMICS OF DOLLARIZATION IN THE LAO P.D.R.³⁹

A. Introduction and Overview

86. For over thirty years, the Lao P.D.R. has been characterized by a significant degree of dollarization. The share of foreign currency deposits in broad money (including these deposits)—the most readily available, but not all encompassing, indicator of dollarization—is currently at 40 percent.⁴⁰ This chapter takes a close look at the dynamics of the dollarization process in the Lao P.D.R. Following a review of some conceptual issues, the chapter traces the emergence of dollarization and analyses indicators and determinants of the process. Finally, policy implications are discussed as well as measures to reverse the process.

87. The chapter concludes that the dynamics of dollarization in the Lao P.D.R. stem from a combination of factors, the major ingredients of it being a long history foreign currency cash circulating in the economy, a low degree of monetarization with poorly developed banking system, a low level of internal economic integration, a lack of confidence in government policies and pressures to expand the use of the Thai baht. Given the nature of these factors, reversal of the process will most likely be slow. Essential ingredients of a policy geared towards a reduction in dollarization are building policy credibility, establishing a competitive banking system, and rationalizing the domestic payments system.

³⁹Prepared by Marc Quintyn and Paul Wade.

⁴⁰This is twice as high as in Vietnam (20 percent) and somewhat lower than in Cambodia (50 percent).

B. Conceptual issues

88. As several authors have pointed out, the dollarization literature is confused when it comes to definitions as well as interpretation of underlying dynamics.⁴¹ Rather than adding another set of definitions, this chapter follows Calvo and Végh (1995) and Sahay and Végh (1995) in defining **currency substitution** as the use of foreign currency in circulation as medium of exchange and **dollarization** as the broader phenomenon whereby foreign currency is used as medium of exchange and store of value. The above papers set out the theoretical foundations of the distinction between the two phenomena. However, their theoretical framework omits those specific circumstances under which foreign cash fulfills a store of value function, in particular in economies where confidence in the banking system is low. As will be demonstrated in this chapter, the Lao P.D.R. is a case in point. In circumstances with an underdeveloped financial system, holding foreign currency in cash is often the best—or only—option for meeting both needs.

89. Proper interpretation of dollarization also requires a good understanding of the interaction between the dynamics underlying the flight from domestic money and the prevailing institutional framework. As noted in Savastano (1996), pattern and manifestation of the dollarization process will vary among countries, depending on the foreign exchange and capital control framework.⁴² Changes in the institutional framework will also affect pattern and manifestations in a particular country over time.

C. Dollarization in the Lao P.D.R. - Events and Facts

90. Currency substitution started in the 1960s during the Vietnam War and the civil war in the Lao P.D.R., when large amounts of US dollars related to the war operations entered into circulation. The liberated zone used the “liberated kip” while the old national currency (dubbed the “Vientiane kip”) continued to circulate in other parts of the country, alongside the US dollar. Shortly after the establishment of the new regime in 1975, a monobanking system was established, followed by two currency reforms. In 1976 the Vientiane kip was taken out of circulation and in 1979 the new (present) kip was introduced at a conversion rate of 1 new kip = 100 liberated kip. These successive rounds of currency reform, compounded by a highly unstable macroeconomic environment (with the annual inflation rate in the 80-120 percent range and one peak around 200 percent in 1980), led to extensive use of dollars in black markets. Intense opium trafficking in remote and mountainous parts of the country (close to the Golden Triangle) served as an additional source of foreign cash inflow.

91. The establishment of the New Economic Mechanism in 1986—starting the transition to a market economy and opening of the economy—was the prelude to the parallel circulation

⁴¹See among others, Giovannini and Turtelboom (1993), Sahay and Végh (1995) and Savastano (1996) for a recent discussion of definitions.

⁴²See also Clements and Schwartz (1992).

of three main currencies. The opening up to Thailand, after the two countries had ended their state of war at the end of the 1980s, led to an immediate surge in (legal and illegal) trade which brought the Thai baht into circulation. This currency is now probably circulating in larger volumes than the US dollar.⁴³ This co-circulation of several currencies seems to reflect the large differences between regions in the Lao P.D.R. and in particular the weak intra-regional links due to inadequate infrastructure and inaccessible, mountainous terrain. Economic development in several provinces is becoming increasingly linked to adjacent provinces in neighboring countries because of easier access. In the absence of an efficient domestic banking system, the use of foreign currency is a natural outcome.

92. Additional factors explain the expansion of the Thai baht. Increased trade between the Lao P.D.R. and Thailand—much more so than with Vietnam—is favored by closer cultural ties, the geographical ease of trading in many provinces (simply crossing the Mekong river versus poor mountain roads between Laos and Vietnam) and the fact that Thailand is a market with greater purchasing power and a productive structure (and hence import needs) that complements the Lao productive structure. While these factors make the use of the baht a “natural” choice, there is another factor at play as well. As part of a promotion of their national currency, branches of Thai banks in Thailand along the Thai-Lao border do not accept kip, thus forcing Lao residents and traders to use baht. Moreover, the branches of Thai banks in Vientiane (established since 1992) conduct the majority of their business in baht and bring in vast amounts of the Thai currency, in particular in times of tensions (as in 1995). This active promotion of a foreign currency in the Lao P.D.R. is more strongly developed than in most other dollarized economies.

93. No official estimates of foreign currency in circulation are available. However, income velocity of kip currency in circulation is currently around 40. Compared with other countries at the same stage of development, this high number suggests that the foreign currency cash component is between one-half and three quarters of local currency in circulation, implying that true velocity could be around 25. Several sources indicate that transactions in the parallel exchange rate market amount to 50 percent of total foreign exchange flows, an indication that goes in the same direction.

94. As part of the reform and opening of the country, residents were allowed to open foreign currency deposits with local banks. First, in 1988 exporting firms were allowed to retain their foreign currency earnings and in late 1990, all restrictions were lifted on residents holding foreign currency deposits in local banks. In addition, the Lao P.D.R. adopted, in principle, an open trade and exchange regime. The permission to open foreign currency deposits in local banks altered the pattern and manifestation of dollarization in the Lao P.D.R.

⁴³More recently, there is also evidence of a growing use of the Vietnamese dong and the Chinese renminbi in some provinces.

D. Analysis of Indicators and Determinants of Dollarization Overview

95. Since the early 1990s dollarization has been present in its three main forms: foreign currency in circulation, foreign currency deposits held domestically (mainly US dollar and Thai baht) and foreign currency deposits held abroad.⁴⁴ In the absence of reliable data on foreign currency in circulation, the analysis in this section, covering the end-1990 - end-1996 period, focuses on two indicators of dollarization, foreign currency deposits of Lao residents in the domestic banking system (hereafter called FDD) and foreign currency deposits of Lao residents held abroad (called FDA). Their sum is called TFD (total foreign currency deposits).⁴⁵

96. A first impression from Chart 5 is the limited interaction between FDD and FDA. FDA holdings show a trend which has been flat on average, around US\$ 15 million (with a slight increase toward the end of the period), only interrupted by some sharp spikes which have become higher over time—lately as high as US\$ 50 million (45% of M2 at that time). These spikes seem typical of nervousness in the markets. The March 1996 peak coincides with the Sixth Party Congress which was expected to announce changes in the leadership and therefore created uncertainty with respect to the direction and pace of economic reforms.

97. FDD holdings show a different pattern. Once permitted to the general public, they started to increase in late 1990 and, following a short drop in September 1991, have been steadily growing since, only interrupted briefly on a few occasions. At end 1996, FDD amounted to US\$100 million and the two indicators of dollarization taken together amounted to almost US\$120 million.

98. The institutional change to allow FDD, did not lead to any apparent substitution from FDA into FDD. This underscores the view that both series are broadly determined by a different set of factors and, in fact, that FDA seems to have a life of its own. Although FDA dropped in early 1991, the larger part of FDD seems to have come from foreign currency in circulation and domestic currency. The latter is substantiated by the fact that domestic broad money, after having grown by 76 and 108 percent in 1988 and 1989 respectively, manifested a zero growth rate in 1990, thus pointing to an increase in dollarization. In addition, the permission to hold FDD was followed by some pressure on the parallel market rate, also indicative of the conversion of local into foreign currency holdings.

⁴⁴Although they are not legally permitted (Prime Minister's Decree No. 53), for a long time Lao residents have been keeping some foreign currency deposits held abroad. Data on foreign currency deposits held abroad have to be interpreted with caution as they have to be collected from various sources outside the country.

⁴⁵No separate data are available for US\$ and baht deposits. The term dollarization used throughout the chapter includes "bahtization". Vietnamese dong and Chinese renminbi deposits are not accepted.

99. The above picture is broadly confirmed by Chart 7 which expresses FDD as a percentage of TFD. Between end-1990 and end-1994 the share of FDD went up from 65 to 85 percent, briefly interrupted in a few periods which are hard to relate to economic events. This picture changed during the 1995 economic crisis when the inflation and exchange rate crisis triggered a move from FDD, most likely foreign cash, and from domestic currency deposits into FDA. The latter move put additional pressure on the parallel exchange rate. Comparison of Charts 6 and 7 indicates that the decline in the FDD ratio in March-April 1996, coinciding with the Party Congress, was pure dollarization (as opposed to substitution between FDD and FDA) since both variables grew in those months.

100. Turning to an analysis of factors which traditionally influence dollarization, Chart 8 looks at developments in two dollarization ratios:

$FDD / (M2 + FDD)$

and

$TFD / (M2 + TFD)$

where M2 is broad domestic money (sum of kip currency in circulation, demand, time and savings deposits). In view of the above findings about the limited interactions between FDD and FDA, the focus will mainly be on the behavior of the FDD ratio. Chart 8a plots the ratios against the inflation rate and the most recent maximum inflation rate, while Chart 8b plots the ratios against the differential between the interest rate on kip deposits and on U.S. dollar deposits.

101. The choice of the most recent maximum inflation rate stems from the finding that dollarization in several countries exhibits inertia of hysteresis-effects, a finding that by now has been well documented in the literature.⁴⁶ In situations where investment costs have been incurred for adapting to a new financial and payments system away from the use of the local currency during the high inflation period, inertia may occur when it turns out that after stabilization, the cost involved in continuing is small compared to the (maybe) cumbersome and relatively expensive process of switching back to the local currency. A related explanation is that the usefulness of a certain currency depends on network externalities and economies of scale: the higher the perceived probability that trade partners will accept that currency in the future, the more agents will choose to accept that currency in the present.

⁴⁶Guidotti and Rodríguez (1991) provide a theoretical framework showing why dollarization might not decrease after successful stabilization, based on economies of scale; Matsuyama and others (1993) explain the phenomenon by referring to network externalities. Successful empirical applications are found in Piterman (1988), Clements and Schwartz (1992), who use a deterministic trend to capture inertia, Kamin and Ericsson (1993), who use past maximum inflation rates and Mueller (1994) who uses past maximum depreciation rates. Evidence of inertia mainly comes from Latin America and a few countries like Israel and Libanon. Transition economies so far show less evidence of its existence (see Sahay and Végh (1995)).

102. As the Charts show, shortly after FDD had been permitted, the FDD ratio jumped quickly to the 40 percent range and since then has been hovering around an average of 35 percent. This is a relatively high ratio, a finding that becomes even more striking when compared with the prevailing macroeconomic environment. The period since 1990 has been characterized by broadly stable macroeconomic conditions with low inflation and a relatively stable exchange rate, with a brief interruption in 1995 when inflation surged to close to 30 percent and the exchange rate depreciated by about 30 percent over a 5 month span. When looking at TFD, the level reached over 50 percent, a ratio not much smaller than in countries plagued with inflation in the three- and four-digit range. Transition economies showed dollarization rates typically below 50 percent which in many cases were reversed rapidly.⁴⁷ In addition, measurable dollarization only started when inflation had already been brought down to manageable levels (less than 20 percent), while in most other cases hyperinflation was the triggering event.⁴⁸

103. Such a high and persistent level points to strong inertia-effects, most likely related to a deep-rooted lack of confidence in the local currency. After years of war and economic disorder, confidence in the government's policies is far from restored. The slow downward movement in dollarization might be seen as an indication that the public still perceives the macroeconomic situation as fragile. By the same token, any sign of instability—even small by standards of other dollarized economies—is sufficient to accelerate dollarization. The 1995 episode underlines the presence of this phenomenon. Using the highest recent inflation as a proxy for the ratchet-variable, it seems that in the aftermath of the 1995 events, the FDD ratio is setting in at a new and higher level. High inertia in FDD is not surprising in view of the ease with which these deposits can be held and managed in the domestic banking system.

104. One also observes asymmetrical behavior around the average level by comparing two periods. The downward trend in inflation between 1990 and 1994 (at least clearly until end 1993) is accompanied by a much slower downward drift in dollarization. On the other hand, the 1995 surge in inflation was quickly followed by a significant increase in dollarization, from below 30 percent in early 1995 to close to 45 percent one year later, measured by the FDD ratio.

105. From Chart 8b it is not clear whether relative returns have played any significant role in the responsiveness of dollarization. Closer inspection of 1995 points to an inverse relationship: a widening of the differential in the face of increasing dollarization as a policy response. However, there does not seem to be a response in the other direction. This leads to

⁴⁷See Sahay and Végh (1995) for selected transition economies and Dodsworth and others (1996) for Vietnam.

⁴⁸Pure currency substitution must have reached high levels during the (short) high inflation period at the end of the 1980s and the formation of deposits in the early 1990s came partly from foreign cash holdings.

the conclusion that in the period under review the effects of interest rate differentials were overshadowed by other factors.

106. In addition to the above factors, two other elements seem to play an important part in keeping dollarization high in the Lao P.D.R.. These are the low initial degree of monetization and the expansion of the baht. The low initial degree of monetization in the Lao P.D.R. may serve as an additional explanation, in that dollarization has contributed to financial deepening and economic growth. Before the reforms several parts of the country, confronted with the combination of a closed economy and physical and other barriers to internal trade and communication, remained isolated and non monetized. The external opening of the economy, in particular the trade agreement with Thailand in 1989, suddenly gave these regions easier access to bordering markets. Traders received baht for their exports and needed baht for their purchases which are cheaper and more accessible than buying the same goods in Lao towns with higher transport costs. For practical trading reasons these groups stayed with baht when they were allowed to open deposits with domestic banks. So dollarization and monetization went hand in hand. At a smaller scale, the same reasoning applies to regions bordering China and Vietnam.

107. Chart 9 provides some insights on the impact of dollarization on financial deepening. It depicts income velocities of different monetary aggregates and inflation for the period under review. To the extent that most of the substitution of domestic for foreign currency holdings takes place within the domestic financial system, the level of intermediation would tend to remain relatively stable, or even increase to the extent that dollarization assists in monetization. The Chart points to the latter. Velocity of (domestic) currency in circulation shows highly erratic movements along a very shallow downward slope in the first years of the period. As indicated before, velocity of 30 - 40 with no significant downward trend at this stage of the Lao P.D.R.'s economic development indicates a significant and most likely growing share of foreign currency in circulation. The responsiveness of this indicator to inflation in 1995 indicates that the share of foreign currency in circulation rapidly increased during that period. Such a rapid shift also indicates that in a poorly developed financial system foreign cash holdings still play a role as store of value, given the lack of other liquid and high yielding kip-denominated instruments.

108. M2 follows the downward trend reflecting financial deepening, expected in economies at the Lao P.D.R.'s stage of development. This trend was interrupted in 1995. Velocity of M3, the aggregate that contains FDD, exhibits a much more stable development since 1993. Financial deepening is again evident in the downward movement from about 15 in 1990 to 8 three years later. However, the downward movement came to a halt in 1995 in response to the surge in inflation. If one takes into account the (unknown) foreign cash component, the most likely course of events is that a further decline in velocity occurred in the past two years, in line with the hypothesis of increasing monetization of the Lao economy, driven by dollarization.

109. The Thai influence may explain another part of the Lao dollarization pattern. Returning to Chart 8, the flat episode in the ratio between end-1992 and mid-1994 coincides with the opening of 6 branches of Thai banks in Vientiane. From the beginning these bank attracted a large part of their deposits in US dollar and baht. At present they manage almost 35 percent of the sector's foreign currency deposits of residents (and only 6 percent of kip deposits). It seems therefore plausible that any downward movement in the dollarization ratio in those years, for instance in the wake of returning confidence, was stopped by the entrance of these banks. As they transform virtually all their foreign currency deposits in foreign currency loans, they form a closed circuit in the Lao economy which puts a floor under the dollarization ratio.⁴⁹ This high share of foreign currency loans (about 30 percent of total bank lending) differs from typical dollarization patterns which are predominantly linked to deposit-taking activities.

E. Implications and Measures to Counteract the Process

110. Dollarization has certainly had a positive impact on the Lao economy in the absence of confidence in the domestic currency and efficient banking intermediation. In particular, it has assisted financial deepening and trade in general and has helped economic development in border provinces. It has facilitated payments in the absence of an efficient and widespread banking system, and reduced transaction costs and exchange risks. Allowing FDD has brought this component under some government control and facilitated macroeconomic policies to some extent. However, it also has negative implications for financial policies, which justify consistent policies to reverse dollarization.

Implications for Financial Policies

111. One fiscal issue is the extent of informal imports and exports, facilitated by currency substitution. Informal imports are estimated by the government to be equivalent to 30 percent of recorded imports, implying a substantial revenue loss. The fiscal vulnerability to the switch

⁴⁹The fee structure of these banks overwhelmingly favors the use of baht cash over kip. Thai banks provide a faster and cheaper service to wire funds from abroad than Lao banks, making the opening of foreign currency accounts with them more attractive. In addition, for withdrawals from deposits, they maintain commission/fee structures and exchange rates that make it uneconomical for the customer to convert into kip. Moreover, the fee for withdrawing dollar cash is five times as high as for baht cash. Whereas promotion by foreign banks of internationally accepted currencies is a standard practice, the promotion of the baht is a more unusual phenomenon.

to informal trading has triggered a comprehensive effort to strengthen the tax and customs administration.⁵⁰

112. The growing importance of FDDs (or currency substitution) increases the difficulties of running appropriate monetary policies. Even though velocity of M3—the aggregate including FDD—has become more stable over time, and more stable than any other aggregate, the unknown but significant foreign currency in circulation component of money demand complicates monetary policy formulation and implementation (see Chapter IX). To a limited degree the authorities can influence the size of FDDs through their ability to influence the interest rates on domestic currency deposits, but the effects have been minimal.

113. The rise in FDDs in recent years has increased gross foreign currency denominated liabilities of the banking system, increasing the risk of affecting confidence since the central bank is not a lender of last resort for such funds. From the perspective of banks' financial health, these foreign exchange funds should be put into use where they yield a return in excess of the banks' foreign currency debt servicing costs. In the Lao P.D.R., domestic banks have been relative cautious by redepositing a high share of these funds abroad, paying domestic depositors somewhat less.

114. Dollarization has increased the sensitivity of the exchange rate to credibility concerns as the substitution elasticity between domestic and foreign currency denominated assets has increased. Increased dollarization has, *ceteris paribus*, led to real depreciation of the kip, mirroring the decline in demand for kip relative to foreign currency. Devaluations have become less effective in affecting aggregate demand. Only a fraction of domestic wealth is in kip and hence subject to a negative wealth effect with regard to demand for foreign goods and services. On the other hand, to the extent that FDDs are held as store of value for purchases of domestic goods and services, a devaluation gives a positive wealth effect with regard to demand for these goods, which lowers the effect on domestic absorption.

Measures Taken to Deal with Dollarization

115. At the beginning of the reforms, the authorities took several measures to lift restrictions on trade (both internal and external) and payments. The use of foreign cash—even though not legal—increased and FDD became an important part of the money stock. Allowing FDD was also seen as a measure to do away with black markets in foreign currency and goods and to increase gross reserves of the banking system.

116. Prudent financial policies during most of the 1990s helped to rebuild confidence in the domestic economy. As such these policies were the most significant contribution to address

⁵⁰Other, more general issues include a reduction in the returns from the inflation tax and the loss of seignorage.

the issue. However, the 1995 problems, following 6-7 years of stabilization, were enough to bring the rate of dollarization to historically high levels and to show how fragile credibility still is. The policy of keeping the official exchange rate close to the parallel market rate (2-4 percent) between the end of 1990 and the end of 1994 certainly also helped in building up confidence, while the policy of keeping interest rates positive in real terms assisted in attracting domestic currency deposits. Conversely, on two occasions in the 1990s when the authorities reminded the population through circulars that the kip should be used for all domestic transactions, anecdotal evidence suggests that such reminders had the reverse effect—they led to an increase in the demand for foreign cash—because the public saw them as a prelude to other measures (such as confiscation).

117. Technical measures to reduce dollarization have been scarce so far. In 1995 the authorities considered having the banks meet reserve requirements on foreign currency deposits in foreign currency but finally buried this idea on the grounds that it would diminish the demand for kip even more. A higher denomination kip banknote will be issued, which may have a positive impact on kip cash in circulation as was recently noted in Cambodia following the introduction of larger denominated banknotes. Currently, the highest denomination is KN 1,000, roughly equivalent to 1 U.S. dollar. Larger denominations (KN 10,000) are also under consideration. The decree on checks, enacted in late 1996, should also assist in promoting the use of kip in domestic transactions. Finally, the government is also embarking on a restructuring of the state-owned bank sector, a reform that should indirectly promote the use of the domestic currency.

Possible Further Measures

118. It might take years of confidence-building to achieve a significant decrease in dollarization. Measures should concentrate on building confidence, establishing a competitive banking system and rationalizing the payments system. The most obvious task for the government is clearly to “keep the fundamentals right” to instill confidence. However, given the size of dollarization and the size of the macro-imbalances, the experience of other countries makes clear that this will be a slow process.

119. The second pillar is the reform of the banking system (see also Chapter IX). The development of a competitive banking system, consisting of local and foreign (including non-Thai) banks that offer efficient liquidity and investment services should have a beneficial impact on the use of the kip and should indirectly also stimulate confidence in the economy. A competitive banking system will alter the relative pricing structures of the banks and gradually establish economies of scale in the use of the kip. An efficient payments system includes the availability of efficient banknote denominations and reliable settlement services, which would also facilitate the use of other payment instruments.

XI. ASEAN MEMBERSHIP: A CHALLENGE AND AN OPPORTUNITY⁵¹

120. Coinciding with its thirtieth anniversary, ASEAN (Association of Southeast Asian Nations) is expected to expand, possibly as early as in July 1997, to encompass all ten south-east Asian countries by admitting Cambodia, the Lao P.D.R., and Myanmar. Started as a largely political alliance, ASEAN has shifted its attention to economic cooperation and integration and has improved its position in the world export market by exploiting scale economies and deepening the division of labor across the region. After the way was paved for the ASEAN Free Trade Arrangement (AFTA) ten years ago, at which time member states signed the ASEAN Preferential Trading Arrangement and it was agreed to seek new ways to increase intra-ASEAN trade, ASEAN has been witnessing some of the sharpest growth rates in trade worldwide and has itself become a sizeable market.

121. For the Lao P.D.R., which is lagging relative to the average level of economic development in ASEAN, prospective membership in ASEAN and AFTA poses a series of challenges and opportunities. This chapter provides an overview of the evolution of ASEAN and its planned expansion, and points to the factors that are expected to make an impact on the Lao P.D.R. It concludes that there are medium- and long-term gains for the Lao P.D.R. to be expected from joining ASEAN but that a host of short- and medium-term adjustments will be needed before these benefits can be reaped. In particular, structural reform should be accelerated.

A. Evolution of ASEAN and Implementation of AFTA

122. ASEAN⁵² was founded in 1967 and was initially concerned with regional peace and security issues. Since 1977, when the ASEAN Preferential Trading Arrangement was signed, the goals became more economic in nature. By now, there are a total of 54 agreements and protocols relating to economic cooperation signed and ratified by ASEAN members.

123. On January 28, 1992, ASEAN member countries agreed to implement the Common Effective Preferential Tariff Scheme (CEPT), with the aim of improving the preferential

⁵¹Prepared by L. Effie Psalida and Marc Quintyn.

⁵²ASEAN was established by Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Brunei Darussalem joined in 1984 and Vietnam in 1995. In addition to member countries, ASEAN has the following dialogue partners: Australia, Canada, the European Union, Japan, Korea, New Zealand, and the United States. ASEAN member countries hold annual consultations with the dialogue partners.

trading area and with a view to move toward an AFTA.⁵³ The stated objective of AFTA was to increase manufacturing competitiveness in ASEAN member countries by attracting greater foreign direct investment, thereby improving the ASEAN production base from which to reach world markets.

124. The free trade area is to be achieved in 2008, fifteen years after the start of phasing down import tariffs in 1994, with a goal to reach a zero to 5 percent preferential tariff on manufactured goods.⁵⁴ Quantitative restrictions and other nontariff barriers on CEPT goods are also to be phased out during this period. Concessions apply only to goods originating in an ASEAN country and the rule of origin is set at 40 percent of local content, either within a single member country or on a cumulative ASEAN basis. An average of 25 percent of member country tariff lines are covered in the program of tariff reduction. According to the present schedule, roughly 88 percent of these tariff lines will reach the target level of zero to 5 percent by 2003.

B. ASEAN Expansion

125. The three prospective entrants differ from the existing ASEAN members in a number of significant ways, which may affect the pace and direction of their integration. Their per capita income is significantly lower than the ASEAN average and, contrary to established ASEAN members, they are still relatively closed economies going through a transition from plan to market (see the table below). Their labor costs are lower on average, which provides an opportunity for attracting foreign capital, but much remains to be done in the areas of infrastructure and the legal and regulatory environment to render them more attractive to foreign investment.

126. As members of ASEAN, Cambodia, the Lao P.D.R., and Myanmar will be obliged to subscribe or accede to all the treaties, declarations and agreements of the group, including participating in AFTA. Although they will have a number of years to adjust, they will eventually face the challenge of participating as equal economic partners vis-à-vis other members so as to take advantage of the availability of the larger markets provided by ASEAN.

⁵³See Kirmani and others (1994) for an overview of the implementation of AFTA.

⁵⁴Items excluded from liberalization are those on the general exclusion list, which includes such products as mineral fuels, motor vehicles, etc. Member states may exclude products from the CEPT scheme for reasons of national security, public morals, protection of human, animal, or plant life and health, and the protection of articles of artistic, historic, or archeological value. Member states may temporarily exclude sensitive items. The temporary exclusion lists will be reviewed in the eighth year with a view to bringing the covered items back into the liberalization process. Unprocessed agricultural products and services are not included in the liberalization scheme.

ASEAN: Indicators of Openness and Trade Distortion

	Trade/GDP 1/ (in percent)	TTR/Trade 2/ (in percent)	TTR/GDP 2/ (in percent)	GNP/Capita, 1995 (in U.S. dollars)
Brunei Darussalam (1994)	86	1.8	1.5	15,400 3/
Indonesia (1995)	48	1.6	0.8	980
Malaysia (1995)	171	1.8	3.0	3,890
Philippines (1995)	58	8.7	5.0	1,050
Singapore (1995)	274	0.2	0.6	26,730
Thailand (1995)	78	4.0	3.2	2,740
Vietnam (1996)	71	9.6	6.8	240
Cambodia (1996) 4/	54	8.5	4.6	270
Lao P.D.R. (1996) 4/	55	5.5	2.7	350

Sources: Country authorities, the World Bank and staff estimates.

1/ Trade is defined as the sum of exports and imports of goods.

2/ TTR is trade tax revenue. As a ratio to Trade, it is used as a measure for the country's dependence on taxes from trade (or a proxy for trade distortion).

3/ 1994 GDP

4/ Non-ASEAN member (membership expected in the summer of 1997).

127. ASEAN export trends to date provide promising developments for the prospective members in the medium term if they are to follow the liberalization policies of their ASEAN partners. The growth of ASEAN exports in the past decades has been higher than the growth in world trade and there has been a shift in the composition of exports toward manufacturing goods (Figure 1), with the more labor-intensive and lower value-added industries moving to lower wage countries.⁵⁵ The increasing import demand of the more mature ASEAN economies can provide ample opportunity for growth to the new members.

⁵⁵McDermott (1997).

FIGURE 1
ASEAN: COMPOSITION OF EXPORTS, 1970 - 95 1/
(in percent of GDP)

1/ Agriculture includes: a) food and live animals, b) beverages and tobacco, c) crude materials excluding fuels and d) mineral, vegetable oil and fat.
Manufacturing includes: a) basic manufactures, b) machines and transport equipment and c) misc. manufactured goods.
Other includes: a) mineral fuels, b) chemicals and c) goods not classified by kind.
2/ Excluding Brunei Darussalam and Vietnam.

C. Prospects for the Lao P.D.R.

128. In the medium and long term, ASEAN and AFTA membership is expected to have beneficial effects on the Lao economy. Through ASEAN, the Lao P.D.R.'s integration in the world economy will be facilitated, providing it with higher exposure to global competition. Short-term gains will depend on the magnitude and pace of foreign direct investment. However, before the benefits can be reaped, the country will have to go through several short and medium-term adjustments with related costs, as noted below. While the country's starting position is relatively favorable in some areas (such as the fiscal impact), accelerated adjustment is needed in others (such as structural reform). Facing the need to adjust, the country has the advantage that full integration in AFTA is gradual, allowing it to spread some of the costs.⁵⁶

⁵⁶A thorough analysis of the effects of joining is hindered by the limited availability of bilateral trade data for the Lao P.D.R.

Effects on Trade

129. In the discussions leading up to membership, the Lao authorities are negotiating coverage and speed of convergence concerning AFTA. In that context, imported goods on the inclusion list will have their tariffs reduced to a maximum of 5 percent within 10 years of membership. Imports on the temporary exclusion list may have their tariffs left unchanged for three years, and then they are given five years to enter the inclusion list. Of the total number of imported goods categories, about 80 percent are likely to be on the temporary exclusion list. In addition, the authorities want to put fuel on the general exclusion list and include rice and vegetables on the sensitive goods list.

130. Overall, the time path for the reduction of import tariffs, after joining AFTA, has not been determined yet. Following the Vietnam example, the authorities

will likely reduce import tariffs only gradually, allowing them some time to adjust. On the other hand, owing to the trade liberalization of the past decade, the Lao P.D.R.'s degree of protectionism is already low relative to its neighbors. In 1996 the average effective import tariff rate was about 7 percent, compared to 10 percent in Vietnam and 13 percent in Cambodia.⁵⁷ Trade-weighted import tariff rates were higher for such established members as Indonesia (15 percent in 1995), Malaysia (9 percent in 1994) and Thailand (10 percent in 1993). The maximum tariff in the Lao P.D.R. has been brought down to 40 percent in recent years, with the few remaining exceptions (on vehicles, cigarettes and beer) being eliminated in

FIGURE 2
ASEAN: DIRECTION OF EXPORTS, 1981 - 1995
(in percent of GDP)

Sources: United Nations Statistical Office, and IMF, Direction of Trade Statistics.
1/ Including Brunei Darussalam and Vietnam.
2/ Including Brunei Darussalam.

⁵⁷It should be noted that the potential ratio for the Lao P.D.R. may be somewhat higher if longstanding inefficiencies in the customs administration are addressed.

April 1997. The maximum tariff is still 80 percent in Vietnam and 50 in Cambodia, while established ASEAN members have varying maximum import tariff rates, ranging, for example, from 41 percent in Singapore, to 100 percent in Thailand, to 300 percent in Indonesia.

131. If it is to follow in the footsteps of its ASEAN partners for whom trade has become increasingly important, the Lao P.D.R. will become a more open economy overall and export a larger share of its products to non-ASEAN trade partners (Figures 2 and 3). Given the existing structure of the manufacturing base in the Lao P.D.R., there are no manufacturing sectors which are likely to lose from the prospective loss of protection. Rather, the challenge will be for the Lao P.D.R. to increase its export base not only for labor intensive goods, as higher income ASEAN members move away from these exports, but to jump-start a number of sectors in the manufacturing area.

Fiscal Effects

132. Fiscal effects are twofold. An increase in expenditure is expected because of membership and added travel costs. There will also be a revenue impact from the reduction in import tariffs. While the expenditure impact will be felt immediately, starting in budget year 1997/98, the revenue impact will be more gradual.

133. It is estimated that budgetary expenditures will increase by US\$1 million per year for membership fees and US\$2 million for travel and administrative costs. In addition, a (small) expansion of the civil service will be needed (diplomats to staff new embassies and experts in

the administration). This process has already started in the current budget year and the impact is estimated at 1 percent of the wage bill this year. It is expected that the full effect of the above costs will have a moderate impact of approximately 0.4 percent of GDP.

134. The exact impact on revenue from trade taxes cannot be quantified before establishing a proper import recording and valuation system.⁵⁸ Owing to recent trade liberalization, trade taxes in the Lao P.D.R. account for only 2.7 percent of GDP, down from 4-5 percent in the early 1990s. The comparable ratio is 6.8 in Vietnam and 4.7 in Cambodia (see also the above table). The relatively low share of government revenue from trade limits future revenue losses in the wake of further trade liberalization.

135. However, seen in the broader context of fiscal consolidation, further revenue enhancing measures are necessary. The revenue to GDP ratio is still relatively low (13 percent in 1996/97), implying that with the shift in emphasis from trade taxes to domestic taxes significant efforts will be needed in the area of domestic taxes (see Chapter VIII). In the Lao P.D.R., these taxes are still low compared with its ASEAN neighbors. In the current budget year, domestic taxes account for almost 7 percent of GDP, compared to a range of 11-16 percent of GDP for present ASEAN members (excluding Vietnam).

Structural Adjustment

136. A successful integration into the ASEAN community will necessitate the accelerated and comprehensive implementation of structural reforms to improve the Lao P.D.R.'s macroeconomic policy-making capacity, its banking system, and its business environment. Increased import competition may lead to sectoral adjustment problems. These problems can be relieved if, at the same time, new export opportunities are exploited, taking advantage of the increased opportunities for regional division of labor. Such a development requires an environment conducive to private sector growth. In particular, a financial sector that efficiently channels resources into activities that are becoming profitable. In addition, facilitating such an export expansion could reduce the likelihood that a nominal depreciation needs to accompany the dismantling of import barriers for balance of payments reasons. Structural reforms are especially pressing because, although low relative to the original ASEAN states with higher levels of investment, the Lao P.D.R. has high labor costs relative to other low-income ASEAN members. Consequently, opportunities must be explored for high value added and advanced technology activities. There will be pressing need, therefore, to take advantage of the opportunities provided in the larger market size of ASEAN for foreign direct investment in areas other than hydropower, such as manufacturing and agricultural processing. The Lao authorities will be better able to make the country attractive

⁵⁸Technical assistance is being provided in this area.

to such opportunities by accelerating the pace of structural reform in a wide range of areas, putting in place a better functioning business and financial environment.

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CHART 1

LAO P.D.R.
REAL GDP AND MAIN ECONOMIC SECTORS, 1992-96

Source: Data provided by the Lao authorities.

CHART 2

LAO P.D.R.

EXTERNAL SECTOR DEVELOPMENTS, 1992-97

Sources: Data provided by the Lao authorities; and IMF, Information Notice System (INS), and staff estimates.

1/ As of September 14, 1995, the official exchange rate was abolished; data for subsequent months are based on the commercial bank rate.

2/ Based on a currency basket comprising the currencies of the eight most important partner and competitor countries of the Lao P.D.R. Increase indicates appreciation. The Real Effective Exchange Rate has been calculated from the CPI series compiled by the NSC.

CHART 3
 LAO P.D.R.
 INDICATORS OF BUDGETARY PERFORMANCE, 1991/92 - 1996/97 1/
 (In percent of GDP)

Source: Data provided by Lao PDR authorities and staff estimates.
 1/ Approved budget for 1996/97.

CHART 4
 LAO P.D.R.
 OVERALL DEFICIT AND ITS FINANCING, 1991/92 - 1996/97 ^{1/}
 (In percent of GDP)

Source: Data provided by Lao PDR authorities and staff estimates.

^{1/} Approved budget for 1996/97.

^{2/} The difference between the overall deficit and its financing is clearance of arrears.

CHART 5a

LAO P.D.R.

PATH OF BUDGETARY PERFORMANCE, 1996/97 - 2003/04

CHART 5b

LAO P.D.R.

INDICATORS OF FISCAL SUSTAINABILITY, 1996/97 - 2003/04

(In percent of GDP)

(In percent of government revenue)

Source: Data provided by the Lao authorities; and staff estimates.

CHART 6
LAO P.D.R.
FOREIGN CURRENCY DEPOSITS HELD DOMESTICALLY (FDD) AND ABROAD (FDA)
 (December 1988 - December 1996)

Source: Data provided by the Lao authorities, BIS data, and staff estimates.

CHART 7
LAO P.D.R.
SHARE OF FDD IN TFD AND INFLATION
(December 1990 - December 1996)

Source: Data provided by the Lao authorities, BIS data and staff calculations.

CHART 8a
LAO P.D.R. - RATIOS OF FDD AND TFD AND INFLATION
(December 1990 - December 1996)

CHART 8b
LAO P.D.R. - RATIOS OF FDD AND TFD AND INTEREST RATE DIFFERENTIAL
(December 1990 - December 1996)

Source: Data provided by the Lao authorities, BIS data and staff calculations.

CHART 9
LAO P.D.R.
INCOME VELOCITY OF MONETARY AGGREGATES AND INFLATION
(December 1990 - December 1996)

Source: Data provided by the Lao authorities; and staff estimates.

Table 1. Lao P.D.R.: Selected Economic and Financial Indicators, 1992-96

Nominal GDP (1996): \$1,846 million
 Population (1995): 4.8 million
 GNP per capita (1995): \$374
 Fund Quota: SDR 39.1 million

	1992	1993	1994	1995	Est. 1996
Growth (percent change)					
Real GDP	7.0	5.9	8.1	7.0	6.8
Prices (percent change)					
Consumer prices (annual average)	9.9	6.3	6.8	19.4	13.0
Government budget (percent of GDP) 1/					
Revenue	10.4	11.8	12.3	12.2	13.0
Expenditure	21.3	17.9	23.8	21.9	22.1
Current account balance (excluding grants)	-1.6	0.6	0.4	1.4	2.8
Overall balance					
Excluding grants	-10.9	-6.1	-11.5	-9.7	-9.1
Including grants	-6.7	-4.4	-5.2	-4.2	-5.6
Domestic financing	1.8	1.5	0.5	-0.4	-1.1
Foreign financing	5.8	2.9	4.7	4.6	6.7
Money and credit (percent change, end of period)					
Broad money	49.0	64.6	31.9	16.4	26.7
Domestic Credit	27.1	33.2	72.5	22.0	-4.9
Interest rates (in percent; end of period) 2/					
On one-year deposits	18	12	12	16	16½
On short-term loans	26	26	24	23-28	23-28
External trade (percent change)					
Exports (value in US\$)	37.3	81.4	24.9	3.6	3.7
Imports (value in US\$)	16.5	62.7	30.6	4.4	17.1
Balance of payments (percent of GDP)					
External current account balance					
Including official transfers	-3.5	-3.1	-6.3	-6.9	-12.1
Excluding official transfers	-8.8	-10.9	-14.4	-13.0	-16.5
Overall balance (in mn. of US\$)	5	11	-11	15	71
Gross foreign reserves					
In millions of U.S. dollars	86	151	158	191	285
Of which:					
Gross official reserves	41	63	61	93	170
In months of total imports, c.i.f.	1.9	1.8	1.3	1.9	3.0
External debt (in percent)					
Ratio of debt to GDP 3/	34.7	36.0	38.2	37.7	43.5
Debt-service ratio 4/	6.5	4.0	3.3	5.7	5.8
Exchange rate					
Kip per U.S. dollar (end of period) 5/					
Official	717	717	719	925	954
Parallel market	724	723	730	940	975

Sources: Data provided by the Lao authorities; and staff estimates and projections.

1/Fiscal data are on a fiscal year basis (October-September).

2/Lending rates were liberalized in July 1995 and deposit rates in January 1996. The rates reported here are those quoted by the BCEL, the largest commercial bank.

3/Excludes debt to nonconvertible area; includes debt to the Fund (SAF and ESAF).

4/As a ratio of exports of goods and nonfactor services.

5/Average of buying and selling rate. Data for 1997 are end-April.

Table 2. Lao P.D.R.: Real GDP Growth, 1992-96

(In percent)

	1992	1993	1994	1995	<u>Est.</u> 1996
Agriculture	8.3	2.7	8.3	3.1	2.3
Crops	-13.1	-11.0	12.7	-2.5	0.9
Livestock and fishery	9.0	4.2	4.3	3.7	4.0
Forestry	-35.4	183.7	4.0	28.2	2.0
Industry	7.5	10.3	10.7	13.1	17.0
Mining and quarrying	12.9	36.5	30.4	-3.7	37.1
Manufacturing	9.4	7.7	7.0	17.7	18.9
Construction	7.4	16.1	17.2	6.8	8.7
Electricity, gas, and water	-9.8	21.4	29.0	-8.8	15.0
Services	3.9	7.7	5.5	10.2	8.7
Transportation, storage, and communications	6.9	3.1	4.3	18.2	15.2
Wholesale and retail trade	7.0	18.5	7.9	9.3	9.9
Banking, insurance, and real estate	-11.4	13.2	8.2	42.0	-0.9
Ownership of dwellings	-16.2	8.0	8.6	3.4	4.3
Public wage bill	-2.7	-0.2	-6.6	-4.5	0.0
Nonprofit institutions	20.8	-9.8	-3.8	2.4	11.4
Hotels and restaurants	125.3	14.8	53.6	35.0	14.5
Other	51.9	3.5	3.0	15.4	16.4
GDP at factor cost	7.0	5.2	8.0	7.0	6.7
Import duties	4.9	52.8	13.2	25.0	8.6
GDP at market prices	7.0	5.9	8.1	7.0	6.8

Source: Data provided by the Lao authorities.

Table 3. Lao P.D.R.: Consumer Price Indices, 1992-97

	1992	1993	1994	1995	1996	1996	1997
	BOL Index (December 1987 = 100)					NSC Index (December 1995 = 100)	
January	267.2	284.4	305.6	329.1	417.9	101.4	113.0
February	267.8	284.9	305.8	331.9	428.4	103.3	115.4
March	270.5	286.9	313.7	346.8	433.1	105.6	118.8
April	274.7	295.5	319.1	366.1	438.3	107.5	
May	284.6	299.3	321.1	388.9	442.4	109.5	
June	290.1	305.2	326.4	388.4	433.8	110.0	
July	304.5	317.7	334.0	399.3	444.9	111.2	
August	308.8	324.8	341.1	425.2	444.6	111.3	
September	307.8	327.9	347.2	441.1	454.1	113.9	
October	303.9	314.2	341.3	433.4	457.9	112.5	
November	291.3	311.7	333.8	423.4	453.0	111.8	
December	283.4	308.8	329.7	414.3	444.5	112.8	
Period average	287.9	305.9	326.6	390.6	441.1	109.2	
	(Twelve-month percentage change)						
January	12.5	6.4	7.5	7.9	26.7		11.4
February	12.8	6.4	7.3	8.5	29.1		11.7
March	10.4	6.1	9.3	10.5	25.0		12.4
April	8.5	7.6	8.0	14.8	19.7		
May	7.0	5.7	7.3	21.1	13.7		
June	7.1	5.2	7.0	19.0	13.3		
July	10.9	4.4	5.1	19.6	11.4		
August	13.3	5.2	5.0	24.7	4.6		
September	12.5	6.5	5.9	27.1	2.9		
October	10.5	6.7	5.3	26.9	5.7		
November	7.3	7.0	7.1	26.9	7.0		
December	6.0	8.9	6.8	25.7	7.3	12.8	
Period average	9.9	6.3	6.8	19.4	13.0		

Source: Data provided by the Lao authorities.

Table 4. Lao P.D.R.: General Government Operations, 1992/93-1996/97

	1992/93	1993/94	1994/95	1995/96	Budget 1/ 1996/97
(In billions of kip)					
Revenue	110.8	131.6	161.7	212.4	253.2
Tax	85.9	106.7	134.7	176.0	212.7
Nonax	24.9	24.9	27.0	36.4	40.6
Grants	31.3	67.3	72.7	57.7	68.0
Expenditure 2/	168.1	254.7	289.8	360.7	404.1
Current expenditure	104.9	127.1	142.7	166.0	193.6
Wages and salaries	44.1	56.1	68.3	78.5	90.4
Materials and supplies	39.6	43.2	42.7	52.0	58.4
Transfers	12.4	15.4	18.6	23.4	26.7
Interest payments	6.8	8.6	10.9	10.4	16.2
Severance payments	2.1	3.8	2.3	1.8	2.0
Capital expenditure and amortization	63.1	127.6	147.1	194.7	210.6
Capital expenditure and on-lending	65.6	131.8	150.9	199.7	217.6
Overall balance (commitment basis) 3/	-26.0	-55.8	-55.4	-90.6	-82.9
Clearance of arrears (net payment)	-15.7	0.0	0.0	0.0	0.0
Overall balance (cash basis) 3/	-41.6	-55.8	-55.4	-90.6	-82.9
Total financing	41.6	55.8	55.4	90.6	82.9
Domestic (net)	14.5	5.2	-5.0	-18.6	-16.5
Bank	-1.3	-1.8	-10.2	-15.2	-50.0
Nonbank	1.2	0.0	3.0	-7.3	-14.9
Asset sales	14.6	7.0	2.2	4.0	48.3
Foreign (net)	27.1	50.6	60.4	109.2	99.5
(In percent of GDP)					
Revenue	11.8	12.3	12.2	13.0	13.0
Tax	9.1	10.0	10.2	10.8	10.9
Nontax	2.6	2.3	2.0	2.2	2.1
Expenditure	17.9	23.8	21.9	22.1	20.7
Current expenditure	11.2	11.9	10.8	10.2	9.9
Of which: Wages and salaries	4.7	5.2	5.2	4.8	4.6
Capital expenditure and amortization	6.7	11.9	11.1	11.9	10.8
Current balance 4/	0.6	0.4	1.4	2.8	3.1
Overall balance (cash basis)					
Including grants	-4.4	-5.2	-4.2	-5.6	-4.2
Excluding grants	-6.1	-11.5	-9.7	-9.1	-7.7
Domestic financing 5/	1.5	0.5	-0.4	-1.1	-0.9
Foreign financing	2.9	4.7	4.6	6.7	5.1
Memorandum item:					
GDP fiscal year (in billions of kip)	940.4	1,069.1	1,323.3	1,631.3	1,950.7

Sources: Data provided by the Lao authorities; and staff estimates.

1/ Includes revisions made in April 1997.

2/ Excludes KN 14 billion of government bonds issued to recapitalize the state-owned commercial banks in August-September 1994.

3/ Including grants.

4/ Excluding grants.

5/ Comprising bank and nonbank financing, and receipts from government asset sales.

Table 5. Lao P.D.R.: Monetary Survey, 1993-96

	1993	1994	1995	1996			
				March	June	Sept.	Dec.
(In billions of kip; end of period)							
Net foreign assets	72.9	58.7	78.0	87.7	90.0	101.9	155.6
Net domestic assets	52.9	107.3	115.3	126.0	124.8	116.1	89.3
Domestic credit	74.7	128.9	157.2	167.9	167.9	168.0	149.5
Net credit to government 1/	-9.5	12.6	0.7	0.6	-4.1	-12.8	-43.1
Credit to nongovernment sector 1/	84.2	116.2	156.6	167.3	172.0	180.8	192.6
Public enterprises	18.3	17.4	27.7	28.9	29.7	32.4	36.9
Private sector	65.9	98.8	128.9	138.4	142.3	148.4	155.7
Other items (net)	-21.8	-21.6	-41.9	-41.9	-43.1	-51.9	-60.2
Broad money	125.8	166.0	193.3	213.7	214.8	217.9	244.9
Narrow money	52.2	61.3	67.2	69.6	67.5	66.9	75.6
Currency outside banks	33.2	38.6	42.0	41.4	42.0	43.1	43.0
Demand deposits	19.0	22.7	25.2	28.1	25.5	23.8	32.6
Quasi-money	73.6	104.6	126.1	144.2	147.3	151.0	169.4
Time and savings deposits	30.4	45.6	44.4	48.3	57.1	66.2	70.2
Foreign currency deposits	43.2	59.0	81.6	95.9	90.2	84.8	99.2
(Annual increase in percent)							
Domestic credit	33.2	72.5	22.0	30.0	21.8	9.2	-4.9
Credit to nongovernment sector 2/	51.7	54.6	34.7	37.6	27.9	19.4	23.1
Broad money	64.6	31.9	16.4	22.9	20.8	19.8	26.7
Memorandum items:							
Velocity of money (period average)	9.8	8.0	7.9	...	...	...	7.8
Reserve money (in billions of kip)	60.7	74.2	84.2	94.4	98.1	101.7	104.4
Money multiplier 3/	2.1	2.2	2.3	2.3	2.2	2.1	2.3

Sources: Data provided by the Lao authorities; and staff estimates.

1/ Net credit to Government in 1994 included KN 14 billion of government bonds issued for recapitalization of state-owned commercial banks. Bad loans amounting to KN 14 billion were written off from the bank's portfolios. Includes liabilities from borrowing under the structural adjustment facility and the enhanced structural adjustment facility.

2/ Excluding bad loan write-off.

3/ Broad money divided by reserve money.

Table 6. Lao P.D.R.: Sources of Broad Money Growth, 1995-96

(Increase as percent of previous period broad money)

	1995		1996			
	First Half	Second Half	March	June	Sept.	Dec.
Broad money	7.2	8.7	10.6	0.5	1.5	12.4
Narrow money	3.7	-0.1	1.2	-1.0	-0.3	4.0
Time and savings deposits	1.9	-2.4	2.0	4.1	4.2	1.8
Foreign currency deposits	1.6	11.2	7.4	-2.7	-2.5	6.6
Contributions						
Net foreign assets	4.9	6.2	5.0	1.1	5.5	24.7
Net credit to government	-6.1	-1.0	0.0	-2.2	-4.1	-13.9
Net credit to nongovernment	11.6	11.9	5.6	2.2	4.1	5.4
Other items (net)	-3.2	-8.4	0.0	-0.6	-4.1	-3.8

Sources: Data provided by the Lao authorities; and staff estimates.

Table 7. Lao P.D.R.: Balance of Payments, 1992-96

	1992	1993	1994	1995	Est. 1996
(In millions of U.S. dollars)					
Total exports (f.o.b.)	133	241	300	313	323
Total imports (c.i.f.)	266	432	564	589	690
Trade balance	-133	-192	-264	-276	-367
Services (net)	22	35	35	27	25
Factor income (net)	-1	3	-2	-7	-6
Transfers	72	113	134	131	125
Private	9	10	10	22	43
Official	63	104	125	109	82
Of which: technical assistance	14	33	21	14	14
Current account (excluding official transfers)	-41 -104	-41 -144	-97 -221	-124 -233	-223 -305
Capital account	46	52	86	139	295
Medium- and long-term loans	62	70	65	82	136
Disbursements	71	78	73	98	155
Amortization	-9	-8	-8	-15	-19
Foreign investment	9	66	60	95	176
Foreign direct investment	8	36	59	88	128
Portfolio investment	1	30	1	7	48
Commercial banks	-15	-36	8	10	-8
Assets	-16	-43	-9	-2	-16
Liabilities	1	7	17	12	8
Errors and omissions 1/	-10	-48	-47	-49	-9
Overall balance	5	11	-11	15	71
Financing	-5	-11	11	-15	-71
Central bank net foreign assets	-5	-11	11	-15	-71
Assets	-13	-22	2	-31	-78
Liabilities	7	11	8	16	6
Net Fund disbursements	8	8	8	16	6
Financing gap (including the Fund)	0	0	0	0	0
Memorandum items:					
Official gross reserves	41	63	61	93	170
Official gross reserves (in months of imports c.i.f.)	1.9	1.8	1.3	1.9	3.0
Gross reserves held by commercial banks	44	88	97	99	115
Commercial bank GR (in months of imports)	2.0	2.4	2.1	2.0	2.0
Total gross reserves held by banking system	86	151	158	191	285
Total gross reserves (in months of imports)	3.9	4.2	3.4	3.9	5.0
(In percent of GDP)					
Current account (excluding official transfers)	-3.5 -8.8	-3.1 -10.9	-6.3 -14.4	-6.9 -13.0	-12.1 -16.5

Sources: Data provided by the Lao authorities; and staff estimates.

1/ Includes short-term private capital and unrecorded imports.

Table 8. Lao P.D.R: GDP by Industrial Origin, 1992-96

(In billions of kip, at 1990 constant market prices)

	1992	1993	1994	1995	<u>Est.</u> 1996
Agriculture	395.5	406.2	439.9	453.7	463.9
Crops	221.1	196.7	221.6	216.0	218.0
Livestock and fishery	158.9	165.5	172.6	179.0	186.1
Forestry	15.5	44.0	45.8	59.0	60.0
Industry	113.6	125.3	138.6	156.8	183.6
Mining and quarrying	0.9	1.3	1.7	1.7	2.4
Manufacturing	85.8	92.4	98.8	116.2	138.3
Construction	19.1	22.1	25.9	27.7	30.1
Electricity, gas, and water	7.8	9.5	12.3	11.2	12.9
Services	163.0	175.6	185.4	204.3	222.1
Transportation, storage and communication	34.3	35.4	36.9	43.6	50.2
Wholesale and retail trade	49.4	58.6	63.2	69.0	75.9
Banking, insurance, and real estate	6.9	7.8	8.5	12.0	11.9
Ownership of dwellings	23.4	25.3	27.5	28.4	29.6
Public wage bill	31.0	31.0	28.9	27.6	27.6
Nonprofit institutions	11.7	10.5	10.1	9.9	11.0
Hotels and restaurants	5.2	6.0	9.2	12.4	14.2
Other	1.0	1.1	1.1	1.3	1.6
GDP at factor cost	672.2	707.1	764.0	814.9	869.6
Import duties	9.6	14.7	16.7	20.8	22.6
GDP at market prices	681.8	721.8	780.7	835.7	892.2
Memorandum items:					
Nominal GDP at market prices	844.3	951.0	1,107.8	1,419.1	1,710.1
Percentage growth	16.9	12.6	16.5	28.1	20.5

Sources: Data provided by the Lao authorities; and staff estimates.

Table 9. Lao P.D.R.: Output of Major Commodities, 1992-96

	Item Unit	1992	1993	1994	1995	Est. 1996
Agriculture						
Paddy	'000 tons	1,502	1,251	1,577	1,418	1,414
Corn	'000 tons	58	48	56	48	72
Sweet potatoes and cassava	'000 tons	135	113	160	99	74
Coffee	'000 tons	8	8	9	9	10
Tobacco	'000 tons	52	29	32	27	19
Livestock						
Buffalo	'000 tons	43	44	45	46	48
Cattle	'000 tons	33	34	36	38	37
Pigs	'000 tons	73	76	78	81	83
Poultry	'000 tons	13	14	15	16	17
Forestry						
Logs	'000 m3	150	480	500	819	851
Industry						
Tin	tons	346	504	810	636	736
Gypsum	'000 tons	90	130	131	124	113
Manufacturing						
Hydropower	million khw	753	919	1,197	1,085	1,248
Beer	'000 hectoliter	96	92	102	151	240
Soft drinks	'000 hectoliter	64	76	92	105	108
Cigarettes	million packs	30	37	47	43	49
Agricultural tools	'000 units	5	5	4	4	5
Corrugated iron sheet	million sheets	1	1	1	1	2
Concrete with steel	'000 m3	16	20	23	24	11
Detergent	tons	800	400	700	877	913
Nails	tons	100	135	56	61	544
Oxygen	'000 bottles	7.6	12.7	15.0	17.3	24.0
Vaccines	million ampoules	4	6	5	7	5
Electric cord	'000 m	0.0	366	1,798	2,192	2,441
Plastic products	tons	260	281	460	500	2,940
Batteries	units	0	700	...	0	0
Salt	'000 tons	12.5	9.5	10.0	10.6	13.8
Wood furniture	million kip	5,480	6,457	6,500	6,622	7,209
Rattan furniture	million kip	101	105	110	133	175
Garments	million pieces	4	9	11	18	19
Sugar	tons	0	0	0	147	189
Tobacco	tons	655	1,540	910	813	1,219
Plywood	mill. sheets	0	1	2	2	1
Cement	1,000 tons	0	0	7	59	78
Bricks	million pieces	33	52	55	56	57
Wood	1,000 meters	80	94	271	289	232
Ventilators	1,000 units	0	0	243	202	437
Tissue paper	1,000 meters	277	300	350	365	...

Sources: Data provided by the Lao authorities; and staff estimates.

Table 10a. Lao P.D.R.: Wages by Economic Sector, 1992, 1994

(In kips per month)

	1992	1994	Average annual increase
Agriculture	33,725	42,707	12.5
Mining	37,691	101,591	64.2
Electric gas and water supply	...	50,593	...
Manufacture	26,031	51,177	40.2
Public service	27,830	41,911	22.7
Construction	43,163	52,851	10.7
Trade	33,987	50,074	21.4
Hotels, Restaurants	24,627	49,822	42.2
Communication and transport	35,600	49,362	17.8
Finance	29,462	43,169	21.0
Business management	31,839	49,825	25.1
Community services	21,137	41,425	40.0

Source: Data provided by Ministry of Labor.

Table 10b. Lao P.D.R.: Wages by Occupation, 1994

(In kips per month)

	1994
Managers	69,354
Professionals	50,280
Technicians	42,706
Clerks	44,482
Service workers	57,491
Skilled agricultural and fishery workers	44,472
Craft and related trade workers	49,763
Plant and machine operators	43,610
Elementary occupations	45,977
Armed forces	42,164
Other	38,060

Source: Data provided by Ministry of Labor.

Table 11. Lao P.D.R.: Personnel and Salaries of Civil Servants, 1992/93-1996/97

	1992/93	1993/94	1994/95	1995/96	1996/97
	(In number of people)				
Civil servants 1/ (percentage change)	74,160 -2.7	73,730 -0.6	69,115 -6.3	68,108 -1.5	69,013 1.4
	(In kip)				
Monthly average of basic salaries per civil servant 2/ (percentage change)	18,785 ...	34,420 83.2	35,672 3.6	36,506 2.3	40,703 11.5
Memorandum item: Total wage bill 3/ (millions of kips)	44,055	56,102	68,313	78,524	89,470

Sources: Data provided by the Lao authorities.

1/ Data relate to beginning of fiscal year (October). Military personnel is excluded.

2/ Excludes bonuses and other compensations.

3/ Includes wages, salaries, and other compensations of military and nonmilitary personnel.

Table 12. Lao P.D.R.: General Government Revenue and Expenditures, 1992/93-1996/97
(In billion of kip)

	1992/93	1993/94	1994/95	1995/96	Budget 1/ 1996/97
Revenue					
Tax revenue	85.9	106.7	134.7	176.0	212.7
Profits tax	8.6	11.5	17.3	20.7	28.3
Income tax	4.8	7.2	10.7	13.5	16.6
Agricultural land tax	1.2	2.2	1.6	2.1	3.2
Business licenses	0.1	0.1	0.2	0.1	0.2
Turnover tax	14.3	19.9	27.6	33.9	40.3
Tax on foreign trade	25.1	33.8	38.7	46.7	52.1
Import duties	22.0	25.7	33.8	40.6	46.1
Export duties	3.1	8.1	4.9	6.0	6.0
Excise tax	4.4	5.1	5.5	15.5	26.0
Timber royalties	23.6	21.0	26.7	34.6	33.0
Other	4.0	6.0	6.5	8.8	13.0
Nontax revenue	24.9	24.9	27.0	36.4	40.6
Payment for depreciation/ dividend transfers	4.7	3.0	3.0	5.2	7.0
Other	22.6	26.1	27.8	31.2	33.6
Leasing income	4.9	4.6	5.0	3.8	3.8
Concession	0.6	0.4	0.4	0.4	0.4
Overflight	8.4	7.2	7.9	9.8	11.0
Interest	4.6	7.8	6.8	10.5	10.1
Other	1.8	1.8	3.9	6.7	8.2
Total revenue	110.8	131.6	161.7	212.4	253.2
Expenditure					
Agriculture	15.7	24.3	28.5	28.3	35.0
Industry/Energy	8.4	11.0	22.0	30.9	37.0
Transport/Communication	33.1	77.4	70.0	85.7	101.9
Education	17.9	25.5	36.3	45.0	57.6
Health	4.1	11.7	16.5	24.9	34.1
Other 2/	91.3	109.0	120.4	146.8	198.4
Total expenditure	170.5	258.9	293.6	361.6	464.0

Sources: Data provided by the Lao authorities; and staff estimates.

1/ Includes the revisions made to revenue in April 1997.

2/ Mainly current expenditure

Table 13. Lao P.D.R.: Interest Rates, 1992-96

(In percent; end of period)

	1992	1993	1994	1995	June 1996	Dec. 1996
Commercial Banks						
Deposit Rates						
Kip accounts						
Demand	0	0	0	0	0	0
Savings	12	12	12	16	16-16½	16-16½
Time:						
3 months	15	12-15	12-13½	16-16½	16-16½	16-16½
6 months	16	12-16	12-16	16-17	16-17	16-17
12 months	18	12-18	12-16	16-19	16-19	16-19
Baht accounts						
Demand		0	0	0	0	0
Savings		4-6	4-6	3½-6	3½-6	1½-6
Time:						
3 months		5-8	5-8	5½-8	4½-8	2-8
6 months		6-8	6-9	5½-8	5-9	2½-9
12 months		7-10	6½-10	6-10	5½-10	2½-10
U.S. dollar accounts						
Demand		0	0	0	0	0
Savings		2-3	2-3	2-3	2-3	1½-3½
Time:						
3 months		2-4	2-4	3-4	3-4	2-4
6 months		2½-5	3-5	3½-5	3½-5	2½-5
12 months		2½-6	3½-6	3½-6	3½-6	2½-6
Lending rates						
Kip accounts						
Agriculture & forestry	7-14	7-14	7-13	7-28	10-26	10-25
Industry & manufacturing	18-23	20	18	22-28	24-26	24-26
Construction & transport	18-25	20-23	18-19	23-28	25-26	25-26
Commerce & services	18-26	22-24	22	25-28	26-27	26-27
Baht accounts						
Agriculture & forestry		12	12	12-19	10-19	10-19
Industry & manufacturing		15	14	14-19	14-19	14-19
Construction & transport		18	14	14-19	14-19	14-19
Commerce & services		18	16	16-19	16-19	16-19
U.S. dollar accounts						
Agriculture & forestry		8	8	8-14	8-14	8-14
Industry & manufacturing		9	9	9-14	10-14	10-14
Construction & transport		9	9	9-14	10-14	10-14
Commerce & services		10	10	10-14	10-14	10-14
Bank of the Lao PDR						
Overdrafts		24	30	35	35	3.5
Required reserves	...	...	1.5	1.5	1.5	1.5
Treasury Bills				26.2	25.9	23.5

Source: Data provided by the Lao authorities.

1/ In June 1995, the maximum lending rate was abolished. The guidelines on minimum deposit rate were abolished in January 1996.

Table 14. Lao P.D.R.: Treasury Bill Auctions, March 1995-May 1997

Auction Date	Maturity Date	Amount of Bids Received (Million KN)	Amount Issued (Million KN)	Range of Bids Offered (Percent)	Range of Bids Accepted (Percent)	Weighted Average Yield of Successful Bids (Percent)	Bills Outstanding (Million KN)
03/02/95	09/03/95	1,050	1,500	15-16	15-16	15.03	16,500
03/16/95	09/17/95	1,360	1,500	15.5-16	15.5-16	15.62	17,000
03/30/95	10/01/95	1,590	1,500	15-20	15-16	15.17	17,500
04/20/95	10/22/95	1,450	1,500	14.8-16	14.8-16	15.38	18,000
05/04/95	11/05/95	1,918	1,500	14.8-16	15.50	15.00	19,500
05/18/95	11/19/95	250	1,500	15-17	14.8-16	15.50	19,090
06/01/95	09/03/95	1,700	1,500	14.8-16	15.50	15.50	19,500
06/15/95	12/17/95	100	100	15.5-16	15.50	15.50	18,100
07/06/95	01/07/96	800	800	18.00	18.00	18.00	17,400
08/03/95	02/04/95	200	200	20.00	20.00	20.00	14,600
08/24/95	02/25/95	100	100	24.00	24.00	24.00	11,700
09/07/95	03/10/95	100	100	30.00	30.00	30.00	10,300
09/21/95	03/24/96	1,700	1,700	30.00	30.00	30.00	10,500
10/12/95	04/14/96	50	50	30.00	30.00	30.00	9,050
10/26/95	04/28/96	110	110	30.00	30.00	30.00	7,660
11/09/95	05/12/96	200	200	28.00	28.00	28.00	6,360
12/21/95	06/23/96	1,500	1,500	26.17	26.17	26.17	4,760
01/11/96	07/14/96	2,450	1,500	25-30	25.00	25.00	5,460
02/08/96	08/11/96	1,940	1,140	23-25	23.25	23.90	6,400
02/29/96	09/01/96	1,800	1,500	23-28	23.00	23.00	7,800
03/14/96	09/15/96	1,750	1,500	23.5-24	23.98	23.98	9,200
03/28/96	09/29/96	1,680	1,500	22-27	22.00	22.00	9,000
04/18/96	10/20/96	4,540	4,600	21-24	21.00	21.00	13,450
05/23/96	11/24/96	180	180	22.5-25	23.61	23.61	13,320
06/06/96	08/12/96	250	250	23.1-27	23.1-27	24.40	13,570
06/27/96	12/29/96	4,070	4,070	24.5-26	24.5-26	25.93	16,140
07/11/96	01/12/97	810	810	25.5-26	25.5-26	25.94	15,450
07/25/96	01/26/97	850	850	26	26	26.00	16,300
08/08/96	02/09/97	1,000	1,000	25-26	25-26	25.75	16,160
08/22/96	02/23/97	1,840	1,840	25-26	25-26	25.96	18,000
05/09/96	03/09/97	1,920	1,920	25-26	25-26	25.92	20,000
09/19/96	04/23/97	2,500	2,500	23-26	23-26	25.51	21,000
10/03/96	06/04/97	2,500	2,500	24.5-26	24.5-26	25.46	22,000
10/17/96	04/20/97	2,000	2,000	24-26	24-26	25.17	19,500
10/31/96	05/04/97	1,500	1,500	26	26	26.00	21,000
11/14/96	05/18/97	1,500	1,500	24.5-25.5	24.5-25.5	25.26	22,500
11/28/96	06/01/97	1,500	1,500	25	25	25.00	23,820
12/12/96	06/15/97	1,500	1,500	24.25-25	24	24.00	25,070
12/26/96	06/29/97	1,500	1,500	23.5	23.5	23.50	22,500
01/09/97	07/13/97	1,500	1,500	24-23.5	24-23.5	23.90	23,190
01/23/97	07/27/97	2,500	2,500	24-25	24-25	24.12	21,690
02/06/97	08/10/97	950	950	24-24.5	24-24.5	24.34	23,340
02/20/97	08/24/97	3,050	3,050	24-24.5	24-24.5	24.43	23,290
03/06/97	09/07/97	2,500	2,500	24-24.5	24-24.5	24.47	24,500
03/20/97	09/21/97	3,750	2,000	24-24.5	24-24.5	24.16	25,000
04/03/97	10/05/97	3,700	2,500	23.5-25	23.5-24	24.94	24,500
04/24/97	10/26/97	6,040	4,500	23.5-25.5	23.5-24	23.88	27,000
05/08/97	11/09/97	4,480	2,500	23.75-24.1	23.75-23.9	23.88	28,000
05/22/97	11/23/97	4,880	2,000	23-24.5	23-23.5	23.36	28,500

Source: The Bank of the Lao P.D.R.

Table 15. Lao P.D.R.: Balance Sheet of the Bank of the Lao P.D.R., 1992-96

(In millions of kip; end of period)

	1992	1993	1994	1995	1996
Net foreign assets	8,831	19,364	10,438	26,562	94,980
Foreign assets	29,059	45,363	43,965	85,316	158,840
Foreign liabilities	-20,228	-25,999	-33,527	-58,758	-63,840
Net claims on Government	9,892	248	-1,480	-3,325	-60,697
Claims on Government	10,702	8,833	12,035	4,127	4,127
Government deposits	-810	-8,585	-13,515	-7,452	-64,824
Claims on state-owned enterprises	1,438	860	1,859	6,975	10,867
Claims on private sector	1,145	3,011	6,825	10,399	13,901
Claims on other banking institutions	15,180	34,615	37,052	46,585	52,371
Other items (net)	417	2,600	19,539	-3,025	-7,050
Other assets	91,538	78,003	82,842	93,700	83,639
Restricted deposits	-1	-2	-2	-2	-2
Government lending fund	-16,306	-18,340	-12,066	-16,167	-18,036
Obligations 1/	-800	-400	--	-12,984	-20,657
Capital account	-5,220	-4,686	-5,469	-13,651	-12,675
Other liabilities	-68,794	-51,975	-45,766	-53,921	-39,318
Reserve money 2/	36,903	60,697	74,232	84,172	104,373
Memorandum items:					
Broad money 3/	76,463	125,848	165,988	193,266	244,929
Money multiplier 4/	2.1	2.1	2.2	2.3	2.3
Required reserve ratio	5	5	10	12	12

Source: Data provided by the Lao authorities.

1/ Mainly BOL bills

2/ Includes clearing deposits, required reserves, and foreign capital deposits.

3/ Includes foreign currency deposits of residents.

4/ Broad money divided by reserve money.

Table 16. Lao P.D.R.: Balance Sheet of Commercial Banks, 1992-96

(In millions of kip; end of period)

	1992	1993	1994	1995	1996
Net foreign assets	27,818	53,545	48,273	51,438	60,601
Foreign assets	31,781	62,820	69,785	91,195	107,473
Foreign liabilities	-3,963	-9,275	-21,512	-39,757	-46,872
Net claims on Government	-9,322	-9,792	14,121	3,977	17,577
Claims on Government	0.0	0.0	26,812	19,382	39,179
Deposits of Government	-9,322	-9,792	-12,691	-15,405	-21,602
Claims on state-owned enterprises	16,400	17,465	15,571	20,691	26,063
Claims on private sector	36,538	62,901	91,977	118,457	141,789
Other items (net)	-18,065	-31,517	-42,569	-43,257	-42,522
Other liabilities	-49,921	-53,461	-31,853	-52,782	-66,353
Capital account	-14,797	-33,831	-47,445	-56,547	-66,514
Restricted deposits	-1,317	-1,545	-1,774	-1,729	-1,555
Credit from monetary authorities	-10,839	-29,574	-35,044	-41,925	-49,115
Other assets	45,061	56,234	37,101	65,565	80,221
Reserves	13,748	30,660	36,446	44,161	59,241
Current deposits	12,052	18,993	22,728	25,218	32,584
Time and savings deposits	9,666	30,379	45,609	44,448	70,163
Foreign currency deposits	31,651	43,230	59,036	81,641	99,208

Source: Data provided by the Lao authorities.

Table 17. Lao P.D.R.: Composition of Exports, 1992-96

	1992	1993	1994	1995	<u>Est.</u> 1996
(In millions of U.S. dollars)					
Wood products	42.7	65.8	96.1	88.3	124.6
Logs	9.7	16.8	41.8	28.7	34.3
Timber	33.0	39.3	48.5	51.5	78.7
Others 1/	0.0	9.8	5.8	8.1	11.6
Coffee	2.4	4.1	3.1	21.3	25.0
Agriculture	7.3	9.2	12.1	13.7	17.8
Manufactures 2/	29.4	38.1	36.3	43.3	27.9
Garments	27.3	49.0	58.2	76.7	64.1
Motorcycles	0.0	36.0	46.2	17.7	12.5
Car re-exports	6.5	14.5	4.5	0.0	0.0
Electricity	17.0	19.6	24.8	24.1	29.7
Gold re-exports	0.0	4.2	18.8	21.9	15.2
Fuel purchases by foreign carriers	0.0	0.0	0.4	0.4	0.4
Others	0.0	0.0	0.0	3.6	3.6
Total exports	132.6	240.5	300.4	311.2	320.7
(In percent)					
Memorandum items:					
Total exports/GDP	11.3	18.1	19.5	17.4	17.5
Growth rate exports	37.3	81.4	24.9	3.6	3.7
Growth rate of exports Excluding re-exports	30.5	75.9	25.0	4.4	6.3

Sources: Data provided by the Lao authorities; and staff estimates.

1/ Includes semi-finished and finished products.

2/ Excludes garments and wood-products.

Table 18. Lao P.D.R.: Composition of Imports 1992-96

	1992	1993	1994	1995	<u>Est.</u> 1996
(In millions of U.S. dollars)					
Investment goods	69.9	113.8	146.1	189.3	277.0
Machinery and equipment	13.9	22.7	32.0	43.8	71.3
Vehicles 1/	16.8	27.5	25.0	36.0	71.7
Fuel 1/	9.0	14.7	21.4	30.8	32.8
Construction/electrical equipment	30.0	48.9	67.7	78.8	101.2
Consumption goods	140.3	224.7	276.5	283.8	308.0
Materials for garments industry	22.2	36.2	51.3	66.3	70.0
Motorcycles parts for assembly	16.6	27.0	34.6	13.3	12.0
Cars for re-export	6.5	14.5	4.5	0.0	0.0
Gold and silver 2/	7.9	12.9	46.8	29.5	18.8
Electricity	1.5	2.4	2.4	3.1	2.6
Fuel purchased abroad by Lao carriers	0.3	0.5	2.0	3.5	1.2
Total imports (c.i.f.)	265.1	431.9	564.1	588.8	689.6
(In percent)					
Memorandum items:					
Total import/GDP	22.5	32.6	36.6	32.9	37.5
Growth rate total imports	23.5	62.6	30.6	4.4	17.1
Excluding re-exports	20.5	61.3	30.9	4.8	19.0
(In million of U.S. dollars)					
Investment goods:					
from aid and grants 3/	30.5	44.2	65.9	44.6	36.3
from project loans	27.8	32.1	36.6	58.1	77.6
from hydropower investment	0.0	8.4	15.5	40.9	71.0
from other sources	11.6	29.0	28.1	45.7	92.1
of which: other FDI related	0.0	16.7	25.9	21.0	7.4

Sources: Data provided by the Lao authorities; and staff estimates.

1/ Estimates based on the assumption that 50 percent of total are consumption goods.

2/ Includes gold for re-export.

3/ Data for 1992 are staff estimates.

Table 19a. Lao P.D.R.: Direction of Trade, Exports, 1992-96
(In millions of U.S. dollars)

	1992	1993	1994	1995	1996
Thailand 1/	70.0	74.8	77.2	83.3	96.7
Vietnam	23.3	23.1	81.2	87.7	157.6
France	7.7	12.6	10.3	11.1	8.2
United Kingdom	0.1	0.0	0.9	0.9	6.6
United States	6.1	10.7	5.0	5.3	2.7
Russia	6.0	7.4	1.0	1.1	0.5
China	13.2	25.5	8.1	8.8	0.8
Germany	3.7	9.0	11.8	12.7	4.8
Taiwan	11.0	10.1	4.6	5.0	1.3
Japan	7.1	8.8	4.9	5.3	1.7
Finland	0.2	2.0	1.6	1.7	0.8
Netherlands	1.6	3.6	5.0	5.4	0.0
Italy	1.0	1.9	0.7	0.8	1.0
Korea	1.5	1.9	0.0	0.0	0.5
Belgium	0.3	0.4	1.2	1.3	2.0
Norway	0.2	0.1	0.6	0.7	1.8
Singapore	0.0	0.2	0.1	0.1	0.8
Other	9.7	48.4	86.2	80.0	32.9
Total	162.7 2/	240.5	300.4	311.2	320.7

Table 19b. Lao P.D.R.: Direction of Trade, Exports, 1992-96
(In percent of total exports)

	1992	1993	1994	1995	1996
Thailand 1/	43.0	31.1	25.7	26.8	30.2
Vietnam	14.3	9.6	27.0	28.2	49.1
France	4.7	5.2	3.4	3.6	2.6
United Kingdom	0.1	0.0	0.3	0.3	2.1
United States	3.7	4.4	1.7	1.7	0.8
Russia	3.7	3.1	0.3	0.4	0.2
China	8.1	10.6	2.7	2.8	0.2
Germany	2.3	3.7	3.9	4.1	1.5
Taiwan	6.8	4.2	1.5	1.6	0.4
Japan	4.4	3.7	1.6	1.7	0.5
Finland	0.1	0.8	0.5	0.5	0.2
Netherlands	1.0	1.5	1.7	1.7	0.0
Italy	0.6	0.8	0.2	0.3	0.3
Korea	0.9	0.8	0.0	0.0	0.2
Belgium	0.2	0.2	0.4	0.4	0.6
Norway	0.1	0.0	0.2	0.2	0.6
Singapore	0.0	0.1	0.0	0.0	0.2
Other	6.0	20.1	28.7	25.7	10.3
Total	100.0 2/	100.0	100.0	100.0	100.0

Source: Data provided by the Ministry of Trade.

1/ Exports to Thailand may be overestimated as they may include transient goods to other countries.

2/ Total is not the same as in the Balance of Payments.

Table 20a. Lao P.D.R.: Direction of Trade, Imports, 1992-96
(In millions of U.S. dollars)

	1992	1993	1994	1995	Est. 1996
Thailand 1/	69.2	164.8	270.3	287.8	310.0
Japan	41.5	56.1	45.8	48.8	52.5
Vietnam	11.0	19.7	22.5	23.9	25.8
Singapore	42.6	19.2	14.7	15.7	16.9
China	7.2	18.1	20.2	21.5	23.2
France	3.2	6.6	5.9	6.2	6.7
Taiwan	3.6	4.8	4.6	4.9	5.3
United States	2.8	4.4	1.4	1.5	1.6
Hong Kong	2.4	4.3	7.0	7.5	8.1
Russia	0.9	2.7	2.6	2.8	3.0
Cambodia	0.0	3.0	2.6	2.8	3.0
Korea	1.2	2.3	2.2	2.3	2.5
Australia	0.7	3.4	0.4	0.4	0.5
Denmark	0.5	0.5	0.5	0.6	0.6
Macao	1.3	0.4	0.4	0.4	0.5
Pakistan	0.6	0.8	0.7	0.8	0.8
Other 2/	76.4	120.8	162.3	160.9	228.6
Total	265.1	431.9	564.1	588.8	689.6

Table 20b. Lao P.D.R.: Direction of Trade, Imports, 1992-96
(In percent of total imports)

	1992	1993	1994	1995	1996
Thailand 1/	26.1	38.2	47.9	48.9	45.0
Japan	15.7	13.0	8.1	8.3	7.6
Vietnam	4.1	4.6	4.0	4.1	3.7
Singapore	16.1	4.4	2.6	2.7	2.5
China	2.7	4.2	3.6	3.7	3.4
France	1.2	1.5	1.0	1.1	1.0
Taiwan	1.4	1.1	0.8	0.8	0.8
United States	1.1	1.0	0.2	0.3	0.2
Hong Kong	0.9	1.0	1.2	1.3	1.2
Russia	0.3	0.6	0.5	0.5	0.4
Cambodia	0.0	0.7	0.5	0.5	0.4
Korea	0.5	0.5	0.4	0.4	0.4
Australia	0.3	0.8	0.1	0.1	0.1
Denmark	0.2	0.1	0.1	0.1	0.1
Macao	0.5	0.1	0.1	0.1	0.1
Pakistan	0.2	0.2	0.1	0.1	0.1
Other 2/	28.8	28.0	28.8	27.3	33.1
Total	100.0	100.0	100.0	100.0	100.0

Source: Data provided by the Ministry of Trade.

1/ Imports from Thailand may be overestimated as they may include some transient goods originating from other countries.

2/ Imports from Other may be overestimated as they may include imports from the countries above.

Table 21. Lao P.D.R.: Composition of Factor Income, 1992-96 ^{1/}

(In millions of U.S. dollars)

	1992	1993	1994	1995	<u>Est.</u> 1996
Net factor income	-1.2	2.8	-2.1	-6.5	-6.2
Receipts	3.6	8.6	6.8	7.4	9.0
Payments to Lao workers by embassies abroad	--	2.6	0.5	0.4	0.5
Interest on Bank of Lao reserve assets	1.7	2.5	2.4	3.3	4.5
Interest on commercial banks foreign assets	1.8	3.5	3.9	3.7	4.0
Payments	4.8	5.9	9.0	13.9	15.2
Payments to foreign workers in Lao embassies	0.2	0.2	0.5	0.4	0.4
Income from direct investment	--	0.3	2.7	5.8	7.1
Interest on official borrowing	3.0	4.2	4.4	5.9	5.3
Interest on Bank of Lao foreign liabilities	1.4	0.7	0.1	0.4	0.4
Interest on commercial banks foreign liabilities	0.2	0.5	1.2	1.4	2.0

Sources: Data provided by the Lao authorities; and staff estimates.

^{1/} Excludes workers remittances.

Table 22. Lao P.D.R.: Composition of Nonfactor Services, 1992-96

(In millions of U.S. dollars)

	1992	1993	1994	1995	Est. 1996
Nonfactor services (net)	21.5	33.1	25.4	27.5	25.0
Receipts	59.9	91.1	85.7	96.6	104.3
Transportation	14.5	19.2	11.4	15.2	16.0
Overflight	10.4	11.3	8.4	10.3	9.9
Freight to Lao carriers (exports) 1/	...	2.0	0.1	2.7	3.3
International fares to Lao carriers	...	3.1	1.9	1.2	1.4
Lao port charges	...	2.8	1.0	0.9	1.5
Travel	18.1	34.0	42.7	51.4	62.3
Communications	0.0	2.6	0.0	0.4	0.4
Insurance	0.0	0.3	0.4	0.4	0.4
Embassies (nonsalary) and international organizations	25.2	35.0	31.2	29.2	25.2
Payments	38.4	58.0	60.3	69.1	79.3
Transportation	4.9	6.0	7.9	3.7	7.1
International fares to foreign carriers	3.0	3.6	7.9	3.3	6.3
Foreign port charges	1.9	2.4	0.0	0.4	0.8
Overflight	0.0	0.0	0.0	0.3	0.0
Travel	9.7	11.0	18.0	29.6	22.2
Communications	...	1.1	0.8	0.4	0.6
Construction	...	20.7	20.5	24.0	36.1
Hydropower	...	6.0	1.4	7.4	16.9
Other projects	...	14.7	19.1	16.6	19.2
Technical assistance (50 percent of inflow)	15.8	16.4	10.5	8.4	9.9
Lao embassies abroad (nonsalary)	2.7	2.8	2.7	3.0	3.4
Memorandum items:					
Exports of goods and services (nonfactor)	192.5	331.6	386.1	407.8	426.9
Imports of goods and services (nonfactor)	303.9	490.0	624.5	657.9	768.9

Sources: Data provided by the Lao authorities; and staff estimates.

1/ Includes only receipts from ticket sales.

Table 23. Lao P.D.R.: External Aid and Loan Disbursements, 1992-96

(In millions of U.S. dollars)

	1992	1993	1994	1995	<u>Est.</u> 1996
Grants 1/	62.9	103.5	124.7	109.3	81.7
Bilateral	45.0	65.3	93.3	89.3	73.2
Program grants	3.1	3.7	3.9	22.5	11.1
Project grants	41.9	61.6	89.3	66.8	62.1
Multilateral	17.9	38.2	31.4	20.1	8.5
UN agencies	12.3	25.3	18.8	9.2	2.3
Asian Development Bank	2.5	6.2	5.2	1.1	0.2
Other (including NGOs)	3.1	6.7	7.5	9.8	6.0
Loan disbursements	71.1	77.8	64.0	97.8	154.9
Program loans	34.1	35.0	24.4	14.9	23.1
World Bank (IDA)	21.9	14.0	18.0	0.0	19.6
Asian Development Bank	12.2	21.0	6.4	14.9	3.5
Project loans 2/	37.0	42.8	39.6	83.0	131.8
Of which:					
World Bank (IDA)	18.2	24.6	14.7	27.1	40.2
Asian Development Bank	18.8	17.8	15.9	47.0	63.8
Memorandum item:					
Technical assistance	31.5	32.8	20.9	13.7	14.1

Sources: Data provided by the Lao authorities; and staff estimates.

1/ Includes project-related and general technical assistance.

2/ Also includes OPEC, the International Fund for Agricultural Development, the Nordic Fund, and bilateral loans from China.

Table 24. Lao P.D.R.: International Reserves, 1992-96

(In millions of U.S. dollars)

	1992	1993	1994	1995	1996
Net official reserves of the Central Bank	13.1	27.0	14.5	30.3	101.7
Foreign reserves 1/	41.4	63.3	61.1	92.5	170.0
Foreign liabilities	-28.3	-36.3	-46.6	-62.2	-68.3
Net foreign assets of commercial banks	38.9	74.7	67.1	56.9	64.9
Foreign assets	44.4	87.6	97.1	98.6	115.0
Foreign liabilities	-5.5	-12.9	-29.9	-41.7	-50.2
Net foreign assets of the banking system	51.6	101.7	81.7	87.2	166.5
Memorandum items:					
Total gross reserves of the banking system	85.5	150.9	158.2	191.1	285.0
(in months of imports c.i.f.)	(3.9)	(4.2)	(3.4)	(3.9)	(5.0)
Of which:					
Foreign reserves of the Central Bank	(1.9)	(1.8)	(1.3)	(1.9)	(3.0)

Source: Data provided by the Lao authorities.

1/ Including gold in the amount of \$0.6 million.

Table 25. Lao P.D.R.: External Debt Service, 1992-96

(In millions of U.S. dollars)

	1992	1993	1994	1995	<u>Est.</u> 1996
Convertible currency	9.4	9.3	9.0	13.9	15.5
Principal	5.2	4.5	4.5	7.7	9.6
Interest	4.4	4.8	4.5	6.2	5.9
Bilateral creditors	3.4	1.8	1.9	3.4	5.1
Principal	2.2	1.3	1.4	2.5	4.4
Interest	1.2	0.5	0.5	0.9	0.7
Multilateral creditors	6.0	7.5	7.1	10.5	10.4
Principal	2.9	3.2	3.1	5.2	5.2
Of which: IMF 1/	(--)	(--)	(--)	(1.8)	(1.3)
Interest	3.1	4.3	4.0	5.3	5.2
Of which: IMF 1/	(1.4)	(0.7)	(0.1)	(0.5)	(0.6)
Nonconvertible currency	3.8	3.8	3.8	3.6	4.1
Principal	3.8	3.8	3.8	3.8	3.8
Interest	0.0	0.0	0.0	0.0	0.0
Memorandum items:					
Average interest rate	1.0	1.0	0.8	0.8	0.8
Debt-service ratio 2/	6.5	4.0	3.3	5.7	5.8

Sources: Data provided by the Lao authorities; IBRD; and Fund staff estimates.

1/ Includes operations under the Trust Fund.

2/ In percent of total exports of goods and nonfactor services.

Table 26. Lao P.D.R.: Approved Foreign Investments by Value and Sector, 1992-96 1/

(Number of aggregate investments; value in million of U.S. dollars)

	1992	1993	1994	1995	1996
By investment value					
Less than \$100,000					
Number of projects	21	0	28	13	9
Total value	1.1	0.0	1.2	0.6	0.5
\$100,000 - \$999,000					
Number of projects	53	117	61	35	42
Total value	19.0	33.7	22.4	14.2	15.6
More than \$1,000,000					
Number of projects	22	36	41	15	12
Total value	308.4	321.1	2,574.7	600.2	1,276.5
Total investments					
Number of projects	96	153	130	55	63
Total value	328.5	354.8	2,598.3	615.0	1,292.6
By economic sector 1/					
Agriculture					
Number of projects	14	23	7	3	6
Total value	15.7	16.9	6.8	5.1	1.9
Garments/textiles					
Number of projects	20	14	8	6	4
Total value	13.2	13.6	12.3	13.1	2.7
Wood-based industries					
Number of projects	5	5	5	1	2
Total value	34.5	6.8	22.4	0.6	12.0
Other manufacturing					
Number of projects	17	34	20	9	14
Total value	22.3	59.6	18.0	46.0	320.1
Mining/petroleum					
Number of projects	2	5	3	9	0
Total value	200.2	18.0	9.6	27.1	0.0
Trade					
Number of projects	12	24	16	4	11
Total value	2.7	6.9	8.9	0.4	7.9
Hotels/tourism					
Number of projects	5	6	6	1	3
Total value	6.6	4.8	279.3	0.3	211.7
Electric power					
Number of projects	0.0	1	3	1	1
Aggregate value	0.0	191.7	2,146.0	498.4	
Other					
Number of projects	21	41	62	21	22
Total value	33.3	36.5	30.1	24.0	504.4
Total investments					
Number of projects	96	153	130	55	63
Aggregate value	328.5	354.8	2,598.3	615.0	1,292.7

Source: Data provided by the Lao authorities.

1/ Data for 1992 include Fund staff estimates..

Table 27. Lao P.D.R.: Approved Foreign Investments by Country Source, 1992-96

(Numbers of aggregate investments; value in millions of U.S. dollars)

	1992	1993	1994	1995	1996
Thailand	35	63	54	21	17
Value	93.1	58.6	2,013.0	35.2	761.5
United States	4	7	8	2	4
Value	4.8	5.6	4.9	0.1	6.7
Taiwan Province of China	8	6	6	1	1
Value	23.6	5.8	8.2	6.7	0.5
France	10	17	11	6	8
Value	1.8	2.0	3.0	1.5	1.0
China	12	19	13	9	6
Value	7.5	12.6	8.9	8.1	3.2
Malaysia	3	3	1	2	2
Value	16.9	5.0	3.4	5.1	211.2
(Former) Soviet Union	3	1	2	0	1
Value	0.9	0.2	2.4	0.0	0.1
Hong Kong	5	6	4	0	0
Value	2.8	7.1	1.5	0.0	0.0
United Kingdom	3	4	1	1	3
Value	0.2	0.9	3.5	4.0	17.9
Australia	9	11	7	6	0
Value	9.8	12.1	7.1	1.7	0.0
Korea	3	7	5	2	6
Value	5.3	1.1	2.8	277.4	276.8
Singapore	3	8	1	1	1
Value	0.5	7.3	0.5	0.2	10.0
Japan	1	1	5	5	4
Value	0.7	0.2	1.0	5.2	2.8
Germany	3	1	4	0	0
Value	1.5	0.1	1.5	0.0	0.0
Canada	1	5	1	1	0
Value	0.3	0.9	0.1	0.3	0
Other	6	13	8	6	10
Value	0.4	3.3	2.6	15.7	1.0
Total licensed investments 1/ (Total value in thousands of U.S. dollars) 2/	109 170.1	172 122.8	131 2,064.3	63 366.3	63 1,292.6

Source: Data provided by the Lao authorities.

1/ Some investments have multiple foreign partners.

2/ The total aggregate value of overall investments excludes the proposed capital contributions of domestic Lao investors as well as some energy-related investments.

Table 28. Lao P.D.R.: External Debt Outstanding, 1992-96

(In millions of U.S. dollars; end of period)

	1992	1993	1994	1995	<u>Est.</u> 1996
Convertible currency	412	492	579	687	803
Bilateral creditors	30	31	34	41	46
France	5	4	4	3	2
China	2	2	2	2	2
Japan	24	25	27	26	22
Other	--	--	1	10	21
Multilateral creditors	381	461	546	646	756
AsDB	164	191	222	280	343
EU	2	3	3	3	3
IDA	175	215	251	267	307
IFAD	7	11	14	14	16
OPEC	6	5	4	3	3
Nordic Fund	--	1	6	13	17
IMF	27	36	46	65	68
Nonconvertible currency 1/	1,410	1,401	1,391	1,382	1,372
(Former U.S.S.R.)	1,383	1,374	1,366	1,357	1,349
Other 2/	27	26	26	25	24

Sources: Data provided by the Lao authorities; Fund accounts; and Fund staff estimates.

1/ Valued at the official exchange rate of TR 0.6 per U.S. dollar.

2/ Includes Bulgaria, (former) Czechoslovakia, (former) G.D.R., Hungary, and Poland.

Table 29. Lao P.D.R.: Exchange Rates, January 1993-March 1997

(In kip per U.S. dollar)

		Parallel (Monthly average)		Official ^{1/} (Monthly average)	
		Buying	Selling	Buying	Selling
1993 -	January	723	729	716	718
	February	723	729	716	718
	March	722	728	716	718
	April	720	727	716	718
	May	720	729	716	718
	June	720	730	716	718
	July	723	733	716	718
	August	725	735	716	718
	September	725	735	716	718
	October	726	736	716	718
	November	730	738	716	718
	December	730	737	716	718
	Average	723.9	732.2	716.0	718.0
1994 -	January	730	735	716	718
	February	725	732	716	718
	March	721	728	716	718
	April	720	730	716	718
	May	720	730	716	718
	June	720	730	716	718
	July	720	725	716	718
	August	720	730	716	718
	September	720	727	716	718
	October	725	730	718	720
	November	724	731	718	720
	December	726	733	718	720
	Average	722.6	730.2	726.5	728.5
1995 -	January	730	738	718	720
	February	731	736	718	720
	March	734	739	718	720
	April	742	752	718	720
	May	790	800	748	750
	June	817	845	784	786
	July	860	894	784	786
	August	930	978	920	930
	September	950	976	920	931
	October	941	956	917	930
	November	934	944	925	930
	December	936	943	920	930
	Average	841.3	858.4	815.8	821.1
1996 -	January	938	945	922	928
	February	938	946	919	928
	March	934	943	925	928
	April	938	945	918	927
	May	940	948	918	927
	June	943	949	919	927
	July	943	948	919	927
	August	945	950	919	927
	September	954	959	919	927
	October	963	968	919	927
	November	969	974	939	941
	December	978	983	935	943
	Average	949	955	923	930
1997 -	January	990	998	961	966
	February	1,025	1,037	985	990
	March	1,039	1,049	1,012	1,015

Source: Data provided by the Lao authorities.

^{1/} As of September 1995, the official rate was abolished. From that time, figures included refer to average rates quoted by commercial banks.

SOME OBSERVATIONS ON THE CONSUMER PRICE INDEXES¹

I. SUMMARY

1. This appendix reviews data sources and methods used to derive consumer price indexes (CPI) in the Lao P.D.R. It also attempts to estimate overall inflation and core inflation rates. In a concluding section, suggestions on ways to enhance the usefulness of the indexes are provided.
2. Higher food prices have been the primary source of recent inflation in Lao P.D.R. The country's overall average inflation rate for 1996 was 13 percent and the core inflation rate (that is, excluding food) was about 4 percentage points lower, largely due to rising food prices that resulted from the severe flooding that occurred in mid-1996. Similar relationships between the overall and the core inflation rates were evident during the first three months of 1997. Other factors contributing to overall inflation in 1996 and the first quarter of 1997 included the depreciation of the kip.
3. Over the past three years, the authorities have made significant progress in improving the compilation of the country's CPIs. Since the beginning of 1997, the CPI compiled by the National Statistics Center (NSC) has replaced that compiled by the Bank of the Lao P.D.R. (BOL) as the official index. Although the NSC's CPI is a more comprehensive indicator of inflation for the country, refinements in the classification of the components and periodic updating of the consumer basket used to derive the index would enhance the accuracy and bring it into greater conformity with the *1993 System of National Accounts (SNA)* classifications.
4. In the Lao P.D.R., the CPI has been used as the primary index to derive nominal gross domestic product (GDP) from constant prices estimates. The latter, in turn, have been compiled based on volume statistics. There are major shortcomings of this approach in the derivation of the country's GDP both at current and constant prices. Volume statistics understate the changing composition of output. Meanwhile, the use of the CPI to derive the country's nominal GDP may overestimate the GDP deflator. The authorities plan to adopt an expenditure-based approach to the estimation of nominal GDP.

II. BACKGROUND

5. The Lao authorities utilize two consumer price indexes. The BOL prepares one; the other is compiled by the NSC. Both price indexes are available on a monthly basis. The BOL series dates back to 1987. The NSC index goes back only to July 1993. Both indexes are computed using a Laspeyres formula; that is, a weighted average of the prices of selected items.

¹Prepared by Anne Kester.

6. The BOL's CPI is based on a consumer basket derived from a 1987 household budget survey. There are 75 items covering five major categories (viz., food, clothing, construction materials, services, and other). Prices are obtained daily from Vientiane, the capital. Food represents 62 percent of the cost of the consumer basket. Construction materials are used as a proxy for the cost of owner-occupied housing.

7. The NSC's CPI is based on a consumer basket derived from a July 1993 household budget survey. The basket covers 129 items in six major categories (food, alcohol and tobacco, clothing, energy and construction materials, transport and other). The categories approximate the classification for personal consumption as shown in the 1993 *SNA*. Prices are obtained from Vientiane and four other provinces. The weighted averages of prices from these locations are used in the derivation of the index. Food represents 54 percent of the cost of the consumer basket. Energy and construction materials are proxies for the cost of owner-occupied housing. The NSC has recently modified its index, using prices of December 1995 as the base. The NSC index has been developed with the assistance of the Swedish authorities.

III. COMPARISON OF THE TWO INDEXES

8. The NSC index is a more comprehensive measure of inflation in Lao P.D.R. It is based on a more recent consumer basket, is more consistent with *SNA* classifications, and uses an improved compilation methodology accounting for more consumption items and wider geographical coverage. Prior to 1996, the two indexes showed similar inflation rates and trends. The indexes, however, began to exhibit different rates of change in 1996, with the NSC index showing consistently higher rates of inflation. (Chart 10 shows that the BOL index started to reflect lower inflation in May 1996, earlier than the NSC index.)

9. Several factors could account for the different inflation rates shown by the two indexes. First, the higher rates of inflation associated with the NSC index could be attributed to its use of a more current consumer basket. They could reflect some high-value items not covered in the BOL index—meals in restaurants, alcoholic beverages, airline tickets, and such imported goods as motorcycles, radios, television sets, and clothing—for which prices have risen sharply in recent months.

10. Second, the recent devaluation of the kip had a direct impact on the larger imported goods component of the NSC index—dollar or baht prices in the CPI calculations are converted to kip.

11. A third factor could be the higher price of rice, following heavy output losses as a result of flooding. Although food represents 54 percent of the NSC's consumer basket, as compared to 62 percent in the BOL's consumer basket, glutinous rice (the single item that carries the most weight in each of the two indexes) has a heavier weight in the NSC index than the BOL one (13 percent versus 11 percent). Related to this point is the inclusion of prices outside Vientiane. Among the provinces outside the capital where inflation is measured, price increases are found to be higher than in Vientiane in three (Khamouane, Savannakhet,

and Champasack) and lower in only one (Luang Prabang). The combined weight of the three "high inflation" provinces used in the computation of the index (47 percent) is larger than that of Vientiane (42 percent). The higher increases in prices recorded in the three provinces are accounted for by the higher prices of food (in particular, rice) in these flood-affected locations. (See Chart 11)

IV. OVERALL INFLATION RATES AND CORE INFLATION RATES

12. Prices of rice in the Lao P.D.R. fluctuate as a result of variable weather and harvest conditions, making the CPI, with its large weight to food, similarly volatile. To guide monetary policies, however, a measure of underlying (core) inflation that reflects the long-run, or persistent, component of the price index is needed. Such a measure would reflect price changes tied to money growth over the medium term.

13. The traditional method of computing core inflation is to remove the "noise" or high variance component in the price index. In the case of Lao P.D.R., this component covers food prices, in particular, of rice. One such method involves recomputing the CPI without the volatile food component. Chart 10 shows that, in terms of the new NSC index, the core inflation index has not been rising as fast as the overall index. The overall CPI rose by 13.0 percent from December 1995 to December 1996; whereas, the core CPI (without food) rose by only 6.6 percent during the period. In 1997, the twelve-month rate of change of the NSC index ending in March was 12.4 percent, compared with 6.6 percent for the core index. Chart 10 shows that over the period of January 1994 through December 1996, the core CPI rose by only 36 percent, and the overall index rose by nearly 55 percent. The results of this comparison suggest that core annual inflation in Lao P.D.R. averaged about 4 percentage points below overall inflation in the period 1994-early-1997.

14. Another method used in estimating the core inflation rates involved filtering the overall inflation rates into a cyclical component and a trend component using the Hodrick-Prescott filter. This approach used an algorithm that gives decreasing weight to more distant observations and allows for adjustments in the degree to which the trend is consistent with the actual series. The results showed that overall inflation rates for the period were also approximately 4 percentage point higher than the core inflation rates.²

²A third approach used involved estimating a vector autoregressive (VAR) model taking account of monthly inflation, broad money growth, and exchange rate changes. Fitted values from this VAR system were extracted to form the underlying values. (This approach is consistent with the view that inflation is a monetary phenomenon, and it assumes a stable relationship among the variables in the model.) Probably due to the weak relationships between money supply and inflation rates in Lao P.D.R., the results were found to be statistically insignificant.

V. POSSIBLE WAYS TO ENHANCE THE USEFULNESS OF THE CPIs

15. The NSC index, as a fixed-weight index, assumes that consumers purchase constant proportions of various goods and services, despite the fact that, as relative prices change, consumers substitute relatively less expensive items for more expensive ones. Concomitantly, as incomes rise, consumers purchase more high-value items. To maintain the usefulness of its CPI, the NSC should establish procedures to identify new products as they emerge in the marketplace and to include them in the consumer basket. The NSC could update the CPI on an annual or biannual basis to introduce new weights.

16. Thus far, the authorities have used the BOL's CPI as the deflator to derive the country's nominal GDP, in conjunction with the GDP estimates at 1990 constant prices. The GDP estimates at constant prices, in turn, have been based on volume statistics provided by the various ministries. GDP at constant prices are likely to have been underestimated, since the volume statistics may not adequately reflect the changing composition of the country's production, especially its fast-growing services sector (in particular, construction). The use of the CPI to derive nominal GDP is also prone to coverage problems—producer and trade prices are more appropriate for non-consumption components. The Lao P.D.R. needs to add an expenditure-based approach to the estimation of its nominal GDP based on final domestic purchases (viz., private consumption expenditures, government consumption spendings, gross fixed capital formation, and exports net of imports) and to develop detailed producer price indexes for a wide variety of commodities. These indexes could then be used in conjunction with detailed CPI indexes as deflators to derive the country's GDP estimates at constant prices.

LAO P.D.R.
INFLATION RATES, 1993 - 1996

Sources: Data provided by the Lao authorities; and staff estimates.

1/ Excludes food.

LAO P.D.R.
CONSUMER PRICES: GENERAL, FOOD AND NON-FOOD INDICES 1/
(December 1995 - March 1997)

--- Food Non-Food — CPI

Source: Data provided by the Lao authorities; and staff calculations.

1/ December 1995=100.

Lao P.D.R.: Summary of Tax System as of May 1997

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. <u>Taxes on income and profits</u>			
1.1 Taxes on enterprise profits (profit tax)	Annual levy on profits derived in the Lao P.D.R. by enterprises from business operations (production, trade, and service), payable in advance on a quarterly basis.	<p>a. Expenses normally incurred in producing income with limits for gifts (0.10 percent) and travel costs (0.15 percent for each trip) of annual income.</p> <p>b. Asset amortization of each asset permitted, using fixed line or declining balance methods and using the following four annual rates: <u>50 percent</u>: business formation; <u>20 percent</u>: land transportation, machines and other equipment; <u>10 percent</u>: sea transport equipment, office improvement, supplies and temporary trade premises; <u>5 percent</u>: industrial, permanent trade premises and air transport. Unallowed residue is deducted from the sale price to compute the profit or loss.</p> <p>c. Carry-forward of losses available for up to 3 years.</p> <p>d. Three computational regimes. <u>Full real regime</u>: based on extended accounting system for foreign investors, import-export traders and businessmen with annual turnover greater than KN 240 million; <u>partial real regime</u>: based on ordinary or common accounting system, for other businessmen with annual turnover between 24 million and 240 million kip; <u>contract regime</u>: for those with primary accounting system, based on agreed estimation for turnover less than 24 million kip with progressive rates for production, construction, and transport (1-7 percent), trade (2-8 percent), and services, drinking bars (3-9 percent).</p> <p>e. Amounts appropriated to savings or recapitalization accounts, bonuses, meeting allowances or received from capital reduction, enterprise merging, share transfer, bankruptcy or debt liquidation.</p> <p>f. <u>Reliefs</u>: Case-by-case tax relief given to new and rehabilitated domestic enterprises (1-5 years) under Decree 47/SNA of June 1989 and to foreign and jointly owned enterprises (2-4 years), under Law 1/94 of March 1994</p>	<p><u>Tax Rate (In per cent)</u></p> <p>General rate 35</p> <p>Discount rates:</p> <p>For enterprises in designated areas/city 20</p> <p>For enterprises in rural and lowland areas 15</p> <p>For enterprises in mountain and remote areas. 10</p>
1.2. Minimum profit tax (<u>Impôt minimum fiscal</u>)	Applicable to gross turnover of the previous year of those enterprises subject to the extended or ordinary accounting system. Advance once-and-for-all payment on a quarterly basis. Creditable against final liability but no reimbursement of over payment.	Foreign and local investors who are in a system of annual profit tax exemption.	0.5 percent

Tax	Nature of Tax	Exemptions and Deductions	Rates	
1.3. Tax on social/religious/cultural organizations and associations	Incomes from immovable property leasing and non-business activities	None	10 percent	
1.4. Tax on personal income from employment	Levied on wages, salaries, bonuses, and other emoluments derived from employment in Lao P.D.R. or, when deputed to international organizations, by Lao citizens receiving emoluments abroad on which they are not taxed. Withheld at source by the employer on a monthly basis.	All persons with monthly wages or salaries below KN 30,000. Exemptions are granted to a selected list (12) of incomes, including income from agricultural production by peasants themselves, from cultural events, etc.	Monthly Wage or Salary (In kip)	Tax Rate (In percent)
			30,001-125,000	5
			125,001-250,000	10
			250,001-500,000	15
			500,001-1,000,000	20
			1,000,001-2,000,000	25
			2,000,001-3,000,000	30
			3,000,001-5,000,000	35
			5,000,001 and above	40
1.5. Tax on personal incomes of persons in self-employment	Levied on net profits made by individuals from business operations, and immovable property leasing. Payment on an advance quarterly basis.	First KN 360,000 is exempt.	General activities (In kip)	Tax Rate (In percent)
			360,001-1,500,000	10
			1,500,001-3,000,000	15
			3,000,001-6,000,000	20
			6,000,001-12,000,000	25
			12,000,001-24,000,000	30
			24,000,001-36,000,000	35
			36,000,001-60,000,000	40
			60,000,000 and above	45
1.6. Tax on investment income	Levied on incomes of entities and individuals from gross market-based rents, dividends, lending interest rates, and guarantee fees on a global basis, where appropriate.	Interest on bank deposits	10 percent	
1.7. Tax on property rights	Licenses and other intellectual property rights.	None	5 percent	
2. <u>Taxes on land and property</u>			<u>Tax Rate</u> (In percent)	
2.1. Transfer taxes	Applied to the market value of real estate property transferred between private persons through inheritance, sale, or gift.	None	Transfers between:	
			• direct descendants	0.5
			• second-degree relatives	1
			• third-degree relatives	2
			• other land and houses	3
			• undeveloped land	4

Tax	Nature of Tax	Exemptions and Deductions	Rates
2.2. Land tax	<p>Annual tax levied on land area. Tax is collected from January to end-April.</p> <p>Taxable land is divided in three categories:</p> <ul style="list-style-type: none"> • Occupied land (i.e., land occupied by buildings and factories) • Agricultural land • Other 	<ul style="list-style-type: none"> • Land occupied by temples, public welfare buildings, embassies, and housing for disabled persons (for extensions of less than 5,000 sq km). • Agricultural land, not exceeding two hectares per family, occupied by disabled military personnel and civilians. • Agricultural land situated in mountainous areas yielding less than 150 kg rice per person per year. • Agricultural land affected by natural disaster or other damages in accordance to the damage. • Newly cleared rice fields in mountainous (5 years) and flat land (3 years). • Industrial orchards (2-3 years). 	<p>1. <u>Occupied land:</u></p> <p>Rates vary from KN 0.5 to KN 30 per square meter per year in accordance with the use (housing, production factories, business or service and unused open land) and location.</p> <p>2. <u>Agricultural land:</u></p> <p>Rates vary from KN 500 to KN 6,000 per hectare per year in accordance with: (i) land use (rice land, garden land, and farm land); (ii) location (level field and mountainous areas); and (iii) type of production (for rice, number of crops per year and for garden, type of trees).</p> <p>3. <u>Other land:</u></p> <p>KN 1,000-6,000 per hectare per year.</p>

Tax	Nature of Tax	Exemptions and Deductions	Rates																																																
3. <u>Taxes on goods and services</u>																																																			
3.1 Turnover tax	<p>The tax is levied on the turnover of importers, domestic manufacturers, and service providers (but not retailers) and allows for a credit for tax paid at earlier stages. <u>Importers and domestic distributors</u> pay tax monthly on their sales and receive credit for the turnover tax they may have paid on their imports. <u>Domestic manufacturers</u> pay monthly, on their sales (at wholesale prices inclusive of 20 percent profit margin) and receive credit for any tax that has been paid on their raw material purchases or imports (but not on their capital good purchases or purchases of services). <u>Service providers</u> also pay tax monthly, on their sales receipts and receive credits for their input purchases. <u>Retailers</u> are not subject to tax. Thus, the tax is a wholesale stage sales tax with partial credit mechanism.</p> <p>All imports, not exempt from import duties, are subject to turnover tax and the base of taxation is customs value <u>plus</u> customs duty, and fees <u>plus</u> excise duty, if any.</p> <p>Large suppliers, with an annual turnover of more than KN 7.2 million, who are subject to accounts-based profits tax, pay turnover tax based on the issued invoices and their sale invoices are required to show the payment of the tax separately.</p>	<p>The following activities are exempt from turnover tax:</p> <ul style="list-style-type: none">• import of crop seeds, animal breeds and insecticides;• import of materials, instruments and chemical components for research purposes;• import of gold for the notes issuing institution;• import of bank notes or coins;• import or activity relating to tax or post stamps;• import of planes and instruments for international air transportation;• import of goods or accessories for components of international air transportation;• import of goods for selling to diplomats and international organizations in the Lao PDR according to permissions of Ministry of Foreign Affairs;• import of goods with tax exemption or temporary import;• import and sales of animal treating medicines;• sales of self-produced agricultural products by peasants;• forestation activities, industrial trees and fruits planting;• sales of agricultural and handicraft products by the government employees or cooperative members on family basis or limit;• export of goods and services;• sales of allowed text books, newspaper and magazines;• international transportation and relevant services; (international transportation-transportation of passengers or cargos from abroad or to abroad by land, air and sea/river)• transport by people, animals and boats without engines;• provision of leasing immovable properties, such as land, houses and others by persons who do not have business activities;	<p>The turnover tax is levied at these rates: 3 percent (which is the low rate), 5 percent (which is the basic rate), 10 percent and 15 percent.</p> <p><u>Illustrations</u> of items subject to these rates follow:</p> <table><tr><th>Category</th><th>Tax Rate (In per- cent)</th></tr><tr><td>Agricultural products, fertilizers, and insecticide</td><td>3</td></tr><tr><td>Chemicals and minera products</td><td>3</td></tr><tr><td>All foodstuff</td><td>3</td></tr><tr><td>Machinery and equipment</td><td>3</td></tr><tr><td>Medical services</td><td>3</td></tr><tr><td>Agricultural services</td><td>3</td></tr><tr><td>*****</td><td></td></tr><tr><td>Electricity and fuel</td><td>5</td></tr><tr><td>Consumer durables</td><td>5</td></tr><tr><td>Furniture, clothes, tea and coffee</td><td>5</td></tr><tr><td>Capital equipment, raw materials, and spare parts</td><td>5</td></tr><tr><td>Motocycle, trucks, minibus, bus and their spare parts</td><td>5</td></tr><tr><td>Construction and land development</td><td>5</td></tr><tr><td>Softdrinks and non-alcoholic drinks</td><td>5</td></tr><tr><td>Transportation</td><td>5</td></tr><tr><td>Goods and services not specifically mentioned in 3, 10 and 15 percent rates</td><td>5</td></tr><tr><td>*****</td><td></td></tr><tr><td>Imports and sales of TV, radio and other electronic equipment</td><td>10</td></tr><tr><td>Passenger car, jeep, pickup, plane ship, motorboat for recreation</td><td>10</td></tr><tr><td>Precious metals and jewelry</td><td>10</td></tr><tr><td>Hotels and tourism</td><td>10</td></tr><tr><td>Telecommunication services</td><td>10</td></tr><tr><td>*****</td><td></td></tr></table>	Category	Tax Rate (In per- cent)	Agricultural products, fertilizers, and insecticide	3	Chemicals and minera products	3	All foodstuff	3	Machinery and equipment	3	Medical services	3	Agricultural services	3	*****		Electricity and fuel	5	Consumer durables	5	Furniture, clothes, tea and coffee	5	Capital equipment, raw materials, and spare parts	5	Motocycle, trucks, minibus, bus and their spare parts	5	Construction and land development	5	Softdrinks and non-alcoholic drinks	5	Transportation	5	Goods and services not specifically mentioned in 3, 10 and 15 percent rates	5	*****		Imports and sales of TV, radio and other electronic equipment	10	Passenger car, jeep, pickup, plane ship, motorboat for recreation	10	Precious metals and jewelry	10	Hotels and tourism	10	Telecommunication services	10	*****	
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Tax	Nature of Tax	Exemptions and Deductions	Rates																																																							
		<ul style="list-style-type: none">• export services;• independent job-occupation by one's own labor;• educational activities: child schools, primary schools, secondary and high schools, universities and professional technical schools;• activities for public benefits held by government authorities and international organizations; and• banking and insurance activities.	Alcoholic drinks and cigarettes	15																																																						
			Games	15																																																						
			Entertainment activities	15																																																						
3.2 Excise duties	Levied equally on imports and domestic supplies of petroleum products and selected consumer goods. Imported items are subject to tax on customs duty-inclusive values while domestic suppliers are subject to tax on ex-factory costs.	<p>The following are exempt:</p> <ul style="list-style-type: none">• Purchases by embassies and international organizations• Kerosene• Accon (90) for medical purposes• Purchases of petroleum products for externally-funded projects• Exports of excisable goods	<p>The ad valorem excise duties are as follows:</p> <table><thead><tr><th>Item</th><th>Tax Rate (In percent)</th></tr></thead><tbody><tr><td>Petroleum products:</td><td></td></tr><tr><td>Super gasoline</td><td>23</td></tr><tr><td>Regular gasoline</td><td>20</td></tr><tr><td>Diesel and aviation fuel</td><td>10</td></tr><tr><td>Lubricants, grease, and brake fluids</td><td>2</td></tr><tr><td colspan="2">There is an additional excise duty on:</td></tr><tr><td>Regular</td><td>21 kip/ltr</td></tr><tr><td>Diesel</td><td>10 kip/ltr</td></tr><tr><td>Kerosene for aeroplanes</td><td>10 kip/ltr</td></tr><tr><td>Spirits</td><td>40</td></tr><tr><td>Beer and wine</td><td>30</td></tr><tr><td>Soft drinks</td><td>20</td></tr><tr><td>Cigarettes and cigars</td><td>30</td></tr><tr><td>Cosmetics and perfumes</td><td>10</td></tr><tr><td>Playcards and the like</td><td>50</td></tr><tr><td>Vehicles - Cars</td><td></td></tr><tr><td>Pick up two doors</td><td>14</td></tr><tr><td>Pick up four doors</td><td>12</td></tr><tr><td>Bus, mini-bus</td><td>14</td></tr><tr><td>Jeep</td><td>19</td></tr><tr><td>Cars hp 1000-1500cc</td><td>51</td></tr><tr><td>1500-3000cc</td><td>60</td></tr><tr><td>more than 3000cc</td><td>92</td></tr><tr><td>Motorbikes</td><td>30</td></tr><tr><td>Miscellaneous items</td><td></td></tr><tr><td>Electrical appliances (freezer, heater, a.c. unit, washing machine, vacuum, color TV, camera, VCR, VCR camera)</td><td>5</td></tr></tbody></table>	Item	Tax Rate (In percent)	Petroleum products:		Super gasoline	23	Regular gasoline	20	Diesel and aviation fuel	10	Lubricants, grease, and brake fluids	2	There is an additional excise duty on:		Regular	21 kip/ltr	Diesel	10 kip/ltr	Kerosene for aeroplanes	10 kip/ltr	Spirits	40	Beer and wine	30	Soft drinks	20	Cigarettes and cigars	30	Cosmetics and perfumes	10	Playcards and the like	50	Vehicles - Cars		Pick up two doors	14	Pick up four doors	12	Bus, mini-bus	14	Jeep	19	Cars hp 1000-1500cc	51	1500-3000cc	60	more than 3000cc	92	Motorbikes	30	Miscellaneous items		Electrical appliances (freezer, heater, a.c. unit, washing machine, vacuum, color TV, camera, VCR, VCR camera)	5	
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Tax	Nature of Tax	Exemptions and Deductions	Rates																												
3.3. Business and professional licenses	Levied annually on registered industrial and commercial enterprises, based on turnover and on import-export enterprises, based on capital. Payable during the first three months of the year on a current basis.	None	Different rates apply to industrial, commercial, and import-export enterprises as follows:																												
			<table><tr><th colspan="3">Rates</th></tr><tr><th>Turnover (In millions of kips)</th><th>Industrial (In kip)</th><th>Commercial (In kip)</th></tr><tr><td>0-2</td><td>1,500</td><td>2,500</td></tr><tr><td>2-5</td><td>2,000</td><td>3,000</td></tr><tr><td>5-10</td><td>3,500</td><td>5,000</td></tr><tr><td>10-20</td><td>5,000</td><td>7,000</td></tr><tr><td>20-50</td><td>7,000</td><td>10,000</td></tr><tr><td>50-100</td><td>10,000</td><td>15,000</td></tr><tr><td>100 and above</td><td>15,000</td><td>20,000</td></tr></table>		Rates			Turnover (In millions of kips)	Industrial (In kip)	Commercial (In kip)	0-2	1,500	2,500	2-5	2,000	3,000	5-10	3,500	5,000	10-20	5,000	7,000	20-50	7,000	10,000	50-100	10,000	15,000	100 and above	15,000	20,000
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3.4. Road tax	Levied annually on all motor vehicles (motorcycles, cars, trucks, etc.)	<p>The following are exempt:</p> <ul style="list-style-type: none">• Government cars• Cars of the diplomatic corps, international organizations, and foreign experts• 50 percent reduction for government staff, soldiers, policemen, students for one vehicle• 60 percent reduction for pensioners	Fees vary according to size of engine (for cars and motorcycles), weight (for trucks), and number of seats (for buses).	KN2,000 to KN360,000																											
3.5. Air travel fees	Levied annually for:	None	Fees vary according to weight.																												
	(i) Civil aviation registration			KN 7,000- KN 70,000																											
	(ii) Examination issuance and renewal of permits			KN 5,000- KN 40,000																											
3.6. Airspace overflight fees	Levied on all aircraft without regard to nationality overflying the territory of the Lao P.D.R.	<ul style="list-style-type: none">• VIP special aircraft• Hospital aircraft carrying patients		\$160-\$250 per over-flight																											

Tax		Nature of Tax	Exemptions and Deductions	Rates	
3.7	River transport fees	Levied annually	None	Fees vary according to size of boats	KN 200- KN 20,000
3.8	Border entry and exit fees		<ul style="list-style-type: none"> • Diplomatic personnel and relatives • Foreign experts and relatives 	Nationals: Foreigners Land and water vehicles	KN 500 \$5 KN 1,500- KN 11,000
3.9	Fees for extended residence in the Lao P.D.R.		<ul style="list-style-type: none"> • Diplomatic corps, foreign experts, and their relatives 	Fees vary according to length of stay.	KN 6,000- KN 12,000
3.10	Fee for temporary border passes		None		KN 200- KN 3,000
3.11	Fees on delivery of passports, visas, and laissez-passer documents		None	Fees vary according to nature of document and applicant: Foreigners: Lao nationals:	\$10-\$80 KN 300- KN 10,000
3.12	Consular fees overseas		None	Fees vary in accordance with the location of the consular office and type of document.	\$2-\$32
3.13	Fees on possession of personal arms	Levied every five years.	None		KN 3,000- KN 4,000
3.14	Television and audio use fees	Levied annually.	None	Television sets: Video cassette recorders:	KN 500 KN 1,000

Tax	Nature of Tax	Exemptions and Deductions	Rates																		
4. <u>Taxes on international trade</u>																					
4.1 Import duties	<p>Until recently, imposed on values fixed in U.S. dollar terms. Such values were fixed for most items, jointly by the Ministry of Trade and the Customs Department. The main exceptions are motor vehicles and selected computer equipment, for which invoice values are accepted. The U.S. dollar values are converted into local currency at the market rate.</p> <p>Increasingly, duties are being levied on c.i.f. values.</p>	<p>Imports of diplomats and army/police are exempt. Goods imported by the Government for use in externally-financed development projects are also exempt; the Government otherwise pays duties on its other imports. Imports of fuel by Lao Aviation for international transport is exempt. Also exempt are imports under bilateral grants and externally-funded humanitarian imports.</p> <p>Imported inputs (raw materials, machinery and equipment, building materials) for approved foreign-financed private sector and joint venture investment projects are subject to an import fee of 1 percent.</p> <p>There are no discretionary exemptions. The Minister of Finance does not have the power to grant duty exemptions.</p> <p>Currently, there is no drawback scheme for import duties paid on inputs for exports.</p>	<table><tr><th></th><th><u>Tax Rate</u> (In percent)</th></tr><tr><td>Six rates ranging from 5 to 40 percent. The kinds of goods subject to these rates are as follows:</td><td></td></tr><tr><td>Raw materials, chemicals (including fertilizers), packaging materials, some machinery (incl. tractors and tools for agriculture), and essential consumer goods (rice, wheat flour, salt, baby foods, medicines, books and printed materials), cameras</td><td>5</td></tr><tr><td>Other machinery and spare parts, and less essential goods (sugar, cheese, butter, chocolate, cooking oils, footwear, garments, photographic films, refrigerators, dishwashers, household electrical appliances, stereo systems, carpets, pearls and diamonds).</td><td>10</td></tr><tr><td>Selected luxury consumer goods (premium petrol, cosmetics and toiletries, TVs and VCRs, radio cassette players, table games and funfair articles, buses, minibuses, a.c. units).</td><td>20</td></tr><tr><td>Other luxury consumer goods (prepared meats and fish, cereals and prepared foods, white chocolate confectionery, toilet soaps and deodorants, perfumes, wines, and spirits), pick up trucks.</td><td>30</td></tr><tr><td>Soft drinks, liquors, beer, tobacco, detergents, processed wood, jeeps, cars, motorbikes, cigarettes, cigars.</td><td>40</td></tr><tr><td>In addition, one highest rate applies:</td><td>50</td></tr><tr><td>Essentially a protective tariff rate (on unprocessed vegetables and fruits, unroasted coffee, roasted coffee, furniture, soft drinks, motorcycles).</td><td></td></tr></table>		<u>Tax Rate</u> (In percent)	Six rates ranging from 5 to 40 percent. The kinds of goods subject to these rates are as follows:		Raw materials, chemicals (including fertilizers), packaging materials, some machinery (incl. tractors and tools for agriculture), and essential consumer goods (rice, wheat flour, salt, baby foods, medicines, books and printed materials), cameras	5	Other machinery and spare parts, and less essential goods (sugar, cheese, butter, chocolate, cooking oils, footwear, garments, photographic films, refrigerators, dishwashers, household electrical appliances, stereo systems, carpets, pearls and diamonds).	10	Selected luxury consumer goods (premium petrol, cosmetics and toiletries, TVs and VCRs, radio cassette players, table games and funfair articles, buses, minibuses, a.c. units).	20	Other luxury consumer goods (prepared meats and fish, cereals and prepared foods, white chocolate confectionery, toilet soaps and deodorants, perfumes, wines, and spirits), pick up trucks.	30	Soft drinks, liquors, beer, tobacco, detergents, processed wood, jeeps, cars, motorbikes, cigarettes, cigars.	40	In addition, one highest rate applies:	50	Essentially a protective tariff rate (on unprocessed vegetables and fruits, unroasted coffee, roasted coffee, furniture, soft drinks, motorcycles).	
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Tax		Nature of Tax	Exemptions and Deductions	Rates	
4.2	Export duties	Levied on selected products. (Duties on exports of logs and wood products are included in timber royalties or stumpage prices.)	None	Electricity: 20 percent of invoice value; coffee: 5 percent of FOB value; livestock: 5 percent of FOB value; logs: specific rates; sawwood: specific rates; semfinished wood products (lumber, parquet): 30 percent of FOB value; finished wood products (plywood): 3 percent of FOB value.	
4.3	Transit tax	Imposed on "transit" vehicles shipping traded commodities between Thailand, Vietnam, and China via the Lao P.D.R.			
4.4	Tax on foreign investments	Imposed on declared profits of new government ventures and private enterprises with foreign capital.	Several tax holidays.	20 percent	
5.	<u>Taxes on timber and other natural resources</u>				
5.1.	Timber royalties	Levied as a fixed dollar amount per cubic meter of timber sold, both for domestic consumption and export. Timber royalties incorporate other taxes previously levied on timber products, i.e., the <u>reforestation tax</u> , the <u>resource tax</u> levied on the timber production rate, and the <u>export duties</u> , levied by the Customs department on exported timber.	None	Royalties established by the Ministry of Commerce and the Forestry Department of the Ministry of Agriculture. Since February 1995, royalties average about US\$15,650, depending on the timber quality.	
5.2.	Taxes on natural resources	Levied in the form of specific duties on volume of mineral extraction, or ad valorem duties on sale price of mineral products.	None	<ul style="list-style-type: none"> • Ferrous metals • Non-ferrous metals • Coal • Construction Materials 	<ul style="list-style-type: none"> 2% of sale value 2-5% 2-3% KN 50 per 100m'

Source: Ministry of Finance.

This summary incorporates the revised tax rates and revisions in other aspects of the tax system which are part of the new tax law, adopted by the National Assembly at the end of 1995.

Lao P.D.R.: Summary of Privatization of State-Owned Enterprises

A. Privatization during 1989-96

Year Privatized	Enterprise Name	Mode of Privatization			Contract		Number of Employees			
		Hire	Lease	Purchase Sale	Origin of Investor	Period (Years)	Value US\$ '000	Total	Retained	Dismissed
1989	Sheet metal factory	x			...	15	175	...	...	...
	Tobacco factory	x			...	5	14,000	1,037	939	98
							14,175			
1990	The Ngone mechanical workshop #1	x			Domestic	10	50	...	...	...
	Dong Doc poultry farm	x			Domestic	10	151	26	26	0
	First-of-May sawmill	x			Foreign	10	1,820	211	149	62
							2,021			
1991	Rattan and bamboo factory	x			Domestic	10	216	31	19	12
	Lao plywood factory	x			Foreign	15	8,400	378	349	29
	Wood product factory #2	x			Foreign	15	620	236	230	6
	Irrigation pump repair workshop km 14	x			Foreign	10	121	20	20	0
	Lao-Czech pig farm km 18	x			Domestic	10	57	18	18	0
	Lao-Swedish mechanical workshop	x			Foreign	15	473	107	107	0
	Tha Ngone fish farm	x			Domestic	10	109	...	...	...
	Veune Kham agriculture technical service center	x			Domestic	5	78	41	40	1
	Parquet factory at km 14 #1	x			Domestic	10	2,245	...	...	...
	Wood product factory #1	x			Foreign	10	1,055	...	...	...
	Passe people's building				Domestic	20	200	...	...	...
	Inter-Lao tourism	x		x	Joint	...	65	...	...	...
							13,373			
1992	Lao-Hungarian poultry farm 1/	x			...	2	22	...	...	...
	Thanaleng warehouse and ferry	x			Foreign	15	2,678	122	100	22
	Lathouay pig farm	x			Domestic	20	241	27	27	0
	Lao-Cuban poultry farm	x			Domestic	5	32	27	26	1
	Tha Ngone agriculture mechanical workshop	x			Domestic	5	28	44	44	0
	Car rent company #1	x			...	15	79	87	40	47
	Car rent company #2			x	Domestic	15	21	...	...	...
	Champassak people's building	x			...	20	400	...	...	...
	Praksab sugar factory	x			Domestic	15	3,200	31	31	0
	Savannakhet building			x	...	60	...	...	...	...
	Nabong cattle breeding	x			Joint	20	309	33	33	0
	Electrical wire and plastic bag factory	x			Foreign	15	253	81	79	2
	Detergent factory	x			Foreign	15	763	81	81	0
	Tha Ngone vegetable center	x			Foreign	20	108	...	...	...
	Phou Vao Hotel at Luang Prabang	x			Joint	35	700	...	...	...
	Na Phank seed production center	x			Foreign	20	232	...	...	...
	Animal feed factory	x			Domestic	15	523	89	89	0
	Baby food factory	x			Domestic	15	31	...	...	...
	Tha Ngone ferry	x			Domestic	5	115	6	6	0
	Lao-Australian heavy mechanical workshop at Tha Ngone	x			Joint	...	1,530	110	110	0
	Borikhamsay sawmill	x			Foreign	15	540	30	30	0
	Lane Xang hotel			x	Joint	...	3,500	...	...	...
							11,865			

1/ This enterprise was first privatized in 1992. The lease was renewed in 1994.

A. Privatization during 1989-96 (cont'd)

Year Privatized	Enterprise Name	Mode of Privatization			Origin of Investor	Contract		Number of Employees		
		Hire	Lease	Purchase Sale		Period (Years)	Value US\$ '000	Total	Retained	Dismissed
1993	Lao brewery			x	Joint	...	10,200	197	197	0
	Sikhay sawmill	x			Foreign	15	346	92	65	27
	Parquet factory at Km 14 #2	x			Joint	15	2,263	190	67	123
	Tannery factory, prefecture	x			Joint	25	1,250	...	...	...
	Pancheng sugar factory			x	Foreign	35	125	...	...	...
	Phonehang production unit at Km 62	x			Domestic	20	123	...	...	...
	Phousy hotel, Luang Prabang	x			Joint	30	252	...	...	...
	That Khoa Garment factory	x			Domestic	15	63	...	...	...
	Lao soft drink company			x	Joint	...	2,380	107	107	0
	Cultural product factory (wood sculpture)	x			Domestic	20	42	...	...	...
	Muang Lao Hotel	x			Foreign	30	881	...	...	...
	Lao textile factory of the women's federation			x	Joint	30	4,500	...	...	...
	Garment factory #1			x	...	...	...	...	...	...
	Pharmaceutical factory			x	Foreign	...	...	...	...	...
							<u>22,424</u>			
1994	Lao-Russian workshop at Dang Chong	x			Domestic	10	665	...	...	...
	Expert service building	x			Joint	30	1,350	...	...	...
	Lao-Hungarian poultry farm 2/	x			Domestic	10	...	...	...	...
	Building construction #2			x	...	5	215	...	...	...
	Building construction #3			x	...	5	85	...	...	...
	Laoviang textile factory prefecture			x	Joint	40	150	...	...	...
	Construction company #2			x	...	...	1,035	...	...	...
	Agricultural Transport Co.	x		...	10	62	...	...	...	...
	Agricultural machineries			x	...	...	11	...	...	...
	Forestry enterprise #2			x	...	...	83	...	...	...
	Autotransport #1	x			Domestic	...	735	...	...	...
							<u>4,391</u>			
1995	Lao Freight Forwarder			x	Domestic	0	237	39	39	0
	Thong Pong Cement Factory			x	Joint	0	1,500	3	3	0
					Foreign					
	Agro Machinery and Oxygen			x	Domestic	0	204	95	95	0
	Transit Transport No. 2			x	Domestic	0	40	...	...	...
	Animal Slaughter			x	Domestic		150	...	...	...
	Agricultural Equipment Supply			x	Domestic	0	15	41	41	0
	Veum Kham Agric. Co.			x	Domestic	0	108	39	39	0
	Road Construction Co. Vientiane			x	Domestic	0	611	...	...	...
	Bridge Road Construction No. 20			x	Domestic	0	1,400	...	...	...
	River Transport Champassak			x	Domestic	0	91	13	13	0
	Chomthong Timber Factory			x	Foreign	0	36	...	...	...
							<u>4,415</u>			

2/ This enterprise was first privatized in 1992. The lease was renewed in 1994.

A. Privatization during 1989-96 (cont'd)

Year Privatized	Enterprise Name	Mode of Privatization			Origin of Investor	Contract Period (Years)	Value US\$ '000	Number of Employees		
		Lease	Purchase	Sale				Total	Retained	Dismissed
1996	Transport Co. #4			x	domestic		498	...	...	...
	Dongdok Wood Ent.	x			foreign	10	45	17	17	0
	Building construction #1			x	domestic		36	12	12	0
	Building construction #4			x	domestic		30	11	11	0
	Vehicle Repair Workshop #1			x	domestic		313	23	23	0
	Transport Co. #2			x	domestic		424	57	57	0
	Unipipe Industry Co.	x			foreign	15	92	...	...	...
	Vehicle Repair Workshop #2	x			foreign	8	9	...	...	...
	Irrigation pump repair and pipe workshop	x			foreign	20	250	...	...	...
	Lao Concrete Co.			x	domestic		101	49	49	0
	Shending Telecommunications Material	x			foreign	15	116	...	...	...
	Hydropower Consultancy Co.			x	domestic		62	36	29	7
	Transport Co. #3			x	domestic		121	20	20	0
	Wooden Construction Materials			x	foreign	30	88	...	...	...
	Lao Telecommunications Co.			x 3/	joint	25	45,000	850	850	0
							<u>47,185</u>			
	<u>Total of 20 privatized enterprises</u>						<u>119,849 4/</u>			

B. Privatization Plans for 1997

No.	Enterprise Name	Mode of Privatization			Assets Value (mil.kip)	No. of Employees	Remarks
		Lease	Purchase	Sale			
I.	Ministry of Industry and Crafts						
1	Lao Concrete Co.				1,233	61	Difficult to sell-bad location
2	Limestone Mining Co.				596	168	
3	Lao Tobacco Co.			x	3,600	450	Joint venture 60/40 shares-government is revisiting its plans
II.	Ministry of Trade						
4	Lao Trade Co.				44	37	Perhaps liquidated
III.	Ministry of Communication Transport, Post and Construction						
5	Communication Survey & Design			x	300	157	Management buyout
6	Construction Materials Survey and Analysis Co.			x	120	46	Management buyout
7	National Main-Road Rehabilitation Com.				3,004	380	Restructure and pass to province
8	Bridge Const. Co. No.1			x	445	163	Management buyout
9	Architectural Const. Co. No.5			x	30	15	Management buyout
10	Communication Const. Co.			x	371	85	Management buyout
11	River Transport Enterprise				1,607	45	Nonviable, WB financed boats
12	Lao-Sweden Road Rehabilitation Co. (Nakhouy)				435	57	To be given to Vientiane Municipality

3/ Partial sale.

4/ Total for enterprises for which data are available.

B. Privatization Plans for 1996-97

No.	Enterprise Name	Mode of Privatization			Assets Value (mil.kip)	No. of Emple- yees	Remarks
		Lease	Hire Purchase	Sale			
13	Southern Road No.13 Const. Co. (Savannakhet-Pakse)			x	2,740	230	Joint venture preferred (Chinese interest)
14	Road Construction Co. No.8			x	1,786	120	Joint venture preferred (Japanese interest) road must be finished first
IV. Ministry of Health							
15	Pharmaceutical Products Co.				29	12	Liquidate
V. Vientiane Municipality							
16	Bridges Roads Const. Co.				560	120	Difficult negotiators
VI. Vientiane Province							
17	Agricultural Production Co. No.1				193	36	Liquidate
18	Agricultural Production Co. No.2				423	42	Liquidate
19	Irrigation Designing Com.			x	39	34	Management buyout
20	Vientiane Province Bridge-Road Co.			x	428	38	Management buyout
21	Vientiane Province Rural Dev. Com.			x	200	79	Management buyout
22	Architectural Designing & Urban Co.				2	14	Liquidate
VII. Luangprabang Province							
23	Construction Co. No.1			x	90	31	Management buyout
24	Printing Shop			x	34	15	Sold to Management early 1996
25	Northern Bridge-Road No.13			x	158	42	Management buyout after transfer to province
VIII. Xayaboury Province							
26	Provincial Irrigation Const. Co.			x	501	31	Management buyout
27	Provincial Bridge-Road Const. Co.			x	272	41	Management buyout
IX. Oudomsay Province							
28	Oudomsay Hotel				130	12	No interest shown
X. Borikhamasay Province							
29	Wood Processing Co. No.1				1,806	276	difficult to sell
30	Provincial Irrigation Const. Co.			x	216	46	Management buyout
XI. Khammouane Province							
31	Provincial Printing Factory			x	15	14	Management buyout
32	Architectural Const. Co.			x	20	38	Management buyout
33	Communication Co. No.2			x	18	6	Management buyout
XII. Savannakhet Province							
34	Savan Wood Co.				1,291	204	Only low price seems possible
XIII. Champasack Province							
35	Irrigation Survey-Design Division				10	16	Liquidate

B. Privatization Plans for 1996-97 (cont'd)

No.	Enterprise Name	Mode of Privatization			Assets Value (mil.kip)	No. of Employees	Remarks
		Lease	Purchase	Hire Sale			
36	Provincial Irrigation Const. Station			x	1,017	98	Management buyout
37	Provincial Printing Factory			x	19	14	Management buyout
XIV. Saravane Province							
38	Provincial Bus Service Co.			x	176	32	Management buyout
39	Provincial Cargo-Transport Co.			x	40	18	Management buyout
40	Provincial Road Const. Machinery Co.			x	170	52	Management buyout
41	Provincial Bridge-Road Rehabilitation Co.			x	486	49	Management buyout
XV. Bokeo Province							
42	Bridge-Road Co.			x	250	57	Management buyout
43	Irrigation Co.			x	448	34	Management buyout
XVI. Xaysomboun Special Region							
44	Irrigation Const. Co. No.1			x	1,058	178	Management buyout after transfer to Special Region

C. Strategic Enterprises to Remain State-Owned

No.	Enterprise Name	Assets Value (million in Kip)	Number of Employees
I. The Prime Minister's Office			
1	Lao National Tourism	350	29
II. Ministry of Industry and Crafts			
2	Electricité Du Laos (EDL)	139,548	1,705
III. Ministry of Trade			
3	Lao Trade Import-Export Company	1,320	110
4	Magazin d'Etat Pour les Missions Etrangères (MEPME)	1,413	33
5	Technical-Materials Supply Company	657	34
6	Vehicle and Spare Parts Supply Company	1,229	46
7	Lao (State) Fuel Company	4,914	254
IV. Ministry of Communication, Transport, Post and Construction			
8	Lao Water Supply Company	2,500	326
9	Lao Post Office Company	7,560	1,167
V. Ministry of Education			
10	Editing and Printing Enterprise	506	69
11	Educational Material Products Factory	114	6

C. Strategic Enterprises to Remain State-Owned (cont'd)

No.	Enterprise Name	Assets Value (million in Kip)	Number of Employees
VI. Ministry of Culture and Information			
12	The Lao State Printing Enterprise	492	133
VII. Ministry of Health			
13	Pharmaceutical Factories No. 2 and 3	4,258	339
VIII. Ministry of Finance			
14	Lao National Lottery	2,459	36
15	Mountains Development Company (Phoudoi)	17,093	3,200
16	Development of Agro-Forestry Industry (DAFI)	19,865	44
17	Agro-Forestry and Service Company (Northern Wood Company)	17,179	784
IX. The Bank of the Lao P.D.R.			
18	Sethathirath Bank	3,920	114
19	Nakhonekuan Bank	995	60
20	Bank for Foreign Trade/BCEL	4,496	180
21	Pak Neua Bank (Lane Xang Bank)	2,338	0
22	Agricultural Promotion Bank (APB)	1,000	275
23	Lao Mai Bank	2,394	0
24	Pak Tai Bank	3,224	0
25	Aloun Mai Bank	663	0
X. Ministry of Labor and Social Welfare			
26	Employment Service Company	155	7
XI. The Central Youth Federation			
27	Youth Printing Factory	256	22
XII. Vientiane Municipality			
28	Bus Transport Service Commission	3,276	171
29	Vientiane Municipality's Printing-Works	310	0
XIII. Luangprabang Province			
30	Irrigation Company	378	49
31	Luangprabang Tourist Company	133	28
XIV. Savannakhet Province			
32	Savan Wood Company	61	11
Total:		<u>245,056</u>	<u>9,232</u>

Sources: Data provided by the Lao authorities; the World Bank; the Asian Development Bank; and staff estimates.