



The Global Economy and Lao PDR

Bank of Lao PDR
Vientiane, July 5, 2012

Sanjay Kalra
IMF Resident Representative, Lao PDR

Roadmap

- External environment
 - Global growth and financial stability
 - The EU Crisis
 - Asia
 - What needs to be done
- Lao PDR
 - Growth and macroeconomic stability
 - Balance of payments
 - Debt and deficits
 - Money and credit



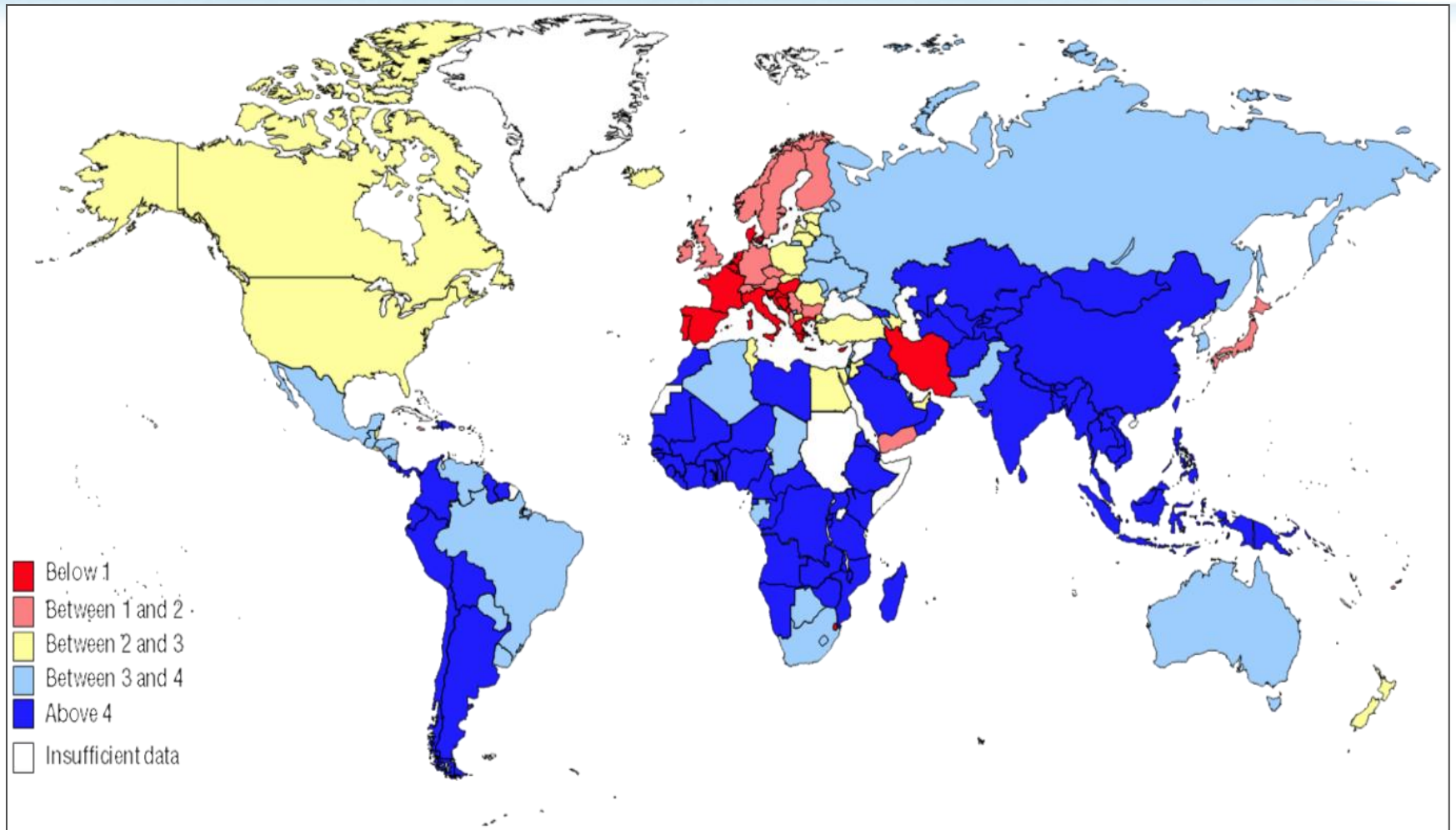
External Environment



Global growth and financial stability

The Global Economy

Output Growth 2012-13

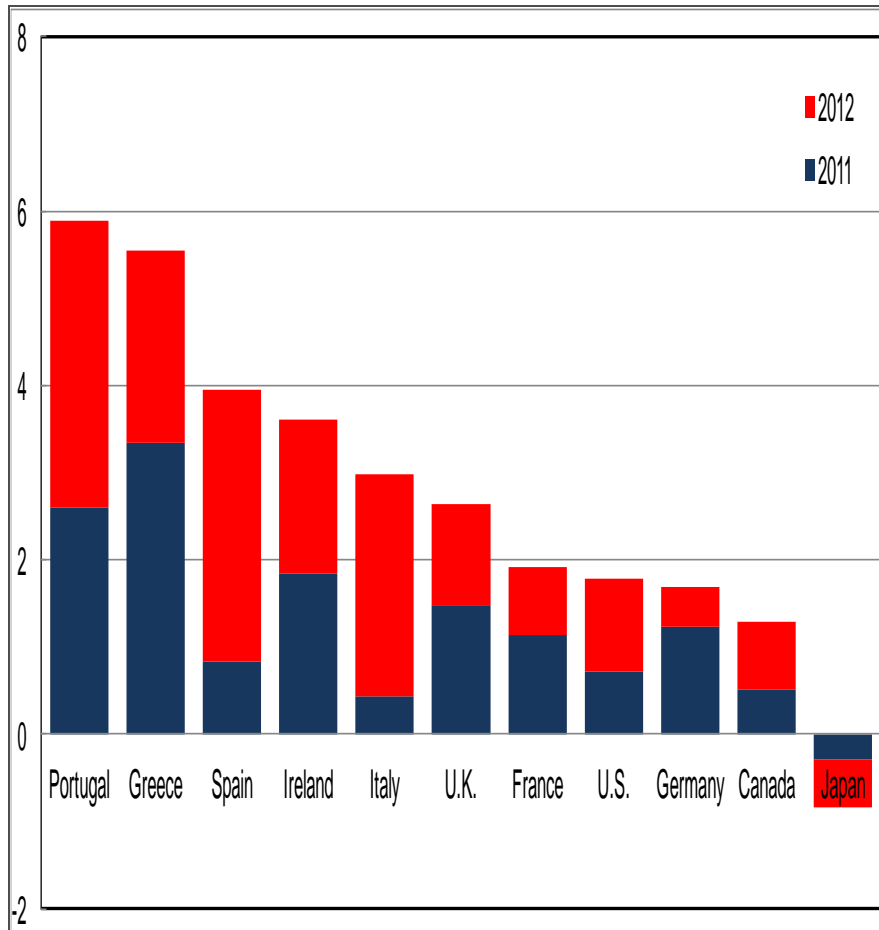


The Global Economy

Output Growth: Brakes and Risks

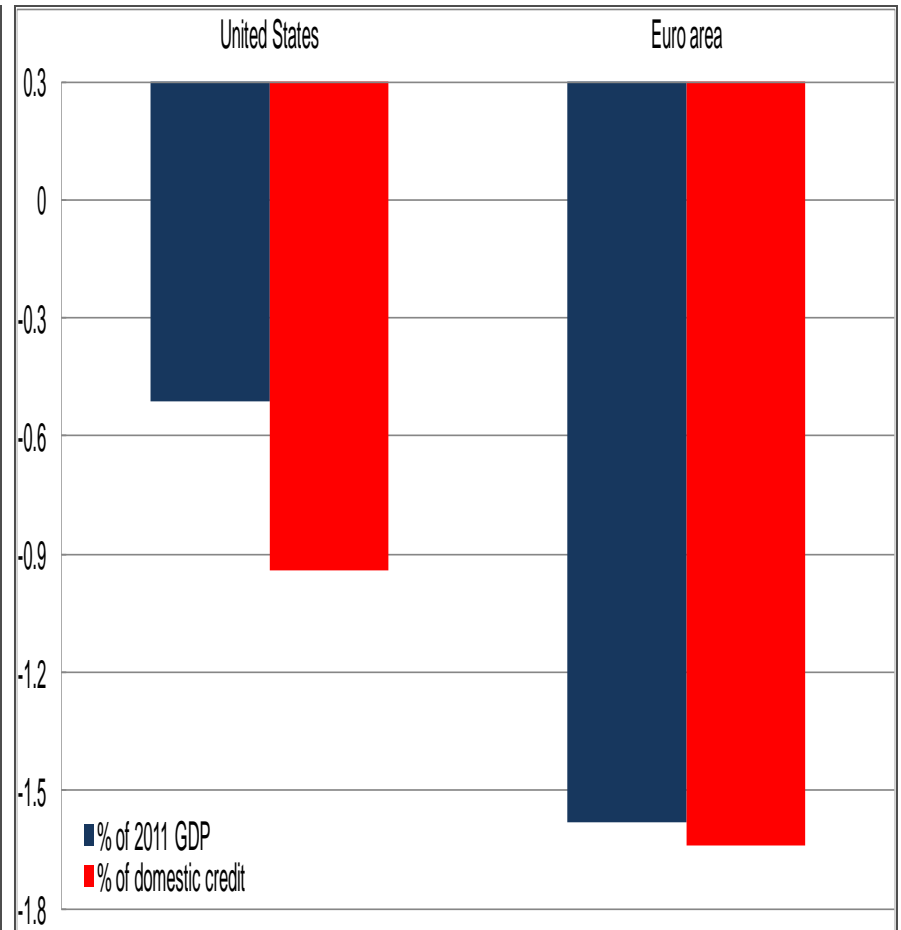
Fiscal Consolidation

(change in the structural balance;
percentage points of potential GDP)



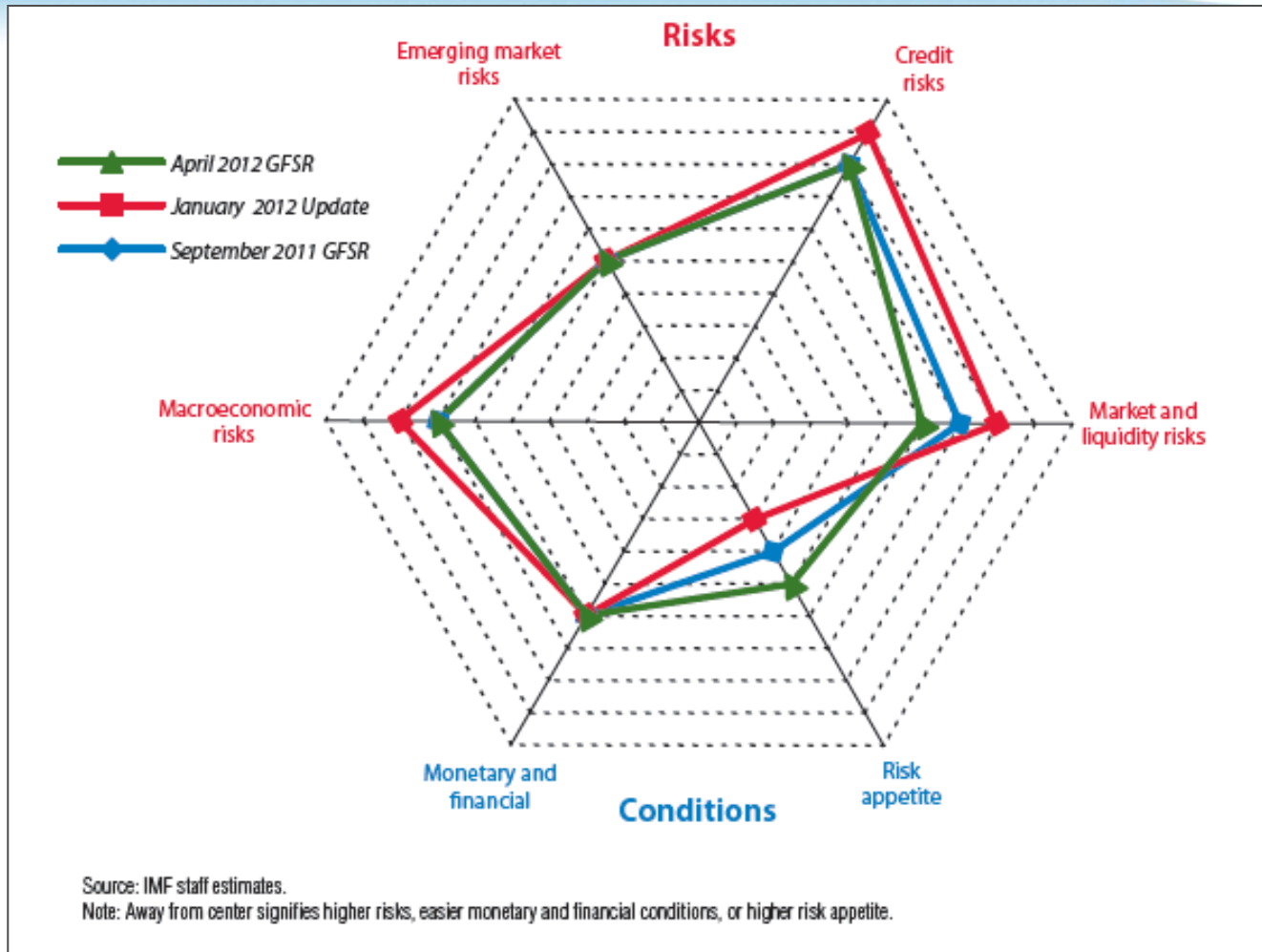
Bank deleveraging

(Projected fall in bank lending supply, 2012-13)



The Global Economy

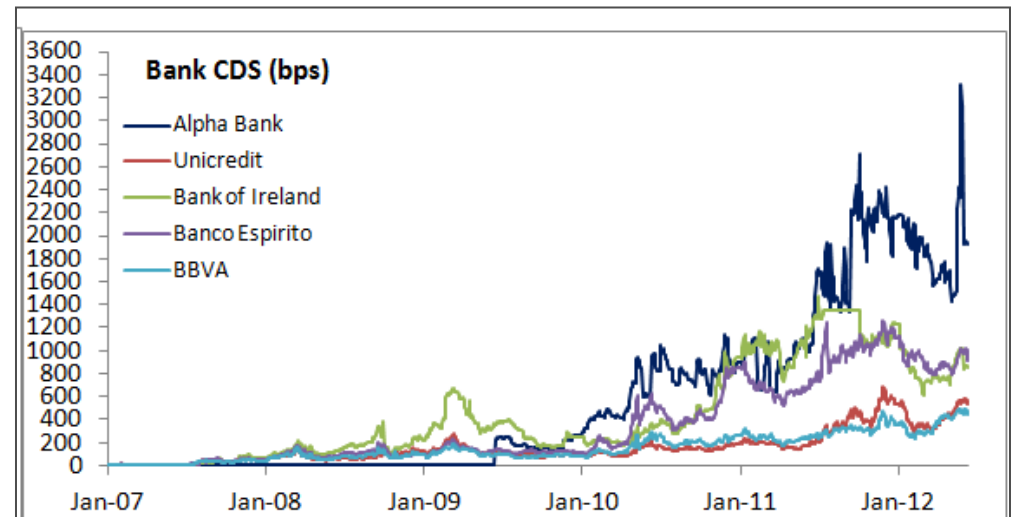
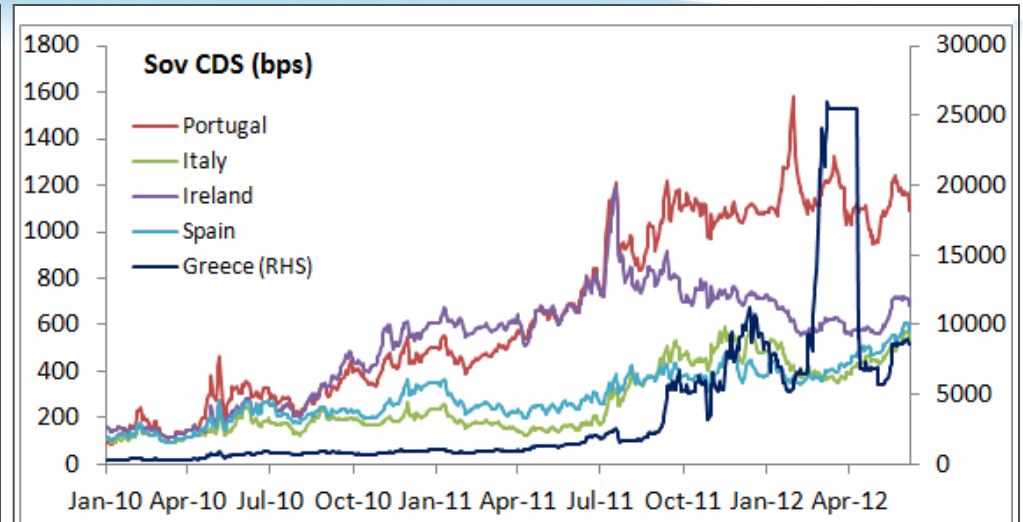
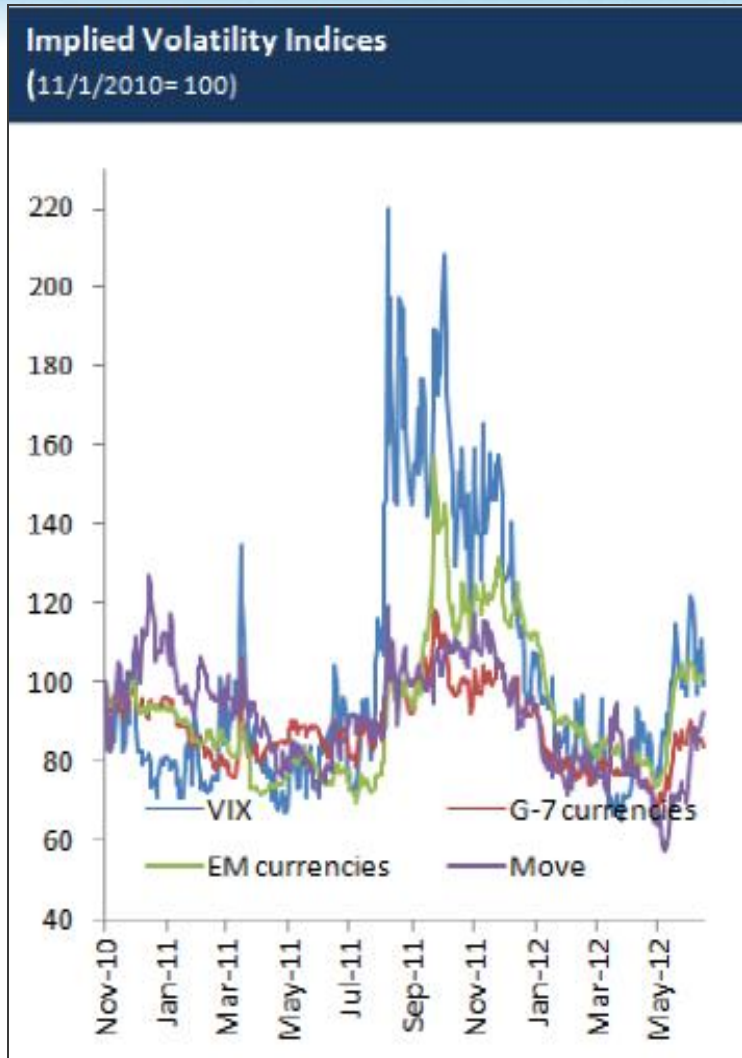
Financial stability



Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

The Global Economy

Financial stability: Volatility and Risk Aversion



The Global Economy

Commodity Prices

COMMODITY MARKETS								
	Front Contract					Future for Delivery		
	6/15/2012	1d Δ %	YTD Δ %	YTD Max	YTD Min	3-5 months	6-8 months	12-14 months
Energy								
WTI Crude Oil (USD/barrel)	84.2	0.4	-6.3	113.9	75.7	85.0	85.8	86.2
Brent Crude Oil (USD/barrel)	97.4	0.4	4.6	126.7	93.3	97.1	97.2	96.6
Natural Gas (USD MMBtu)	2.5	1.4	-41.7	4.8	1.9	2.7	3.3	3.3
Gasoline (USD/gal.)	267.9	0.1	12.0	346.5	234.3	238.0	234.2	252.3
Heating Oil (USD/gal.)	263.6	0.3	6.0	332.0	248.6	265.3	269.4	267.4
Metals								
Gold (USD/oz.)	1622.3	0.2	15.4	1888.7	1318.4	1634.1	1632.3	1646.0
Silver (USD/oz.)	28.8	1.2	-5.7	48.6	26.8	28.9	28.9	28.6
Copper (USD/lb.)	338.4	0.9	-22.4	462.9	305.8	339.5	339.4	338.9
Platinum (USD/oz.)	1493.8	0.4	-14.4	1905.7	1363.4	1496.9	1497.3	1499.6
Agriculture								
Corn (USD/bu.)	598.5	-0.5	-2.8	787.0	551.5	520.5	515.8	528.0
Wheat (USD/bu.)	623.0	-0.1	-20.6	886.0	573.5	640.3	665.0	684.0
Rough Rice (USD/cwt.)	14.0	0.2	2.7	18.2	12.7	14.5	15.0	15.4
Global Commodity Indices								
CRB Index	272.0	0.0	-17.0	371.4	268.4	271.6	271.7	271.9
GSC Index	586.2	0.0	-5.8	759.0	574.5
Rogers Commodity Index	23.9	0.0	0.0	23.9	23.9

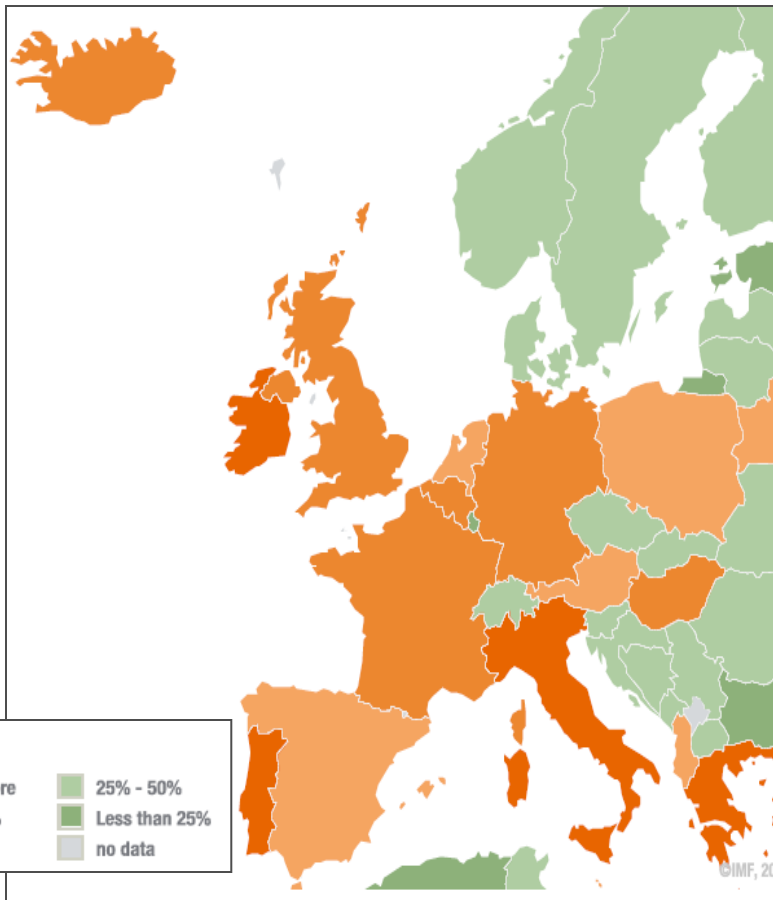


The EU Crisis

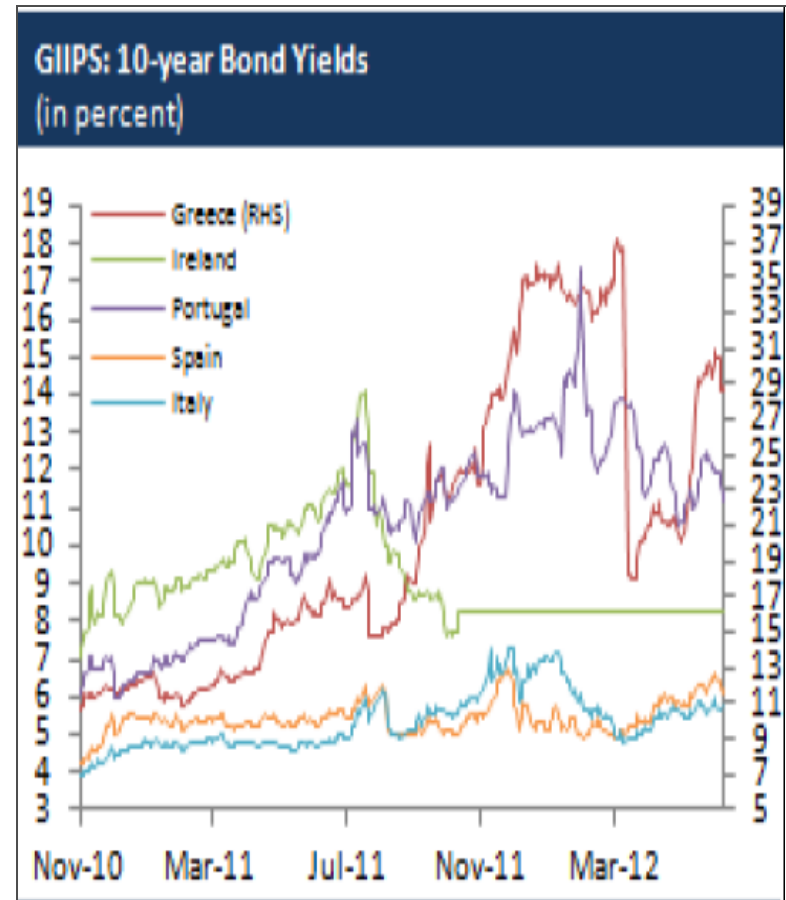
The EU Crisis

Sovereign stress

Public Debt
(in percent of GDP)



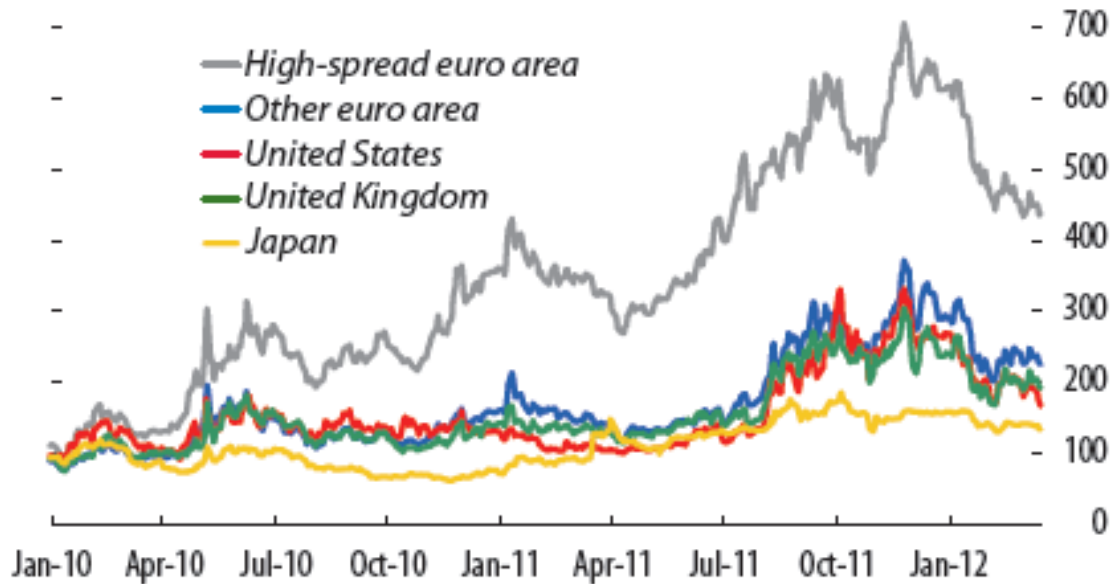
Bond Yields
(in percent)



The EU Crisis

Banking sector stress

Figure 2.18. Bank Five-Year Credit Default Swap Spreads
(In basis points)



Sources: Bloomberg L.P.; and IMF staff estimates.

Note: High-spread countries are Belgium, Greece, Ireland, Italy, Portugal, and Spain.



Asia

Asia

Asia: GDP growth (y-o-y, in percent)

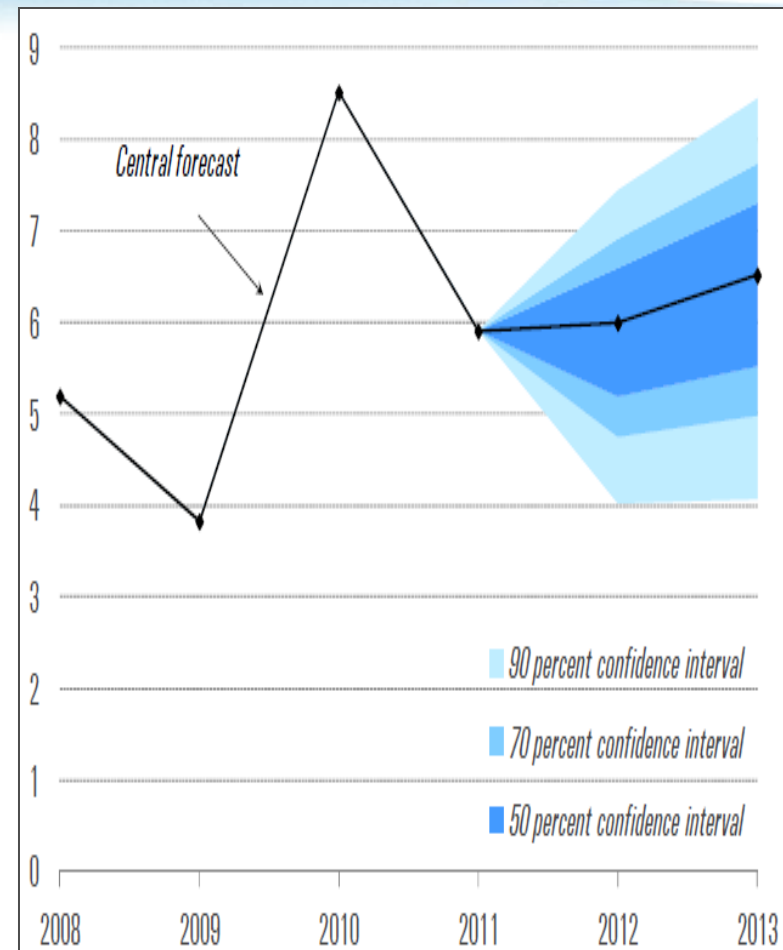
	Actual data and latest projections			Difference from January 2012 projections	
	2011	2012	2013	2012	2013
Industrial Asia	-0.2	2.2	2.0	0.3	0.0
Australia	2.0	3.0	3.5	0.0	-0.1
Japan	-0.7	2.0	1.7	0.4	0.1
New Zealand	1.4	2.3	3.2	-0.4	-0.2
East Asia	8.2	7.3	8.0	0.1	0.0
China	9.2	8.2	8.8	0.0	0.0
Hong Kong SAR	5.0	2.6	4.2	-0.1	0.2
Korea	3.6	3.5	4.0	0.0	0.0
Taiwan Province of China	4.0	3.6	4.7	0.3	0.3
South Asia	7.1	6.8	7.2	-0.1	0.0
Bangladesh	6.1	5.9	6.4	-0.3	-0.1
India	7.1	6.9	7.3	-0.1	0.0
Sri Lanka	8.2	7.5	7.0	0.5	0.5
ASEAN	4.6	5.2	6.0	0.4	1.0
Brunei Darussalam	1.9	3.2	1.6	0.8	-0.3
Cambodia	6.1	6.2	6.4	-0.3	0.0
Indonesia	6.5	6.1	6.6	0.0	0.0
Lao P.D.R.	8.3	8.4	7.1	0.0	0.0
Malaysia	5.1	4.4	4.7	0.4	0.2
Myanmar	5.5	6.0	5.9	0.3	0.0
Philippines	3.7	4.2	4.7	0.0	0.0
Singapore	4.9	2.7	3.9	0.0	0.1
Thailand	0.1	5.5	7.5	0.8	2.7
Vietnam	5.9	5.6	6.3	0.0	0.0
Emerging Asia¹	7.4	6.9	7.5	0.0	0.1
Asia	5.9	6.0	6.5	0.1	0.1

Source: IMF staff projections.

¹ Emerging Asia includes East Asia, India, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

Risks to the Outlook

(Forecast and confidence intervals; in percent)

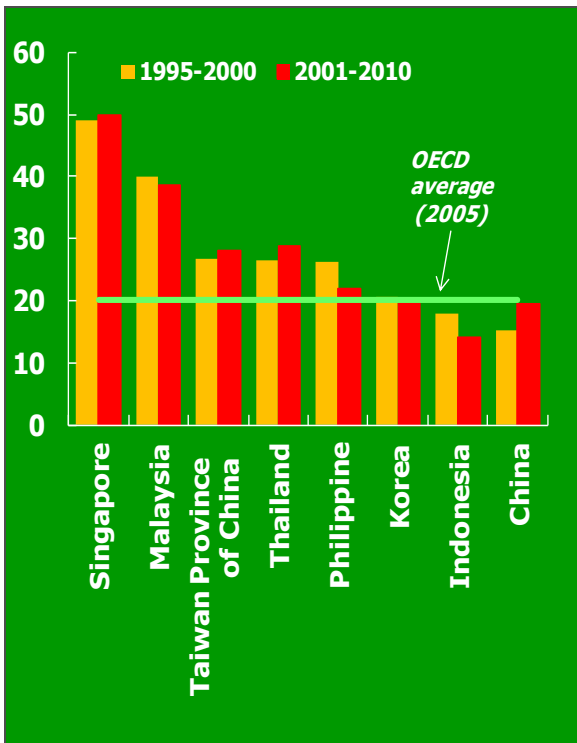


Source: IMF staff projections.

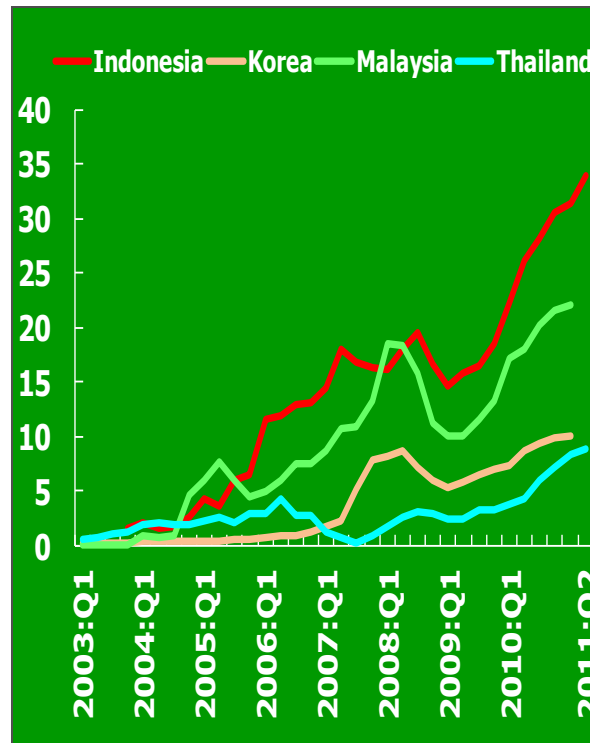
Asia and the Global Economy

Trade and financial sector channels

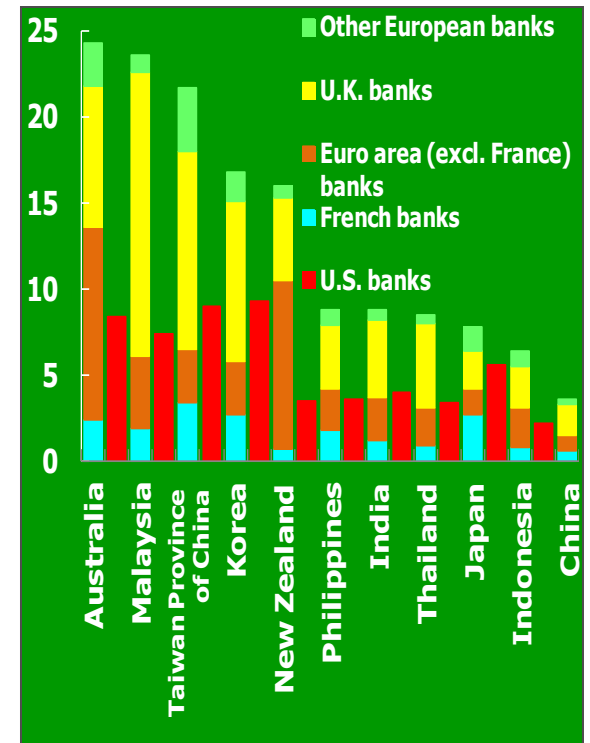
Selected Asia: Contribution of Non-Asian Final Demand to Value Added
(In percent of GDP)



Selected Asia: Foreign Holdings in Local Currency Government Bonds
(In percent of total outstanding local currency government bond)



Consolidated Claims of European and U.S. Banks on Selected Asia
(In percent of GDP)





What needs to be done?

What needs to be done?

All economies

- More coordination of financial policies; reform of financial stability frameworks
- Strengthening the global firewall

Advanced Economies

- Fiscal consolidation: Not too much, not too little; not too fast, not too slow
- Monetary and liquidity policies should continue to be accommodative
- Structural reforms to boost long-term productivity and employment
- Support for the unemployed

Euro Area

- Building a stronger currency union
 - Improved fiscal rules and institutions
- Strengthening banking systems

Emerging market and developing economies

- Rebuilding macroeconomic policy room
- Strengthening prudential policies and frameworks
- Promoting more inclusive growth



Lao PDR

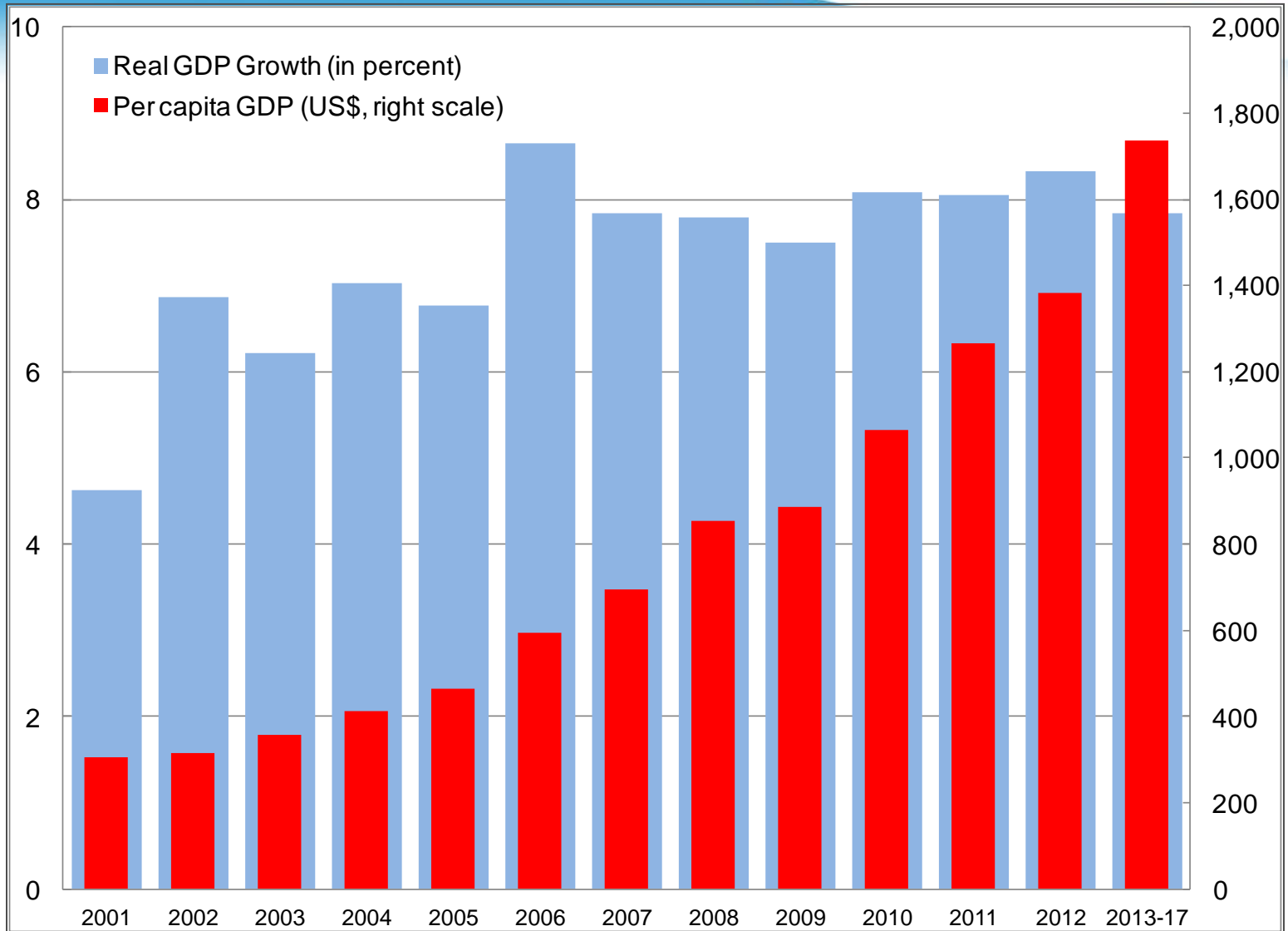
Roadmap

- External environment
- Lao PDR
 - Growth and macroeconomic stability
 - Balance of payments
 - Current account
 - » Commodity prices
 - » Exports–DOT and commodity composition
 - Capital and financial account
 - International reserves
 - Deficits and debt
 - Money and credit



Growth and macroeconomic stability

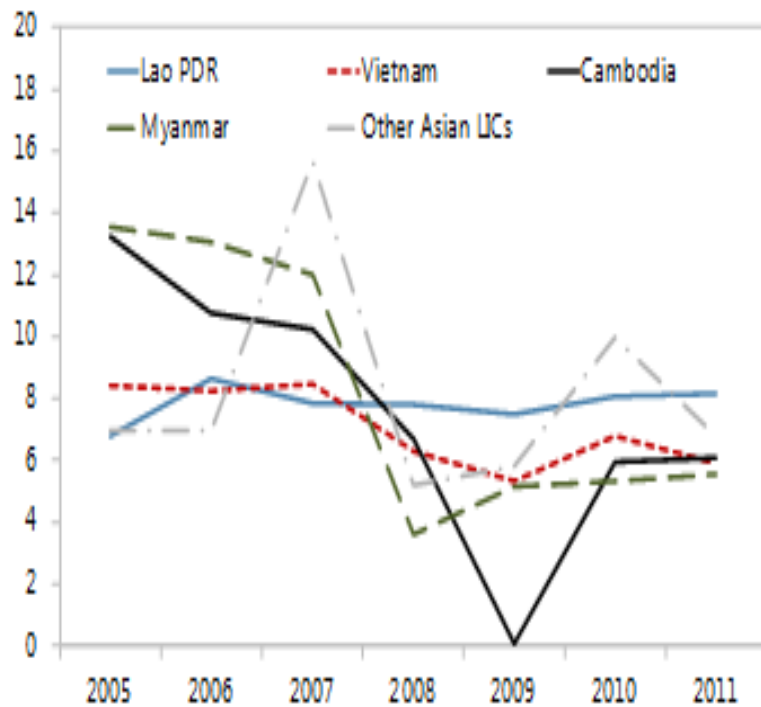
Growth and living standards



Sources of growth

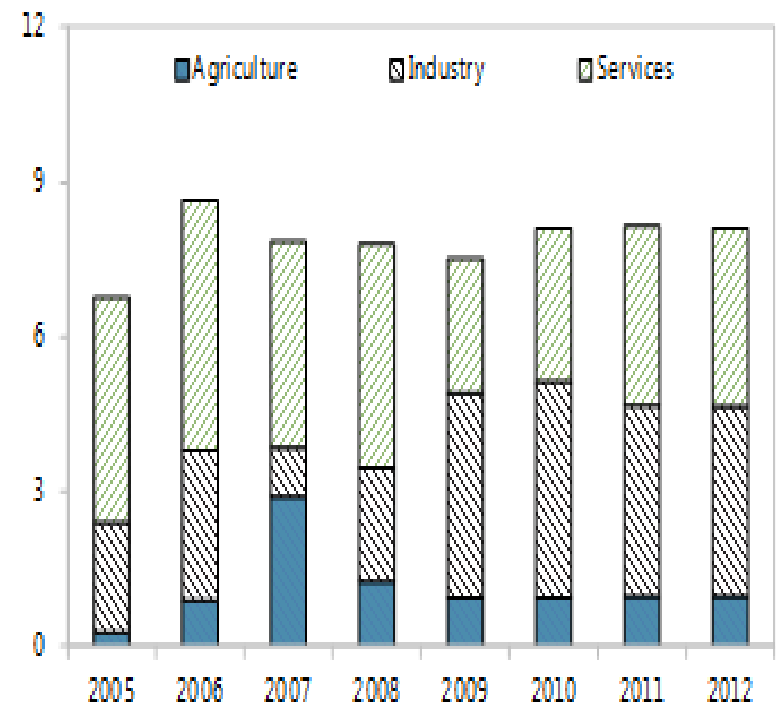
GDP Growth in Asian Low Income Countries

(In percent)



Contribution to GDP growth

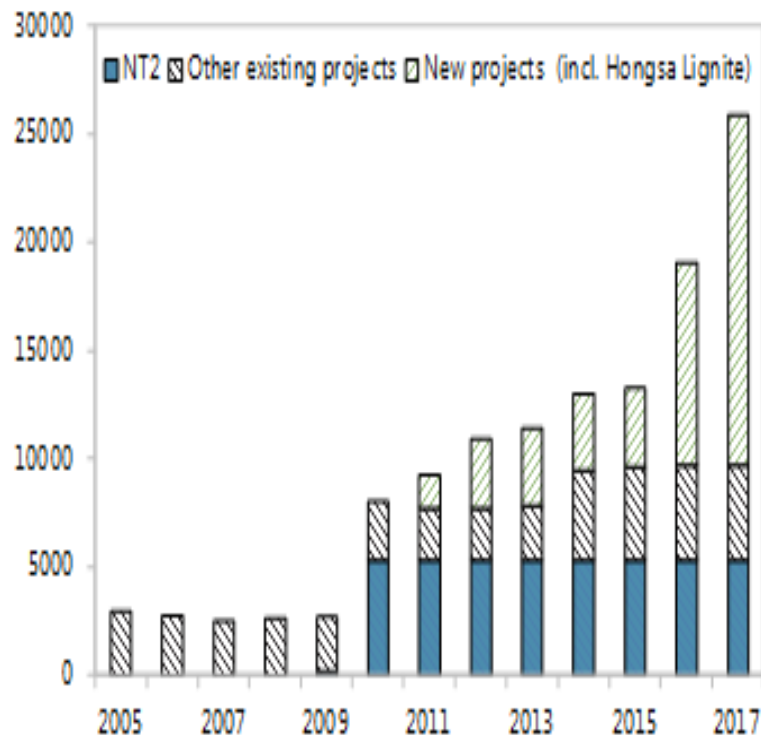
(In percent)



Sources of growth

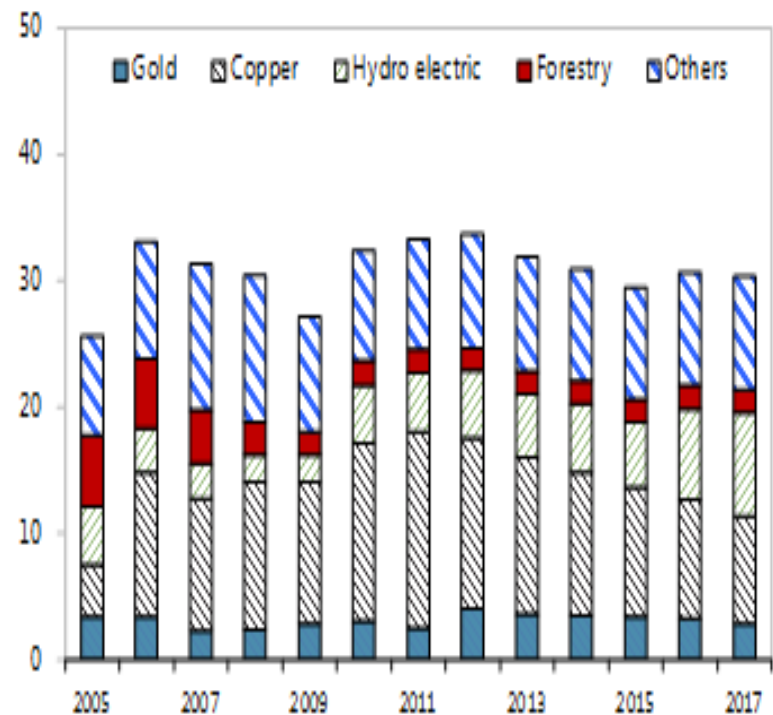
Hydro Electric Export Volume

(In GWh)

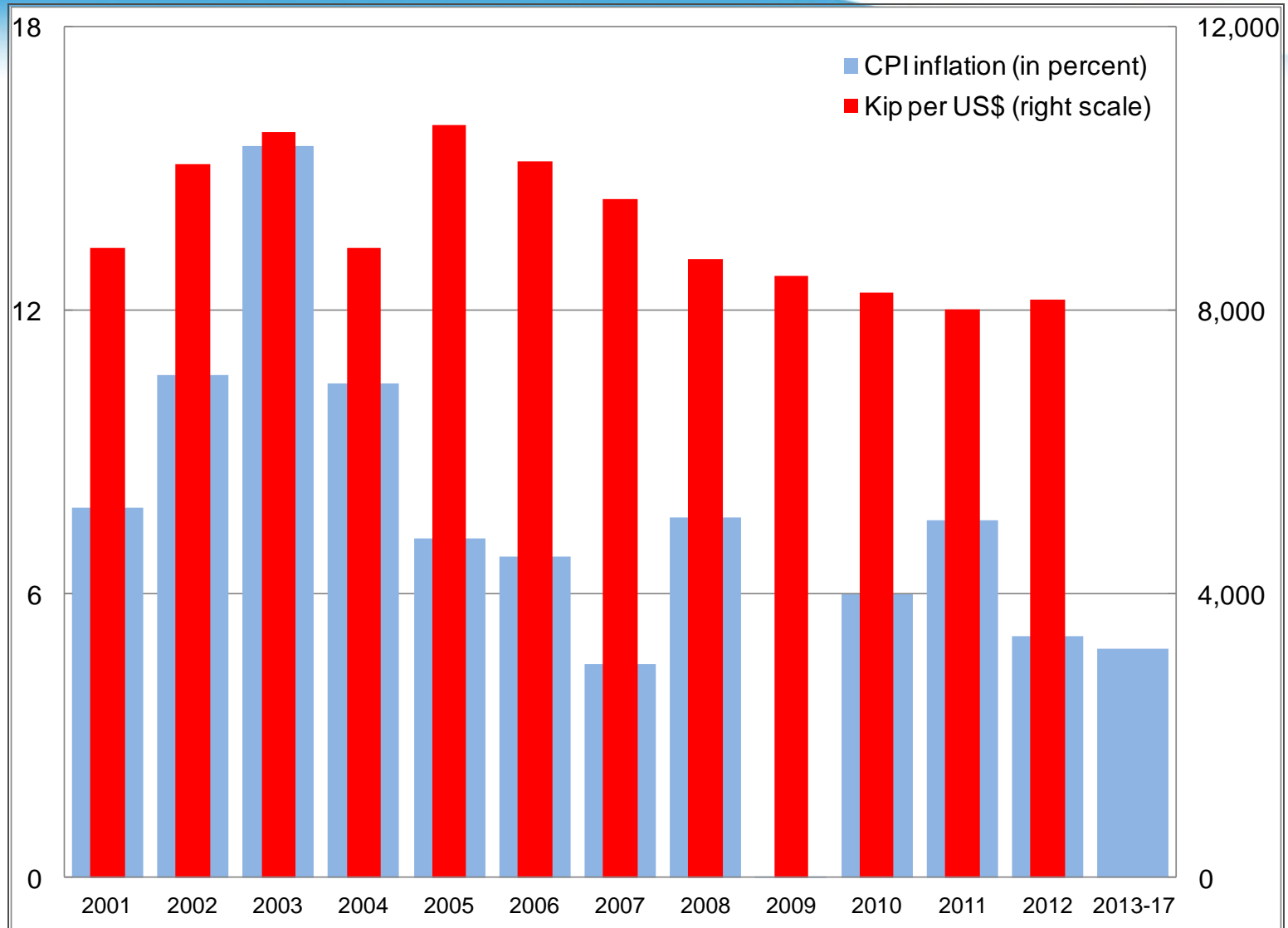


Export Contribution of Resource and Nonresource Sectors

(In percent of GDP)



Inflation and the exchange rate





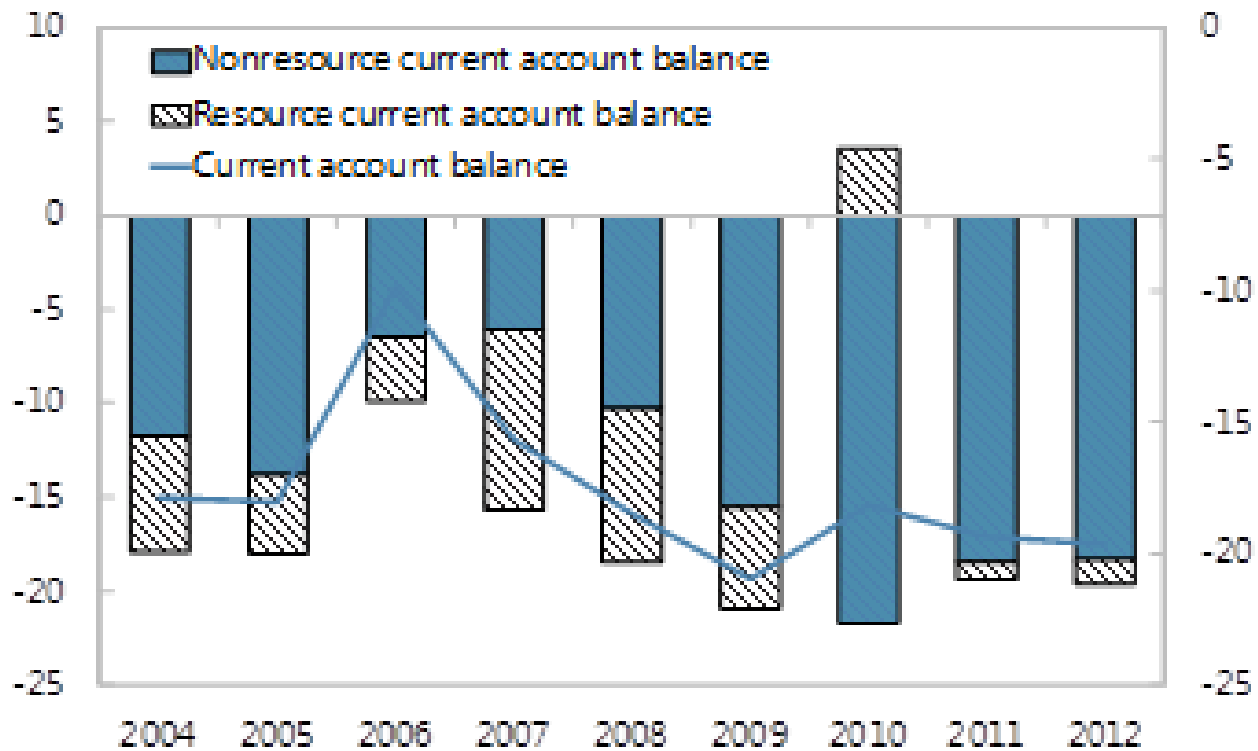
Balance of payments

Balance of payments

Current account

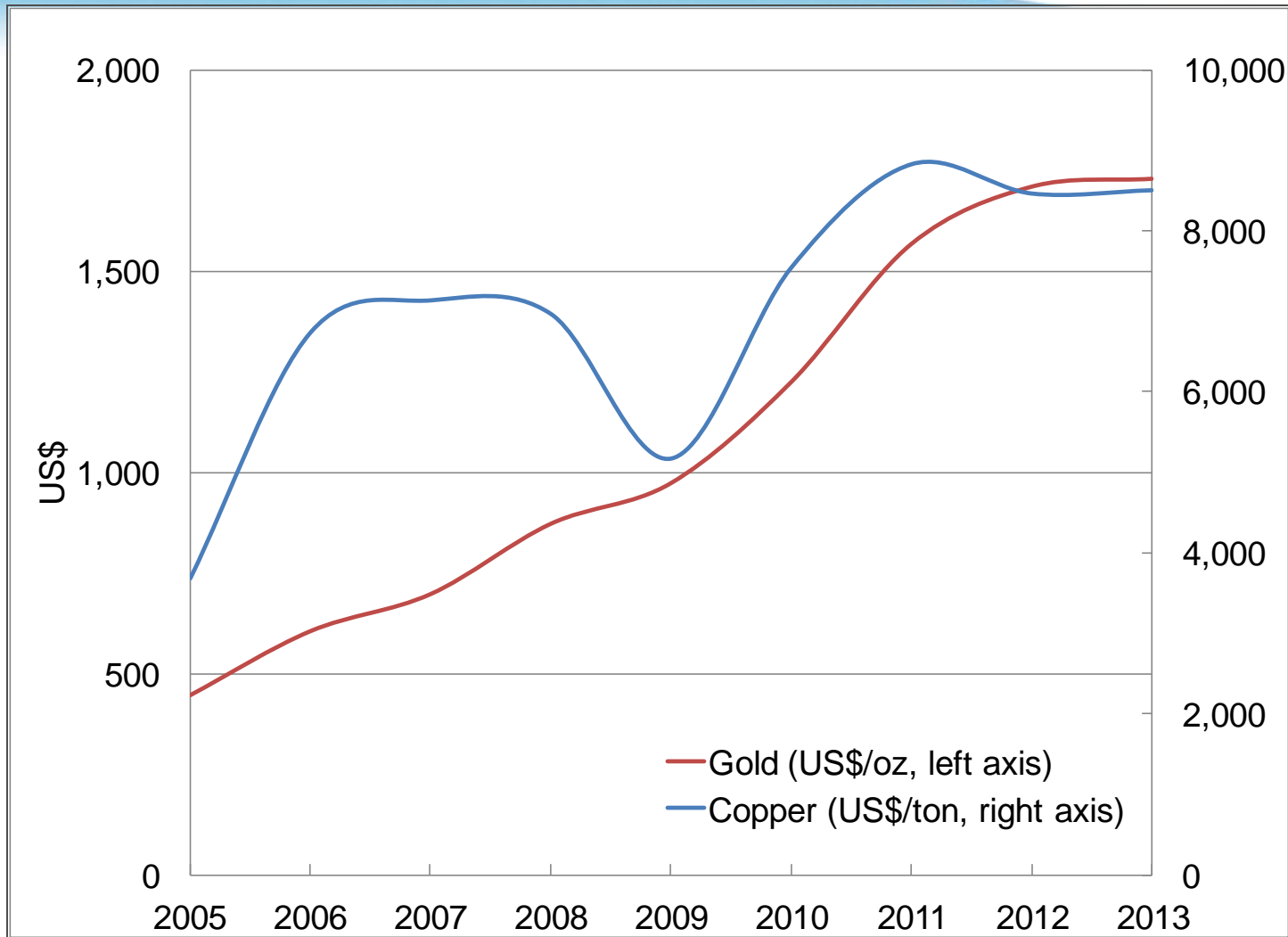
Current Account Balance

(In percent of GDP)



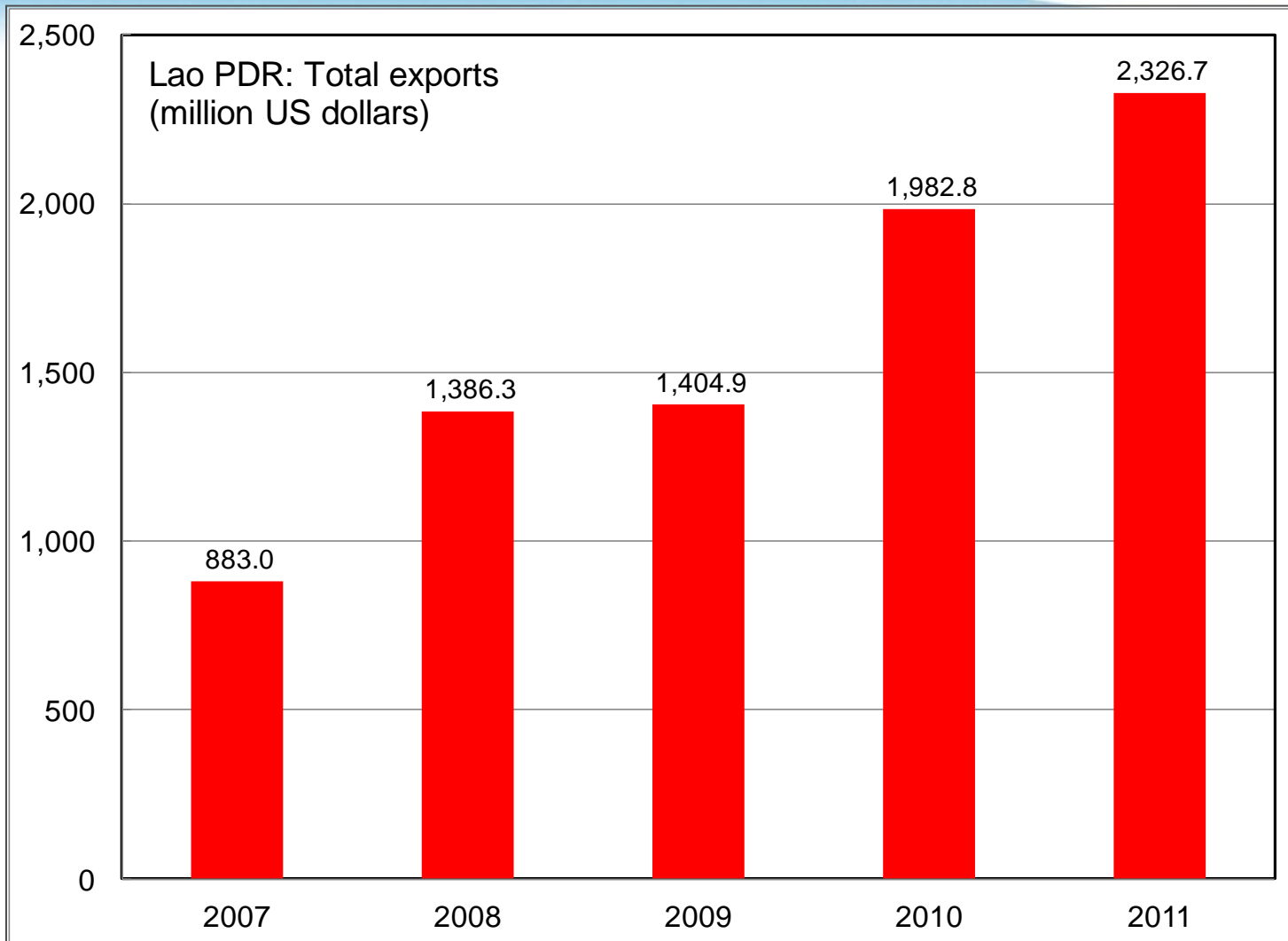
Current account

Commodity prices



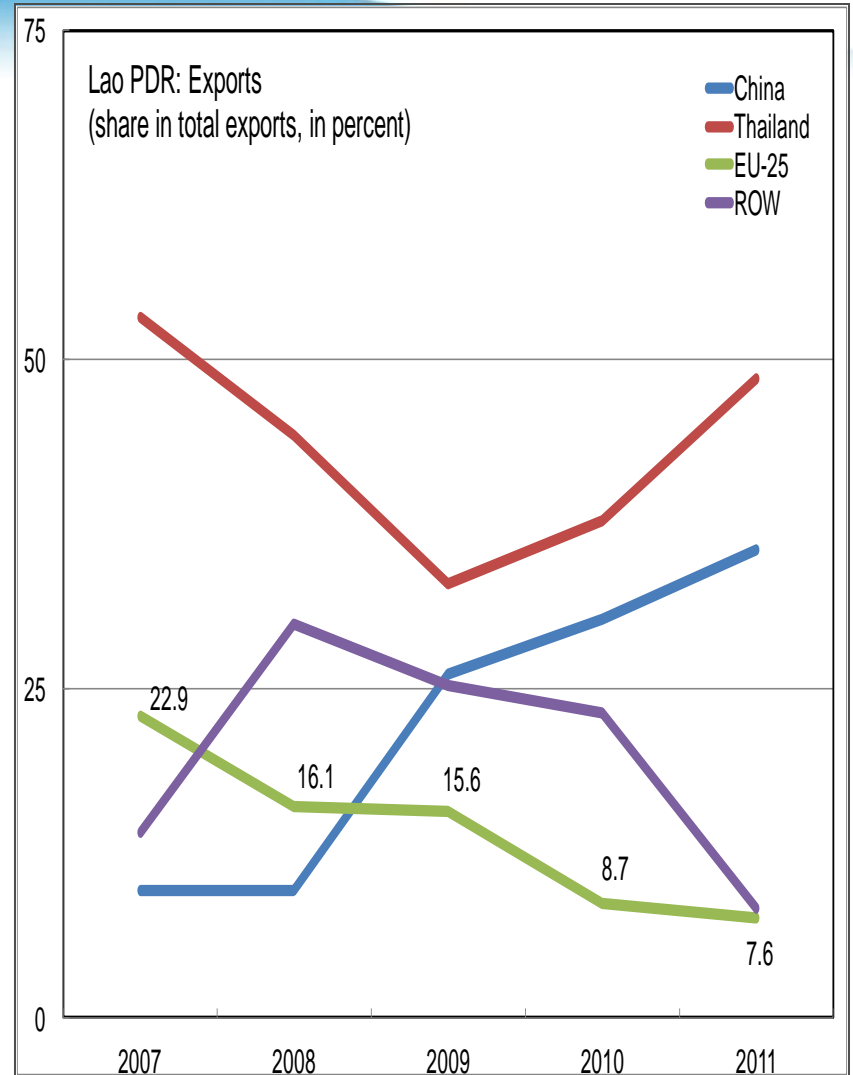
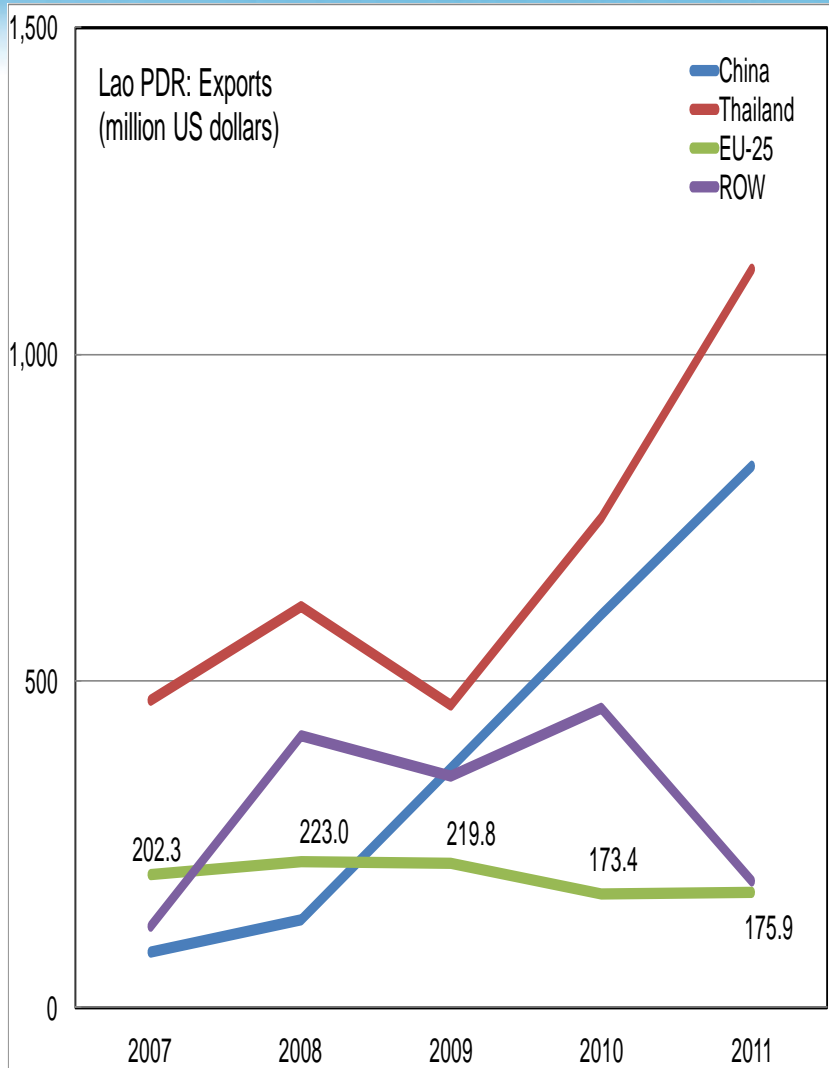
Current account

Exports



Current account

Exports—Direction of trade



Current account

Exports—Direction of trade and commodity composition

Laos PDR: Exports--Direction of Trade and Composition, 2011

SITC Category	World	China	Thailand	EU-25	ROW	World	China	Thailand	EU-25	ROW
	million US dollars					share (in percent)				
0 Food and live animals	161.3	20.7	52.5	41.5	46.7	6.9	0.9	2.3	1.8	2.0
1 Beverages and tobacco	5.7	0.5	2.1	0.5	2.5	0.2	0.0	0.1	0.0	0.1
2 Crude materials, inedible, except fuels	803.5	719.0	65.5	6.3	12.6	34.5	30.9	2.8	0.3	0.5
3 Mineral fuels, lubricants and related materials	469.5	4.8	464.7	-	-	20.2	0.2	20.0	0.0	0.0
4 Animal and vegetable oils, fats and waxes	0.1	0.0	0.1	0.0	-	0.0	0.0	0.0	0.0	0.0
5 Chemicals and related products, n.e.s.	49.0	1.0	12.4	5.0	30.6	2.1	0.0	0.5	0.2	1.3
6 Manufactured goods classified chiefly by material	599.5	78.0	499.4	8.7	13.3	25.8	3.4	21.5	0.4	0.6
7 Machinery and transport equipment	28.0	0.1	26.1	0.3	1.6	1.2	0.0	1.1	0.0	0.1
8 Miscellaneous manufactured articles	209.0	3.2	6.9	113.3	85.5	9.0	0.1	0.3	4.9	3.7
9 Commodities and transactions not classified elsewhere	1.0	-	-	0.3	0.8	0.0	0.0	0.0	0.0	0.0
Total	2,326.7	827.6	1,129.7	175.9	193.5	100.0	35.6	48.6	7.6	8.3

Note: Computed from imports of partner country.

Source: WITS; IMF staff estimates

Balance of payments

Current account

	2009	2010	2011	2012	2013	2014	2015	2016	2017
			Est.	Projection					
	(In millions of U.S. dollars; unless otherwise indicated)								
Current account	-1,174	-1,256	-1,773	-2,012	-2,448	-2,833	-2,748	-2,297	-2,547
Excluding official transfers	-1,272	-1,365	-1,904	-2,159	-2,610	-3,010	-2,942	-2,508	-2,764
Excluding petroleum imports	-883	-844	-1,190	-1,330	-1,744	-2,127	-2,029	-1,554	-1,768
Merchandise trade balance	-1,372	-1,386	-2,074	-2,432	-2,986	-3,461	-3,384	-2,844	-3,166
Exports, f.o.b.	1,521	2,196	2,529	2,868	3,099	3,287	3,477	3,926	4,196
Mining and hydropower	912	1,500	1,884	2,145	2,205	2,302	2,394	2,776	2,846
Mining projects	790	1,181	1,501	1,661	1,702	1,707	1,708	1,699	1,695
Hydropower projects	122	319	382	483	503	595	686	1,077	1,151
Other exports	609	696	645	723	894	985	1,083	1,151	1,350
Imports, c.i.f.	2,893	3,582	4,603	5,300	6,085	6,747	6,861	6,770	7,362
Mining and hydropower	895	728	1,457	1,718	2,228	2,414	2,192	1,695	1,549
Mining projects	260	354	445	557	550	468	480	474	486
Hydropower projects	635	374	1,012	1,161	1,678	1,946	1,712	1,221	1,063
Petroleum imports	291	412	583	682	704	707	718	743	779
Other imports	1,707	2,442	2,563	2,900	3,154	3,627	3,950	4,333	5,033
Services (net)	330	376	441	515	585	649	664	682	702
Of which: Tourism	268	383	448	525	603	676	696	717	738
Income (net)	-265	-425	-356	-335	-311	-310	-346	-482	-449
Interest payments	-81	-135	-115	-147	-141	-142	-133	-342	-318
Of which: Public	-27	-41	-27	-59	-62	-71	-74	-78	-82
Mining and hydropower	-41	-86	-82	-81	-71	-63	-50	-247	-218
Mining projects	-29	-6	-10	-14	-10	-9	-3	0	8
Hydropower projects	-12	-79	-72	-67	-61	-54	-47	-248	-226
Dividends and profit repatriation	-322	-525	-651	-597	-599	-593	-654	-611	-623
Of which: Mining and hydropower	-279	-470	-596	-541	-541	-533	-591	-545	-554
Of which: Mining projects	-257	-445	-538	-478	-494	-478	-483	-472	-470
Hydropower projects	-22	-26	-57	-63	-46	-56	-108	-73	-84
Other	137	235	410	409	429	425	441	472	491
Transfers (net)	133	179	215	239	264	288	318	347	365
Private	35	70	84	92	102	112	123	135	149
Official	97	109	131	147	163	177	195	212	216

Balance of payments

Capital and financial account

	2009	2010	2011	2012	2013	2014	2015	2016	2017
			Est.	Projection					
(In millions of U.S. dollars; unless otherwise indicated)									
Capital and financial account	1,094	1,359	1,728	2,065	2,606	2,929	2,897	2,567	2,764
Public sector	162	155	205	308	340	382	437	447	450
Disbursements	229	231	280	412	451	501	567	583	594
Amortization	-67	-77	-74	-104	-111	-119	-130	-136	-144
Banking sector (net)	140	-26	-17	-10	-10	-10	-10	-10	-10
Private sector	792	1,230	1,540	1,766	2,275	2,557	2,470	2,130	2,323
Foreign direct investment (net) 1/	759	671	1,210	1,399	1,889	2,167	1,997	1,652	1,892
Of which: Mining and hydropower projects	704	250	783	969	1,396	1,729	1,569	1,148	1,364
Of which: Mining projects	20	-37	102	94	81	-30	-30	-25	-25
Hydropower projects	684	287	681	875	1,315	1,759	1,599	1,173	1,390
Other private flows and errors and omissions	33	559	330	368	386	390	473	478	431
Overall balance	-80	102	-45	53	158	96	150	270	216
Core Balance (CA+FDI+ODA)	-253	-431	-405	-349	-261	-341	-364	-261	-307
Financing	80	-102	45	-53	-158	-96	-150	-270	-216
Central bank net foreign assets	80	-102	45	-53	-158	-96	-150	-270	-216
Assets (increase -)	6	-95	51	-49	-155	-92	-146	-267	-213
Liabilities (reduction -)	74	-7	-6	-4	-4	-4	-4	-4	-4

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

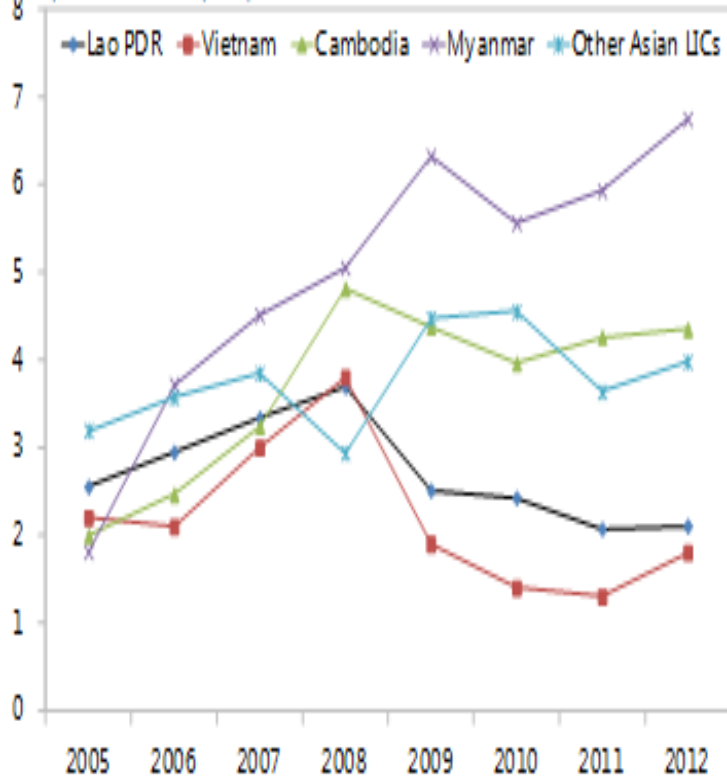
1/ Includes repayment of private debt. FDI in the balance of payments includes both equity and debt, whereas only the nondebt portion is included in the debt sustainability analysis.

Balance of payments

International reserves

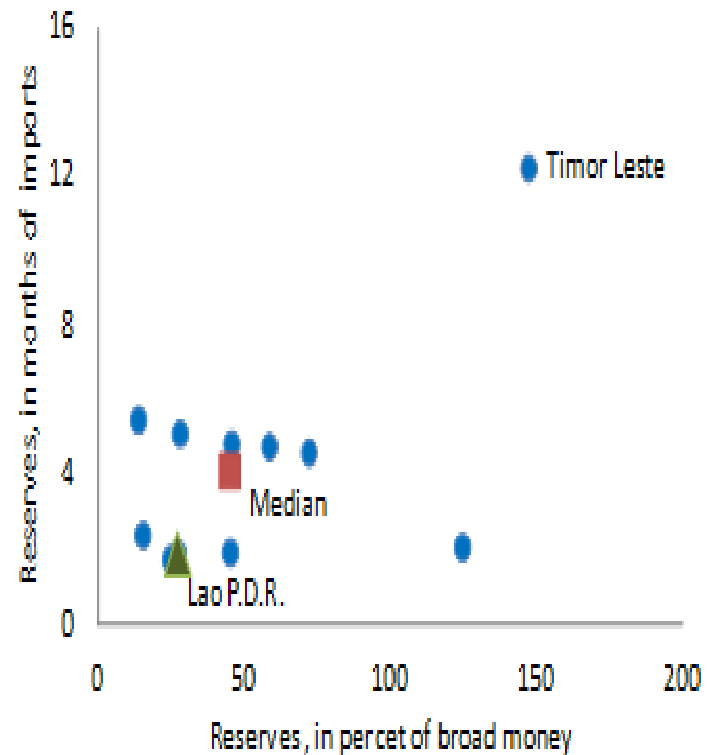
Stock of International Reserves in Asian LICs

(In months of imports)



Reserves: South and East Asian LICs

End 2011



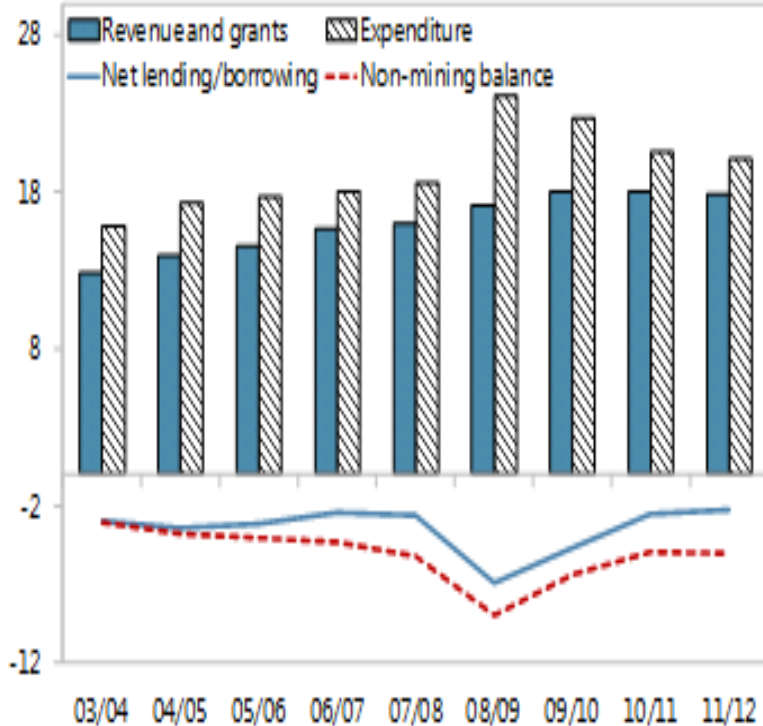


Deficits and debt

Deficits and debt

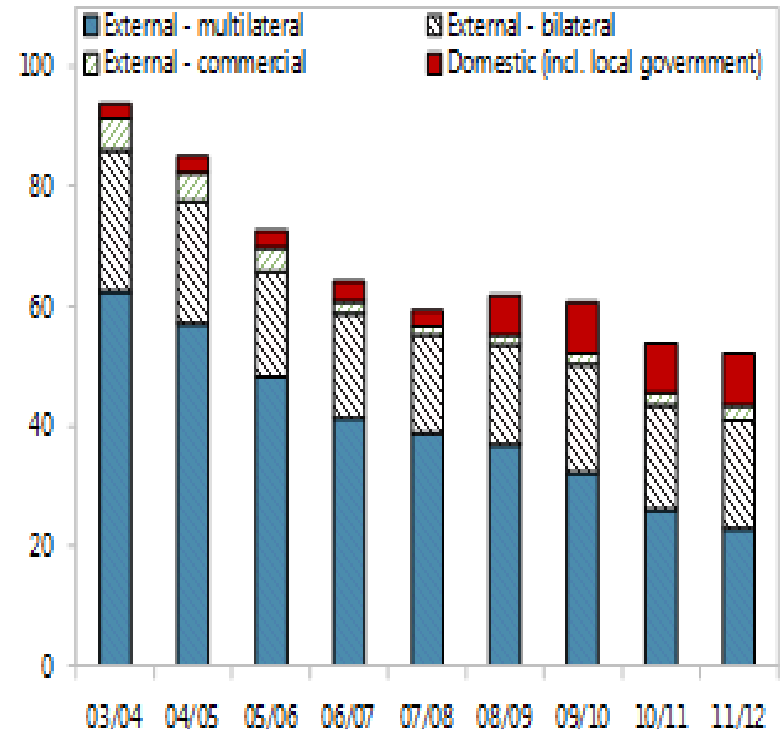
Fiscal Balance

(In percent of GDP)



Public Sector Debt

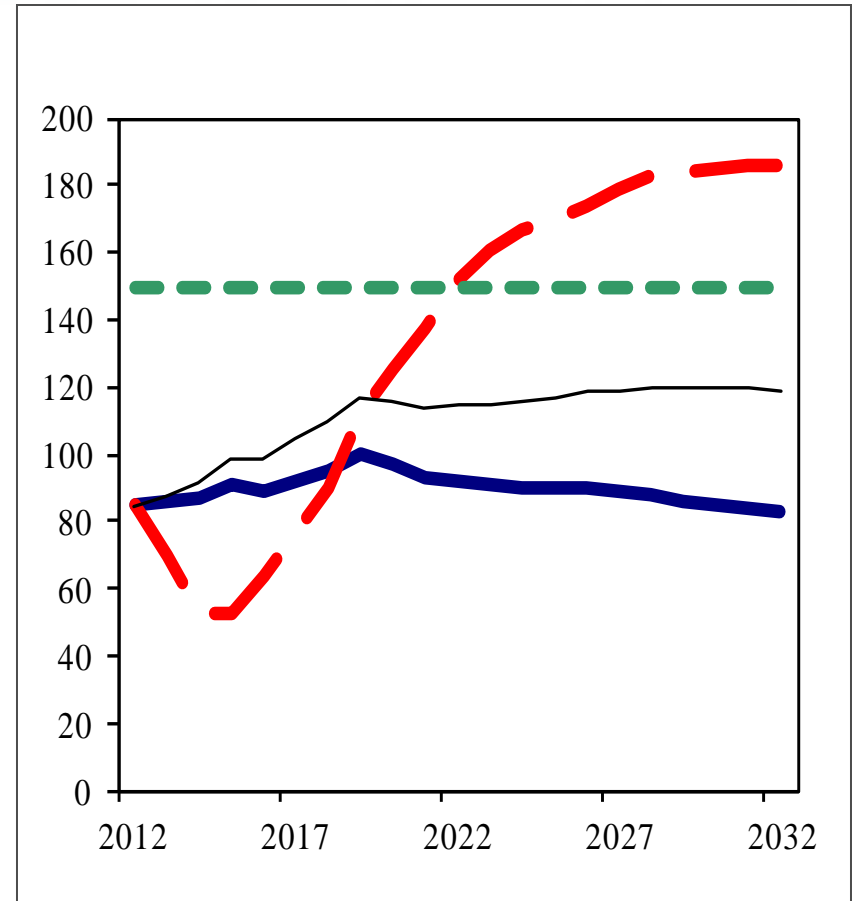
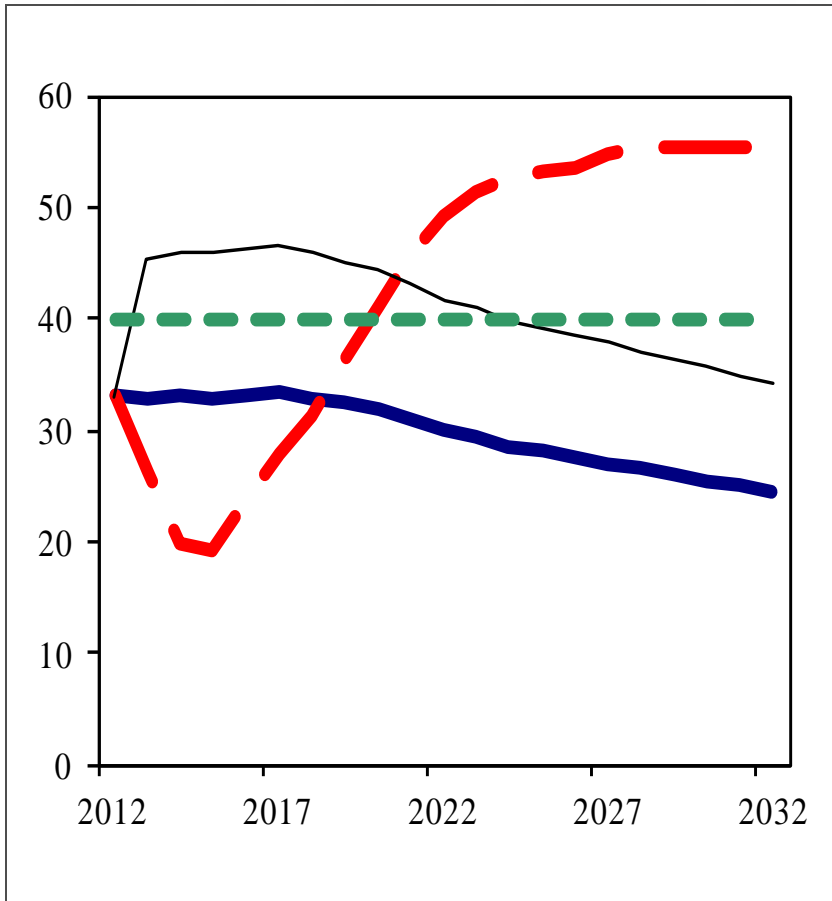
(In percent of GDP)



Fiscal sustainability

Present value of debt-to-GDP
(In percent)

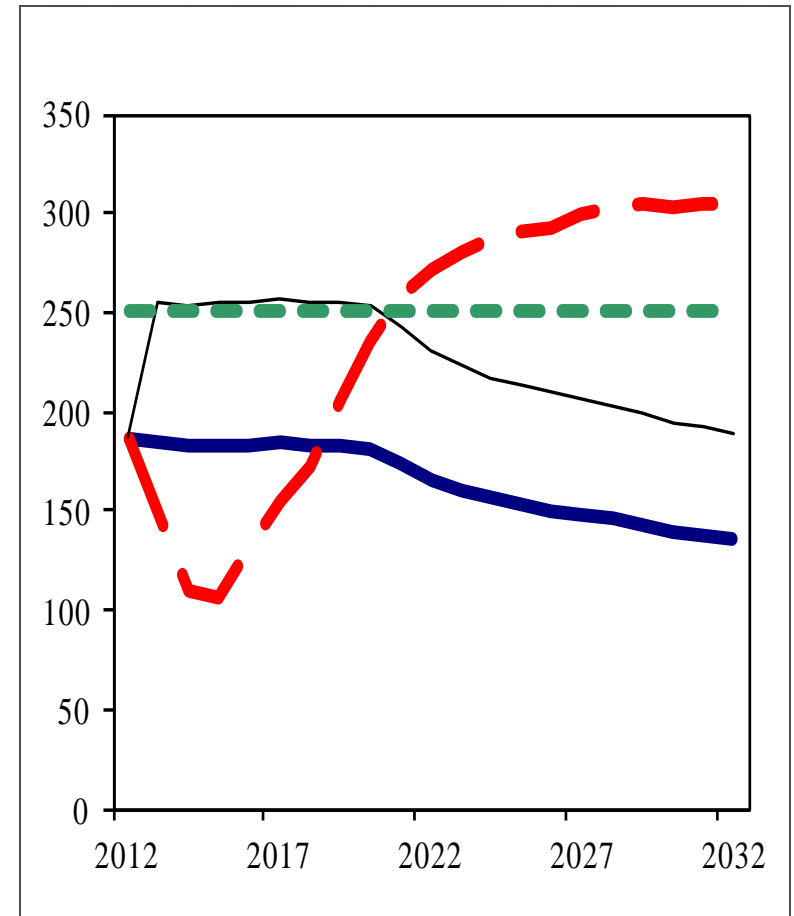
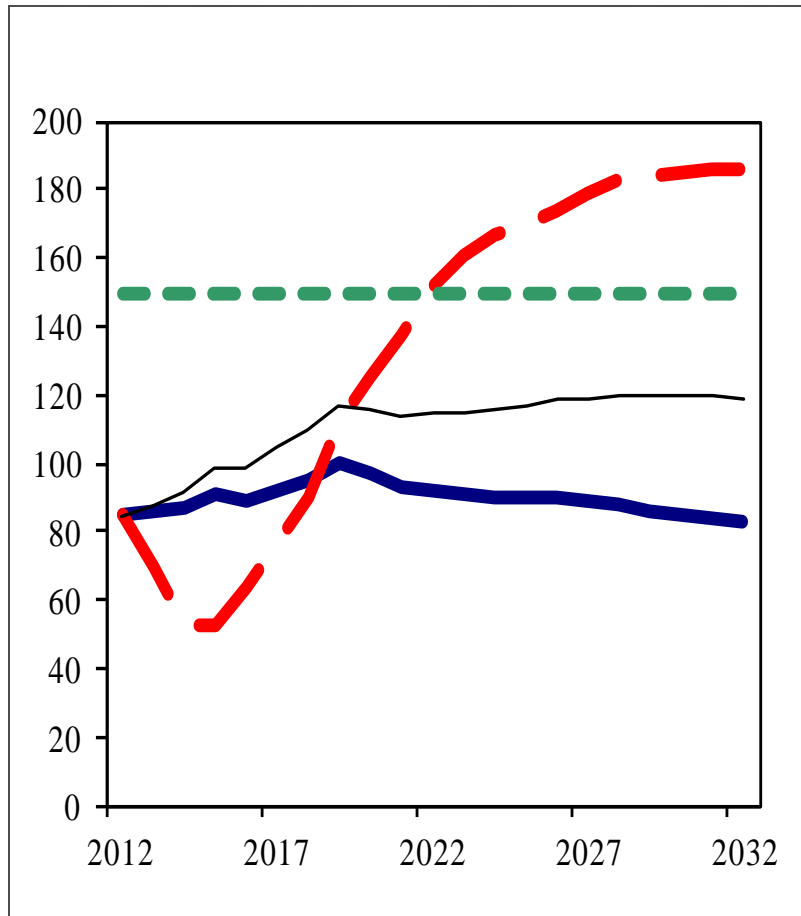
Present value of debt-to-exports
(In percent)



Fiscal sustainability

Debt service to exports
(In percent)

Debt service to revenue
(In percent)



— Baseline

- - - Historical scenario

— Most extreme shock 1/

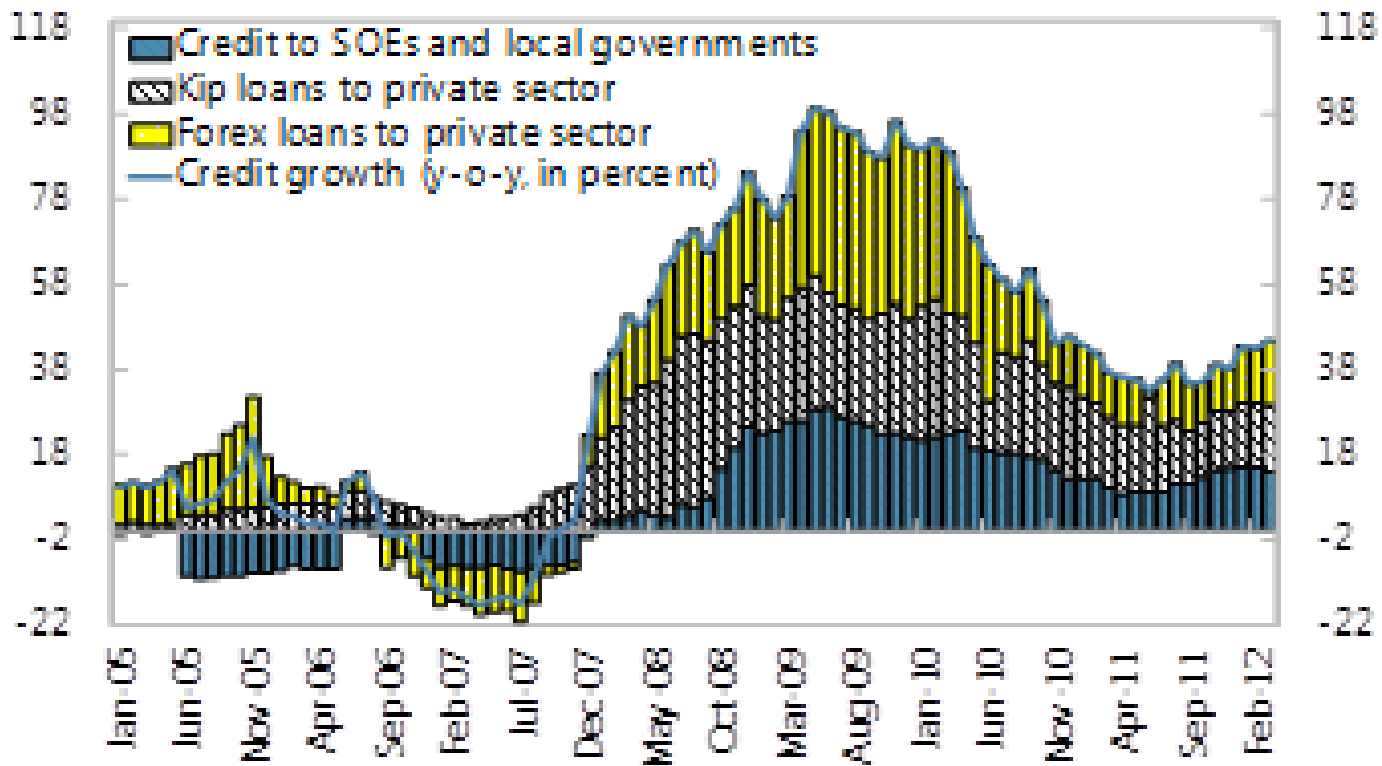
- - - Threshold



Money and credit

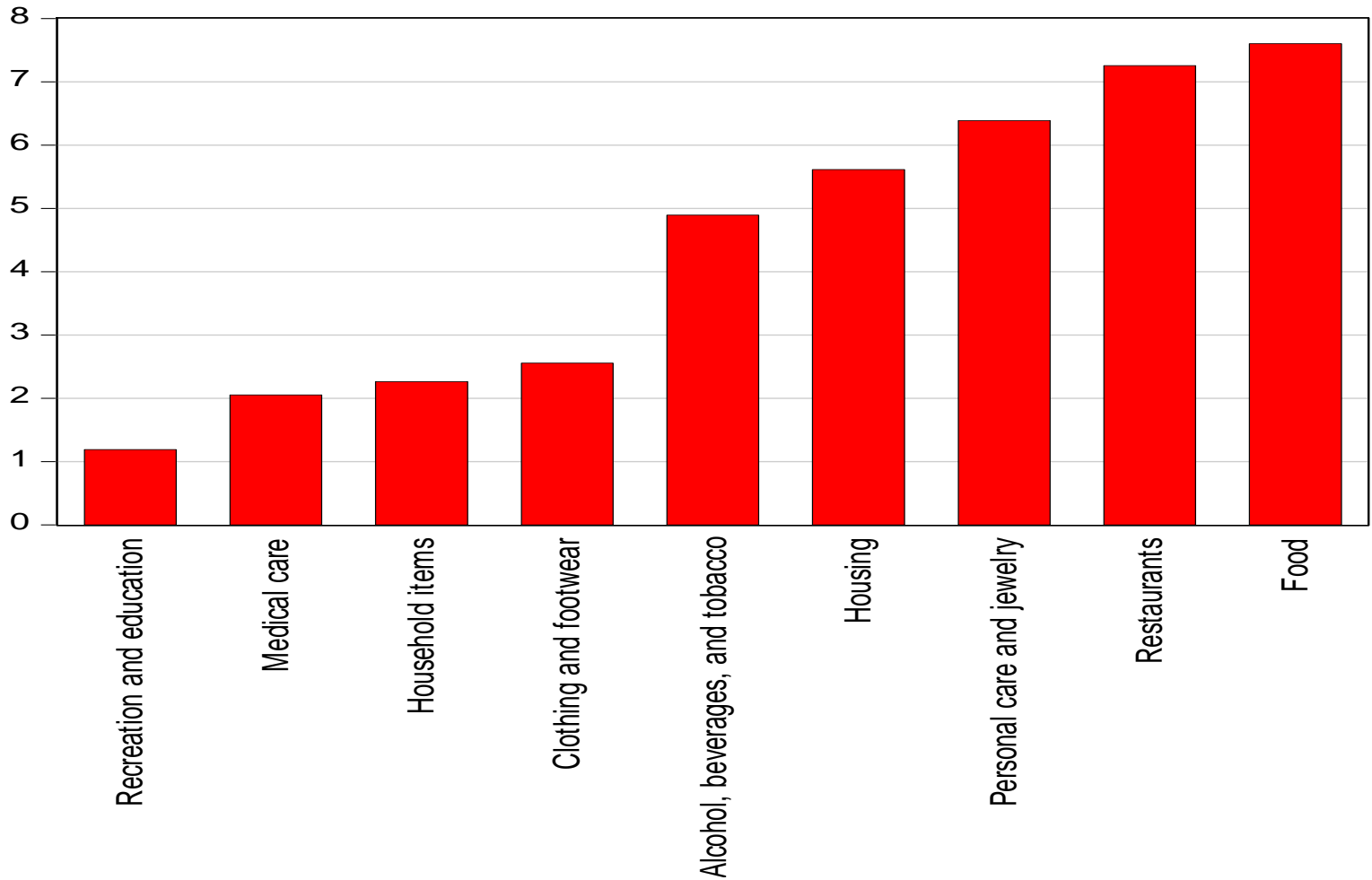
Credit growth

Contribution to Credit Growth, Jan.2005-Mar.2012
(Year-on-year percent change)

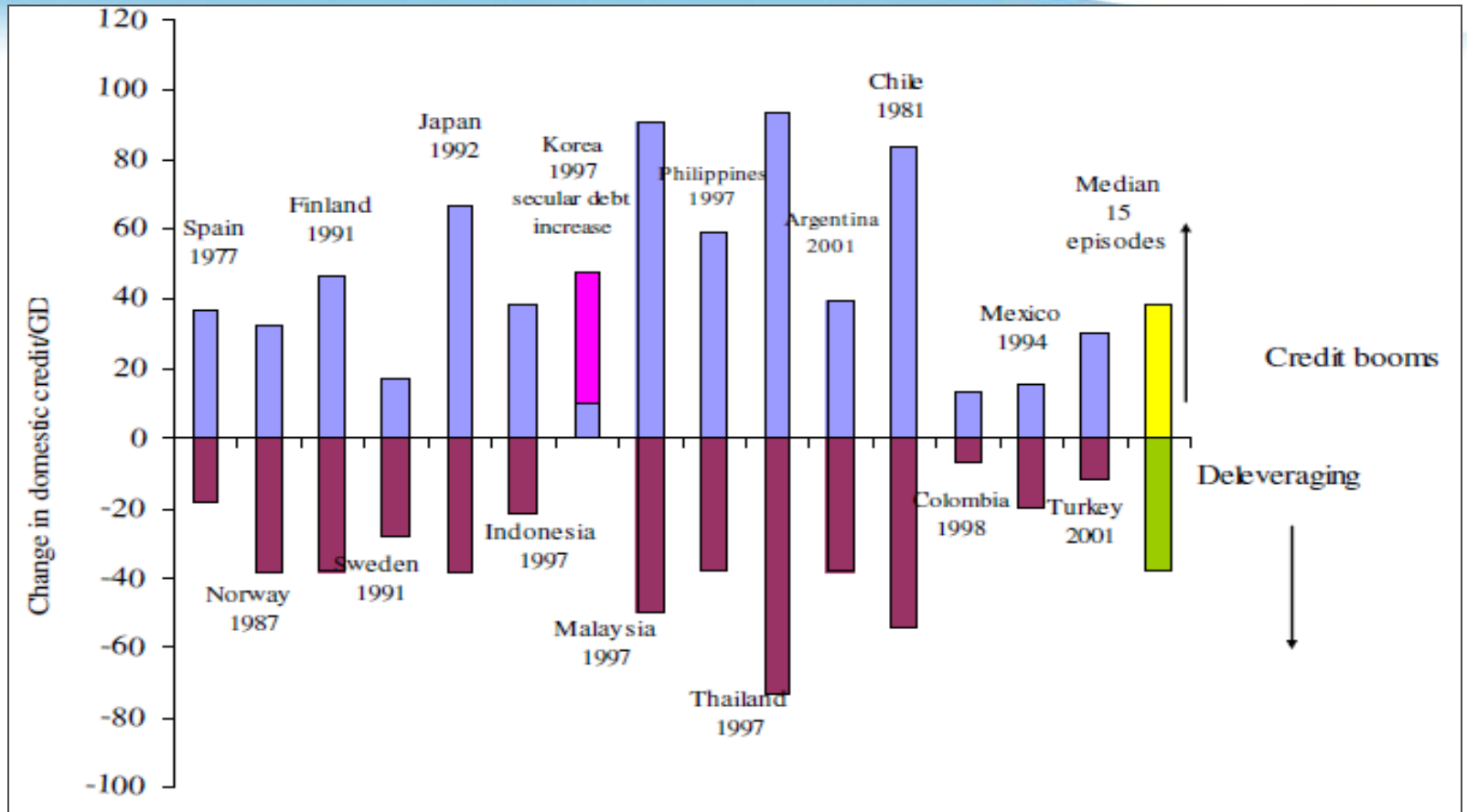


Price inflation

Prices: Average annual percent change
(2006-2012)



Deleveraging





Thank you