

Lao People's Democratic Republic: Selected Issues and Statistical Appendix

These Selected Issues and Statistical Appendix papers for **Lao People's Democratic Republic** were prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. They are based on the information available at the time it was completed on **July 12, 2002**. The views expressed in these documents are those of the staff team and do not necessarily reflect the views of the government of **Lao People's Democratic Republic** or the Executive Board of the IMF.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to Publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623 7430 • Telefax: (202) 623 7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$15.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND
LAO PEOPLE'S DEMOCRATIC REPUBLIC

Selected Issues

Prepared by a staff team consisting of Qaizar Hussain, Philippe Marciniak (both APD),
Sonia Brunschwig (PDR), and Eric Sidgwick (Resident Representative)

Approved by the Asia and Pacific Department

July 12, 2002

	Contents	Page
I.	The Reform of State-Owned Banks and Enterprises.	3
II.	Developments in Public Expenditure.....	13
III.	Financial Aspects of the Hydroelectric Power Sector.....	23
IV.	External Debt Structure and Debt Service Profile	28

GLOSSARY OF ABBREVIATIONS

APB.....	Agricultural Promotion Bank
AsDB.....	Asian Development Bank
BCEL.....	Banque pour le Commerce Extérieur du Laos
BOL.....	Bank of the Lao P.D.R.
BRC.....	Bank Restructuring Committee
CAR.....	Capital adequacy ratio
CPC.....	Committee for Planning and Cooperation
CPI.....	Consumer price index
DAFI.....	Development of Agro-Forestry Industry Group
EDL.....	Electricité du Laos
FMAC.....	Financial Management Adjustment Credit (World Bank)
FSPL3.....	Financial Sector Program Loan III (AsDB)
GDP.....	Gross Domestic Product
HIPC.....	Highly Indebted Poor Country
IAS.....	International accounting standards
Lao P.D.R.....	Lao People's Democratic Republic
LMB.....	Lao May Bank
LXB.....	Lane Xang Bank
MCPCT.....	Ministry of Communication, Post, Construction and Transport
MOF.....	Ministry of Finance
MOJ.....	Ministry of Justice
Nam Papa.....	Lao Water Supply Enterprise
NAO.....	National Audit Office
NPLs.....	Nonperforming loans
NPEP.....	National Poverty Eradication Program
NPV.....	Net present value
NT2.....	Nam Theun 2
PEM.....	Public expenditure management
PER.....	Public Expenditure Review
PF3.....	Pharmaceutical Factory No. 3
Phoudoi.....	Bolisat Phathana Khet Phoudoi (BPKP) Highland Development Enterprise
PIP.....	Public Investment Plan
PRGF.....	Poverty Reduction and Growth Facility
PRSP.....	Poverty Reduction Strategy Paper
RBPs.....	Restructuring and Business Plans
SCBs.....	State commercial banks
SDR.....	Special Drawing Rights
SME.....	Small and Medium Enterprises
SOEs.....	State-owned enterprises
SUR.....	Soviet Union rubles
THPC.....	Theun Hinboun Power Company

I. THE REFORM OF STATE-OWNED BANKS AND ENTERPRISES¹

A. Introduction

1. **Persistent inefficiencies in the operations of state-owned commercial banks (SCBs) and enterprises (SOEs) have constrained the growth potential of the economy.** Recurring high levels of nonperforming loans (NPLs) of SCBs have been caused by internal factors, including continued weak credit risk management, lack of skilled and experienced credit personnel, and poor credit culture; and external ones, including the absence of financial discipline among both state and private borrowers, outside interference in lending decisions, and an inadequate regulatory, legal, and judicial framework. Enduring reform of SCBs and SOEs will require that these problems are corrected, and that SCBs and SOEs are put on a commercial footing, including through increased private sector participation. Only with such reforms will effective financial intermediation promote the growth of an efficient enterprise sector.

B. The Endemic Problem

State-owned commercial banks

2. **The Lao financial system is dominated by the three SCBs, which together account for almost three quarters of total gross assets of the banking system.**² BCEL alone accounts for about half of total deposits and 40 percent of total loans. There are branches of several foreign banks which are permitted to operate only in Vientiane. The weak banking environment has so far limited foreign bank activities to mainly trade finance, and thus they are not well integrated into the local economy. There is also a joint venture bank (Lao-Viet Bank), with two branches outside the capital, and a small domestically-owned private bank.

3. **For over a decade and a half, the SCBs have failed to fundamentally improve their performance, despite recapitalization in 1994.** Following the break-up of the monobank system in 1988, the commercial banking system grew from 2 to 17 in the decade to mid-1998, including 7 SCBs, accounting for two-thirds of total assets. In the early-1990s, under the weight of "inherited" bad loans from the monobank system and continued state interference in the commercial banking system, all the SCBs became deeply insolvent. In 1994, the government recapitalized all SCBs through a cash injection of KN 4 billion and the issuance of KN 14 billion in treasury bonds (amounting to about 35 percent of all outstanding

¹ Prepared by Eric Sidgwick.

² Banque pour le Commerce Extérieur du Laos (BCEL), Lane Xang Bank (LXB), and Lao May Bank (LMB). The Agricultural Promotion Bank (APB), which accepts deposits but acts more as a development bank and is used for policy lending to the agricultural and rural sectors, accounts for only about 5 percent of total assets. APB is not covered by the Commercial Banking Law, and is not required to comply with BOL prudential regulations.

loans), eliminating NPLs originating from the monobank period, and in principle bringing the banks to a capital adequacy ratio (CAR) of 8 percent.³ At that time, SOEs accounted for about 80 percent of the total NPL portfolio, while cooperatives and the private sector accounted for the remaining 4 percent and 16 percent, respectively.⁴

4. The recapitalization was not accompanied by operational restructuring or a reduction in outside interference. As could have been anticipated, without operational restructuring, the up-front recapitalization of the SCBs in 1994 improved balance sheets only temporarily. As a result of a political shift in 1996 to more interventionist policies, bad loans grew rapidly, especially to SOEs such as Phoudoi and DAFI, and others under the influence of provincial governments. In 1998, the 7 SCBs were merged into the current three, but operational restructuring proved impossible in the face of the massive exchange rate depreciation of the kip stemming from the Asia crisis and inappropriate domestic policies. As a result, balance sheets worsened further (especially for BCEL, which accounted for the bulk of foreign exchange transactions).

5. The accumulation of bad loans has continued, even after the economic crisis. BOL estimates indicate that by end-1999, less than 5 years after an initial round of recapitalization, the total amount of NPLs for all the 3 SCBs had risen to about 3 percent of GDP. State-related NPLs accounted for over 70 percent of total NPLs, of which 55 percent from SOEs and a further 11 percent from other policy loans. In the two years to end-2001, the ratio of newly approved or flow NPLs of the SCBs ranged from 23 percent for BCEL, 30 percent for LXB, and around 70 percent for LMB. Notwithstanding such poor lending, until recently all three SCBs paid taxes and declared dividends, resulting in further capital erosion.^{5 6}

³ The Treasury bonds exchanged for the bad loans were long-term securities, ranging from 1 to 10 years, issued by the government at an average interest rate of 15-18 percent. The bonds are redeemable up to 2004. The bonds plus the cash injection amounted to 1.6 percent of GDP.

⁴ The Bank of the Lao P.D.R., Asian Development Bank, and World Bank, "The Banking and Financial Sector of Lao PDR: Financial Sector Note" (May 2002).

⁵ Until early 2002, the SCBs were not appropriately implementing the Bank of Lao P.D.R. Prudential Regulations (BOL Regulation 98), for loan classification and provisioning. The above NPL rates are based on those standards, and while not up to international best practice, they capture the essential elements. They differ from those reported in Box 5 of the Staff Report because the estimates were compiled at different times during which loan classifications were revised. International standard external audits of the SCBs' 2001 accounts are expected to be completed by end-2002.

⁶ In addition to the losses from high levels of NPLs and large negative foreign exchange positions, indications are that off-balance sheet liabilities, though not yet fully identified, are likely to be significant.

6. **The vast majority of NPLs was concentrated in the construction and manufacturing sectors.** In addition to loans to large SOEs, another major source of NPLs is contractors for government projects who borrowed funds (often with the support of provincial governments) to implement these projects but were not paid by the government. These arrears, mainly at the provincial level, are complex to clear because of the need to ascertain both that the project was included in the budget, and that the appropriate work was done. Reflecting poor banking practices, about 75 percent of loans were made in foreign currencies often to borrowers who did not have a foreign exchange income source, including to finance imports and for government construction projects.

State-owned enterprises

7. **Over time, the relative size of SOEs in production and employment has declined significantly.** Before 1990, the state enterprise sector accounted for virtually all of the modern industrial sector, and employed an estimated 16,000 workers (about 10 percent of the non-agricultural labor force). Three quarters of the SOEs were engaged in manufacturing, and the others in construction, electricity, and mining. The largest were centrally managed, while the rest were run by local authorities. Beginning in the late 1980s, recognizing the very weak performance of SOEs, the government began granting them more managerial autonomy, reforming the larger ones, and privatizing the smaller ones. In the early 1990s, the emphasis toward privatization shifted to include more of the larger SOEs, and a more articulate plan was announced whereby all but a handful of strategic enterprises were to be privatized within a three-year period. Though the process took longer than anticipated, by 1997, out of the 640 SOEs in 1989, only 93 remained as fully state-owned, of which 32 were deemed “strategic”.⁷ As a result, the SOE sector now constitutes less than 1 percent of total employment and contributes only about 15 percent to industrial production.⁸

8. **But SOEs have generally been a cause of high NPLs in the SCBs.** The persistent recurrence of NPLs is largely attributable to directed lending to the SOEs, the absence of repayment culture, due partly to interference on pricing, and protracted weaknesses in the operations of SOEs. Out of the total stock of NPLs at end-1999, almost half are owed by two of the SOEs (Phoudoi, accounting alone for 40 percent of NPLs; and DAFI, accounting for another 5 percent). In the case of these two enterprises there has been a lack of will to repay their bank debt, given that both Phoudoi and DAFI had a sufficiently high cash flow from lucrative logging ventures.

9. **Partial and infrequent adjustments of utilities’ tariffs during high inflation periods have also weakened the financial position of SOEs.** In the case of EDL, the lack of

⁷ Aside from the SCBs, of which there were eight at the time, these comprised mostly the utility companies and the three Ministry of Defense holding companies primarily engaged in logging, including Phoudoi operating in the central region and now transferred to the MOF, DAFI (in the southern area), and the Northern Agro-Forestry Development Company (in the northern region).

⁸ See World Bank, *Financial Management Adjustment Credit (FMAC) Report*; Report No: P7526-LA (May 28, 2002); p.11.

transparency in its accounts from the losses on sales to domestic customers has made it difficult to track the returns from its large investments in the export of hydroelectric power, in relation to meeting its debt service obligations (mainly to the government from onlending of concessional loans) and transfers to the government. Low domestic fares have also caused financial difficulties for Lao Aviation, including defaults on loans. In the past couple of years, increases in foreign travelers (who pay much higher fares), landing fees, cutbacks in operating expenses, and modest domestic fare increases have enabled it to avoid further defaults. However, much higher domestic fares and improved management are needed to improve the quality of its service and replace aging and unreliable aircraft. The water company (Nam Papa) faces a similar situation with its tariffs, and will need more revenue for maintenance of its newly upgraded supply system, additional investment, and future debt service.

C. The Road Map of Reforms

10. **The government's plans to accelerate development and reduce poverty over the next two decades will require fundamental and sustained reforms in the banking and enterprise sectors.** The government's reform program in this area, supported by the Asian Development Bank (AsDB), the World Bank, the IMF, and several bilateral donors, aims at financial restructuring to settle nonperforming assets, including through asset sales; and accelerated operational restructuring to improve the performance of state-owned commercial enterprises, including through proper credit risk management to stem the flow of new NPLs, foreign management expertise and joint ventures, price and tariff adjustments, sharply reduced state intervention, and private sector competition. The government has committed to privatize or liquidate persistently loss-making SOEs. The estimated direct costs to the government of banking reform through the issuance of treasury bonds currently stand at around 3½ percent of GDP, to which another 1-2 percent of GDP could be added to meet the costs of SOE reforms.⁹

State-owned commercial banks

11. The government's multi-year reform program includes phased financial and operational restructuring and the development of a market-based commercial banking system. The phased approach recognizes that even with an end to noncommercial policy and connected lending, and changes in management, weaknesses in the enterprise sector and the credit environment preclude a rapid turnaround to profitability. Because it would be difficult to attract fit and proper private investment in the SCBs in the near term, the program also includes expanding the role for private banks over the medium term. The reform program comprises the following three main tracks: (a) immediate improvements in operations; (b) phased restructuring and conditional recapitalization (2002 through 2005); and (c) gradual enhancement of the banking environment.¹⁰

⁹ World Bank estimate.

¹⁰ The task of preparing the necessary policy reforms has been entrusted to the Working Committee for Financial Sector Development, comprising representatives of the MOF, BOL, MOJ, and CPC, while a Bank Restructuring Committee (BRC) within BOL has elaborated, (continued...)

(a) Immediate operational improvements

12. **Measures already taken to avoid any further deterioration in the SCBs' balance sheets include:** a commitment to avoid any new non-commercial lending on behalf of the state;¹¹ individual credit ceilings for each SCB (consistent with the overall ceiling on net domestic assets of the SCBs included in the PRGF arrangement); prohibition of any lending if flow NPLs exceed 15 percent of total loans and any lending to defaulting borrowers; prior authorization from headquarters for branch loans above a specified amount; suspension and reversal of any interest accrued on NPLs and the prohibition on the distribution of dividends;¹² and strict loan classification and provisioning.¹³

13. **Not all of the above immediate measures have been fully complied with by the SCBs, and some are slow in having an effect.** There has been some further weakening of SCB balance sheets, particularly because of excessive lending in foreign exchange and from lending decisions in the large provincial branches. However, the more frequent and closer monitoring of SCB operations by the BOL has enabled the problems to be identified more rapidly. In particular, the BOL has intensified its monitoring of SCBs, including more frequent on-site inspections of the largest branches outside the capital to prevent further irregular lending and to ensure overall compliance with appropriate loan standards.

(b) Medium-term operational restructuring

14. **Because of the failure of previous recapitalizations, the RBPs include phased recapitalization conditional on the SCBs' achieving performance improvements** over a four-year period (2002–2005). The RBPs are designed to balance between proper incentives for performance improvements, in the form of payment of non-transferable recapitalization bonds,¹⁴ and phased implementation of banking regulations, and the credible threat of sanctions, in the form of non-payment of recapitalization bonds, changes to management, and potential closure.

with AsDB and World Bank assistance, individual Bank Restructuring and Business Plans (RBPs). In addition, shareholder oversight of SCB restructuring will be exercised by a new Banking Department in the MOF. APB is subject to a separate reform strategy within AsDB's Financial Sector Program Loan 3 (FSPL3), currently being prepared.

¹¹ Under the World Bank's FMAC, non-commercial loans are defined as those that are: i) unsecured by the borrowers' ability to generate sufficient cash flow for repayment; ii) priced at below market interest rates; or iii) approved outside established credit appraisal procedures.

¹² Loan-loss provisions have now been made fully tax deductible.

¹³ SCBs have recently restated their 2001 accounts to reflect the full amount of provisioning required for their post-2000 NPLs.

¹⁴ The government securities would be made transferable over time, in line with the improvement in performance and the macroeconomic situation.

15. **The RBPs include bi-annual performance targets and indicative benchmarks for the whole period;** targets for 2003 will be set in late 2002 and indicative benchmarks for subsequent years would be specified more precisely every year.¹⁵ Key elements of the RBPs include: i) operational restructuring through annual performance targets on indicators to strengthen management performance and instill better governance, including through the placement of external bank advisors in the SCBs and strengthening credit risk management to sharply limit new NPLs; ii) streamlining of branch and staff structures (supported by an appropriate social safety net for retrenched staff); iii) upgrading information technology to strengthen headquarters control and supervision; and iv) financial restructuring to resolve pre-2000 NPLs, including through treasury bond injections, and clearance of government arrears to contractors. The external advisors would have a mandatory role in reviewing all large loans in the credit review committees of the SCB's and would be in a position to object to those loans not made on commercial criteria. In the event the SCBs do not meet their performance targets, the record of overriding the advisor's objections would provide additional justification for upgrading the external advisors to co-managers.

16. **The RBPs for BCEL** aim to recover old NPLs, sharply limit new NPLs, arrest and gradually reduce the negative foreign exchange position, improve product pricing, and regain tight control over operational costs. In addition, to help solve the problem of the large stock of off-balance sheet liabilities, all such items would be individually screened for legitimacy before being accepted onto the BCEL's balance sheet. At the same time, BCEL would selectively hire/rehire new staff and management on a case-by-case basis.

17. **The two smaller SCBs, LMB and LXB, will be consolidated into a new bank.** Given the high level of old and new NPLs of LMB, all credit decisions would be removed from the former LMB branches, and the surviving branches would only mobilize deposits and perform appropriately remunerated services on behalf of the government. The assets and liabilities of LXB would be consolidated with deposits and fully-documented performing assets of LMB. The new bank would be issued with treasury securities to cover the excess of LMB's deposits over its performing loans in the amount of KN 137 billion (about US\$15 million). It would also be given the task of collecting LMB's NPLs, and any collections would be retained to help strengthen its financial position. A merger would not imply much overlapping operations, given the distinct geographical distribution of both banks and would maintain banking services throughout the country, including on behalf of the government.¹⁶ The strategic focus of the new bank would be geared toward SME and trade-related finance, retail deposit-taking, and government securities' trading. As in the case of BCEL, the new bank would also hire/rehire new staff on a case-by-case basis.

¹⁵ There would be three distinct phases in FSPL 3 for adopting concrete measures and assessing performance: October 1, 2002–June 30, 2003 (Phase I); July 1, 2003–December 31, 2003 (Phase II); and January 1, 2004–December 31, 2006 (Phase III).

¹⁶ Outside of Vientiane, LXB operates mostly in the north, while LMB operates mostly in the south.

(c) Strengthening mechanisms to resolve NPLs

18. **Under the FMAC, the government is committed to resolve KN 100 billion in NPLs of at least 10 accounts by end-March 2003.** This would be supported by the AsDB under FSPL3 with a collection strategy for the largest NPL accounts through either a fast-track voluntary debt resolution process or enforcement through the formal judicial system.¹⁷ With regard to the latter, the ability of SCBs to deal with defaulting borrowers would be enhanced through: i) setting up of a commercial division in the court system to rule on cases involving creditor/debtor disputes over loan and security contracts; ii) stronger enforcement of judicial decisions; iii) amendments to legislation on land security and other forms of collateral; iv) standardization of loan and security documentation; and v) the establishment of a computerized registry of securitized transactions.

(d) Specific improvements to the banking environment

19. **In support of operational and financial restructuring, the reform program includes strengthening banking supervision,** especially in on- and off-site inspections to monitor bank developments in a timely manner, and gradually raise prudential regulations and standards to international best practice in line with progress in bank restructuring. Well targeted reforms to the legal and judicial system will also be required, particularly in the areas of bankruptcy, secured transactions, property, and land laws; establishment of a commercial court system; and strengthening enforcement. Finally, recognizing the potential of competition to advance the restructuring process, the government recently agreed to the opening of a new branch of the joint venture Lao-Viet Bank, and is considering allowing foreign banks to operate outside Vientiane in 2003. This would not only provide a potential stimulus to regional economic activity outside the capital, but also facilitate the take-over of surplus SCB branches.

Enterprises

20. **The government is pursuing SOE reform to strengthen competitiveness and complement banking reform.** The government recognizes that a well-functioning, financially-sustainable enterprise sector is required to improve the delivery of services, especially to the poor, create productive employment, and support the development of the economy. More specifically, the government's SOE reform program, supported by the World Bank under the FMAC, aims to initially address the financial weaknesses of some of the largest strategic SOEs, including the most indebted through phased tariff increases, operational restructuring, asset sales, and improved oversight, to help avoid the accumulation of new NPLs (see Box 1). In that connection, the government has taken measures requiring SOE performance to be reported regularly to the MOF, and the accounts be audited and published; limiting the creation to new SOEs to essential services which cannot be provided by the private sector or the budget; and prohibiting non-commercial policy lending to SOEs and all lending to SOEs with outstanding NPLs or without an agreed restructuring plan.

¹⁷ A Steering Committee for NPL Resolution has been established in each bank, and an External NPL Collection Committee has been set up in the BOL, to facilitate and coordinate NPL collections.

Box 1. Large State-Owned Enterprises Targeted for Restructuring

Lao Aviation

Lao Aviation is fully-owned by the Government and is the only airline operating in the country. The airline is burdened with debt, fares are below cost-recovery levels, and both the quality of service and safety record are poor. The Ministry of Transportation signed an MOU with Air France Consulting, a subsidiary of Air France, on April 23, 2002 to develop a business plan for the airline. The key points of the business plan are to: 1) increase the average air fare to a level of overall profitability (from 8 cents/km/seat to 20 cents/km/seat in 3 steps between May 2002 and January 2003 after 3 increases in 2001); 2) expand service routes to Europe by linking to Air France flights; 3) enhance the image of the airline through purchases of new aircraft; and 4) set up a new joint venture between the Lao P.D.R. government (40 percent) and private firms (60 percent) in order to facilitate an estimated working capital requirement of \$6 million and aircraft acquisition.

Bolisat Phattana Khet Phoudoi (BPKP or Phoudoi)

BPKP, a 58 company conglomerate until recently controlled and operated by the military, is responsible for the largest amount of NPLs in the banking system (40 percent of the pre-2000 stock of NPLs). A phased restructuring process has been initiated. Phase 1 was completed in December 2001 when the ownership was transferred to the Ministry of Finance. Phase 2, which is expected to be completed by mid-2002, will involve separating the financial accounts for each of the 58 constituent companies (travel, hotels, construction, logging, etc.), based on ongoing audits. Finally, in Phase 3 (beginning in 2003), business portfolio restructuring will be initiated to: 1) consolidate the total number of companies to 9 (including through the sale of noncore assets to settle NPLs of the SCBs); 2) reduce significantly the number of staff; and 3) improve oversight management mechanisms.

Nam Papa Lao

Implement in July 2002 a restructuring plan for the Vientiane water company. The key points of the restructuring plan are to: 1) increase the water tariffs from an average of KN 550/m³ to KN 750 /m³ by July 2002 (after increasing tariffs from KN 195/ m³ in 2000) but further increases are needed to reach full cost recovery and allow for new investment; 2) reduce significantly the number of employees; 3) reorganize to improve efficiency within the organization; and 4) decentralize units within Vientiane in order to provide better customer service.

Pharmaceutical Factory No. 3 (PF3)

Implementation of a restructuring plan has begun, and is expected to be completed by December 2002. The key tasks of the plan are to: 1) reorganize the enterprise to create a more market-oriented organization; 2) reduce costs through staff reduction; and 3) improve the product portfolio through new products with higher margins. The key concern for PF3 is obtaining adequate capital to replace necessary fully depreciated assets while continuing restructuring. An option for this is seeking a joint-venture partner.

Source: Based on information provided by the World Bank.

Recognizing that a few SOEs have contributed disproportionately to NPLs in the banking system, the government has agreed Memoranda of Understanding (MoU) to initiate the restructuring process for Phoudoi, Lao Aviation, Nam Papa, and Pharmaceutical Factory No.3. These MoUs define the contribution of the enterprise, the Prime Minister's Office—the lead agency for SOE reform—and the MOF with respect to the preparation of time-bound restructuring plans for each enterprise and the initial stages of their implementation.

21. Tariff reforms will help commercialize the operations of the airline and large utilities. Given the current weak regulatory framework, the government does not consider that privatization of strategic enterprises, including the large utilities, is appropriate at this time. However, the government recognizes the need to commercialize SOE operations starting with pricing adjustments. Three tariff increases were implemented over the last year for Lao Aviation, and the government is considering further phased increases to bring tariffs to cost-recovery levels in the first quarter of 2003. With regard to the water utility, Nam Papa, the principle of achieving full cost-recovery has been accepted and tariffs should reach cost-recovery levels in 2003. For electricity, average increases of 2.3 percent a month in EDL's tariffs began in May and are scheduled to continue for a 36 month period to bring the average tariff level to KN 665/Kwh. Following the proposal of the tariff study, the schedule will move towards a marginal cost structure, while keeping a lifeline tariff to protect low-income consumers.

Large loss-making SOEs will be restructured. In addition to overdue tariff increases, Lao Aviation is being restructured under a management contract with Air France Consulting. This is expected to soon lead to the formation of a joint venture to obtain additional capital for upgrading the company's fleet. The large conglomerates, Phoudoi and DAFI, will be restructured through identifying the financial status of the constituent companies, and reducing the number of companies and staff levels by sales of the non core assets. The extent of this downsizing will be determined in the course of the review of their operations. Such asset sales would greatly help reduce the burden of NPLs on BCEL's balance sheet. Pharmaceutical Factory No. 3 will be converted to a joint venture with a foreign partner, also after an initial restructuring phase. DAFI and four other loss-making SOEs will need to develop and start implementing time-bound restructuring plans.

23. Greater private sector development will be promoted. The government recognizes that only a predominantly private sector-led economy can be competitive under regional integration. However, the government is focusing first on developing the environment for new investment while phasing in private sector participation and investment in existing SOEs, as in the case of the banking, energy, and communications sectors. Reflecting this strategy, the government has recently agreed new joint venture arrangements with Corama of France for Lao Tobacco in December 2001 and with Carlsberg Asia for Lao Brewery in January 2002, and others are being encouraged. The government has also simplified the environment for attracting investment by issuing the implementing regulations for the Foreign Investment Law, and streamlining approval arrangements by sector and size of investment. In that connection, domestic and foreign investors provided opportunities to raise concerns about complex and duplicative procedures, and the lack of a "level playing field" and additional measures are being considered to simplify the establishment and operating environment for domestic and foreign enterprises and strengthen the credit environment and creditor rights. Finally, further gradual reductions in nontariff barriers to imports, which are

easily avoided in practice, will also be required to reduce the administrative burdens on private business.

D. Conclusions

24. **Persistent inefficiencies in the operations of both the SCBs and the large SOEs have restrained the country's growth potential.** Aside from the constraints of poor banking skills and management, an inadequate legal system, and the absence of a proper credit culture—all of which are to be expected in a transition economy—sustained operational restructuring has proved elusive because of persistent interference through policy and connected lending on noncommercial terms. Drawing lessons from past experience, the government has adopted a dual-track process for reforming the SCBs and large-debtor SOEs. The first track emphasizes immediate and sustained performance-based improvements in the operations of SCBs over a 4 year period to resolve past state-related NPLs, limit the incurrence of new NPLs, and foster a market-based commercial banking system. A second parallel track is designed to lead to lasting operational restructuring of the large SOEs, including those with the highest levels of NPLs in the SCBs, to help contain the generation of new NPLs, and improve the efficiency of SOEs and the quality of the services they provide. Looking ahead, a more market-based approach to banking and enterprise reform would attract much needed private capital, and help economize scarce public sector resources and generate significant efficiency gains for the economy as a whole.

II. DEVELOPMENTS IN PUBLIC EXPENDITURE¹⁸

A. Introduction

1. **Improving public expenditure management is essential for maintaining macroeconomic stability, ensuring public sector accountability, and supporting transparent expenditure decisions.** In the past, weaknesses in expenditure planning, control, and information have undermined fiscal performance and have not provided the information needed to track spending in relation to the government's announced goals, which would be needed under the National Poverty Eradication Plan (NPEP). This chapter has two main objectives: a) to outline the recent and prospective improvements in public expenditure management; b) to briefly discuss the recent developments in expenditure by focusing on sectoral composition.

B. Expenditure Management Reform

2. **As indicated in the recent Public Expenditure Review (PER), the Lao budget system has many weaknesses for modern fiscal management.** Improved budget information and planning is needed to ensure that fiscal outcomes are as close as possible to the government's objectives. Proper cash management, reporting, auditing and control mechanisms are necessary for fiscal control.

Budget planning

3. **Two key issues have emerged in budget planning;** i) the need for realistic revenue projections for making expenditure plans, both for the current budget, and the medium term; and ii) the need for the budget process to be consistent with a strategic plan, especially on the balance between current and capital expenditure.

i) Overly optimistic revenue projections, when unfulfilled have led to a combination of excessive bank financing of the budget, expenditure arrears (often leading to nonperforming loans), and ad hoc expenditure cutbacks that have often fallen hardest on the politically weakest sector of the government, especially social sector workers in rural areas. Thus, having a budget process that generates achievable revenue targets is critical for developing a systematic expenditure management system.

ii) Achieving a better balance between capital and current expenditure was also identified as critical. Traditionally capital expenditure has constituted a large share of the budget, mainly attributed to both the large infrastructure needs, as well as the availability of donor financing. The choice and management of these investments is being strengthened with a more systematic approach to the Public Investment Program (PIP), including the tracking of donor-funded investment expenditures. Nevertheless, the rapid increase in investment has been straining the availability of current expenditure, including for road maintenance and staffing and supplies for schools and medical facilities. Under a recently passed Decree

¹⁸ Prepared by Qaizar Hussain.

(No.58/PM dated May 22, 2002) on Management of Public Investment, the project selection will follow a two-stage process¹⁹, with projects to be evaluated against clearly established guidelines in the first stage, while the second stage will involve the projects' overall assessment against the availability of budgetary resources, including estimates of large projects' recurrent costs covering the entire span of the operating period.

Budget information systems

4. **Improved information on the function of budget expenditures is critical for analyzing the budget in relation to the provision of needed services.** Work has already started on accounting and computer systems, and related regulations and procedures (under an AsDB financial project). Revisions to the accounting regulations were issued at end-June 2002, and the new computer and accounting systems have been installed in four line ministries, two other organizations, and two provincial administrations.

5. **In parallel to this, budget information is also being improved.** In the past, provinces did not report to the central government expenditure with classifications similar to line ministries (as first approximation of a functional classification). This changed in the 2001/02 budget report which sets out the full ministry/sector classification (see Section C). This will be extended in the 2002/03 budget with a pilot project to identify expenditures by type of administrative unit for the education and health sectors (e.g., administration, primary and secondary schools) for a number of districts in the main provinces.

Treasury and cash management

6. **In line with previous Fund recommendations, the government is improving management of bank accounts across provinces and line ministries.** The Treasury Department has started the process of requiring an inventory of accounts at all levels of the government whereby unauthorized ministry bank accounts are to be closed. By the end of 2001/02, the government also aims to improve regulations applicable to the treasury offices in line ministries to monitor cash transactions. Over time, the Treasury Department should expand its offices in all line ministries and develop a single network of treasury accounts. The improvement in treasury management network should also enable the proper reconciliation between revenue, expenditure, and financing.

Commitment controls and transparency

7. **In order to better control expenditure commitments, the Budget Department's review of expenditures was introduced in October 2001 on quarterly wage and provincial level recurrent expenditures and individual investment projects.** This was aimed at ensuring that, ex ante, spending authorizations are only for budgeted programs, and that there are sufficient funds for this spending, in case of revenue shortfalls. Recognizing that a modern fiscal system must, over time, give more weight to ex post monitoring, the National Audit Office (NAO), with AsDB technical assistance, has been strengthening its

¹⁹ See World Bank, *Financial Management and Adjustment Credit (FMAC) Report*; Report No: P7526-LA (May 28, 2002).

capacity for conducting audits of line ministries, provinces, and individual projects. The government is also taking steps to further improve the capacity of the NAO. In addition, the government should improve internal audit and accounting procedures. In order to further increase transparency, the government plans to continue the publication of the budget documents with a shorter lag, and improve oversight and reporting of government financial transactions especially those that are now off budget.

C. Expenditure Composition

8. **As noted above, analyses of budget developments in the past have been constrained by the lack of functional classification of expenditures.** This changed with the publication of the 2001/02²⁰ *Official Gazette* in March 2002, which now includes expenditure data by ministry/sector for the 2000/01 outcome and the 2001/02 budget. The 2001/02 budget envisages an increase in total expenditure to 21.9 percent of GDP from 21.3 percent of GDP in 2000/01.²¹ Within that, the share of capital expenditure in total expenditure fell slightly from 63 percent in 2000/01 to 61 percent in the 2001/02 budget (from 14.1 percent of GDP to 13.8 percent of GDP). Reflecting the objective of increasing the relative share of current expenditure, it rose from 8.4 percent of GDP to 8.8 percent of GDP. This was partly used to increase base civil wages (by 25 percent) beginning 2002, aimed at partly correcting real wage levels for high inflation in the past years. In the 2001/02 budget, the government allocated expenditure for the clearance of both current and capital arrears (3 percent of GDP), and stated its intention to clear these arrears by about half during 2001/02 and the remainder during 2002/03.²² Fiscal data for the first eight months of 2001/02 shows that the government, in light of weak revenue performance, is implementing cuts in both capital and current expenditure, particularly domestically financed capital expenditure, to meet the deficit target.

9. **As regards current expenditure, the snapshot sectoral distribution shows a relatively large share of current expenditure to defense, education and finance.** In contrast, most other sectors, especially the health sector, constitute a small proportion of current expenditure. Both interest payments and current arrears constitute the main components of expenditure incurred by the Finance Ministry. Over the two years, although the 2001/02 budgetary allocations to education and health (10.8 percent and 6.1 percent of total expenditure) are significantly higher as compared to the 2000/01 outturn (7.9 percent

²⁰ The fiscal year runs October through September.

²¹ Including the repayment of lending for the amount of KN 160 billion in 2000/01 and KN 108 billion in the 2001/02 budget (see attached Statistical Appendix Table 7). However, the analysis in this chapter follows the Government of Lao P.D.R. (GOL) definition of expenditure which treats repayments of lending as revenue. As a result, there is no difference in the ratio of current expenditure, but capital expenditure according to the GOL definition is higher by about 1.1 percent of GDP for 2000/01 and 0.7 percent of GDP for the 2001/02 budget.

²² See the *Presentation in the 8th Ordinary Session of the Congress of the National Assembly, 4th Legislature, September 24, 2001.*

and 4.0 percent), their shares in current expenditure have fallen.²³ These sectors also received lower budgetary allocations for salaries and allowances as a proportion of total salaries and allowances than the previous year's outturn. On a positive note, the defense expenditure allocation for current expenditures remained at about 20 percent, and the share of defense salaries and allowances in total salaries and allowances remained at about 37 percent in both years. The current expenditure allocation to the Prime Minister's Office rose significantly, although it fell slightly for the Interior Ministry.

10. **The snapshot sectoral distribution for capital expenditure** shows that the Ministry of Communication, Post, Construction and Transport (MCPCT) has the largest allocation of capital expenditure, given its large focus on infrastructure, followed by agriculture and provincial offices in Vientiane. In terms of sectoral patterns spanning the 2000/01 outturn and the 2001/02 budget, the authorities' focus on capital expenditure still remains high while showing an increasing pattern for several key sectors including education and health, which are typically related to donor funding. On the other hand, total allocations to agriculture, industry and handicrafts, and MCPCT in the 2001/02 budget have fallen relative to the previous year's outcome. This could be related to the lumpiness of capital expenditures devoted to these sectors over the two periods. In addition, the share of labor and social welfare in capital spending rose.

11. **Following the recent decentralization policies of the government, the provinces are receiving an increasingly greater share of total expenditure allocations.** The 2001/02 budget has an allocation of 47 percent; higher than the 2000/01 outturn of 42 percent. As a result of decentralization, the provinces are receiving higher expenditure allocations in several sectors, particularly provincial offices in Vientiane, and MCPCT. In addition, education and health also have higher provincial budgetary allocations (particularly capital expenditure) as compared to their actual spending in 2000/01. Other expenditure categories had little or no change over the year, except for agriculture which fell significantly (likely related to lumpiness of large projects).

12. **Provincial data also show that almost all provinces are targeted to have budget deficits in 2001/02; even more provinces than in the previous year's outturn** (see Tables II.4 and II.5). Only Savannakhet and the Vientiane Municipality show large surpluses in both periods. We also note a significant degree of variability in domestically financed capital expenditure, between 2000/01 and that planned for 2001/02. In particular, twelve of the fourteen deficit provinces in 2000/01 had an increase in domestically financed capital expenditure allocations in the 2001/02 budget than actually spent in the previous year, while only three provinces (Savannakhet, Sayabouri, and Attapeu) were granted lower allocations.

D. Final Remarks

13. **The aim of the government is to increase transparency and accountability, and provide wider and more focused choices in the ongoing NPEP and PRSP, through the availability of detailed fiscal data.** Moreover, expenditure management reform has gained

²³ Although this sectoral information spanning the two recent years is valuable, it is not sufficient to make observations regarding policy trends.

additional focus in light of the recent decentralization and weak revenue performance. A closer examination of public expenditure in this chapter suggests that although the government has recently taken a number of initiatives in this direction, much remains to be done in the medium term in order to establish a system for expenditure tracking and introduce transparency in expenditure management.

14. **Further improvements in the ongoing budget reporting of the upcoming 2002/03 budget, and in subsequent budgets**, are expected to help provide greater transparency to the public, the business community, and the international agencies, as well as to strengthen the accountability of the government.

Table II.1. Lao P.D.R.: Total Expenditure by Sector 1/

	2000/01 Actual			2001/02 Budget		
	Total	Central Ministry	Provinces	Total	Central Ministry	Provinces
(In billions of kip)						
Agriculture and forestry	589.0	79.7	509.3	419.0	81.5	337.4
Industry and handicrafts	116.0	49.2	66.8	68.2	15.5	52.7
MCPCT	810.0	652.2	157.7	634.9	276.2	358.6
Commerce and tourism	8.5	3.4	5.1	14.0	3.5	10.5
Finance	352.0	301.5	50.5	456.7	414.1	42.6
CPC	13.8	3.6	10.2	54.2	8.3	45.9
Education	261.0	109.2	151.8	402.5	199.0	203.6
Health	131.4	26.2	105.2	225.7	86.3	139.4
Information and culture	40.4	26.4	14.0	101.7	58.1	43.5
Labor and social welfare	117.1	82.2	34.9	144.7	101.1	43.6
Justice	7.2	3.2	4.0	11.8	5.1	6.8
Foreign affairs	71.2	71.2	0.0	75.4	75.4	0.0
Defense	278.0	278.0	0.0	323.5	323.5	0.0
Interior	100.6	100.6	0.0	125.1	125.1	0.0
Prime Minister's Office	137.0	137.0	0.0	145.9	145.9	0.0
National Assembly	2.0	0.0	2.0	2.4	0.0	2.4
Provincial offices in Vientiane	263.0	0.0	263.0	466.6	0.0	466.6
Other	3.0	0.2	2.8	49.6	45.0	4.6
Total expenditure	3301.1	1923.8	1377.3	3721.7	1963.6	1758.1
(In percent of total expenditure)						
Agriculture and forestry	17.8	2.4	15.4	11.3	2.2	9.1
Industry and handicrafts	3.5	1.5	2.0	1.8	0.4	1.4
MCPCT	24.5	19.8	4.8	17.1	7.4	9.6
Commerce and tourism	0.3	0.1	0.2	0.4	0.1	0.3
Finance	10.7	9.1	1.5	12.3	11.1	1.1
CPC	0.4	0.1	0.3	1.5	0.2	1.2
Education	7.9	3.3	4.6	10.8	5.3	5.5
Health	4.0	0.8	3.2	6.1	2.3	3.7
Information and culture	1.2	0.8	0.4	2.7	1.6	1.2
Labor and social welfare	3.5	2.5	1.1	3.9	2.7	1.2
Justice	0.2	0.1	0.1	0.3	0.1	0.2
Foreign affairs	2.2	2.2	0.0	2.0	2.0	0.0
Defense	8.4	8.4	0.0	8.7	8.7	0.0
Interior	3.0	3.0	0.0	3.4	3.4	0.0
Prime Minister's Office	4.2	4.2	0.0	3.9	3.9	0.0
National Assembly	0.1	0.0	0.1	0.1	0.0	0.1
Provincial offices in Vientiane	8.0	0.0	8.0	12.5	0.0	12.5
Other	0.1	0.0	0.1	1.5	1.4	0.1
Total expenditure	100.0	58.3	41.7	100.0	52.8	47.2

Source: *Official Gazette*; Ministry of Finance, Lao P.D.R., 2002.

1/ This table excludes amortization which is classified as part of expenditure in the GOL definition of fiscal accounts. In addition, this table does not include net lending (negative capital return), for the amount of KN 160 billion for 2000/01 and KN 108 billion for the 2001/02 budget, since it is in GOL format of fiscal accounts.

Table II.2. Lao P.D. R.: Current Expenditure by Sector 1/

	2000/01 Actual			2001/02 Budget		
	Total	Central Ministry	Provinces	Total	Central Ministry	Provinces
(In billions of kip)						
Agriculture and forestry	22.1	5.2	16.9	24.5	5.4	19.1
Industry and handicrafts	3.2	1.0	2.2	3.8	1.1	2.7
MCPCT	18.6	13.1	5.5	17.1	10.7	6.5
Commerce and tourism	5.4	1.9	3.4	6.1	1.8	4.3
Finance	335.3	295.0	40.4	362.2	331.3	30.9
CPC	5.9	1.0	4.9	5.0	1.4	3.6
Education	159.3	30.5	128.9	171.7	37.4	134.3
Health	47.8	15.2	32.6	48.3	11.8	36.5
Information and culture	13.9	7.4	6.5	14.7	7.3	7.4
Labor and social welfare	41.5	9.8	31.7	44.6	9.5	35.1
Justice	5.7	2.2	3.5	7.9	1.9	6.1
Foreign affairs	70.7	70.7	0.0	73.9	73.9	0.0
Defense	251.1	251.1	0.0	295.3	295.3	0.0
Interior	90.6	90.6	0.0	105.1	105.1	0.0
Prime Minister's Office	75.0	75.0	0.0	103.3	103.3	0.0
National Assembly	2.0	0.0	2.0	1.4	0.0	1.4
Provincial offices in Vientiane	79.8	0.0	79.8	117.4	0.0	117.4
Other	1.5	-0.8	2.3	46.4	43.4	3.0
Total current expenditure	1229.4	868.9	360.5	1448.7	1040.5	408.2
(In percent of total current expenditures)						
Agriculture and forestry	1.8	0.4	1.4	1.7	0.4	1.3
Industry and handicrafts	0.3	0.1	0.2	0.3	0.1	0.2
MCPCT	1.5	1.1	0.4	1.2	0.7	0.4
Commerce and tourism	0.4	0.2	0.3	0.4	0.1	0.3
Finance	27.3	24.0	3.3	25.0	22.9	2.1
CPC	0.5	0.1	0.4	0.3	0.1	0.2
Education	13.0	2.5	10.5	11.8	2.6	9.3
Health	3.9	1.2	2.7	3.3	0.8	2.5
Information and culture	1.1	0.6	0.5	1.0	0.5	0.5
Labor and social welfare	3.4	0.8	2.6	3.1	0.7	2.4
Justice	0.5	0.2	0.3	0.5	0.1	0.4
Foreign Affairs	5.7	5.7	0.0	5.1	5.1	0.0
Defense	20.4	20.4	0.0	20.4	20.4	0.0
Interior	7.4	7.4	0.0	7.3	7.3	0.0
Prime Minister's Office	6.1	6.1	0.0	7.1	7.1	0.0
National Assembly	0.2	0.0	0.2	0.3	0.0	0.3
Provincial offices in Vientiane	6.5	0.0	6.5	8.1	0.0	8.1
Other	0.1	-0.1	0.2	3.2	3.0	0.2
Total current expenditure	100.0	70.7	29.3	100.0	71.8	28.2

Source: *Official Gazette* ; Ministry of Finance, Lao P.D.R., 2002.

Table II.3. Lao P.D. R.: Capital Expenditure by Sector 1/

	2000/01 Actual			2001/02 Budget		
	Total	Central Ministry	Provinces	Total	Central Ministry	Provinces
(In billions of kip)						
Agriculture and forestry	566.9	74.5	492.4	394.5	76.1	318.4
Industry and handicrafts	112.8	48.2	64.6	64.4	14.4	50.0
MCPCT	791.4	639.1	152.3	617.7	265.6	352.2
Commerce and tourism	3.2	1.5	1.7	7.9	1.7	6.2
Finance	16.7	6.5	10.2	94.5	82.8	11.7
CPC	7.8	2.5	5.3	49.2	6.9	42.3
Education	101.6	78.7	22.9	230.9	161.6	69.3
Health	83.6	11.0	72.6	177.3	74.5	102.8
Information and culture	26.6	19.0	7.5	87.0	50.8	36.2
Labor and social welfare	75.6	72.4	3.2	100.1	91.6	8.5
Justice	1.5	1.0	0.5	3.9	3.2	0.7
Foreign affairs	0.5	0.5	0.0	1.5	1.5	0.0
Defense	26.9	26.9	0.0	28.2	28.2	0.0
Interior	10.0	10.0	0.0	20.0	20.0	0.0
Prime Minister's Office	62.0	62.0	0.0	42.6	42.6	0.0
National Assembly	0.0	0.0	0.0	0.9	0.0	0.9
Provincial offices in Vientiane	183.2	0.0	183.2	349.2	0.0	349.2
Other	1.5	1.0	0.5	3.1	1.6	1.5
Total capital expenditure	2071.7	1054.9	1016.8	2273.0	923.1	1349.9
(In percent of total capital expenditures)						
Agriculture and forestry	27.4	3.6	23.8	17.4	3.3	14.0
Industry and handicrafts	5.4	2.3	3.1	2.8	0.6	2.2
MCPCT	38.2	30.8	7.3	27.2	11.7	15.5
Commerce and tourism	0.2	0.1	0.1	0.3	0.1	0.3
Finance	0.8	0.3	0.5	4.2	3.6	0.5
CPC	0.4	0.1	0.3	2.2	0.3	1.9
Education	4.9	3.8	1.1	10.2	7.1	3.0
Health	4.0	0.5	3.5	7.8	3.3	4.5
Information and culture	1.3	0.9	0.4	3.8	2.2	1.6
Labor and social welfare	3.7	3.5	0.2	4.4	4.0	0.4
Justice	0.1	0.0	0.0	0.2	0.1	0.0
Foreign affairs	0.0	0.0	0.0	0.1	0.1	0.0
Defense	1.3	1.3	0.0	1.2	1.2	0.0
Interior	0.5	0.5	0.0	0.9	0.9	0.0
Prime Minister's Office	3.0	3.0	0.0	1.9	1.9	0.0
National Assembly	0.0	0.0	0.0	0.0	0.0	0.0
Provincial offices in Vientiane	8.8	0.0	8.8	15.4	0.0	15.4
Other	0.1	0.0	0.0	0.1	0.1	0.1
Total capital expenditure	100.0	50.9	49.1	100.0	40.6	59.4

Source: *Official Gazette*; Ministry of Finance, Lao P.D.R., 2002.

1/ This table does not include net lending (negative capital return), for the amount of KN 160 billion for 2000/01 and KN 108 billion for the 2001/02 budget, since it is in GOL format of fiscal accounts.

Table II.4. Lao P.D.R.: General Government Operations, 2000/2001 1/

	Total	Ministries	Provinces 3/	VTEM	PSL	LNT	ODS	BK	SYBL	LPB	HP	XK	VTE	BLKS	KM	SVNK	SLV	CPS	SK	APT	XSB
(In billions of kip)																					
Total revenue	2,167	989	1,179	399	6	31	11	26	24	9	63	15	35	47	99	261	27	101	7	14	4
Total expenditure 2/	3,301	1,924	1,377	200	88	37	65	57	109	70	71	82	85	40	69	128	79	111	28	38	21
Capital expenditure	2,072	1,054	1,018	158	78	26	51	48	88	47	53	64	62	27	46	82	65	59	19	29	15
Local finance	872	216	656	110	22	22	27	24	54	29	21	28	47	20	36	82	20	51	19	28	14
Foreign finance	1,200	838	362	47	56	4	24	24	34	18	32	36	15	7	10	-	45	8	0	0	1
Surplus / Deficit	-1,134	-936	-198	199	-83	-7	-54	-31	-85	-62	-8	-67	-49	7	30	133	-52	-10	-21	-24	-17
Foreign financing	1,200	838	362	47	56	4	24	24	34	18	32	36	15	7	10	-	45	8	0	0	1
Domestic financing	-66	97	-164	-246	27	2	30	7	51	44	-24	31	35	-15	-40	-133	7	1	21	24	16
(In percent of GDP)																					
Total revenue	14.7	6.7	8.0	2.7	0.0	0.2	0.1	0.2	0.2	0.1	0.4	0.1	0.2	0.3	0.7	1.8	0.2	0.7	0.0	0.1	0.0
Total expenditure 2/	22.4	13.1	9.4	1.4	0.6	0.3	0.4	0.4	0.7	0.5	0.5	0.6	0.6	0.3	0.5	0.9	0.5	0.8	0.2	0.3	0.1
Capital expenditure	14.1	7.2	6.9	1.1	0.5	0.2	0.3	0.3	0.6	0.3	0.4	0.4	0.4	0.2	0.3	0.6	0.4	0.4	0.1	0.2	0.1
Local finance	5.9	1.5	4.5	0.7	0.1	0.2	0.2	0.2	0.4	0.2	0.1	0.2	0.3	0.1	0.2	0.6	0.1	0.3	0.1	0.2	0.1
Foreign finance	8.2	5.7	2.5	0.3	0.4	0.0	0.2	0.2	0.2	0.1	0.2	0.2	0.1	0.0	0.1	-	0.3	0.1	0.0	0.0	0.0
Surplus / Deficit	-7.7	-6.4	-1.3	1.4	-0.6	0.0	-0.4	-0.2	-0.6	-0.4	-0.1	-0.5	-0.3	0.0	0.2	0.9	-0.4	-0.1	-0.1	-0.2	-0.1
Foreign financing	8.2	5.7	2.5	0.3	0.4	0.0	0.2	0.2	0.2	0.1	0.2	0.2	0.1	0.0	0.1	-	0.3	0.1	0.0	0.0	0.0
Domestic financing	-0.5	0.7	-1.1	-1.7	0.2	0.0	0.2	0.0	0.3	0.3	-0.2	0.2	0.2	-0.1	-0.3	-0.9	0.0	0.0	0.1	0.2	0.1
Memorandum item:																					
GDP (in billions of kip)	14,721																				

Source: Ministry of Finance, Lao P.D.R.

1/ Grants are included below the line.

2/ Figures for expenditure in this table exclude amortization which is classified as part of expenditure in the GOL definition.

3/ VTEM: Vientiane Municipality, PSL: Phonsaly, LNT: Laung Nam Tha, ODS: Oudomxay, BK: Bokeo
SYBL: Sayabouri, LPB: Luang Phrabang, HP: Houaphan, XK: Xieng Khouang, VTE: Vientiane Province

BLKS: Bolikhamxay, KM: Khammouane, SVNK: Savannakhet, SLV: Saravane

CPS: Champassak, SK: Sekong, APT: Attapeu, XSB: Saysomboun Special

Table II.5. Lao P.D.R.: General Government Operations, 2001/2002 Plan 1/

	Total	inistries	Provinces 3/	VTEM	PSL	LNT	ODS	BK	SYBL	LPB	HP	XK	VTE	BLKS	KM	SVNK	SLV	CPS	SK	ATP	XSB
(In billions of kip)																					
Total revenue	2,595	1,299	1,296	495	6	37	10	28	26	10	35	17	36	55	91	264	39	124	8	12	3
Total expenditure 2/	3,722	1,963	1,759	200	119	48	87	69	110	161	115	82	91	59	111	164	55	184	37	38	29
Capital expenditure	2,273	921	1,352	160	106	35	70	55	83	129	93	61	65	44	86	109	39	140	27	27	23
Local finance	1,017	236	781	130	35	35	33	30	43	40	45	36	50	25	42	78	36	55	23	27	19
Foreign finance	1,256	686	570	30	71	-	37	25	40	89	48	25	15	19	44	31	3	85	4	0	4
Surplus / Deficit	-1,127	-665	-462	295	-113	-11	-76	-41	-83	-150	-81	-65	-55	-4	-21	100	-16	-60	-29	-26	-26
Foreign financing	1,256	686	570	30	71	-	37	25	40	89	48	25	15	19	44	31	3	85	4	0	4
Domestic financing	-129	-21	-108	-325	41	11	40	16	44	61	32	39	40	-15	-24	-130	13	-25	25	26	22
(in percent of GDP)																					
Total revenue	15.7	7.9	7.9	3.0	0.0	0.2	0.1	0.2	0.2	0.1	0.2	0.1	0.2	0.3	0.6	1.6	0.2	0.8	0.0	0.1	0.0
Total expenditure 2/	22.5	11.9	10.7	1.2	0.7	0.3	0.5	0.4	0.7	1.0	0.7	0.5	0.6	0.4	0.7	1.0	0.3	1.1	0.2	0.2	0.2
Capital expenditure	13.8	5.6	8.2	1.0	0.6	0.2	0.4	0.3	0.5	0.8	0.6	0.4	0.4	0.3	0.5	0.7	0.2	0.8	0.2	0.2	0.1
Local finance	6.2	1.4	4.7	0.8	0.2	0.2	0.2	0.2	0.3	0.2	0.3	0.2	0.3	0.2	0.3	0.5	0.2	0.3	0.1	0.2	0.1
Foreign finance	7.6	4.2	3.5	0.2	0.4	-	0.2	0.2	0.2	0.5	0.3	0.2	0.1	0.1	0.3	0.2	0.0	0.5	0.0	0.0	0.0
Surplus / Deficit	-6.8	-4.0	-2.8	1.8	-0.7	-0.1	-0.5	-0.2	-0.5	-0.9	-0.5	-0.4	-0.3	0.0	-0.1	0.6	-0.1	-0.4	-0.2	-0.2	-0.2
Foreign financing	7.6	4.2	3.5	0.2	0.4	-	0.2	0.2	0.2	0.5	0.3	0.2	0.1	0.1	0.3	0.2	0.0	0.5	0.0	0.0	0.0
Domestic financing	-0.8	-0.1	-0.7	-2.0	0.3	0.1	0.2	0.1	0.3	0.4	0.2	0.2	0.2	-0.1	-0.1	-0.8	0.1	-0.2	0.1	0.2	0.1
Memorandum item:																					
GDP (in billions of kip)	16510																				

Source: Ministry of Finance, Lao P.D.R.

1/ Grants are included below the line.

2/ Figures for expenditure in this table exclude amortization which is classified as part of expenditure in the GOL definition.

3/ VTEM: Vientiane Municipality, PSL: Phonsaly, LNT: Laung Nam Tha, ODS: Oudomxay, BK: Bokeo

SYBL: Sayabouri, LPB: Luang Phrabang, HP: Houaphan, XK: Xieng Khotang, VTE: Vientiane Province

BLKS: Bolikhamxay, KM: Khammouane, SVNK: Savannakhet, SLV: Saravane

CPS: Champassak, SK: Sekong, ATP: Attapeu, XSB: Saysomboun Special

III. FINANCIAL ASPECTS OF THE HYDROELECTRIC POWER SECTOR¹

1. **The importance of the hydroelectric power sector for the economy is significant and is expected to increase.** The main purpose of this brief chapter is to summarize the financial information on the sector, rather than provides an overview of developments.
2. **Currently, the hydroelectric power sector contributes to 20 percent of exports of goods and services.** Net foreign exchange earnings for the economy (some 3 percent of GDP) represent mostly payments to the public sector (estimated at 20 percent of fiscal revenue), including dividends to the public electricity company EDL (Electricité du Laos), the public participant in all existing projects. Government revenue consist of royalties as well as transfers from EDL, after payment of debt service and cross subsidies for domestic electricity consumption. The construction of Nam Theun 2 (NT2) is envisaged to start in 2004, and production to come on stream in 2008, which would increase exports by 200 percent. Income generation from this project for the government would be relatively small initially, but would increase substantially after 15 years, as a result of sharp increases in the royalty and tax rates.

Structure of the sector

3. **The government has adopted a policy of using external debt to finance EDL's ownership of the smaller plants that supply domestic power and private/public partnerships for the larger export plants.** Most production comes from the two dams built in the period 1994-99, Theun Hinboun Power Company (THPC) and Huay Ho, financed in partnership with private investors (Table III.1) on the basis of export contracts to Thailand. EDL holds a 20 percent share in the Huay Ho project and a 60 percent share in THPC, a limited liability company. The government borrowed, mostly in concessional terms from the AsDB, the World Bank, the Nordic Fund, OPEC, and Japan, to finance EDL's participation in hydroelectric projects, and onlent to the public enterprise. Government project preparation, financed through grants, also accounted for some of the public equity participation. Only one public loan was contracted in commercial terms, for US\$10 million, which was borrowed for Huay Ho, initially from the Korean partner Daewoo. A Belgium investor, Tractebel, is in the process of purchasing all private shares in Huay Ho and refinancing the loan to EDL.
4. **THPC refinanced its outstanding commercial borrowing (US\$93 million) in 2002,** which was replaced by a new loan of US\$144 million, mainly from a consortium of Thai banks. The resulting reduction in equity may free up some US\$33 million additional resources for EDL, most of which could be transferred to the government. The increase in private debt service resulting from this operation is estimated at about US\$5 million per year over 2003-06.

¹ Prepared by Sonia Brunschwig.

Debt service

5. **Private borrowing financed most of the construction cost of the large export projects.** The ratio of private debt service to total electricity exports of goods and services is estimated at about 40 percent (Table III.2). The private debt service amounts to about 80 percent of hydroelectric exports, net of payments to the government, EDL, and local contractors. This ratio is projected to peak at 98 percent in 2005, but to decline rapidly thereafter as a result of rising exports and lower outstanding debt.

Balance of payments impact

6. **Table III.3 shows a preliminary attempt to separately account for the hydroelectric power sector in the balance of payments.** Hydroelectric exports are clearly identified, while imports, foreign investments, and private debt service are estimated from project-specific information on dam construction cost and financing. The overall balance is calculated to equal the net foreign assets distributed as royalties to the government, dividends to EDL, and payments to local contractors. It is assumed that foreign exchange earned by foreign investors, net of imports, debt service, and payments to the government, EDL and local contractors, are repatriated. The current account is shown to improve by US\$50 million in 2000, with higher export and lower import resulting from the completion of Huay Ho and Nam Leuk, but to turn into deficit starting in 2004 with the initiation of NT2 construction. Movements in the capital account reflect the higher financing needs in 1999 and beyond 2004. The stability of the overall balance and net foreign exchange receipts, at about 3 percent of GDP, is consistent with a slight increase in profit repatriation, which is calculated residually.

7. **The government is aware of the risks associated with the weight of the hydroelectric sectors in exports.** To mitigate these risks, it has developed the following strategy: (i) medium- and long-term agreements with Thailand, the main destination for electricity, which define both the quantity and the price of future purchases; (ii) a debt structure which matches the currency composition of exports; and (iii) explicit limitation of public liabilities. Moreover, to maximize the benefits of these investments in terms of growth and poverty reduction, enterprise and fiscal transparency and accountability are being upgraded.

Table III.1. Lao P.D.R.: Hydroelectric Power Projects

	Theun Hinboun		Huay Ho	Nam Leuk	Xeset -1	Nam Ngum 1	NT2 Proj.
	initial financing	after refinancing					
(In million of U.S. dollars)							
Construction/refinancing dates	1994-98	2002	1994-99	1996-99	1970's	1970's	2004-08
Project cost	234	199	225	108	16.6	90.5	1,070
Financing							
Equity	110	55	50	108	17	91	321
Public (EDL) 1/	66	33	10	108	17	91	80
Of which: debt-financed	58	...	10	82	17	91	32
Private	44	22	40	0	0	0	241
Norway Hydropower AB	22	11					
MDX Lao Company Limited (Thai)	22	11					
Loxley (Thai) 2/			30				
Daewoo (Korea) 2/			10				
Private debt	124	144	175	0	0	0	749
Projected annual production	65.1 3/	65.1 3/	24.9 3/	3.4 3/	3.3 3/	14.8 3/	212.3 4/
In GWH	1,660	1,660	621	230	90	190	3,000
Government revenue	3.3 3/	3.3 3/	1.2 3/	0.2 3/	0.2 3/	0.7 3/	11.0 4/
Revenue to EDL 5/	27.1 3/	27.1 3/	0.0 3/	3.2 3/	3.1 3/	14.1 3/	14.1 4/
(In percent)							
Equity (in percent of total cost)	47	28	22	100	100	100	30
Public (in percent of equity)	60	60	20	100	100	100	25
Private (in percent of equity)	40	40	80	0	0	0	75
Private debt (in percent of total cost)	53	72	78	0	0	0	70

Sources: Data provided by EDL; and Fund staff estimates.

1/ The public shareholder in NT2 has not yet been determined.

2/ To be purchased by Tractebel (Belgium) in 2002.

3/ Estimate for 2002.

4/ Projections for 2008.

5/ Gross income before debt service.

Table III.2. Lao P.D.R: Hydroelectric Power Sector Private Debt Service, 1999-2006

	1999	2000	2001	2002	2003	2004	2005	2006
	(In millions of U.S. dollars)							
Private sector debt service								
Theun Hinboun 1/	22.5	21.8	20.2	13.6	25.4	24.5	22.3	22.5
Huay Ho	16.0	28.6	27.4	26.3	25.1	23.9	22.8	21.6
Total	38.5	50.4	47.6	39.9	50.5	48.4	45.0	44.1
	(In percent)							
Ratio of private sector debt to exports								
To total hydroelectric exports	42.5	44.9	41.7	35.7	43.3	42.7	40.8	39.5
To hydroelectric exports net of domestic payments	90.5	89.3	82.9	74.9	81.1	89.7	98.3	95.9
	(In millions of U.S. dollars)							
Memorandum items:								
Total hydroelectric exports	90.5	112.2	114.2	111.5	116.6	113.2	110.2	111.6
Hydroelectric exports net of domestic payments	42.5	56.4	57.4	53.2	62.3	54.0	45.8	46.0
Private debt outstanding								
Theun Hinboun 1/	116.7	104.9	93.0	84.4	68.6	52.9	38.3	22.3
Huay Ho	175.0	163.3	151.7	140.0	128.3	116.7	105.0	93.3
NT2	0.0	0.0	0.0	0.0	0.0	74.9	243.4	412.0

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

1/ After refinancing in 2002.

Table III.3. Lao P.D.R.: Balance of Payments by Sector, 1999-2006

(In millions of U.S. dollars)

	1999	2000	2001	2002	2003	2004	2005	2006
							Projections	
Hydroelectric power sector								
Current account	29.9	79.3	80.3	78.6	81.7	-20.4	-150.0	-147.5
Merchandise trade balance	68.5	112.2	114.2	111.5	116.6	38.3	-58.3	-57.0
Exports, f.o.b.	90.5	112.2	114.2	111.5	116.6	113.2	110.2	111.6
Imports, c.i.f.	22.0	0.0	0.0	0.0	0.0	74.9	168.5	168.5
Services net	-8.0	0.0	0.0	0.0	0.0	-26.8	-60.2	-60.2
Income (net)	-30.6	-32.9	-33.9	-32.9	-34.8	-32.0	-31.6	-30.3
Profit repatriation (- outflow)	-4.1	-6.0	-9.8	-13.4	-11.8	-10.9	-12.8	-13.9
Interest payment 1/	-26.6	-26.9	-24.1	-19.5	-23.1	-21.1	-18.7	-16.4
Capital account	18.1	-23.5	-23.5	-20.3	-27.4	79.7	214.5	213.0
Amortization	11.9	23.5	23.5	20.3	27.4	27.3	26.3	27.7
Foreign investment (foreign equity and debt)	30.0	0.0	0.0	0.0	0.0	99.0	222.7	222.7
EDL equity financing	0.0	0.0	0.0	0.0	0.0	8.0	18.1	18.1
Overall balance	48.0	55.8	56.8	58.3	54.3	59.3	64.4	65.6
(In percent of GDP)	3.3	3.2	3.2	3.3	2.8	2.9	2.9	2.7
Net foreign assets (increase -) 2/	-48.0	-55.8	-56.8	-58.3	-54.3	-59.2	-64.5	-65.6
Taxes and royalties (paid by foreign shareholders)	1.5	2.2	2.3	2.3	2.4	8.5	8.9	9.0
Return EDL	37.7	41.9	44.8	46.4	42.2	35.9	34.1	35.1
Royalty paid by EDL	3.0	3.4	3.4	3.3	3.4	3.2	3.1	3.1
Local contracts	5.8	8.3	6.3	6.3	6.3	11.7	18.3	18.3
Non-hydroelectric power sector								
Current account	-89.5	-103.2	-141.5	-136.4	-134.0	-128.6	-136.8	-147.2
Excluding official transfers	-159.2	-224.3	-202.7	-191.2	-204.0	-210.7	-224.9	-235.3
Merchandise trade balance	-280.7	-330.7	-331.8	-323.4	-343.5	-364.7	-384.1	-403.8
Exports, f.o.b.	251.6	238.8	235.6	260.0	287.1	312.0	334.2	358.9
(in percent change)	-9.0	-5.1	-1.3	10.3	10.4	8.7	7.1	7.4
Imports, c.i.f.	532.3	569.4	567.4	583.3	630.6	676.7	718.4	762.6
(in percent change)	11.5	7.0	-0.4	2.8	8.1	7.3	6.2	6.2
Services (net)	106.2	125.6	141.3	146.7	159.4	174.3	183.0	194.4
(in percent change)	5.6	18.3	12.5	3.8	8.6	9.4	5.0	6.2
Factor income (net)	-14.3	-40.0	-34.0	-37.3	-44.1	-46.1	-50.9	-54.8
Of which: interest payments 1/	-8.4	-10.4	-11.0	-14.2	-18.4	-19.4	-20.1	-20.6
Transfers (net)	99.3	141.9	83.0	77.6	94.2	107.8	115.3	117.0
Capital account	44.4	91.3	83.1	82.9	90.7	96.6	93.4	104.1
Long-term loans	76.8	86.1	97.7	86.3	89.0	88.5	85.1	85.6
Disbursements	94.2	98.3	113.5	105.9	115.9	117.9	118.0	120.6
Amortization	-17.5	-12.2	-15.8	-19.6	-27.0	-29.4	-33.0	-35.0
Foreign investment	51.6	31.3	33.2	41.0	60.0	69.0	79.4	85.7
Net foreign assets of commercial banks (increase -) 2/	-47.2	24.6	34.0	-4.5	-22.0	-20.0	-20.0	-20.0
Errors and omissions	-36.8	-50.7	-81.8	-39.9	-36.3	-40.9	-51.0	-47.3
Overall balance	-45.1	-11.9	-58.4	-53.5	-43.3	-32.0	-43.3	-43.1
Financing	45.1	11.9	58.4	53.5	43.3	32.0	43.4	43.1
Central bank net foreign assets 2/	45.1	11.9	58.4	33.1	8.3	12.0	43.4	43.1
Financing gap	0.0	0.0	0.0	20.3	35.0	20.0	0.0	0.0
Memorandum items:								
Current account (in percent of GDP, incl. official transfers)	-6.1	-5.9	-8.1	-7.7	-7.0	-6.2	-6.1	-6.1
Current account (in percent of GDP, excl. official transfers)	-10.8	-12.9	-11.6	-10.7	-10.7	-10.2	-10.0	-9.8

Sources: Data provided by the Lao P.D.R. authorities; and Fund staff estimates, and projections.

1/ Debt service due by EDL is classified in the non hydroelectric power sector.

2/ Assuming that all foreign assets accumulated in the hydroelectric power sector are deposited at the central bank.

IV. EXTERNAL DEBT STRUCTURE AND DEBT SERVICE PROFILE¹

A. External Debt in Convertible Currency²

1. The available information shows that Lao P.D.R. has a relatively high total external debt stock and debt-service burden. As of end-2001, the total external debt stock in convertible currency is estimated at US\$1.5 billion (75 percent of GDP), and the total debt service at 15.5 percent of exports of goods and services (Tables IV.1 and IV.3). This level of debt service is partly due to commercial borrowings by private investors in the hydroelectric power sector, whose external liabilities are secured by long-term export contracts.³

External public debt in convertible currency

2. The external public debt amounts to US\$1.2 billion in nominal terms (69 percent of GDP) (Tables IV.1 and IV.3). In NPV terms, the public debt represents 137 percent of total exports (three-year average). The public debt service absorbed 6.7 percent of all exports in 2001, which is relatively manageable. Since a large share of hydroelectric export receipts are earmarked for use by private investors in this sector, a more meaningful assessment of the government's debt servicing capacity is the ratio of public debt service to exports, excluding the hydroelectric sector,⁴ which was 7.5 percent in 2001.

3. Multilateral creditors account for 83 percent of the public debt in NPV terms, and industrial country creditors for another 6 percent. Among the multilateral creditors, the AsDB and the World Bank are by far the most important lenders, while Japan is the second most important bilateral creditor after the Russian Federation. Commercial loans, contracted in the late 1990s, account for about 8 percent of the total NPV of convertible currency debt. Lao P.D.R.'s debt is highly concessional, with an average grant element of 42 percent, of which 46 percent for multilateral creditors and 35 percent for bilateral and commercial creditors.

¹ Prepared by Sonia Brunschwig.

² The external debt to the Russian Federation is excluded from this section because the stock and terms of this debt are subject to high degree of uncertainty and are object of ongoing negotiations. For the other creditors, the staff did not have access to the loan documents; therefore, this analysis is based on loan by loan information provided by the authorities for the public debt, and information on project costs for the private debt.

³ For details on the hydroelectric power sector investment and financing, see Chapter III.

⁴ Nonhydroelectric exports plus receipts from the hydroelectric sector net of private debt service, profit repatriation and imports for project construction.

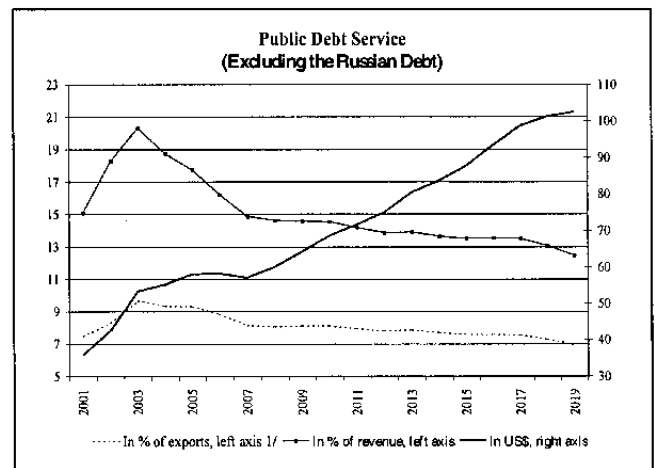
4. Multilateral creditors financed mostly development projects, with only 15 percent lending as general budget support (Table IV.2). By order of importance, road construction, investment in the hydroelectric power sector, and agriculture were the sectors which received the largest share of multilateral loans. Lending by industrial countries was concentrated in the hydroelectric power sector.

Debt sustainability analysis

5. The public debt service burden relative to exports and fiscal revenue is expected to increase in the short term (Table IV.3 and IV.4). The ratio of public debt service to total exports, including hydroelectric exports, is expected to increase from 6.7 percent in 2001 to 7.5 percent in 2002 and 8.7 percent in 2003, as a result of higher debt service to commercial creditors.⁵ The debt service to multilateral creditors will also contribute marginally to the higher debt service.

6. The debt sustainability analysis (DSA) is based on the assumption of a prudent borrowing strategy and strong revenue efforts, as well as conservative growth projections. Specifically,

- The Nam Theun 2 (NT2) hydroelectric project is excluded from the scenarios (in terms of the effect on exports and fiscal revenues) because this project has not yet been finally confirmed.
- Exports, excluding NT2 electricity exports, are conservatively assumed to grow by about 6 percent a year, in line with the GDP.
- The ratio of government revenue to GDP is assumed to improve over time from 13 percent in 2002 to 16 percent in 2010.
- New borrowing will be limited to concessional loans, with an average grant element of about 50 percent. The value of new disbursements is projected to decline from 6 percent of GDP in 2003 to less than 4 percent of GDP over the next 15 years.



7. Under these assumptions, the public debt

⁵ It would peak at 9.7 percent of non-hydroelectric exports plus domestic payments by the hydroelectric power sector in 2003.

service would decline progressively from 8.7 percent of exports in 2003 to 6.7 percent in 2019, and from 20.3 percent of fiscal revenue in 2003 to 12.5 percent in 2019, as a result of revenue efforts. The NPV would also decline from 137 percent of exports in 2001 to 88 percent in 2019.

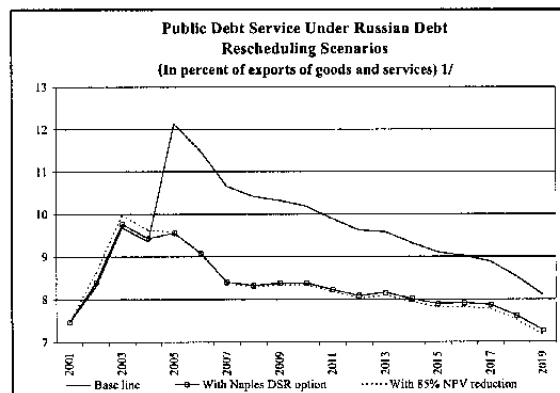
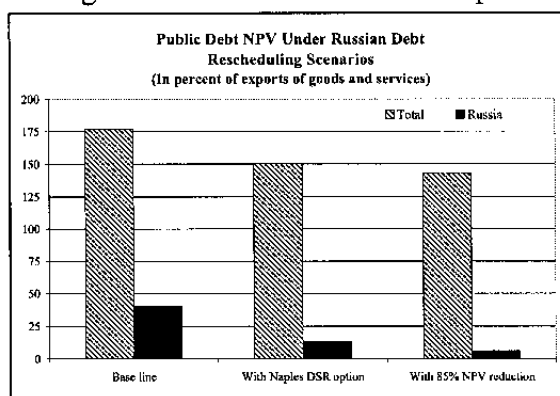
B. Debt to the Russian Federation

8. In addition to the debt in convertible currency, Lao P.D.R. owes to the Russian Federation a debt mostly denominated in rubles (estimated at SUR 772 million) and a small amount in U.S. dollar (US\$ 0.4 million) (Tables IV.3 and IV.4).⁶ These loans arose mainly from the large Soviet net exports to Lao P.D.R. and project assistance.

9. The government of Lao P.D.R. and the Russian Federation are currently negotiating bilaterally the value and the terms of the rescheduling of the Russian debt. This chapter

examines three alternative scenarios: (i) the baseline with an upfront discount of 70 percent in nominal terms; (ii) a stock-of-debt operation under the debt-service-reduction (DSR) option with Naples terms (outside of the Paris Club); and (iii) rescheduling with an 85 percent NPV reduction.

10. Under the baseline scenario, the U.S. dollar equivalent is calculated on the basis of the conversion at the exchange rate of SUR 0.6 per dollar, and the stock of arrears and the value of future obligations for the ruble-denominated debt are reduced by 70 percent.⁷ Repayments over 20 years, starting in 2005 are assumed, as well as a zero interest rate. Thus, the value of the Russian debt would amount to US\$386 million and the annual debt service to the Russian Federation, US\$17.5 million, would be equivalent to 2 percent of exports in 2005-2015. Including the ruble-



⁶ The value and terms of the debt to the Russian Federation are only preliminary indications and need to be verified.

⁷ This exchange rate, the official U.S.S.R. Gosbank ruble exchange rate, and the upfront discount of 70 percent in nominal terms, is consistent with the Memorandum of Understanding of September 1997 on Russia's participation as a creditor in the Paris Club.

denominated debt, total public debt would amount to 91 percent of GDP and 177 percent of exports of goods and services (three year average), above the cutoff point under the HIPC initiative.

11. Rescheduling under Naples terms would reduce the NPV ratio from 177 percent to 150 percent, the HIPC initiative cut-off point. In addition, debt service to the Russian Federation would be contained at 0.3 percent of exports of goods and services, 2 percentage point below the baseline scenario in 2005-09 and would thus be manageable. Rescheduling with an 85 percent NPV reduction would reduce the debt stock further to 143 percent of exports, but would initially result in a slight increase in the debt service.

C. Public External Debt Management

12. Important progress has been made regarding the management of existing debt. The data base now includes all loans contracted by the government, as of end- 2001, with the details on the terms of each loan. Debt service obligations are routinely reconciled with the creditors, so as to ensure realistic budget appropriation and timely payments. Information on disbursements is also compared with creditors' data. The hardware and software system (the Commonwealth Secretariat Debt Recording and Monitoring System or CS-DRMS) is being used to monitor debt and will be used to develop a comprehensive debt strategy with technical assistance from the Fund. Also, the authorities are committed to extend debt monitoring to all public debt, including the external debt contracted by public enterprises or guaranteed by the government. The authority to approve any new borrowing is vested in the Prime Minister.

Table IV.1. Lao P.D.R.: External Debt Stock by Creditor, End-2001
(In millions of U.S. dollars; unless specified otherwise)

	Baseline Scenario			Grant element
	Nominal	NPV	% of Total	
Total external public debt in convertible currency	1,213.5	709.1	100.0	41.6
Multilateral Creditors	1,089.3	588.2	82.9	46.0
Asian Development Bank	575.0	306.9	43.3	46.6
IDA	406.6	210.1	29.6	48.3
IFAD	20.0	10.2	1.4	48.8
IMF	37.4	32.3	4.6	13.5
Nordic Development Fund	33.5	16.0	2.3	52.2
OPEC	14.5	11.4	1.6	21.6
EU	2.3	1.3	0.2	44.5
Bilateral and Commercial Creditors	124.3	120.9	17.1	2.7
Paris Club	43.3	40.5	5.7	6.4
France	0.4	0.4	0.1	3.0
Germany	6.9	6.0	0.8	13.8
Japan	35.9	34.1	4.8	5.0
Non-Paris Club	24.6	20.8	2.9	15.6
China	21.5	17.7	2.5	17.8
Czech Republic	0.1	0.1	0.0	0.0
Hungary	0.3	0.3	0.0	0.0
Slovakia	0.1	0.1	0.0	0.0
Vietnam	2.6	2.6	0.4	0.0
Commercial creditors	56.4	59.6	8.4	-5.8
Private external debt stock 1/	244.7	244.7		
Total public and private debt in convertible currency	1,458.2	953.8		
Memorandum items:				
Public debt in percent of GDP	69.2	40.5		
Total debt in percent of GDP 1/	83.2	54.4		
NPV of public debt (in percent of exports) 2/	...	137.0		
NPV of public debt (in percent of exports) 2/ 3/	...	152.3		
Russian debt stock (before debt relief)				
(in millions of SUR) 4/	771.7	...		
Russian debt (in millions of U.S. dollars) 5/	386.2	209.0	...	45.9
Public debt (in percent of GDP, including Russia) 5/	91.3	52.4		
Total debt (in percent of GDP, including Russia) 5/	105.2	66.3		

Sources: Data provided by the Ministry of Finance; and Fund staff estimates.

1/ NPV estimated with insufficient details about the terms of the private debt.

2/ Three-year average exports.

3/ Nonhydroelectric exports plus net receipts from the hydroelectric sector.

4/ Preliminary estimate subject to verification.

5/ Under baseline scenario assumptions.

Table IV.2. Lao P.D.R.: Composition of External Public Debt, 2001 1/

	Multilateral	Bilateral	Total
(In percent of total loans)			
Agriculture	20.2	1.8	22.0
Road	16.5	0.9	17.4
Education	3.7	0.0	3.7
Health	2.8	0.0	2.8
Hydropower	10.1	3.7	13.8
Power transmission	2.8	0.0	2.8
Water	4.6	0.0	4.6
Forestry	3.7	0.0	3.7
Electrification	5.5	0.0	5.5
Financial sector	2.8	0.0	2.8
Other sector	8.3	0.0	8.3
Program	12.8	0.0	12.8
Total	93.6	6.4	100.0
(In percent of total debt)			
Agriculture	12.3	0.2	12.5
Road	26.7	0.0	26.7
Education	2.3	0.0	2.3
Health	1.1	0.0	1.1
Hydropower	13.7	3.2	16.9
Power transmission	3.2	0.0	3.2
Water	2.8	0.0	2.8
Forestry	1.7	0.0	1.7
Electrification	7.0	0.0	7.0
Financial sector	4.2	0.0	4.2
Other sector	6.7	0.0	6.7
Program	14.9	0.0	14.9
Total	96.6	3.4	100.0

Sources: Data provided by the Ministry of Finance; and Fund staff estimates.

1/ Includes only multilateral and Paris Club creditors, excluding the Russian Federation.

Table IV.3. Lao P.D.R.: External Debt Indicators, 2001-19 1/

	2001 actual	2002 budget	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2019
	Projections															
	(In million of U.S. dollars)															
Nominal public and private debt stock																
in convertible currency	1,458	1,527	1,564	1,676	1,880	2,083	2,290	2,435	2,418	2,392	2,365	2,336	2,305	2,271	2,247	2,266
Private sector external debt stock	245	224	197	245	387	528	670	751	671	583	495	408	320	232	157	4
Nominal public debt stock	1,600	1,689	1,754	1,818	1,862	1,907	1,953	2,000	2,046	2,090	2,133	2,175	2,214	2,250	2,284	2,385
Nominal public debt stock on existing debt	1,600	1,568	1,533	1,496	1,443	1,391	1,340	1,289	1,238	1,184	1,131	1,077	1,022	967	911	674
Multilateral	1,089	1,068	1,045	1,021	997	973	948	921	893	862	831	800	767	732	695	534
Official Bilateral	454	451	446	442	421	400	378	356	334	313	292	270	251	232	213	137
<i>Of which: Paris Club</i>	429	426	423	421	402	383	363	343	324	304	285	266	247	228	210	134
<i>Of which: Russian Federation 2/</i>	386	386	386	386	369	351	334	316	299	281	264	246	229	211	194	124
Commercial	56	49	41	33	26	18	14	12	11	9	8	6	5	3	3	3
Stock of new borrowing	0	121	221	321	419	516	614	711	808	906	1,003	1,098	1,192	1,283	1,373	1,711
NPV of total public debt	918	976	1,014	1,052	1,073	1,095	1,120	1,146	1,172	1,197	1,222	1,247	1,270	1,292	1,311	1,363
NPV of existing public debt	918	917	914	910	890	870	852	834	814	792	769	745	719	692	664	524
Multilateral	588	588	586	584	581	579	575	569	563	554	544	534	521	507	490	401
Official Bilateral	270	277	284	292	283	273	262	251	240	229	217	205	194	183	171	120
<i>Of which: Paris Club</i>	250	256	264	273	265	257	249	240	230	221	211	201	191	180	168	117
<i>Of which: Russian Federation 2/</i>	209	219	229	240	234	227	221	214	206	198	190	182	172	163	153	107
Commercial	60	51	43	35	27	19	15	13	11	9	8	6	5	3	3	3
NPV of new borrowing	0	59	100	142	182	224	267	312	358	405	454	502	551	599	647	838
	(In percent of exports of goods and services, excluding NT2)															
NPV of public debt 3/ 4/	137.0	139.2	136.9	133.0	129.3	126.9	125.0	122.6	120.1	117.4	114.6	111.8	108.8	105.6	102.3	87.6
<i>Of which: multilateral</i>	113.6	119.1	119.8	118.8	117.7	117.5	117.2	115.9	114.5	112.7	110.8	108.7	106.2	103.4	100.4	86.4
NPV of public debt, incl. Russian debt 3/	177.4	179.5	176.9	172.3	165.4	160.2	155.7	150.7	145.7	140.7	135.8	130.8	125.8	120.8	115.8	95.0
Public debt service 4/	6.7	7.5	8.7	8.5	8.5	8.1	7.5	7.5	7.6	7.6	7.5	7.4	7.5	7.4	7.3	6.7
<i>Of which: multilateral</i>	5.4	5.4	6.0	6.1	6.4	6.2	6.2	6.6	6.7	6.9	6.9	6.9	7.1	7.1	7.2	6.6
Public debt service, incl. Russian debt	6.7	7.5	8.7	8.5	11.1	10.6	9.8	9.7	9.6	9.6	9.4	9.2	9.1	9.0	8.8	7.9
Public debt service ratio to exports, excluding hydroelectric exports 4/ 5/ but including Russian debt 5/	7.5	8.3	9.7	9.4	9.3	8.8	8.2	8.1	8.1	8.1	8.0	7.8	7.9	7.7	7.6	6.9
	7.5	8.3	9.7	9.4	12.1	11.5	10.7	10.4	10.3	10.2	9.9	9.6	9.6	9.3	9.1	8.1
Public and private debt service 4/ incl. Russian debt	15.5	14.6	16.9	16.0	15.2	14.3	12.8	30.3	31.0	27.9	24.9	22.2	20.1	18.3	15.8	8.3
	15.5	14.6	16.9	16.0	17.7	16.7	15.1	32.5	33.1	29.9	26.8	24.0	21.7	19.9	17.2	9.5
	(In percent)															
NPV of public debt-to-GDP ratio 4/	40.5	42.5	41.2	39.2	37.4	36.0	35.2	34.4	33.6	32.8	32.0	31.2	30.3	29.4	28.5	24.4
Ratio of public and private debt to GDP 4/	83.2	85.7	82.1	80.9	83.8	86.5	89.6	89.9	84.3	78.6	73.3	68.4	63.6	59.1	55.2	44.1
Public debt service to fiscal revenue 4/ 6/	15.1	18.3	20.3	18.8	17.8	16.3	14.9	14.6	14.6	14.6	14.2	13.9	13.8	13.7	13.5	12.5
Including the Russian debt	15.1	18.3	20.3	18.8	23.1	21.1	19.4	18.9	18.6	18.3	17.7	17.1	16.8	16.5	16.2	14.6
Grant element in total debt 4/	42.6	41.5	40.4	39.2	38.3	37.4	36.4	35.3	34.2	33.1	32.0	30.8	29.6	28.4	27.1	22.2
Grant element in new borrowing 4/	...	50.9	54.7	55.8	56.4	56.5	56.4	56.1	55.7	55.3	54.8	54.3	53.8	53.3	52.9	51.0

Sources: Data provided by the Ministry of Finance; and Fund staff estimates, and projections.

1/ Under the assumptions of the baseline scenario.

2/ Preliminary estimate subject to verification.

3/ Based on a three-year average of exports on the previous year.

4/ Excluding the Russian debt.

5/ Nonhydroelectric exports plus net receipts from the hydroelectric sector.

6/ Revenues are defined as general government revenues, excluding grants.

Table IV.4. Lao P.D.R.: Debt Service on External Debt, 2001-19 1/
(In millions of U.S. dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2019
	actual	budget	Projections													
Public external debt on existing debt																
Principal payments	25.0	28.5	35.1	36.0	53.1	52.7	50.8	50.7	51.7	53.3	53.5	53.9	54.9	55.2	55.5	60.4
Multilateral	20.1	21.2	23.2	24.1	24.3	23.5	25.0	27.3	28.3	30.3	30.9	31.3	33.4	34.7	36.6	41.4
AsDB	5.0	5.2	6.7	7.7	9.2	10.8	12.2	14.0	14.5	15.3	16.0	16.8	18.1	18.7	20.1	23.2
World Bank	3.6	5.5	6.3	6.9	7.3	7.9	8.6	9.7	10.2	11.4	11.8	12.9	13.7	14.2	14.7	16.1
IMF 2/	9.2	8.9	8.1	6.6	5.2	2.8	1.9	1.1	1.1	1.1	0.6	0.0	0.0	0.0	0.0	0.0
OPEC	1.7	1.1	1.7	2.1	1.7	1.2	1.2	1.2	1.2	1.2	1.2	0.2	0.2	0.1	0.0	0.0
IFAD	0.4	0.4	0.2	0.3	0.3	0.3	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.7
NDF	0.0	0.1	0.1	0.3	0.5	0.5	0.6	0.7	0.7	0.7	0.7	0.8	0.8	1.0	1.1	1.3
EEC	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Bilateral	3.7	3.2	4.2	4.2	21.1	21.5	21.8	21.8	21.8	21.5	21.1	21.1	20.0	18.9	18.9	18.9
Paris Club	3.7	3.2	3.0	2.1	19.0	19.3	19.7	19.7	19.7	19.3	18.9	18.9	18.9	18.9	18.9	18.9
Japan	2.4	1.9	1.9	1.3	0.7	1.1	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Germany	1.2	1.0	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0
France	0.2	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russia 3/	0.0	0.0	0.0	0.0	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5
Non-Paris Club	0.0	0.0	1.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	1.0	0.0	0.0	0.0
China	0.0	0.0	1.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	1.0	0.0	0.0	0.0
Commercial	1.3	4.1	7.7	7.7	7.7	7.7	4.0	1.5	1.5	1.5	1.5	1.5	1.5	1.5	0.0	0.0
Interest payments	11.0	14.2	13.7	12.9	12.0	11.1	10.3	9.8	9.3	8.8	8.3	7.8	7.4	6.9	6.5	5.0
Multilateral	9.0	9.6	9.3	9.1	8.9	8.7	8.5	8.3	8.0	7.8	7.5	7.2	7.0	6.6	6.3	4.9
AsDB	4.3	5.7	5.6	5.5	5.5	5.4	5.2	5.1	5.0	4.8	4.7	4.5	4.3	4.2	4.0	3.1
World Bank	2.9	3.0	3.0	2.9	2.9	2.8	2.8	2.7	2.6	2.5	2.5	2.4	2.3	2.2	2.0	1.6
IMF 2/	0.7	0.4	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OPEC	0.7	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFAD	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
NDF	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
EEC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	1.3	1.5	1.1	1.0	0.9	0.8	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.2	0.1
Paris Club	0.9	0.9	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Japan	0.4	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Germany	0.4	0.4	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russia 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Paris Club	0.5	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
China	0.5	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Commercial	0.7	3.1	3.4	2.8	2.2	1.6	1.1	0.9	0.8	0.6	0.5	0.3	0.2	0.1	0.0	0.0
Debt service on new borrowing	0.0	0.0	4.6	6.5	10.6	12.1	13.6	17.3	20.9	24.1	27.4	30.8	35.1	39.2	43.3	54.6
Principal	0.0	0.0	0.0	0.0	2.5	2.5	2.5	4.8	7.1	9.1	11.2	13.6	16.9	20.2	23.5	32.2
Interest	0.0	0.0	4.6	6.5	8.1	9.6	11.1	12.5	13.8	15.0	16.1	17.2	18.1	19.0	19.8	22.4
Total public debt service	36.0	42.7	53.4	55.4	75.7	75.9	74.8	77.7	81.8	86.2	89.2	92.6	97.3	101.3	105.4	120.0
Principal	25.0	28.5	35.1	36.0	55.6	55.2	53.4	55.5	58.7	62.4	64.8	67.6	71.8	75.4	79.0	92.6
Interest	11.0	14.2	18.4	19.4	20.1	20.7	21.4	22.3	23.1	23.8	24.5	25.0	25.5	25.9	26.3	27.5
Total public debt service in convertible currency	36.0	42.7	53.4	55.4	58.2	58.4	57.3	60.2	64.3	68.7	71.7	75.1	79.8	83.8	87.9	102.5
Private debt service	47.6	39.9	50.5	48.4	45.0	44.1	40.0	183.0	199.2	182.3	165.6	149.0	134.7	123.5	101.2	23.7
Public and private debt service in convertible currency	83.6	82.6	103.9	103.8	103.2	102.5	97.3	243.3	263.5	251.0	237.4	224.1	214.5	207.3	189.1	126.2

Sources: Data provided by the Ministry of Finance; and Fund staff estimates, and projections.

1/ Under the assumptions of the baseline scenario.

2/ Excludes debt service on future disbursements.

3/ Preliminary estimate subject to verification.

INTERNATIONAL MONETARY FUND
LAO PEOPLE'S DEMOCRATIC REPUBLIC

Statistical Appendix

Prepared by a staff team consisting of
Qaizar Hussain, Philippe Marciniak (both APD),
Sonia Brunschwig (PDR), and Eric Sidgwick (Resident Representative)

Approved by the Asia and Pacific Department

July 12, 2002

	Contents	Page
1.	Real GDP by Industrial Origin, 1997–2001	3
2.	Real GDP Growth, 1997–2001	4
3.	Nominal GDP by Industrial Origin, 1997–2001	5
4.	Output of Major Commodities, 1997–2001	6
5.	Consumer Price Indices, 1997–2002	7
6.	Consumer Price Indices Components, 2001–2002	8
7.	General Government Operations, 1997/98–2001/02	9
8.	General Government Revenue, 1997/98–2001/02.....	10
9.	General Government Expenditure, 1997/98–2001/02	11
10.	Monetary Survey, 1998–2002	12
11.	Balance Sheet of the Bank of the Lao P.D.R., 1998–2002.....	13
12.	Summary Balance Sheet of All Commercial Banks, 1998–2002	14
13.	State Commercial Banks, 1998–2002	15
14.	Interest Rates, 1998–2002.....	16
15.	Balance of Payments, 1997–2001	17
16.	Composition of Exports, 1997–2001	18
17.	Composition of Imports, 1997–2001	19
18.	External Aid and Loan Disbursements, 1997–2001	20
19.	International Reserves, 1997–2001.....	21

	Contents	Page
20.	Debt Stock and Debt Service, 1997–2001	22
21.	Approved Foreign Investments by Value and Sector, 1997–2002	23
22.	Approved Foreign Investments by Country Source, 1997–2002.....	24
23.	Summary of Tax System as of December 31, 2001.....	25

Table 1. Lao P.D.R.: Real GDP by Industrial Origin, 1997–2001 1/

	1997	1998	1999	2000	2001 Est.
(In billions of kip; at 1990 constant market prices)					
Agriculture	499	514	556	584	606
Crops	253	270	306	347	361
Livestock and fishery	188	193	197	202	207
Forestry	57	51	53	35	38
Industry	199	217	234	254	279
Mining and quarrying	4	4	5	5	6
Manufacturing	150	164	176	189	211
Construction	33	28	28	25	29
Electricity, gas, and water	13	21	25	35	34
Services	238	252	268	282	298
Transportation, storage, and communication	53	56	60	65	71
Wholesale and retail trade	85	93	100	105	114
Banking, insurance, and real estate	13	13	13	9	10
Ownership of dwellings	31	32	32	33	34
Public wage bill	28	29	31	33	34
Nonprofit institutions	11	8	8	9	8
Hotels and restaurants	17	18	22	25	25
Other	2	2	2	2	2
GDP at factor cost	936	983	1,059	1,120	1,182
Import duties	19	11	6	8	9
GDP at market prices 2/	955	993	1,065	1,127	1,191

Source: Data provided by the Lao P.D.R. authorities.

1/ The GDP figures for 1999-2001 were revised in April 2002.

2/ Fund staff estimates differ from the official figures for 2001.

Table 2. Lao P.D.R.: Real GDP Growth, 1997-2001 1/

	1997	1998	1999	2000	2001 Est.
	(In percent)				
Agriculture	7.5	3.1	8.2	4.9	3.8
Crops	16.2	6.4	13.5	13.2	4.1
Livestock and fishery	1.2	2.5	2.3	2.3	2.5
Forestry	-5.2	-9.7	2.3	-33.6	8.1
Industry	8.1	9.2	8.0	8.5	9.7
Mining and quarrying	50.0	12.7	33.5	1.3	1.2
Manufacturing	8.5	9.6	7.1	7.2	11.5
Construction	8.3	-13.9	-0.6	-9.2	13.0
Electricity, gas, and water	-2.3	62.8	21.6	39.0	-1.3
Services	7.3	5.5	6.7	4.9	5.7
Transportation, storage and communication	5.4	6.6	5.8	9.0	8.6
Wholesale and retail trade	12.1	9.7	7.2	5.0	8.5
Banking, insurance, and real estate	7.6	1.6	3.0	-35.7	18.7
Ownership of dwellings	4.4	2.5	2.5	2.5	2.5
Public wage bill	1.4	4.3	6.7	7.1	1.6
Nonprofit institutions	-4.5	-20.0	-4.8	7.5	-12.5
Hotels and restaurants	16.2	8.2	21.6	16.5	-1.2
Other	-6.3	5.0	19.6	27.5	-1.5
GDP at factor cost	7.6	5.0	7.8	5.7	5.6
Import duties	-15.0	-45.3	-38.8	20.4	15.8
GDP at market prices 2/	7.0	4.0	7.3	5.8	5.7

Source: Data provided by the Lao P.D.R. authorities.

1/ The GDP figures for 1999-2001 were revised in April 2002.

2/ Fund staff estimates differ from the official figures for 2001.

Table 3. Lao P.D.R.: Nominal GDP by Industrial Origin, 1997–2001 1/

	1997	1998	1999	2000	2001 Est.
	(In billions of kip)				
Agriculture	1,139	2,227	5,508	7,127	7,975
Crops	579	1,168	3,031	4,233	4,750
Livestock and fishery	430	836	1,956	2,468	2,727
Forestry	130	223	521	427	497
Industry	454	940	2,321	3,106	3,673
Mining and quarrying	8	18	54	67	73
Manufacturing	342	712	1,744	2,306	2,773
Construction	74	122	276	309	377
Electricity, gas, and water	29	89	247	423	450
Services	564	1,011	2,425	3,333	3,883
Transportation, storage and communication	121	244	591	794	930
Wholesale and retail trade	194	405	992	1,284	1,502
Banking, insurance, and real estate	29	7	57	105	135
Ownership of dwellings	70	137	321	406	449
Public wage bill	95	123	219	393	497
Nonprofit institutions	14	11	11	12	11
Hotels and restaurants	38	77	215	309	329
Other	3	7	19	29	31
Import duties	44	62	75	106	139
GDP at market prices 2/	2,201	4,240	10,329	13,671	15,670

Source: Data provided by the Lao P.D.R. authorities.

1/ The GDP figures for 1999-2001 were revised in April 2002.

2/ Fund staff estimates differ from the official figures for 2001.

Table 4. Lao P.D.R.: Output of Major Commodities, 1997-2001

Item	Unit	1997	1998	1999	2000	2001 Est.
Agriculture						
Paddy	'000 tons	1,660	1,674	2,100	2,200	2,334
Corn	'000 tons	78	110	96	117	111
Sweet potatoes and cassava	'000 tons	94	108	81	118	91
Coffee	'000 tons	12	17	18	24	26
Tobacco	'000 tons	28	26	23	33	26
Livestock						
Buffalo	'000 tons	47	48	49	50	51
Cattle	'000 tons	40	42	43	44	46
Pigs	'000 tons	85	87	89	91	90
Poultry	'000 tons	17	17	18	19	20
Forestry						
Logs	'000 m3	625	558	568	378	239
Industry						
Tin	tons	667	785	691	800	816
Gypsum	'000 tons	151	131	165	185	150
Manufacturing						
Hydropower	million khw	1,219	1,996	2,436	3,678	3,590
Beer	'000 hectoliter	286	332	480	508	577
Soft drinks	'000 hectoliter	122	125	123	143	142
Cigarettes	million packs	50	55	38	41	41
Agricultural tools	'000 units	3	4	4	4	4
Corrugated iron sheet	million sheets	2	2	...	...	...
Detergent	tons	870	912	879	900	700
Nails	tons	750	624	691	650	740
Oxygen	'000 bottles	24	21	21	21	21
Electric cord	'000 m	3,100	2,250	3,570	2,000	...
Plastic products	tons	3,568	3,225	3,900	3,850	4,350
Salt	'000 tons	16	16	18	19	21
Wood furniture	million kip	7,800	7,155	12,725	12,700	15,240
Rattan furniture	million kip	148	146	268	275	320
Garments	million pieces	21	23	21	24	32
Sugar	tons	205	208	353	300	265
Tobacco	tons	1,560	1,000	757	1,277	358
Plywood	mill. sheets	1680	1692	2,086	2,150	2200
Cement	1,000 tons	84	90	75	75	75
Bricks	million pieces	59	51	65	66	87
Wood	1,000 meters	255	212	251	240	230
Ventilators	1,000 units	420	423	438	455	465

Source: Data provided by the Lao P.D.R. authorities.

Table 5. Lao P.D.R.: Consumer Price Indices, 1997–2002

	1997	1998	1999	2000	2001	2002
(NSC Index; December 1999 = 100) 1/						
January	17.5	23.0	57.7	101.5	111.8	119.8
February	17.9	26.0	65.0	103.3	112.6	120.7
March	18.4	26.8	71.6	104.2	113.0	121.1
April	18.7	30.4	78.9	106.4	114.8	123.3
May	19.7	32.1	82.1	107.7	116.2	124.0
June	19.8	39.9	89.6	108.9	116.1	
July	20.6	42.1	99.1	109.7	117.3	
August	21.7	43.3	104.0	111.0	120.0	
September	22.6	46.5	103.6	113.7	120.8	
October	22.1	47.1	104.0	112.8	120.8	
November	21.7	51.3	99.6	110.7	119.8	
December	22.1	53.6	100.0	110.6	118.9	
(Twelve-month percentage change)						
January	11.4	31.3	150.8	75.9	10.1	7.2
February	11.7	45.0	150.5	58.9	9.0	7.2
March	12.4	45.6	167.1	45.6	8.4	7.2
April	12.3	62.4	159.3	35.0	7.8	7.4
May	16.2	62.8	155.4	31.2	7.9	6.7
June	15.9	101.6	124.7	21.5	6.7	
July	19.6	103.8	135.7	10.7	6.9	
August	25.7	99.5	140.2	6.7	8.1	
September	27.7	106.3	122.6	9.7	6.3	
October	26.9	112.5	121.1	8.5	7.1	
November	25.7	136.3	94.3	11.1	8.2	
December	26.6	141.9	86.7	10.6	7.5	
Period average	19.3	87.4	134.0	27.1	7.8	7.1

Source: Data provided by the Lao P.D.R. authorities.

1/ New series with December 1999 base are spliced with old series.

Table 6. Lao P.D.R.: Consumer Price Indices Components, 2001–2002

	Weight	2001				2002	
		Mar.	Jun.	Sept.	Dec.	Mar.	May
		(Twelve-month percentage change)					
Foods	46.2	6.8	6.1	4.2	6.4	7.7	6.6
Rice, bread, flour, and other cereals	14.7	12.5	3.7	-1.2	0.9	6.0	...
Meats, poultry, and fish	12.1	-0.4	1.6	2.2	5.2	5.8	...
Fish	4.4	-5.3	-9.1	-6.0	-1.1	5.3	...
Dairy products and egg	0.9	-4.9	-6.0	9.7	14.3	13.1	...
Fruit and vegetables	5.3	12.7	33.1	14.5	8.5	-1.0	...
Sugar, sweets, and spices	2.9	10.0	11.5	18.8	18.2	18.6	...
Meals	4.2	9.3	8.7	21.4	26.2	26.2	...
Other drink	1.4	12.3	9.7	8.0	5.9	4.9	...
Alcoholic beverages and tobacco	6.4	9.7	11.1	13.6	10.7	6.1	1.6
Alcoholic beverages	4.0	4.3	5.1	6.6	4.5	4.9	...
Tobacco	2.4	19.2	21.7	25.9	21.5	8.1	...
Clothing and foot wear	4.9	6.8	5.5	11.6	12.3	12.8	12.7
Men's clothing	1.3	1.8	3.8	11.5	10.5	9.7	...
Ladies's clothing	1.3	5.1	3.2	10.4	8.6	9.7	...
Children's clothing	1.2	13.7	12.5	18.9	20.7	21.8	...
Foot wear	0.8	7.6	2.0	5.1	9.4	9.5	...
Housing	3.8	25.7	23.6	22.0	22.3	22.4	...
Rent, water, and sewerage charges	0.3	37.3	37.3	14.0	21.9	18.8	...
Housing maintenance & repair	1.5	15.0	13.8	16.3	15.2	19.5	...
Fuel and power	1.9	32.3	29.0	27.5	27.5	25.1	...
Household goods	8.1	7.9	6.8	7.9	8.2	8.8	8.7
Household furniture	1.6	20.2	18.9	21.0	18.7	17.7	...
Household textiles	1.0	3.1	4.3	6.5	11.0	10.6	...
Household appliances	1.4	4.0	2.3	6.7	7.4	8.0	...
Glass & tableware & utensils	0.8	10.6	11.5	8.4	6.5	5.7	...
Household operation	3.3	4.7	2.3	2.4	2.8	4.4	...
Medical care	3.8	1.6	2.0	1.5	3.2	1.0	...
Transport and communications	17.9	11.0	4.3	3.3	3.5	-0.7	-2.4
Personal transport	15.7	7.7	1.3	-1.1	-0.1	-1.9	...
Public transport	1.8	37.4	26.9	36.1	30.2	21.5	...
Communicatons	0.4	12.3	5.0	3.9	1.7	0.4	...
Recreation, education, and printed matter	4.7	10.0	7.7	7.7	9.2	10.6	10.6
Recreation and education	4.2	11.0	9.3	9.1	10.2	11.2	...
Books, newspapers, and supplies	0.5	2.8	-3.9	-1.9	1.1	5.5	...
Personal care and effects	4.2	4.4	4.6	9.0	12.0	11.7	13.7
Total	100.0	8.4	6.7	6.3	7.5	7.2	6.7

Source: Data provided by the Lao P.D.R. authorities.

Table 7. Lao P.D.R.: General Government Operations, 1997/98-2001/02

	1997/98	1998/99	1999/00	2000/01		2001/02
				Budget	Est.	Budget
(In billions of kip)						
Revenue and grants	567	1,461	2,166	2,614	2,476	3,030
Revenue	367	929	1,691	2,194	2,000	2,481
Tax	290	745	1,367	1,742	1,629	2,043
Profit tax	33	80	187	316	205	362
Income tax	19	70	117	182	153	190
Turnover tax	63	160	290	379	318	452
Excise tax	51	157	226	336	371	362
Import duties	50	99	135	192	179	229
Timber royalty receipts	37	89	273	115	182	165
Other	36	90	140	222	221	283
Nontax	77	184	324	452	372	438
Grants	200	532	475	420	476	549
Expenditure	883	1,809	2,754	3,382	3,141	3,614
Current	304	539	1,050	1,417	1,229	1,449
Wages and salaries	117	181	335	417	416	525
Materials and supplies	63	132	174	342	330	370
Interest payments	39	59	103	175	134	145
Timber royalty financed expenditure	37	89	242	115	0	0
Other	49	78	196	368	350	409
Capital and onlending 1/	579	1,270	1,704	1,965	1,911	2,165
Current balance	63	390	641	776	771	1,033
Overall balance (including grants)	-317	-348	-588	-769	-665	-583
(excluding grants)	-516	-879	-1,063	-1,189	-1,140	-1,132
Financing	317	348	588	769	665	583
Domestic financing (net)	93	-52	-148	213	187	35
Bank financing 2/	30	-39	-104	0	246	13
Nonbank financing	63	-13	-44	213	-59	20
Foreign financing (net)	223	400	736	556	478	550
Project loans	249	478	827	780	724	826
Program loans	0	0	96	0	0	0
Amortization	26	77	187	224	247	276
(In percent of GDP)						
Revenue and grants	15.1	16.6	16.9	17.7	16.8	18.4
Revenue	9.8	10.6	13.2	14.9	13.6	15.0
Tax	7.8	8.5	10.6	11.8	11.1	12.4
Nontax	2.1	2.1	2.5	3.1	2.5	2.7
Grants	5.3	6.0	3.7	2.8	3.2	3.3
Expenditure	23.6	20.5	21.5	22.9	21.3	21.9
Current	8.1	6.1	8.2	9.6	8.4	8.8
Wages and salaries	3.1	2.1	2.6	2.8	2.8	3.2
Capital and onlending	15.5	14.4	13.3	13.3	13.0	13.1
Current balance (excluding grants)	1.7	4.4	5.0	5.3	5.2	6.3
Overall balance (including grants)	-8.5	-4.0	-4.6	-5.2	-4.5	-3.5
(excluding grants)	-13.8	-10.0	-8.3	-8.1	-7.7	-6.9
Financing	8.5	3.9	4.6	5.2	4.5	3.5
Domestic financing (net)	2.5	-0.6	-1.2	1.4	1.3	0.2
Bank	0.8	-0.4	-0.8	0.0	1.7	0.1
Nonbank	1.7	-0.1	-0.3	1.4	-0.4	0.1
Foreign financing (net)	6.0	4.5	5.7	3.8	3.2	3.3
Memorandum item:						
Nominal GDP, fiscal year (in billions of kip)	3,737	8,807	12,836	14,755	14,721	16,510

Sources: Data provided by the Lao P.D.R. authorities; and Fund staff estimates.

1/ Compared to previously used fiscal data, the budget capital expenditures have been revised to exclude irrigation projects financed through bank credit to farmers and state enterprises, mainly in 1997/98.

2/ Bank financing excludes valuation adjustments on the stock of government foreign currency deposits and credit in all years, as well as reclassification of printing costs by the BOL (KN 78 billion) in 1999/00.

Table 8. Lao P.D.R.: General Government Revenue, 1997/98–2001/02

	1997/98	1998/99	1999/00	2000/01		2001/02
				Budget	Est.	Budget
(In billions of kip)						
Tax revenue	290	745	1,367	1,742	1,629	2,043
Profit tax	33	80	187	316	205	362
Income tax	19	70	117	182	153	190
Agriculture/land tax	3	5	7	13	17	21
Business licenses	0	0	1	3	0	3
Turnover tax	63	160	290	379	318	452
Excise tax	51	157	226	336	371	362
Import duties	50	99	135	192	179	229
Export duties	8	24	41	62	57	62
Registration	2	5	7	9	11	15
Other fees	19	33	47	104	61	111
Natural resource tax	0	5	14	11	24	17
Timber royalties	37	89	273	115	182	165
Hydropower royalties	4	17	22	21	51	55
Nontax revenue	77	184	324	452	372	438
Leasing	10	11	15	20	39	57
Concession	0	1	2	3	1	3
Fines	11	9	14	22	12	31
Administrative fees	0	11	17	19	41	62
Depreciation/dividends	8	22	42	212	67	89
Interest	15	89	79	40	76	42
Overflight	33	40	123	125	114	153
Irrigation, etc.	0	0	33	11	20	1
Total revenue	367	929	1,691	2,194	2,000	2,481

Source: Data provided the Lao P.D.R. authorities.

Table 9. Lao P.D.R.: General Government Expenditure, 1997/98–2001/02

	1997/98	1998/99	1999/00		2000/01		2001/02
			Budget	Est.	Budget	Est.	Budget
(In billions of kip)							
Current expenditure	304	539	1,052	1,050	1,417	1,229	1,449
Wages and salaries	117	182	348	335	417	410	517
Base wage	81	148	223	200	244	230	310
Benefits	13	25	81	82	69	74	88
Functions	...	6	11	10	9	8	9
Teacher	...	5	7	6	7	10	11
Medical personnel	...	1	2	1	2	3	3
Length of service	...	6	8	8	8	9	11
Other	...	7	53	...	44	44	55
Cost of living	24	10	44	28	104	106	119
Transfers	30	58	107	130	244	243	292
Spouse	...	3	5	...	12	11	15
Children	...	21	28	...	57	53	75
Scholarship	...	12	12	...	30	26	34
Pensions	...	6	11	...	29	29	31
Emergency	...	4	7	...	22	16	23
Medicine	...	4	8	...	9	8	11
Other	...	5	36	...	85	102	101
Restructuring of SOEs	18	19	0	0	0	0	0
Materials and supplies	63	132	137	174	342	330	370
Interest	39	59	133	103	164	134	145
External	32	53	118	82	109	117	119
Domestic	7	5	15	21	55	17	26
Timber royalty-financed expenditure	37	89	270	242	115	0	0
Severance payments	1	1	3	4	5	6	8
Other	0	0	54	62	130	107	117
Capital expenditure and net onlending	579	1,270	1,768	1,704	1,965	1,911	2,165
Domestically-financed	154	297	456	481	805	872	1,017
Foreign-financed	436	997	1,364	1,302	1,200	1,200	1,256
Loan-funded projects	249	478	824	827	780	724	826
Grant-funded projects	187	519	540	475	420	476	430
Onlending (net)	-10	-24	-52	-78	-40	-160	-108
Amortization (External debt)	27	77	172	187	224	247	276

Source: Data provided by the Lao P.D.R. authorities.

Table 10. Lao P.D.R.: Monetary Survey, 1998-2002 1/

	1998	1999	2000	2001				2002	
				Mar.	Jun.	Sept.	Dec.	Mar.	May
(In billions of kip; end of period)									
Net foreign assets	498	1,266	1,528	1,513	1,519	1,440	1,485	1,671	1,844
Bank of Lao P.D.R.	216	405	799	730	840	878	915	936	994
Commercial banks	283	861	728	783	679	562	570	735	850
Net domestic assets	368	278	721	791	893	1,157	1,218	1,200	1,171
Domestic credit	704	1,045	1,439	1,726	1,880	2,339	2,436	2,296	2,226
Net claims on Government	-52	-272	-420	-299	-252	-141	-117	-132	-158
Credit to the economy	756	1,317	1,859	2,025	2,132	2,480	2,553	2,428	2,384
<i>of which</i> : in foreign currency	612	1,091	1,491	1,613	1,700	2,019	2,064	1,950	1,924
Credit to private sector	533	872	1,253	1,264	1,325	1,499	1,532	1,479	1,463
<i>of which</i> : in foreign currency	410	678	953	922	968	1,110	1,125	1,068	1,066
Credit to state enterprises	224	445	606	761	806	981	1,021	949	921
<i>of which</i> : in foreign currency	202	413	538	691	732	910	939	882	858
Other items (net)	-337	-767	-718	-935	-987	-1,182	-1,218	-1,096	-1,055
Broad money	866	1,545	2,249	2,304	2,412	2,597	2,704	2,871	3,014
Narrow money	169	219	339	380	339	323	368	448	435
Currency outside banks	63	78	67	109	97	99	107	127	136
Demand deposits	106	141	272	271	242	224	261	321	298
Quasi-money	697	1,326	1,910	1,924	2,073	2,274	2,337	2,424	2,580
Time and savings deposits	116	98	197	239	286	289	308	328	353
Foreign currency deposits	581	1,227	1,713	1,685	1,787	1,986	2,029	2,096	2,227
(Annual percentage change)									
Domestic credit	94.4	48.4	37.7	53.2	51.2	75.5	69.3	33.0	19.3
Credit to the economy	86.3	74.2	41.1	38.9	35.7	45.8	37.4	19.9	13.4
Broad money	113.3	78.4	45.7	31	17.8	23.0	20.2	24.6	24.2
Memorandum items:									
Exchange rate (kip/US\$; end of period)	4.3	7.6	8.2	8.4	8.7	9.5	9.5	9.4	9.6
Money multiplier	3.1	3.2	2.9	3.5	3.4	3.5	3.3	3.6	3.4

Sources: Data provided by the Lao P.D.R. authorities; and Fund staff estimates.

1/ Valued at current exchange rates.

Table 11. Lao P.D.R.: Balance Sheet of the Bank of the Lao P.D.R., 1998-2002 1/

	1998	1999	2000	2001				2002	
				Mar.	Jun.	Sept.	Dec.	Mar.	May
(In billions of kip; end of period)									
Net foreign assets	216	405	799	730	840	878	915	936	994
Foreign assets	480	807	1,147	1,063	1,199	1,272	1,266	1,326	1,384
Foreign liabilities	-264	-401	-347	-333	-359	-394	-351	-390	-390
Net domestic assets	66	76	-33	-66	-129	-129	-93	-148	-106
Net domestic credit	279	632	588	663	675	827	891	811	842
Claims on government (net)	14	-36	-347	-224	-156	-76	-96	-115	-142
<i>of which:</i> in foreign currency	17	-78	-417	-310	-229	-80	-141	-159	-174
Claims on government	91	199	159	161	163	172	185	194	198
<i>of which:</i> in foreign currency	69	137	55	55	58	64	64	63	64
Government deposits	-78	-235	-506	-385	-319	-248	-281	-309	-340
<i>of which:</i> in foreign currency	-52	-216	-473	-365	-287	-144	-204	-222	-238
Claims on SOEs	113	224	346	397	406	467	488	485	456
<i>of which:</i> in foreign currency	112	223	342	395	406	466	488	485	456
Claims on private sector	72	143	143	145	146	151	151	150	149
<i>of which:</i> in foreign currency	72	143	143	144	146	150	150	150	149
Claims on other banking institutions	80	302	446	345	279	285	348	290	379
<i>of which:</i> in foreign currency	...	240	21	250	177	171	234	182	270
BOL securities	-43	-142	-159	-157	-144	-201	-200	-199	-194
Other items (net)	-170	-415	-461	-572	-660	-755	-784	-760	-754
Government lending funds	-54	-92	-211	-267	-278	-328	-347	-349	-324
Other items	-115	-322	-250	-305	-382	-427	-437	-411	-431
Reserve money	282	482	767	664	711	750	822	788	888
Currency in circulation	63	78	63	108	96	98	105	127	134
Vault cash	23	-17	38	39	53	37	39	36	53
Bank deposits	196	387	661	516	561	613	677	625	699
Required reserves	107	217	274	286	301	315	329	306	317
<i>of which:</i> in foreign currency	...	...	224	234	245	261	275	265	279
Excess reserves	30	64	69	59	84	57	44	42	60
Other deposits	20	87	319	171	176	241	304	277	322
<i>of which:</i> in foreign currency	...	184	224	234	245	261	275	265	279
Memorandum item:									
Net foreign assets (in millions of U.S. dollars)	50	53	97	87	97	93	96	99	104

Source: Data provided by the Lao P.D.R. authorities.

1/ Valued at current exchange rates.

Table 12. Lao P.D.R.: Summary Balance Sheet of All Commercial Banks, 1998-2002 1/

	1998	1999	2000	2001				2002	
				Mar.	Jun.	Sept.	Dec.	Mar.	May
(In billions of kip; end of period)									
Net foreign assets	283	861	728	783	679	562	570	735	850
Foreign assets	452	1,143	1,077	1,212	1,071	1,035	1,043	1,208	1,370
Foreign liabilities	-169	-282	-349	-429	-392	-473	-473	-473	-520
Net domestic assets	520	606	1,454	1,412	1,636	1,936	2,028	2,009	2,028
Net domestic credit	440	479	1,297	1,408	1,484	1,797	1,893	1,775	1,763
Net claims on government	-66	-236	-72	-75	-96	-65	-21	-17	-16
Claims on government	38	11	8	10	20	24	28	37	46
Gov. deposits	-103	-247	-80	-85	-116	-90	-49	-55	-63
<i>of which:</i> in foreign currency	...	...	-54	-52	-68	-59	-29	-34	-38
Claims on the economy	572	950	1,370	1,483	1,580	1,862	1,914	1,792	1,779
Claims on SOE	111	222	260	364	400	514	533	463	464
<i>of which:</i> in foreign currency	...	...	196	296	326	443	451	397	402
Claims on private sector	461	729	1,109	1,119	1,179	1,348	1,382	1,329	1,314
Other items (net)	80	128	156	4	153	139	134	234	266
Credit from monetary authorities	-82	-314	-490	-418	-367	-313	-386	-339	-435
Other liabilities	-122	-274	-204	-330	-309	-360	-394	-355	-288
Capital account	-216	-457	-524	-537	-563	-598	-578	-531	-542
Restricted deposits	-4	-1	0	0	0	0	0	-5	-17
Other assets	292	772	687	728	734	755	767	772	803
Reserves	212	403	688	561	657	655	726	693	744
Deposits	803	1,467	2,182	2,195	2,315	2,498	2,598	2,745	2,878
Kip deposits	222	239	469	510	528	512	569	649	651
Current deposits	106	141	272	271	242	224	261	321	298
Time and savings deposits	116	98	197	239	286	289	308	328	353
Foreign currency deposits	581	1,227	1,713	1,685	1,787	1,986	2,029	2,096	2,227
(In millions of U.S. dollars; end of period)									
Net foreign assets	66	113	89	93	78	59	60	78	89
Foreign currency deposits	136	161	208	201	207	209	214	222	233
Memorandum item:									
NFA coverage of foreign currency deposits	48.7	70.2	42.5	46.5	38.0	28.3	28.1	35.1	38.2

Source: Data provided by the Lao P.D.R. authorities.

1/ Valued at current exchange rates.

Table 13. Lao P.D.R.: State Commercial Banks, 1998-2002 1/ 2/

	1998	1999	2000	2001				2002	
				Mar.	June	Sept.	Dec.	Mar.	May
(In billions of kip; end of period)									
Net foreign assets	223	639	483	526	435	335	306	440	566
Foreign assets	293	769	676	720	604	536	498	641	793
Foreign liabilities	70	131	193	195	168	201	192	201	227
Net reserves	90	30	102	34	176	171	160	165	117
Reserves	137	278	494	349	433	361	416	378	423
Credit from monetary authorities	46	249	392	315	257	190	256	212	306
Domestic credit	246	353	815	902	959	1,193	1,281	1,143	1,150
Claims on government (net)	-63	-203	-66	-72	-80	-59	-23	-30	-37
Claims in kip	-63	-150	-13	-22	-13	-1	5	3	-1
Claims in foreign currency	0	-53	-53	-50	-67	-58	-28	-32	-36
Net domestic assets (excl. net credit to government)	351	682	1,193	1,231	1,284	1,499	1,567	1,524	1,589
Credit to the economy	309	556	882	974	1,039	1,252	1,304	1,173	1,188
<i>of which:</i> in foreign currency	...	431	660	715	782	988	1,019	887	915
Credit to state enterprises	100	197	217	270	292	407	419	365	359
Credit to private sector	209	359	665	704	747	845	885	808	829
Other items (net)	41	126	312	257	244	247	263	352	402
Deposits	596	1,139	1,712	1,719	1,815	1,946	2,009	2,100	2,235
Deposits in kip	188	197	372	401	411	390	432	504	512
Deposits in foreign currency	408	942	1,340	1,318	1,404	1,555	1,578	1,596	1,723
(In millions of U.S. dollars; end of period)									
Net foreign assets	52	84	59	63	50	35	32	47	59
Foreign currency credit to the economy	...	57	80	85	90	104	107	94	96
Foreign currency net credit to government	0	-7	-6	-6	-8	-6	-3	-3	-4
Foreign currency deposits	95	124	163	157	162	164	166	169	180
(Annual percentage change)									
Domestic credit	...	43.4	131.2	132.2	65.0	73.8	57.1	26.8	22.4
Credit to the economy	...	79.8	58.6	52.2	50.9	46.8	28.5	20.4	15.3
<i>of which:</i> in foreign currency	...	...	53.3	45.7	48.6	68.5	54.2	24.0	19.3
Deposits	...	91.1	50.3	30.2	15.6	18.7	17.4	22.2	22.8
Memorandum items:									
NFA coverage of foreign currency deposits	55	68	36	40	31	22	19	28	33
Reserves to deposits ratio	0.23	0.24	0.29	0.20	0.24	0.19	0.21	0.18	0.19
Exchange rate (kip/US\$; end of period)	4,274	7,600	8,218	8,390	8,650	9,490	9,490	9,430	9,550

Source: Data provided by the Lao P.D.R. authorities.

1/ Comprises BCEL, LMB, and LXB.

2/ Valued at current exchange rates.

Table 14. Lao P.D.R.: Interest Rates, 1998–2002

	1998	1999	2000	2001	2002	
					Mar.	May
(In percent; end of period)						
Local banks (representative rates)						
Deposit rates						
Savings (U.S. dollar accounts)	5.0	3.0	3.0	2.0	2.0	2.0
Fixed (U.S. dollar accounts)						
3 months	5.5	4.5	4.0	2.5	2.5	2.5
6 months	6.0	4.8	5.0	3.0	3.0	3.0
12 months	8.0	5.0	6.0	3.5	3.5	3.5
Savings (Kip accounts)	22.0	6.0	12.0	12.0	8.0	8.0
Fixed (Kip accounts)						
3 months	22.3	15.0	15.0	16.0	12.0	12.0
6 months	22.5	20.0	20.0	18.0	14.0	14.0
12 months	23.0	24.0	24.0	20.0	16.0	16.0
Lending rates						
Overdraft						
Kip	36.0	36.0	30.0	24.0	24.0	24.0
Baht	22.0	18.0	12.0	10.0	10.0	10.0
U.S. dollar	18.0	14.0	11.0	11.0	11.0	11.0
Foreign banks (representative rates)						
Deposit rates						
Savings (U.S. dollar accounts)	5.0	1.0	1.0	0.5	0.5	0.5
Fixed (U.S. dollar accounts)						
3 months	5.0	2.0	1.0	1.0	1.0	1.0
6 months	5.0	2.0	1.5	1.0	1.0	1.0
12 months	5.0	2.0	3.0	2.0	2.0	2.0
Lending rates						
Overdraft						
Kip	33.5	23.0	23.0	23.0	44.0	44.0
Baht	21.5	17.0	17.0	17.0	28.0	28.0
U.S. dollar	15.5	13.0	13.0	13.0	23.0	23.0

Source: Data provided by the Lao P.D.R. authorities.

Table 15. Lao P.D.R.: Balance of Payments, 1997-2001

	1997	1998	1999	2000	2001 Est.
	(In millions of U.S. dollars)				
Current account	-185	-56	-60	-24	-61
(excluding official transfers)	-282	-130	-129	-145	-122
Merchandise trade balance	-331	-216	-212	-218	-218
Exports, f.o.b.	317	337	342	351	350
(in percent change)	(-1.4)	(6.4)	(1.5)	(2.6)	(-0.3)
Imports, c.i.f.	648	553	554	569	567
(in percent change)	(-6.0)	(-14.7)	(0.3)	(2.7)	(-0.4)
Services (net)	28	71	98	126	141
Income (net)	-22	-34	-45	-73	-68
<i>Of which</i> : interest payments 1/	-19	-26	-35	-37	-35
Transfers (net)	140	123	99	142	83
Private	43	49	30	21	22
Official	97	74	70	121	61
<i>Of which</i> : technical assistance	19	17	14	22	11
Capital account	155	38	63	68	59
Long-term loans	161	86	65	63	74
Disbursements	179	98	94	98	114
Amortization	-18	-12	-29	-36	-39
<i>Of which</i> : public debt	...	-7	-17	-12	-16
Foreign investment (including external loans)	104	56	82	31	33
<i>Of which</i> : hydropower investment	60	18	30	0	0
Net foreign assets of commercial banks (increase -)	14	-17	-47	25	34
Errors and omissions	-125	-86	-37	-51	-82
Overall balance	-30	-18	3	44	-2
Financing	30	18	-3	-44	2
Central bank net foreign assets	30	18	-3	-44	2
Assets (increase -)	31	23	6	-33	6
Liabilities (reduction -)	-1	-5	-9	-10	-4
Memorandum items:					
Current account balance (in percent of GDP)					
(including official transfers)	-10.7	-4.4	-4.0	-1.4	-3.5
(excluding official transfers)	-16.3	-10.1	-8.8	-8.3	-7.0
Gross official reserves					
(in millions of U.S. dollars)	136	112	106.2	126.5	133.5
(in months of prospective goods and services imports)	2.7	2.2	2.1	2.5	2.5
Public debt service ratio					
(including IMF; in percent of exports of goods and services)	7.3	9.7	6.2	5.7	6.7

Sources: Data provided by the Lao P.D.R. authorities; and Fund staff estimates.

1/ Includes debt service to official creditors and estimates for debt service to commercial creditors, but does not include obligations to the Russian Federation which are being clarified in the context of bilateral negotiations.

Table 16. Lao P.D.R.: Composition of Exports, 1997–2001

	1997	1998	1999	2000	2001 Est.
	(In millions of U.S. dollars)				
Customs data	142.3	181.9	136.4	124.1	111.2
Wood products	89.7	115.4	84.9	87.1	81.0
Logs	16.7	10.5	20.0	26.0	...
Timber	67.4	87.4	26.9	37.7	...
Other and unrecorded	5.6	17.5	38.0	23.4	...
Coffee	19.2	48.0	15.2	12.1	7.8
Agricultural/forest products	18.1	8.4	8.3	15.4	12.6
Manufactures	15.3	10.1	27.9	9.6	9.7
Garments	90.5	70.2	72.0	91.6	100.0
Motorcycles	17.1	17.8	38.4	22.1	23.4
Electricity	20.8	66.5	90.5	112.2	114.2
Gold re-exports	41.5	0.0	0.0	0.0	0.0
Fuel purchases by foreign carriers	0.5	0.4	0.8	1.0	1.0
Adjustment for Russian debt	4.2	4.0	4.0	0.0	0.0
Total exports	316.9	337.0	342.1	351.0	349.8
Memorandum items:					
Total exports/GDP (in percent)	18.3	26.2	23.2	20.2	20.0
Total exports (percentage change)	-1.4	6.4	1.5	2.6	-0.3

Sources: Data provided by the Lao P.D.R. authorities; and Fund staff estimates.

Table 17. Lao P.D.R.: Composition of Imports, 1997–2001

	1997	1998	1999	2000	2001 Est.
	(In millions of U.S. dollars)				
Customs data (c.i.f.)	647.9	460.8	436.7	449.8	446.5
Investment goods	226.8	226.7	184.0	161.8	166.4
Machinery and equipment	52.0	44.4	21.0	16.2	...
Vehicles 1/	53.8	39.4	35.8	23.3	...
Fuel 1/	38.2	61.8	36.7	79.1	...
Construction/electrical equipment	82.8	81.1	90.5	43.2	...
Consumption goods	267.7	234.1	252.7	288.0	280.1
Materials for garments industry	73.7	66.8	66.5	60.4	67.2
Motorcycles parts for assembly	24.9	17.0	38.4	22.6	30.0
Gold and silver 2/	50.4	0.7	2.1	1.5	5.4
Electricity	3.2	5.8	8.6	5.8	6.5
Fuel purchased abroad by Lao carriers	1.3	1.7	2.0	2.3	2.4
Unrecorded imports 3/	...	...	...	27.0	9.4
Total imports (c.i.f.)	648.0	552.8	554.3	569.4	567.4
(percentage change)	-6.0	-14.7	0.3	2.7	-0.4

Source: Data provided by the Lao P.D.R. authorities; and Fund staff estimates.

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

2/ Includes gold for re-export.

3/ Estimate included for unrecorded imports in 2000 due to weaknesses in customs data.

Table 18. Lao P.D.R.: External Aid and Loan Disbursements, 1997–2001

	1997	1998	1999	2000	2001 Est.
	(In millions of U.S. dollars)				
Grants 1/	97.5	73.7	69.7	121.1	61.2
Bilateral	77.8	58.1	59.7	120.7	61.0
Program grants	10.4	8.5	37.0	0.0	0.0
Project grants	67.4	49.6	22.7	120.7	61.0
<i>Of which</i> : Technical assistance	...	12.6	11.9	22.1	11.2
Multilateral	19.6	15.6	10.0	0.4	0.2
UN agencies	9.4	10.7	0.0	0.1	0.0
AsDB	1.5	2.3	0.0	0.0	0.0
Other (including NGOs)	8.7	2.6	10.0	0.3	0.2
Loan disbursements	179.0	98.0	94.2	98.3	113.5
Program loans	8.9	0.0	0.0	11.3	0.0
IDA	0.0	0.0	0.0	0.0	0.0
AsDB	8.9	0.0	0.0	11.3	0.0
Project loans	170.1	98.0	94.2	87.0	113.5
AsDB	89.0	71.8	58.5	37.7	51.9
IDA	42.0	17.5	20.6	26.8	36.4
IFAD	1.6	1.4	1.9	2.5	4.2
OPEC	0.5	2.6	4.4	4.6	3.9
Nordic Fund	3.6	2.1	4.7	2.5	6.8
OECF	12.0	2.7	1.2	0.0	0.4
Other 2/	21.4	0.0	2.9	12.9	9.9
Memorandum item:					
Technical assistance	19.5	16.7	13.9	22.2	11.2

Sources: Data provided by the Lao P.D.R. authorities; and Fund staff estimates.

1/ Includes project related and general technical assistance.

2/ Includes borrowing for Theun Hinboun and Huay Ho hydropower-projects from bilateral creditors.

Table 19. Lao P.D.R.: International Reserves, 1997-2001

	1997	1998	1999	2000	2001
	(In millions of U.S. dollars)				
Net foreign assets of the banking system	118.2	116.6	166.6	185.9	150.3
Foreign assets	220.3	218.0	256.6	270.6	253.5
Foreign liabilities	102.1	101.4	89.9	84.7	103.2
Central bank net foreign assets	69.2	50.4	53.4	97.2	95.6
Foreign assets	135.5	112.2	106.2	139.6	133.5
Foreign liabilities	66.4	61.8	52.8	42.3	37.9
Commercial banks' net foreign assets	49.1	66.1	113.3	88.7	54.7
Foreign assets	84.8	105.8	150.4	131.1	120.0
Foreign liabilities	35.7	39.6	37.1	42.3	65.3

Sources: Data provided by the Lao P.D.R. authorities; and Fund staff estimates.

Table 20. Lao P.D.R.: Debt Stock and Debt Service 1997-2001 1/

	1997	1998	1999	2000	2001 Est.
(In millions of U.S. dollars)					
Total debt stock	1,157.7	1,374.2	1,538.2	1,447.1	1,458.2
<i>Of which</i> : public debt	978.6	1,110.6	1,246.5	1,178.9	1,213.6
Bilateral	90.0	139.2	152.9	79.1	67.9
Multilateral	888.5	971.4	1,036.0	1,042.2	1,089.3
<i>Of which</i> :					
AsDB	429.8	500.0	540.4	541.5	575.0
IDA	347.6	363.1	380.7	393.6	406.6
IMF	67.4	59.5	55.2	48.1	37.4
Commercial	...	...	57.6	57.6	56.4
Private debt	179.2	263.6	291.7	268.2	244.7
Total debt service	30.3	45.1	68.7	80.8	83.6
<i>Of which</i> : public debt	17.9	21.6	30.2	30.4	35.9
Amortization	11.3	18.7	33.7	43.3	48.6
Bilateral	2.1	1.7	3.8	2.3	3.7
Multilateral	9.2	11.2	18.0	17.5	20.1
<i>Of which</i> : IMF	4.8	6.3	4.4	7.6	9.2
Commercial	0.0	0.0	0.0	0.0	1.3
Private debt	0.0	5.8	11.9	23.5	23.5
Interest payments	19.0	26.4	35.0	37.2	35.1
Bilateral	0.7	0.3	0.5	0.7	1.3
Multilateral	5.9	8.4	7.9	8.9	9.0
<i>Of which</i> : IMF	0.4	0.4	0.3	0.5	0.7
Commercial	0.0	0.0	0.0	0.8	0.7
Private debt	12.4	17.8	26.6	26.9	24.1
Memorandum item:					
Russian debt stock before debt relief (in millions of SUR)	771.7	771.7	771.7	771.7	771.7
(In percent of GDP)					
Total debt service	1.7	3.5	4.7	4.6	4.8
Total public debt service	1.0	1.7	2.1	1.7	2.0
Total public debt stock	56.4	95.6	104.4	83.2	83.2
Total public debt stock (NPV)	...	...	...	...	51.9
(In percent of revenue)					
Public debt service in percent of revenue	9.1	17.1	19.4	13.1	15.1
(In percent of exports of goods and services)					
Total debt service	7.3	11.8	14.1	15.3	15.5
Total public debt service	4.3	5.6	6.2	5.7	6.7
Total public debt stock	234.5	251.2	336.5	293.2	281.7
Total public debt stock (NPV)	...	...	...	...	137.0

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

1/ Debt stock and debt service in convertible currency are calculated on the basis of existing debt.

Table 21. Lao P.D.R.: Approved Foreign Investments by Value and Sector, 1997–2002

	1997	1998	1999	2000	2001	2002 1/
(In millions of U.S. dollars)						
By investment value						
Less than \$100,000						
Number of projects	7	7	0	0	2	...
Total value	0.4	0.4	0.0	0.0	1.5	...
\$100,000–\$999,000						
Number of projects	43	46	6	7	55	35
Total value	20.0	17.9	1.1	1.0	16.5	11.1
More than \$1,000,000						
Number of projects	16	15	47	29	11	8
Total value	122.3	104.1	82.8	18.4	1,137.6	266.7
Total investments						
Number of projects	66	68	53	36	68	43
Total value	142.4	122.5	83.9	19.4	1,155.6	277.7
By economic sector						
Agriculture						
Number of projects	11	8	9	5	4	...
Total value	6.3	7.9	44.7	4.3	4.3	...
Garments/textiles						
Number of projects	4	7	1	3	3	1
Total value	2.6	5.0	0.2	3.6	0.8	0.2
Wood-based industries						
Number of projects	2	1	...	...	...	1
Total value	2.1	2.5	...	...	...	0.3
Other manufacturing and handicraft						
Number of projects	13	...	14	12	18	19
Total value	13.4	...	26.1	7.4	16.5	54.8
Mining/petroleum						
Number of projects	2	3	...	...	2	...
Total value	14.0	8.3	...	...	1.0	...
Trade						
Number of projects	8	5	11	1	7	2
Total value	5.0	1.0	4.0	0.2	1.5	0.3
Hotels/tourism						
Number of projects	2	4	4	3	5	5
Total value	0.5	1.8	1.1	0.6	11.3	9.9
Electric power						
Number of projects	0	0	...	...	1	1
Total value	0.0	0.0	...	...	1,100.0	195.0
Other						
Number of projects	24	30	14	12	28	14
Total value	18.5	96.0	7.8	3.3	18.9	17.3
Total investments						
Number of projects	66	68	53	36	68	43
Total value	142.4	122.5	83.9	19.4	1,154.3	277.7
Memorandum items:						
Inflows of foreign investments	...	...	51.6	33.9	23.9	14.1 2/
Hydroelectricity sector	...	...	6.3	2.6	...	...
Other	...	...	45.4	31.3	23.9	14.1 2/

Sources: Data on approvals from LPC, and inflows from BOL.

1/ From January to April, 2002.

2/ From January to March, 2002.

Table 22. Lao P.D.R.: Approved Foreign Investments by Country Source, 1997–2002

	1997	1998	1999	2000	2001	2002 3/
	(Value in millions of U.S. dollars)					
Thailand	15	15	7	3	13	7
Value	9.5	65.6	2.4	2.0	450.0	40.5
United States	4	2	5	0	4	1
Value	0.9	1.2	0.9	0.0	3.0	7.2
Taiwan Province of China	2	3	2	0	2	1
Value	0.3	1.3	0.3	0.0	0.4	0.6
France	5	11	7	4	6	6
Value	1.0	2.3	1.2	2.0	389.2	2.1
China	4	6	6	7	10	6
Value	3.5	6.5	24.4	3.5	6.4	24.0
Malaysia	5	2	2	3	1	1
Value	73.2	3.0	2.5	3.0	1.0	0.0
United Kingdom	1	2	2	0	...	2
Value	0.2	0.3	0.7	0.0	...	0.4
Australia	6	3	1	2	3	1
Value	5.6	1.5	1.5	0.2	0.7	0.2
South Korea	3	5	4	3	13	7
Value	6.9	6.6	0.8	2.9	8.0	4.2
Singapore	3	2	2	1	3	3
Value	2.2	0.4	0.3	0.4	2.2	0.5
Japan	8	5	...	5	1	3
Value	4.3	2.0	...	2.1	0.7	0.4
Germany	1	1	...	1	3	2
Value	0.1	0.4	...	0.1	0.7	0.2
Canada	1	1	...	...	...	...
Value	0.2	0.7	...	...	...	...
Other	15	10	15	7	9	3
Value	5.8	30.7	51.6	7.7	292.0	197.4
Total licensed investments 1/	72	68	53	36	68	43
Total value (in millions of U.S. dollars) 2/	113.8	122.5	86.6	21.7	1,154.3	277.7

Source: Data provided by the Lao P.D.R. 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.

3/ From January to April, 2002.

Table 23. Lao P.D.R.: Summary of Tax System as of December 31, 2001

Tax	Nature of Tax	Exemptions and Deductions	Rates
11. <u>Taxes on income and profits</u>			
1.1 Tax on enterprise profits (profit tax)	Annual levy on profits derived in the Lao P.D.R. by enterprises from business operations (production, trade, and service), payable in advance on a quarterly basis.	<p>a. Expenses normally incurred in producing income with limits for gifts (0.15 percent) and travel costs (0.20 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 five annual rates: <u>50 percent</u>: business formation; <u>20 percent</u>: land transportation, machines and other equipment; <u>10 percent</u>: sea transport equipment, office improvement, supplies and temporary trade premises; <u>5 percent</u>: industrial premises used < 20 years, permanent trade premises and air transport; <u>2.5 percent</u>: industrial premises used between 21 – 40 years. Unallowed residue is deducted from the sale price to compute the profit or loss.</p> <p>c. Carry-forward of losses available for up to 3 years.</p> <p>d. Three computational regimes. <u>Full real regime</u>: based on extended accounting system for foreign investors, import-export traders and businessmen with annual turnover greater than KN 2,400 million; <u>partial real regime</u>: based on ordinary or common accounting system, for other businessmen with annual turnover between 100 million and 2,400 million kip; <u>contract regime</u>: for those with primary accounting system, based on agreed estimation for turnover less than 100 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><u>Tax Rate</u> (In percent)</p> <p>General rate 35</p> <p>Foreign investors 20</p> <p>Discount rates:</p> <p>For enterprises in designated areas/city 20</p> <p>For enterprises in rural and lowland areas 15</p> <p>For enterprises in mountain and remote areas. 10</p>

Table 23. Lao P.D.R.: Summary of Tax System as of December 31, 2001

Tax	Nature of Tax	Exemptions and Deductions	Rates																			
		e. Amounts appropriated to savings or recapitalization accounts, bonuses, meeting allowances or received from capital reduction, enterprise merging, share transfer, bankruptcy or debt liquidation.																				
		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.																				
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. Payment on an annual basis. Creditable against final profit tax liability but no reimbursement of over payment.	Foreign and local investors who are in a system of annual profit tax exemption.		1.0 percent																		
1.3 Tax on social/religious/cultural organizations and associations	Incomes from immovable property leasing and non-business activities.	None		10 percent																		
1.4 Tax on personal income from employment	Levied on wages, salaries, bonuses, and other emoluments derived from employment in Lao P.D.R. or, when deputed to international organizations, by Lao citizens receiving emoluments abroad on which they are not taxed. Withheld at source by the employer on a monthly basis.	All persons with monthly wages or salaries below KN 200,000. 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><u>Monthly Wage or Salary</u> (In kip)</th> <th><u>Tax Rate</u> (In percent)</th> </tr> </thead> <tbody> <tr> <td>200,001–700,000</td> <td>5</td> </tr> <tr> <td>700,001–1,900,000</td> <td>10</td> </tr> <tr> <td>1,900,001–3,700,000</td> <td>15</td> </tr> <tr> <td>3,700,001–5,900,000</td> <td>20</td> </tr> <tr> <td>5,900,001–8,700,000</td> <td>25</td> </tr> <tr> <td>8,700,001–11,700,000</td> <td>30</td> </tr> <tr> <td>11,700,001–15,000,000</td> <td>35</td> </tr> <tr> <td>15,000,001 and above</td> <td>40</td> </tr> </tbody> </table>	<u>Monthly Wage or Salary</u> (In kip)	<u>Tax Rate</u> (In percent)	200,001–700,000	5	700,001–1,900,000	10	1,900,001–3,700,000	15	3,700,001–5,900,000	20	5,900,001–8,700,000	25	8,700,001–11,700,000	30	11,700,001–15,000,000	35	15,000,001 and above	40	
<u>Monthly Wage or Salary</u> (In kip)	<u>Tax Rate</u> (In percent)																					
200,001–700,000	5																					
700,001–1,900,000	10																					
1,900,001–3,700,000	15																					
3,700,001–5,900,000	20																					
5,900,001–8,700,000	25																					
8,700,001–11,700,000	30																					
11,700,001–15,000,000	35																					
15,000,001 and above	40																					

Table 23. Lao P.D.R.: Summary of Tax System as of December 31, 2001

Tax	Nature of Tax	Exemptions and Deductions	Rates	
1.5 Tax on personal incomes of persons in self-employment	Levied on net profits made by individuals from business operations, and immovable property leasing. Payment on an advance quarterly basis.	First KN 1,200,000 is exempt.	<u>General activities</u>	<u>Tax Rate</u>
			(In kip)	(In percent)
			1,200,001–2,500,000	10
			2,500,001–4,000,000	15
			4,000,001–7,000,000	20
			7,000,001–13,000,000	25
			13,000,001–25,000,000	30
			25,000,001–37,000,000	35
			37,000,001–60,000,000	40
			60,000,000 and above	45
1.6 Tax on personal incomes from immovable property leasing	Levied on incomes received by individuals from immovable property leasing.	House:		
		Permanent house–30 percent of rent price Half permanent (wooden) house–25 percent of the rent price		
		Incomes from leasing land and other property		25 percent
1.7 Tax on investment income	Levied on incomes of entities and individuals from gross market-based rents, dividends, lending interest rates, and guarantee fees on a global basis, where appropriate.	Interest on bank deposits		10 percent
1.8 Tax on property rights	Licenses and other intellectual property rights.	None		5 percent

Table 23. Lao P.D.R.: Summary of Tax System as of December 31, 2001

Tax	Nature of Tax	Exemptions and Deductions	Rates
2. <u>Taxes on land and property</u>			<u>Tax Rate</u> (In percent)
2.1 Transfer taxes	Applied to the market value of real estate property transferred between private persons through inheritance, sale, or gift.	None	Transfers between: <ul style="list-style-type: none"> • Direct descendants 0.5 • Second-degree relatives 1 • Third-degree relatives 2 • Other land and houses 3 • Undeveloped land 4
2.2 Land tax	Annual tax levied on land area. Tax is collected from January to end-April. Taxable land is divided in three categories: <ul style="list-style-type: none"> • Occupied land (i.e., land occupied by buildings and factories) • Agricultural land • Other 	<ul style="list-style-type: none"> • Land occupied by temples, public welfare buildings, embassies, and housing for disabled persons (for extensions of less than 5,000 sq km). • Agricultural land, not exceeding two hectares per family, occupied by disabled military personnel and civilians. • Agricultural land situated in mountainous areas yielding less than 150 kg rice per person per year. • Agricultural land affected by natural disaster or other damages in accordance to the damage. • Newly cleared rice fields in mountainous (5 years) and flat land (3 years). • Industrial orchards (2–3 years). 	1. <u>Occupied land:</u> 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. 2. <u>Agricultural land:</u> Rates vary from KN 500 to KN 6,000 per hectare per year in accordance with: (i) land use (rice land, garden land, and farm land); (ii) location (level field and mountainous areas); and (iii) type of production (for rice, number of crops per year and for garden, type of trees). 3. <u>Other land:</u> KN 1,000-6,000 per hectare per year

Table 23. Lao P.D.R.: Summary of Tax System as of December 31, 2001

Tax	Nature of Tax	Exemptions and Deductions	Rates																																		
3. <u>Taxes on goods and services</u>			<u>Tax Rate</u> (In percent)																																		
3.1 Turnover tax	<p>The tax is collected from imports of goods to the Lao P.D.R, <u>first time sale of imported goods or domestically produced products, and general services</u></p> <p>Importers, producers or servers who operate sales or services inside the Lao P.D.R. and have paid the initial tax (e.g., at customs checkpoints) shall have the right to get a deduction of initially paid turnover tax. Deductions are not allowed for service charges, purchases of transport vehicles, including accessories and spare parts which are not used directly by the companies, and purchases of consumer goods for personal utilization by the company.</p> <p>All imports, not exempt from import duties, are subject to turnover tax and the base of taxation is customs value, <u>plus</u> customs duty, <u>plus</u> excise duty, if any. In case of the first time sale of goods imported or manufactured inside the country, that tax shall be calculated during its selling or delivery by importers or domestic manufacturers. The calculation shall be based on the actual sales amounts without turnover tax.</p>	<p>The following activities are exempt from turnover tax:</p> <ul style="list-style-type: none"> • Import of crop seeds, animal breeds and insecticides. • Import of materials, instruments and chemical components for research purposes. • Import of gold for the notes issuing institution. • Import of bank notes or coins. • Import or activity relating to tax or post stamps. • Import of planes and instruments for international air transportation. • Import of goods or accessories for components of international air transportation. • Import of goods for selling to diplomats and international organizations in the Lao P.D.R. according to permissions of Ministry of Foreign Affairs. • Import of goods with tax exemption or temporary import. • Import and sales of animal treating medicines. • Sales of self-produced agricultural products by peasants. • Forestation activities, industrial trees and fruits planting. • Sales of agricultural and handicraft products by government employees or cooperative members on family basis or limit. • Export of goods and services. • Sales of allowed text books, newspaper and magazines. 	<p>The turnover tax is levied at 5 percent and 10 percent.</p> <p><u>Illustrations</u> of items subject to these rates follow:</p> <p><u>Category</u></p> <table border="0"> <tr> <td data-bbox="1430 500 1709 553">Agricultural products, fertilizers, and insecticide</td> <td data-bbox="1822 529 1843 550">5</td> </tr> <tr> <td data-bbox="1430 565 1709 618">Chemicals and mineral products</td> <td data-bbox="1822 561 1843 583">5</td> </tr> <tr> <td data-bbox="1430 630 1709 651">All foodstuff</td> <td data-bbox="1822 626 1843 647">5</td> </tr> <tr> <td data-bbox="1430 662 1709 683">Machinery and equipment</td> <td data-bbox="1822 659 1843 680">5</td> </tr> <tr> <td data-bbox="1430 695 1709 716">Medical services</td> <td data-bbox="1822 691 1843 712">5</td> </tr> <tr> <td data-bbox="1430 727 1709 781">Agricultural services</td> <td data-bbox="1822 724 1843 745">5</td> </tr> <tr> <td data-bbox="1430 792 1709 846">Goods and services not specifically mentioned in 10 percent rates</td> <td data-bbox="1822 789 1843 810">5</td> </tr> <tr> <td data-bbox="1430 857 1709 878">Electricity and fuel</td> <td data-bbox="1822 854 1843 875">5</td> </tr> <tr> <td data-bbox="1430 889 1709 943">Consumer durables</td> <td data-bbox="1822 886 1843 907">5</td> </tr> <tr> <td data-bbox="1430 954 1709 1008">Furniture, clothes, tea and coffee</td> <td data-bbox="1822 951 1843 972">5</td> </tr> <tr> <td data-bbox="1430 1019 1709 1073">Capital equipment, raw materials, and spare parts</td> <td data-bbox="1822 1016 1843 1037">5</td> </tr> <tr> <td data-bbox="1430 1084 1709 1138">Construction and land development</td> <td data-bbox="1822 1081 1856 1102">10</td> </tr> <tr> <td data-bbox="1430 1149 1709 1203">Soft drinks and non-alcoholic drinks</td> <td data-bbox="1822 1146 1856 1167">10</td> </tr> <tr> <td data-bbox="1430 1214 1709 1235">Transportation</td> <td data-bbox="1822 1211 1856 1232">10</td> </tr> <tr> <td data-bbox="1430 1247 1709 1300">Motorcycle, trucks, minibus, bus and their spare parts</td> <td data-bbox="1822 1243 1856 1265">10</td> </tr> <tr> <td data-bbox="1430 1312 1709 1365">Imports and sales of TV, radio and other electronic equipment</td> <td data-bbox="1822 1308 1856 1330">10</td> </tr> <tr> <td data-bbox="1430 1377 1709 1430">Passenger car, jeep, pickup, plane ship, motorboat for recreation</td> <td data-bbox="1822 1373 1856 1395">10</td> </tr> </table>	Agricultural products, fertilizers, and insecticide	5	Chemicals and mineral products	5	All foodstuff	5	Machinery and equipment	5	Medical services	5	Agricultural services	5	Goods and services not specifically mentioned in 10 percent rates	5	Electricity and fuel	5	Consumer durables	5	Furniture, clothes, tea and coffee	5	Capital equipment, raw materials, and spare parts	5	Construction and land development	10	Soft drinks and non-alcoholic drinks	10	Transportation	10	Motorcycle, trucks, minibus, bus and their spare parts	10	Imports and sales of TV, radio and other electronic equipment	10	Passenger car, jeep, pickup, plane ship, motorboat for recreation	10
Agricultural products, fertilizers, and insecticide	5																																				
Chemicals and mineral products	5																																				
All foodstuff	5																																				
Machinery and equipment	5																																				
Medical services	5																																				
Agricultural services	5																																				
Goods and services not specifically mentioned in 10 percent rates	5																																				
Electricity and fuel	5																																				
Consumer durables	5																																				
Furniture, clothes, tea and coffee	5																																				
Capital equipment, raw materials, and spare parts	5																																				
Construction and land development	10																																				
Soft drinks and non-alcoholic drinks	10																																				
Transportation	10																																				
Motorcycle, trucks, minibus, bus and their spare parts	10																																				
Imports and sales of TV, radio and other electronic equipment	10																																				
Passenger car, jeep, pickup, plane ship, motorboat for recreation	10																																				

Table 23. Lao P.D.R.: Summary of Tax System as of December 31, 2001

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.1 Turnover tax (Continued)	<p>The tax on services shall be calculated after completion of the work. The calculation shall be based on the actual service charges without turnover tax.</p> <p>Turnover tax declarations must be submitted monthly and turnover tax collected must be paid monthly (turnover tax on imports is collected at custom checkpoints). All purchase and sales must be substantiated by tax invoices.</p>	<ul style="list-style-type: none"> • International transportation and relevant services (international transportation-transportation of passengers or cargoes from abroad or to abroad by land, air and sea/river). • Transport by people, animals and boats without engines. • Provision of leasing immovable properties, such as land, houses and others by persons who do not have business activities. • Export services. • Independent job-occupation by one's own labor. • Educational activities: child schools, primary schools, secondary and high schools, universities and technical schools. • Activities for public benefits held by government authorities and international organizations; and banking and insurance activities. • Rice. • Fertilizer. • Wheelchairs. • Fire trucks. 	<p>Precious metals and jewelry 10</p> <p>Hotels and tourism 10</p> <p>Telecommunication services 10</p> <p>Alcoholic drinks and cigarettes 10</p> <p>Games 10</p> <p>Entertainment activities 10</p>
3.2 Excise duties	<p>Levied equally on imports and domestic supplies of petroleum products and selected consumer goods. Imported items are subject to tax on customs duty-inclusive values while domestic suppliers are subject to tax on ex-factory costs.</p>	<p>The following are exempt:</p> <ul style="list-style-type: none"> • Purchases by embassies and international organizations. • Kerosene. • Alcohol (90) for medical purposes. • Purchases of petroleum products for externally-funded projects. • Exports of excisable goods. 	<p>The ad valorem excise duties are as follows:</p> <p style="text-align: center;"><u>Item</u></p> <p>Petroleum products:</p> <p>Premium gasoline 23</p> <p>Regular gasoline 24</p> <p>Diesel 12</p> <p>Kerosene 5</p> <p>Hydraulic, brake, lubricating, and grease oil</p>

Table 23. Lao P.D.R.: Summary of Tax System as of December 31, 2001

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.2 Excise duties (continued)		<u>Item</u>	
		Alcohol:	
		All types with 15 proof and more	60
		All types with less than 15 proof	50
		Soft drinks	30
		Cigarettes and cigars	50
		Cosmetics and perfumes	20
		Play cards, and the like	70
		Vehicles—Cars	
		Pick up two doors	25
		Pick up four doors	30
		All types of vans	20
		Bus	15
		All types of freight hauling vehicles	15
		Jeep	30
		Cars hp less than 1000cc	60
		1000-1500cc	62
		1500-3000cc	72
		more than 3000cc	104
		Motorcycles	50
	Miscellaneous items:		
	Electrical appliances (freezer, heater, a.c. unit, washing machine, vacuum, color TV, camera, VCR, VCR camera)	12	
	Entertainment tools and services, hunting guns	10	

Table 23. Lao P.D.R.: Summary of Tax System as of December 31, 2001

Tax	Nature of Tax	Exemptions and Deductions	Rates	
3.2 Excise duties (continued)				
			There is an additional excise duty on:	
			Premium gasoline	30kip/ltr
			Regular gasoline	20kip/ltr
			Gasoline	20kip/ltr
			Alcohol	
			All types with 15 proof or more	
			Domestic	500kip/ltr
			Imported	5,000kip/ltr
			All types with less than 15 proof	
			Domestic	300kip/ltr
			Imported	3,000kip/ltr
			Beers	
			Domestic	900kip/ltr
			Imported	2,000kip/ltr
			Other drinks:	
			Carbonated drinks	
			Domestic	300kip/ltr
			Imported	600kip/ltr
			Soda water	
			Domestic	300kip/ltr
		Imported	600kip/ltr	
		Other imported drinks:		
		Invigorating drinks	700kip/ltr	
		Mineral water	2,000kip/ltr	
		Mixed drinks in cans (e.g., coffee, fruit juice, etc.)	1,000kip/ltr	
		Cigarettes		
		Domestic	800kip/pck	
		Imported	1,500kip/pck	

Table 23. Lao P.D.R.: Summary of Tax System as of December 31, 2001

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 million of kips)	(In kip)
			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			
3.4 Road tax	Levied annually on all motor vehicles (motorcycles, cars, trucks, etc.)	The following are exempt: <ul style="list-style-type: none"> • Government cars. • Cars of the diplomatic corps, international organizations, and foreign experts. • 50 percent reduction for government staff, soldiers, policemen, students for one vehicle. • 60 percent reduction for pensioners. 	Fees vary according to size of engine (for cars and motorcycles), weight (for trucks), and number of seats (for buses).	
			<u>Capital</u>	<u>Rates applicable to import-export</u>
			(In million of kips)	(In kip)
			10-50	100,000
			50-100	200,000
			100-150	300,000
			150-200	400,000
			200 and above	500,000
				KN 2,000
				to KN 360,000

Table 23. Lao P.D.R.: Summary of Tax System as of December 31, 2001

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.5 Air travel fees	Levied annually for: (i) Civil aviation registration	None	Fees vary according to weight. KN 7,000 KN 70,000
	(ii) Examination issuance and renewal of permits		KN 5,000 KN 40,000
3.6 Airspace overflight fees	Levied on all aircraft without regard to nationality overflying the territory of the Lao P.D.R.	<ul style="list-style-type: none"> • VIP special aircraft. • Hospital aircraft carrying patients. 	US\$160–\$250 per overflight
3.7 River transport fees	Levied annually	None	Fees vary according to size of boats KN 200– KN 20,000
3.8 Border entry and exit fees		<ul style="list-style-type: none"> • Diplomatic personnel and relatives. • Foreign experts and relatives. 	Lao nationals: KN 500 Foreigners \$5
	Persons Vehicles		Land and water vehicles KN 1,500– KN 11,000
3.9 Fees for extended residence in Lao P.D.R.		<ul style="list-style-type: none"> • Diplomatic corps, foreign experts, and their relatives. 	Fees vary according to length of stay KN 6,000– KN 12,000
3.10 Fee for temporary border passes		None	KN 2,000– 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: US\$10–80 Lao nationals: KN 300– KN 10,000
3.12 Consular fees overseas	Levied every five years	None	Fees vary in accordance with the location of the consular office and type of document US\$2–32
3.13 Fees on possession of personal arms	Levied annually	None	KN 3,000– KN 4,000
3.14 Television and audio use fees		None	Television sets: KN 500– Video cassette recorders: KN 1,000

Table 23. Lao P.D.R.: Summary of Tax System as of December 31, 2001

Tax	Nature of Tax	Exemptions and Deductions	Rates	<u>Tax Rate</u> (In percent)
4. <u>Taxes on international trade</u>				
4.1 Import duties	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.	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. 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.	Six rates ranging from 5 to 40 percent. The kinds of goods subject to these rates are as follows: Raw materials, chemicals (including fertilizers), packaging materials, some machinery (incl. tractors and tools for agriculture), and essential consumer goods (rice, wheat flour, salt, baby foods, medicines, books and printed materials), cameras	5

Table 23. Lao P.D.R.: Summary of Tax System as of December 31, 2001

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.1 Import duties (continued)		Raw materials and intermediate components imported for the purpose of processing and then re-exported are fully exempt from import duties. In highly exceptional cases and by specific decision of the Government, foreign investors may also be exempt from the 1 percent duty rate because of the large size of their investments and the significant positive impact which those investments are expected to have upon the socio-economic development of the country.	10
		There are no discretionary exemptions. The Minister of Finance does not have the power to grant duty exemptions.	20
		Currently, there is no drawback scheme for import duties paid on inputs for exports.	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).
			Other luxury consumer goods (prepared meats and fish, cereals and prepared foods, white chocolate confectionery, toilet soaps and deodorants, perfumes, wines, and spirits), pick up trucks.	30
		Soft drinks, liquors, beer, tobacco, detergents, processed wood, jeeps, cars, motorbikes, cigarettes, cigars.	40

Table 23. Lao P.D.R.: Summary of Tax System as of December 31, 2001

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.2 Export duties		All exported finished products produced from raw materials and intermediate components imported free of import duty under Article 17 of the Law on the Promotion and Management of Foreign Investment in the Lao P.D.R. are exempt.	Electricity: 20 percent of invoice value; coffee: 5 percent of FOB value; livestock: 5 percent of FOB value; logs: specific rates; saw wood: 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.		
5. <u>Taxes on timber and other natural resources</u>			
5.1 Timber royalties	Levied as a fixed dollar amount per cubic meter of timber sold, both for domestic consumption and export. Timber royalties incorporate other taxes previously levied on timber products, i.e., the <u>reforestation tax</u> , the <u>resource tax</u> levied on the timber production rate, and the <u>export duties</u> , levied by the Customs department on exported timber.	None	Royalties established by the Ministry of Commerce and the Forestry Department of the Ministry of Agriculture. Since February 1995, royalties average about US\$15,650 per cubic meter, 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"> • Ferrous metals 2 percent of sale value • Non-ferrous metals 2-5 percent • Coal 2-3 percent • Construction materials KN 50 per 100m³

Source: Ministry of Finance.