

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

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LAO PEOPLE’S DEMOCRATIC REPUBLIC

Selected Issues and Statistical Appendix

Prepared by Qaizar Hussain and Haimanot Teferra (both APD),
Shekhar Aiyar (PDR), and Wojciech Maliszewski (FAD)

Approved by Asia and Pacific Department

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I. DEBT SUSTAINABILITY ANALYSIS¹

A. Introduction

1. **Lao P.D.R. has an elevated debt burden that places it in a high risk category among low-income countries.** At end-2003 Lao P.D.R.'s stock of public and publicly guaranteed (PPG) external debt, in NPV terms, was US\$ 1.2 billion. This is high in comparison to standard macroeconomic indicators, comprising 59 percent of GDP, 218 percent of exports, and 534 percent of government revenues. Although, Lao P.D.R. is eligible for HIPC debt relief, the authorities have emphasized that they do not intend to seek HIPC assistance (Box 1).
2. **Most of Lao P.D.R.'s debt—about 70 percent of the nominal stock at end-2003—comprises concessional loans from multilateral creditors, primarily the World Bank and the AsDB.** The biggest bilateral creditor is Russia, which accounted for almost 80 percent of the stock of bilateral debt at end-2003. State-owned enterprises (SOEs) account for a little under 5 percent of the debt-stock.
3. **The stock of Russian debt at end-2003 is estimated at US\$ 387 million, after applying a 70 percent upfront discount and an exchange rate of 0.6 roubles to the dollar.** An agreement was reached between Lao P.D.R. and Russia in December 2003, which granted an NPV reduction of about 20 percent on the consolidated debt stock. The Lao authorities have subsequently approached Russia for more concessional terms, which would help ease the high debt service payments forecast for the near future.
4. **While debt stock indicators are high, the medium-term debt service is manageable, provided economic reforms are maintained.** This is particularly important for ensuring fiscal sustainability, as the debt service indicators on the fiscal side are at elevated levels.² The baseline scenario presented in this paper makes three key assumptions: (i) exports and GDP continue to grow robustly, (ii) fiscal revenues rise as a percentage of GDP, and (iii) public borrowing as a percentage of GDP decreases over the medium-term, and the authorities maintain a high average level of concessionality in new borrowing. Even under such a favorable scenario the debt service requirements could put pressure on the government budget in the near term, with a risk of crowding out priority social expenditures. More concessional terms on Lao P.D.R.'s debt to Russia would help ease this constraint.

¹ Prepared by Shekhar Aiyar, in collaboration with World Bank and Asian Development Bank staff.

² The debt service indicators on the external side are not high.

Box 1. Lao P.D.R.'s HIPC Eligibility

Lao P.D.R. currently meets the eligibility criteria and fulfills all the conditions necessary to benefit from the enhanced HIPC Initiative. It is a PRGF-eligible and IDA-only country, with a GDP per capita of US\$320 in 2003. The NPV of public and publicly guaranteed external debt (PPG) at end-2003, after the application of a stock-of-debt reduction on Naples terms on Paris Club debt and assuming comparable treatment by all other official bilateral and commercial creditors, would amount to about \$1 billion, corresponding to an NPV of debt-to-exports ratio of 198 percent.^{1/} Thus the country is well above the 150 percent threshold required for HIPC under the exports criterion.^{2/}

The Lao authorities have emphasized that they do not intend to avail themselves of HIPC debt relief. Their view is that the transactions costs of the HIPC procedure and possibly reduced access to bilateral and commercial inflows would outweigh the gains from debt relief in the medium-term.

1/ This figure is based upon the application of the HIPC DSA methodology. It differs from the debt-to-exports ratio shown in Table 1, for three main reasons First, instead of a common discount rate of 5 percent on all debt, the HIPC framework utilizes currency-specific discount rates. Second, it uses a three year backward-looking average of exports in the denominator, rather than current year exports. Third, it assumes an application of traditional debt relief (Naples terms).

2/ Lao P.D.R. does not qualify for HIPC debt relief under the fiscal criterion, since its revenue-to-GDP ratio is beneath the 15 percent threshold.

B. Baseline Analysis

External Sustainability

5. **The baseline scenario reflects continuing economic reform and good policy implementation, allowing fairly rapid growth of GDP and exports, and continued fiscal reforms, leading to a fall in the public sector borrowing requirement over time.** The main macroeconomic assumptions include (i) increases in real GDP averaging about 6 percent over the 2004-2019 period, driven in part by developments in the electricity and mining sectors^{3/}; (ii) increases in exports in US\$ terms averaging over nine percent, driven in part by increases in electricity and mineral exports; (iii) a gradual reduction in the public sector borrowing requirement (including SOEs) from 6.6 percent of GDP in 2004 to 5 percent of GDP by 2019; and (iv) a grant element of between 40 and 50 percent for future public sector borrowing.

^{3/} The Nam Theun 2 (NT-2) hydroelectric power project is expected to commence exports in 2010. An Australian mining company, Oxiana, is scheduled to open a new copper mine next year and extend its existing gold mine over the next few years, boosting exports substantially.

6. **The debt stock indicators remain above indicative thresholds throughout the projection period, despite improving substantially over time** (Table 1 and Figure 1). The NPV of debt-to-GDP declines from 58.6 percent at end-2003 to 37.8 percent in 2019. The NPV of debt-to-exports follows a similar path, declining from over 200 percent in 2003 to just under 150 percent by the end of the projection period.⁴ Once the construction phase of the NT-2 dam is completed in 2009, debt ratios are projected to improve, on account of falling current account deficits, and robust GDP and export growth.

7. **Debt service indicators suggest a more modest and manageable debt burden both in the short- and medium-terms.** Public external debt service is projected to average about 9.5 percent of exports during the 2004-2019 period with the projected trajectory remaining relatively flat during this period (Table 1 and Figure 1). Generally the relatively low debt service to exports indicators reflect: (i) a stable and relatively high grant element on the debt stock resulting in a relatively low debt service requirement, and (ii) high export growth during the period when debt service requirements increase as a result of the end of grace periods.

Fiscal Sustainability

8. **The baseline macroeconomic scenario (Table 2 and Figure 2) is premised on fiscal reforms to enable greater revenue-generation.** In particular, it is assumed that tax revenues as a percentage of GDP rise from 11.3 percent of GDP in 2004 to 14.5 percent of GDP in 2019. This would allow the public sector borrowing requirement to fall over time, as described in the previous section, while allowing a steady increase in government expenditures in the social sectors, in line with the government's poverty reduction strategy, to make the Millennium Development Goals more achievable.⁵

9. **Similar to the external analysis, the debt-stock ratios⁶ start at a very high level and remain elevated throughout, despite falling substantially over the period.** The downward path of these ratios are due mainly to improving revenue performance on a steadily rising GDP base, and a falling public sector borrowing requirement.

⁴ Box 2 compares these debt stock indicators, and debt service indicators, to their indicative thresholds.

⁵ Non-interest expenditures rise by 2 percentage points of GDP over the projection period, from about 16 percent in 2004 to 18 percent in 2019. Assuming that population grows at 2 percent per annum, this is equivalent to an increase in dollar expenditures per person of about 7 percent per annum over the entire period.

⁶ As noted in Table 2, on the fiscal side public debt includes domestic debt (which is relatively small), and the analysis uses the Lao P.D.R. fiscal year rather than calendar years.

10. **The debt service-to-revenue ratio rises to close to 25 percent in the next few years, putting priority social expenditures at risk.** Although grants will ease the servicing requirements to some extent⁷, any slippage in revenue reforms could lead to a compression of non-interest spending that may not be sustainable. The debt service-to-revenue ratio also underscores the importance of SOEs borrowing prudently to finance only commercially viable projects. In the near-term the debt service-to-revenue ratio is higher by 4-5 percentage points when SOE debt is included. If any of the SOEs were to have difficulty servicing their debt, it would add to the already high burden on the government's budget.

Box 2: Summary of Baseline Debt Sustainability Indicators

	Indicative Threshold 1/	2004	2019	Average 2004-19
NPV of debt-to-GDP	30	54.4	37.8	46.2
NPV of debt-to-exports	100	212.7	145.9	167.8
NPV of debt-to-revenue	200	482.3	236.9	339.6
Debt service-to-exports	15	<i>11.9</i>	<i>9.3</i>	<i>9.5</i>
Debt service-to-revenue	20	<i>19.7</i>	<i>14.9</i>	<i>19.4</i>

Note: Figures in italics are under the indicative thresholds.

1/ Threshold over which countries with similar evaluations of policies and institutions would have an at least 25 percent chance of having a prolonged incident of debt distress in the coming year. Lao P.D.R. lies within the bottom quintile of countries ranked by the World Bank's Country Policy and Institutional Assessment Index (CPIA).

11. **The baseline scenario assumes that the Russian debt is serviced according to the schedule agreed in December 2003.** To the extent that the Lao authorities are successful in obtaining more concessional terms, that would reduce the pressure on the government budget, particularly in the near term. A rescheduling of the Russian debt closer to Naples terms could lower the debt service-to-revenue ratio by 1-2 percentage points per year between 2004 and 2010.

12. **In the medium-term the debt service-to-revenue ratio falls to a more sustainable level, averaging about 17.5 percent between 2010 and 2019.** This trajectory is due to steady improvements in revenue as a percentage of GDP. While the NT-2 project will boost

⁷ As Table 2 shows, the debt service-to-revenue ratio including grants remains at or just above 20 percent in the near-term, before declining over the medium-term.

revenues when it becomes operational, the improvement in debt service ratios reflects primarily sustained revenue reforms and prudent new borrowing.

Box 3: The Effect of NT-2 on Debt Indicators

The NT-2 project will have a substantial positive impact on external public debt indicators.

In 2010, US\$ exports and real GDP are projected to grow at 27 percent and 11 percent respectively, with the commencement of electricity exports from the project. The relatively small increase in the public debt burden arising from financing the government's participation in NT-2 is more than offset by the increases in exports and GDP.

The impact of NT-2 causes the NPV of debt-to-exports ratio to fall by about 25 percent, from 181 percent without the NT-2 project to 156 percent in 2010, and from 162 percent to 146 percent in 2019. The impact on the fiscal side is less pronounced, although still positive, because of the small impact of NT-2 on both public sector debt and fiscal revenues. The NPV of debt-to-revenue ratio falls from 364 percent to 355 percent in 2010 and from 242 percent to 233 percent in 2019.

C. Sensitivity Analysis

Alternative Macroeconomic Scenario

13. **Sensitivity analysis is undertaken on the basis of an alternative macroeconomic scenario, in which economic reforms proceed only slowly** (Tables 1 and 2, and Figures 1 and 2). Although the NT2 project and the Oxiana mines are still expected to have a positive impact in the alternative scenario, a slackening pace of structural reforms could lead to lower growth rates of GDP and exports in the medium term, and insufficient fiscal reform could lead to lower revenue generation compared to the baseline.⁸

14. **The alternative macroeconomic scenario assumes lower export and GDP growth, and weaker revenue generation.** The growth rate of exports is two percentage points lower than in the baseline scenario, beginning in 2006. GDP growth is similarly kept below the baseline from 2006 onwards, and flattens out at 5 percent per annum over the medium term. The VAT expected to be implemented in 2006/07 is not introduced, and administrative reforms such as the centralization of administration fail to gain hold. Under such a scenario tax revenues as a percentage of GDP are projected to stay at their 2004 level of 11.3 percent of GDP.

⁸ The alternative scenario considered here is likely to be of more actual relevance than the standardized alternative scenarios of the low-income DSA template, which are premised entirely on historical patterns.

15. **On the external side there is not much qualitative difference from the baseline.** The NPV of debt-to-GDP ratio remains above the indicative threshold throughout, following the same declining path as in the baseline, but only reaching 41 percent in 2019 instead of 37.8 percent in the baseline. Similarly, the NPV of debt to exports declines after 2005 but falls to a ratio of 190 percent in 2019 instead of the 146 percent projected under the baseline scenario. The debt service burden remains manageable throughout under the alternative scenario.

16. **On the fiscal side, the alternative scenario emphasizes the risk to the government budget, particularly over the near-term.** The debt-service burden as a percentage of revenues is considerably higher. In particular, over the next few years the debt service-to-revenue ratio is 2-3 percentage points higher than the already elevated ratio of the baseline scenario, and the ratio does not fall below 20 percent even by the end of the projection period. If this scenario were to transpire, the fiscal envelope for social expenditures would be squeezed, greatly impeding the government's poverty-reduction strategy and adversely affecting the attainability of the MDGs. The risk of debt-distress would also increase.

Bound Tests

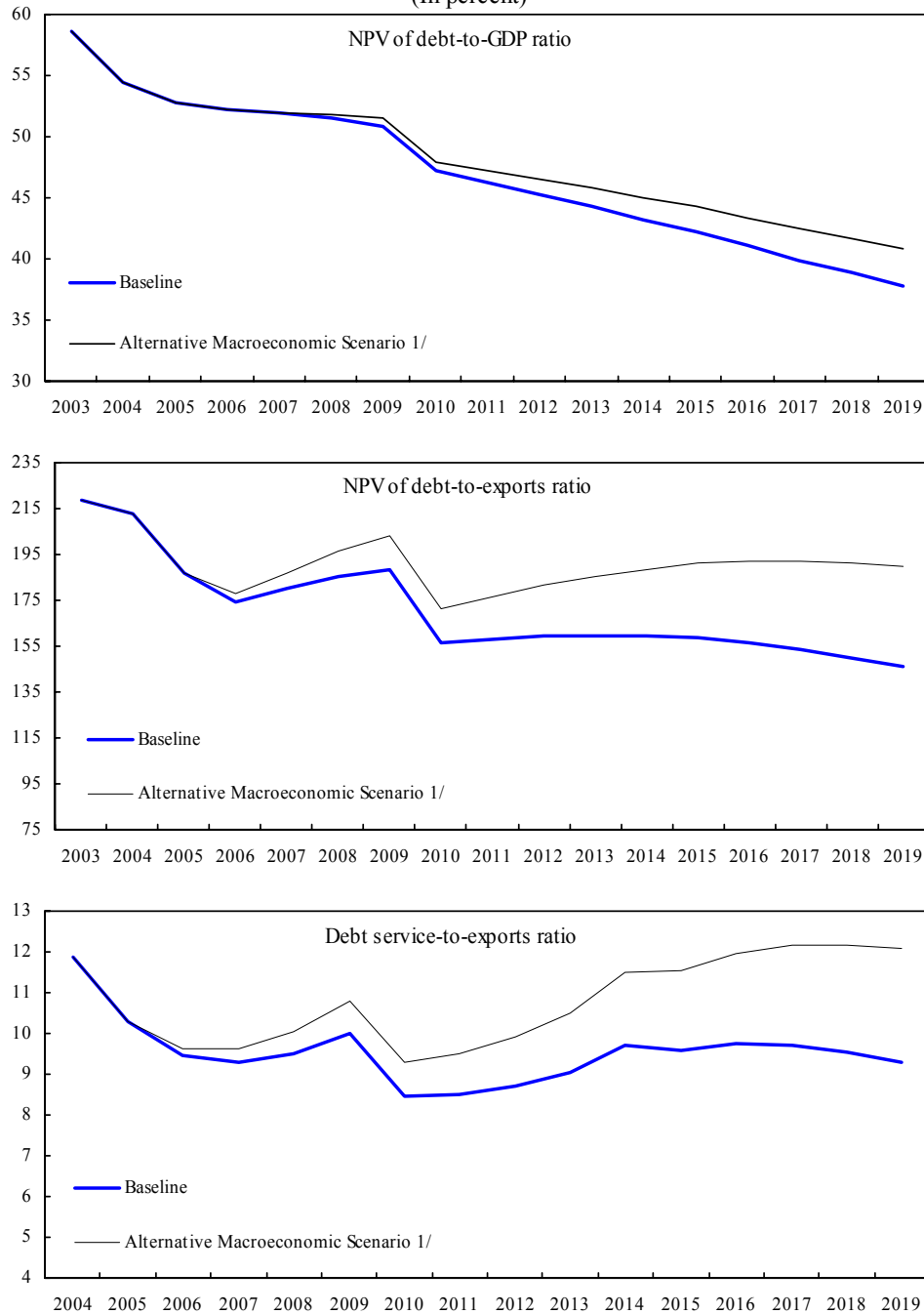
17. **The standardized shocks of the low-income DSA template may not be well suited for analyzing risks to Lao P.D.R.'s debt sustainability.** For example, on the external side, a very large negative shock to exports in the first two periods only (as assumed in the template's stress tests) seems implausible, because in 2005 the scheduled expansion of the gold mine and the opening of a new copper mine would add US\$100 million to exports. It would seem more plausible and therefore more interesting to examine the effect of a gradual slowdown in the growth rate of exports in the medium term. However, for completeness, we also include tables showing the effects of standardized shocks (Tables 3a, 3b, 4a and 4b). These tables support the view that the main risk to the baseline on the external side is lower-than-projected exports, while the main risk on the fiscal side is poor revenue effort, leading to a deteriorating primary balance.

D. Conclusion

18. **Lao P.D.R. currently has a high stock of debt, placing it in a high risk category among low-income countries.** The NPV of debt in relation to GDP, exports and government revenues are all at elevated levels. The country is eligible for HIPC debt relief, although the authorities have stated that they do not intend to avail themselves of the facility.

19. **In the medium-term the debt service burden is manageable, but only if economic reforms—especially on the fiscal front—are maintained.** Sensitivity analysis reveals that if the pace of economic reforms falters the debt burden, high even in the baseline case, could become unsustainable. The NPV of debt-to exports and debt-to-revenue would rise from the already elevated levels of the baseline scenario. The debt service-to-revenue ratio would also rise further, making it difficult to maintain or increase the envelope for social expenditures and putting at risk the government's poverty reduction efforts.

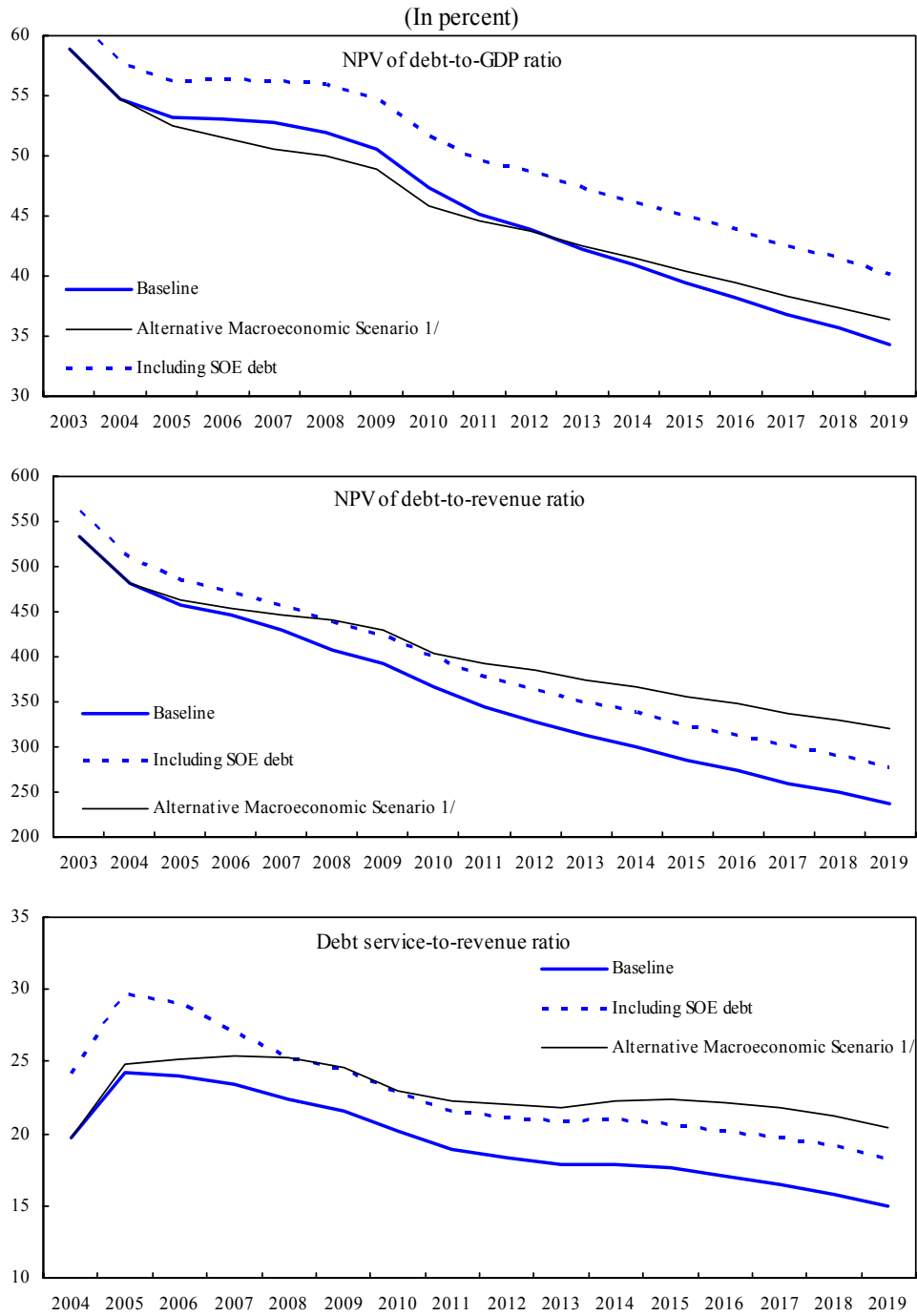
Figure 1. Lao P.D.R.: External Sustainability of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2003-2019
(In percent)



Source: Staff projections and simulations.

1/ Export growth is lower by 2 percent per annum from 2006. Real GDP growth falls to 5 percent by 2009 and stays at that level.

Figure 2. Lao P.D.R.: Fiscal Sustainability of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2003-2019



Source: Staff projections and simulations.

1/ Fiscal revenues are assumed to remain at 11.3 percent of GDP.

Table 1. Lao P.D.R.: External Sustainability Analysis of Public and Publicly Guaranteed External Debt, 2003-19

	2003	2004	2005	2006	2007	2008	2009	2010	2015	2019
a) Public debt stock										
1. NPV of debt to GDP										
Baseline	58.6	54.4	52.8	52.2	52.0	51.6	50.8	47.3	42.2	37.8
Without NT2	58.6	54.4	52.6	51.8	51.1	50.4	49.3	48.1	43.0	38.5
Alternative Macroeconomic Scenario 1/ ^{1/}	58.6	54.4	52.8	52.2	52.0	51.8	51.5	47.9	44.2	40.9
2. NPV of debt to exports										
Baseline	218.5	212.7	186.7	174.6	180.4	185.5	188.2	156.3	158.5	145.9
Without NT2	218.5	212.7	185.8	172.1	176.3	180.0	181.4	181.3	179.9	161.8
Alternative Macroeconomic Scenario 1/ ^{1/}	218.5	212.7	186.7	177.7	187.1	196.2	203.0	171.3	191.2	189.7
b) Public Debt Service										
1. Debt service to exports										
Baseline	...	11.9	10.3	9.5	9.3	9.5	10.0	8.5	9.6	9.3
Without NT2	...	11.9	10.3	9.4	9.2	9.3	9.8	9.8	10.6	10.1
Alternative Macroeconomic Scenario 1/ ^{1/}	...	11.9	10.3	9.6	9.6	10.0	10.8	9.3	11.6	12.1
Memorandum items										
NPV of public debt (Baseline)	1,223	1,313	1,408	1,511	1,624	1,741	1,857	1,958	2,570	3,142
Public debt service	...	73.4	77.7	82.0	83.6	89.0	98.7	106.1	155.4	200.0
Exports of goods and services excluding NT2	560	617	754	865	900	939	986	1253	1621	2154
Public sector borrowing (in percent of GDP)	560	617	754	865	900	939	986	1043	1399	1920
Grant element of new public borrowing (in percent)	6.5	7.3	6.9	6.9	6.8	6.5	6.1	5.5	5.5	4.9
	40.0	41.4	43.5	44.8	45.0	45.5	45.2	49.5	49.5	49.5

^{1/} Export growth is lower by 2 percent per annum from 2006. Real GDP growth falls to 5 percent by 2009 and stays at that level.

Table 2. Lao P.D.R.: Fiscal Sustainability Analysis of Public Debt, 2003-19 1/

	2003	2004	2005	2006	2007	2008	2009	2010	2015	2019
I. NPV of debt to GDP										
Baseline	58.9	54.7	53.2	53.1	52.7	52.0	50.6	47.4	39.5	34.3
Including SOE debt	62.0	57.7	56.3	56.3	56.3	55.9	54.7	51.7	45.0	40.2
Alternative macroeconomic scenario 2/	58.9	54.7	52.5	51.5	50.5	50.1	48.8	45.8	40.4	36.3
NPV debt to revenue excluding grants										
Baseline	533.6	482.3	457.7	445.6	429.3	407.3	392.2	366.6	284.7	236.9
Including SOE debt	561.2	508.9	484.3	473.1	458.3	438.0	424.2	400.0	324.4	277.6
Alternative macroeconomic scenario 2/	533.6	482.3	462.6	454.2	445.5	441.2	430.3	404.0	355.9	320.2
Debt service to revenue excluding grants										
Baseline	13.9	19.7	24.2	24.0	23.4	22.4	21.6	20.2	17.6	14.9
Including SOE debt	...	24.1	29.6	29.1	27.0	25.2	24.4	22.8	20.6	18.3
Alternative macroeconomic scenario 2/	13.9	19.7	24.8	25.2	25.4	25.2	24.6	23.0	22.4	20.4
Memorandum items										
Debt service to revenue including grants	11.6	16.9	20.7	20.7	20.3	19.5	18.8	17.6	15.6	13.4
Primary balance	-5.3	-2.9	-2.9	-2.7	-2.6	-2.5	-2.3	-2.1	-2.2	-1.9
<i>Baseline fiscal projection:</i>										
Fiscal revenues excluding grants	11.0	11.3	11.6	11.9	12.3	12.8	12.9	12.9	13.9	14.5
Grants	2.1	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.8	1.7
Non-interest Expenditures	18.5	16.3	16.5	16.5	16.8	17.2	17.1	16.9	17.8	18.1
Non-interest Expenditures in millions USD	367.2	383.6	428.6	469.3	515.9	569.8	613.2	680.9	1065.4	1473.4
<i>Alternative macroeconomic scenario fiscal projection:</i>										
Fiscal revenues excluding grants	11.0	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3
Grants	2.1	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.8
Non-interest Expenditures	18.5	16.3	16.2	16.0	15.9	15.8	15.6	15.4	15.4	15.1
Non-interest Expenditures in millions USD	367.2	383.6	421.3	453.4	487.3	522.8	557.7	617.8	878.5	1138.7

1/ Government debt, including domestic debt. Based on the Lao P.D.R. fiscal year (October-September).

2/ No reforms or administrative gains; revenues as a percentage of GDP stay at 2004 level.

Table 2a. Lao P.D.R.: Medium-Term Fiscal Projections (Baseline Scenario)
(In percent of GDP, unless otherwise specified)

	Fiscal year: 1/									
	2004	2005	2006	2007	2008	2009	2010	2015	2019	
Nominal GDP	24,821	28,530	32,081	35,685	39,628	44,072	50,831	86,651	131,896	
Real GDP growth	5.8	6.7	6.6	5.9	5.8	5.9	9.8	5.8	5.8	
GDP deflator inflation	10.9	7.7	5.4	5.0	5.0	5.0	5.0	5.0	5.0	
Real exchange rate	87.8	86.3	86.3	86.3	86.3	86.3	86.3	86.3	86.3	
Domestic interest rate	8.9	7.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	
Main results										
FISCAL ACCOUNTS										
Revenue	11.3	11.6	11.9	12.3	12.8	12.9	12.9	13.9	14.5	
Grants	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.8	1.7	
Non-interest expenditures	16.2	16.5	16.6	16.8	17.2	17.1	16.9	17.8	18.1	
Primary balance	-2.9	-2.9	-2.7	-2.6	-2.5	-2.3	-2.1	-2.2	-1.9	
Interest	1.0	1.2	1.1	1.2	1.2	1.1	1.0	0.9	0.8	
Domestic	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	
External	0.7	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.6	
Overall balance	-3.9	-4.1	-3.9	-3.8	-3.7	-3.4	-3.1	-3.1	-2.7	
FINANCING										
Net Requirements	4.5	5.1	4.7	4.6	3.7	3.4	3.1	3.1	2.7	
Deficit	3.9	4.1	3.9	3.8	3.7	3.4	3.1	3.1	2.7	
Bank restructuring bonds	0.6	1.0	0.9	0.8	0.0	0.0	0.0	0.0	0.0	
Sources	4.5	5.1	4.7	4.6	3.7	3.4	3.1	3.1	2.7	
Foreign financing (net)	4.3	4.1	3.8	3.7	3.6	3.3	3.0	3.0	2.6	
Domestic financing (net)	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Bank restructuring bonds	0.6	1.0	0.9	0.8	0.0	0.0	0.0	0.0	0.0	
Other	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
DEBT										
Total	83.0	79.3	77.7	76.0	74.4	71.7	67.5	58.5	52.7	
External	81.4	77.0	74.6	72.4	71.0	68.6	64.6	56.5	51.0	
<i>In billions of U.S. dollars</i>	1.87	1.97	2.08	2.19	2.31	2.43	2.56	3.34	4.11	
Domestic	1.6	2.4	3.1	3.7	3.4	3.2	2.8	2.1	1.7	
Memorandum items:										
Revenue from Nam Theun 2 (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.5	0.5	
Interest payments/Revenue (excl. grants) (% of GDP)	8.8	10.0	9.6	9.5	9.1	8.7	8.1	6.7	5.2	
Debt service/Revenue (excl. grants) (%) 2/	19.7	24.2	24.0	23.4	22.4	21.6	20.2	17.6	14.9	

1/ Fiscal year ending in September.

2/ Excludes amortization on short-term domestic debt.

Table 3a. Lao P.D.R.: External Debt Sustainability Framework, Baseline Scenario, 2003-2019 1/
(In percent of GDP, unless otherwise indicated)

	Projections										2009-19 Average	
	2003	2004	2005	2006	2007	2008	2003-08 Average	2013	2019	2019		
Estimate												
External debt (nominal) 1/	104.0	94.5	93.4	97.2	100.8	103.5		79.7	62.6			
o/w public and publicly guaranteed (PPG)	91.7	85.0	82.6	81.7	81.3	80.6		68.7	60.1			
Change in external debt	15.2	-9.5	-1.1	3.8	3.6	2.7		-4.2	-1.9			
Identified net debt-creating flows	-1.9	-4.7	-2.1	1.9	2.7	2.8		-3.6	-1.9			
Non-interest current account deficit	3.9	6.5	6.2	9.0	9.3	7.4		-0.6	1.7		0.7	
Deficit in balance of goods and services	5.3	8.0	3.9	4.6	5.1	5.5		-3.0	0.0			
Exports	26.8	25.6	28.3	29.9	28.8	27.8		27.7	25.9			
Imports	32.1	33.6	32.2	34.5	33.9	33.3		24.7	25.9			
Net current transfers (negative = inflow)	-4.2	-4.0	-3.9	-3.8	-3.8	-3.7		-3.4	-3.1		-3.4	
Other current account flows (negative = net inflow)	2.7	2.6	6.1	8.2	8.0	5.6		5.9	4.9			
Net FDI (negative = inflow)	-3.3	-7.7	-4.0	-3.0	-2.8	-2.7		-0.9	-1.1		-1.1	
Endogenous debt dynamics 2/	-2.4	-3.5	-4.3	-4.1	-3.8	-1.9		-2.2	-2.5			
Contribution from nominal interest rate	1.7	1.9	1.7	1.5	1.4	3.4		2.3	1.0			
Contribution from real GDP growth	-4.1	-5.4	-6.0	-5.6	-5.2	-5.4		-4.4	-3.5			
Contribution from price and exchange rate changes	...	...	...	...	...	...		...	...
Residual (3-4) 3/	17.1	-4.8	1.0	1.9	0.9	-0.1		-0.5	-0.1			
o/w exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0			
NPV of external debt 4/	70.9	63.9	63.6	67.7	71.5	74.5		55.2	40.3			
In percent of exports	264.3	249.9	224.8	226.4	248.2	267.8		199.3	155.6			
NPV of PPG external debt	58.6	54.4	52.8	52.2	52.0	51.6		44.3	37.8			
In percent of exports	218.5	212.7	186.7	174.6	180.4	185.5		159.7	145.9			
Debt service-to-exports ratio (in percent)	16.2	19.7	16.3	14.6	13.7	21.4		20.6	11.6			
PPG debt service-to-exports ratio (in percent)	7.2	11.9	10.3	9.5	9.3	9.5		9.0	9.3			
Total gross financing need (billions of U.S. dollars)	0.1	0.1	0.2	0.3	0.3	0.4		0.2	0.3			
Non-interest current account deficit that stabilizes debt ratio	-11.4	16.1	7.3	5.2	5.7	4.8		3.6	3.7			
Key macroeconomic assumptions												
Real GDP growth (in percent)	5.3	6.0	7.0	6.5	5.8	5.8		5.7	5.8		6.3	
GDP deflator in US dollar terms (change in percent)	9.1	9.0	3.3	2.0	2.1	2.1		2.2	2.2		2.2	
Effective interest rate (percent) 5/	2.2	2.1	2.0	1.8	1.5	3.7		2.2	2.9		2.8	
Growth of exports of G&S (US dollar terms, in percent)	8.3	10.3	22.1	14.8	4.1	4.3		10.6	5.4		8.0	
Growth of imports of G&S (US dollar terms, in percent)	9.4	20.9	5.9	16.4	6.0	6.2		10.8	9.2		6.4	
Grant element of new public sector borrowing (in percent)	52.7	41.4	43.5	44.8	45.0	45.5		49.5	49.5		49.1	
<i>Memorandum item:</i>												
Nominal GDP (billions of US dollars)	2.1	2.4	2.7	2.9	3.1	3.4		5.2	8.3			

Source: Staff simulations.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g)] / (1+g+\rho+gp)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that NPV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

Table 3b. Lao P.D.R.: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2003-19
(In percent)

	Estimate			Projections									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2019	
NPV of debt-to-GDP ratio													
Baseline	59	54	53	52	52	52	51	47	46	45	44	38	
Bound Tests													
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	59	55	54	53	53	53	52	48	47	46	45	39	
B2. Export value growth at historical average minus one standard deviation in 2004-05 1/	59	57	61	60	59	59	58	54	52	51	49	41	
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	59	69	79	78	78	77	76	71	69	68	66	57	
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 2/	59	57	56	55	55	54	53	50	48	47	46	39	
B5. Combination of B1-B4 using one-half standard deviation shocks	59	64	73	72	72	71	70	65	64	62	61	51	
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 3/	59	75	73	72	72	71	70	65	64	62	61	52	
NPV of debt-to-exports ratio													
Baseline	218	213	187	175	180	185	188	156	158	159	160	146	
Bound Tests													
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	218	213	187	175	180	185	188	156	158	159	160	146	
B2. Export value growth at historical average minus one standard deviation in 2004-05 1/	218	269	351	327	336	344	348	289	291	291	290	256	
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	218	213	187	175	180	185	188	156	158	159	160	146	
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 2/	218	223	197	184	190	195	198	164	166	166	166	150	
B5. Combination of B1-B4 using one-half standard deviation shocks	218	226	245	229	236	242	246	204	206	207	207	187	
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 3/	218	213	187	175	180	185	188	156	158	159	160	146	
Debt service ratio													
Baseline	7	11.9	10.3	9.5	9.3	9.5	10.0	8.5	8.5	8.7	9.0	9.3	
Bound Tests													
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	7	12	10	9	9	9	10	8	8	9	9	9	
B2. Export value growth at historical average minus one standard deviation in 2004-05 1/	7	14	17	16	16	16	17	14	15	16	17	17	
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	7	12	10	9	9	9	10	8	8	9	9	9	
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 2/	7	12	10	10	9	10	10	9	9	9	10	10	
B5. Combination of B1-B4 using one-half standard deviation shocks	7	13	13	12	12	12	13	11	11	11	12	12	
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 3/	7	12	10	9	9	9	10	8	8	9	9	9	
<i>Memorandum item:</i>													
Grant element assumed on residual financing (i.e., financing required above baseline)	48	48	48	48	48	48	48	48	48	48	48	48	

Source: Staff projections and simulations.

1/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

2/ Includes official and private transfers and FDI.

3/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

Table 4a. Lao P.D.R. : Public Sector Debt Sustainability Framework, Baseline Scenario, 2003-2019
(In percent of GDP, unless otherwise indicated)

	Estimate										Projections			
	2003	2004	2005	2006	2007	2008	2003-08 Average	2009-19 Average	2015	2019	2019	2019	2019	
Public sector debt 1/	83.0	83.0	79.3	77.7	76.0	74.4	74.4	58.5	52.7					
o/w foreign-currency denominated	81.9	81.4	77.0	74.6	72.4	71.0	71.0	56.5	51.0					
Change in public sector debt	9.6	-0.1	-3.6	-1.6	-1.7	-1.7	-1.7	-1.7	-1.6					
Identified debt-creating flows	-5.3	-3.9	-2.4	-0.6	-0.6	0.2	0.2	0.1	0.0					
Primary deficit	7.3	4.8	4.9	4.6	4.5	4.4	4.4	4.0	3.6					
Revenue	11.1	11.3	11.6	11.9	12.3	12.8	12.8	13.9	14.5				3.9	
Primary (noninterest) expenditure	18.4	16.2	16.5	16.6	16.8	17.2	17.2	17.8	18.1					
Automatic debt dynamics	-13.3	-9.4	-7.5	-5.3	-5.1	-4.2	-4.2	-3.8	-3.5					
Contribution from interest rate/growth differential	-4.2	-4.5	-5.4	-5.3	-4.8	-4.5	-4.5	-3.5	-3.3					
of which : contribution from average real interest rate	-0.4	0.0	-0.2	-0.4	-0.4	-0.4	-0.4	-0.2	-0.3					
of which : contribution from real GDP growth	-3.8	-4.6	-5.2	-4.9	-4.4	-4.1	-4.1	-3.3	-3.0					
Contribution from real exchange rate depreciation	-9.1	-4.8	-2.1	0.1	-0.4	0.3	0.3	...	...			
Other identified debt-creating flows	0.7	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0					
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
Other (specify, e.g. bank recapitalization)	0.7	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0					
Residual, including asset changes	14.9	3.9	-1.3	-1.0	-1.1	-1.9	-1.9	-1.8	-1.7					
NPV of public sector debt	58.9	54.7	53.2	53.1	52.7	52.0	52.0	39.5	34.3					
o/w foreign-currency denominated	57.8	53.2	50.9	50.0	49.1	48.6	48.6	37.4	32.6					
o/w external	57.8	53.2	50.9	50.0	49.1	48.6	48.6	37.4	32.6					
NPV of contingent liabilities (not included in public sector debt)	...	...	...	...	...	...	...	...	...
Gross financing need 2/	7.2	5.6	6.1	5.9	5.9	5.8	5.8	5.3	4.8					
NPV of public sector debt-to-revenue ratio (in percent) 3/	532.3	482.3	457.9	445.8	429.4	407.5	407.5	284.8	237.0					
o/w external	521.8	468.4	437.6	419.9	399.6	380.9	380.9	269.9	225.2					
Debt service-to-revenue ratio (in percent) 3/ 4/	13.8	19.7	24.2	24.0	23.4	22.4	22.4	17.6	14.9					
Primary deficit that stabilizes the debt-to-GDP ratio	-2.2	4.9	8.5	6.3	6.2	6.1	6.1	5.6	5.2					
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	5.4	5.8	6.7	6.6	5.9	5.8	5.8	6.1	5.8				6.2	
Average nominal interest rate on forex debt (in percent)	0.9	1.1	1.3	1.3	1.3	1.3	1.3	1.2	1.4				1.3	
Average real interest rate on domestic currency debt (in percent)	-3.4	13.9	11.5	7.1	6.3	4.9	4.9	6.7	5.0				5.0	
Inflation rate (GDP deflator, in percent)	13.2	10.9	7.7	5.4	5.0	5.0	5.0	7.9	5.0				5.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	9.9	-7.1	8.9	7.1	7.6	8.2	8.2	5.8	6.7				6.7	
Grant element of new external borrowing (in percent)	40.0	41.1	43.0	44.5	45.0	45.4	45.4	43.2	49.5				...	

Sources: Country authorities; and Fund staff estimates and projections.

1/ General government gross debt.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

Table 4b. Lao P.D.R.: Sensitivity Analyses for Key Indicators of Public Sector Debt, 2003-2019

	Estimate					Projections				
	2003	2004	2005	2006	2007	2008	2009	2015	2019	
NPV of Debt-to-GDP Ratio										
Baseline	59	55	53	53	53	52	51	39	34	
Bound tests										
B1. Real GDP growth is at historical average minus one standard deviations in 2004-2005	58	54	53	53	52	52	51	41	38	
B2. Primary balance is at historical average minus one standard deviations in 2004-2005	58	62	68	67	66	65	63	49	43	
B3. Combination of 2-3 using one half standard deviation shocks	58	60	65	64	63	62	60	47	41	
B4. One time 30 percent real depreciation in 2004	58	74	70	69	67	65	63	48	41	
B5. 10 percent of GDP increase in other debt-creating flows in 2004	58	60	58	57	57	56	54	43	38	
NPV of Debt-to-Revenue Ratio										
Baseline	532	482	458	446	429	407	392	285	237	
Bound tests										
B1. Real GDP growth is at historical average minus one standard deviations in 2004-2005	527	476	456	444	427	407	392	298	260	
B2. Primary balance is at historical average minus one standard deviations in 2004-2005	527	549	586	561	535	506	485	356	297	
B3. Combination of 2-3 using one half standard deviation shocks	527	531	557	535	511	483	463	340	285	
B4. One time 30 percent real depreciation in 2004	527	653	604	577	546	513	489	343	286	
B5. 10 percent of GDP increase in other debt-creating flows in 2004	527	533	499	483	463	438	421	312	265	
Debt Service-to-Revenue Ratio										
Baseline	14	20	24	24	23	22	22	18	15	
Bound tests										
B1. Real GDP growth is at historical average minus one standard deviations in 2004-2005	14	20	25	25	25	24	24	22	22	
B2. Primary balance is at historical average minus one standard deviations in 2004-2005	14	20	28	29	28	27	26	30	28	
B3. Combination of 2-3 using one half standard deviation shocks	14	20	27	28	27	26	25	28	26	
B4. One time 30 percent real depreciation in 2004	14	22	29	29	28	27	26	25	24	
B5. 10 percent of GDP increase in other debt-creating flows in 2004	14	20	27	26	26	25	24	25	24	

Sources: Lao P.D.R. authorities, and Fund staff estimates and projections.

II. LAO P.D.R.—STRATEGY FOR REVENUE MOBILIZATION⁹

A. Background

20. **This paper assesses the recent revenue performance in Lao P.D.R. and outlines a strategy to address the decline in the revenue to GDP ratio since 1999/00.**¹⁰ One of the paper's conclusions is that the reduction in revenue was partly due to a number of external factors, notably a decline in timber royalties, which may not be easy to reverse. Nevertheless, slow progress in reforms also contributed, and revenue collections are below their long-run potential. An acceleration of reforms is necessary to bring revenue closer to its potential, but revenue goals need to be set realistically, given that more advanced reformers in the region have not yet been able to raise their revenue effort much higher than Lao P.D.R..

21. **The main elements of the reform strategy proposed in this paper are:**

- Retain the introduction of a single rate VAT as the leading structural improvement in taxes.
- Focus reform efforts on the centralization of the revenue administration to improve efficiency and to facilitate the introduction of the VAT. The centralization may require a more comprehensive reform of intergovernmental relationships.
- Administrative reforms should continue to focus on large taxpayers, but this should be augmented over time by efforts to better identify medium-sized taxpayers, where the new private sector growth is most likely to have occurred.
- Strict control should be maintained over tax incentives, to prevent erosion of the tax base.

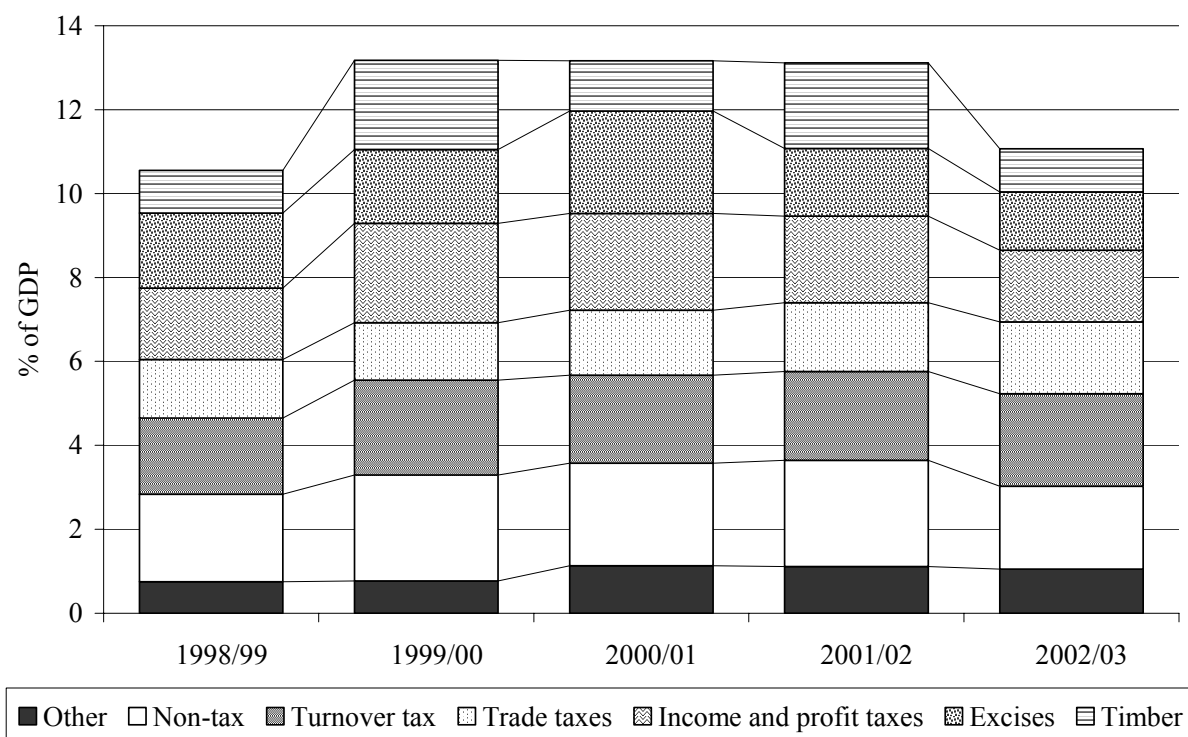
Recent Revenue Performance

22. **The revenue performance has been disappointing relative to the original expectation under the PRGF program.** The program envisaged an increase in revenues by 2 percent of GDP (to 15 percent) between fiscal years 1999/00 and 2002/03. The original revenue gain was expected to be generated by the introduction of a VAT in 2003, and supporting administrative reforms in the interim. However, instead of rising, revenues remained flat, as a percent of GDP, in the first two years of the program, before falling by 2 percentage points of GDP in 2002/03 to just over 11 percent of GDP (Figure 1).

⁹ Prepared by Wojciech Maliszewski.

¹⁰ Fiscal years runs from October to September.

Figure 1. Lao P.D.R.: Revenue Performance 1989/99-2002/03



23. **The sharp decline in revenues in 2002/03 can be traced to a number of specific factors.** Three factors in particular were important:

- A sharp fall in timber royalties (1.0 percent of GDP). The drop is partly explained by the commencement of more stringent enforcement of an export ban on unprocessed timber, although weak government control over politically powerful groups involved in timber production, is also believed to have been a significant contributory factor.
- A decline in profit tax (0.4 percent of GDP). A detailed analysis of the factors behind the decline was inhibited by data limitations, but it has been widely attributed to lower tax receipts from state-owned enterprises (SOEs). In the past, SOEs paid taxes despite low profitability. This situation changed in 2002/03, when reforms in the state commercial banks reduced lending to non-profitable SOEs, constraining their ability to pay taxes.
- Lower non-tax revenues (0.5 percent of GDP). The latter reflected a combination of factors, including a decline in dividends from SOEs, and lower fees and charges, associated partly with the decline in tourism following the SARS outbreak.

24. **However, the more general deterioration in the underlying revenue effort, reflects difficulties in addressing more-deep-seated structural weaknesses.** Technical capacity of the revenue administration has remained weak due to a slow progress in

administrative reforms. A decentralization initiative of 2001 impeded the reform effort and reduced incentives to collect revenue by provinces. A proliferation of tax exemptions in attempt to stimulate investments has further narrowed the revenue base. It is also now recognized that the original revenue objectives may have been too optimistic, as forging a consensus on reforms and of overcoming acute capacity constraints turned out to be more difficult than expected.

B. Revenue Collection Performance in International Perspective

25. **International comparisons suggest that the revenue effort in Lao P.D.R. is below the long-run potential.** To assess the potential, revenue and tax revenue ratios for a large group of countries were regressed on variables commonly used in the literature on modeling international differences in the revenue collection.¹¹ Fitted values from the regressions indicate that both the revenue and the tax revenue ratio in Lao P.D.R. is around 6 to 7 percentage points below potential. Residuals from the regressions—which can be interpreted as a measure of the revenue effort corrected for differences in wealth, the level of development, and openness—are between the 20th and 30th percentile in the sample. The results suggest that the revenue collection was weak by international standards, even when taking into account different characteristics of the economy.

26. **While the international comparisons are valuable in assessing a long-term revenue potential, they do not recognize all political and administrative factors influencing the revenue effort in the short- to medium-term.** It is therefore useful to compare the revenue effort in Lao P.D.R. with other countries in the region at a similar level of political and economic development, and pursuing similar economic reforms.

27. **While Lao P.D.R.’s revenue effort is lower than most of its neighbors, the discrepancy narrows markedly once agriculture is excluded from GDP** (Table 1). Lao P.D.R., Cambodia, and Vietnam all rely heavily on subsistence agriculture. As noted above, the subsistence agriculture reduces the breadth of the tax base; the use of non-agricultural GDP may therefore be a better measure to compare relative revenue efforts in the region. For similar reasons, revenue from natural resources (oil in Vietnam and timber in Lao P.D.R.) have also been excluded. The results suggest that revenue effort in Lao P.D.R.—where the share of agriculture in GDP is the highest (around 50 percent)—does not compare unfavorably with its neighbors. Indeed, the ratio of tax revenues to non-agricultural GDP is broadly comparable to Vietnam and Thailand, and significantly higher than Cambodia.

¹¹ The explanatory variables used in the regression are: per capita GDP (to reflect a possibility that wealthier countries have proportionally higher revenues to support larger public sectors); the share of agriculture in GDP (a proxy for the level of development and the breadth of the tax base); and openness (defined as a sum of exports and imports of goods, to reflect an administrative ease of collecting revenues at the border). See Tanzi (1992) for a full discussion of “tax effort” regressions. See Annex I for specification details, data description, and results.

Table 1. Lao P.D.R.: Comparative Tax Structure in Selected Southeast Asian Countries

	Cambodia 2000-2002	Lao P.D.R. 1999/00	2002/03	Thailand 1998/99–2000/01	Vietnam 2000-2002
	(In percent of GDP)				
Total tax revenue	7.5	10.6	9.1	14.3	15.8
of which:					
Taxes on income and profits	0.9	2.4	1.7	4.8	5.7
General sales taxes	2.8	2.3	2.2	3.2	4.2
Excises	1.1	1.8	1.4	3.6	1.3
Trade taxes	2.7	1.0	1.5	1.7	3.6
Tax revenue excl. natural resources 1/	7.5	8.5	8.1	14.3	12.0
	(In percent of non-agricultural GDP)				
Total tax revenue	11.7	21.8	17.9	15.7	20.6
of which:	11.7	15.4	13.4	14.7	19.3
Taxes on income and profits	1.4	4.6	3.4	5.3	7.4
General sales taxes	4.4	4.4	4.3	3.5	5.6
Excises	1.7	4.0	2.7	3.9	1.7
Trade taxes	4.2	2.4	2.9	1.9	4.7
Tax revenue excl. natural resources 1/	11.7	18.1	15.9	15.7	15.7
Memorandum items:					
Per capita income (U.S. dollar)	270	310	359	1,970	410
Share of agriculture in GDP (%)	35.5	52.1	49.2	9.1	23.2

Sources: Staff reports.

1/ Excluding revenues from timber royalties for Lao P.D.R. and oil revenue for Vietnam.

28. **The regional comparisons suggest that progress in the revenue collection needs to be projected cautiously.** Nevertheless, progress can be made in closing the gap relative to the revenue potential through accelerating the process of revenue reform. The next two sections therefore discuss obstacles to reach the revenue potential and possible solutions to these problems.

C. Structural Causes of the Revenue Weaknesses

29. **The main structural weaknesses are:** (i) a weak technical capacity of the revenue administration; and (ii) a highly decentralized revenue administration, in which provinces have weak incentives to collect and remit revenue to the national budget. A tendency to emphasize promoting investment at the expense of the revenue collection has been an additional complicating factor.

Administrative capacity

30. **The authorities have introduced a range of reforms in tax and customs administration, with technical assistance from the Fund and other international donors.** In tax administration, the reforms have included the introduction of self-assessment and

taxpayer identification numbers (TIN) for the largest taxpayers¹²—supported by a simple computer system—and the introduction of improved audit methods. A large taxpayer unit (LTU) has been established at the central level, although this effort was diluted as some taxpayers were subsequently relocated to provincial offices. In customs administration, positive steps included the modernization and streamlining of duty assessment procedures, the development of new valuation rules, and the introduction of a new computer system.

31. **However, the revenue administration continues to be hampered by a number of technical difficulties.** In the tax administration, the audit techniques have remained underdeveloped, and registration requirements for enterprises have remained limited, with no legal provisions for enforcing the use of the taxpayer identification number. These administrative shortcomings have facilitated tax evasion, especially for smaller businesses. There are indications that many of the medium taxpayers (especially in the tourism sector) exploit administrative loopholes by hiding in the presumptive tax system. In customs, the application of procedures is not uniform, and problems continue with the quality and timeliness of data generated by the reporting system.

Decentralization

32. **Decentralization has weakened the system of revenue collection by fragmenting the administration of major taxes.** Under the current system, the central government controls mainly tax revenues collected by the central large taxpayer unit and royalties.¹³ Other revenues are collected by provinces. Although provinces generating “revenue surpluses” are in principle required to remit the surplus to the center, they have in practice little incentive to do so. They also have a strong incentive to grant ad hoc tax exemptions in order to promote investment in their respective regions.

Tax incentives

33. **Tax incentives are widespread, narrowing the revenue base.** The law on promotion of foreign investment provides for significant reductions in customs duties and turnover tax to foreign companies. Foreign companies also benefit from the lower profit tax rate than domestic businesses. The law on domestic investments grants exemptions to businesses operating in certain regions and broadly defined sectors, significantly eroding the revenue base. Additional case-by-case profit tax relief is given to both the foreign and domestic enterprises.

34. **Staff estimates suggest that revenue losses resulting from different structural factors is substantial,** although precise estimation is difficult. Calculations of the revenue

¹² Out of a total of 63,000 taxpayers, the 600 largest payers account for 70 percent of the total tax collection.

¹³ The center collects approximately 45 percent of total revenues.

leakage in customs (Table 2) indicate that it ranges from 30 to 60 percent of the theoretical revenue. The paucity of data does not allow for the estimation of the leakage from other taxes.

Table 2. Lao P.D.R.: Estimation of the Leakage at Customs

	2000/01	2001/02	2002/03
Revenue base (million US\$)			
Imports 1/	719	725	838
Imports (excluding project imports) 2/	538	578	660
Rates (percent) 3/			
Observed rate	6.6	6.6	6.6
Notional rate	9.9	9.9	9.9
Potential revenue (million US\$)			
At observed rate	35.4	38.0	43.4
in percent of GDP	2.0	2.1	2.2
At notional rate	53.3	57.2	65.3
in percent of GDP	3.0	3.2	3.3
Actual collection of customs duties (million US\$)	20.8	24.5	29.7
in percent of GDP	1.2	1.4	1.5
Apparent leakage (percent)			
Relative to observed rate	41.1	35.5	31.5
Relative to notional rate	60.9	57.2	54.6
Memorandum items:			
Kip per U.S. dollar (average)	8,586	9,810	10,636
GDP (in billions of kip)	15,197	17,719	21,150
Government capital expenditure (million US\$)	241	196	237

1/ Source: IMF Direction of Trade Statistics.

2/ Project imports are estimated at 75 percent of capital expenditure.

3/ The observed rate is the ratio of customs duty collection to the value of imports reported by the Customs Department in 2001/02. The notional rate is a weighted average tariff calculated from 2001/02 customs data. The observed rate is lower than the notional rate due to legal exemptions granted by customs.

D. Future Challenges and Strategy

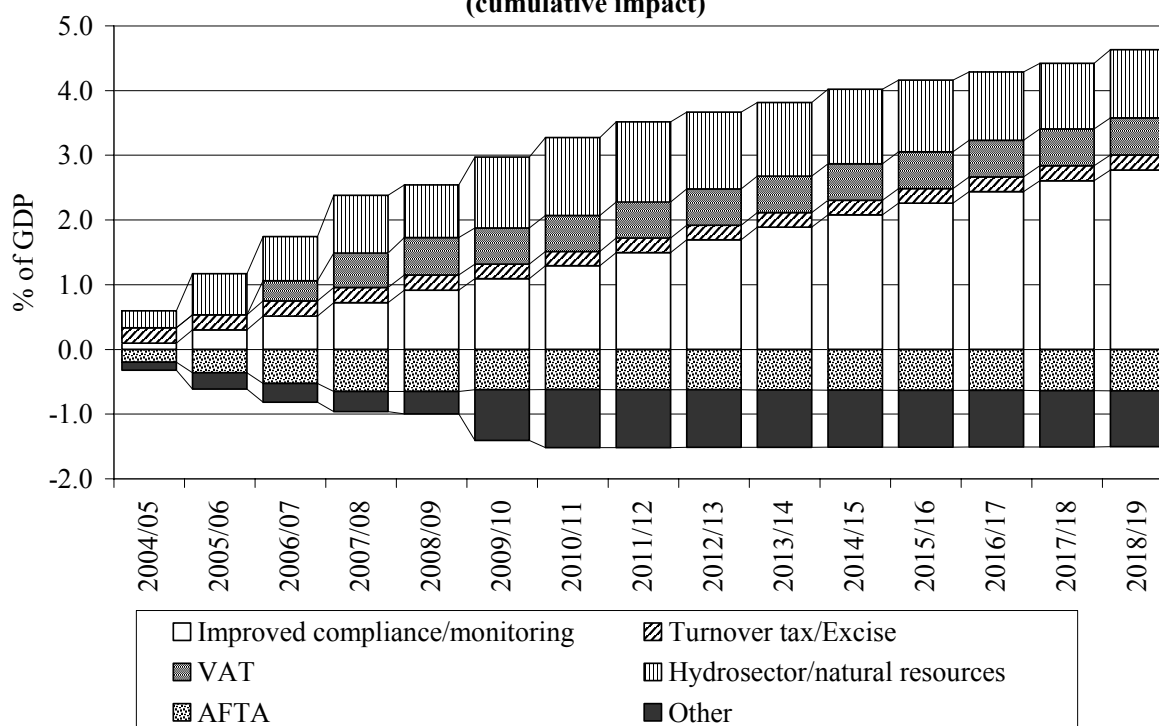
35. **Revenue mobilization is key to ensuring fiscal sustainability given Lao P.D.R.'s substantial expenditure needs and the existing debt burden.** The authorities' National Growth and Poverty Eradication Strategy sets out a strategy to achieve ambitious poverty reduction goals. Although the strategy is not fully costed, it is clear that additional resources will be needed to fully fund its key social sector goals. At the same time, the debt burden remains significant (see accompanying selected issues paper on debt sustainability). Debt sustainability analysis presented in this paper suggests that—given expenditure needs—a gradual increase in the revenue ratio to 13 percent in 2008/09 and to 14½ percent in 2018/19 is necessary to maintain fiscal sustainability.

36. **Revenues from mining projects and the hydropower sector will fill only part of the need for additional revenue.** Revenues from gold and copper mining projects by the Australian company Oxiana are projected to gradually increase raise revenues by 0.5 percent

of GDP. Revenues from existing hydropower projects, notably Theun-Hinboun Power Company will likely rise by 0.3 percent of GDP after completion of a restructuring plan for the state-owned electricity company (EDL), and expiration of certain tax exemptions. Revenues from a new large hydropower plant Nam Theun 2 (NT2) are projected to raise government resources by an additional 0.5 percent of GDP shortly after the completion of the project in 2009/10.

37. **In any event, revenues from these sources will be largely offset by a decline in customs revenues as a result of tariff reductions under the ASEAN Free Trade Arrangement (AFTA).** Tariffs on almost all permitted imports from the region will be reduced to 0-5 percent over the period through 2008, and it is estimated that this will reduce customs duties by 0.7 percent of GDP over this period. The bulk of the net increase in revenues over the medium term will therefore have to come from reforms to broaden the tax base and improve revenue administration (Figure 2).

**Figure 2. Lao P.D.R.: Factors Affecting Revenue Ratio
(cumulative impact)**



Tax Policy Reforms

38. **The main tax policy change in the medium term should be the introduction of a VAT.** The introduction of a VAT, if implemented effectively, will broaden the tax base—principally by reducing exemptions—and help consolidate reforms in tax administration. It is

estimated that a standard rate of 10 percent rate would increase revenue by 0.6 percent of GDP (Table 3).

Table 3. Lao P.D.R.: Estimation of Potential VAT Revenue

	(in billion of kip)	(in percent of GDP)
GDP: 2002/03 (market prices)	21,426	100.0
<i>Exports</i>	- 3,754	17.5
<i>Imports</i>	+ 5,867	27.4
<i>Capital formation 1/</i>	- 4,285	20.0
<i>Value-added by exempt sectors</i>	- 10,713	50.0
<i>Government expenditures on salaries</i>	- 657	3.1
<i>Collection leakage 2/</i>	- 1,971	9.2
Estimated VAT base	5,913	27.6
Estimated revenue yield at rate of 12%	710	3.3
Estimated revenue yield at rate of 10%	591	2.8
Estimated revenue yield at rate of 8%	473	2.2
2002/03 turnover tax revenue	466	2.2

1/ Assumes that capital formation constitutes 20 percent of GDP.

2/ Assumes 25 percent collection leakage.

39. **The authorities have presented a proposal to the National Assembly to introduce the VAT in January 2007.** The proposal presented to the National Assembly contains a number of welcome features. In particular, the VAT will be a consumption based tax with a single 10 percent rate and a zero rate for export with a limited number of exemptions. Some elements of the proposal may require further consideration. For example, the proposed threshold VAT taxpayers—KN 240 million or US\$ 23,000—is set at a relatively low level, which may overstretch the authorities' administrative capacity in the early phases of the VAT's implementation. The proposal also contains a relatively complex regime for taxpayers below the threshold (it is based on gross profit and has multiple rates).

40. **Preparations for the VAT will need to start soon, if the target of introducing the VAT by early 2007 is to be achieved.** The first step should be for the authorities to publish the government's proposal for the main parameters of the VAT and the modalities for its implementation. This would help launch a consultative process that would help inform the preparation of the VAT law, which should, on this timetable, be completed by end-2005. The plans for introducing the VAT will need to be closely coordinated with the strategy for centralizing the revenue administration, as the latter is critical for the VAT to proceed.

Customs and Tax administration reform

41. **The development of a unified national customs administration is a key priority.** In early 2004, the authorities developed a phased strategy to achieve this objective. The initial

focus was on re-establishing central control over the seven main international checkpoints. Key steps in this process were to include enhanced supervision of the checkpoints by visiting headquarter teams, the transfer of authority over the staff at the checkpoints to the Customs Department, and the deposit of revenues collected into central government accounts. Work was to continue in parallel on the development of a proposal for a new national customs organization. Once control over the main checkpoints was established, the process was to be extended to the remaining checkpoints. Under the current timetable for the VAT, a fully centralized national customs service would need to be in place by 2006.

42. **Improvements in the technical capacity of customs administration are necessary to support the main reforms.** In particular, the existing operation of the computer system should be improved, post clearance controls enhanced, and the operations of the inspection division of the Customs Department strengthened. These measures would help ensure the uniform application of customs procedures by provinces and limit the revenue leakage in the short term.

43. **Creating a strong national *tax administration* is also essential to improve the revenue performance.** As with the reform of the customs service, efforts should initially focus on establishing control over the major provincial LTUs, while working on modernizing the organizational structure of the Tax Department. Control should then be gradually expanded over the remaining provincial LTUs, with the view to establishing a fully integrated national tax administration significantly in advance of introducing the VAT.

44. **Technical capacity of the tax administration also needs to be strengthened.** The main priorities are to improve the compliance of large taxpayers and to prevent taxpayers from hiding under the presumptive tax regime. For large taxpayers, the LTUs should enforce the compliance of non-filing and non-licensed companies, establish and implement a risk-based compliance file selection system for others, and improve the information management system. For all taxpayers, registration requirements need to be better enforced and business register should be enhanced to identify taxpayers hiding under the presumptive tax regime. To this end, the MoF should conduct a comprehensive assessment of taxpayers, preferably based not only on turnover, but also on employment or any other easily verifiable information.

45. **The rationalization and strengthening of the framework for *intra-governmental fiscal relations* is likely to have an important bearing on the revenue reform agenda.** The provinces are unlikely to cede control over revenues until such a framework is in place. The framework will need to define carefully the assignment of revenue responsibilities and instruments to different levels of government. A clear allocation mechanism for national revenues across provinces should also be established.

Tax incentives

46. **Tax exemptions should be limited and other forms of investment incentives considered in the medium-term.** Reducing the scope of exemptions will improve the revenue effort, and facilitate the implementation and enhance the efficiency of the VAT.

Some progress was made in this area following the promulgation of the implementing regulations for Presidential Decree 01 (PD01) on tax incentives. In particular, the new implementing regulations provided for greater control over the policy of granting exemptions by the center, and a provision ring-fencing VAT from the current indirect tax exemptions. PD01 has recently been superseded by new investment laws, approved by the National Assembly in October 2004 but it remains to be clarified whether these laws will retain the key elements of PD01. A more general review of the investment incentive regime is needed as the current heavy reliance on tax holidays and exemptions is unlikely to be cost effective. If tax incentives are to be granted, a consideration should be given in this context to using more efficient incentives, especially those that allow for faster recovery of investment costs, such as investment allowances, investment tax credits, and accelerated depreciation.¹⁴

E. Conclusions

47. **The revenue collection in Lao P.D.R. is below its potential, but is not unusually low by regional standards.** The low level of development and the high share of the subsistence agricultural sector limit the revenue collection capacity. These factors need to be taken into account in projecting future revenue gains.

48. **Weak technical capacity and highly fragmented revenue administration are the main structural weaknesses affecting revenue performance.** In addition, tax incentives to promote investments hamper the revenue effort by narrowing the revenue base.

49. **An increase in the revenue ratio is possible with the implementation of comprehensive reforms centered around the introduction of the VAT.** The key reforms are the recentralization of the revenue departments and improvements in their technical capacity. The process of the introduction of the VAT should be used to advance the reform agenda in these two areas. A comprehensive reform of inter-governmental relations may be required for a successful implementation of the reforms. Technical assistance would be essential in making progress in both policy and administrative reforms.

References

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¹⁴ For empirical evidence on cost effectiveness of general and selective incentives, see Shah (1995).

International Comparisons of the Revenue Collection

The empirical analysis is based on a data set comprising key fiscal and macroeconomic variables for 149 countries from 1971-2001. A total of 2,797 observations are available. The revenue data are taken from GFS, with additional information compiled from statistical appendices to annual Article IV consultation reports (REDs and statistical appendices). Macroeconomic variables are taken from WEO (openness) and World Bank WDI (GDP per capita at 1987 PPP prices and share of agriculture in GDP). Results from a fixed-effects estimation for the panel are reported in Table 1. All variables have expected signs and are statistically significant, with an exception of per capita GDP in the regression explaining the revenue/GDP ratio. Residuals discussed in the text include individual effects estimated from the model.

Table 1. Fixed-Effect Panel Model for Revenue and Tax Revenue Collection

	Revenue/GDP (%)			Tax Revenue/GDP (%)		
	Coef.	Std. Err.	t-stat.	Coef.	Std. Err.	t-stat.
Openness (exports + imports)/GDP (%)	0.05 **	0.01	8.56	0.02 **	0.00	5.32
Agriculture GDP / GDP (%)	-0.18 **	0.03	-6.88	-0.05 **	0.02	-3.25
GDP PPP (log, 1987 prices)	0.16	0.27	0.61	0.79 **	0.17	4.64
Constant	24.80	2.46	10.09	12.86	1.56	8.25
Number of obs.	2,797			2,797		
Number of groups	149			149		
R-square	0.28			0.28		
Standard error of individual effects	8.41			7.80		
Standard error of residuals	4.34			2.76		
Fraction of variance due to individual effects	0.79			0.89		
F-test: explanatory variables = 0 (Prob > F = 0)	F(3,2645) = 54.51 (0.00)			F(3,2645) = 35.51 (0.00)		
F-test: individual effects = 0 (Prob > F = 0)	F(148, 2645) = 61.45 (0.00)			F(148, 2645) = 17.84 (0.00)		

** significant at 1 percent level.

* significant at 5 percent level.

Table 1. Lao P.D.R.: Real GDP by Industrial Origin, 1999–2003

	1999	2000	2001	2002	<u>2003</u> Est.
(In billions of kip; at 1990 constant market prices)					
Agriculture	556	584	606	630	644
Crops	306	347	361	373	373
Livestock and fishery	197	202	207	217	227
Forestry	53	35	38	40	43
Industry	234	254	280	308	344
Mining and quarrying	5	5	6	6	22
Manufacturing	176	189	212	239	254
Construction	28	25	29	27	30
Electricity, gas, and water	25	35	34	36	37
Services	268	282	298	314	338
Transportation, storage, and communication	60	65	71	77	84
Wholesale and retail trade	100	105	114	123	136
Banking, insurance, and real estate	13	9	10	5	6
Ownership of dwellings	32	33	34	35	36
Public wage bill	31	33	34	39	40
Nonprofit institutions	8	9	8	8	8
Hotels and restaurants	22	25	25	26	25
Other	2	2	2	2	2
GDP at factor cost	1,059	1,120	1,183	1,253	1,325
Import duties	6	8	9	10	11
GDP at market prices 1/	1,065	1,127	1,192	1,262	1,336

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

1/ Fund staff estimates differ from the official figures for 2003.

Table 2. Lao P.D.R.: Real GDP Growth, 1999–2003

	2000 Weights	1999	2000	2001	2002	2003 Est.
	(In percent)					
Agriculture	52.1	8.2	4.9	3.8	4.0	2.2
Crops	31.0	13.5	13.2	4.1	3.5	-0.04
Livestock and fishery	18.1	2.3	2.3	2.5	4.6	4.9
Forestry	3.1	2.3	-33.6	8.1	5.1	8.6
Industry	22.7	8.0	8.5	10.1	10.1	11.5
Mining and quarrying	0.5	33.5	1.3	1.2	10.1	267.5
Manufacturing	16.9	7.1	7.2	12.1	13.0	6.3
Construction	2.3	-0.6	-9.2	13.0	-6.5	12.9
Electricity, gas, and water	3.1	21.6	39.0	-1.3	6.3	1.2
Services	25.2	6.7	4.9	5.7	5.6	7.5
Transportation, storage and communication	5.8	5.8	9.0	8.6	8.4	9.3
Wholesale and retail trade	9.4	7.2	5.0	8.9	7.5	10.7
Banking, insurance, and real estate	0.8	3.0	-35.7	12.7	-46.3	13.4
Ownership of dwellings	3.0	2.5	2.5	2.5	2.5	2.5
Public wage bill	3.0	6.7	7.1	1.6	15.0	3.4
Nonprofit institutions	0.8	-4.8	7.5	-12.5	4.2	7.0
Hotels and restaurants	2.3	21.6	16.5	-1.2	2.7	-2.1
Other	2.3	19.6	27.5	-1.5	-7.3	11.5
GDP at factor cost	100.0	7.8	5.7	5.7	5.8	5.8
Import duties	0.7	-38.8	20.4	15.8	6.0	11.2
GDP at market prices 1/	100.7	7.3	5.8	5.8	5.8	5.8

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

1/ Fund staff estimates differ from the official figures for 2003.

Table 3. Lao P.D.R.: Nominal GDP by Industrial Origin, 1999–2003

	1999	2000	2001	2002	<u>2003</u> Est.
	(In billions of kip)				
Agriculture	5,508	7,127	7,975	9,174	10,829
Crops	3,031	4,233	4,750	5,439	6,280
Livestock and fishery	1,956	2,468	2,727	3,156	3,824
Forestry	521	427	497	578	725
Industry	2,321	3,106	3,687	4,492	5,783
Mining and quarrying	54	67	73	89	378
Manufacturing	1,744	2,306	2,787	3,483	4,277
Construction	276	309	377	390	508
Electricity, gas, and water	247	423	450	530	619
Services	2,425	3,333	3,902	4,554	5,685
Transportation, storage and communication	591	794	930	1,115	1,408
Wholesale and retail trade	992	1,284	1,507	1,792	2,292
Banking, insurance, and real estate	57	105	128	76	99
Ownership of dwellings	321	406	449	509	603
Public wage bill	219	393	517	643	805
Nonprofit institutions	11	12	11	12	14
Hotels and restaurants	215	309	329	374	423
Other	19	29	31	32	41
Import duties	75	107	141	172	240
GDP at market prices 1/	10,329	13,672	15,705	18,390	22,536

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

1/ Fund staff estimates differ from the official figures for 2003.

Table 4. Lao P.D.R.: Output of Major Commodities, 1999–2003

Item	Unit	1999	2000	2001	2002	2003
Agriculture						
Paddy	'000 tons	2,100	2,200	2,334	2,417	2,375
Corn	'000 tons	96	117	111	124	143
Sweet potatoes and cassava	'000 tons	81	118	91	...	...
Coffee	'000 tons	18	24	26	32	22
Tobacco	'000 tons	23	33	26	28	26
Livestock						
Buffalo	'000 tons	49	50	51	...	...
Cattle	'000 tons	43	44	46	...	...
Pigs	'000 tons	89	91	90	...	...
Poultry	'000 tons	18	19	20	...	...
Forestry						
Logs	'000 m3	568	378	239	...	...
Industry						
Tin	tons	691	800	816	...	...
Gypsum	'000 tons	165	185	150	99	98
Manufacturing						
Hydropower	million khw	2,436	3,678	3,590	3,603	3,179
Beer	'000 hectoliter	480	508	577	652	702
Soft drinks	'000 hectoliter	123	143	142	148	164
Cigarettes	million packs	38	41	41	55	68
Agricultural tools	'000 units	4	4	4	4	4
Corrugated iron sheet	million sheets	...	...	...	...	...
Detergent	tons	879	900	700	700	710
Nails	tons	691	650	740	745	760
Oxygen	'000 bottles	21	21	21	21	21
Electric cord	'000 m	3,570	2,000	...	...	...
Plastic products	tons	3,900	3,850	4,350	4,420	4,530
Salt	'000 tons	18	19	21	22	22
Wood furniture	million kip	12,725	12,700	15,240	15,350	15,550
Rattan furniture	million kip	268	275	320	345	350
Garments	million pieces	21	24	32	33	34
Sugar	tons	353	300	265	562	450
Tobacco	tons	757	1,277	358	593	947
Plywood	million sheets	2,086	2,150	2,200	2,250	1,550
Cement	1,000 tons	75	75	75	263	280
Bricks	million pieces	65	66	87	89	90
Wood	1,000 meters	251	240	230	235	198
Ventilators	1,000 units	438	455	465	...	...

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

Table 5. Lao P.D.R.: Consumer Price Indices, 2000–2004

	2000	2001	2002	2003	2004
(NSC Index; December 1999 = 100)					
January	101.5	111.8	119.8	138.2	155.6
February	103.3	112.6	120.7	139.6	157.6
March	104.2	113.0	121.1	142.7	159.8
April	106.4	114.8	123.3	145.3	162.6
May	107.7	116.2	124.0	146.6	164.7
June	108.9	116.1	126.7	147.8	166.4
July	109.7	117.3	130.5	150.0	168.2
August	111.0	120.0	135.1	155.2	169.5
September	113.7	120.8	138.4	158.5	170.2
October	112.8	120.8	138.1	158.0	...
November	110.7	119.8	136.6	155.3	...
December	110.6	118.9	136.9	154.2	...
(Twelve-month percentage change)					
January	75.9	10.1	7.2	15.4	12.6
February	58.9	9.0	7.2	15.6	12.9
March	45.6	8.4	7.2	17.9	11.9
April	35.0	7.8	7.4	17.8	11.9
May	31.2	7.9	6.7	18.2	12.4
June	21.5	6.7	9.1	16.7	12.6
July	10.7	6.9	11.2	15.0	12.1
August	6.7	8.1	12.6	14.9	9.2
September	9.7	6.3	14.6	14.5	7.4
October	8.5	7.1	14.3	14.5	...
November	11.1	8.2	14.0	13.7	...
December	10.6	7.5	15.2	12.6	...
Period average	27.1	7.8	10.6	15.6	...

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

Table 6. Lao P.D.R.: Consumer Price Indices Components, 2002-2004

	Weight	2002			2003			2004					
		Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	
		(Twelve-month percentage change)											
Foods	46.2	7.7	8.7	12.6	13.8	13.6	15.0	18.7	14.4	14.5	13.6	4.0	
Rice, bread, flour, and other cereals	14.7	6.2	7.4	8.5	15.0	10.7	17.7	36.8	25.1	23.9	16.3	-7.7	
Meats, poultry, and fish	12.1	5.8	9.2	14.9	14.8	17.3	13.6	7.5	7.2	10.7	18.4	21.0	
Fish	4.4	5.3	11.2	14.5	12.3	11.1	7.7	2.8	8.6	12.8	17.2	20.2	
Dairy products and egg	0.9	13.1	14.3	11.1	7.0	10.0	8.2	2.8	7.5	11.9	27.4	35.7	
Fruit and vegetables	5.3	-1.0	-4.3	18.4	12.8	12.8	13.1	5.3	6.9	9.2	2.4	0.6	
Sugar, sweets, and spices	2.9	18.6	17.6	15.9	14.9	13.9	13.6	7.9	9.3	6.5	5.8	3.7	
Meals	4.2	26.2	24.9	15.7	13.2	19.2	19.9	19.3	15.3	6.5	7.7	4.7	
Other drink	1.4	4.9	5.4	4.8	6.0	8.8	11.0	11.0	9.4	11.3	13.0	12.1	
Alcoholic beverages and tobacco	6.4	6.1	2.9	0.8	0.9	2.8	4.9	10.0	10.3	10.3	10.7	5.7	
Alcoholic beverages	4.0	4.9	4.5	4.0	2.6	4.4	4.1	8.3	9.1	8.9	9.2	4.5	
Tobacco	2.4	8.1	0.3	-4.1	-1.7	0.3	6.0	12.6	12.2	12.5	13.1	7.5	
Clothing and foot wear	4.9	12.8	15.0	11.8	12.6	13.7	11.0	8.2	8.7	7.7	8.3	8.6	
Men's clothing	1.3	9.7	11.8	7.4	9.4	10.0	8.8	7.5	9.1	10.5	12.3	14.3	
Ladies's clothing	1.3	9.5	12.3	11.7	12.4	14.1	11.8	5.7	6.1	4.3	4.3	5.4	
Children's clothing	1.2	21.8	21.5	13.4	12.8	13.4	10.8	7.7	7.7	5.7	5.3	5.5	
Foot wear	0.8	9.5	11.3	11.4	11.7	13.8	12.2	13.2	14.4	12.4	12.2	8.8	
Housing	3.8	22.2	46.5	89.5	87.7	85.5	56.2	20.2	19.5	21.0	21.1	18.6	
Rent, water, and sewerage charges	0.3	18.8	19.2	19.1	6.0	1.4	0.4	15.6	15.0	46.3	47.3	46.6	
Housing maintenance & repair	1.5	18.8	53.5	47.5	48.7	42.5	11.6	10.0	6.7	5.9	4.3	4.6	
Fuel and power	1.9	25.1	46.2	128.6	126.6	127.2	94.4	25.0	25.3	25.5	26.1	21.9	
Household goods	8.1	8.8	8.9	14.6	16.4	17.9	17.0	9.9	6.8	6.0	6.0	7.5	
Household furniture	1.6	17.7	16.1	17.1	17.7	20.2	17.4	14.1	10.0	6.9	6.9	5.0	
Household textiles	1.0	10.6	11.9	13.2	13.5	16.0	14.2	9.9	7.2	7.4	7.0	7.5	
Household appliances	1.4	8.0	10.8	18.2	23.1	22.6	19.4	10.2	5.1	4.6	4.6	2.9	
Glass & tableware & utensils	0.8	5.7	3.5	3.3	3.5	4.4	4.7	3.7	3.4	1.3	3.1	4.8	
Household operation	3.3	4.5	4.5	15.1	17.3	18.7	19.9	8.8	6.3	6.9	6.3	11.9	
Medical care	3.8	1.0	3.4	4.1	3.5	7.4	7.4	9.3	14.0	18.1	17.8	14.8	
Transport and communications	17.9	-0.7	-0.2	6.3	5.1	16.5	14.8	8.7	10.5	6.6	12.2	10.8	
Personal transport	15.7	-4.2	-5.3	-0.5	-2.2	10.7	13.9	11.5	13.6	9.2	12.7	11.1	
Public transport	1.8	21.5	27.9	38.4	40.2	42.9	17.2	-0.9	-2.1	-4.8	10.1	9.7	
Communications	0.4	0.4	11.9	37.2	36.6	36.4	23.4	0.7	12.0	12.5	10.4	10.3	
Recreation, education, and printed matter	4.7	10.6	11.3	13.6	12.4	14.1	12.3	9.0	9.5	8.0	7.8	7.3	
Recreation and education	4.2	11.2	11.6	13.9	12.3	14.5	12.9	9.9	10.6	8.9	8.7	7.4	
Books, newspapers, and supplies	0.5	5.5	8.8	11.5	13.4	10.4	7.3	1.6	0.4	0.8	0.8	5.9	
Personal care and effects	4.2	11.7	16.8	20.0	20.5	27.2	19.5	10.6	9.7	6.5	7.5	7.0	
Total	100.0	7.2	9.1	14.6	15.2	17.9	16.7	14.5	12.6	11.9	12.6	7.4	

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

Table 7. Lao P.D.R.: General Government Operations 1999/00-2003/04

	1999/00	2000/01	2001/02	2002/03	2003/04 Est.
	(in billion of kip)				
Revenue and grants	2,166	2,476	2,561	2,794	3,282
Revenue	1,691	2,000	2,324	2,341	2,817
Tax	1,367	1,629	1,875	1,924	2,379
<i>of which: excluding timber royalties</i>	1,094	1,447	1,513	1,706	2,198
Nontax	324	372	449	417	437
Grants	475	476	238	453	465
Expenditure	2,754	3,141	3,268	4,017	4,261
Current	1,050	1,229	1,483	1,647	2,082
Wages and salaries	335	410	547	668	872
Transfers	130	243	265	341	327
Interest payments	103	134	138	123	249
<i>of which: External</i>	86	117	108	115	184
Other recurrent	240	443	533	514	634
Capital and onlending	1,704	1,911	1,785	2,370	2,179
Domestically financed	481	872	995	1,026	837
Externally financed	1,302	1,200	931	1,499	1,456
Onlending (net)	-78	-160	-142	-156	-114
Overall balance	-588	-665	-706	-1,222	-980
Excluding grants	-1,063	-1,140	-944	-1,676	-1,445
Bank restructuring bonds 1/	0	0	0	-139	-108
Financing	588	665	706	1,361	1,087
Domestic financing (net)	-148	187	130	253	14
Bank financing	-104	246	-234	230	42
<i>of which: Bank restructuring bonds</i>	0	0	0	-139	-108
Nonbank financing 2/	10	7	317	5	6
Discrepancy/Financing gap	-54	-66	47	18	-34
Foreign financing (net)	736	478	577	1,108	1,073
Disbursements	923	724	859	1,309	1,309
Amortization	-187	-247	-282	-201	-236
	(in percent of GDP)				
Revenue and grants	16.9	16.3	14.5	13.2	13.2
Revenue	13.2	13.2	13.1	11.1	11.3
Tax	10.6	10.7	10.6	9.1	9.6
<i>of which: excluding timber royalties</i>	8.5	9.5	8.5	8.1	8.9
Nontax	2.5	2.4	2.5	2.0	1.8
Grants	3.7	3.1	1.3	2.1	1.9
Expenditure	21.5	20.7	18.4	19.0	17.2
Current	8.2	8.1	8.4	7.8	8.4
Wages and salaries	2.6	2.7	3.1	3.2	3.5
Transfers	1.0	1.6	1.5	1.6	1.3
Interest payments	0.8	0.9	0.8	0.6	1.0
<i>of which: External</i>	0.7	0.8	0.6	0.5	0.7
Other recurrent	1.9	2.9	3.0	2.4	2.6
Capital and onlending	13.3	12.6	10.1	11.2	8.8
Domestically financed	3.7	5.7	5.6	4.9	3.4
Externally financed	10.1	7.9	5.3	7.1	5.9
Onlending (net)	-0.6	-1.1	-0.8	-0.7	-0.5
Overall balance	-4.6	-4.4	-4.0	-5.8	-3.9
Excluding grants	-8.3	-7.5	-5.3	-7.9	-5.8
Bank restructuring bonds 1/	0.0	0.0	0.0	-0.7	-0.4
Financing	4.6	4.4	4.0	6.4	4.4
Domestic financing (net) 2/	-1.1	1.2	0.7	1.2	0.1
Foreign financing (net)	5.7	3.1	3.3	5.2	4.3
Memorandum items:					
GDP (in billions of kip)	12,836	15,197	17,719	21,150	24,821
Primary balance/GDP	-3.8	-3.5	-3.2	-5.2	-2.9
Exchange rate (kip/US\$)	7,670	8,586	9,810	10,636	10,577

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

1/ In 2002/03 and 2003/04 the bonds were Debt Clearance Bonds issued to state banks to settle budget obligations to contractors with NPLs.

2/ In 2001/02 includes a transfer of \$33 million from EDL to the government from the Theun-Hinboun Power Company refinancir

Table 8. Lao P.D.R.: General Government Revenue 1999/00-2003/04

	1999/00	2000/01	2001/02	2002/03	<u>2003/04</u> Est.
	(in billion of kip)				
Revenue	1,691	2,000	2,324	2,341	2,817
Tax	1,367	1,629	1,875	1,924	2,379
Profit tax	187	205	239	221	264
Income tax	117	145	125	140	164
Turnover tax	290	318	375	466	619
Excise tax	226	371	286	293	446
Import duties	135	179	240	316	380
Timber royalty receipts	273	182	362	218	181
Other	140	229	248	269	326
Nontax	324	372	449	417	437
SOE dividends	42	67	84	87	85
Overflight revenues	123	114	187	174	175
Other	160	190	177	156	177
	(in percent of GDP)				
Revenue	13.2	13.2	13.1	11.1	11.3
Tax	10.6	10.7	10.6	9.1	9.6
Profit tax	1.5	1.4	1.4	1.0	1.1
Income tax	0.9	1.0	0.7	0.7	0.7
Turnover tax	2.3	2.1	2.1	2.2	2.5
Excise tax	1.8	2.4	1.6	1.4	1.8
Import duties	1.0	1.2	1.4	1.5	1.5
Timber royalty receipts	2.1	1.2	2.0	1.0	0.7
Other	1.1	1.5	1.4	1.3	1.3
Nontax	2.5	2.4	2.5	2.0	1.8
SOE dividends	0.3	0.4	0.5	0.4	0.3
Overflight revenues	1.0	0.8	1.1	0.8	0.7
Other	1.2	1.2	1.0	0.7	0.7
Memorandum item:					
GDP (in billions of kip)	12,836	15,197	17,719	21,150	24,821

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

Table 9. Lao P.D.R.: General Government Expenditures 1999/00-2003/04

	1999/00	2000/01	2001/02	2002/03	2003/04 Est.
	(in billion of kip)				
Expenditure	2,754	3,141	3,268	4,017	4,261
<i>Current</i>	1,050	1,229	1,483	1,647	2,082
Wages and salaries	335	410	547	668	872
Salaries	214	230	396	493	668
Benefits	121	180	152	175	204
Functional allowances	...	18	32	60	...
Specific allowances	...	151	96	96	...
Other	...	17	31	22	...
Transfers	130	243	265	341	327
Allowances and pensions	...	127	156	172	188
Family Allowances	...	63	73	87	...
Student Allowances	...	26	35	36	...
Social welfare	...	29	34	40	...
Other allowances	...	9	13	10	...
Other subsidies and transfers	...	116	109	169	138
Interest payments	103	134	138	123	249
Domestic	16	17	30	9	65
External	86	117	108	115	184
Other recurrent	240	443	533	514	634
<i>Capital and onlending</i>	1,704	1,911	1,785	2,370	2,179
Domestically financed	481	872	995	1,026	837
Externally financed	1,302	1,200	931	1,499	1,456
Onlending (net)	-78	-160	-142	-156	-114
	(in percent of GDP)				
Expenditure	21.5	20.7	18.4	19.0	17.2
<i>Current</i>	8.2	8.1	8.4	7.8	8.4
Wages and salaries	2.6	2.7	3.1	3.2	3.5
Transfers	1.0	1.6	1.5	1.6	1.3
Interest payments	0.8	0.9	0.8	0.6	1.0
Domestic	0.1	0.1	0.2	0.0	0.3
External	0.7	0.8	0.6	0.5	0.7
Other recurrent	1.9	2.9	3.0	2.4	2.6
<i>Capital and onlending</i>	13.3	12.6	10.1	11.2	8.8
Domestically financed	3.7	5.7	5.6	4.9	3.4
Externally financed	10.1	7.9	5.3	7.1	5.9
Onlending (net)	-0.6	-1.1	-0.8	-0.7	-0.5
Memorandum item:					
GDP (in billions of kip)	12,836	15,197	17,719	21,150	24,821

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

Table 10. Lao P.D.R.: Monetary Survey, 2000-2004 1/

	2000			2001			2002			2003			2004		
Net foreign assets	1,528	1,485	2,326	1,219	1,110	1,192	1,136	1,369	1,371	1,507	1,326	1,699	2,963	3,298	3,115
Bank of Lao P.D.R.	799	915	1,612	770	713	1,723	1,771	1,611	1,797	1,756	2,022	1,981	1,756	2,022	1,981
Commercial banks	728	570	713	443	400	770	891	953	927	1,207	1,276	1,134	1,207	1,276	1,134
Net domestic assets	721	1,219	1,110	1,219	1,110	1,192	1,136	1,369	1,371	1,507	1,326	1,699	2,963	3,298	3,115
Domestic credit	1,439	2,436	2,259	2,436	2,259	2,318	2,134	2,351	2,323	2,391	2,196	2,517	2,391	2,196	2,517
Net claims on government	-420	-117	-379	-117	-379	-369	-401	-189	-131	-166	-373	-162	-166	-373	-162
Credit to the economy	1,859	2,553	2,638	2,553	2,638	2,686	2,535	2,540	2,454	2,557	2,569	2,678	2,557	2,569	2,678
of which : in foreign currency	1,491	2,064	2,240	2,064	2,240	2,276	2,155	2,175	2,083	2,164	2,209	2,330	2,164	2,209	2,330
Credit to private sector	1,253	1,532	1,505	1,532	1,505	1,617	1,535	1,544	1,480	1,571	1,552	1,683	1,571	1,552	1,683
of which : in foreign currency	953	1,125	1,137	1,125	1,137	1,235	1,179	1,202	1,126	1,195	1,205	1,346	1,195	1,205	1,346
Credit to state enterprises	606	1,021	1,133	1,021	1,133	1,069	1,000	996	974	987	1,017	995	987	1,017	995
of which : in foreign currency	538	939	1,104	939	1,104	1,041	976	973	957	969	1,004	984	969	1,004	984
Other items (net)	-718	-1,217	-1,150	-1,217	-1,150	-1,126	-998	-983	-953	-884	-870	-817	-884	-870	-817
Broad money	2,249	2,704	3,436	2,704	3,436	3,684	3,798	3,933	4,095	4,471	4,623	4,814	4,471	4,623	4,814
Narrow money	339	368	493	368	493	613	564	608	699	847	781	861	847	781	861
Currency outside banks	67	107	135	107	135	109	106	122	262	307	316	352	307	316	352
Demand deposits	272	261	358	261	358	503	458	485	437	541	465	509	541	465	509
Quasi-money	1,910	2,337	2,942	2,337	2,942	3,072	3,234	3,325	3,396	3,623	3,842	3,953	3,623	3,842	3,953
Time and savings deposits	197	308	452	308	452	513	621	723	762	813	897	919	813	897	919
Foreign currency deposits	1,713	2,029	2,490	2,029	2,490	2,559	2,613	2,602	2,634	2,811	2,945	3,034	2,811	2,945	3,034
								(Annual percentage change)							
Domestic credit	69.3	69.3	-7.3	20.2	27.0	0.9	7.0	7.6	2.8	3.2	2.9	7.0	3.2	2.9	7.0
Credit to the economy	37.4	37.4	3.3	3.3	3.3	10.6	5.5	-3.0	-7.0	-4.8	1.3	5.4	-4.8	1.3	5.4
Broad money	20.2	20.2	27.0	20.2	27.0	28.3	25.2	21.7	19.2	21.3	21.7	22.4	21.3	21.7	22.4
Memorandum items:															
Exchange rate (kip/US\$; end of period, annual percentage change)	9.5	15.5	11.9	15.5	11.9	12.3	6.4	-3.2	-1.4	-2.0	1.1	3.7	-2.0	1.1	3.7
Money multiplier	2.9	3.3	3.2	3.3	3.2	3.3	3.1	3.3	3.0	3.1	3.2	3.1	3.1	3.2	3.1

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., 2000-2004 1/

	2000	2001	2002	2003				2004		
				Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
(In billions of kip; end of period)										
Net foreign assets	799	915	1,612	1,723	1,771	1,611	1,797	1,756	2,022	1,981
Foreign assets	1,147	1,266	2,077	2,156	2,188	2,071	2,257	2,196	2,443	2,387
Foreign liabilities	-347	-351	-464	-433	-417	-460	-459	-440	-421	-407
Net domestic assets	-33	-93	-538	-609	-538	-426	-428	-329	-582	-425
Net domestic credit	588	891	550	451	434	498	440	489	302	504
Net claims on government	-347	-96	-411	-426	-432	-364	-375	-356	-552	-360
<i>of which</i> : in FC	-417	-141	-419	-422	-434	-330	-350	-293	-459	-327
Claims on government	159	185	239	226	232	226	234	219	233	203
<i>of which</i> : in FC	55	64	104	96	96	102	90	64	72	73
Government deposits	-506	-281	-650	-652	-664	-589	-609	-575	-785	-563
<i>of which</i> : in FC	-473	-204	-523	-518	-530	-432	-439	-357	-531	-400
Claims on state enterprises	346	488	567	558	551	548	524	555	565	570
<i>of which</i> : in FC	342	488	566	558	551	547	523	554	565	570
Claims on private sector	143	151	176	176	175	175	153	153	155	156
<i>of which</i> : in FC	143	150	176	173	173	173	152	152	154	156
Claims on other banking institutions	446	348	218	143	139	139	138	139	134	138
<i>of which</i> : in FC	357	234	102	28	28	26	26	26	23	20
BOL securities	-159	-200	-166	-129	-62	-96	-46	-38	0	0
Other items (net)	-461	-784	-922	-930	-910	-829	-823	-780	-884	-929
Government lending funds	-211	-347	-428	-421	-419	-362	-324	-349	-368	-369
Other items	-250	-437	-494	-509	-491	-466	-499	-430	-516	-559
Reserve money	767	822	1,074	1,114	1,232	1,184	1,369	1,427	1,440	1,556
<i>of which</i> : in kip	219	241	302	342	435	475	581	606	599	709
Currency in circulation (in kip)	63	105	135	108	105	122	262	306	316	350
Vault cash (in kip)	38	39	47	73	88	86	63	96	110	98
Bank deposits	665	678	893	933	1,039	976	1,044	1,025	1,014	1,108
<i>of which</i> : in kip	118	97	120	161	241	267	256	203	173	261
Required reserves	274	329	477	493	533	531	525	554	0	0
<i>of which</i> : in kip	50	54	60	74	82	92	83	90	0	0
Excess reserves (clearing deposits in kip)	69	44	60	87	160	175	172	113	173	261
Other deposits (in FC)	323	306	355	352	346	270	346	358	841	847
Capital deposits	99	166	191	175	140	139	135	133	136	143
Clearing deposits	220	138	164	176	206	132	211	225	705	703
Private sector demand deposits	4	2	0	1	1	0	0	0	0	1
(In millions of U.S. dollars)										
Net foreign assets of BOL (a)	97	96	152	163	168	154	172	169	190	183
Forex component of reserve money (b)	67	61	73	73	76	68	75	79	79	78
Net official international reserves (= (a) - (b))	31	35	79	90	92	86	96	90	111	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, 2000-2004 1/

	2000	2001	2002	2003				2004		
				Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
(In billions of kip; end of period)										
Net foreign assets	728	570	713	770	891	953	927	1,207	1,276	1,134
Foreign assets	1,077	1,043	1,577	1,610	1,757	1,653	1,717	1,962	2,151	2,120
Foreign liabilities	-349	-473	-864	-840	-865	-700	-790	-755	-876	-986
Net domestic assets	1,454	2,027	2,587	2,805	2,801	2,857	2,906	2,957	3,032	3,328
Net domestic credit	1,297	1,893	1,928	2,010	1,839	1,992	2,021	2,041	2,028	2,151
Net claims on government	-72	-21	32	57	31	175	244	190	179	198
Claims on government	8	28	69	104	110	249	324	300	334	374
Government deposits	-80	-49	-37	-47	-79	-75	-81	-109	-156	-175
<i>of which:</i> in FC	-54	-29	-16	-32	-63	-52	-58	-51	-91	-100
<i>of which:</i> in kip	-26	-20	-21	-15	-15	-23	-22	-58	-65	-75
Claims on state enterprises	260	533	566	511	449	448	451	432	452	425
<i>of which:</i> in FC	196	451	537	483	425	426	434	415	439	415
Claims on private sector	1,109	1,382	1,329	1,441	1,359	1,370	1,327	1,418	1,397	1,527
<i>of which:</i> in FC	810	974	961	1,062	1,006	1,029	974	1,043	1,051	1,190
Claims on the economy	1,370	1,914	1,896	1,952	1,808	1,818	1,778	1,850	1,849	1,952
Other items (net)	156	134	660	795	962	865	884	916	1,004	1,177
Credit from monetary authorities	-490	-386	-252	-176	-181	-173	-166	-164	-163	-103
Other liabilities	-204	-394	-172	-176	-179	-336	-352	-338	-283	-349
Capital account	-524	-578	-487	-417	-340	-259	-201	-162	-109	-88
Restricted deposits	0	0	-24	-41	-21	-25	-20	-72	-20	-20
Other assets	687	767	656	611	561	516	523	551	487	551
Reserves	688	726	941	995	1,123	1,142	1,101	1,103	1,092	1,187
Deposits	2,182	2,598	3,301	3,575	3,692	3,811	3,832	4,164	4,307	4,462
Kip deposits	469	569	810	1,016	1,079	1,209	1,198	1,353	1,363	1,428
Current deposits	272	261	358	503	458	485	437	541	465	509
Time and savings deposits	197	308	452	513	621	723	762	813	897	919
Foreign currency deposits	1,713	2,029	2,490	2,559	2,613	2,602	2,634	2,811	2,945	3,034
(In millions of U.S. dollars; end of period)										
Net foreign assets	89	60	67	73	85	91	89	116	120	-47
Foreign currency deposits	208	214	234	242	248	249	252	271	277	280
Memorandum item:										
NFA coverage of foreign currency deposits	42.5	28.1	28.6	30.1	34.1	36.6	35.2	42.9	43.3	37.4

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, 2000-2004 1/ 2/

	2000	2001	2002	2003				2004		
				Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
(In billions of kip; end of period)										
Net foreign assets	483	306	489	571	623	606	565	863	965	863
Foreign assets	676	498	1,006	1,015	997	901	875	1,162	1,292	1,187
Foreign liabilities	193	192	517	444	374	294	310	299	328	323
Net reserves	102	160	400	544	626	666	642	620	639	701
Reserves	494	416	516	585	667	706	675	655	673	730
Credit from monetary authorities	392	256	116	41	41	40	33	35	34	30
Domestic credit	815	1,281	1,222	1,222	1,109	1,138	1,152	1,147	1,137	1,213
Claims on government (net)	-66	-23	-2	12	-13	138	201	175	150	137
Claims in kip	-13	5	14	44	50	189	259	226	241	236
Claims in foreign currency	-53	-28	-16	-32	-63	-51	-58	-51	-91	-99
Net domestic assets (excl. net credit to government)	1,193	1,567	1,593	1,544	1,528	1,383	1,413	1,358	1,420	1,516
Credit to the economy	882	1,304	1,224	1,209	1,121	1,000	951	972	987	1,076
<i>of which:</i> in foreign currency	660	1,019	1,028	1,008	952	857	817	823	830	899
Credit to state enterprises	217	419	449	404	348	330	331	315	313	280
Credit to private sector	665	885	776	805	773	670	620	657	674	796
Other items (net)	312	263	368	335	407	384	462	387	433	440
Deposits	1,712	2,009	2,480	2,671	2,764	2,793	2,822	3,017	3,173	3,217
Deposits in kip	372	432	605	768	823	917	903	1,023	1,018	1,046
Deposits in foreign currency	1,340	1,578	1,875	1,903	1,941	1,877	1,919	1,993	2,156	2,171
(In millions of U.S. dollars; end of period)										
Net foreign assets	59	32	46	54	59	58	54	83	91	80
Foreign currency credit to the economy	80	107	97	95	90	82	78	79	78	83
Foreign currency net credit to government	-6	-3	-2	-3	-6	-5	-6	-5	-9	-9
Foreign currency deposits	163	166	177	180	184	179	183	192	202	200
(Annual percentage change)										
Domestic credit	...	57.1	-4.6	6.9	-4.0	-4.7	-5.7	-6.1	2.5	6.7
Credit to the economy	...	47.8	-6.1	3.1	-4.7	-17.5	-22.3	-19.7	-12.0	7.7
<i>of which:</i> in foreign currency	...	54.2	1.0	13.7	2.8	-14.2	-20.6	-18.4	-12.9	4.9
Deposits	...	17.4	23.4	27.2	23.5	19.1	13.8	12.9	14.8	15.2
Memorandum items:										
Issue of debt clearance bonds, accumulative stocks	0.0	0.0	0.0	0.0	0.0	137.1	207.8	207.8	207.8	244.2
NFA coverage of FC deposits	36.0	19.4	26.1	30.0	32.1	32.3	29.5	43.3	44.7	39.8
Reserves to deposits ratio	0.3	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Exchange rate (kip/US\$; end of period)	8,218	9,490	10,620	10,590	10,530	10,460	10,470	10,381	10,649	10,850

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

1/ Comprises Banque pour le Commerce Extérieur and Lao Development Bank.

2/ Valued at current exchange rates.

Table 14. Lao P.D.R.: Interest Rates, 2000–2004

	2000	2001	2002	2003	2004	
					Mar.	Jun.
Local banks (representative rates)						
(In percent; end of period)						
Deposit rates						
Savings (U.S. dollar accounts)	3.0	2.0	1.5	0.8	0.3	0.3
Fixed (U.S. dollar accounts)						
3 months	4.0	2.5	2.0	1.3	0.4	0.4
6 months	5.0	3.0	2.5	1.5	0.5	0.5
12 months	6.0	3.5	3.0	2.0	0.7	0.7
Savings (Kip accounts)	12.0	12.0	15.0	13.0	6.0	6.0
Fixed (Kip accounts)						
3 months	15.0	16.0	17.0	16.0	8.5	8.5
6 months	20.0	18.0	19.0	18.0	10.5	10.5
12 months	24.0	20.0	21.0	21.0	11.5	11.5
Lending rates						
Overdraft						
Kip	30.0	24.0	24.0	28.0	24.0	25.0
Baht	12.0	10.0	10.0	12.0	12.0	13.5
U.S. dollar	11.0	11.0	11.0	11.0	12.0	13.5
Foreign banks (representative rates)						
Deposit rates						
Savings (U.S. dollar accounts)	1.0	0.5	0.3	0.3	0.3	0.3
Fixed (U.S. dollar accounts)						
3 months	1.0	1.0	1.0	0.5	0.4	0.4
6 months	1.5	1.0	0.5	0.5	0.6	0.6
12 months	3.0	2.0	1.0	0.8	0.8	0.8
Lending rates						
Overdraft						
Kip	23.0	23.0	21.0	22.0	24.5	24.5
Baht	17.0	17.0	14.0	14.0	13.7	13.7
U.S. dollar	13.0	13.0	11.0	11.5	11.5	11.5

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

Table 15. Lao P.D.R.: Balance of Payments, 1999-2003

	1999	2000	2001	2002	2003 Est.
(In millions of U.S. dollars; unless otherwise indicated)					
Current account	-59	-25	-66	-98	-116
Excluding official transfers	-129	-141	-129	-146	-178
Merchandise trade balance	-212	-218	-209	-230	-217
Exports, f.o.b.	342	345	334	340	401
Imports, c.i.f.	554	562	542	570	618
Services (net)	99	132	125	131	95
Income (net)	-45	-75	-67	-70	-81
<i>of which</i> : interest payments 1/	-35	-38	-35	-29	-35
<i>of which</i> : public debt	-8	-11	-11	-10	-12
Transfers (net)	99	136	85	71	87
Private	30	21	22	23	24
Official	70	115	63	48	63
Capital account	62	69	65	153	135
Medium- and Long-Term Loans	93	63	66	127	89
Disbursements	134	99	105	165	136
Amortization	-41	-36	-39	-38	-47
<i>of which</i> : public debt	-29	-36	-39	-38	-47
Foreign direct investment	52	31	24	60	69
Net foreign assets of commercial banks (increase -)	-3	25	28	-7	-21
Other private flows and errors and omissions	-80	-50	-53	-27	-2
Overall balance	3	44	-1	55	20
Financing	-3	-44	1	-55	-20
Central bank net foreign assets	-3	-44	1	-55	-20
Assets (increase -)	6	-33	6	-62	-20
Liabilities (reduction -)	-9	-10	-5	7	0
Memorandum items:					
Current account (percent of GDP)					
(excluding official transfers)	-8.8	-8.1	-7.3	-8.0	-8.5
Gross official reserves					
(in millions of U.S. dollars)	106	127	134	196	216
(in months of goods and services imports)	2.1	2.6	2.6	3.5	3.2
Public debt service ratio					
(in percent of exports of goods and services)	6.2	5.8	7.2	7.1	7.2
Nominal GDP at market prices (US\$ million)	1,473	1,740	1,762	1,818	2,088

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.

Table 16. Lao P.D.R.: Composition of Exports, 1999–2003

	1999	2000	2001	2002	<u>2003</u> Est.
	(In millions of U.S. dollars)				
Customs data	136.4	124.1	127.4	131.1	145.6
Wood products	84.9	87.1	92.7	93.5	93.5
Logs	20.0	26.0	...	...	...
Timber	26.9	37.7	...	...	...
Other and unrecorded	38.0	23.4	...	...	...
Coffee	15.2	12.1	14.9	17.1	18.7
Agricultural/forest products	8.3	15.4	8.6	9.9	9.4
Manufactures	27.9	9.6	11.2	10.6	24.0
Other products	27.9	3.6			
Garments	72.0	91.6	98.7	104.9	104.9
Motorcycles	38.4	22.1	...	...	...
Electricity	90.5	112.2	106.4	103.6	91.0
Gold exports and re-exports	0.0	0.0	0.0	0.0	58.7
Fuel purchases by foreign carriers	0.8	1.0	1.1	0.8	0.8
Adjustment for Russian debt	4.0	0.0	0.0	0.0	0.0
Total exports	342.1	345.0	333.6	340.4	401.0
Memorandum items:					
Total exports/GDP (in percent)	23.2	19.8	18.9	18.7	19.2
Total exports (percentage change)	1.5	0.8	-3.3	2.1	17.8

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

Table 17. Lao P.D.R.: Composition of Imports, 1999–2003

	1999	2000	2001	2002	<u>2003</u> Est.
	(In millions of U.S. dollars)				
Customs data (c.i.f.)	436.7	449.8	462.4	489.7	535.2
Investment goods	184.0	161.8	182.3	209.6	231.2
Machinery and equipment	21.0	16.2	36.2	53.0	63.0
Vehicles 1/	35.8	23.3	27.3	27.7	33.4
Fuel 1/	36.7	79.1	57.9	57.9	60.8
Construction/electrical equipment	90.5	43.2	60.9	71.0	74.0
Consumption goods	252.7	288.0	280.1	280.1	304.0
Materials for garments industry	66.5	60.4	65.6	62.6	65.4
Motorcycles parts for assembly	38.4	22.6	0.0	0.0	0.0
Gold and silver 2/	2.1	1.5	5.4	8.1	6.9
Electricity	8.6	5.8	6.4	7.2	8.3
Fuel purchased abroad by Lao carriers	2.0	2.3	2.4	2.5	2.4
Unrecorded imports 3/	...	19.6	0.0	0.0	0.0
Total imports (c.i.f.)	554.3	562.0	542.1	570.1	618.2
Memorandum item:					
Total imports (percentage change)	0.3	1.4	-3.5	5.2	8.4

Sources: 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, 1999–2003

	1999	2000	2001	2002	2003
	(In millions of U.S. dollars)				
Grants 1/	69.7	115.0	63.2	47.7	63.0
Bilateral	59.7	114.6	63.0	43.0	61.0
Program grants	37.0	0.0	2.8	12.0	12.3
Project grants	22.7	114.6	60.2	31.0	48.7
<i>Of which</i> : Technical assistance	11.9	22.1	11.2	7.7	6.0
Multilateral	10.0	0.4	0.2	4.7	2.0
UN agencies	0.0	0.1	0.0	3.6	1.8
AsDB	0.0	0.0	0.0	0.2	0.1
Other (including NGOs)	10.0	0.3	0.2	0.8	0.1
Loan disbursements	94.2	98.3	105.1	105.0	134.5
Program loans	0.0	11.3	0.0	5.0	11.5
IDA	0.0	0.0	0.0	0.0	1.5
AsDB	0.0	11.3	0.0	5.0	10.0
Project loans	94.2	87.0	105.1	100.0	123.0
AsDB	58.5	37.7	51.9	36.0	46.0
IDA	20.6	26.8	36.4	47.8	39.1
IFAD	1.9	2.5	4.2	5.5	3.0
OPEC	4.4	4.6	3.9	1.8	2.0
Nordic Fund	4.7	2.5	6.8	1.1	1.4
OECF	1.2	0.0	0.4	2.2	0.0
Other	2.9	12.9	1.5	5.6	31.5
Memorandum item:					
Technical assistance	13.9	22.2	11.2	7.7	6.0

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

1/ Includes project related and general technical assistance.

Table 19. Lao P.D.R.: International Reserves, 1999–2003

	1999	2000	2001	2002	2003
	(In millions of U.S. dollars)				
Net foreign assets of the banking system	166.6	185.9	150.3	219.0	260.2
Foreign assets	256.6	270.6	253.5	344.1	379.5
Foreign liabilities	89.9	84.7	103.2	125.1	119.4
Central bank net foreign assets	53.4	97.2	95.6	151.8	171.7
Foreign assets	106.2	139.6	133.5	195.6	215.5
Foreign liabilities	52.8	42.3	37.9	43.7	43.9
Commercial banks' net foreign assets	113.3	88.7	54.7	67.2	88.5
Foreign assets	150.4	131.1	120.0	148.5	164.0
Foreign liabilities	37.1	42.3	65.3	81.3	75.5

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

Table 20: Lao P.D.R.: Debt Stock and Debt Service 1999–2003 1/

	1999	2000	2001	2002	<u>2003</u> Est.
	(In millions of U.S. dollars)				
Total debt stock (public and private)	1,537	1,447	1,458	1,614	2,171
Public debt	1,245	1,179	1,213	1,330	1,915
Bilateral official	153	79	68	64	497
<i>of which:</i> Russian Federation	...	...	...	...	387
Multilateral	1,035	1,042	1,089	1,191	1,340
<i>of which:</i>					
AsDB	540	541	575	603	715
IDA	381	394	407	435	485
IMF	55	48	37	43	46
Commercial	58	58	56	75	78
Private debt	292	268	245	284	257
Total debt service	69	81	84	76	91
Amortization	34	43	49	47	56
Public debt	22	20	25	27	28
Bilateral official	4	2	4	4	2
Multilateral	18	17	20	23	26
<i>of which:</i> IMF	4	8	9	9	9
Commercial	0	0	1	0	0
Private debt	12	24	24	20	27
Interest payments	35	38	35	29	35
Public debt	8	11	11	10	12
Bilateral (official debt)	0	1	1	1	1
Multilateral	8	9	9	9	11
<i>of which:</i> IMF	0	1	1	0	0
Commercial	0	1	1	0	0
Private debt	27	27	24	20	23

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

1/ Debt service and the stock of debt are calculated on the basis of existing debt, and currently identified disbursements, disbursements from the Fund, the World Bank, and the AsDB.

Table 21. Lao P.D.R.: Composition of Net Foreign Income, 1999–2003

	1999	2000	2001	2002	2003
	(In millions of U.S. dollars)				
Receipts	10.5	7.3	5.6	4.7	3.5
Payments to Lao workers by embassies	0.6	0.6	0.6	0.7	0.7
Interest on Bank of Lao P.D.R. reserve assets	4.8	4.2	3.9	1.9	1.9
Interest on commercial banks nostro accounts	5.1	2.5	1.1	2.1	0.9
Income from royalty	0.0	0.0	0.0	0.0	0.0
Payments	55.4	82.7	72.9	75.0	84.3
Payments to foreign workers in Lao embassies	0.4	0.4	0.4	0.4	1.6
Income from direct investment in Lao P.D.R.	13.0	39.5	36.2	41.6	45.9
Interest on official borrowing	8.1	9.8	9.6	10.2	9.6
Interest on Bank of Lao P.D.R. foreign liabilities	0.3	0.6	0.6	0.7	0.9
Interest on commercial banks foreign liabilities	7.0	5.5	2.0	2.6	3.2
Interest payable on other private debt	26.6	26.9	24.1	19.5	23.1
Net foreign income	-44.9	-75.4	-67.3	-70.3	-80.8

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

Table 22. Lao P.D.R.: Composition of Net Services, 1999–2003

	1999	2000	2001	2002	2003
	(In millions of U.S. dollars)				
Receipts	145.5	175.6	165.9	176.2	146.0
Transportation	18.1	19.7	22.7	29.8	25.4
Overflight	9.3	11.3	14.9	22.0	18.0
Freight to Lao carriers (exports)	2.8	2.9	2.7	2.6	2.6
International fares to Lao carriers	3.9	3.7	3.5	3.4	3.2
Lao port charges	2.1	1.8	1.6	1.8	1.6
Travel	97.3	113.9	103.7	106.8	84.0
Communications	0.6	15.7	13.7	14.6	9.0
Insurance	0.8	0.8	0.3	1.0	2.9
Embassies (nonsalary)	28.7	25.5	25.5	24.0	24.7
Payments	46.6	43.6	40.9	45.3	50.5
Transportation	5.2	4.9	4.9	5.1	5.4
International fares to foreign carriers	4.4	4.1	4.1	4.0	4.0
Foreign port charges	0.8	0.8	0.8	1.1	1.4
Travel	11.8	9.2	9.2	13.5	13.5
Communications	0.7	3.2	5.6	4.4	6.7
Construction	19.8	11.9	15.6	16.0	18.9
Hydropower	5.7	0.5	0.0	0.0	0.0
Other projects	14.1	11.4	15.6	16.0	18.9
Technical assistance (50 percent of inflow)	6.0	11.1	2.3	3.9	2.8
Lao embassies abroad (nonsalary)	3.1	3.3	3.3	2.4	3.2
Services (net)	98.9	132.0	125.0	130.9	95.5

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

Table 23. Lao P.D.R.: Domestic and Foreign Investment by Sector, 1999-2004

	Number of Projects (starting from 1988)	1999	2000	2001	2002	2003	2004 Proj.	Total Value (1988-2004)
		(In millions of U.S. dollars; unless otherwise indicated)						
Power	19	151	0	360	22	73	2	5,401
Telecommunication	16	1	0	0	13	0	7	657
Hotel-Restaurant	82	0	0	1	24	34	3	576
Industries-Handicrafts	207	46	11	5	64	23	7	317
Service	180	8	10	12	13	127	1	250
Wood Industries	52	0	2	2	5	3	0	177
Agriculture	124	66	8	13	6	7	12	179
Construction	51	1	0	1	14	36	2	119
Mining	56	5	2	9	2	22	10	105
Trading	147	6	1	6	10	11	0	90
Bank	9	10	0	0	0	0	0	72
Garment	84	1	4	0	5	1	2	73
Consultance	52	0	0	1	1	1	0	9
Grand Total	1,078	296	38	408	180	337	46	8,024

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

Table 24. Lao P.D.R.: Domestic and Foreign Investment by Country, 1999-2004

	Number of Projects (starting from 1988)	1999	2000	2001	2002	2003	2004 Proj.	Total (1988-2004)
(In millions of U.S. dollars; unless otherwise indicated)								
Thailand	290	7	3	4	14	81	23	2,751
Lao P.D.R.	25	38	0	90	22	11	7	1,645
USA	54	115	0	3	8	2	3	1,073
Malaysia	34	15	4	0	27	30	0	779
France	112	1	3	11	9	16	0	447
China	142	43	11	12	55	115	9	343
Vietnam	40	15	2	273	6	6	1	307
Korea	91	4	9	9	15	5	2	227
Norway	5	0	0	0	0	22	0	79
Taiwan	38	1	0	0	3	0	0	73
Singapore	27	2	0	0	1	36	0	60
New Zealand	2	51	0	0	0	0	0	51
Australia	47	0	0	0	2	5	0	40
Russia	20	0	0	0	1	2	0	33
United kingdom	21	4	0	0	1	5	0	31
Japan	36	2	3	0	1	1	1	25
Canada	17	0	0	0	1	0	0	24
Sweden	8	0	0	0	13	0	0	14
Germany	17	0	0	1	0	0	0	5
Switzerland	6	0	2	1	0	0	0	4
Belgium	7	0	0	0	0	0	0	3
Cambodia	3	0	1	1	0	0	0	2
India	5	0	1	0	0	0	0	2
Finland	3	0	0	0	1	0	0	1
Island	3	0	0	0	1	0	0	1
Italy	4	1	0	0	0	0	0	1
Netherlands	4	0	0	0	0	0	0	1
Denmark	5	0	0	0	0	0	0	0
Indonesia	1	0	0	0	0	0	0	0
Austria	3	0	0	0	0	0	0	0
Myanmar	2	0	0	0	0	0	0	0
Luxembourg	1	0	0	0	0	0	0	0
Ukraine	1	0	0	0	0	0	0	0
Cuba	1	0	0	0	0	0	0	0
Bangladesh	2	0	0	0	0	0	0	0
Other	1	0	0	0	0	0	0	0
Total	1,078	296	38	408	180	337	46	8,024

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

Lao P.D.R.: Summary of Tax System as of July 31, 2004

Tax	Nature of Tax	Exemptions and Deductions	Rates	Tax Rate (In percent)
1. <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</p>	<p>General rate</p> <p>Foreign investors</p> <p>Discount rates:</p> <p>For enterprises in designated areas/city</p> <p>For enterprises in rural and lowland areas</p> <p>For enterprises in mountain and remote areas.</p>	<p>35</p> <p>20</p> <p>20</p> <p>15</p> <p>10</p>

Lao P.D.R.: Summary of Tax System as of July 31, 2004

Tax	Nature of Tax	Exemptions and Deductions	Rates
		<p>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>e. Amounts appropriated to savings or recapitalization accounts, bonuses, meeting allowances or received from capital reduction, enterprise merging, share transfer, bankruptcy or debt liquidation.</p>	
		<p>f. <u>Reliefs</u>: Case-by-case tax relief given to new and rehabilitated domestic enterprises (1-5 years) under Decree 47/SNA of June 1989 and to foreign and jointly owned enterprises (2-4 years), under Law 1/94 of March 1994.</p>	

Lao P.D.R.: Summary of Tax System as of July 31, 2004

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2 Minimum profit tax (<u>Impôt minimum fiscal</u>)	Applicable to gross turnover of the previous year of those enterprises subject to the extended or ordinary accounting system. 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.	0.25 percent
1.3 Tax on social/religious/cultural organizations and associations	Incomes from immovable property leasing and non-business activities of public or other social associations.	None	1 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.	10 percent
		<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
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>Tax Rate</u> (In percent)
		<u>General activities</u> (In kip)	10
		1,200,001–2,500,000	15
		2,500,001–4,000,000	20
		4,000,001–7,000,000	25
		7,000,001–13,000,000	30
		13,000,001–25,000,000	35
		25,000,001–37,000,000	40
		37,000,001–60,000,000	45
		60,000,000 and above	45

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Tax	Nature of Tax	Exemptions and Deductions	Rates
1.6 Tax on personal incomes from immovable property leasing	Levied on incomes received by individuals from immovable property leasing.	Reduction for maintenance cost House: - Less than 10 years 10 percent - 10-20 years 15 percent - Over 20 years 20 percent	Permanent house—30 percent of rent price Half permanent (wooden or mixture of 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	Copyright or other intellectual property rights of individual or business entity.	None	5 percent

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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). 	<ol style="list-style-type: none"> 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

Lao P.D.R.: Summary of Tax System as of July 31, 2004

Tax	Nature of Tax	Exemptions and Deductions	Rates
3. <u>Taxes on goods and services</u>	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</u> , and general services	The following activities are exempt from turnover tax: <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. 	<u>Tax Rate (In percent)</u> <u>Domestic. Importation</u> <u>Production</u>
3.1 Turnover tax	<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.</p> <p>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, plus customs duty, plus 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 turnover tax is levied at 3 percent, 5 percent and 10 percent differently from domestic production and services or importation.</p> <p><u>Illustrations</u> of items subject to these rates follow:</p> <ul style="list-style-type: none"> • - Fertilizers, animal feeds, rice bran and rice polish, cotton thread, silk thread and other yarn. • - Food stuffs including food ingredients, crudely rice, barley rice, tools and accessories for fishing and fish farming, education materials, instruments for sports and fiscal training, and toys for children, bicycles, tricycles, any types of fuel, motor oil, brake oil, tobacco leaves. • -Harvested products, trees spout and livestock, rice and unprocessed rice. • -Raw material, semi-processed products, agricultural chemicals, industrial and handicraft production, machines and equipment used in agricultural, industrial and handicraft production, machines and equipment for discovering, mining of mineral, oil and natural gas, and basic infrastructure construction such as bridges, roads, irrigation, dams and airport s including their spare parts. 	Exempted 3 Exempted 5 Exempted 10

Lao P.D.R.: Summary of Tax System as of July 31, 2004

Tax	Nature of Tax	Exemptions and Deductions	Rates	Tax Rate (In percent) <u>Domestic</u> , <u>Importation</u> <u>Production</u>
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, unprocessed rice and rice bran which are domestically produced. ● Domestically produced: Fertilizer, animal foods and rice polish. ● Wheelchairs (for disable people) ● Fire trucks, ambulance, and specific vehicles for the government administration, national defense and security purposes. ● Unreal human and animal organs for medical 	<p>clothes, hat, shoes, belt (except those made by silver or gold) and umbrellas, silk and other yarn made products, sewing machines and its components, medicaments medical accessories and electric power, unrecorded cassette and compact disk s, and electric tools and instrument, ores, glue-stone, lignite, coal , gas, and similar others, gas and similar types.</p> <p>-Agricultural products e.g. rice flour, manioc and maize flour, and other flour, art and craft products, communication instruments including spare parts, wooden coal and fire-wood, tea and coffee made products, ships, motor-boats for domestic transportation or tourism purposes.</p> <ul style="list-style-type: none"> ● -Suitcase, travel bags handbag and other similar products, house furniture, watches, grasses, product for body cleaning, perfume and cosmetics, general office suppliers, tool and components for water supply, pure drink water, soft-drinks, non alcoholic drinks, lump-ice and ice-cream, electric household supplies (e.g. fridge, washing machines, cookers. etc.), 	<p>3</p> <p>3</p> <p>10</p> <p>3</p> <p>5</p> <p>10</p>

Lao P.D.R.: Summary of Tax System as of July 31, 2004

Tax	Nature of Tax	Exemptions and Deductions	Rates	Tax Rate (In percent) Domestic. <u>Importation</u> <u>Production</u>
3.1 Turnover tax (Continued)		air conditioners and their spare parts, TV set, VDO-cameras, VCD-players and similar others including spare parts and components, musical instrument and its component, billiard and snooker tables, football tables and other games machines, precious metal and glass, wood and rattan-made products, construction materials and instruments, sport motor-boat, vehicles, motorcycles and their spare parts, fireworks, explosive materials for construction, sport and air-pressed guns. Play cards and other similar plays, beer, wine, alcohols and alcoholic drinks, cigarettes and other tobacco products.	10	10
		<u>Services</u>		
		<ul style="list-style-type: none"> • Agricultural service with machines, analysis of agricultural, forest and construction soils, ores, development of land for cultivation and cattle-breeding purpose, medical treatment for human and animal, massage, slaughter-house and animal killing activity, printing and publication activity, municipal sanitation, decorating, golden and silver hand-making product making, advertising, survey and study, planning, analysis of data and information, accounting, law engineering and architectural consultancy, concert, art play, opera and cultural events, sport activities, tailoring and dresser's salons, photo and sewing shops, hairdressing salons and barber shops and dress washing salon. 	3	3
		<ul style="list-style-type: none"> • Soil and land loading service, development of land for construction purpose, exploitation of forest and non-forest products, wood-sawing mills, wood and rattan manufacturing plants, tobacco-leave drying mills, security, post and transport service, diamond, jewel and glass processing, brokerage, snooker and billiard business, activity of movies and video screening recording of video, conducting leasing business and other services excluded in 3% and 10% rates. 	5	5

Lao P.D.R.: Summary of Tax System as of July 31, 2004

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.1 Turnover tax (Continued)			10
		<ul style="list-style-type: none"> Market management service, construction of road bridge, irrigation, dam, ports and airport, general construction, installation and repairs, development of land and construction houses for sales, telecommunication service, hotel, guesthouse, resort tourism and restaurant activities, entertainment activities (night club, discotheque, karaoke), and lottery activity. 	
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 advalorem excise duties are as follows:</p>	
		<u>Item</u>	
		Petroleum products:	
		Premium gasoline	23
		Regular gasoline	24
		Diesel	12
		Kerosene	10
		Hydraulic, brake, lubricating, and grease oil	5
		<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

Lao P.D.R.: Summary of Tax System as of July 31, 2004

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.2 Excise duties (continued)			
		<u>Vehicles-cars:</u>	
		Pick up with two doors	25
		Pick up with four doors	30
		Minibus with less than 15 seats	20
		Bus	15
		Jeep with soft top	30
		Jeep with hard top less than 2.000 cc	60
		Jeep with hard top 2.001-4.000 cc	65
		Jeep with hard top more than 4.000 cc	75
		Cars less than 1000cc	60
		1000-1500cc	62
		1500-3000cc	72
		more than 3000cc	104
		Motorcycles	30
		Miscellaneous items:	
		Electrical appliances (freezer, heater, washing machine, vacuum, color TV, camera, VCR, VCR camera, its accessories and spare part).	12
		Billiard and snooker tables, football game tables and other game machines, service activities of billiard and snooker, bowling and lottery.	10
		Activity of night club, discotheque and karaoke	15
		There is an additional excise duty on:	
		Alcohol	
		All types with 15 proof or more	
		Domestic	500Kip/ltr
		Imported	5,000 Kip/ltr
		All types with less than 15 proof	
		Domestic	300 Kip/ltr
		Imported	3000 Kip/ltr

Lao P.D.R.: Summary of Tax System as of July 31, 2004

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.2	Excise duties (continued)		
		Beers	
		Domestic	900 Kip/ltr
		Imported	2,000 Kip/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

3.3 Tax registration
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.

Different rates apply to enterprises producing for the local market and import-export enterprises.

Turnover (In million of kips)	Rates applicable to local enterprises (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

Lao P.D.R.: Summary of Tax System as of July 31, 2004

Tax	Nature of Tax	Exemptions and Deductions	Capital (In million of kips)	Rates applicable to import-export (In kip)	Rates
3.3 Tax registration license (continued)			10-50 50-100 100-150 150-200 200 and above	100,000 200,000 300,000 400,000 500,000	
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).	KN 5,000 to KN 90,000	
3.5 Air travel fees	Levied annually for: (i) Civil aviation registration (ii) Examination issuance and renewal of permits	None	Fees vary according to weight.	KN 7,000 KN 70,000 KN 5,000 KN 40,000	
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 KN 500 \$5	
3.8 Border entry and exit fees		<ul style="list-style-type: none"> Diplomatic personnel and relatives. Foreign experts and relatives. 	Lao nationals: Foreigners		
Persons Vehicles			Land and water vehicles		KN 1,500- KN 11,000

Lao P.D.R.: Summary of Tax System as of July 31, 2004

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.9 Fees for extended residence in Lao P.D.R.		• Diplomatic corps, foreign experts, and their relatives.	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: Lao nationals:
			US\$10–80 KN 300– KN 10,000
3.12 Consular fees overseas	Levied every five years	None	US\$2–32
3.13 Fees on possession of personal arms	Levied annually	None	KN 3,000– KN 4,000

4 Taxes on international trade

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 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

Tax Rate
(In percent)

5

4.1 Import duties
(continued)

10

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.

20

Selected luxury consumer goods (premium petrol, cosmetics and toiletries, TVs and VCRs, radio cassette players, table games and funfair articles, buses, minibuses, units).

30

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.

40

Soft drinks, liquors, beer, tobacco, detergents, processed wood, jeeps, cars, motorbikes, cigarettes, cigars.

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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; semi finished 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.

<p>5 Taxes on timber and other natural resources</p>	<p>5.1 Timber royalties</p> <p>Levied as a fixed dollar amount per cubic meter of timber sold, both for domestic consumption and export. Timber royalties incorporate other taxes previously levied on timber products, i.e., the reforestation tax, the resource tax levied on the timber production rate, and the export duties, levied by the Customs department on exported timber.</p>	<p>None</p>	<p>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.</p>
<p>5.2 Taxes on natural resources</p>	<p>Levied in the form of specific duties on volume of mineral extraction, or advalorem duties on sale price of mineral products.</p>		<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.