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## **Lao People's Democratic Republic: Recent Economic Developments**

This Recent Economic Developments report on the Lao People's Democratic Republic was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of the Lao People's Democratic Republic or the Executive Board of the IMF.

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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

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## I. INTRODUCTION AND OVERVIEW

1. Economic reforms in the Lao P.D.R. that started in 1986, were supported by Fund arrangements in the period 1989-97. During those years, the economy grew annually at 5 to 8 percent and through prudent macroeconomic policies, the government managed to achieve broadly stable macroeconomic conditions. Meanwhile, structural reforms took shape, so that market processes are now at work in most segments of the economy. However, in 1997 economic conditions deteriorated and progress in structural reform slowed significantly.

2. This report briefly discusses major developments in 1997 and updates the statistical tables included in last year's report on recent economic developments.<sup>1</sup>

- **Chapter II** gives an overview of developments in the real sector. It notes that real GDP growth in 1997 remained high, at 6½ percent, despite some negative impact of the East Asian crisis, and that inflation accelerated to 26 percent by the end of the year.
- **Chapter III** discusses fiscal developments in 1996/97 and the first months of 1997/98.<sup>2</sup> Revenue performance in 1996/97 was weaker than expected and, therefore, the contribution of government savings to national savings was not as high as expected. The 1997/98 budget is also coping with revenue shortfalls.
- **Chapter IV** discusses developments in privatization and public enterprise management in 1997. With the privatization program coming to an end, the government's attention is shifting to the commercialization of the "strategic" state-owned enterprises (SOEs).
- **Chapter V** deals with developments in the monetary and financial sector. It discusses how the lack of monetary policy actions by the Bank of the Lao P.D.R. (BOL) in 1997 contributed to the depreciation of the kip against the U.S. dollar and the Thai baht. Developments in the financial sector are also dominated by emerging signs that most banks, including all the state commercial banks (SCBs), are insolvent. The chapter briefly discusses the initiatives currently taken to modernize the banking sector.
- **Chapter VI** presents external sector developments in 1997. The exchange rate of the kip against the U.S. dollar depreciated substantially. The external current account deficit narrowed marginally to 16 percent of GDP, with a decline in timber exports offset by lower capital goods imports, linked to hydropower investments. International reserves dropped sharply on account of capital flight.

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<sup>1</sup> SM/97/136 "Lao P.D.R.- Recent Economic Developments," May 1997.

<sup>2</sup>The fiscal year starts on October 1.

## II. REAL SECTOR

### A. OVERVIEW

3. Output growth, at 6½ percent, remained substantial in 1997, but inflation accelerated to 26 percent (12-month rate, year-end). While the economy was affected by the turmoil in the region, in particular the slowdown in economic activity in Thailand, strong growth of the still dominant agriculture sector mitigated some effects of the crisis (Chart 2 and Tables 2 and 3). Growth in the agriculture sector was estimated at 5¾ percent, 3 percent higher than in 1996, reflecting a favorable rice crop. The growth in the industrial sector slowed to 6½ percent, down from 17¼ percent in 1996, as a result of the impact of the regional crisis. The service sector enjoyed buoyant growth of an estimated 10 percent. Inflation accelerated during the second half of 1997, reflecting the depreciation of the kip against the U.S. dollar and loose monetary conditions.

### B. DEVELOPMENTS BY MAJOR SECTORS

4. **Agriculture.** The sector represents over 50 percent of GDP, and apart from forestry is still predominantly subsistent in nature. Crop production increased 11½ percent over 1996, when floods had severely affected rice output, supported by improved irrigation, and more intensive use of plowing machines and fertilizers (Table 4). Output of cash crops, including coffee, sesame seeds, and tobacco, has continued to increase, mainly for export to neighboring countries. Looking ahead, the government aims to achieve self-reliance in rice by the year 2000 and has started a large irrigation program (Box 1).

5. **Logging.** Responding to reduced demand from Thailand, in the wake of the financial crisis, less timber was harvested in 1996/97 than planned (560,000 cubic meters, compared to the target of 626,000 cubic meters). Profitability of the industry was further adversely affected by a decline in world timber prices, accentuated in the second half of the year when Indonesia reduced its prices substantially. Consistent with the government's medium-term strategy of keeping the annual logging quota below a sustainable pace of 500,000 cubic meters, the harvesting plan for 1997/98 aims to clear only 464,000 cubic meters, one third from the Nam Theun 2 hydropower site.

6. The management and harvesting plans for all sites are prepared by the Ministry of Agriculture, Department of Forestry. Since 1997, implementation has been brought under the control of the provincial authorities. Most of the logging is done by three state-owned enterprises under the control of the Ministry of Defense. Further innovations, however, in the government's forestry policy include the intention to draft management plans for each individual logging site (at this time, there are only management plans for the production in each province) and to open the logging market for other companies. The government is in the preparatory stages of setting up a joint venture with a Malaysian company, to start logging in 1999.

### Box 1 - Financial Implications of the Irrigation System

Faced with substantial rice supply problems in 1997, the government of the Lao P.D.R. started a project to increase rice production by enlarging the irrigated rice-growing areas from 22,000 ha in early 1997 to 100,000 ha by 2000. Such output would make the Lao P.D.R. self-sufficient in terms of rice production. The government financed the first phase, implemented in 1997, through the BOL. The investments for 1998/99 and 1999/2000 are to be included in the PIP and, thus, be financed directly through the budget.

The financing of the first phase was spread over fiscal years 1996/97 and 1997/98. Part of the financing was done directly in dollars (purchases of equipment from abroad), while the installation was financed in local currency. Based on the BOL accounts, the following reconstruction of the flows involved can be provided:

	Buying pumps abroad	Installation
FY 1996/97	\$12.4 million	
FY 1997/98 (Oct - Dec)	\$12.1 million	KN 26 billion
Total	\$24.5 million	KN 26 billion

Converted at the exchange rate at the time of the transactions, the total cost in local currency is estimated at KN 65 billion.

The purchase of the equipment abroad was paid directly by the BOL, in dollars, from its international reserves. The kip-part of the operation (to finance the installation and the power lines from Vientiane) took the form of loans from the BOL to the individual farmers. The BOL classified these loans partly as lending to the SOE's, partly as lending to the private sector. It is the BOL's intention to take these loans off its books by selling them to the commercial banks at a later stage. Agreements are being worked out whereby the farmers, directly or through a state agency, will repay the government. No part of this operation had entered the government budget.

To enhance transparency, the staff has brought these extrabudgetary expenses into the fiscal accounts and shown them in the monetary accounts as claims on the government, as indicated in the table below. Thus, both the 1996/97 and 1997/98 capital expenditure outturns were revised. The impact for 1996/97 is an increase in the capital budget (and the overall deficit) of about 1 percent of GDP and for 1997/98 an increase of 1½ percent of GDP. In the monetary survey, the reduction in credit to the nongovernment sector is offset by an increase in credit to the government.

#### Fiscal accounts before and after inclusion of irrigation financing (in percent of GDP)

	1996/97		1997/98	
	without	with	without	with
Capital and onlending	11.0	11.9	12.6	14.1
Overall deficit (excl. grants)	-9.2	-10.1	-10.0	-11.4

#### Monetary accounts at end-1997 before and after reclassification of irrigation financing (KN billions)

	before	after
Net credit to the government	-44	22
Credit to the nongovernment sector	399	334



7. **Industry.** The share of industry (mining, manufacturing, construction and electricity) in GDP was about 20 percent. Industrial output grew by only 6½ percent in 1997, affected by the Thai crisis and difficulties in negotiating preferential trading terms with the United States and the European Union. **Manufacturing**, accounting for 75 percent of the total, grew more slowly than in 1996 (7 percent compared with 18 percent). Growth of output of garments and wooden products was sluggish, offsetting a major expansion of beer production. Garment exports rebounded only marginally and one garment factory was closed, following the closing down of 10 enterprises the year before when the Generalized System of Preference (GSP) status was withdrawn. Though there had been high hopes of the United States according to the Lao P.D.R. Most Favored Nation status, negotiations were not concluded and GSP status was restored by the European Union only in October 1997 (under the new arrangement, the Lao P.D.R. received a one-year derogation from the local content regulation, to allow all ASEAN inputs to count as local value-added). Two new factories are planned to open in 1998.

8. Long periods of drought resulted in a general shortage of water during most of 1997 and lower electricity production. In April 1998, a new hydropower dam (Theun Hinboun) came into operation, more than doubling the country's electricity capacity and contributing to an expected increase in production of 1582 GWH in 1998. Activity in the **construction** sector slowed down in the second half of the year, when several Asian investors decided to delay projects.

9. **Services.** Representing 25 percent of GDP, growth in the services sector in 1997 continued to be strong with both **wholesale and retail trade** and **transportation and communication** recording growth rates of about 10 percent. New roads to the suburbs of the capital contributed to higher levels of transportation. **Tourism** also was a strong performer during 1997, with hotel and restaurant turnover increasing by 23 percent. However, the number of tourists dropped in early 1998, reflecting a decrease in visitors from Asian countries and recent problems encountered by Lao Aviation. The largest airplane in its fleet has been grounded at Bangkok airport because of lease payment arrears, disturbing the daily flight schedule to and from Bangkok.

### C. PRICES, EMPLOYMENT AND WAGES

10. **Inflation** increased from about 13 percent in December 1996 to over 25 percent one year later and to 45 percent by March 1998 (Table 5). Sharp increases in food prices, especially rice as a result of shortages in the wake of the 1996 floods, began to push up inflation during the second quarter in the southern provinces, spreading to other cities during the second half of the year. Shortages were also accentuated because Thai traders started buying rice paddy in Lao cities, preventing prices from falling after the new crop became available. Starting in July, a sharper rise in consumer prices also reflected higher import prices following the depreciation of kip against the dollar—nonfood prices rose by 23 percent between August 1997 and January 1998. The pressure on prices continued in early 1998, affected by the depreciation of the kip against Thai baht.

11. **Wages** increased significantly in 1997. The average monthly wage for civil servants was KN 45,000 at the end of the year, following a salary increase of 8 percent on average (KN 3,300 per month was awarded across the board), given at the beginning of the 1997/98 fiscal year (Table 10). Average wages in the private sector were unofficially reported to have increased by about 35 percent in 1997. Moreover, the minimum wage for civil servants and workers in production, business and service sectors was increased by 40 percent in October 1997 (from 26,000 kip to 36,400 kip per month). There are no official statistics on **unemployment and private sector wages** in the Lao P.D.R.—according to a census carried out by the National Statistical Center, in 1995 the unemployment rate was 2.4 percent and no further information has been made available.

### III. PUBLIC FINANCE

#### A. OVERVIEW

12. Whereas the 1995/96 budget outcome was generally better than expected (the current surplus reached  $2\frac{3}{4}$  percent of GDP,  $\frac{1}{2}$  percent more than planned and the overall deficit was, at 9 percent, marginally lower than budgeted), the fiscal position worsened in 1996/97, and the outcome of the first six months of 1997/98 again indicates that it will be problematic to achieve the budget targets (Tables 7, 8 and 9). Thus, fiscal consolidation has not made substantial progress in the last and current fiscal year.

#### B. 1996/97 BUDGET

13. **Targets.** The 1996/97 budget, presented in September 1996, aimed to raise the current surplus to  $3\frac{1}{2}$  percent of GDP and reduce the overall deficit (before grants) to below 8 percent of GDP, to enhance fiscal sustainability. Revenue at that time was targeted to increase by  $\frac{1}{2}$  percent of GDP on account of the full-year effects of tax measures taken in 1995/96 and the introduction of excise duties on electrical goods. Current expenditure would remain broadly unchanged at 10 percent of GDP. The wage bill would remain below 5 percent of GDP, notwithstanding a 12 percent increase in base salaries. The capital budget targeted a further increase in spending on social sectors, in line with the Public Expenditure Review (PER) recommendations. An increase in government deposits with the banking system was foreseen because foreign financing of the budget was expected to exceed the planned deficit and because of the planned sale of Lao Telecom.

14. **Revenue** fell  $1\frac{1}{2}$  percent of GDP short of its target for a number of reasons. The tax administration encountered staffing and equipment problems while implementing the more sophisticated rules under the new tax law, leading to a shortfall of profit and income tax receipts. Excise duties were lower than planned because of the delayed implementation of the measure to replace exceptional import tariffs (those above 40 percent) by an equivalent rise in

excise duties.<sup>3</sup> Import duties, although as expected in the GDP terms, could have been higher if appropriate valuation techniques had been applied.<sup>4</sup> Timber royalties fell short of their target because sales to Thailand stalled in the last quarter of the fiscal year in the wake of the Thai crisis. In the nontax categories, shortfalls in leasing, overflight and interest receipts were largely offset by higher dividend payments. Given that several of these revenues are collected in U.S. dollars, this was still a disappointing result in light of the depreciation of the kip during the fiscal year. Leasing income was lower because several leases were not renewed and some companies facing financial difficulties obtained an exemption from lease payments. The shortfall in overflight receipts was related to the outdated and inaccurate equipment used to record overflying aircraft.

15. **Current expenditure** was slightly lower than budgeted in GDP terms, reflecting firm government control over spending in light of the unfavorable revenue developments. External interest payments remained low, because of the concessional nature of government debt. Domestic interest payments rose after the government agreed, in the course of the year, to bear the interest cost of securities issued by the BOL to absorb excess liquidity. The wage bill was marginally higher than originally planned because 900 new staff were hired during the second half of the year. These new staff were employed by the Ministries of the Interior, Justice and Foreign Affairs, respectively to strengthen the courts and the police force and to fill newly created ASEAN-related jobs (including for diplomatic representations in other ASEAN capital cities). Following the transfer of the personnel department to the party headquarters in December 1996, civil service reform slowed down markedly. No progress was made in standardizing hiring procedures. In addition, coordination problems emerged between hiring and departures as these issues were handled by different departments. At the end of 1996/97 there were 69,610 civil servants (Table 10).<sup>5</sup>

16. **Capital expenditure** was about 1 percent of GDP higher than projected, mainly on account of the extrabudgetary expenditures related to the building of irrigation systems. During the last quarter of the fiscal year, the BOL spent KN 18 billion on this operation on behalf of the government; these expenditures were included in the budget presentation to enhance fiscal transparency. In line with the World Bank recommendations in the PER, spending on education was increased to 3 percent of GDP and health to 1.8 percent of GDP. Spending on the economic sectors (infrastructure, transportation, agriculture) was slightly reduced to 9 percent of GDP.

17. The disappointing revenue outcome caused the **current surplus** to be only 1¼ percent of GDP, a deterioration compared with the previous year. The **overall deficit** (before grants)

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<sup>3</sup>This measure took effect only during the last five months of the fiscal year.

<sup>4</sup>Customs continued to use old exchange rates to compute kip values, and hence duty payable.

<sup>5</sup>Planned new hiring was 3,400 and 2,500 staff departed. Not all new positions were filled at the end of the fiscal year.

was 9¼ percent, more than 1½ percent worse than planned. This deficit was totally foreign-financed (grants and concessional loans). Thus, the receipt of KN 48 billion from the partial sale of Lao Telecom, although partly offset by the financing of irrigation equipment, allowed the government to increase its deposits with the banking system by KN 14 billion. Lao Telecom was the last large company on the government's privatization list. The government also reduced its debt towards the nonbank sector by reimbursing a stock of older securities.

### C. 1997/98 BUDGET

18. **Targets.** The government presented to the National Assembly, as part of the 1997/98 budget, a package of revenue enhancing measures to regain the grounds lost in 1996/97 and to increase reliance on domestic taxes, away from trade taxes. The budget was presented in the new budget nomenclature, a condition under the World Bank Structural Adjustment Credit (SAC III). This new nomenclature, specifying expenditure by ministry and for headquarters and provinces separately, will allow the government to monitor current and capital expenditure more closely. The budget targeted revenue at 13¾ percent of GDP, more than 2 percentage points higher than the 1996/97 outcome. This increase was to come from:

- rationalizing income tax rates;
- reducing turnover tax rates from four (3, 5, 10 and 15 percent) to two (7 and 10 percent);
- imposing excise duties on those items that would go from the 15 to the 10 percent turnover tax rate, to make this part of the operation revenue-neutral;
- increasing excise duties on petroleum products;
- introducing a stamp duty; and
- increasing land tax on commercial and residential land in urban areas.

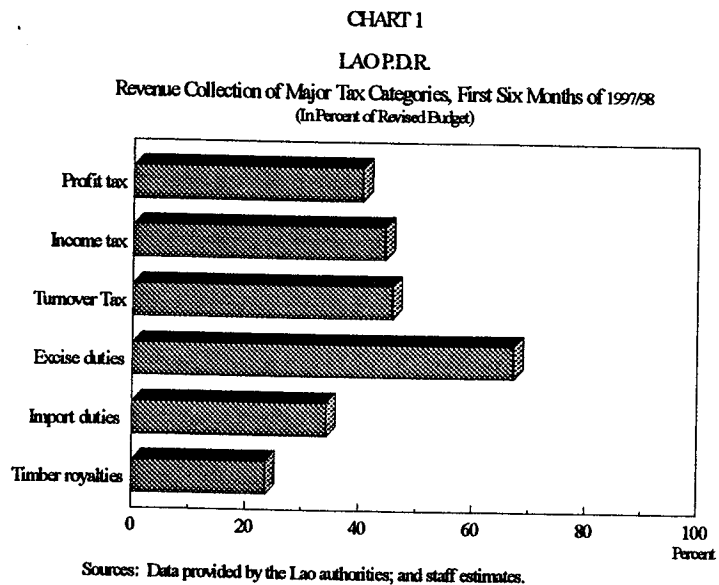
Total expenditure was set to increase slightly to 21 percent of GDP. Current expenditure (10½ percent of GDP) would be affected by the inclusion, for the first time, of funds to finance the restructuring of the state-owned electricity and water companies, explicit interest subsidies for agricultural lending,<sup>6</sup> the cost of ASEAN membership and a contingency for state commercial bank (SCB) restructuring. The budget also incorporated a 13 percent increase in the wage bill with the first 8 percent to be given at the beginning of the fiscal year and the remainder at the time of the introduction of new salary scales. Planned spending on defense and security was reduced as a share of total spending (by 2 percentage points). The capital

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<sup>6</sup>Starting with the 1997/98 budget, commercial banks and the Agriculture Promotion Bank (APB) would charge market-related interest rates on loans to the agriculture sector and the subsidy to the farmers would be borne by the budget.

budget was set at 10¼ percent of GDP, with a further increase in outlays for health and education. A larger proportion of the capital budget was allocated to the provinces as part of a policy of decentralization (4 percent more than in 1996/97). The overall deficit would be more than financed through grants and concessional loans, allowing a further build-up of government deposits at the banking system (2.3 percent of GDP). Part of these foreign inflows would be a disbursement by the World Bank under SAC III of \$19.2 million.

19. **Fiscal performance during the first six months** has been disappointing, in particular on the *revenue* side, mainly because the package of revenue enhancing measures, proposed by the government to the National Assembly, was not approved. In addition, import duties suffered from lower-than-expected imports and from the use of outdated exchange rates, while low timber exports led to reduced timber royalties. Moreover, timber royalty rates were lowered in January 1998 in an attempt to improve the Lao P.D.R.'s competitive position. As a result, tax revenue, at 40 percent of the amended full-year target, was much lower than expected, despite the gains that should have been realized from the exchange rate depreciation and inflation. Nontax revenue, however, did benefit from the depreciation—at 61 percent of the full-year target, receipts were better than planned.



20. Concerned by the poor revenue performance, the government presented a new package of revenue measures to the National Assembly in March 1998, consisting of the original measures plus some additional actions to offset some of the losses due to the delays incurred. However, the package was still under consideration in late May and it is expected that there will be a revenue shortfall of about 1 percent of GDP in 1997/98.

21. *Current and budgetary capital expenditure* were broadly on track after six months, having been managed conservatively in light of the slow revenue developments. The first wage increase was given in the form of a "cost of living" adjustment, involving an across-the-board salary increase of KN 3,300 and an increase in transfers to spouses, children and retirees, bringing the total increase to KN 12 billion, on an annual basis (a 13 percent increase in the wage bill). Allocation of an additional KN 5 billion to the base salary bill (including cost of living adjustment) and KN 12 billion to function benefits has been held up pending the

introduction of a more competitive wage structure. The new structure has yet to be approved by the government and some savings are expected this fiscal year.<sup>7</sup> Adjustments in other current expenditure items were made to reflect the effect of the exchange rate depreciation (materials and supplies, restructuring of SOEs, and interest payments).

22. In light of the disappointing revenue developments, the government decided to cut non-priority capital expenditure. However, these cuts were more than offset by the inclusion of the spending on irrigation systems (with an impact of 1½ percent of GDP in 1997/98), leading to an estimated capital budget of over 14 percent of GDP (compared with the original target of 10¾ percent of GDP).

23. As a result of these developments, the current surplus will be smaller than budgeted (3 percent of GDP) and the overall deficit much wider (over 11 percent of GDP). Mainly as the outcome of the financing of the irrigation systems, there will be no room for further building up government deposits with the banks.

#### IV. PRIVATIZATION AND COMMERCIALIZATION OF STATE-OWNED ENTERPRISES

##### A. PRIVATIZATION

24. Following the sale of Lao Telecom in late 1996 and the decision to retain Lao Tobacco in the government portfolio for the time being, the privatization momentum has dissipated. The remaining nonstrategic SOEs to be divested were all small in size and did not employ a sizable number of staff. During 1997, the government divested 13 enterprises, for a total value of \$3 million (Annex II), through management buyouts, divestment to provincial authorities and a few liquidations. Lao Tobacco was retained in government hands because no acceptable price and terms could be obtained.

25. The government recognizes that the remaining 32 nonstrategic enterprises, for a total value of about \$3 million, and employing about 1,100 workers, will be hard to sell since their assets are limited and several of the companies are not viable. All enterprises have been advertized for sale, but the government will soon start liquidating several of them, with the aim to divest them all by the end of 1998. This will be the end of one of the most successful parts of the Lao P.D.R.'s structural reforms thus far. In the early 1990s, the Lao government controlled more than 800 enterprises. The remaining 33 "strategic companies" are in the process of being commercialized so that they can compete with the private sector on equal terms and give impetus to private sector development.

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<sup>7</sup> The government's 1997/98 target for civil servants is 72,670. In 1996, the government had set itself a ceiling of 70,000 civil servants in the period through 2000 as part of the ongoing civil service reforms.

## B. COMMERCIALIZATION

26. In 1997, the government's attention shifted from the privatization program to the commercialization of the 33 strategic enterprises (32 original ones and Lao Tobacco) that will remain in government hands. The value of these enterprises is estimated at KN 245 billion and they employ about 11,000 staff. Of these enterprises, eight are commercial banks and the remainder are utility companies and the three holding companies primarily engaged in logging. In 1996, the government started a pilot project under which five SOEs would be commercialized (Electricité du Laos (EDL), Nam Papa (water), Postes du Laos, Industrie Pharmaceutique No. 2, and Imprimerie Nationale (printing)). The commercialization program consists of (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 criteria.

27. Despite some delays, significant progress has been made. For EDL, all three parts of the restructuring operation were finished in early January 1998. Meanwhile, the government has started a financial restructuring of the company (as envisaged in the 1997/98 budget). EDL is not paying dividends toward this year's budget and will undergo a debt rescheduling operation. Boards have also been appointed for Nam Papa, the Post company and Lao Tobacco. The two other parts of the program (legal transformation and performance contract) are expected to be in place for these companies by mid-year. A similar timetable is envisaged for the printing and the pharmaceutical company. The government aims to finish similar operations for most of the other nonbank enterprises before the end of the year.<sup>8</sup> Simplification of the performance contracts, compared to the ones prepared for the pilot companies would expedite the operation. The largest stumbling block seems to have been the appointment of boards of directors because of shortage of qualified people. Financial restructuring will be necessary for several of these SOEs. In this regard, the government has undertaken audits of the three holding companies engaged in logging, contemplating a reorganization of these enterprises because they are involved in too wide a variety of social and economic activities.

## V. MONETARY POLICY AND FINANCIAL SYSTEM

### A. DEVELOPMENTS IN MONEY AND CREDIT

28. Monetary developments in 1997 took place against a backdrop of the unfolding crisis in Thailand, Lao P.D.R.'s major trading partner. Though the importance of the depreciation of the baht against the U.S. dollar should not be understated, monetary policy inaction contributed to the disappointing outcome. Particularly during the second half of the year, monetary policy was subordinated to other policy considerations.

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<sup>8</sup> SCBs are restructured under a separate program (Chapter V).

29. During the first half of 1997, growth in the money supply was moderate (Tables 11 and 12). Reserve money grew by only 2 percent, which served to hold the growth in broad money to 13 percent, despite the valuation effects of a 12 percent depreciation of the kip in this period. However, the moderation was achieved partly through a \$10 million drawdown of international reserves (partly the result of capital flight spurred by the crackdown in the parallel exchange market in May). Direct credit from the BOL, which represented about 13 percent of the stock of credit to the nonbank public at the beginning of the year, grew only slightly in the six months to June 1997. However, net domestic credit grew by 24 percent in the same period. While this increase included valuation effects, it also reflected the effects of the BOL's decision to discontinue bank-by-bank credit ceilings at the beginning of the year.

30. During the second half of the year, and into 1998, the situation deteriorated markedly, with expansionary policies being pursued in an environment where confidence in the currency had already been shaken. In the aftermath of the crackdown in the parallel market and the uncertainty brought about by the plummeting baht, there was a substantial expansion of direct credit from the BOL to finance the building of the irrigation system (KN 86 billion, about half of all the new credit extended between June 1997 and January 1998). The equivalent of \$25 million of this credit was used directly for imports, and contributed to the \$45 million decline in net foreign exchange reserves of the banking system registered during the year. The rest of these credits, around KN 26 billion, represented a direct infusion of cash into the economy. Between end-August 1997 and end-January 1998, currency in the hands of the public increased by 22 percent.

31. The resulting growth rate for broad money for 1997 was 64 percent. Abstracting from valuation effects, money grew by 23 percent during the year. Foreign currency deposits (expressed in U.S. dollars) dropped in the wake of the May crackdown and started to recover only during the last quarter of the year, to end near the level of 12 months earlier. Reserve money, less affected by the exchange rate, grew by 44 percent. Total credit, both from commercial banks and from the BOL, rose more rapidly than had been originally envisaged (Tables 15 and 16). Credit to the economy increased by approximately KN 130 billion (excluding the effects of devaluation on foreign currency loans) during the second half of the year alone.

## B. MONETARY POLICY

32. Efforts to use monetary policy to maintain macroeconomic stability during 1997 were sporadic and generally ineffectual. At the beginning of the year, the BOL announced its intention to abandon the use of bank-by-bank credit ceilings because they were deemed inefficient. However, resort to moral suasion did not prove very effective. The use of indirect instruments--issuance of treasury and BOL bills--was discontinued around mid-year. The use of the reserve money programming framework was stopped early in the year, depriving the BOL of a basic framework to decide on the size of intervention needed to control liquidity. Inaction was fed by growing reluctance of the government to bear the cost of monetary interventions through either BOL or treasury bills and reluctance to increase the interest rates on either securities necessitated by the acceleration in inflation.



33. As a result of the government's indecisiveness and easing of monetary conditions, interest rates on treasury bills went slightly down during the year and the stocks of outstanding treasury bills and BOL bills decreased. Maturing treasury bills that had been issued earlier added to the liquidity of the banking system during the second half of the year. Commercial bank interest rates remained broadly unchanged throughout the year, leading to real interest rates becoming significantly negative. This rigidity in interest rates was in part a result of high levels of kip liquidity in the system (Tables 13 and 14).

34. Rising inflation and a rapidly declining exchange rate of the kip against the baht spurred the decision to introduce more concerted measures in early 1998. Thus, sales of treasury and BOL bills were resumed in January 1998. In addition, commercial banks were encouraged to raise interest rates. Minimum deposit rates, discontinued in 1996, were reintroduced in March 1998 in an effort to bolster demand for kip. Finally, the BOL also decided to reintroduce bank-by-bank credit ceilings. This measure, however, had not been implemented as of May 1998.

### C. BANKING SECTOR DEVELOPMENTS

35. The Lao banking system consists of the central bank, the BOL, seven SCBs, dominated by the Banque pour le Commerce Extérieur Lao (BCEL); two small private banks; and seven branches of foreign banks, all but one from Thailand. There is also the state-owned Agricultural Promotion Bank (APB) which serves largely as a conduit for agricultural subsidies. The seven SCBs are the remnants of the original monobank system: most are composed of former provincial branches, and the BCEL emerged from the branch responsible for international transactions.

36. Efforts to reform the SCBs and bring them up to international standards have been underway for several years, notably through two Financial Sector Program Loans from the AsDB. The first program loan supported a recapitalization of these banks in 1994, as well as improvements in management. However, only the first part was implemented and the lack of changes in management practices has contributed to the re-emergence of significant levels of nonperforming loans on the balance sheets of these banks. The second program loan, which is not yet fully disbursed, supports the consolidation of the six small SCBs into two larger units, which would then be in a position to compete with each other and other banks, at least in the major towns.

37. In 1997, the authorities commissioned an international audit firm to examine the end-1996 accounts and the operations of the seven SCBs, as part of the conditions under the World Bank's SAC III loan. The auditors found loan officers poorly-equipped to perform their work effectively, without the requisite attention to standard indicators of loan quality. Internal controls were seen as weak, and regulations, both those imposed by the BOL and internal rules, were not always followed. Loans were extended on the basis of inadequate

collateral, and inappropriate provisioning for nonperforming loans has been made.<sup>9</sup> Lack of adequate bank supervision has contributed to these practices. While the auditors had some difficulties interpreting the financial data available, the general conclusion was that recurrent problems of nonperforming loans had made the SCBs insolvent. The share of nonperforming loans in the SCBs' total loan portfolio ranges from 25 percent to almost 70 percent (Annex III) while almost no usable collateral could be identified, making recovery of debt difficult.<sup>10</sup> All SCBs had a negative net worth and the total for the sector was estimated at about KN 70 billion (or \$70 million at the end-1996 exchange rate). Recent on-site inspections by the BOL revealed similar problems in one private bank and a local branch of a Thai bank. In addition, there are strong indications that several other banks are similarly affected.

38. It is expected that the 1997 macroeconomic events, in particular the sharp depreciation of the kip against the U.S. dollar, had a significant negative impact on the banks' balance sheets, bringing the solvency problems to the surface. The rate of loan repayment declined further in 1997. The audits of the 1997 balance sheets, being prepared with assistance from Australia, are expected to confirm these developments. Thus restructuring of the Lao banking system has become a priority. A thorough reform of the banking system would involve (i) restructuring the SCBs, including improvement of their management practices, and following these improvements, a recapitalization; (ii) allowing new private banks to start operations, to bring in banking expertise and enhance competition; (iii) encouraging the branches of foreign banks (in particular the Thai banks) to participate more in the local economy. Supervision over them needs to be coordinated between the BOL and the Bank of Thailand; and (iv) finally, BOL banking supervision needs to be strengthened considerably, with technical assistance.

## VI. EXTERNAL SECTOR

### A. BACKGROUND

39. Developments in the external sector were characterized, on the one hand, by the new opportunity and challenge of further integration into regional markets with the official entry into ASEAN and AFTA in July 1997 and by the adverse effects of the regional crisis, on the other hand. As a result of the latter, recorded external trade, especially toward regional markets, declined and the Lao P.D.R.'s integration into the world economy was temporarily stalled. Estimates indicate that in 1997 about two-thirds of bilaterally recorded merchandise

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<sup>9</sup> Whereas the nonperforming loans inherited from the monobank system were to a large extent due to directed loans to state-owned enterprises, only a small proportion of the nonperforming loans generated since 1994 were of this nature. SCBs still provide some directed credit, but the main part of the nonperforming portfolio seems to relate to lending to the farming community.

<sup>10</sup> These numbers do not include the APB which was not audited.

exports went to East-Asian countries, while about 60 percent of bilaterally recorded merchandise imports came from these countries, relative to 80 percent and nearly 70 percent in 1996, respectively (Tables 20 and 21).

40. The close ties to the Thai baht, combined with loose monetary conditions, led to a depreciation of over 50 percent of the kip against the U.S. dollar during 1997, with continuing depreciation of the kip in early 1998 despite a return to stability for the baht. Although it followed the baht closely during its decline in 1997, the kip was unable to rebound together with the baht in early 1998, thus depreciating over 25 percent against the baht in the first quarter.

#### **B. RECENT DEVELOPMENTS IN THE BALANCE OF PAYMENTS**

41. The overall balance of payments deteriorated in 1997, with the ratio of the current account deficit to GDP declining only marginally to 16¼ percent, while capital flight linked to foreign exchange rationing resulted in a substantial drop in the foreign exchange reserves of the banking system (Table 17). The value of total exports remained broadly unchanged from a year earlier, reflecting a small rise in garments exports to the European Union after the Lao P.D.R. regained GSP status in October and a decline in timber exports, as prices declined and Thailand, the largest market, reduced demand during the crisis in the second half of the year (Tables 18 and 20). The value of recorded imports declined by an estimated 6 percent as import restrictions on consumption goods intensified and capital goods imports weakened, linked to lower investment in the hydropower sector (Tables 19 and 21). With the decline in nominal GDP in U.S. dollar terms, because of the loss of value of the kip, the share of exports rose from 17½ percent of GDP in 1996 to just over 18 percent of GDP in 1997, while imports retained their share in 1997 relative to 1996 with 37 percent of GDP. The share of consumption goods as percent of total recorded imports declined for the second consecutive year from 48 percent in 1995 to 45 percent in 1996 and 41 percent in 1997.

42. A sharp rise in interest and dividend payments associated with the hydropower projects resulted in net factor income becoming more negative (Table 22). Interest payments on official borrowing remain very low relative to total debt given the concessional nature of most loans. Net nonfactor services remained broadly unchanged—income continued to be dominated by travel, and payments were largely determined by travel and construction-related services (Table 23). In contrast to the global trend, grants rose from \$82 million in 1996 to \$98 million in 1997. Bilateral grants accounted for about 80 percent of total official transfers, with Japan remaining the most important donor. Japan also provided program grants in the form of commodity aid.

43. Loan disbursements increased to \$180 million, led by concessional project loans from the AsDB, primarily for hydropower and infrastructure, including road construction and utilities (Table 24). Foreign investment fell sharply from \$176 million in 1996 to \$89 million in 1997, reflecting a decline of investment in hydropower, with two large projects approaching completion and the start of new projects being delayed as regional investors halted activity in the second half of the year. There was also a sharp decline in foreign investment approvals

(Tables 26 and 27). There was a substantial drop in the net foreign assets of the banking system from \$167 million in 1996 to \$116 million in 1997, as a result of large unrecorded consumption imports and significant capital outflows linked to foreign exchange rationing and restrictions. The level of gross reserves of the banking system declined from about five to four months of imports in the course of 1997. Official gross reserves fell from the equivalent of three to two and a half months of imports (Table 25).

### C. EXTERNAL DEBT

44. Debt, other than to the Council of Mutual Economic Assistance-countries (CMEA), is estimated to amount to \$0.96 billion at end-1997 (Tables 28 and 29), while debt incurred through the CMEA is valued at \$1.36 billion at the official exchange rate of the Soviet Union Ruble of SUR 0.6 per U.S. dollar. Russia's participation as a creditor in the Paris Club beginning in September 1997 created an additional mechanism through which the Russian claim of the Lao P.D.R. can be handled. Total debt is equivalent to 134 percent of GDP, or in net present value terms under existing loan agreements, to about 70 percent of GDP and 290 percent of exports of goods and non-factor services. About 93 percent of non-CMEA debt is to multilateral creditors, of which the main ones are the AsDB (\$430 million) and IDA (\$348 million).

### D. EXCHANGE AND TRADE SYSTEM

45. 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 commercial bank rate in consultation with the authorities. Other banks and exchange bureaux follow it with a maximum margin of 2 percent. The bank rate has generally been following the parallel exchange rate market, although at times of downward pressure, the bank rate was usually slow to adjust, thus creating increasing spreads between the two exchange rates. During the course of 1997 the kip had lost more than 50 percent of its value against the U.S. dollar reaching KN 2,153 per dollar and in addition had fallen against the Thai baht by about 15 percent, despite the baht's large depreciation after it began to float on July 2 (Table 30). The sharp decline in the value of the kip took place in an environment of loose monetary policies, exacerbated by the authorities' lack of resolve regarding measures to improve the functioning of the foreign exchange system, a process that reduced the public's confidence and intensified the problem of capital flight. In the first half of the year, the authorities resisted the downward pressure on the rate by cracking down on the parallel market and revoking licences from foreign exchange bureaux in May and June, and resorting to foreign exchange rationing. As pressure intensified on the kip following the floating of the Thai baht in July, and the premium on the parallel rate widened sharply, the authorities gradually lifted the restrictions on the parallel market and commercial banks were encouraged to set their rates in

line with the parallel rate.<sup>11</sup> Later in the year, new foreign exchange bureaux were licensed, including some operated by hotels. At end-December 1997 the parallel market premium was about 3 percent.

46. The trade system is free of formal restrictions. In practice, however, a number of informal trade barriers, such as priority lists and excessively restrictive licensing requirements, limit imports in certain categories of goods. De facto restrictions intensified during the course of 1997 as foreign exchange rationing became more binding. The import tariff structure maintained six tariff 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. As part of the Lao P.D.R.'s membership in ASEAN and AFTA, the authorities prepared, according to AFTA regulations, the lists of import goods which would be: (i) subject to a maximum 5 percent import tariff beginning in January 1998 (inclusion list); (ii) temporarily excluded from the maximum 5 percent import tariff and to be moved into the inclusion list beginning in 2000 in five equal installments, with all goods having been moved by 2007 (temporary exclusion list); (iii) permanently excluded from the maximum 5 percent import tariff (general exclusion list); and (iv) listed as sensitive goods, constituting primarily unprocessed agricultural products.

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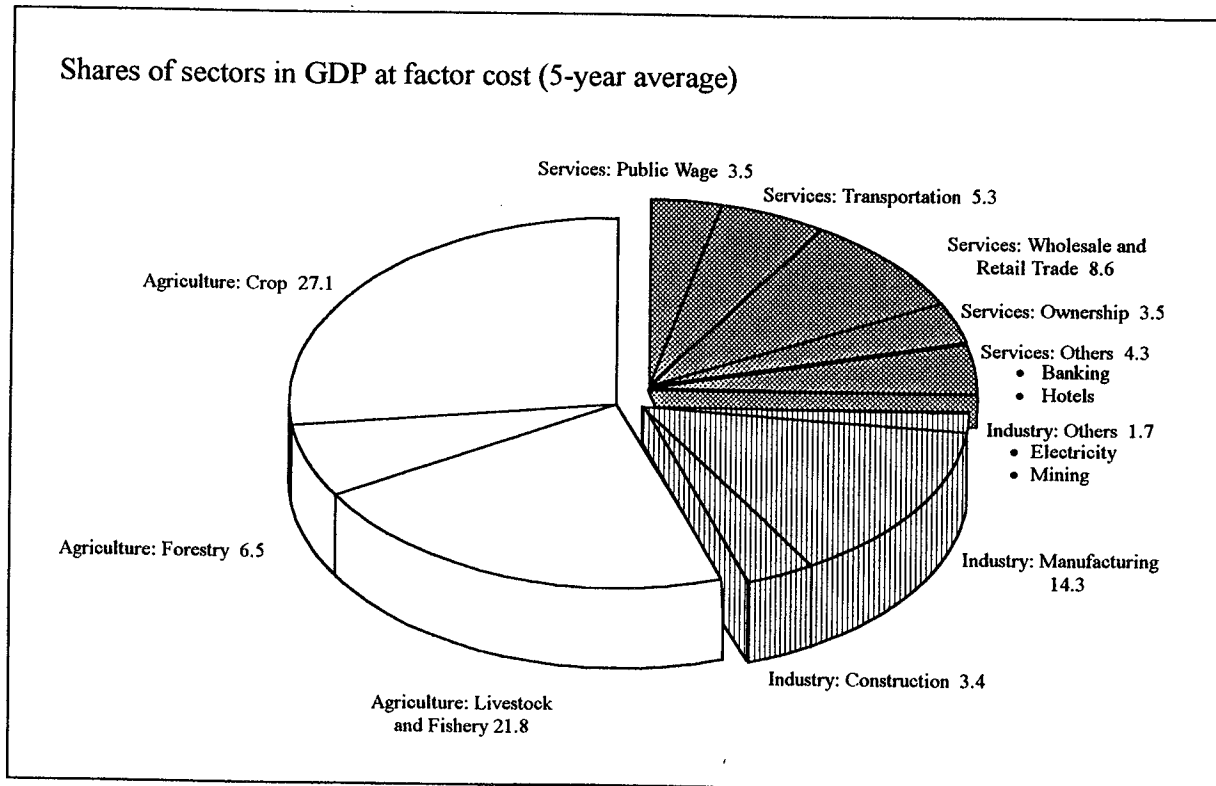
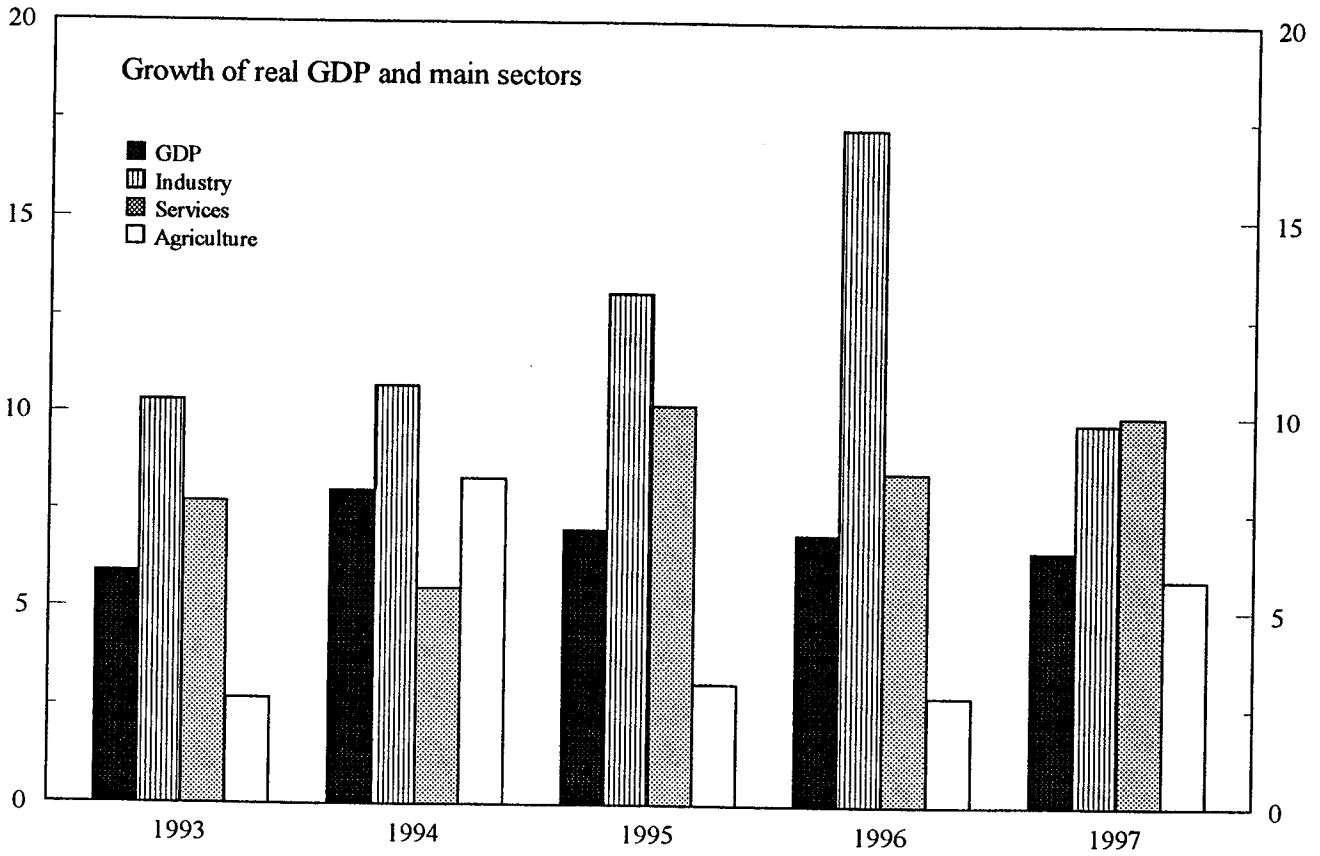
<sup>11</sup>Thailand is by far the largest trade partner, buying 22 percent of recorded Lao exports and providing 52 percent of recorded Lao imports. There is also an estimated large amount of unofficial trade across the long Lao-Thai border.

CHART 2

LAO P.D.R.

REAL GDP AND MAIN ECONOMIC SECTORS, 1993-97

Percent



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

Table 1. Lao P.D.R.: Selected Economic and Financial Indicators, 1993-97

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

	1993	1994	1995	1996	1997
<b>Growth (percent change)</b>					
Real GDP	5.9	8.1	7.0	6.8	6.5
<b>Prices (percent change)</b>					
Consumer prices (annual average)	6.3	6.8	19.4	13.0	19.3
<b>Government budget (percent of GDP) 1/</b>					
Revenue	11.8	12.3	12.2	13.0	11.4
Expenditure	17.9	23.8	21.9	22.1	21.6
Current account balance (excluding grants)	0.6	0.4	1.4	2.8	1.8
<b>Overall balance</b>					
Excluding grants	-6.1	-11.5	-9.7	-9.1	-10.1
Including grants	-4.4	-5.2	-4.2	-5.6	-6.6
Domestic financing	1.5	0.5	-0.4	-1.1	0.9
Foreign financing	2.9	4.7	4.6	6.7	5.7
<b>Money and credit (percent change, end of period)</b>					
Broad money	64.6	31.9	16.4	26.7	64.9
Domestic Credit	33.2	72.5	22.0	-4.9	137.3
<b>Interest rates (in percent; end of period) 2/</b>					
On one-year deposits	12	12	16	16½	17½
On short-term loans	26	24	23-28	23-28	18-25
<b>External trade (percent change)</b>					
Exports (value in US\$)	81.4	24.9	4.2	2.6	-1.4
Imports (value in US\$)	62.7	30.6	4.4	17.1	-6.0
<b>Balance of payments (percent of GDP)</b>					
External current account balance					
Including official transfers	-3.1	-6.3	-6.9	-12.2	-10.6
Excluding official transfers	-10.9	-14.4	-13.0	-16.6	-16.2
Overall balance (in mn. of US\$)	11	-11	15	69	-31
<b>Gross foreign reserves</b>					
In millions of U.S. dollars	151	158	191	279	220
<i>Of which:</i>					
Gross official reserves	63	61	93	167	136
In months of total imports, c.i.f.	1.8	1.3	1.9	2.9	2.5
<b>External debt (in percent)</b>					
Ratio of debt to GDP 3/	36.0	38.2	37.7	43.5	55.0
Debt-service ratio 4/	4.0	3.3	5.7	5.3	8.9
<b>Exchange rate</b>					
Kip per U.S. dollar (end of period) 5/					
Official	717	719	925	954	2,152
Parallel market	723	730	940	975	2,205

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

1/ 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.

Table 2. Lao P.D.R.: Real GDP Growth, 1993-97

(In percent)

	1993	1994	1995	1996	Est. 1997
Agriculture	2.7	8.3	3.1	2.8	5.8
Crops	-11.0	12.7	-2.5	2.9	11.5
Livestock and fishery	4.2	4.3	3.7	2.8	2.4
Forestry	183.7	4.0	28.2	2.0	-4.9
Industry	10.3	10.7	13.1	17.3	9.8
Mining and quarrying	36.5	30.4	-3.7	61.2	52.1
Manufacturing	7.7	7.0	17.7	18.1	7.0
Construction	16.1	17.2	6.8	12.3	3.0
Electricity, gas, and water	21.4	29.0	-8.8	15.0	-2.0
Services	7.7	5.5	10.2	8.5	10.0
Transportation, storage, and communications	3.1	4.3	18.2	10.1	10.2
Wholesale and retail trade	18.5	7.9	9.3	11.2	9.8
Banking, insurance, and real estate	13.2	8.2	42.0	-2.7	30.9
Ownership of dwellings	8.0	8.6	3.4	6.2	1.5
Public wage bill	-0.2	-6.6	-4.5	0.4	1.1
Nonprofit institutions	-9.8	-3.8	2.4	7.9	16.0
Hotels and restaurants	14.8	53.6	35.0	21.3	23.5
Other	3.5	3.0	15.4	11.8	17.2
GDP at factor cost	5.2	8.0	7.0	6.9	7.0
Import duties	52.8	13.2	25.0	2.9	-13.0
GDP at market prices	5.9	8.1	7.0	6.9	6.5

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



Table 3. Lao P.D.R.: GDP by Industrial Origin, 1993-97

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

	1993	1994	1995	1996	Est. 1997
Agriculture	406.2	439.9	453.7	466.2	493.2
Crops	196.7	221.6	216.0	222.3	248.0
Livestock and fishery	165.5	172.6	179.0	183.9	188.3
Forestry	44.0	45.8	59.0	59.8	56.9
Industry	125.3	138.6	156.8	183.9	195.7
Mining and quarrying	1.3	1.7	1.7	2.7	4.2
Manufacturing	92.4	98.8	116.2	137.2	146.9
Construction	22.1	25.9	27.7	31.1	32.0
Electricity, gas, and water	9.5	12.3	11.2	12.8	12.6
Services	175.6	185.4	204.3	221.6	243.9
Transportation, storage and communication	35.4	36.9	43.6	48.0	52.9
Wholesale and retail trade	58.6	63.2	69.0	76.7	84.3
Banking, insurance, and real estate	7.8	8.5	12.0	11.7	15.3
Ownership of dwellings	25.3	27.5	28.4	30.1	30.6
Public wage bill	31.0	28.9	27.6	27.7	28.0
Nonprofit institutions	10.5	10.1	9.9	10.6	12.4
Hotels and restaurants	6.0	9.2	12.4	15.0	18.6
Other	1.1	1.1	1.3	1.4	1.8
GDP at factor cost	707.1	764.0	814.9	871.8	932.9
Import duties	14.7	16.7	20.8	21.4	18.6
GDP at market prices	721.8	780.7	835.7	893.2	951.5
Memorandum items:					
Nominal GDP at market prices	951	1,108	1,419	1,726	2,173
Percentage growth	12.6	16.5	28.1	20.6	25.9

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

Table 4. Lao P.D.R.: Output of Major Commodities, 1993-97

	Item Unit	1993	1994	1995	1996	<u>Est.</u> 1997
<b>Agriculture</b>						
Paddy	'000 tons	1,251	1,577	1,418	1,414	1,660
Corn	'000 tons	48	56	48	76	78
Sweet potatoes and cassava	'000 tons	113	160	99	92	94
Coffee	'000 tons	8	9	9	10	12
Tobacco	'000 tons	29	32	27	26	28
<b>Livestock</b>						
Buffalo	'000 tons	44	45	46	47	47
Cattle	'000 tons	34	36	38	39	40
Pigs	'000 tons	76	78	81	83	85
Poultry	'000 tons	14	15	16	16	17
<b>Forestry</b>						
Logs	'000 m3	480	500	819	659	560
<b>Industry</b>						
Tin	tons	504	810	636	736	665
Gypsum	'000 tons	130	131	124	113	151
<b>Manufacturing</b>						
Hydropower	million khw	919	1,197	1,085	1,248	1,219
Beer	'000 hectoliter	92	102	151	240	286
Soft drinks	'000 hectoliter	76	92	105	108	122
Cigarettes	million packs	37	47	43	49	50
Agricultural tools	'000 units	5	4	4	3	3
Corrugated iron sheet	million sheets	1	1	1	2	2
Detergent	tons	400	700	877	913	870
Nails	tons	135	56	61	544	750
Oxygen	'000 bottles	12.7	15.0	17.3	24.0	24.0
Vaccines	million ampoules	6	5	7	6	7
Electric cord	'000 m	366	1,798	2,192	2,441	3,100
Plastic products	tons	281	460	500	2,940	3,568
Salt	'000 tons	9.5	10.0	10.6	13.8	15.6
Wood furniture	million kip	6,457	6,500	6,622	7,210	7,800
Rattan furniture	million kip	105	110	133	175	148
Garments	million pieces	9	11	18	19	21
Sugar	tons	0	0	147	189	400
Tobacco	tons	1,540	910	813	1,219	1,560
Plywood	mill. sheets	1	2	2	2	2
Cement	1,000 tons	0	7	59	78	84
Bricks	million pieces	52	55	56	57	69
Wood	1,000 meters	94	271	289	231	255
Ventilators	1,000 units	0	243	202	543	420
Tissue paper	1,000 meters	300	350	365	...	...

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

Table 5. Lao P.D.R.: Consumer Price Indices, 1993-98

	1993	1994	1995	1996	1996	1997	1998
	BOL Index (December 1987 = 100)				NSC Index (December 1995 = 100)		
January	284.4	305.6	329.1	417.9	101.4	113.0	148.3
February	284.9	305.8	331.9	428.4	103.3	115.7	167.3
March	286.9	313.7	346.8	433.1	105.6	118.7	172.9
April	295.5	319.1	366.1	438.3	107.5	120.7	
May	299.3	321.1	388.9	442.4	109.5	127.3	
June	305.2	326.4	388.4	433.8	110.0	127.5	
July	317.7	334.0	399.3	444.9	111.2	133.0	
August	324.8	341.1	425.2	444.6	111.3	139.9	
September	327.9	347.2	441.1	454.1	113.9	145.4	
October	314.2	341.3	433.4	457.9	112.5	142.7	
November	311.7	333.8	423.4	453.0	111.8	139.9	
December	308.8	329.7	414.3	444.5	112.8	142.8	
Period average	305.9	326.6	390.6	441.1	109.2	130.6	
	(Twelve-month percentage change)						
January	6.4	7.5	7.9	26.7		11.4	31.3
February	6.4	7.3	8.5	29.1		12.0	44.6
March	6.1	9.3	10.5	25.0		12.4	45.6
April	7.6	8.0	14.8	19.7		12.3	
May	5.7	7.3	21.1	13.7		16.2	
June	5.2	7.0	19.0	13.3		15.9	
July	4.4	5.1	19.6	11.4		19.6	
August	5.2	5.0	24.7	4.6		25.7	
September	6.5	5.9	27.1	2.9		27.7	
October	6.7	5.3	26.9	5.7		26.9	
November	7.0	7.1	26.9	7.0		25.1	
December	8.9	6.8	25.7	7.3	12.8	26.6	
Period average	6.3	6.8	19.4	13.0		19.3	

Source: Data provided by the Lao authorities.

Table 6a. 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 6b. 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 7. Lao P.D.R.: General Government Operations, 1993/94-1997/98

	1993/94	1994/95	1995/96	1996/97	Budget 1/ 1997/98
(In billions of kip)					
Revenue	131.6	161.7	212.4	228.3	360.8
Tax	106.7	134.7	176.0	189.6	287.4
Nonax	24.9	27.0	36.4	38.7	73.4
Grants	67.3	72.7	57.7	63.9	99.2
Expenditure 2/	254.7	289.8	360.7	430.2	685.4
Current expenditure	127.1	142.7	166.0	192.2	283.5
Wages and salaries	56.1	68.3	78.5	91.8	113.7
Materials and supplies	43.2	42.7	52.0	56.9	70.5
Transfers	15.4	18.6	23.4	26.0	69.2
Interest payments	8.6	10.9	10.4	16.3	29.0
Severance payments	3.8	2.3	1.8	1.2	1.0
Capital expenditure and amortization	127.6	147.1	194.7	238.0	402.0
Capital expenditure and on-lending	131.8	150.9	199.7	246.8	425.9
Overall balance 3/	-55.8	-55.4	-90.6	-132.0	-225.4
Total financing	55.8	55.4	90.6	132.0	225.4
Domestic (net)	5.2	-5.0	-18.6	18.5	-2.3
Bank	-1.8	-10.2	-15.2	-13.7	-7.0
Nonbank	0.0	3.0	-7.3	-15.7	1.3
Asset sales	7.0	2.2	4.0	47.8	3.4
Foreign (net)	50.6	60.4	109.2	113.5	227.7
(In percent of GDP)					
Revenue	12.3	12.2	13.0	11.4	12.7
Tax	10.0	10.2	10.8	9.5	10.1
Nontax	2.3	2.0	2.2	1.9	2.6
Expenditure	23.8	21.9	22.1	21.6	24.1
Current expenditure	11.9	10.8	10.2	9.6	10.0
Of which: Wages and salaries	5.2	5.2	4.8	4.6	4.0
Capital expenditure and amortization	11.9	11.1	11.9	11.9	14.1
Current balance 4/	0.4	1.4	2.8	1.8	2.7
Overall balance					
Including grants	-5.2	-4.2	-5.6	-6.6	-7.9
Excluding grants	-11.5	-9.7	-9.1	-10.1	-11.4
Domestic financing 5/	0.5	-0.4	-1.1	0.9	-0.1
Foreign financing	4.7	4.6	6.7	5.7	8.0
Memorandum item:					
GDP fiscal year (in billions of kip)	1,069	1,323	1,631	1,994	2,841

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

1/ Includes revisions made in March 1998.

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 8. Lao P.D.R.: General Government Revenue, 1993/94-1997/98

(In billions of kip)

	1993/94	1994/95	1995/96	1996/97	<u>Budget 1/</u> 1997/98
Tax revenue	106.7	134.7	176.0	189.6	287.4
Profits tax	11.5	17.3	20.7	23.4	34.0
Income tax	7.2	10.7	13.5	11.5	16.9
Agricultural land tax	2.2	1.6	2.1	2.5	5.3
Business licenses	0.1	0.2	0.1	0.2	0.6
Turnover tax	19.9	27.6	33.9	40.0	61.0
Tax on foreign trade	33.8	38.7	46.7	53.3	81.2
Import duties	25.7	33.8	40.6	47.0	68.0
Export duties	8.1	4.9	6.0	6.3	13.2
Excise tax	5.1	5.5	15.5	17.9	29.0
Timber royalties	21.0	26.7	34.6	31.7	42.0
Hydro royalties	0.0	0.0	0.0	0.0	4.4
Other	6.0	6.5	8.8	9.1	13.0
Nontax revenue	24.9	27.0	36.4	38.7	73.4
Payment for depreciation/ dividend transfers	3.0	3.0	5.2	9.4	14.0
Other	21.8	24.0	31.2	29.3	59.4
Leasing income	4.6	5.0	3.8	4.8	8.0
Concession	0.4	0.4	0.4	0.2	0.4
Overflight	7.2	7.9	9.8	10.0	24.2
Interest	7.8	6.8	10.5	8.3	20.8
Other	1.8	3.9	6.7	5.9	6.1
Total revenue	131.6	161.7	212.4	228.3	360.8

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

1/ Includes the revisions made in March 1998.

Table 9. Lao P. D. R.: General Government Expenditure, 1996/97 and 1997/98  
(In billions of kip)

	1996/97			1997/98 1/		
	Total	Current	Capital	Total	Current	Capital
<b>Total</b>	430.2	192.2	238.0	541.3	241.5	299.8
<b>Ministries:</b>						
Public health	8.8	4.1	4.7	17.3	4.1	13.2
Social welfare	19.4	7.2	12.2	14.9	6.1	8.8
Education	31.0	4.6	26.4	37.4	8.4	29.0
Information and culture	7.6	3.8	3.8	6.2	2.3	3.9
Agriculture and forestry	10.7	0.9	9.8	17.5	1.4	16.1
Industry	43.6	0.2	43.4	45.2	10.1	35.1
Communication, transport and post	66.9	0.5	66.4	108.5	5.0	103.5
Commerce	0.2	0.1	0.1	0.4	0.3	0.1
Interior	15.3	12.7	2.6	17.3	14.3	3.0
Defense	49.2	47.4	1.8	53.5	51.4	2.1
Justice	0.4	0.3	0.1	0.5	0.5	0.0
Finance	1.4	1.3	0.1	1.9	1.8	0.1
Administration	24.5	20.0	4.5	17.9	16.3	1.6
Foreign affairs	4.9	4.6	0.3	7.7	7.5	0.2
Committee for Planning and Coordination	0.3	0.3	0.0	0.4	0.4	0.0
<b>Provinces:</b>						
Phongsali	7.3	2.3	5.0	7.2	2.4	4.8
Louangnamtha	6.7	2.1	4.6	6.8	2.4	4.4
Oudomxai	4.3	2.3	2.0	6.3	2.9	3.4
Bokeo	3.5	1.7	1.8	6.9	2.2	4.7
Louang Prabang	8.7	4.6	4.1	11.5	5.4	6.1
Houaphan	5.0	2.8	2.2	12.1	3.3	8.8
Xaignabouli	6.4	3.9	2.5	10.5	4.4	6.1
Xiang Khoang	4.2	2.7	1.5	6.6	3.5	3.1
Vientiane Prefecture	21.0	7.0	14.0	13.6	8.0	5.6
Vientiane Province	6.2	4.3	1.9	8.6	4.6	4.0
Bolikhamxai	4.2	2.5	1.7	5.8	3.1	2.7
Khammouan	5.5	3.7	1.8	9.2	4.4	4.8
Savannakhet	13.0	7.7	5.3	15.0	8.7	6.3
Salavan	4.5	2.7	1.8	6.4	3.1	3.3
Xekong	4.0	1.6	2.4	5.2	2.0	3.2
Champassak	10.4	7.6	2.8	15.1	8.1	7.0
Attapu	2.8	1.4	1.4	4.3	2.0	2.3
Xiasomboun Special Region	2.9	1.4	1.5	4.0	1.5	2.5
<b>Memorandum items:</b>						
(in percent of total)						
Public health	2.0	2.1	2.0	3.2	1.7	4.4
Social welfare	4.5	3.7	5.1	2.8	2.5	2.9
Education	7.2	2.4	11.1	6.9	3.5	9.7
Industry	10.1	0.1	18.2	8.4	4.2	11.7
Defense and security	15.0	31.3	1.8	13.1	27.2	1.7
Provinces	27.9	32.0	24.6	28.6	29.7	27.8

1/ Original budget.





Table 11. Lao P.D.R.: Monetary Survey, 1994-97

	1994	1995	1996	1997			
				March	June	Sept.	Dec.
(In billions of kip; end of period)							
Net foreign assets	59	78	156	164	163	171	253
Net domestic assets	107	115	89	94	112	144	151
Domestic credit	129	157	150	176	203	267	356
Net credit to government 1/	13	1	-43	-39	-36	-26	22
Credit to nongovernment sector 1/	116	157	193	214	240	293	334
Public enterprises	17	28	37	37	43	71	77
Private sector	99	129	156	177	197	222	257
Other items (net)	-22	-42	-60	-82	-91	-123	-205
Broad money	166	193	245	258	276	315	404
Narrow money	61	67	76	70	77	74	80
Currency outside banks	39	42	43	45	46	48	53
Demand deposits	23	25	33	25	31	26	27
Quasi-money	105	126	169	188	199	241	325
Time and savings deposits	46	44	70	82	86	90	97
Foreign currency deposits	59	82	99	106	113	151	228
(Annual increase in percent)							
Domestic credit	73	22	-5	5	21	59	137
Credit to nongovernment sector 2/	55	35	23	-650	-778	-181	151
Broad money	32	16	27	21	28	45	65
Memorandum items:							
Velocity of money (period average)	8.0	7.9	7.8	...	...	...	7.2
Reserve money (in billions of kip)	74	84	104	105	106	110	150
Money multiplier 3/	2.2	2.3	2.3	2.5	2.6	2.7	2.7

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 12. Lao P.D.R.: Sources of Broad Money Growth, 1996-97

(Increase as percent of previous period broad money)

	1996			1997				
	March	June	Sept.	Dec.	March	June	Sept.	Dec.
Broad money	10.6	0.5	1.5	12.4	5.3	7.0	14.1	28.6
Narrow money	1.2	-1.0	-0.3	4.0	-2.3	2.7	-1.1	1.9
Time and savings deposits	2.0	4.1	4.2	1.8	4.8	1.6	1.4	2.2
Foreign currency deposits	7.4	-2.7	-2.5	6.6	2.8	2.7	13.8	24.4
Contributions								
Net foreign assets	5.0	1.1	5.5	24.7	3.4	-0.4	2.9	26.0
Net credit to government	0.0	-2.2	-4.1	-13.9	1.7	1.1	3.6	15.2
Net credit to nongovernment	5.6	2.2	4.1	5.4	8.7	10.1	19.2	13.0
Other items (net)	0.0	-0.6	-4.1	-3.8	-8.5	-3.9	-11.6	-26.0

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

Table 13. Lao P.D.R.: Interest Rates, 1993-97

(In percent; end of period)

	1993	1994	1995	Dec. 1996	June 1997	Dec 1997
<b>Commercial Banks</b>						
<b>Deposit Rates</b>						
<b>Kip accounts</b>						
Demand	0	0	0	0	0	0
Savings	12	12	16	16-16½	16	16
Time:						
3 months	12-15	12-13½	16-16½	16-16½	16¼	16¼
6 months	12-16	12-16	16-17	16-17	16¼	16¼
12 months	12-18	12-16	16-19	16-19	17¼	17¼
<b>Baht accounts</b>						
Demand	0	0	0	0	0	0
Savings	4-6	4-6	3¼-6	1½-6	4¼	3¼
Time:						
3 months	5-8	5-8	5½-8	2-8	6	5 ¼
6 months	6-8	6-9	5¼-8	2¼-9	6½	6
12 months	7-10	6½-10	6-10	2½-10	7¼	6¾
<b>U.S. dollar accounts</b>						
Demand	0	0	0	0	0	0
Savings	2-3	2-3	2-3	1½-3¼	2½	2¼
Time:						
3 months	2-4	2-4	3-4	2-4	3½	3¼
6 months	2½-5	3-5	3¼-5	2½-5	4¼	4
12 months	2½-6	3¼-6	3¼-6	2½-6	5	4¾
<b>Lending rates</b>						
<b>Kip accounts</b>						
Agriculture & forestry	7-14	7-13	7-28	10-25	17-18	18-19
Industry & manufacturing	20	18	22-28	24-26	21-25	20-25
Construction & transport	20-23	18-19	23-28	25-26	22-25	22-25
Commerce & services	22-24	22	25-28	26-27	23-27	24-27
<b>Baht accounts</b>						
Agriculture & forestry	12	12	12-19	10-19	14-15½	13½-15
Industry & manufacturing	15	14	14-19	14-19	14-17	14-17
Construction & transport	18	14	14-19	14-19	14-17	14-17
Commerce & services	18	16	16-19	16-19	16-17	16-17
<b>U.S. dollar accounts</b>						
Agriculture & forestry	8	8	8-14	8-14	11-12	11-12
Industry & manufacturing	9	9	9-14	10-14	11-14	11-14
Construction & transport	9	9	9-14	10-14	11-14	11-14
Commerce & services	10	10	10-14	10-14	13-14	13-14
<b>Bank of the Lao P.D.R.</b>						
Overdrafts	24	30	35	35	35	35
Required reserves	...	1.5	1.5	1.5	1.5	1.5
Treasury bills			26.2	23.5	23.4	19.1

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, January 1996-February 1998

Auction Date	Maturity Date	Amount of Bids Received (Million KX)	Amount Issued (Million KX)	Range of Bids Offered (Percent)	Range of Bids Accepted (Percent)	Weighted Average Yield of Successful Bids (Percent)	Bills Outstanding (Million KX)
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
06/05/97	12/07/97	2,860	2,000	23-24	23-24	23.21	29,500
06/19/97	12/21/97	2,780	2,000	23-25	23-23.5	23.31	30,000
07/09/97	01/04/98	2,300	1,500	23.5-23.75	23.5	23.5	30,000
07/17/97	01/18/98	2,300	1,500	23.25-24	23.25	23.34	30,000
07/31/97	02/01/98	1,500	1,500	23	23	23	30,000
08/14/97	02/15/98	1,500	1,500	22.5	22.5	22.5	29,680
08/28/97	01/03/98	3,000	3,000	22-22.5	22-22.5	22.2	29,630
09/11/97	03/15/98	2,500	2,500	22	22	22	29,860
09/25/97	03/29/98	3,000	3,000	21.80-24	21.80-22	21.87	30,960
10/10/97	04/12/98	2,000	2,000		21-21.5	21.25	28,660
10/23/97	04/26/98	4,500	4,500		21	21	33,160
11/06/97	05/10/98	2,000	2,000		21	21	30,660
12/04/97	12/09/98	1,500	1,500		20	20	27,660
12/18/97	12/23/98	1,500	1,500		19-19.3	19.15	27,660
01/08/98	01/13/99	1,500	1,500		19	19	25,660
01/22/98	01/27/99	1,500	1,500		19.4	19.4	25,660
02/05/98	02/10/98	2,000	2,000		19.5	19.5	26,160
02/19/98	02/24/98	2,000	2,000		19	19	24,660

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., 1993-97

(In millions of kip; end of period)

	1993	1994	1995	1996	1997
Net foreign assets	19,364	10,438	26,562	94,980	147,340
Foreign assets	45,363	43,965	85,316	158,840	290,124
Foreign liabilities	-25,999	-33,527	-58,758	-63,840	-142,784
Net claims on Government	248	-1,480	-3,325	-60,697	-48,166
Claims on Government	8,833	12,035	4,127	4,127	4,577
Government deposits	-8,585	-13,515	-7,452	-64,824	-52,743
Claims on state-owned enterprises	860	1,859	6,975	10,867	59,540
Claims on private sector	3,011	6,825	10,399	13,901	38,223
Claims on other banking institutions	34,615	37,052	46,585	52,371	57,944
Other items (net)	2,600	19,539	-3,025	-7,050	-104,788
Other assets	78,003	82,842	93,700	83,639	70,379
Restricted deposits	-2	-2	-2	-2	-2
Government lending fund	-18,340	-12,066	-16,167	-18,036	-31,085
Obligations 1/	-400	--	-12,984	-20,657	-29,310
Capital account	-4,686	-5,469	-13,651	-12,675	-57,921
Other liabilities	-51,975	-45,766	-53,921	-39,318	-56,849
Reserve money 2/	60,697	74,232	84,172	104,373	150,093
Memorandum items:					
Broad money 3/	125,848	165,988	193,266	244,929	405,662
Money multiplier 4/	2.1	2.2	2.3	2.3	2.7
Required reserve ratio	5	10	12	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, 1993-97

(In millions of kip; end of period)

	1993	1994	1995	1996	1997
Net foreign assets	53,545	48,273	51,438	60,601	103,106
Foreign assets	62,820	69,785	91,195	107,473	180,350
Foreign liabilities	-9,275	-21,512	-39,757	-46,872	-77,244
Net claims on government	-9,792	14,121	3,977	17,577	4,437
Claims on government	0	26,812	19,382	39,179	40,775
Deposits of government	-9,792	-12,691	-15,405	-21,602	-36,338
Claims on state-owned enterprises	17,465	15,571	20,691	26,063	60,877
Claims on private sector	62,901	91,977	118,457	141,789	247,352
Other items (net)	-31,517	-42,569	-43,257	-42,522	-65,102
Other liabilities	-53,461	-31,853	-52,782	-66,353	-67,080
Capital account	-33,831	-47,445	-56,547	-66,514	-128,782
Restricted deposits	-1,545	-1,774	-1,729	-1,555	-2,120
Credit from monetary authorities	-29,574	-35,044	-41,925	-49,115	-51,481
Other assets	56,234	37,101	65,565	80,221	106,659
Reserves	30,660	36,446	44,161	59,241	77,702
Current deposits	18,993	22,728	25,218	32,584	26,672
Time and savings deposits	30,379	45,609	44,448	70,163	96,345
Foreign currency deposits	43,230	59,036	81,641	99,208	229,720

Source: Data provided by the Lao authorities.

Table 17. Lao P.D.R.: Balance of Payments, 1993-97

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997 Est.
Total exports (fob)	240	300	313	321	317
Total imports (cif)	432	564	589	690	648
Trade balance	-191	-264	-276	-368	-331
Services (net)	35	35	27	25	28
Factor income (net)	3	-2	-7	-6	-21
Transfers	113	134	131	125	140
Private	10	10	22	43	43
Official	104	125	109	82	97
Current account (excluding official transfers)	-41 -144	-97 -221	-124 -233	-225 -307	-184 -282
Capital account	54	84	139	294	154
Long-term loans	70	65	82	138	163
Disbursements	78	73	98	155	181
Amortization	-8	-8	-15	-17	-18
Foreign investment incl ext loans	66	60	95	176	104
Foreign direct investment	36	59	88	128	86
Identified private flows	...	...	...	...	15
Commercial banks	-36	8	10	-7	14
Assets	-43	-9	-2	-14	28
Liabilities	7	17	12	7	-13
Errors and omissions 1/	-45	-48	-49	-13	-127
Overall balance	14	-12	15	69	-30
Financing	-14	12	-15	-69	30
Central bank net foreign assets	-14	12	-15	-69	30
Assets	-22	2	-31	-74	31
Liabilities	8	10	16	5	-1
Net Fund disbursements	8	8	16	6	3
Memorandum items:					
Current account (percent of GDP)	-3.1	-6.3	-6.9	-12.2	-10.6
(excluding official transfers)	-10.9	-14.4	-13.0	-16.6	-16.2
Official gross reserves	63	61	93	167	136
Official gross reserves (in months of imports, cif)	1.8	1.3	1.9	2.9	2.5
Gross reserves held by commercial banks	88	97	99	113	85
Commercial bank GR (in months of imports, cif)	2.4	2.1	2.0	2.0	1.6
Total gross reserves held by the banking system	151	158	191	279	220
Total gross reserves (in months of imports, cif)	4.2	3.4	3.9	4.9	4.1

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

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

Table 18. Lao P.D.R.: Composition of Exports, 1993-97

	1993	1994	1995	1996	1997
	(In millions of U.S. dollars)				
Wood products	65.8	96.1	88.3	124.6	89.7
Logs	16.8	41.8	28.7	34.3	16.7
Timber	39.3	48.5	51.5	78.7	67.4
Others 1/	9.8	5.8	8.1	11.6	5.6
Coffee	4.1	3.1	21.3	25.0	19.2
Agriculture	9.2	12.1	13.7	17.8	18.1
Manufactures 2/	38.1	36.3	43.3	27.9	15.2
Garments	49.0	58.2	76.7	64.1	90.5
Motorcycles	36.0	46.2	17.7	12.5	17.1
Car re-exports	14.5	4.5	0.0	0.0	0.0
Electricity	19.6	24.8	24.1	29.7	20.8
Gold re-exports	4.2	18.8	21.9	15.2	41.5
Fuel purchases by foreign carriers	0.0	0.4	0.4	0.4	0.5
Others	0.0	0.0	5.2	3.6	4.2
Total exports	240.5	300.4	312.8	320.7	316.9
	(In percent)				
Memorandum items:					
Total exports/GDP	18.1	19.5	17.4	17.5	18.2
Growth rate exports	81.4	24.9	4.2	2.6	-1.4
Growth rate of exports Excluding re-exports	75.9	25.0	4.4	6.3	-10.1

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

1/ Includes semi-finished and finished products.

2/ Excludes garments and wood-products.



Table 19. Lao P.D.R.: Composition of Imports, 1993-97

	1993	1994	1995	1996	1997
(In millions of U.S. dollars)					
Investment goods	113.8	146.1	189.3	277.0	226.8
Machinery and equipment	22.7	32.0	43.8	71.3	52.0
Vehicles 1/	27.5	25.0	36.0	71.7	53.8
Fuel 1/	14.7	21.4	30.8	32.8	38.2
Construction/electrical equipment	48.9	67.7	78.8	101.2	82.8
Consumption goods	224.7	276.5	283.8	308.0	267.7
Materials for garments industry	36.2	51.3	66.3	70.0	73.7
Motorcycles parts for assembly	27.0	34.6	13.3	12.0	24.9
Cars for re-export	14.5	4.5	0.0	0.0	
Gold and silver 2/	12.9	46.8	29.5	18.8	50.4
Electricity	2.4	2.4	3.1	2.6	3.2
Fuel purchased abroad by Lao carriers	0.5	2.0	3.5	1.2	1.3
Total imports (c.i.f.)	431.9	564.1	588.8	689.6	647.9
(In percent)					
Memorandum items:					
Total import/GDP	32.6	36.6	32.9	37.5	37.3
Growth rate total imports	62.6	30.6	4.4	17.1	-6.0
Excluding re-exports	61.3	30.9	4.8	19.0	-10.1
(In millions of U.S. dollars)					
Investment goods:					
from aid and grants	44.2	65.9	44.6	36.3	44.6
from project loans	32.1	36.6	58.1	77.6	120.5
from hydropower investment	8.4	15.5	40.9	71.0	52.5
from other sources	29.0	28.1	45.7	92.1	49.0
of which: other FDI related	16.7	25.9	21.0	7.4	18.5

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.

Table 20a. Lao P.D.R.: Direction of Trade, Exports, 1993-97  
(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Thailand 1/	74.8	77.2	83.3	96.7	70.1
Vietnam	23.1	81.2	87.7	157.6	135.2
France	12.6	10.3	11.1	8.2	20.0
United Kingdom	0.0	0.9	0.9	6.6	14.9
United States	10.7	5.0	5.3	2.7	7.0
Russia	7.4	1.0	1.1	0.5	0.0
China	25.5	8.1	8.8	0.8	0.3
Germany	9.0	11.8	12.7	4.8	16.2
Taiwan	10.1	4.6	5.0	1.3	0.5
Japan	8.8	4.9	5.3	1.7	6.7
Finland	2.0	1.6	1.7	0.8	1.5
Netherlands	3.6	5.0	5.4	0.0	0.1
Italy	1.9	0.7	0.8	1.0	4.7
Korea	1.9	0.0	0.0	0.5	0.7
Belgium	0.4	1.2	1.3	2.0	17.9
Norway	0.1	0.6	0.7	1.8	3.2
Singapore	0.2	0.1	0.1	0.8	0.3
Other	48.4	86.2	81.6	32.9	17.9
<b>Total</b>	<b>240.5</b>	<b>300.4</b>	<b>312.8</b>	<b>320.7</b>	<b>316.9</b>

Table 20b. Lao P.D.R.: Direction of Trade, Exports, 1993-97  
(In percent of total exports)

	1993	1994	1995	1996	1997
Thailand 1/	31.1	25.7	26.6	30.2	22.1
Vietnam	9.6	27.0	28.0	49.1	42.7
France	5.2	3.4	3.5	2.6	6.3
United Kingdom	0.0	0.3	0.3	2.1	4.7
United States	4.4	1.7	1.7	0.8	2.2
Russia	3.1	0.3	0.4	0.2	0.0
China	10.6	2.7	2.8	0.2	0.1
Germany	3.7	3.9	4.1	1.5	5.1
Taiwan	4.2	1.5	1.6	0.4	0.2
Japan	3.7	1.6	1.7	0.5	2.1
Finland	0.8	0.5	0.5	0.2	0.5
Netherlands	1.5	1.7	1.7	0.0	0.0
Italy	0.8	0.2	0.3	0.3	1.5
Korea	0.8	0.0	0.0	0.2	0.2
Belgium	0.2	0.4	0.4	0.6	5.6
Norway	0.0	0.2	0.2	0.6	1.0
Singapore	0.1	0.0	0.0	0.2	0.1
Other	20.1	28.7	26.1	10.3	5.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Ministry of Trade.

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

Table 21a. Lao P.D.R.: Direction of Trade, Imports, 1993-97  
(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Thailand 1/	164.8	270.3	287.8	310.0	336.6
Japan	56.1	45.8	48.8	52.5	10.4
Vietnam	19.7	22.5	23.9	25.8	25.1
Singapore	19.2	14.7	15.7	16.9	0.6
China	18.1	20.2	21.5	23.2	4.9
France	6.6	5.9	6.2	6.7	1.7
Taiwan	4.8	4.6	4.9	5.3	4.3
United States	4.4	1.4	1.5	1.6	0.6
Hong Kong	4.3	7.0	7.5	8.1	9.5
Russia	2.7	2.6	2.8	3.0	0.0
Cambodia	3.0	2.6	2.8	3.0	0.0
Korea	2.3	2.2	2.3	2.5	3.3
Australia	3.4	0.4	0.4	0.5	0.3
Denmark	0.5	0.5	0.6	0.6	0.0
Macao	0.4	0.4	0.4	0.5	1.3
Pakistan	0.8	0.7	0.8	0.8	0.0
Other 2/	120.8	162.3	160.9	228.6	249.5
Total	431.9	564.1	588.8	689.6	647.9

Table 21b. Lao P.D.R.: Direction of Trade, Imports, 1993-97  
(In percent of total imports)

	1993	1994	1995	1996	1997
Thailand 1/	38.2	47.9	48.9	45.0	51.9
Japan	13.0	8.1	8.3	7.6	1.6
Vietnam	4.6	4.0	4.1	3.7	3.9
Singapore	4.4	2.6	2.7	2.5	0.1
China	4.2	3.6	3.7	3.4	0.8
France	1.5	1.0	1.1	1.0	0.3
Taiwan	1.1	0.8	0.8	0.8	0.7
United States	1.0	0.2	0.3	0.2	0.1
Hong Kong	1.0	1.2	1.3	1.2	1.5
Russia	0.6	0.5	0.5	0.4	0.0
Cambodia	0.7	0.5	0.5	0.4	0.0
Korea	0.5	0.4	0.4	0.4	0.5
Australia	0.8	0.1	0.1	0.1	0.0
Denmark	0.1	0.1	0.1	0.1	0.0
Macao	0.1	0.1	0.1	0.1	0.2
Pakistan	0.2	0.1	0.1	0.1	0.0
Other 2/	28.0	28.8	27.3	33.1	38.5
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 of unidentified origin.

Table 22. Lao P.D.R.: Composition of Factor Income, 1993-97 1/

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Net factor income	2.8	-2.1	-6.5	-6.2	-21.0
Receipts	8.6	6.8	7.4	9.0	11.5
Payments to Lao workers by embassies abroad	2.6	0.5	0.4	0.5	0.5
Interest on Bank of Lao reserve assets	2.5	2.4	3.3	4.5	7.3
Interest on commercial banks foreign assets	3.5	3.9	3.7	4.0	3.6
Payments	5.9	9.0	13.9	15.2	32.5
Payments to foreign workers in Lao embassies	0.2	0.5	0.4	0.4	0.4
Income from direct investment	0.3	2.7	5.8	7.1	11.9
Interest on official borrowing	4.2	4.4	5.9	5.3	18.4
Interest on Bank of Lao foreign liabilities	0.7	0.1	0.4	0.4	0.4
Interest on commercial banks foreign liabilities	0.5	1.2	1.4	2.0	1.4

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

1/ Excludes workers remittances.

Table 23. Lao P.D.R.: Composition of Nonfactor Services, 1993-97

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Nonfactor services (net)	35.1	35.0	27.5	25.0	27.5
Receipts	91.1	85.7	96.6	104.3	100.4
Transportation	19.2	11.4	15.2	16.0	17.7
Overflight	11.3	8.4	10.3	9.9	10.5
Freight to Lao carriers (exports) 1/	2.0	0.1	2.7	3.3	3.7
International fares to Lao carriers	3.1	1.9	1.2	1.4	2.5
Lao port charges	2.8	1.0	0.9	1.5	1.0
Travel	34.0	42.7	51.4	62.3	54.0
Communications	2.6	0.0	0.4	0.4	0.6
Insurance	0.3	0.4	0.4	0.4	0.5
Embassies (nonsalary) and international organizations	35.0	31.2	29.2	25.2	27.6
Payments	56.0	50.7	69.1	79.3	72.9
Transportation	6.0	7.9	3.7	7.1	6.3
International fares to foreign carriers	3.6	7.9	3.3	6.3	5.4
Foreign port charges	2.4	0.0	0.4	0.8	0.9
Overflight	0.0	0.0	0.3	0.0	0.0
Travel	11.0	18.0	29.6	22.2	21.0
Communications	1.1	0.8	0.4	0.6	0.7
Construction	18.7	10.8	24.0	36.1	35.4
Hydropower	3.0	2.9	7.4	16.9	12.0
Other projects	15.7	7.9	16.6	19.2	23.5
Technical assistance (50 percent of inflow)	16.4	10.5	8.4	9.9	5.9
Lao embassies abroad (nonsalary)	2.8	2.7	3.0	3.4	3.6
Memorandum items:					
Exports of goods and services (nonfactor)	331.6	386.1	407.8	426.9	417.2
Imports of goods and services (nonfactor)	490.0	624.5	657.9	768.9	720.8

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

1/ Includes only receipts from ticket sales.

Table 24. Lao P.D.R.: External Aid and Loan Disbursements, 1993-97

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Grants 1/	103.5	124.7	109.3	81.7	97.5
Bilateral	65.3	93.3	89.3	73.2	77.8
Program grants	3.7	3.9	22.5	11.1	10.4
Project grants	61.6	89.3	66.8	62.1	67.4
Multilateral	38.2	31.4	20.1	8.5	19.6
UN agencies	25.3	18.8	9.2	2.3	9.4
Asian Development Bank	6.2	5.2	1.1	0.2	1.5
Other (including NGOs)	6.7	7.5	9.8	6.0	8.7
Loan disbursements	77.8	73.2	97.8	154.9	181.1
Program loans	35.0	24.4	14.9	23.1	8.9
World Bank (IDA)	14.0	18.0	0.0	19.6	0.0
Asian Development Bank	21.0	6.4	14.9	3.5	8.9
Project loans 2/	42.8	48.8	83.0	131.8	172.2
Of which:					
World Bank (IDA)	24.6	14.7	27.1	40.2	42.0
Asian Development Bank	17.8	15.9	47.0	63.8	89.0
Memorandum item:					
Technical assistance	32.8	20.9	13.7	14.1	19.4

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 25. Lao P.D.R.: International Reserves, 1993-97

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Net official reserves of the Central Bank	27.0	14.5	30.3	99.7	69.2
Foreign reserves 1/	63.3	61.1	92.5	166.7	135.5
Foreign liabilities	-36.3	-46.6	-62.2	-67.0	-66.4
Net foreign assets of commercial banks	74.7	67.1	56.9	63.6	49.1
Foreign assets	87.6	97.1	98.6	112.7	84.8
Foreign liabilities	-12.9	-29.9	-41.7	-49.2	35.7
Net foreign assets of the banking system	101.7	81.7	87.2	163.2	118.2
Memorandum items:					
Total gross reserves of the banking system	151	158	191	279	220
(in months of imports c.i.f.)	4.2	3.4	3.9	4.9	4.1
Of which:					
Foreign reserves of the Central Bank	1.8	1.3	1.9	2.9	2.5

Source: Data provided by the Lao authorities.

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

Table 26. Lao P.D.R.: Approved Foreign Investments by Value and Sector, 1993-97

(In million of U.S. dollars)

	1993	1994	1995	1996	1997
<b>By investment value</b>					
Less than \$100,000					
Number of projects	0	28	13	9	7
Total value	0.0	1.2	0.6	0.5	0.4
\$100,000 - \$999,000					
Number of projects	117	61	35	42	43
Total value	33.7	22.4	14.2	15.6	20.0
More than \$1,000,000					
Number of projects	36	41	15	12	16
Total value	321.1	2,574.7	600.2	1,276.5	122.3
Total investments					
Number of projects	153	130	55	63	66
Total value	354.8	2,598.3	615.0	1,292.6	142.4
<b>By economic sector</b>					
Agriculture					
Number of projects	23	7	3	6	11
Total value	16.9	6.8	5.1	1.9	6.3
Garments/textiles					
Number of projects	14	8	6	4	4
Total value	13.6	12.3	13.1	2.7	2.6
Wood-based industries					
Number of projects	5	5	1	2	2
Total value	6.8	22.4	0.6	12.0	2.1
Other manufacturing					
Number of projects	34	20	9	14	13
Total value	59.6	18.0	46.0	320.1	13.4
Mining/petroleum					
Number of projects	5	3	9	0	2
Total value	18.0	9.6	27.1	0.0	14.0
Trade					
Number of projects	24	16	4	11	8
Total value	6.9	8.9	0.4	7.9	5.0
Hotels/tourism					
Number of projects	6	6	1	3	2
Total value	4.8	279.3	0.3	211.7	0.5
Electric power					
Number of projects	1	3	1	1	0
Aggregate value	191.7	2,146.0	498.4	231.8	0.0
Other					
Number of projects	41	62	21	22	24
Total value	36.5	30.1	24.0	504.4	18.5
Total investments					
Number of projects	153	130	55	63	66
Aggregate value	354.8	2,598.3	615.0	1,292.6	142.4

Source: Data provided by the Lao authorities.



Table 27. Lao P.D.R.: Approved Foreign Investments by Country Source, 1993-97

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Thailand	63	54	21	17	15
Value	58.6	2,013.0	35.2	761.5	9.5
United States	7	8	2	4	4
Value	5.6	4.9	0.1	6.7	0.9
Taiwan Province of China	6	6	1	1	2
Value	5.8	8.2	6.7	0.5	0.3
France	17	11	6	8	5
Value	2	3	1.5	1	1
China	19	13	9	6	4
Value	12.6	8.9	8.1	3.2	3.5
Malaysia	3	1	2	2	5
Value	5	3.4	5.1	211.2	73.2
United Kingdom	4	1	1	3	1
Value	0.9	3.5	4	17.9	0.2
Australia	11	7	6	0	6
Value	12.1	7.1	1.7	0	5.6
South Korea	7	5	2	6	3
Value	1.1	2.8	277.4	276.8	6.9
Singapore	8	1	1	1	3
Value	7.3	0.5	0.2	10	2.2
Japan	1	5	5	4	8
Value	0.2	1	5.2	2.8	4.3
Germany	1	4	0	0	1
Value	1.5	1.5	0	0	0.1
Canada	5	1	1	0	1
Value	0.9	0.1	0.3	0	0.2
Other	20	14	6	11	15
Value	10.6	6.5	15.7	1.1	5.8
Total licensed investments 1/ (Total value in millions of U.S. dollars) 2/	172 122.8	131 2,064.3	63 366.3	63 1,292.6	72 113.8

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 Service, 1993-97

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Non-CMEA	9.3	9.0	13.9	15.5	30.1
Principal	4.5	4.5	7.7	9.6	11.3
Interest	4.8	4.5	6.2	5.9	18.8
Bilateral creditors	1.8	1.9	3.4	5.1	14.0
Principal	1.3	1.4	2.5	4.4	2.1
Interest	0.5	0.5	0.9	0.7	11.9
Multilateral creditors	7.5	7.1	10.5	10.4	16.0
Principal	3.2	3.1	5.2	5.2	9.2
Of which: IMF 1/	0.0	0.0	-1.8	-3.0	-4.8
Interest	4.3	4.0	5.3	5.2	6.8
Of which: IMF 1/	-0.7	-0.1	-0.5	-0.6	-0.4
CMEA	3.8	3.8	3.8	3.8	3.8
Principal	3.8	3.8	3.8	3.8	3.8
Interest	0.0	0.0	0.0	0.0	0.0
Memorandum item:					
Debt-service ratio 2/	4.0	3.3	5.7	5.8	8.9

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 29. Lao P.D.R.: External Debt Outstanding, 1993-97

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

	1993	1994	1995	1996	1997
Non CMEA	492	579	687	803	955
Bilateral creditors	31	34	41	46	67
France	4	4	3	2	1
China	2	2	2	2	2
Japan	25	27	26	22	20
Other	--	1	10	21	43
Multilateral creditors	461	546	646	756	889
AsDB	191	222	280	343	430
EU	3	3	3	3	3
IDA	215	251	267	307	348
IFAD	11	14	14	16	18
OPEC	5	4	3	3	3
Nordic Fund	1	6	13	17	21
IMF	36	46	65	68	67
CMEA 1/	1,401	1,391	1,382	1,372	1,368
Russia	1,374	1,366	1,357	1,349	1,344
Other 2/	26	26	25	24	24

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

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

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

Table 30. Lao P.D.R.: Exchange Rates, 1996-1998

(In kip per U.S. dollar)

	Parallel (Monthly average)		Commercial Bank (Monthly average)	
	Buying	Selling	Buying	Selling
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	1,003	1,008
April	1,058	1,070	1,018	1,023
May	1,120	1,150	1,018	1,023
June	1,124	1,139	1,036	1,041
July	1,231	1,277	1,135	1,141
August	1,378	1,457	1,210	1,217
September	1,526	1,617	1,343	1,351
October	1,646	1,703	1,599	1,604
November	1,786	1,821	1,756	1,764
December	2,060	2,105	2,015	2,023
Average	1,332	1,369	1,257	1,262
1998 -				
January	2,428	2,493	2,404	2,414
February	2,458	2,547	2,431	2,442
March	2,425	2,539	2,406	2,421
April	2,534	2,631	2,506	2,523

Source: Data provided by the Lao authorities.

Lao P.D.R.: Summary of Tax System as of May 1998

Tax	Nature of Tax	Exemptions and Deductions	Rates
I. Taxes on income and profits	1.1 Taxes on enterprise profits (profit tax)	<p>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> <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: 50 percent: business formation; 20 percent: land transportation, machines and other equipment; 10 percent: sea transport equipment, office improvement, supplies and temporary trade premises; 5 percent: 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 KIN 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>Tax Rate (In per cent)</p> <p>35</p> <p>20</p> <p>15</p> <p>10</p>
		<p>General rate</p> <p>Discount rates:</p> <p>For enterprises in designated areas/city</p> <p>For enterprises in rural and lowland areas</p> <p>For enterprises in mountain and remote areas.</p>	

Tax	Nature of Tax	Exemptions and Deductions	Rates																		
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.	0.5 percent																		
1.3.	Tax on social/religious/cultural organizations and associations	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.	<table border="1"> <thead> <tr> <th>Monthly Wage or Salary (in kip)</th> <th>Tax Rate (in percent)</th> </tr> </thead> <tbody> <tr><td>30,001-125,000</td><td>5</td></tr> <tr><td>125,001-250,000</td><td>10</td></tr> <tr><td>250,001-500,000</td><td>15</td></tr> <tr><td>500,001-1,000,000</td><td>20</td></tr> <tr><td>1,000,001-2,000,000</td><td>25</td></tr> <tr><td>2,000,001-3,000,000</td><td>30</td></tr> <tr><td>3,000,001-5,000,000</td><td>35</td></tr> <tr><td>5,000,001 and above</td><td>40</td></tr> </tbody> </table>	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
Monthly Wage or Salary (in kip)	Tax Rate (in percent)																				
30,001-125,000	5																				
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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	First KN 360,000 is exempt.	<table border="1"> <thead> <tr> <th>General activities (in kip)</th> <th>Tax Rate (in percent)</th> </tr> </thead> <tbody> <tr><td>360,001-1,500,000</td><td>10</td></tr> <tr><td>1,500,001-3,000,000</td><td>15</td></tr> <tr><td>3,000,001-6,000,000</td><td>20</td></tr> <tr><td>6,000,001-12,000,000</td><td>25</td></tr> <tr><td>12,000,001-24,000,000</td><td>30</td></tr> <tr><td>24,000,001-36,000,000</td><td>35</td></tr> <tr><td>36,000,001-60,000,000</td><td>40</td></tr> <tr><td>60,000,000 and above</td><td>45</td></tr> </tbody> </table>	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
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	Interest on bank deposits	10 percent																		
1.7.	Tax on property rights	Licenses and other intellectual property rights.	5 percent																		

Tax	Nature of Tax	Exemptions and Deductions	Rates
2. <u>Taxes on land and property</u>			
2.1. Transfer taxes	Applied to the market value of real estate property transferred between private persons through inheritance, sale, or gift.	None	<p>Transfers between:</p> <ul style="list-style-type: none"> <li>• direct descendants 0.5</li> <li>• second-degree relatives 1</li> <li>• third-degree relatives 2</li> <li>• other land and houses 3</li> <li>• undeveloped land 4</li> </ul>
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"> <li>• Occupied land (i.e., land occupied by buildings and factories)</li> <li>• Agricultural land</li> <li>• Other</li> </ul>	<ul style="list-style-type: none"> <li>• Land occupied by temples, public welfare buildings, embassies, and housing for disabled persons (for extensions of less than 5,000 sq km).</li> <li>• Agricultural land, not exceeding two hectares per family, occupied by disabled military personnel and civilians.</li> <li>• Agricultural land situated in mountainous areas yielding less than 150 kg rice per person per year.</li> <li>• Agricultural land affected by natural disaster or other damages in accordance to the damage.</li> <li>• Newly cleared rice fields in mountainous (5 years) and flat land (3 years).</li> <li>• Industrial orchards (2-3 years).</li> </ul>	<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>1. <u>Occupied land:</u></p> <p>Rates vary from KN 500 to KN 6,000 per hectare per year in accordance with: (i) land use (rice field, 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>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 field, 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. Taxes on goods and services			
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. Importers and domestic distributors pay tax monthly on their sales and receive credit for the turnover tax they may have paid on their imports. Domestic manufacturers 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). Service providers also pay tax monthly, on their sales receipts and receive credits for their input purchases. Retailers 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 plus customs duty, and fees plus 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"> <li>import of crop seeds, animal breeds and insecticides;</li> <li>import of materials, instruments and chemical components for research purposes;</li> <li>import of gold for the notes issuing institution;</li> <li>import of bank notes or coins;</li> <li>import or activity relating to tax or post stamps;</li> <li>import of planes and instruments for international air transportation;</li> <li>import of goods or accessories for components of international air transportation;</li> <li>import of goods for selling to diplomats and international organizations in the Lao PDR according to permissions of Ministry of Foreign Affairs;</li> <li>import of goods with tax exemption or temporary import;</li> <li>import and sales of animal treating medicines;</li> <li>sales of self-produced agricultural products by peasants;</li> <li>forestation activities, industrial trees and fruits planting;</li> <li>sales of agricultural and handicraft products by the government employees or cooperative members on family basis or limit;</li> <li>export of goods and services;</li> <li>sales of allowed text books, newspaper and magazines;</li> <li>international transportation and relevant services; (international transportation-transportation of passengers or cargos from abroad or to abroad by land, air and sea/river)</li> <li>transport by people, animals and boats without engines;</li> <li>provision of leasing immovable properties, such as land, houses and others by persons who do not have business activities;</li> </ul>	<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.  Illustrations of items subject to these rates follow:</p> <p style="text-align: center;"><u>Category</u></p> <p>Agricultural products, fertilizers, and insecticide 3  Chemicals and mineral 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  Motorcycle, 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</p>



Tax

Nature of Tax

Exemptions and Deductions

Rates

- 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.

The following are exempt:

- Purchases by embassies and international organizations
- Kerosene

The ad valorem excise duties are as follows:

Item  
Tax Rate  
(In per-cent)

- Accon (90) for medical purposes

Petroleum products:

Super gasoline 23  
Regular gasoline 20  
Diesel and aviation fuel 10  
Lubricants, grease, and brake fluids 2

- Purchases of petroleum products for externally-funded projects

- Exports of excisable goods

There is an additional excise duty on:

Regular 21 kip/tr  
Diesel 10 kip/tr  
Kerosene for aeroplanes 10 kip/tr

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)

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.3. Business and professional license	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 enterprises producing for the local market and import-export enterprises.  <u>Turnover</u> <u>Rates applicable to local enterprises</u> (In millions    (In kip) of kips) 0-1            0.0 1-5            6,000 5-10          10,000 10-20        20,000 20-50        40,000 50-100      70,000 100-200    100,000 200 and above 150,000  <u>Capital</u> <u>Rates applicable to import-export</u> (In millions    (In kip) of kips) 10-50        100,000 50-100      200,000 100-150     300,000 150-200     400,000 200 and above 500,000  Fees vary according to size of engine (for cars and motorcycles), weight (for trucks), and number of seats (for buses). KN 2,000 to KN 360,000
3.4. Road tax	Levied annually on all motor vehicles (motorcycles, cars, trucks, etc.)	The following are exempt: <ul style="list-style-type: none"> <li>Government cars</li> <li>Cars of the diplomatic corps, international organizations, and foreign experts</li> <li>50 percent reduction for government staff, soldiers, policemen, students for one vehicle</li> <li>60 percent reduction for pensioners</li> </ul>	
3.5. Air travel fees	Levied annually for: (i) Civil aviation registration (ii) Examination issuance and renewal of permits	None	Fees vary according to weight.  KN 7,000- KN 70,000  KN 5,000- KN 40,000 \$160-\$250 per over-flight
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"> <li>VIP special aircraft</li> <li>Hospital aircraft carrying patients</li> </ul>	

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 Persons Vehicles	<ul style="list-style-type: none"> <li>• Diplomatic personnel and relatives</li> <li>• Foreign experts and relatives</li> </ul>	Nationals: KN 500 \$5 Foreigners KN 1,500- KN 11,000 Land and water vehicles
3.9	Fees for extended residence in the Lao P.D.R.	<ul style="list-style-type: none"> <li>• Diplomatic corps, foreign experts, and their relatives</li> </ul>	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: \$10-\$80 Lao nationals: KN 300- KN 10,000
3.12	Consular fees overseas	None	\$2-\$32 Fees vary in accordance with the location of the consular office and type of document.
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: KN 500 Video cassette recorders: KN 1,000

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.	<p><u>Taxes on international trade</u></p> <p>4.1 Import duties</p>	<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>	<p>Six rates ranging from 5 to 40 percent. The kinds of goods subject to these rates are as follows:</p> <p>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</p> <p>5</p> <p>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).</p> <p>10</p> <p>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).</p> <p>20</p> <p>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.</p> <p>30</p> <p>Soft drinks, liquors, beer, tobacco, detergents, processed wood, jeeps, cars, motorbikes, cigarettes, cigars.</p> <p>40</p> <p>In addition, one highest rate applies:</p> <p>50</p> <p>Essentially a protective tariff rate (on unprocessed vegetables and fruits, unroasted coffee, roasted coffee, furniture, soft drinks, motorcycles).</p>

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.)	Electricity: 20 percent of invoice value; coffee: 5 percent of FOB value; livestock: 5 percent of FOB value; logs: specific rates; sawwood: specific rates; semifinished 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.	None
4.4	Tax on foreign investments	Imposed on declared profits of new government ventures and private enterprises with foreign capital.	20 percent
5.	Taxes on timber and other natural resources	Several tax holidays.	20 percent
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 reforestation tax, the resource tax levied on the timber production rate, and the export duties levied by the Customs department on exported timber.	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.	<ul style="list-style-type: none"> <li>• Ferrous metals 2% of sale value</li> <li>• Non-ferrous metals 2-5%</li> <li>• Coal 2-3%</li> <li>• Construction Materials KN 50 per 100m<sup>3</sup></li> </ul>

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 1989-97

Year Privatized	Enterprise Name	Mode of Privatization			Origin of Investor	Contract		Number of Employees		
		Lease	Hire Purchase	Sale		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	...	...	...
	Paske people's building	x			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
	Latkhouay pig farm	x			Domestic	20	241	27	27	0
	Lao-Cuban poultry farm	x			Domestic	5	32	27	26	1
	Tha Ngane 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 Ngane 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 1989-97 (continued)

Year Privatized	Enterprise Name	Mode of Privatization			Origin of Investor	Contract		Number of Employees		
		Lease	Hire 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	...	...	...	...	...
							<b>22,424</b>			
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	...	...	...
	Laovieng 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	...	...	...
							<b>4,391</b>			
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	...	...	...
							<b>4,415</b>			

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

## A. Privatization during 1989-97 (continued)

Year Privatized	Enterprise Name	Mode of Privatization				Origin of Investor	Contract		Number of Employees		
		Lease	Hire Purchase	Sale	Transfer to province		Period (Years)	Value US\$ '000	Total	Retained	Dismissed
1996	Transport Co. #4	x		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 3/	850	850	0
								47,185			
1997	Limestone Mining Co.				x	...		238	168	168	...
	Architectural Construction Co. No. 5			x		domestic		12	15	15	...
	National Main Road Rehabilitation Co.				x			1,200	380	380	...
	Southern Road No. 13 Construction Co.			x		Chinese	5	1,084	230	230	...
	Bridges Roads Construction Co.			x		domestic		224	120	120	...
	Vientiane Province Bridge Road Co.			x		domestic	2	171	38	38	...
	Construction Co. No. 1, Luangprobang			x		domestic		36	31	31	...
	Printing Shop, Luangprebang			x		domestic		14	15	15	...
	Provincial Printing Factory, Khammouane			x		domestic		6	14	14	...
	Architectural Construction Co., Khammouane			x		domestic		8	38	38	...
	Communication Co. No. 2, Khammouane			x		domestic		7	6	6	...
	Provincial Bus Service Co., Saravane			x		domestic		70	32	32	...
	Provincial Cargo-Transport Co., Saravane			x		domestic		16	18	18	...
								3,086			
	Total of 103 privatized enterprises							122,935 4/			

3/ Sale of 49 percent of equity. Total value of enterprise estimated at \$32 million.

4/ Total for enterprises for which data are available.



**B. Remaining enterprises to be divested in 1998 5/**

No.	Enterprise Name	Assets Value (mil.kip)	No. of Employees	Remarks
<b>I. Ministry of Industry and Crafts</b>				
1	Lao Concrete Co.	1,233	61	Difficult to sell-bad location Government decided to keep for the time being 6/
2	Lao Tobacco Co.	3,600	450	
<b>II. Ministry of Trade</b>				
3	Lao Trade Co.	44	37	Perhaps liquidated
<b>III. Ministry of Communication Transport, Post and Construction</b>				
4	Communication Survey & Design	300	157	Management buyout
5	Construction Materials Survey and Analysis Co.	120	46	Management buyout
6	Bridge Const. Co. No.1	445	163	Management buyout
7	Communication Cons. Co.	371	85	Management buyout
8	River Transport Enterprise	1,607	45	Nonviable, WB financed boats
9	Lao-Sweeden Road Rehabilitation Co. (Nakhouy)	435	57	To be given to Vientiane Municipality
10	Southern Road No.13 Const. Co. (Savannakhet-Pakse)	2,740	230	Joint venture preferred (Chinese interest)
11	Road Construction Co. No.8	1,786	120	Joint venture preferred (Japanese interest) road must be finished first
<b>IV. Ministry of Health</b>				
12	Pharmaceutical Products Co.	29	12	Liquidate
<b>V. Vientiane Province</b>				
13	Agricultural Production Co. No. 1	193	36	Liquidate
14	Agricultural Production Co. No. 2	423	42	Liquidate
15	Irrigation Designing Com.	39	34	Management buyout
16	Vientiane Province Rural Dev. Com.	200	79	Management buyout
17	Architectural Designing & Urban Co.	2	14	Liquidate
<b>VI. Luangprabang Province</b>				
18	Northern Bridge-Road No. 13	158	42	Management buyout after transfer to province

5/ All remaining enterprises were publicly offered in the newspaper in May 1998.

6/ In the text Lao Tobacco is, for this reason, being treated as a strategic enterprise.

**B. Remaining enterprises to be divested in 1998 (continued)**

No.	Enterprise Name	Assets Value (mil.kip)	No. of Employees	Remarks
<b>VII. Kayaboury Province</b>				
19	Provincial Irrigation Const. Co.	501	31	Management buyout
20	Provincial Bridge-Road Const. Co.	272	41	Management buyout
<b>VIII. Oudomsay Province</b>				
21	Oudomsay Hotel	130	12	No interest shown
<b>IX. Borikhamsay Province</b>				
22	Wood Processing Co. No.1	1,806	276	difficult to sell
23	Provincial Irrigation Const. Co.	216	46	Management buyout
<b>X. Savannakhet Province</b>				
24	Savan Wood Co.	1,291	204	Only low price seems possible
<b>XI. Champasack Province</b>				
25	Irrigation Survey-Design Division	10	16	Liquidate
26	Provincial Irrigation Const. Station	1,017	98	Management buyout
27	Provincial Printing Factory	19	14	Management buyout
<b>XII. Saravane Province</b>				
28	Provincial Road Const. Machinery Co.	170	52	Management buyout
29	Provincial Bridge-Road Rehabilitation Co.	486	49	Management buyout
<b>XIII. Bokeo Province</b>				
30	Bridge-Road Co.	250	57	Management buyout
31	Irrigation Co.	448	34	Management buyout
<b>XIV. Xaysomboun Special Region</b>				
32	Irrigation Const. Co. No.1	1,058	178	Management buyout after transfer to Special Region

C. Strategic Enterprises to Remain State-Owned, timetable for commercialization

No.	Enterprise Name	Assets Value (million in Kip)	Number of Employees	Legal transformation		Performance contract		Board Approval
				Effective date	Expected date	Effective date	Expected date	
<b>I. The Prime Minister's Office</b>								
1	Lao National Tourism	350	29		5/98		8/98	
<b>II. Ministry of Industry and Crafts</b>								
2	Electricité Du Laos (EDL)	139,548	2,688	11/97		1/98		11/97
<b>III. Ministry of Trade</b>								
3	Lao Trade Import-Export Company	1,320	96		5/98		7/98	
4	Magazin d'Etat Pour les Missions Etrangères (MEPME)	1,413	40		5/98		7/98	
5	Technical-Materials Supply Company	657	9		5/98		7/98	
6	Vehicle and Spare Parts Supply Company	1,229	40		5/98		8/98	
7	Lao (State) Fuel Company	4,914	254		5/98		8/98	
<b>IV. Ministry of Communication, Transport, Post and Construction</b>								
8	Lao Water Supply Company	2,500	375	4/98		4/98		1/95
9	Lao Post Office Company	7,560	1,167	4/98		4/98		6/97
<b>V. Ministry of Education</b>								
10	Editing and Printing Enterprise	506	80		8/98		10/98	
11	Educational Material Products Factory	114	6		8/98		10/98	
<b>VI. Ministry of Culture and Information</b>								
12	The Lao State Printing Enterprise	492	129	4/98			5/98	
<b>VII. Ministry of Health</b>								
13	Pharmaceutical Factories No. 2 and 3	4,258	339	4/98			6/98	
<b>VIII. Ministry of Finance</b>								
14	Lao National Lottery	2,459	36		5/98		6/98	
15	Mountains Development Company (Phoudoi)	17,093	3,200		6/98		9/98	
16	Development of Agro-Forestry Industry (DAFI)	19,865	872		6/98		9/98	
17	Agro-Forestry and Service Company (Northern Wood Company)	17,179	784		6/98		9/98	
<b>IX. The Bank of the Lao P.D.R.</b>								
18	Sethathirath Bank	3,920	99		7/98		3/99	
19	Nakhoneluan Bank	995	74		7/98		3/99	
20	Bank for Foreign Trade/BCEL	4,496	141		7/98		3/99	
21	Lane Xang Bank	2,338	208		7/98		3/99	
22	Agricultural Promotion Bank (APB)	1,000	381		7/98		3/99	
23	Lao Mai Bank	2,394	129		7/98		3/99	
24	Pak Tai Bank	3,224	189		7/98		3/99	
25	Aloun Mai Bank	663	53		7/98		3/99	

C. **Strategic Enterprises to Remain State-Owned, timetable for commercialization**

No.	Enterprise Name	Assets Value (million in Kip)	Number of Employees	Legal transformation		Performance contract		Board Approval
				Effective date	Expected date	Effective date	Expected date	
<b>X. Ministry of Labor and Social Welfare</b>								
26	Employment Service Company	155	20		8/98		10/98	
<b>XI. The Central Youth Federation</b>								
27	Youth Printing Factory	256	24		8/98		10/98	
<b>XII. Vientiane Municipality</b>								
28	Bus Transport Service Commission	3,276	171		9/98		12/98	
29	Vientiane Municipality's Printing-Works	310	51		9/98		12/98	
<b>XIII. Luangprabang Province</b>								
30	Irrigation Company	378	49		9/98		1/99	
31	Luangprabang Tourist Company	133	28		9/98		1/99	
<b>XIV. Savannakhet Province</b>								
32	Savan Wood Company	<u>61</u>	<u>134</u>		10/98		2/99	
Total:		<u>245,056</u>	<u>11,895</u>					

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

Lao PDR: Indicators of Financial State of Banking System

Banks	Finding of Audits or Inspections	Net Worth 1/ (KN billion)	Share of nonperforming loans in total loans (in percent) 1/	Other Findings of Audits/Inspections	Developments in 1997
State commercial banks	Audits were conducted for SCB's (not for APB), based on 1996 accounts. Audits concluded that each bank has net negative worth, the total for the sector being around KN 70 billion.	Estimated net negative worth ranging from KN 1 billion to KN 35 billion	Nonperforming loans ranging from 25 percent to 70 percent of total loans	In all SCBs, the auditors found inadequate management practices with respect to cash treatment, nostro account reconciliation, credit operations, trade finance activities, retail transactions, accounting practices and risk management. Among the specific problems encountered are: inappropriate loan classification, shortfalls in loan loss provisions, capitalization of interest not received.	Audits of 1997 accounts are to start soon. Given the depreciation of the kip, a further deterioration of most banks' balance sheets is expected
Private Banks	On-site inspection by BOL (with TA) of the 12/31/97 trial balance revealed that one private bank had a negative net worth of KN 1.5 billion. There are indications that the other bank has also a net negative worth.		estimated at 90 percent of total loans	The inspection discovered several of the above practices. In addition, the bank rolls over a lot of overdue loans into new loans, a practice that hides nonperforming loans	(Inspection was on 1997 accounts)
Branches of foreign banks	One branch was inspected by BOL and it was found that 70 percent of its loan portfolio, on account of one loan, was nonperforming. No concrete evidence is available for other branches, but it can be reasonably assumed that several others have a significant portion of nonperforming loans as well.		Estimated at 70 percent for one branch. No concrete evidence is yet available for others.		(Inspection was on 1997 accounts). A deterioration in nonperforming loans is most likely. In addition, some of these branches' headquarters in Thailand have run into problems.

1/ Estimates based on audits of 1996 accounts, calculated as the percentage of the provisions needed according to auditors' report. No estimate is made for one bank because the auditors could not provide an estimate for the provisions needed.





