



# LAO PEOPLE'S DEMOCRATIC REPUBLIC

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

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(In consultation with other departments)

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## FUND RELATIONS

(As of October 31, 2016)

**Membership Status:** Joined on July 5, 1961.

### General Resources Account:

	SDR Million	Percent Quota
Quota	105.80	100.0
Fund holdings of currency (Exchange Rate)	92.58	87.50
Reserve Tranche Position	13.23	12.50

### SDR Department:

	SDR Million	% Allocation
Net cumulative allocation	50.68	100.00
Holdings	37.85	74.68

**Outstanding Purchases and Loans:** None

### Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved	Amount Drawn
ECF <sup>1</sup>	04/25/2001	04/24/2005	31.70	18.12
ECF <sup>1</sup>	06/04/1993	05/07/1997	35.19	35.19
SAF	09/18/1989	09/17/1992	20.51	20.51

### Projected Payments to the Fund<sup>2</sup>

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Principal					
Charges/Interest	0.00	0.02	0.02	0.02	0.02
<b>Total</b>	0.00	0.02	0.02	0.02	0.02

<sup>1</sup> Extended Credit Facility (ECF), formerly PRGF.

<sup>2</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

## Exchange Rate Arrangement

The de jure arrangement is a managed float. Since January 2015, the kip has stabilized within a 2 percent band against the U.S. dollar. Therefore, the de facto exchange rate arrangement was reclassified to stabilized from a crawl-like arrangement, effective January 22, 2015. The authorities' objective is to limit currency fluctuations vis-à-vis major currencies, including the U.S. dollar and Thai baht, within  $\pm 5$  percent per annum. The Bank of the Lao P.D.R. (BOL) sets a daily official reference rate, which is calculated as a weighted average of the previous day's interbank rates. Commercial banks and foreign exchange bureaus are required to maintain their buying and selling rates within  $\pm 0.25$  percent of the BOL's daily reference rate for the U.S. dollar. For the euro and baht, the buying and selling rates may not exceed a margin of 0.5 percent. For other currencies, a margin of 2 percent applies.

On May 28, 2010, Lao P.D.R. accepted the obligations under Article VIII, Section 2, 3, and 4, following the elimination of one restriction subject to Fund jurisdiction under Article VIII arising from a requirement to obtain tax payment certificates for some transactions. Lao P.D.R. now maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for restrictions imposed solely for the preservation of national or international security notified to the Fund pursuant to Decision No. 144-(52/51).

## Article IV Consultation

The last Article IV consultation discussions were held in Vientiane during October 16–28, 2014 and were concluded by the Executive Board on January 14, 2015. The staff report (Country Report No. 15/45) was published February, 2015.

## Technical Assistance

Over the past three years, Lao P.D.R. has received technical assistance in the areas of: banking supervision and interbank market development; customs, tax and natural resource revenue administration; price statistics; external sector statistics; government finance statistics; and the national accounts. A Bangkok-based IMF office was set up in September 2012 to facilitate technical assistance to Lao P.D.R. as well as Myanmar, and has provided technical assistance in macroeconomic analysis and forecasting, monetary operations and public financial management.

## Resident Representative

Jonathan Dunn assumed the Resident Representative post for Vietnam and Lao P.D.R., based in Hanoi, on October 16, 2015.

## IMF-WORLD BANK COLLABORATION

The World Bank and the IMF country teams for Lao P.D.R. met on October 1, 2016 to discuss economic issues and outlook and to coordinate the two teams' work for FY2015. The teams were led by Mr. Evgenij Najdov (Senior Country Economist, Macro and Fiscal Management Global Practice, World Bank), and Mr. Geoffrey Bannister (IMF Mission Chief for Lao P.D.R.).

The teams agreed that although Lao P.D.R. has made progress on macroeconomic stabilization, significant vulnerabilities remain. While fiscal consolidation has been initiated, more efforts could be made to reduce external vulnerabilities and restore fiscal sustainability. Tighter fiscal and monetary policies, a more flexible exchange rate and strengthened banking supervision will be needed to build international reserves and ensure macrofinancial stability. In the longer run, a key challenge is to promote inclusive growth and poverty reduction through more diversification into non-resource sectors and sustainable development of natural resources. Much progress has been made in recent years on product and labor market openness and poverty reduction. Further trade integration will improve the business climate, and promote private investment and institutional reform. Upgrading health and education infrastructure will raise the growth potential and help reduce inequality.

**Table 1. Lao P.D.R.: World Bank Group and Fund Planned Activities in Macro-Critical Structural Reform Areas, October 2013–December 2017**

Title	Products	Provisional Timing of Missions	Delivery Date
<b>1. World Bank Program</b>	Green Growth Development Policy Operation (GGDPO)	New series of development policy operations (preparation mission in November 2016)	Implementation throughout fiscal year. GGDPO1 Board discussion expected in FY17
	Customs and Trade Facilitation Project (CTFP), Lao PDR second Trade Development Facility project (TDF2), Advisory Services to support Investment Climate	Ongoing	CTFP to close at the end of FY17; TDF2 received additional financing and extension to September 2018; Advisory Services planned until December 2019
	Public Finance Management Modernization Program (TA)	Ongoing	Implementation throughout September 2017
	Hydro-Mining Technical Assistance Project	Ongoing	Implementation throughout FY17 (project closing in September 2018)
	Technical assistance to the financial sector on improving: the regulatory framework, financial soundness indicators, payment systems, accounting & auditing standards, deposit insurance, and insolvency & creditor rights.	Ongoing	Implementation throughout FY17

**Table 1. Lao P.D.R.: World Bank Group and Fund Planned Activities in Macro-Critical Structural Reform Areas, October 2013–December 2017 (concluded)**

	SME Access to Finance lines of credit and technical assistance	Ongoing	Implementation throughout FY17
	Lao Statistical Capacity Building Project (LAOSTAT) (focus on economic statistics and macro framework in coordination with IMF TA below)	Ongoing	Implementation throughout FY17 (project closing at the end of FY17)
	Analytical work: macroeconomic monitoring (Lao economic monitors)	Ongoing	Implementation throughout FY17
	Lao PDR Systematic Country Diagnostic	Ongoing	January 2017
<b>2. IMF Work Program</b>	Periodic staff visits by IMF HQ team and resident representative based in Hanoi	July 2014	June 2015
	Technical Assistance mission on natural resource revenue administration	Completed	December 2013
	Technical Assistance mission on tax administration	Completed	January 2014
	Technical Assistance on bank-supervision and regulations	Completed	December 2013; November, 2014
	Technical Assistance on consumer prices/producer prices	Completed	February 2014
	Technical Assistance on national accounts statistics	Completed	March 2014
	Technical Assistance on monetary policy implementation	Ongoing	Implementation throughout FY15
	Technical Assistance on crisis management	Completed	June 2014
	Article IV Consultation	October 2014	Board discussion January 2015
	TAOLAM assistance on external sector statistics compilation	Regular staff visits	Implementation throughout FY15
	TAOLAM assistance on strengthening fiscal reporting, Government Finance Statistics (GFS)	Regular staff visits	Implementation throughout FY15
	TAOLAM on public financial management - implementation of the cash-based IPSAS	Regular staff visits	Implementation throughout FY15
	TAOLAM on macroeconomic framework	Regular staff visits which started in October 2013.	Implementation throughout FY15

## RELATIONS WITH THE ASIAN DEVELOPMENT BANK

The Asian Development Bank's (ADB) current Country Partnership Strategy (CPS) 2012–2016 is aligned with the government's Eighth Five-Year National Socio-Economic Development Plan, 2016–2020. It promotes inclusive and sustainable growth and poverty reduction through (i) engagement in four priority sectors (agriculture, natural resources and rural development; education; energy; and water and other urban infrastructure and services); and (ii) more effective private sector development, gender equity, public sector management and regional cooperation and integration as crosscutting concerns. The CPS aims to maximize efficiency and sustainability through larger operations implemented over a longer period; maximize synergies with the implementation of Greater Mekong Subregion (GMS) strategic framework 2012–22; and also increase responsiveness to emerging issues in a rapidly changing economy. The new CPS 2017–2021 is under preparation. The performance-based allocation of the Asian Development Fund (ADF), based on the country performance assessment (CPA) finalized in 2014, provided Lao P.D.R. with an ADF allocation in the amount of US\$116.6 million for the biennial period 2015–16. The CPA exercise for the next allocation period (2017–18) was endorsed by the ADB's management in October 2016.

As of end-2015, active loans/grants were worth US\$761.8 million, of which US\$356.9 million had been disbursed. During 2015, contract awards totaled US\$67.7 million and disbursement was US\$65.8 million. ADB approved three new loan projects and three new technical assistance (TA) projects for a total of US\$95 million and US\$1.7 million in 2015 respectively, including Health Sector Governance Program, Second GMS Corridor Town Development Project and Vientiane Sustainable Urban Transport Project; TA projects related to Second Technical Vocational Education Project, Support for Governance and Capacity Development, and Northern Rural Infrastructure Development Project – Due Diligence of Additional Financing.

### Lao P.D.R.: Asian Development Bank Commitments and Disbursements 2005–2015 <sup>1/</sup> (In millions of U.S. dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 <sup>2/</sup>
Commitments	87.0	60.7	47.4	46.6	81.2	55.3	53.2	73.65	102.6	80.1	67.7	64.3
Disbursements	78.7	76.8	74.8	56.9	75.9	61.5	73.2	68.6	76.4	78.9	65.8	47.2

Source: Data provided by the Asian Development Bank.

<sup>1/</sup> Starting from 2006, the commitments and disbursements included both loans and grants.

<sup>2/</sup> The commitments and disbursements were estimated for 2016.

## STATISTICAL ISSUES

### Lao People's Democratic Republic—Statistical Issues Appendix

As of December 6, 2016

#### I. Assessment of Data Adequacy for Surveillance

**General:** Data provision has serious shortcomings that significantly hamper surveillance, especially regarding national accounts, government finance, and external sector statistics. These shortcomings are mostly due to lack of capacity, which could be addressed through further efforts on the part of the agencies involved. The IMF is conducting technical assistance (TA) and training programs to address the specific needs with a focus to mitigate near-term risks, covering the areas of national accounts, prices, government finance statistics, monetary and financial statistics, and external sector statistics.

**National Accounts:** National accounts (NA) comprise annual estimates of GDP by activity at current and constant prices (base year=2002), broadly following the *System of National Accounts (SNA) 1993*. Lao P.D.R. participated in the IMF's Statistics Department (STA) project to implement the SNA and International Comparison Project (ICP), funded by the government of Japan through the Japan Administered Account for Selected Activities (JSA), and has received technical assistance (TA) to improve annual national accounts and develop quarterly national accounts (QNA). Under this project, Lao PDR made some methodology improvements in the annual GDP by activity estimates, and has moved closer to completing a new annual expenditure measure of GDP and a preliminary GNI series. Some progress had also been made toward the development of a new quarterly GDP series. The compilation of a new benchmark GDP figure based on a supply and use table for 2012 has been carried out with the help of a World Bank expert; the new benchmark GDP figure together with some back series are expected to be released by the end of 2016.

**Price Statistics:** Lao P.D.R. compiles a monthly CPI. A new base year of 2015 (December 2015=100) has been applied since July 2016. There are two major changes in the estimation including: 1) the items in the basket increased from 245 to 485 items; and 2) all 18 provinces are covered instead of 12 previously. The updated weights are based on the 2012 Lao Social Indicator Survey (LSIS). The major change in the weights is a higher weight of Food and Non-Alcoholic Beverages from 36.5 percent to 46.1 percent. However, the full list of the updated weights has not yet been disclosed. The 2015 Population Census was launched in October 2016. The 2015 Statistical Year Book was available in October 2016. The Lao Labor Survey is planned to start in November 2016 with support of International Labor Organization and will finish in July 2017. The Enterprise Survey design is underway and it will be completed in December 2016.

**Government Finance Statistics:** Government finance statistics remain weak. The timeliness of fiscal reporting needs significant improvement. Off-budget activities are not included in the fiscal data, although they have expanded rapidly in recent years. Annual budget and outturn data formats do not follow international standards for government finance statistics. Except for the annual data disseminated in the Official Gazette, no fiscal data are disseminated in the country. STA appointed a Government Finance Statistics (GFS) Advisor to the IMF Technical Assistance Office for the Lao PDR and the Republic of the Union of Myanmar (TAOLAM) in September 2014, whose activities are funded by the government of Japan. The main focus of the advisor is to assist the Ministry of Finance (MoF) in upgrading the compilation and dissemination procedures of fiscal data in line

with the IMF's Government Finance Statistics Manual 2014 (*GFSM 2014*) and improve timely data dissemination to the IMF, as well as reduce fiscal data discrepancies. The advisor also has initiated discussions with the MoF and line ministries to gather information on extra-budgetary funds administered by government departments for the purpose of compiling consolidated GFS for the central government sector.

**Monetary and Financial Statistics:** The classification of monetary data by institutional sector and by financial instrument as well as valuation principles need to be strengthened. The latest monetary data reported to STA refer to December 2010. The Standardized Report Forms (SRFs), which embody the IMF-recommended framework for compiling monetary statistics, have yet to be introduced.

**Financial sector surveillance:** Lao P.D.R. does not produce official Financial Soundness Indicators (FSIs) yet.

**External sector statistics:** STA appointed an External Sector Statistics (ESS) Advisor to the Technical Assistance Office for Lao P.D.R. and Myanmar (TAOLAM) in February 2014. While significant room exists for improving the quality and coverage of balance of payments and external debt statistics in Lao PDR and for compiling data on the international investment position, recent engagement between the advisor and Lao PDR officials has been limited to participation in a series of regional topical workshops on ESS. The missions assisted in reconciling the discrepancy between imports data published by the Bank of Lao and imports derived from partner countries' data in the Direction of Trade Statistics and found that the use of minimum prices to value vehicles and petroleum imports might explain some of the differences. Greater use of hands-on technical assistance from TAOLAM could accelerate progress in filling data gaps on and improving the quality of ESS in Lao P.D.R. In addition, several balance of payments components are missing due to the lack of source data. The BOL balance of payments compilers have designed an FDI survey questionnaire in the context of the World Bank's LAOSTAT-Strengthening the National Statistical System Project. Coordination on FDI is needed as the European Union has also appointed an expert to assist on FDI statistics. Implementation of the new international transactions reporting system (ITRS) is ongoing and testing of the new ITRS is expected by June 2015. The BOL does not yet compile an international investment position statement.

## II. Data Standards and Quality

Lao P.D.R. is currently not a General Data Dissemination System (GDSS) participant. The government has expressed its intention to collaborate with the IMF in moving Lao's macroeconomic statistics closer to the international standards, including to join the IMF's GDSS, and use it as a framework for development of the national data compilation and dissemination practices. No Data ROSC mission has been conducted.



## Lao P.D.R.—Table of Common Indicators Required for Surveillance

(As of December 6, 2016)

	Date of Latest Observation	Date Received	Frequency of Data <sup>1</sup>	Frequency of Reporting <sup>1</sup>	Frequency of Publication <sup>1</sup>
Exchange Rates	11/29/16	11/29/16	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>2</sup>	08/11/ 2016	11/02/16	M	I	Q
Reserve/Base Money	08/11/2016	11/02/16	M	I	Q
Broad Money	08/11/2016	11/02/16	M	I	Q
Central Bank Balance Sheet	08/11/ 2016	11/02/16	M	I	Q
Consolidated Balance Sheet of the Banking System	08/11/ 2014	11/02/16	M	I	Q
Interest Rates <sup>3</sup>	September 2015	11/02/16	M	M	M
Consumer Price Index	10/24/ 2016	11/09/16	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> —General Government <sup>5</sup>	05/22/ 2016	09/13/16	I	I	I
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> —Central Government	05/22/ 2016	09/13/16	Q	I	M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>6</sup>	05/18/2016	08/04/16	NA	NA	NA
External Current Account Balance	09/16/ 2016	11/02/16	Q	I	I
Exports and Imports of Goods and Services	10/21/ 2014	Q1/16	Q	I	I
GDP/GNP	09/30/15	07/11/16	A	A	A
Gross External Debt	05/18/ 2016	08/04/16	A	A	I
International Investment Position <sup>7</sup>			NA	NA	NA

1 Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

2 Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency, but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency, but settled by other means.

3 Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.

4 Foreign and domestic bank, nonbank financing.

5 The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

6 Including currency and maturity composition.

7 Includes external gross financial asset and liability positions vis-à-vis nonresidents.