

Statement by the IMF Staff Representative
April 23, 2001

This statement provides information on development since the issuance of the staff report (EBS/01/53, 4/9/01). These developments do not change the thrust of the staff appraisal.

1. All the prior actions listed in EBS/01/53 have been completed (a full list of the prior actions for Board consideration of the PRGF arrangement is provided in Table 1). In particular:

- The audits for the SOCBs were initiated by the government's acceptance of the donor offer assistance and related conditions. The terms of reference have been finalized.
- The summary budget for the 1999/2000 outcome, budget for 2000/01, and performance in the first 6 months was published on April 5 in the local newspaper for the first time, and more detailed data will shortly be published in a booklet.

2. Preliminary information suggests that macroeconomic performance so far in 2001 has generally been in line with program expectations, except for fiscal performance, which has been slightly weaker. Inflation in March 2001 declined further to 8 percent (12-month basis) reflecting continued restrained policies. The exchange rate has remained reasonably stable with respect to the baht so far in 2001, although it has depreciated by 3 percent against the dollar. Through mid-March, credit of the state-owned commercial banks remained at about the end 2000 level, and thus should be broadly in line with the end March 2001 target.

3. Very preliminary budget data for the first half-year show revenue moderately lower than staff projections, while bank financing is over the program target but by a smaller amount. Recent revenue performance may have been affected by the ongoing decentralization effort. The authorities are now formulating measures, in consultation with the staff, to keep revenue on track, including some adjustments to excise rates and a further tightening of the administration of nontax revenue and large taxpayers. With these efforts, the staff considers that the program's fiscal targets will be achievable. Gross international reserves at end March were 2.1 months of imports, slightly below the program benchmark of 2.4 months, also reflecting mainly the weaker performance in budget revenue.

4. In addition to the prior actions, and in line with the program's framework, the authorities also have increased urban water prices by about 80 percent phased in between April and November 2001. Also, issuance of the implementing regulation for the Foreign Investment Law on March 23, 2001 is a significant step forward in making the investing environment more transparent and simplifying and speeding up the approval process.

Table 1. Lao P.D.R.: Completed Prior Actions for the First Annual PRGF-Supported Program

Policy action	Date completed
I. Banking reform	
Agree on the main elements of the restructuring of state-owned commercial banks (SOCBs) to be defined, in consultation with the AsDB and World Bank.	Nov. 1, 2000
Initiate the external audits based on international standards of the three SOCBs for 1999 and 2000.	Feb. 26, 2001
II. SOE reform	
Continue to adjust petroleum prices to avoid losses of oil companies, and agree with the World Bank on a timetable for future adjustments of electricity tariffs.	Nov. 30, 2000
Provide balance sheets and income statements for 1997, 1998 and 1999 for electricity, water, fuel, and airline companies.	Nov. 1, 2000
III. Fiscal reform	
Use current market exchange rates on tax assessments.	Oct. 15, 2000
Publish summary tables for 2000/01 budget and outturn for 1999/00.	Apr. 5, 2001
III. External sector measures	
Begin operation of external debt monitoring unit that records the contracting and disbursing of all public and publicly-guaranteed debt.	Apr. 12, 2001
Introduce automatic licensing for exports, except forestry and mining products.	Mar. 1, 2001