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To: Members of the Executive Board
From: The Secretary
Subject: Lao People's Democratic Republic - Recent Economic Developments

This paper provides background information to the staff report on the 1983 Article IV consultation discussions with the Lao People's Democratic Republic, which was circulated as SM/84/30 on January 27, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Evers, ext. (5)7611.

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INTERNATIONAL MONETARY FUND

LAO PEOPLE'S DEMOCRATIC REPUBLIC

Recent Economic Developments

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Approved by the Asian Department

February 2, 1984

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LAOS

Basic Data

Area and population

Area	236,800 square kilometers
Population (estimated 1982)	3.9 million
Annual rate of population increase	2.4 percent

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> <u>Est.</u>
<u>GDP</u> (at current prices; in millions of kip)	5,255	7,752	11,403	18,047
<u>GDP per capita</u> (US\$)	100	91	83	128
<u>Output</u> (percentage change)				
Real GDP	10.0	5.0	-1.0	1.0
Production of rice	21.5	9.6	-5.4	1.8
Gross industrial production	...	-0.4	4.8	2.9
Of which: electricity	-0.3	-5.7	9.2	--
<u>Prices</u> (percentage change)				
Consumer price index (end of period)	62.3	23.1	40.8	62.6 <u>1/</u>
Official prices	1.9	--	52.0	28.1 <u>1/</u>
Free market prices	117.1	32.9	37.2	76.1 <u>1/</u>
GDP deflator	48.7	40.6	48.6	56.7
<u>Budget</u> (percentage change)				
Revenue	179.2	32.2	178.6	26.9
Expenditures	179.4	10.1	179.9	22.3
Current	161.0	--	119.7	30.4
Capital	209.3	23.9	246.5	16.6
<u>Monetary survey</u> (percentage change)				
Domestic credit	99.3	25.1	23.4	33.0 <u>1/</u>
Of which: credit to public enterprises	(181.9)	(29.9)	(24.4)	(31.9) <u>1/</u>
Total liquidity	163.9	3.5	52.7	48.9 <u>1/</u>
Cash in circulation	57.0	7.6	39.6	19.0 <u>1/</u>
<u>Balance of payments</u> (in millions of US\$)				
Official exports	13.5	19.4	39.8	52.3
Convertible area	13.5	14.0	26.9	27.7
Of which: electricity	(5.3)	(7.9)	(23.9)	(24.0)
Nonconvertible area	...	5.4	12.9	24.6
Official imports	-92.3	-90.2	-124.2	-125.0
Convertible area	-42.0	-36.2	-44.0	-45.0
Nonconvertible area	-4.7	-13.8	-30.2	-40.0
Under aid programs	-45.6	-40.2	-50.0	-40.0
Trade balance	-78.8	-70.8	-84.4	-72.7
Current account	-81.1	-70.1	-78.9	-67.7
Capital and transfers (net)	66.6	73.4	80.2	62.2
Overall balance	-11.0	-5.8	-4.1	-5.5

LAOS

Basic Data (concluded)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> <u>Est.</u>
<u>International reserves (in millions of US\$)</u>				
Gross international reserves	14.04	13.53	8.54	8.10 <u>2/</u>
(In months of imports)	(1.8)	(1.8)	(0.8)	(0.9) <u>2/</u>
(In months of non-aid imports from the convertible area)	(4.0)	(4.5)	(2.3)	(2.2)
Net international reserves	3.07	-1.49	-5.55	-5.99 <u>2/</u>
<u>External debt operations (in millions of US\$)</u>				
External debt outstanding (disbursed)	265.9	312.4	342.5	385.0
Of which: convertible area	(...)	(110.0)	(120.0)	(125.0)
External debt servicing	3.1	4.4	6.1	7.0
Of which: convertible area	(3.1)	(4.4)	(4.5)	(5.5)
<u>Exchange rate (end of period; kip per US\$)</u>				
Official	10	10	10	10
Commercial	10-15	30	35	35
Inward remittances	--	--	--	108
Free market	24	60	105	120
<u>Selected ratios to GDP (percent)</u>				
Budget revenue	14.2	12.8	24.1	19.4
Budget expenditure	33.8	25.2	48.0	37.1
Overall budget deficit	-19.6	-12.4	-23.9	-17.7
Domestic revenue minus current expenditure	-5.3	-0.5	4.3	3.1
Total liquidity	14.6	10.3	10.6	7.6 <u>2/</u>
Cash in circulation	3.0	2.2	2.1	1.5 <u>2/</u>
Official exports of goods	3.6	5.5	12.2	10.1
Official imports of goods (-)	-24.6	-25.6	-38.1	-24.2
Current account deficit (-) of balance of payments	-21.6	-19.9	-24.2	-13.1
Overall balance of payments deficit (-)	-2.9	-1.6	-1.3	-1.1
External debt outstanding (disbursed)	70.9	88.7	105.1	74.7
External debt servicing	0.8	1.2	1.9	1.4

1/ June 1983 over June 1982.

2/ Outstanding in June 1983.



I. Introduction and Summary

The Lao economy remained stagnant in both 1982 and 1983, after having experienced an average annual growth rate of 8 percent in the previous two years. Growth in the agricultural sector was affected by bad weather and diminished possibilities for the reclaiming of arable land. Industrial production, which, together with the generation of electricity, accounts for 7 percent of GDP, was affected by shortages of imported raw materials and spare parts. Although rice availability remained sufficient and large-scale foodgrain imports could be avoided, local food shortages continued to persist, mainly as the result of transportation bottlenecks and inefficiencies in the distribution system. A rapid monetary expansion contributed to a rise in inflation from 23 percent in 1981 to 41 percent in 1982. Due to late rains, the 1983/84 harvest is estimated to have been delayed by about one month. Partly in anticipation of the delay, food prices rose sharply, and the overall cost of living index is estimated to have risen by 76 percent during the first nine months of 1983.

The improvement in budgetary performance that characterized the period 1980-82 was partly reversed in 1983, largely because of a sharp rise in current outlays and a slowing in profit transfers from public enterprises. Government salaries were raised by 50 percent in September 1983 to offset the rise in official retail prices since the previous salary adjustment in April 1982. During the course of 1983, higher tax rates were introduced for the private sector. The higher rates applied to the profit and salary tax, the turnover tax, the business license tax and import duties. However, despite much higher receipts from these taxes, public savings declined from 4.3 percent of GDP in 1982 to an estimated 3.1 percent in 1983. As in previous years, the overall budget deficit in 1983 was entirely financed with foreign aid.

The deficit of the current account of the balance of payments declined from \$79 million, or 24 percent of GDP, in 1982 to \$68 million, or 13 percent of GDP, in 1983. Imports remained largely unchanged in 1983, but exports rose by 31 percent. Most of the increase in exports was directed to countries in the nonconvertible area. A fall in aid disbursements from the convertible area contributed to an overall balance of payments deficit of \$5.5 million in 1983. Convertible foreign exchange reserves amounted to \$18.3 million at the end of September 1983, a period when reserves are seasonally at a high level. Reserves are estimated to have fallen significantly during the final quarter of 1983. Since January 1982, the commercial exchange rate, at which most transactions take place, has remained unchanged at K 35 per dollar. In July 1983, the authorities introduced a special rate of K 108 per dollar for private inward remittances. The exchange rate in the parallel market had risen to K 120 per dollar by the end of 1983.

II. Production

After experiencing an average annual rate of growth of 8 percent during 1979-81, the Lao economy remained more or less stagnant in 1982 and 1983, as agricultural production was affected by unfavorable weather, and the rapid expansion in the area under cultivation, a major factor in the growth performance of previous years, came to a halt (Table 1). However, in both years, output of paddy was about 1.1 million tons and, although there was a decline in per capita consumption, a resumption of largescale foodgrain imports could be avoided. ^{1/} Industrial output declined in 1982, mainly as a result of shortages of imported raw materials, but recovered in 1983. After a decline of 1 percent in 1982, GDP is estimated to have risen by 1 percent in 1983. GDP per capita is estimated at US\$128 in 1983.

1. Agricultural production

The area under paddy covers 727,000 hectares, or 90 percent of the total cultivated area (Table 2). About 60 percent of the paddy fields is located in the lowland areas and may be subject to flooding. The remaining 40 percent is located in the upland areas, where paddy is frequently grown under a slash-and-burn system. Under this system, farmers burn down sometimes valuable tracts of forest to make room for the cultivation of paddy. Because of the rapidly deteriorating condition of the soil, these tracts of land are seldom cultivated more than three years. In spite of the Government's efforts to extend double-cropping, official statistics show a decline in irrigated area cultivated during the dry season from 10,300 hectares in 1979 to 5,600 hectares in 1982. Agricultural yields are low compared with those in other Asian countries. Due to the completion of resettlement programs and to the Government's attempts to reduce the area cultivated under slash-and-burn techniques, the rapid expansion of the harvested area that occurred since 1978 came to a halt in 1982. Unfavorable weather (a drought at the beginning of the rainy season was followed by floods and then by an increased incidence of insects) contributed to a decline in paddy output of 5 percent in 1982 (Appendix Table I). The weather was only slightly better in 1983, so that the growth in paddy output remained limited to less than 2 percent during that year. In addition, due to late rains, the harvest was delayed by about one month, which caused local shortages and sharply higher food prices in some areas.

Other food crops (maize, vegetables, root crops, and soybeans) are grown in small quantities, mostly for household consumption. The output of these crops increased in 1982, but stagnated or declined in 1983. Industrial crops include coffee, tea, cotton, and tobacco. With few exceptions, the production of these crops is still affected by years of neglect during the war years. The erosion of the Mekong

^{1/} Per capita consumption of rice in 1983 is estimated at 153 kilos. Per capita rice consumption in Thailand is about 150 kilos.

Table 1. Laos: Estimates of National Income and GDP, 1979-83 ^{1/}

(In millions of kip)

	1979	1980	1981	1982 Prel.	1983 Proj.
Agriculture	...	7,791	8,417	8,103	8,270
Industry	...	563	551	582	599
Construction	...	300	217	331	305
Transportation and communications	...	225	167	166	167
Commerce	...	394	394	467	404
Other	...	103	98	97	98
National income at 1982 prices	<u>8,523</u>	<u>9,376</u>	<u>9,844</u>	<u>9,746</u>	<u>9,843</u>
Nonmaterial services	938	1,031	1,083	1,072	1,083
Depreciation	511	563	591	585	591
GDP at 1982 prices	<u>9,972</u>	<u>10,970</u>	<u>11,518</u>	<u>11,403</u>	<u>11,517</u>
Growth rate	10	10	5	-1	1
Per capita GDP (US\$)	87	100	91	83	128
GDP deflator (1982 = 100)	32.2	47.9	67.3	100.0	156.5
GDP at current prices	<u>3,211</u>	<u>5,255</u>	<u>7,752</u>	<u>11,403</u>	<u>18,047</u>

Source: Staff estimates based on data provided by the Lao authorities.

^{1/} Laos' national accounts are established according to the Material Product System (MPS), which differs from the United Nations' System of National Accounts (SNA). The basic difference between the two systems is that the MPS does not include the value of nonmaterial services and depreciation. The value of non-material services accounts for approximately 11 percent of national income; depreciation is estimated at 6 percent of national income. The term "national income" refers to the MPS definition, and the term "gross domestic product" (GDP) refers to the SNA definition. Both administered and free market prices were taken into account for estimating nominal GDP and the GDP deflator. To the extent that free markets are relatively narrow and sensitive also to noneconomic factors, free market prices can be quite volatile, which may have implications for the interpretation of the GDP deflator.

Table 2. Laos: Area, Yield, and Production of Major Agricultural Crops, 1978-83

	1978	1979	1980	1981	1982	1983 Estimate
Area ('000 hectares)						
Paddy	590.0	690.0	724.0	738.0	731.0	727.0
Of which:						
Rainfed lowland area	(355.0)	(414.0)	(426.9)	(433.2)	(435.0)	...
Irrigated area	(7.5)	(10.3)	(7.7)	(6.5)	(5.6)	...
Upland area	(216.0)	(265.0)	(297.4)	(305.3)	(296.2)	...
Vegetables	4.4	5.3	5.3	5.4	5.8	5.6
Maize	27.0	23.0	28.3	30.9	31.6	30.0
Cotton	5.0	6.9	7.0	7.1	7.4	7.2
Coffee	4.8	5.4	6.5	7.7	7.7	8.2
Tobacco	3.0	3.4	4.0	4.4	4.9	3.6
Root crops	5.7	8.6	9.1	11.0	11.9	11.7
Soybeans	4.3	4.4	4.8	5.6	5.6	4.7
Tea (hectares) <u>1/</u>	66.0	73.0	82.0	114.0	120.0	160.0
Yield (ton/hectare)						
Paddy	1.2	1.2	1.4	1.6	1.5	1.5
Of which:						
Rainfed lowland area	(1.41)	(1.39)	(1.65)	(1.81)	(1.68)	...
Irrigated area	(1.18)	(1.45)	(1.44)	(1.89)	(2.18)	...
Upland area	(0.99)	(1.05)	(1.13)	(1.18)	(1.18)	...
Vegetables	8.1	8.0	8.0	8.1	7.8	8.0
Maize	1.0	0.9	1.0	1.1	1.1	1.1
Cotton	0.6	0.7	0.7	0.7	0.7	0.7
Coffee	0.6	0.6	0.7	0.7	0.7	0.7
Tobacco	0.6	0.6	0.6	0.6	0.6	0.6
Root crops	8.9	8.0	8.8	8.8	8.0	8.5
Soybeans	0.7	0.7	0.7	0.7	0.8	0.8
Tea	0.4	0.4	0.3	0.4	0.4	0.3
Production ('000 tons)						
Paddy	724.0	867.0	1,053.0	1,154.0	1,092.0	1,112.0
Of which:						
Rainfed lowland area	(501.0)	(574.0)	(705.0)	(782.2)	(730.5)	...
Irrigated area	(8.8)	(15.0)	(11.1)	(12.3)	(12.4)	...
Upland area	(274.0)	(278.0)	(377.0)	(360.2)	(349.5)	...
Vegetables	35.4	42.7	42.6	43.6	45.1	45.0
Maize	45.4	27.6	28.3	32.8	33.5	33.0
Cotton	3.7	4.8	4.9	5.0	5.3	5.4
Coffee	3.0	3.5	4.4	5.0	5.2	5.7
Tobacco	1.8	2.1	2.4	2.7	3.1	2.2
Root crops	50.6	68.6	80.3	97.1	105.0	99.2
Soybeans	2.9	3.3	3.3	3.9	4.2	4.8
Tea (tons) <u>1/</u>	27.0	30.3	29.0	46.0	48.0	48.0

Source: Data provided by the Lao authorities.

1/ The increases in acreage and production figures for tea in 1981 are due to an improvement in statistical coverage.

banks, where part of Laos' tobacco is grown, contributed to the decline in acreage under tobacco cultivation from 4,900 tons in 1982 to 3,600 tons in 1983. The areas under other industrial crops have expanded since 1977, but yields have stagnated in recent years. Coffee is cultivated on the Bolovens Plateau, in the southern part of the country. Largely because of the expansion in planted area, coffee production rose from 5,200 tons in 1982 to 5,700 tons in 1983. However, the quality of coffee needs to be improved through proper processing and grading: most of the existing processing plants are obsolete.

The Government aims at increasing the exportable surplus of coffee and tea. The monopoly of coffee sales is shared between the State Trading Company and the provincial authorities, but part of the output may be exported through other channels. At present, official sales of coffee are exclusively directed toward the nonconvertible area, mainly East Germany and the Soviet Union. Up to 1981, the domestic market absorbed most of Laos' tea production, with small quantities being exported to Viet Nam. However, tea exports to other CMEA countries rose rapidly in both 1982 and 1983.

Animal husbandry seems to have recovered from the severe reduction in livestock during the war years. Foreign assistance in this area has aimed at improving the knowledge of farmers on selective breeding and veterinarian care. Also, several investment projects have already been completed with foreign assistance, including a center for pig breeding and a center for cattle breeding. State farms have been established for the raising of sheep, goats, and pigs. An animal feed mill has been in operation at Tha Ngone since 1980, but a shortage of animal feed continues to be the major constraint in the development of poultry.

No firm data are available on fishing, which is a large source of protein for the population. ^{1/} A pilot farm for fish breeding has recently been established at Nong Ten.

2. Forestry

Eleven million hectares, 40 percent of the territory of Laos, is covered by forests. Excluding inaccessible areas and forests of marginal value, the exploitable forest area ranges between 3 and 7 million hectares. The forests comprise largely evergreen and deciduous broad-leaf species, many of considerable value (notably teak and rosewood). Annual production of about 6 million cubic meters could be reached, if 3 million hectares were fully exploited. The present production level

^{1/} The annual consumption of meat is estimated at 21 kgs. per capita. A recent survey undertaken in the Vientiane region indicated annual fish consumption of 15 kgs. per capita. The national average may be estimated at 6 to 8 kgs, compared with 22 kgs. in Thailand and 24 kgs. in Viet Nam.

is below 150,000 cubic meters (Appendix Table V), and there are considerable prospects for the further development of the forestry sector.

The authorities have been reorganizing the institutional framework of forestry exploitation and trade, with a view to improving the quality of cut timber and increasing the value of timber exports. In 1981, they transferred the exploitation of timber resources to eight regional state companies set up with foreign assistance. These companies have the responsibility for developing logging and other forestry activities, including replanting and reforestation. During the same year, the authorities declared a ban on the export of newly cut logs in order to promote domestic processing of timber. However, provincial authorities may obtain rights to cut and export timber in order to pay for essential imports. In addition, part of the exploitation and trade of logs has remained outside official channels. In 1982, a Lao Corporation for Wood Commercialization was established and granted the monopoly of timber exports previously held by the State Trading Company. The new corporation was also charged with the design of a system of quality control, the introduction of standardization in accordance with international requirements, and the setting of adequate export prices.

The export of logs and cut timber has fallen rapidly in recent years, mainly because the prices that have been set by the authorities are higher than foreign buyers are willing to pay, but also because of poor quality and grading. The equipment in most of the sawmills is out of date and, because of high manufacturing cost, it is sometimes more profitable to sell unprocessed logs than processed timber. At present, only three saw mills are able to produce sawn wood of international quality. The capacity of one of them has recently been raised to 100,000 cubic meters, a project that was financed by the Asian Development Bank. However, this sawmill does not yet operate at full capacity, as the supply of logs is impeded by transportation difficulties and by procurement prices that are barely covering cost. The procurement prices for logs were last raised in 1982. Although, since then, procurement agents have been allowed to negotiate prices with the producers; further increases in procurement prices are necessary in order to make logging remunerative.

Little information is available on the production of other forestry products in 1982 and 1983. Production of cardamom is estimated to have fallen from 42 tons in 1981 to 15 tons in 1983. Production of bamboo and rattan also fell strongly, from 500 cubic meters in 1981 to 180 cubic meters in 1982.

3. Industrial production

The industrial sector is very small, providing employment to fewer than 10,000 persons and contributing about 7 percent of GNP. In addition to electricity and mining, it is mainly composed of small units operating in the Vientiane region, which supply the local markets with consumption goods (cigarettes, beer, soft drinks, plywood,

parquet, furniture, detergent, clothing, matches), some intermediary goods (zinc, plastic products), and agricultural tools. A few factories and handicraft units are located around Savannakhet, Champassak, and Luang Prabang, while ricemills, sawmills, and textile activities are scattered throughout the country. The largest factories, located in and around Vientiane, are managed by the State. Other units are managed by the provincial authorities, and a few are still operated by private owners. Production is hindered by lack of trained workers, transportation difficulties, shortages of raw materials, and insufficient maintenance of equipment. It is estimated that, on average, factories are running at 30 to 35 percent of their capacity.

Total capacity for electricity generation is 128 megawatts, of which 110 megawatts are provided by the Nam Ngum dam. In 1979, hydroelectric power generation increased by nearly 300 percent as a result of the addition of two new generators at the dam. About 84 percent of electricity produced is exported to Thailand; domestic consumption is very low and restricted to only a few urban areas.

Laos possesses large, still unexploited mineral resources. It is estimated that there are sizable deposits of high grade iron ore and limestone; reasonably sized deposits of potash; and lesser quantities of gold, copper, lead, manganese, and coal. Only tin and gypsum are currently exploited. Output of tin fell from 600 tons in 1977 to 254 tons in 1981, largely because of the exhaustion of the mines, aging machinery, which is perhaps 35 to 40 years old, and a shortage of spare parts (Appendix Table VI). ^{1/} Prospecting by the U.S.S.R. led to the discovery of new veins, but there have been delays in bringing them into production. Nevertheless, output rose to 305 tons in 1982. Tin is currently exported to the U.S.S.R. Production of gypsum began in 1980; 30,000 tons were produced during that year and 40,000 tons in 1981. Gypsum is exported to Viet Nam.

The activity of several manufacturing units was impeded in 1982 by shortages of imported raw materials or was interrupted by the administrative reorganization following the nationalization. Although, because of new orders from abroad, output of clothing and wood flooring increased. Total manufacturing output increased by almost 5 percent in 1982. Following an increase in the availability of imported raw materials and spare parts, manufacturing output rose by more than 9 percent in 1983.

^{1/} In the early 1970s, production amounted to 1,500 tons.

III. Distribution and Price Developments

1. Distribution system

Laos' distribution system consists of an official distribution network where prices are determined administratively and a free market. Although the public distribution network was set up to provide minimum standards of living to the population, mostly civil servants and employees of public enterprises have access to it at present. Official procurement and distribution of food was handled by the State Trading Company (SCL), until October 1982 when the Food Corporation (SAL) was established. The SCL is now responsible only for external trade and domestic procurement and distribution of nonfood items.

There are two kinds of administered prices in the public sector: procurement prices and official retail prices. Procurement prices are determined on the basis of estimated production costs, taking into account, where appropriate, that a substantial proportion of inputs may be provided by the State at prices that are substantially below free market prices. With the exception of rice, sugar, cloth and detergent, official retail prices are generally determined on the basis of the procurement prices. A large number of commodities, including domestic agricultural and industrial products and unofficially imported products, are traded in the free market, where prices are determined mainly according to demand and supply conditions. The exchange rate in the parallel market influences these prices substantially, since most unofficially imported products are paid for in foreign currencies obtained in that market. Urban centers are relatively isolated from one another and from the main foodproducing areas, which, together with serious transportation bottlenecks, causes free market prices to vary considerably in the country. Prices are generally higher in Vientiane than in other cities.

2. Price developments

a. Procurement prices

Procurement prices were largely stable up to 1980, but have been increasing since 1981 in response to higher production costs. In order to maintain adequate incentives to the farmers, the SCL introduced a system in 1982 whereby the procurement prices for rice and coffee are negotiated with the farmers according to local cost and scarcities. As a result, the average procurement price of paddy increased from K 2 in 1981 to K 3 per kilo in 1982, and to K 5 in 1983 (Table 3). The procurement price of coffee rose from K 21 per kilo in 1981 to K 36 in 1982, but remained unchanged in 1983. As a result of successive increases, the procurement price of timber in 1983 was nearly six times higher than in 1980. Following the extension of the system of negotiated procurement prices to maize, ground nuts, salt, cardamom, sticklac, and benzoin, prices for these products increased for the first time since 1978. However, even with the recent increases,

prices for many products, including timber and forest products, are too low to provide adequate incentives, which, together with the rigid export pricing policy of the SCL, has led to a decline in official exports of these commodities in recent years.

Table 3. Laos: Official Procurement Prices, 1980-83

(In kip per kg., end of the period)

	1980	1981	1982	1983 June
Paddy	1	2	3	5
Maize	1	1	1	7.5
Soybeans	18	18	18	19
Groundnuts	10	10	10	21
Salt	0.5	0.5	0.5	4
Tobacco	3.6	3.6	3.6	3.6
Coffee (small grain)	10	21	36	36
Cardamom	12	12	12	25
Sticklac	16	16	16	32
Benzoin	72	72	72	180
Timber (hardwood; per cubic meter)	500	950	2,250	2,900

Source: Data provided by the Lao authorities.

The official prices of intermediate products were raised sharply in 1982 in response to higher production costs and the 71 percent devaluation of the kip. In 1983, the system of negotiated price was introduced for a number of industrial products to provide greater production incentives. Under this system, public enterprises producing beer, soft drinks, and cigarettes are permitted to sell all their products directly to consumers at prices negotiated with the Ministry of Industry; those producing plywood may sell output produced in excess

of their quota at negotiated prices. The negotiated prices are usually determined at some point between free market prices and official procurement prices.

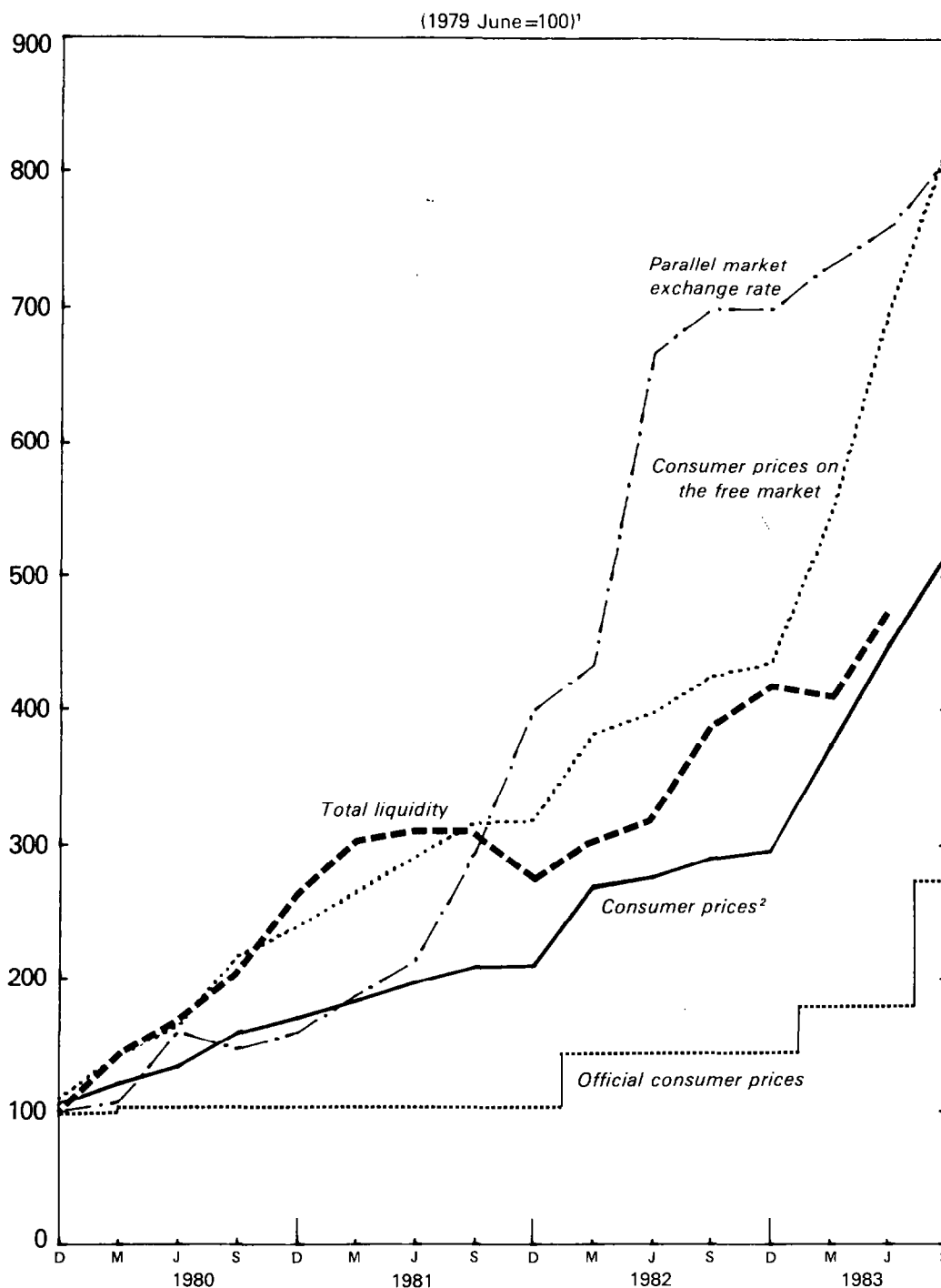
b. Official retail prices

Civil servants and employees of public enterprises benefit from the ration system which distributes 11 essential commodities at official retail prices that are generally lower than the free market prices. The recipients of these benefits consider them part of their total remuneration. Reflecting the stability of procurement prices, official sales prices remained largely unchanged during 1980-81. However, with a view to restraining the rapid growth in subsidies that resulted from the procurement price increases, the authorities raised the official retail prices of sugar, condensed milk, salt, detergent, and gasoline in early 1982. The prices of pork, beef, condensed milk, and eggs were raised in early 1983. Also in 1983, the official distribution price of rice to employees of public enterprises was raised from K 3 to K 6 per kilo (Appendix Table VIII). The official price of rice distributed to civil servants has remained unchanged at K 3 per kilo since 1980. As a result of these adjustments, the index of official retail prices increased by 52 percent in 1982 and by 39 percent during the first nine months of 1983 (Chart 1).

The stagnation of agricultural output and the rapid monetary expansion were important factors contributing to the rise of free market prices of 37 percent in 1982 (Appendix Table IX). During the first nine months of 1983, free market prices are estimated to have increased by 84 percent. In addition to continued monetary expansion, the acceleration in the rate of price increases in the free market was due to late rains, which delayed the harvest by one month. In anticipation of temporary shortages during the fall, rice prices started to rise significantly in July 1983. However, there also were sharp increases in the prices of vegetables, meat, clothing, and gasoline.

The monthly income of an average family in Vientiane is believed to be about K 1,000, consisting of a government salary of the principal income earner of K 600 and outside income of K 400. About 50 percent of total income is spent on the free market and about 50 percent in government shops. Based on these assumptions, the cost of living of a typical family in the Vientiane area rose by 41 percent in 1982 and by 76 percent during the first nine months of 1983. Food prices declined somewhat during the final quarter of 1983 and the rise in the cost of living for the year as a whole is estimated at 65 percent.

CHART 1
LAOS
PRICES, LIQUIDITY AND EXCHANGE RATE, 1980-1983



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

¹For total liquidity and parallel market exchange rate December 1979=100.

²Weighted average of consumer prices on the free market and official consumer prices.

3. Subsidies

Following the upward adjustment in official retail prices in 1982 and 1983, the number of subsidized commodities under the ration system has declined to four products: rice, sugar, textiles, and detergents. During 1980-83, the procurement prices of rice were quintupled, from K 1.7 to K 8.4 per kilo, with a view to providing incentives to farmers and maintaining the official procurement volume (Table 4). This, together with the increase in transportation and other costs, raised the total cost from K 3 to K 10.8 per kilo. On the other hand, the official sales price of rice for civil servants has remained unchanged at K 3 per kilo, while the price for employees of public enterprises was raised from K 3 to K 6 per kilo only in January 1983, following the introduction of more flexible wage determination. The total cost of the subsidies on rice distribution has grown from K 82 million in 1981 to K 224 million in 1982 and an estimated K 392 million in 1983.

Table 4 Laos: Rice Subsidy, 1980-83

(In kip)

	1980	1981	1982	1983
Cost per kg.	3.0	4.6	7.3	10.8
Procurement price of rice ^{1/}	(1.7)	(3.3)	(5.0)	(8.4)
Transportation and milling	(1.0)	(1.0)	(2.0)	(2.0)
Other distribution costs	(0.3)	(0.3)	(0.3)	(0.4)
Official sales price per kg.	3.0	3.0	3.0	3.8 ^{2/}
Subsidy per kg.	--	1.6	4.3	7.0
Procurement volume ('000 tons)	42	51	52	56
Subsidy (in millions)	--	82	224	392

Source: Staff estimates based on data provided by the Lao authorities.

^{1/} The conversion rate from paddy to rice was estimated as 60 percent.

^{2/} In January 1983, official sales price for employees of public enterprises was raised from K 3 to K 6 per kilo; the price for civil servants remained at K 3 per kilo. The price of K 38 per kilo is the weighted average between the price for civil servants and that for employees of public enterprises.

IV. Medium-Term Development Strategy

The major economic objectives of the First Five-Year Plan (1981-85) are: diversification of agricultural and forestry production, so as to reach food self-sufficiency and nutritionally balanced diets, and develop an exportable surplus of timber, coffee, and tobacco; improvement of the transportation and communication system; and industrial development based upon the exploitation and processing of local resources. Other objectives of the Plan are improvement in the organization of production and distribution by increasing the share of resources under state control, by extending the network of state stores to each district, and by promoting village-level cooperatives for the trading of agricultural products. The mobilization of resources for investment and development programs is to be promoted through taxation, greater efficiency of public enterprises, and better control of public expenditure.

The objectives of the Plan were translated into quantitative targets, not as a basis for economic decision-making, but more as an indication of relative priorities and the direction in which the economy is to be developed. Annual planning will remain flexible and guided by pragmatism, in particular with regard to availability of domestic and external resources, and the absorptive capacity of the economy. Since 1982, greater priority has been given to small-scale projects that are quick-yielding and that minimize management and maintenance problems. The number of large-scale projects has been reduced to two-- the rehabilitation of Road No. 9 between Savannakhet and Danang and the building of a pipeline between Danang and two Lao cities. Both projects will reduce Laos' dependence on Bangkok as its main seaport. A limited number of new enterprises will be established in the construction sector, but a 200,000-ton cement factory, which was to be built with aid from the Soviet Union, has been postponed indefinitely. The authorities also decided to promote cooperation with the private sector. The private sector is in charge of two thirds of the distribution of goods and its role is considered essential, particularly with respect to the supply of consumer goods. ^{1/} The organization of the economy along socialist lines remains a long-term goal, the attainment of which could take several decades.

The development of agriculture remains the first priority set by the Government. As possibilities for extending the area under cultivation and for providing extension services to the farmers are limited, further gains in output will have to come from the maintenance of remunerative procurement prices and adequate supply of consumer goods. Currently, such a supply of consumer goods is chiefly connected with the official system of rice procurement from the farmers; each town

^{1/} This change in the orientation of the medium-term strategy is reflected in the recent change in the name of the central planning agency from the "National Planning Committee" to the "State Planning Committee."

organizes a committee that purchases rice and pays in part with cash, in part with consumer goods and agricultural implements. The Government intends to complement this system with a network of state sale and purchase offices in each district and subdistrict, so that consumer goods will be available also to other farmers.

Transportation difficulties are a major obstacle to development. Access roads are necessary for forestry exploitation, mineral exploitation (copper and iron), and also for the transportation of rice from the rice-surplus to the rice-deficit areas. In some regions, surpluses of rice have been stocked since 1981, because there is no road to the local market. In addition, transportation difficulties are mainly responsible for differences in the price levels of different regions and cities. In 1982, free market prices were almost twice as high in Vientiane than in ten other major cities, and more than three times as high as in the five least expensive cities.

Industrialization is to be based on the use of local raw materials, in particular in the food and timber-processing industries. The authorities aim at improving the rate of capacity utilization before considering the building of new units.

Laos has considerable hydroelectric potential, estimated at 42,000 MW (compared with a currently installed capacity of 113 MW). The completion of the fifth generator of the Nam Ngum dam will raise its capacity from 110 MW to 150 MW in 1985. In addition, negotiations are under way within the Mekong Committee for the building of another dam on the Mekong river, south of Vientiane, with an electricity generating capacity of 12 times that of the Nam Ngum dam. The Government intends to pursue its program of rural electrification, in order to reduce the needs for imported petroleum products and facilitate the use of pumps for irrigation and the development of agro-industrial activities.

V. Public Finance

1. Structure of the public sector

The public sector is administratively organized at two levels: the Central Government, which includes the ministries and the most important public enterprises, and the local authorities, which govern 14 provinces and the city of Vientiane. State enterprises producing essential commodities fall under the control of central ministries. Smaller enterprises catering only to local needs are generally under the supervision of the provincial authorities. However, with respect to technical and professional issues, all public enterprises are under the Central Government. Each ministry and each province prepares its own budget on the basis of guidelines issued by the Ministry of Finance

in accordance with the annual plan. Provincial budgets are first submitted for approval to the provincial administrative committee and thereafter to the central authorities. The state budget, which consolidates the provincial budgets with the budget of the Central Government, is submitted for review to the Ministry of Finance and to the Council of Ministries before it is presented to the Supreme Popular Assembly for ratification. Provincial budgets account for approximately 20 percent of total budget revenue and about 25 percent of total expenditures.

State enterprises are required to transfer to the budget part of their operating surpluses. They receive 50 percent of their working capital from the budget and 50 percent from the central bank. In the past, investment funds were fully provided by the Government, but, in 1983, the central bank has also contributed to their financing. Foreign commodity and project assistance recorded in the budget is valued at contract or world market prices.

2. Fiscal performance, 1980-83

Laos' budgetary performance has steadily improved over the past few years, thanks to a number of measures the authorities adopted in 1979 to correct the lack of budgetary discipline which characterized the years after 1975. These measures included adjustments in official prices, stricter expenditure control, more rigid enforcement of the tax code, modification of the agricultural tax to yield a higher revenue, and tighter supervision of the financial activities of public enterprises. The improvement in the budgetary performance resulting from these measures was reflected both in higher revenue and a slowing of expenditure growth. The ratio of domestic revenue to GDP rose from 14 percent in 1980 to 19 percent in 1983 (Table 5). Total expenditures rose from 34 percent of GDP in 1980 to 37 percent in 1983 largely because of rapid growth of capital expenditures. Partly reflecting the government's policy of reducing the size of the civil service and of granting salary increases somewhat less than the rise in the cost of living, current expenditures declined from 20 percent of GDP in 1980 to 16 percent in 1983. As a result of these trends, domestic revenue exceeded current expenditures for the first time in 1982. The excess is estimated at 3 percent of GDP in 1983 and compares with a shortfall of 5 percent in 1980. Nevertheless, in spite of this positive performance, the overall deficit remained at around 20 percent of GDP. Since 1980, the deficit has been fully covered by foreign assistance.

Table 5. Laos: Fiscal Performance in Relation to GDP, 1980-83

(In percent of GDP)

	1980	1981	1982	1983 <u>1/</u>
Revenue	14.2	12.8	24.2	19.4
Of which: Transfers from public enterprises <u>2/</u>	10.8	9.2	19.8	13.5
Taxes on the private sector	1.9	2.6	3.6	4.0
Expenditure	33.8	25.2	48.0	37.1
Current	19.6	13.3	19.8	16.3
Capital	14.2	11.9	28.2	20.8
Revenue minus current expenditure	-5.3	-0.5	4.3	3.1
Overall deficit	19.6	-12.4	-23.9	-17.7
Domestic financing	-0.1	--	--	--
External financing	19.7	12.4	23.9	17.7

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

1/ Revised estimates.

2/ Taxes plus operating surpluses.

3. The 1982 budget

Economic measures were introduced in the first part of 1982 which strongly affected budgetary outcome during the remainder of the year. The measures included a rise of public sector salaries ranging between 50 and 70 percent, a devaluation of the kip from K 10 to K 35 per dollar, and a sharp increase in procurement prices for agricultural products.

a. Revenue

On the basis of original projections, revenue was budgeted to expand by 20 percent to K 1,190 million in 1981 (Table 6). Transfers from public enterprises, were estimated to grow by approximately 23 percent as a consequence of a higher level of economic activity, and larger receipts from the exports of electricity to Thailand, following the tripling of electricity prices at the end of 1981. Tax revenue from the private sector was to increase by 25 percent

Table 6. Laos: Budget, 1980-83

(In millions of kip)

	1980	1981	1982		1983	
			Budget	Results	Budget	Preliminary estimates
Revenue	<u>748.2</u>	<u>989.2</u>	<u>1,190.0</u>	<u>2,755.0</u>	<u>3,450.0</u>	<u>3,496.2</u>
Transfers from						
state enterprises	567.8	713.3	876.3	2,255.0	2,679.0	2,440.5
Taxes on the priv. sector	98.3	200.1	251.7	415.0	490.0	728.4
Other revenue	82.1	75.8	62.0	85.0	281.0	327.3
Expenditure	<u>1,776.9</u>	<u>1,955.8</u>	<u>2,152.0</u>	<u>5,475.0</u>	<u>6,550.0</u>	<u>6,695.6</u>
Current expenditure	<u>1,028.0</u>	<u>1,028.3</u>	<u>1,053.6</u>	<u>2,259.0</u>	<u>2,850.0</u>	<u>2,945.5</u>
Of which:						
wages and salaries	(...)	(...)	(...)	(...)	(...)	(...)
Capital expenditure	748.9	927.5	1,098.4	3,216.0	3,700.0	3,750.0
Of which:						
communications and						
public works	(282.8)	(373.0)	(440.0)	(1,237.2)	(1,120.0)	(1,250.0)
agri. & forestry	(178.8)	(282.8)	(307.3)	(955.5)	(980.0)	(980.0)
industry, mining,						
and commerce	(43.4)	(148.9)	(179.3)	(573.0)	(920.0)	(920.0)
Budget deficit	1,028.7	-966.5	-962.0	-2,720.0	-3,100.0	-3,199.3
Budget financing	<u>1,028.7</u>	<u>966.5</u>	<u>962.0</u>	<u>2,720.0</u>	<u>3,100.0</u>	<u>3,199.3</u>
Internal						
(recourse to the BNL)	-4.0	--	--	--	--	--
External	1,032.7	966.5	962.0	2,720.0	3,100.0	3,199.3
Project aid	(...)	(...)	(...)	(2,275.0)	(2,500.0)	(2,420.0)
Commodity aid	(...)	(...)	(...)	(445.0)	(600.0)	(799.3)
Other	(...)	(...)	(--)	(--)	(--)	(--)

Source: Ministry of Finance.

to K 252 million as the result of greater private sector involvement in economic activity, a more rapid tax collection, and a 50 percent rise in receipts of the agricultural tax.

Actual revenue rose by 179 percent to K 2,755 million. A large part of this increase was due to more rapid inflation, but there was a substantial improvement in real terms as well. Transfers from public enterprises more than doubled, largely because of a rise of 279 percent in operating surpluses. This considerable increase was mainly due to the rise in receipts from electricity exported to Thailand, following the tripling of the export price and the depreciation of the kip, and the maintenance of unchanged profit margins to much higher domestic prices.

Tax receipts from the private sector doubled from K 200 million in 1981 to K 415 million in 1982. The agricultural tax valued at the higher procurement price rose from K 55.4 million in 1981 to K 117 million in 1982, at which level it represented approximately 30 percent of the total taxes paid by the private sector. The tax on industrial and commercial profits reached K 60 million, a K 29 million increase over 1981. Taxes on foreign trade rose by K 35 million or 106 percent, mainly because of higher imports of consumer goods.

b. Expenditure

Expenditure projections for 1982 did not deviate significantly from the trend started in 1981. On the basis of original budget estimates, total expenditures were increased by 10 percent in 1982 or at about the same rate as in the previous year. Current expenditures were to remain more or less unchanged but capital outlays were projected to rise by 18 percent to K 1,098 million; the additional expenditures were to be proportionately distributed between all the major sectors of public investment.

Actual expenditures increased by 180 percent over 1981 and by 154 percent over the original budget estimates, reaching a level of K 5,475 million. Current expenditures, which attained a level of K 2,259 million, more than doubled with respect to 1981. The increase was due chiefly to higher official prices, as reflected in the 100 percent expansion in the outlays for materials and supplies. The local currency cost of debt servicing rose by 115 percent due largely to the devaluation of the kip. In spite of the 50-70 percent salary adjustment, the wage bill only rose by 40 percent, from K 200 million in 1981 to K 280 million in 1982; at that level it represented only 12 percent of current outlays. Capital expenditure grew by approximately 250 percent over 1981, largely because of the higher nominal value of foreign aid following the devaluation of the kip. In 1982, investment in the transportation and communication sectors accounted for 38 percent of total capital expenditures; agriculture accounted for 30 percent.

For the first time in 1982, revenue expanded sufficiently to fully finance current expenditure as well as a small portion of capital outlays. Public savings amounted to K 696 million, or 4.3 percent of GDP. This development represents a major improvement in budgetary performance; as recent as 1980, domestic revenue fell short of current expenditure by 5.4 percent of GDP. The improvement was related to a policy which not only reflected mobilization of resources through a more efficient taxation system, but also efforts to reduce all expenditures which were less urgent to the economic progress of the country.

The overall budget deficit remained large in spite of the considerable improvement in the current account. At K 2,720 million, it represented almost 24 percent of GDP. However, as in the previous years, the overall deficit was fully covered by foreign assistance and no recourse was made to central bank financing of the deficit.

4. The 1983 budget

After the rapid expansion in 1982, revenue and expenditures decelerated in 1983. According to the 1983 budget estimates, revenue was estimated to reach K 3,450 million, a 25 percent increase over 1982. As in the previous year, transfers from public enterprises were to contribute importantly to the overall rise in revenue. Expenditures, on the other hand, were planned to grow by 20 percent to K 6,550 million. The overall budgetary deficit was estimated at K 3,100 million, and, as in the past, it was to be fully financed by foreign assistance.

Revised estimates for 1983 indicate that revenue reached K 3,496.2 million, an increase of K 741 million over 1982. A revision of the taxation system applicable to the private sector resulted in considerably higher receipts from taxes on industrial and commercial profits (Appendix Table XI). Receipts from the turnover tax more than doubled to K 333 million. However, revenue from the public sector fell short of the budgeted K 2,679 million by K 238.5 million. This result was in part due to overoptimistic projections, rather than on a deterioration in the overall financial performance of the state enterprises. Receipts from the turnover tax on state enterprises--estimated at K 232 million--was in fact slightly higher than the K 229 million budget estimate. Furthermore, no enterprises incurred losses in 1983. Duties on international trade paid by state enterprises declined by 30 percent with respect to the 1982, mainly because of a sharp drop in merchandise exports to the convertible area. After having already expanded in 1982, amortization allowances rose substantially in 1983 because of a more accurate inventory of capital goods. Other revenue also rose as a consequence of the sale of Lao property abroad.

Current expenditures rose by 30 percent in 1983, mainly because of higher outlays for materials and supplies, and an increase in the wage bill. Civil servants' salaries were raised by K 200 per month in the

second half of the year. However, the effect of the increase on the budget was tempered by a further reduction in the number of civil servants. Capital expenditures rose by 17 percent. Capital outlays for industry, mining, and energy development rose from 18 percent of the total in 1982 to 22 percent in 1983. At 30 percent of the total, capital expenditures for public works and cooperative development remained the most important category of investment.

The overall budget deficit rose from K 2,720 million, or 24 percent of GDP, in 1982 to K 3,199 million or 18 percent of GDP, in 1983. As in previous years, the deficit was entirely financed with foreign aid.

5. Developments in the public enterprise sector

Since 1982, the authorities have introduced a number of measures aimed at improving the productivity and financial performance of public enterprises. The measures established simultaneously stricter financial discipline and wider managerial autonomy for a number of public enterprises, at both the central and provincial level. Greater independence was granted in investment and production decisions, and enterprises were authorized to retain a larger share of their profit (40 percent versus 10 to 20 percent), and to negotiate directly with foreign customers and suppliers. On the other hand, enterprises were required to maintain balanced budgets and to determine the size of the labor force according to the quantity of work to be performed. Enterprises in the plywood, tobacco, and soft drinks sectors were the main beneficiaries of this reform during 1982.

The successful results obtained in 1982 led to the extension of these measures to other enterprises and a further increase in autonomy. At present, all public enterprises are eligible to adopt the new criteria of management, provided they meet their targets with regard to profitability, production, the use of working capital, and transfers to the budget. Participating enterprises are now also permitted to determine salary levels on the basis of productivity, hours worked, and the quality of output. In certain cases, enterprises are now also permitted to sell their products directly to consumers at prices that are somewhat higher than the official prices or, if they have met their sales quota, at prices that are close to free market prices. These prices must, however, be approved by the competent Ministry. As of July 1983, public enterprises have also been authorized to retain 35 percent of their foreign currency earnings in order to meet their requirements of imported spare parts and raw materials. These imports must be in conformity with the import plan.

VI. Money and Credit

1. Institutional setup

The Lao monetary system consists of two institutions. The Banque Nationale du Laos (BNL) issues the currency, extends credit in kip for domestic use, and keeps the accounts of the Central Government and the provincial authorities. The Banque pour le Commerce Exterieur Lao (BCL) handles Laos' international transactions. It is the holder of international reserves, maintains the account related to Laos' external commercial agreements, as well as the accounts of foreigners living in Laos. The Societe pour le Commerce Lao (SCL) is the major recipient of BCEL credit, but foreign trade financing is also granted to other large public enterprises which are allowed to import directly from foreign producers. Since June 1983, private merchants are required to settle their payments abroad through the BCEL.

2. Policies and developments

Credit is extended mainly to the Government, the public enterprises, and the cooperatives. Credit to public enterprises, which accounts for approximately 80 percent of total domestic credit, has been granted mainly for working capital as determined by the production targets of the Plan. Since 1982, the BNL has also extended credit to public enterprises for investment financing. Net credit to Government has declined over the years, from a level of K 55 million in December 1980 to K 10 million in December 1982 and K 7 million in June 1983 (Table 7). Credit to cooperatives, which are considered to be in the private sector, has increased considerably in recent years, reflecting the Government's goal to foster the organization of the economy along socialist lines. Credit to private businesses appears to have actually shrunk over time, but no precise information is available as to its exact magnitude.

Total credit rose by 23.4 percent in 1982, slightly down from the increase of 25.1 percent experienced in 1981. Despite the devaluation of the kip and the sharp increases in official prices, domestic credit rose only marginally during the first six months of the year as most enterprises were able to reduce inventories. However, during the second part of the year, credit expanded rapidly as stocks were replenished to more normal levels. A factor that contributed to the credit expansion was that, for the first time in many years, public enterprises obtained investment financing from the banking system as well as from the government budget (Appendix Table XIV). The State Trading Corporation absorbed most of the additional credit extended in 1982, not only because of the higher requirements for import financing, but also to finance the procurement of rice at much higher prices. Net credit to the Government declined marginally in 1982, but, from a low base, credit to the private sector rose by 26.9 percent. Most of this credit was extended to cooperatives, in line with the Government's

Table 7. Laos: Monetary Survey, 1980-83

(In millions of kip; end of period)

	<u>1980</u>	<u>1981</u>	<u>1982</u>		<u>1983</u>	
	December		June	December	March	June
Assets						
Net foreign assets <u>1/</u>	-446	-524	-367	-439	-569	-556
Domestic credit	<u>899</u>	<u>1,125</u>	<u>1,130</u>	<u>1,388</u>	<u>1,468</u>	<u>1,503</u>
Government (net)	55	18	7	10	25	7
State enterprises	812	1,055	1,070	1,312	1,368	1,411
Private sector <u>2/</u>	32	52	53	66	75	85
Other items (net)	315	194	164	265	292	433
Liabilities						
Total liquidity	<u>768</u>	<u>795</u>	<u>927</u>	<u>1,214</u>	<u>1,191</u>	<u>1,380</u>
Currency in circulation	157	169	231	236	257	275
State enterprises deposits	519	551	610	884	829	983
Private sector deposits	82	65	77	85	95	110
Savings deposits	10	10	9	9	10	12

Source: Data provided by the Lao authorities.

1/ Includes only assets and liabilities in convertible currencies and balances under bilateral trade and payments agreements with Viet Nam. Bilateral balances under trade and payments agreements with other CMEA countries are held with the State Trading Company (BCL).

2/ Includes cooperatives.

policy to further the socialization of the economy. Credit to finance the rehabilitation and expansion of small family enterprises that can provide services to the public sector constitutes only a small proportion of total private sector credit. By the end of 1982, credit to the private sector amounted to only 4 percent of total domestic credit--a proportion that was unchanged from 1981.

After remaining practically constant in 1981, total liquidity expanded by 56 percent in 1982, chiefly as a consequence of the expansion in deposits of public enterprises. After an increase of 8 percent in 1981, currency in circulation rose by 37 percent during the first half of 1982, reflecting mainly the increase in public sector salaries that was granted in April. Currency in circulation stabilized in the second part of the year. Savings deposits remained at a very low level in 1982, which is, in part, a reflection of the low interest rates and the limited accessibility of the private sector to banking facilities.

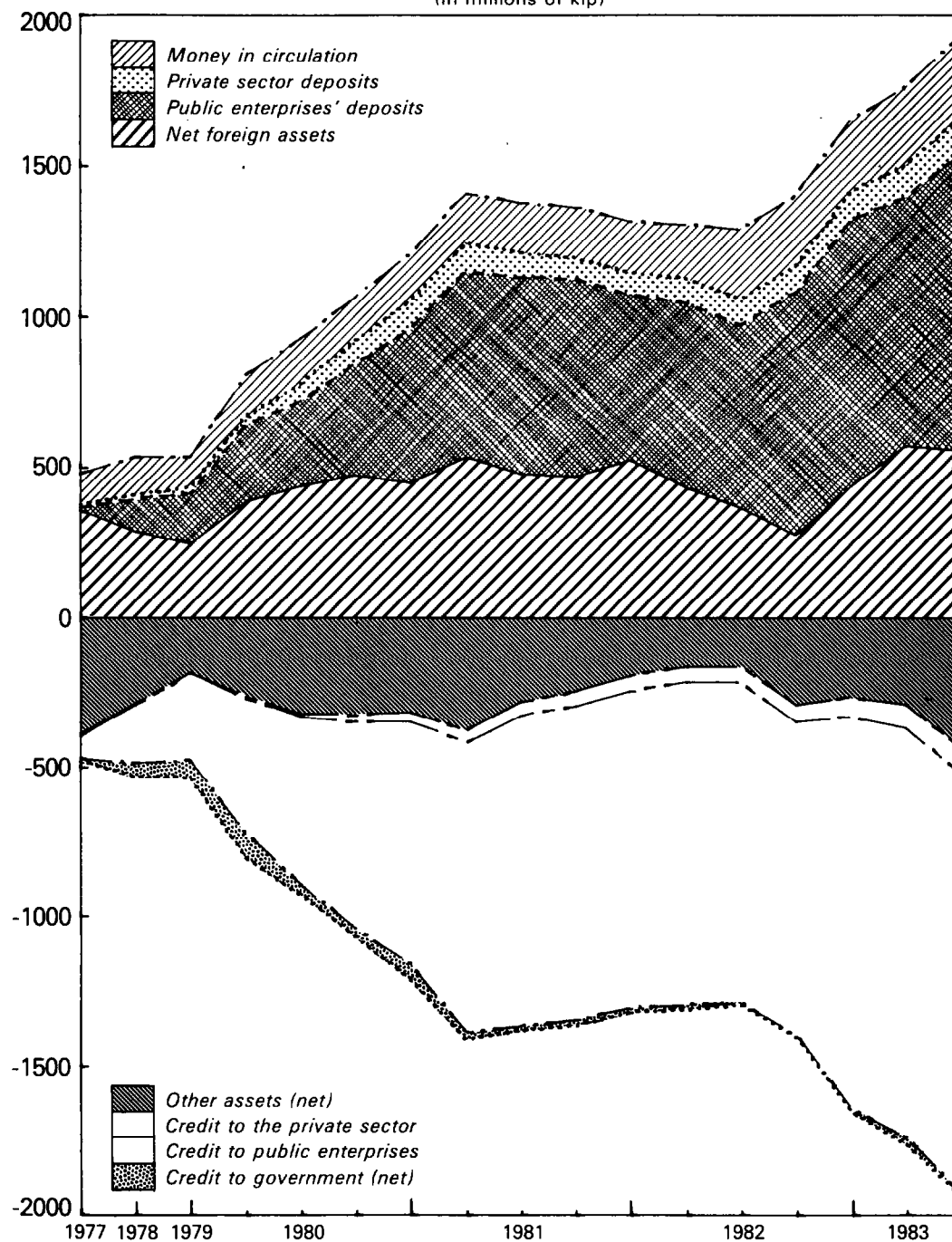
The trend in monetary developments which characterized 1982 continued during the first six months of 1983. Domestic credit increased to K 1.503 million, reflecting the official price adjustments implemented during the first month of the year. Credit to state enterprises rose by 8.3 percent to a level of K 411 million. The policy introduced in the latter part of 1982 to finance public sector investment through the BNL as well as through the budget continued in 1983. Investment credit rose to K 77 million, a K 10 million increase over December 1982. Total liquidity rose by 13.7 percent between December 1982 and June 1983 and, despite the absence of salary increases, there was a further increase of currency in circulation. A sharp rise in "other assets" in the consolidated balance sheets of the banking system contributed importantly to the expansion in total liquidity during the first six months of 1983 (Chart 2, Appendix Table XV).

3. Interest rates

Interest rates play a marginal role in Laos' monetary policy and, since the increase in rates introduced in June 1979, no measures have been adopted by the authorities to modify their level and structure (Table 8). Some lending rates are lower than rates on deposits and, because of the rapid inflation, interest rates have become negative in recent years. Since public enterprises are the main recipients of credit, which is extended on the basis of production targets of the Plan rather than of actual need, the Government considers interest rates a relevant, but no fundamental, element in the process of resource mobilization. A good organization and a methodical execution of the Plan represent more important factors. There is, however, a recognition that interest rates can also play a useful role in ensuring a more efficient use of scarce financial resources, particularly in the

CHART 2
LAOS
EVOLUTION OF THE MONEY SUPPLY
AND ITS COMPONENTS, 1977:IV-1983:II

(In millions of kip)



Source: Data provided by the Lao authorities.



context of the ongoing policy of providing greater financial autonomy to state enterprises. A restructuring of interest rates and an increase in their level is therefore under consideration.

Table 8. Laos: Interest Rates, 1979-83

(In per cent)

	Until June 1979	Since June 1979
Deposit rates		
Saving deposits	1.2	3.6
Time deposits		
1 year	3.6	7.2
6 months	3.6	4.0
3 months	3.6	5.0
Lending rates		
For agriculture, industry, and transportation		
Short-term	6.0	4.8
Long-term	3.0	3.0
For trade		
Private	...	12.0
Public	12.0	7.2

Source: Data provided by the Lao authorities.

VII. Balance of Payments

1. Background and overall developments

In recent years, external developments in Laos have been characterized by persistently large current account deficits, averaging about 22 percent of GDP. These deficits reflect several constraints that have hampered export growth and development: lack of sufficient price and other incentives to producers of traditional export commodities; organizational weakness in many governmental departments concerned with foreign trade, in particular the State Trading Corporation (SCL); and lack of trained manpower and supervisory personnel. The development of exports has also been hampered by Laos' isolation from world markets. Merchandise exports and imports are subject to high transportation costs through Thailand or must be transported over an arduous road connection to the Vietnamese port of

Danang. For security reasons, Thailand does not permit the transshipment of about 230 products to Laos, but exemptions to this restriction are granted frequently. The balance of payments records only official international transactions. Unofficial trade by local authorities and private traders is believed to have increased in recent years. However, reliable estimates of unofficial trade are not available.

Following some improvement in 1981, the current account deficit widened in 1982, due mainly to a sharp increase in imports from the convertible and nonconvertible areas (Table 9). Exports to the nonconvertible area more than doubled in 1982, following the implementation of new bilateral trade and payments agreements with member countries of the Council for Mutual Economic Assistance (CMEA) in 1981. There was also a twofold increase in export earnings from the convertible area, mainly on account of a price increase in electricity exported to Thailand; other traditional exports to the convertible area declined. Imports rose rapidly in 1982, both from the convertible and nonconvertible areas, leading to a widening of the trade deficit to \$84.4 million, from \$70.8 million in 1981. Despite a rise in earnings from services, the current account deficit rose from \$70.1 million in 1981 to \$78.9 million in 1982.

The current account deficit in 1983 is estimated to decline to \$67.7 million, or 13 percent of GDP, because of a continued increase in exports to the nonconvertible area and a decline in imports under aid programs. Exports to the convertible areas are estimated to have remained stagnant in 1983, which, together with the low level of convertible foreign exchange reserves, resulted in a growing dependence on imports from the nonconvertible area. Reflecting these developments, trade relations with the CMEA countries have become relatively more important. The share of trade with the nonconvertible area rose from 39 percent of the total in 1982 to 52 percent in 1983.

The persistence of large current account deficits has meant a continuing reliance on external assistance, but even with considerable amounts of grants and concessional loans from both the convertible and nonconvertible area, the overall balance of payments has been in deficit since 1980. The deficits have been financed mainly by a reduction in international reserves, which declined sharply from \$14.0 million in 1980 to \$8.5 million in 1982. They are estimated to have declined further to \$3.0 million in 1983, about three weeks of nonaid imports from the convertible area.

2. Current account

a. Exports

Following a substantial increase in 1981, total official exports more than doubled in 1982, from \$19.4 million to \$39.8 million (Table 10). Exports to the convertible area rose from \$14.0 million

Table 9. Laos: Balance of Payments, 1980-83

(In millions of U.S. dollars)

	1980	1981	1982	1983	
				Jan.-June	Est.
Merchandise trade	-78.8	-70.8	-84.4	-51.4	-72.7
Exports (f.o.b.)	13.5	19.4	39.8	28.8	52.3
Convertible area	(13.5)	(14.0)	(26.9)	(14.8)	(27.7)
Nonconvertible area <u>1/</u>	(...)	(5.4)	(12.9)	(14.0)	(24.6)
Imports (c.i.f.)	-92.3	-90.2	-124.2	-80.2	-125.0
Convertible area	(-42.0)	(-36.2)	(-44.0)	(-30.2)	(-45.0)
Nonconvertible area <u>1/</u>	(-4.7)	(-13.8)	(-30.2)	(-22.0)	(-40.0)
Imports under aid programs <u>2/</u>	(-45.6)	(-40.2)	(-50.0)	(-28.0)	(-40.0)
Services (net)	-2.3	0.7	5.5	-7.1	5.0
Receipts	7.5	14.5	17.2	4.3	18.5
Payments	-9.8	-13.8	-11.7	-11.4	-13.5
Interest	(-1.8)	(-2.0)	(-3.5)	(-3.3)	(-3.8)
Technical assistance	(-6.0)	(-6.5)	(-7.5)	(-7.9)	(-8.5)
Other	(-2.0)	(-5.3)	(-0.7)	(-0.2)	(-1.2)
Current account balance	-81.1	-70.1	-78.9	-58.5	-67.7
Capital and transfers (net)	66.6	73.4	80.2	48.5	62.2
Official transfers <u>3/</u>	13.0	15.5	24.9	8.7	12.0
Drawings on concessional loans	43.3	50.5	40.6	33.5	38.0
Convertible area	(8.1)	(6.4)	(9.8)	(3.5)	(6.0)
Nonconvertible area	(35.2)	(44.1)	(30.8)	(30.0)	(32.0)
Use of clearing agreements	4.7	8.4	17.3	8.0	15.4
Amortization	-1.3	-3.7	-2.6	-1.7	-3.2
Trust Fund	4.3	0.1	--	--	--
SDR allocation	2.6	2.6	--	--	--
Errors and omissions	3.5	7.9	-5.4	9.6	--
Overall balance	-11.0	-4.6	-4.1	-0.4	-5.5
Change in reserves (increase -)	11.0	4.6	4.1	0.4	5.5
Assets (increase -)	12.0	0.5	5.0	0.4	5.5
Liabilities (decrease -)	-1.0	4.1	-0.9	--	--

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

1/ Under bilateral trade and payments arrangements.

2/ From both the convertible and the nonconvertible area.

3/ Convertible area only.

to \$26.9 million. This was due to an increase in earnings from electricity exports to Thailand, which rose from \$7.9 million to \$23.9 million, as a result of a tripling of the export price in October 1981. Merchandise exports to the convertible area, including timber, tin, coffee, and other forestry products, continued their declining trend that started several years earlier. Although the decline is attributable partly to a reorientation of trade toward the nonconvertible area, inadequate transportation, and the sluggishness in domestic production, it stems mainly from unrealistically high export prices for timber set by the SCL. These prices are in certain cases up to 30 percent higher than world market prices. Timber exports to the convertible area declined from \$8.5 million in 1979 to \$5.1 million in 1982 and to \$2.6 million in 1983. During the same period, a very large stock of logs, estimated at 50,000 cubic meters, has accumulated. Exports of tin, coffee, and other forestry products to the convertible area have disappeared from the official channels, due to low official procurement prices for these products and the widening difference between the commercial rate of exchange of K 35 per dollar, at which most official transactions take place, and the free market exchange rate which recently reached K 120 per dollar.

Table 10. Laos: Composition of Official Exports, 1980-83

(In millions of U.S. dollars)

	1980	1981	1982	1983	
				Jan.-June	Est.
Exports to the convertible area	13.5	14.0	26.9	14.8	27.7
Timber	6.1	5.1	2.6	1.8	3.0
Tin	0.5	0.4	--	--	--
Coffee	1.1	--	--	--	--
Forestry products	0.2	--	0.1	0.1	0.2
Hydroelectric power	5.3	7.9	23.9	12.6	24.0
Other exports	0.3	0.6	0.3	0.3	0.5
Exports to the non-convertible area <u>1/</u>	<u>...</u>	<u>5.4</u>	<u>12.9</u>	<u>14.0</u>	<u>24.6</u>
Total official exports	13.5	19.4	39.8	28.8	52.3

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

1/ Under clearing arrangements.

Owing to the implementation of new bilateral trade and payments agreements with a number of CMEA countries in 1981, exports to the non-convertible area rose from \$5.4 million in 1981 to \$12.9 million in 1982. ^{1/} Plywood exports, in particular, increased sharply, due to the growing domestic production and the ready market in CMEA countries for the quality of plywood Laos can produce. Tin and coffee are specifically reserved for export to CMEA countries. Reflecting higher domestic output, shipments of these two products are believed to have increased in 1982. Exports of handicraft and textiles to the nonconvertible area also increased, in part because a new contract with Hungary boosted shipments from a clothing cooperative in the Vientiane area. Although total exports are estimated to have increased sharply in 1983, most of the increase was directed toward the nonconvertible area. Exports to the convertible area remained largely unchanged. Reflecting these developments, the share of trade with the nonconvertible area increased from 39 percent of the total in 1982 to 52 percent in 1983.

b. Imports

Total official imports rose by 37 percent to \$124.2 million in 1982, following a slight decline in 1981 (Table 11). Non-aid imports from the convertible area, on which Laos' economy is heavily dependent for food, machinery, petroleum, and raw materials, increased from \$36.2 million to \$44 million. Food imports rose to \$5.6 million, reflecting the decline in agricultural production and higher prices. Imports of machinery, raw materials, and other consumer goods also continued to increase. Imports of items to be sold in government shops against convertible exchange amounted to \$3 million in 1982.

Imports from the nonconvertible area more than doubled in 1982, from \$13.8 million to \$30.2 million, with both consumer goods and equipment and machinery increasing substantially. The sharp rise in imports contributed to a widening in the trade deficit with the non-convertible area from \$8.4 million in 1981 to \$17.3 million in 1982. Imports under the aid programs, including from convertible and nonconvertible areas, increased from \$40 million to \$50 million, due, in part, to increases in aid imports from Sweden, Australia, and the UNDP.

Total imports are estimated to have remained more or less unchanged in 1983, as a substantial reduction in aid imports was offset by a rise in imports from the nonconvertible area. Non-aid imports from the

^{1/} Laos maintains bilateral clearing agreements with the U.S.S.R., Bulgaria, Czechoslovakia, the German Democratic Republic, Viet Nam, and Hungary. Under some of these agreements, annual limits are imposed on trade deficits which Laos can incur; these deficits are to be settled through trade transactions within six months starting at the end of the year in which the deficit occurred. Long-term credit facilities on concessional terms (30 years at 2 percent of annual interest rate) may be provided, if Laos is unable to settle the deficit within the six-month period.

convertible area have remained almost unchanged. Imports under aid programs from the convertible area declined by 50 percent, reflecting the postponement of a number of projects. Non-aid imports from the nonconvertible area are estimated to have increased by 32 percent. The share of imports from the nonconvertible area in the total rose from 41 percent in 1982 to 54 percent in 1983.

Table 11. Laos: Composition of Official Imports, 1980-83

(In millions of U.S. dollars)

	1980	1981	1982	1983	
				Jan.-June	Est.
Non-aid imports from the convertible area	<u>42.0</u>	<u>36.2</u>	<u>44.0</u>	<u>30.2</u>	<u>45.0</u>
Rice and other foodstuffs	10.7	2.0	5.6	2.4	4.5
Petroleum products	12.9	12.9	13.8	7.3	13.0
Machinery and raw material	11.1)	21.3	15.9	14.7	19.0
Other imports	7.3)		8.7	5.8	8.5
Imports from the non-convertible area <u>1/</u>	<u>4.7</u>	<u>13.8</u>	<u>30.2</u>	<u>22.0</u>	<u>40.0</u>
Of which: credit financed	(4.7)	(8.4)	(17.3)	(8.0)	(15.4)
Imports under aid programs	<u>45.6</u>	<u>40.2</u>	<u>50.0</u>	<u>28.0</u>	<u>40.0</u>
Convertible area	8.0	...	29.7	9.5	13.0
Nonconvertible area	<u>37.6</u>	<u>...</u>	<u>20.3</u>	<u>18.5</u>	<u>27.0</u>
Total official imports	92.3	90.2	124.2	80.2	125.0

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

1/ Includes imports financed by credit under clearing agreements with CMEA countries.

c. Services

The services account recorded a surplus of \$5.5 million in 1982, largely because of a decline in government expenditures abroad. Sales of foreign currencies to the BCEL remained stagnant reflecting the rapid depreciation of the kip in the parallel market, and there was a slight decline in interest earnings on official foreign exchange reserves held abroad. In 1983, the services account is estimated to have recorded another surplus of about \$5 million, largely because of a rise in overflight fees paid by foreign airlines. The introduction in July 1983 of the preferential exchange rate of K 108 per U.S. dollar for private inward remittances is estimated to have led to additional official foreign exchange receipts of \$1.2 million during the remainder of 1983.

3. Capital movements

The current account deficits of the past few years have been largely financed by the external assistance, mostly in the form of grants and concessional loans. External assistance from the convertible area is largely provided in the form of grants; the principal donors are Sweden, the Netherlands, Japan, Australia, and the UNDP. Most of the concessional loans from the convertible area are provided by the multilateral organizations, particularly the Asian Development Bank (AsDB) and IDA. Since 1981, there have been no new bilateral loan commitments from the convertible area. Assistance from the non-convertible area is provided in the form of concessional loans, and commercial credits under bilateral clearing agreements.

In 1982, the total inflow of external assistance including the use of credit facilities under bilateral agreements amounted to \$82.8 million, compared with \$74.4 million in 1981. Assistance from the convertible area rose sharply from \$21.9 million to \$34.7 million. Concessional loans rose by 53 percent to \$9.8 million, due to the new agriculture development loans provided by the AsDB and the IDA. Grants rose from \$15.5 million to \$24.9 million, mainly because of the higher disbursements of grants from Sweden and the UNDP for the development of agriculture and forestry sectors (Appendix Table XVI). Concessional loans from the nonconvertible area declined from \$44.1 million to \$30.8 million, but the use of credit under the bilateral payments agreements doubled from \$8.4 million in 1981 to \$17.3 million in 1982.

In 1983, total external assistance is expected to decline to \$65.4 million, due to the reduction in the assistance from the convertible area. Due to reorganizations in the government sector, negotiations on many projects were delayed with the result that the level of grants and loans from this area are estimated to fall to \$34.7 in 1982 to

\$18 million in 1983. Loans and commercial credits from the nonconvertible area are estimated to have remained largely unchanged.

4. International reserves

As the overall balance of payments deficits in recent years were mainly financed by the use of reserves, gross convertible international reserves declined from \$13.5 million at the end of 1981 to \$8.5 million at the end of 1982, or from 4.5 months to 2.3 months of cash imports from the convertible area (Table 12). They are estimated to have dropped to \$3 million, less than three weeks of imports, at the end of 1983. Foreign liquid liabilities in convertible currencies of the banking system consist only of the liabilities to the Fund. Following a large increase in 1981 due to net purchases from the Fund, liabilities declined slightly to \$14.1 million at the end of 1982; they remained unchanged during 1983.

5. External debt

At the end of 1982, external public and publicly guaranteed debt amounted to \$342.5 million, including two Trust Fund loans totaling \$15.8 million (Table 13). Of this amount, debt outstanding to the convertible area was \$119.7 million, of which \$60.5 million was to official bilateral entities. Most of the debt owed to countries in the convertible area was incurred for the construction of the Nam Ngum hydroelectric power plant. During 1982, two new loans from multilateral organizations were committed: an IDA loan of \$15 million to finance the installation of a fifth turbine generator of the Nam Ngum hydroelectric plant, and an AsDB loan of \$4.3 million for the electrification of the Vientiane Plain.

Debt outstanding to the nonconvertible area, mostly to the U.S.S.R. and Viet Nam, amounted to \$222.8 million at the end of 1982. Loans from the nonconvertible area are generally provided on highly concessional terms; long-term loans from the U.S.S.R., for example, bear an annual interest rate of 2 percent and have a maturity of 30 years with a 10-year grace period.

Despite the long maturities of the low interest loans, debt service payments have more than doubled in recent years, i.e., from \$3 million in 1980 to \$7 million in 1983 (Appendix Table XVII). However, due to the rise in export earnings, the ratio of debt service payments to merchandise exports declined from 23 percent to 13 percent during the same period. The debt service ratio with the convertible area remained high, however, and amounted to 20 percent in 1983.

6. Exchange rate and trade and payments system

The currency of the Lao People's Democratic Republic is the kip (K). In early January 1980, the official exchange rate was devalued from K 4 to K 10 per U.S. dollar. The commercial exchange rate was

Table 12. Laos: International Reserves, 1980-83

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

	<u>1980</u>	<u>1981</u>	<u>1982</u>				<u>1983</u>	
	<u>Dec.</u>	<u>Dec.</u>	<u>March</u>	<u>June</u>	<u>Sept.</u>	<u>Dec.</u>	<u>June</u>	<u>Sept.</u>
Gold	0.82	0.88	0.88	0.88	0.88	0.88	0.88	0.88
Foreign exchange	13.21	12.09	13.63	11.21	18.54	7.62	7.15	17.30
SDRs	0.01	0.56	0.35	0.35	0.25	0.04	0.07	0.07
IMF reserve position	--	--	--	--	--	--	--	--
Gross reserves	<u>14.04</u>	<u>13.53</u>	<u>14.86</u>	<u>12.44</u>	<u>19.67</u>	<u>8.54</u>	<u>8.10</u>	<u>18.25</u>
(In months of non-aid imports from the convertible area)	(4.0)	(4.5)	(4.1)	(3.4)	(5.4)	(2.3)	(2.2)	(4.9)
External liquid liabilities <u>1/</u>	10.97	15.02	14.36	14.09	14.09	14.09	14.09	14.09
Net official reserves	<u>3.07</u>	<u>-1.49</u>	<u>0.50</u>	<u>-1.65</u>	<u>5.58</u>	<u>-5.55</u>	<u>-5.99</u>	<u>4.16</u>

Sources: Data provided by the Lao authorities; and IMF, International Financial Statistics.

1/ The banking system has no external liabilities in convertible currencies other than those to the Fund.

Table 13. Laos: External Public Debt, 1982-83

(In millions of U.S. dollars)

	Outstanding at Dec. 31, 1982		1982		1983 (Jan.-June)	
	Com- mitted	Dis- bursed	Com- mitted	Dis- bursed	Com- mitted	Dis- bursed
Suppliers' credits	<u>3.0</u>	<u>3.0</u>	--	--	--	--
Multilateral loans	<u>105.3</u>	<u>40.6</u>	<u>19.3</u>	<u>9.5</u>	--	<u>3.5</u>
AsDB	36.8	18.1	4.3	5.4	--	2.8
EEC	2.7	0.7	--	0.4	--	--
IFAD	6.1	--	--	--	--	--
IDA	47.0	14.2	15.0	3.2	--	0.7
OPEC	12.7	7.6	--	0.5	--	--
Bilateral loans	<u>70.5</u> <u>1/</u>	<u>283.1</u>	<u>--</u> <u>1/</u>	<u>31.1</u>	<u>--</u> <u>1/</u>	<u>30.0</u>
Convertible area	70.5	60.5	--	0.3	--	--
France	(10.1)	(10.1)	(--)	(--)	(--)	(--)
Germany	(35.8)	(25.8)	(--)	(0.3)	(--)	(--)
Indonesia	(1.0)	(1.0)	(--)	(--)	(--)	(--)
Japan	(23.6)	(23.6)	(--)	(--)	(--)	(--)
Nonconvertible area	...	222.6	...	30.8	...	30.0
Trust Fund	<u>15.8</u>	<u>15.8</u>	--	--	--	--
Total	194.6 <u>1/</u>	342.5	19.3 <u>1/</u>	40.6	-- <u>1/</u>	33.5

Source: Data provided by the Lao authorities.

1/ Excluding nonconvertible area.

depreciated from K 30 to K 35 per U.S. dollar in early 1982, and this new rate was made applicable to all official transactions, including official imports and exports that had previously been transacted at the official rate of K 10 per U.S. dollar. The official rate is now used only for customs valuation purposes.

Over the course of the past several years, a parallel market in foreign exchange has developed. This has resulted from the general restrictiveness of the exchange and payments system, and the low level of official reserves. The parallel market has been supplied by the growing numbers of expatriates in Laos receiving salaries in foreign currencies, and unofficial border trade with Thailand. The exchange rate in the parallel market has depreciated steadily, i.e., from K 56 per dollar in December 1981 to K 105 per dollar in December 1982 and K 120 per dollar in September 1983 (Appendix Table XVIII). In order to attract foreign exchange from the parallel market into official channels, a preferential rate of K 108 per dollar was introduced in July 1983 for private inward remittances.

In general, Laos' trade and payments system remains highly restrictive. 1/ Restrictions are in effect on current transfers and payments for services. Laos has bilateral payments arrangements with the U.S.S.R., Bulgaria, Czechoslovakia, the German Democratic Republic, and with two Fund members, Viet Nam and Hungary. Imports by the private sector may be undertaken provided that importers possess foreign exchange of their own. Since July 1983, private importers must make their payments abroad for imports through the banking system. Payments may be made through Lao banks which will arrange the necessary letters of credit. However, only a limited number of private sector importers are permitted to hold foreign exchange accounts with the banking system.

1/ A detailed description of the system is contained in the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions for 1983.

Tax	Nature of Tax	Exemptions and Deductions	Rates																																									
1. Taxes on income and profits																																												
1.1 Tax on industrial and commercial profits in the private sector (<u>Impôt sur les bénéfices industriels et commerciaux</u>)	Annual levy on industrial and commercial profits and property income derived by both companies and individuals from activities in the private sector. Applied also to dividends paid to private stockholders by state enterprises with mixed capital. Based on actual net profits for enterprises with reliable accounting records. Profits of small enterprises determined on a <u>forfeit</u> basis. Payable on a current basis in four equal installments established on temporary results of each quarter; adjustment made according to the final balance sheet of the enterprise.	Dividends taxable under 1.3 below are not included in the tax basis of the individual shareholders. Agricultural incomes are subject to a separate tax (see 2.2 below). Family deductions allowed as follows: KN 250 for the taxpayer KN 100 for the spouse KN 50 for each child up to 18 years old or each child studying at university level or for each direct ascendant over the age of 60.	Different rates apply on industrial and commercial profits. <table><tr><th>Income Brackets</th><th>Industrial Profits</th><th>Commercial Profits and Property Income</th></tr><tr><th>(In kips)</th><th colspan="2">(In percent)</th></tr><tr><td>0 - 2,000</td><td>17</td><td>25</td></tr><tr><td>2,001 - 5,000</td><td>25</td><td>35</td></tr><tr><td>5,001 - 10,000</td><td>30</td><td>40</td></tr><tr><td>10,001 - 20,000</td><td>34</td><td>45</td></tr><tr><td>20,001 - 50,000</td><td>40</td><td>50</td></tr><tr><td>50,001 - 100,000</td><td>45</td><td>55</td></tr><tr><td>100,001 and above</td><td>50</td><td>60</td></tr></table> <p>Profits made by self-employed craftsmen with no hired labor force are taxed at a flat rate of 10 percent.</p> <table><tr><th>Income Brackets</th><th>Rates</th></tr><tr><th>(In kips)</th><th>(In percent)</th></tr><tr><td>300 - 600</td><td>8</td></tr><tr><td>601 - 1,500</td><td>11</td></tr><tr><td>1,001 - 1,500</td><td>14</td></tr><tr><td>1,501 - 2,000</td><td>17</td></tr><tr><td>2,001 and above</td><td>20</td></tr></table> <p>Interest received by commercial entities: 15 percent. Interest received by industrial enterprises or by households: 10 percent. Dividends distributed by commercial companies: 20 percent. Dividends distributed by industrial companies: 15 percent.</p>	Income Brackets	Industrial Profits	Commercial Profits and Property Income	(In kips)	(In percent)		0 - 2,000	17	25	2,001 - 5,000	25	35	5,001 - 10,000	30	40	10,001 - 20,000	34	45	20,001 - 50,000	40	50	50,001 - 100,000	45	55	100,001 and above	50	60	Income Brackets	Rates	(In kips)	(In percent)	300 - 600	8	601 - 1,500	11	1,001 - 1,500	14	1,501 - 2,000	17	2,001 and above	20
Income Brackets	Industrial Profits	Commercial Profits and Property Income																																										
(In kips)	(In percent)																																											
0 - 2,000	17	25																																										
2,001 - 5,000	25	35																																										
5,001 - 10,000	30	40																																										
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20,001 - 50,000	40	50																																										
50,001 - 100,000	45	55																																										
100,001 and above	50	60																																										
Income Brackets	Rates																																											
(In kips)	(In percent)																																											
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601 - 1,500	11																																											
1,001 - 1,500	14																																											
1,501 - 2,000	17																																											
2,001 and above	20																																											
1.2 Tax on salaries in the private sector (<u>impôt sur les traitements et salaires</u>).	Levied on wages, salaries, premiums, and other benefits derived from employment. Withheld at source by the employer on a monthly basis.	Public employees are exempt.																																										
1.3 Tax on dividends and/or <u>interest</u>	Based on dividends distributed by companies located in Laos to shareholders abroad or in the country.	None.																																										

Lao People's Democratic Republic: Summary of the Tax System, 1983 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
2. <u>Taxes on real property and transfers</u>			
2.1 <u>Real estate taxes</u>	No tax is being applied at present on real estate as such.		
2.2 <u>Tax on cultivable land (Impôt sur les terres agricoles)</u>	Levied on land cultivated with paddy classified in three categories according to the yield: (1) Fertile land (yield higher than 1.6 metric tons per hectare); (2) Average land (yield varying between 1.3 and 1.6 metric tons per hectare); (3) Unfertile land (yield below 1.3 metric tons per hectare). The last two categories apply to high plateau soil. Land cultivated with crops other than paddy is taxable on the actual yield. Collected in nature in the month of October following the wet season.	Dry season double cropping, fishing and animal husbandry are exempted. Two- or three-year exemption for paddy land left idle for the two or three preceding years respectively. Forestry activities also exempted as they are subject to royalties. Areas affected by flood, drought, and other natural disasters exempted for the year involved. A tax reduction of 30 kg. of paddy granted to invalids of the liberation way; a tax reduction of 100 kg. granted to the mountain tribes.	<p><u>Paddy:</u></p> <p>fertile land = 100 kg. of paddy per hectare</p> <p>average land = 80 kg. of paddy per hectare</p> <p>unfertile land = 60 kg. of paddy per hectare</p> <p><u>Other products:</u></p> <p>6 percent of the actual crop.</p> <p>In order to enhance the development of cooperatives, the latter are granted a tax refund equivalent to 7 percent of the crop.</p>
2.3 <u>Death and gift taxes and transfer duties</u>	Applied on actual market value of the real property transferred through inheritance or sale or gifts.	Not available.	<p>Transfers between direct ascendants: 2 percent</p> <p>Transfers between second degree relatives: 4 percent</p> <p>Transfers between third degree relatives: 7 percent</p> <p>Transfers between nonrelated persons: 10 percent</p>

Lao People's Democratic Republic: Summary of the Tax System, 1983 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates	
3. <u>Taxes on goods and services</u>			<u>Public Sector</u>	(Percent)
3.1 <u>Turnover tax (Taxe sur le chiffre d'affaires) 2/</u>	Levied on turnover of enterprises. Collected on a monthly basis. <u>Forfeit</u> regime applied to small enterprises determined on the basis of their capital and turnover of the previous year; payable in 12 equal monthly installments.	Rice and salt exempted.	Goods: Those produced with local raw materials: Imported goods and those produced locally with imported raw materials:	2 3
			Services: Transport and construction activity: Others:	4 5
3.2 <u>Consumption tax (Taxe de consommation) 2/</u>	Levied on a few selected goods at both local production and importation stages.	None.	Tobacco Cigarettes Beer Other alcoholic beverages Matches Gasoline Kerosene Fuel oils	10-20 30-50 25 20-50 5 25 20 10
			<u>Private Sector</u>	
			<u>Production tax</u>	
			Goods produced with local raw materials:	5
			Goods produced with imported raw materials and imported goods:	5
			<u>Service tax</u>	
			Transportation:	5
			Construction and other services:	8
			<u>Sales tax</u>	
			Medicines and medical equipment:	8
			Goods required for industrial, agricultural, forestry, and mineral activities:	17
			Chemical products; nonalcoholic beverages; petroleum-derived products other than petrol, gas oil, oil; spectacles:	17
			Imported consumption goods:	16
			Imported luxury products:	26
			Coffee, alcohol, tobacco, and cigarettes:	31

Lao People's Democratic Republic: Summary of the Tax System, 1983 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates	
3.3. <u>Business licenses (Patentes)</u>	Annually levied on enterprises and based on their turnovers; applicable only in the private sector. Payable during the first three months of the year on a current basis.	State enterprises and enterprises with mixed capital are exempted.	Different rates apply to industrial, commercial, and import-export enterprises as follows:	
			Turnover	Rates
			(In kip)	Industrial enterprises Commercial enterprises
			0 - 100,000	100 150
			100,001 - 250,000	300 400
			250,001 - 500,000	600 700
			500,001 - 800,000	1,000 1,500
			800,001 - 1,300,000	2,000 3,000
			1,300,001 - 2,000,000	5,000 6,000
			2,000,001 and above	7,500 10,000
			Turnover	Rates
			(In kip)	Import-export enterprises commercial enterprises
			0 - 200,000	3,000
			200,001 - 400,000	10,000
			400,001 - 600,000	15,000
			600,001 - 800,000	20,000
			800,001 - 1,000,000	25,000
			1,000,001 and above	30,000
3.4 <u>Taxes on vehicles</u>	Annually levied on vehicles.	Public vehicles. River boats with less than 500 kg. carrying capacity also exempted.	Tricycles: 30 kip Motor vehicles: ranging from 50 to 200 kip depending on their horsepower River boats (Pirogs): boarding tax of 100 to 300 kip.	

Lao People's Democratic Republic: Summary of the Tax System, 1983 (continued)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4. Taxes on international trade			
4.1 Import taxes			Public Sector
4.1.1 <u>Import duty</u>	Imposed on c.i.f. value of imports; does not use any standard nomenclature (consumption taxes on imports are however included in 3.2)	Rice exempted.	Ranging from 5 percent to 200 percent; examples follow:
			(In percent)
			Machinery, spare parts, insecticides, fertilizers: 5 - 10
			Food and fuel: 10 - 20
			Vehicles, bicycles, textiles: 20 - 40
			Timber, vegetables: 40 - 400
			Cigarettes: 100
			Alcoholic beverages: 100 - 200
(Modification introduced) (in mid-1983 applies to) (the private sector only)		Medical equipment, tractors, and excavators are exempted.	Private Sector
			Ranging from 5 percent to 200 percent; examples follows:
			(In percent)
			Machinery, spare parts, insecticides, fertilizers 5 - 40
			Food and fuel 10 - 30
			Vehicles 5 - 200
			Bicycles 15
			Textiles 20 - 30
			Timber 60
			Vegetables 100
			Cigarettes 200
			Alcoholic beverages 50 - 200
4.1.2 <u>Import turn-over tax</u>	Levied on imports on the c.i.f. value plus import duties. [Modification implemented in mid-1983: this tax does not apply any longer to the private sector.]	Rice and goods subject to the consumption tax at importation.	Imports by the public sector: 5 percent Luxury goods: 25 percent

Lao People's Democratic Republic: Summary of the Tax System, 1983 (concluded)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.1.3 <u>Statistical levy</u>	Levied on imports on a specific basis.	Rice.	50 kip per ton of goods imported and 5 kip per package received from abroad.
4.2 <u>Export taxes</u>			<u>Public Sector</u> (Percent)
4.2.1 <u>Export duty</u>	Levied on f.o.b. value of exports.	Gifts sent abroad, goods used in scientific research, etc., exempted.	Range from 10 to 40 percent; examples follow: Logs: 25 Sawn timber, coffee, and minerals: 10 Silk: 40
(Modification introduced) (in mid-1983. Applies) (to the private sector) (only.)			<u>Private Sector</u> Range from 3 to 20 percent; examples follow: Logs: 10 Sawn timber: 3 Coffee: 3 Minerals: 5 Silk: 5 Animals: 20
4.2.2 <u>Statistical levy</u>	Levied on exports on a specific basis.	None.	50 kip per ton or per cubic meter.
5. <u>Tax Incentives</u>	No tax incentive scheme is being applied at present		

Source: Data provided by the Lao authorities.

1/ In mid-1983, several changes were made in the tax system for the private sector, but not for the public sector. Where applicable, the different rates for the private sector are indicated separately.

2/ For the private sector, the turnover tax has been merged with the consumption tax since mid-1983.

Table I. Laos: Indices of Gross Agricultural and Industrial
Production, 1977-83

	1977	1978	1979	1980	1981	1982	1983
Gross agricultural production	64.7	75.5	88.5	100.0	110.0	107.0	110.0
Rice production	66.5	68.7	82.3	100.0	109.6	103.7	105.6
Gross industrial production (without electricity)	...	...	...	100.0	113.2	108.5	118.8
Electricity production	28.6	33.4	100.3	100.0	94.3	102.9	...
Gross industrial production (incl. electricity)	...	...	...	100.0	99.6	104.4	107.4

Sources: F.A.O. production yearbook; and Fund estimates.

Table II. Laos: Production, Availability and Distribution
of Rice, 1979-83

(In thousands of tons, unless otherwise indicated)

	1979	1980	1981	1982	1983 Est.
Production of paddy	867	1,053	1,154	1,092	1,112
Production of rice (net) <u>1/</u>	468	569	623	590	600
Population (mn.)	3.56	3.67	3.75	3.82	3.91
Per capita production (kg.)	<u>132</u>	<u>155</u>	<u>166</u>	<u>154</u>	<u>153</u>
Imports of rice	80	46	--	5	--
Total availability	548	615	623	595	600
Per capita availability (kg.)	<u>154</u>	<u>168</u>	<u>166</u>	<u>156</u>	<u>153</u>
Official rice procurement	100	124	92	99	101
Purchases	8	42	51	52	56
Agricultural tax	12	36	41	42	45
Imports	80	46	--	5	--
Official rice distribution	100	124	92	99	101
Civil servants	80	55	46	45	43
Other <u>2/</u>	20	69	46	54	58

Source: Based on data provided by the Lao authorities.

1/ Paddy production, minus 10 per cent for seed requirements and animal feed, converted into rice at a rate of 0.6.2/ Including movements in stocks.

Table III. Laos: Comparison of Agricultural Yields with
Similar Asian Countries, 1981

(Ton per hectare)

	Laos	Asia	Bangladesh	Burma	Kampuchea	Malaysia	Thailand	Viet Nam
Paddy	1.6	2.9	2.0	2.7	1.0	2.8	2.1	2.2
Maize	1.1	2.3	0.7	1.2	1.0	1.1	2.2	1.5
Cotton	0.7	1.1	0.7	0.3	1.4		1.4	0.8
Coffee	0.5	0.7		0.4	0.4	0.9	0.5	0.3
Tobacco	0.6	1.1	0.9	0.9	0.6	0.7	0.8	0.9
Roots and tubers	11.2	12.6	10.2	5.6	6.0	8.8	16.8	6.7
Soybeans	0.7	1.0		0.7	0.9	1.6	0.8	1.2
Tea	0.4	0.7	0.9			1.2		0.5

Source: FAO, Production Yearbook.

Table IV. Laos: Livestock Numbers, 1969-83

(Thousands of heads)

	1969-71	1977	1979	1980	1981	1982 (Est.)	1983 (Proj.)
Buffaloes	...	677.1	756.6	853.0	879.5	887.2	910.0
Cattle	418.0	350.8	410.0	446.9	455.0	472.7	486.0
Pigs	1,100.0	819.3	1,065.0	1,111.0	1,176.0	1,223.0	1,249.0
Sheep and goats	...	34.5	35.3	48.5	54.0	56.2	60.0
Poultry	10,867.0	4,259.1	4,500.0	4,601.3	5,568.0	5,863.0	6,725.0

Sources: Data provided by the Lao authorities; and F.A.O. Production Yearbook.

Table V. Laos: Forestry Production, 1978-83

	1978	1979	1980	1981	<u>1982</u>	<u>1983</u>
					Estimate	
Wood ('000 cu. m.)	118	131	140	147	150	...
Charcoal (cu. m.)	13	13	80	...	...	...
Sticklac (tons)	140	132	324	718	...	...
Benzoin (tons)	80	81	15	16	...	...
Cardamom (tons)	...	...	28	42	...	15
Bamboo and rattan (cu. m.)	...	...	300	500	...	180
Animal skin and bones (tons)	...	...	73	98	...	...
Resin and others (tons)	...	...	90	102	...	...

Sources: Lao Government, Report on the Economic and Social Situation, Development Strategy, and Assistance Requirements, Geneva, May 1983; and data provided by the Lao authorities.

Table VI. Laos: Mining Production and Exports, 1977-82

	1977	1980	1981	1982
<hr/>				
Tin				
Production (tons)	600	417.4	254.0	305.0
Export earnings (US\$ mn.)	1.2	0.5	0.8	...
Gypsum				
Production ('000 tons)	...	30	40	...
Export earnings (US\$ mn.)	....	...	0.8	...
<hr/>				

Source: Data provided by the Lao authorities.

Table VII. Laos: Value and Volume of Production of Industrial Enterprises, 1981

	1981		1982		1983 (Est.)	
	Value ('000 kips)	Quantity	Value ('000 kips)	Quantity	Value ('000 kips)	Quantity
Cigarettes (cartons)	56,060	30,008	81,851	26,066	112,519	23,865
Zinc products ('000 sheets)	30,537	1,007	66,534	642.5	115,510	1,000
Beer and soft drinks (bottles)	28,285	31,000	54,323	25,123	67,079	25,000
Rattan (pieces)	...	...	...	...	3,138	179,300
Detergents (tons)	11,788	8.83	41,910	9.36	43,447	9.71
Wood furniture (km. 10; pcs.)	6,385	11,881	1,259	2,057	2,621	1,540
Plastics (m ²)	4,130	62.42	12,500	188.6	11,310	168.5
Clothing (pieces)	6,041	74,317	6,800	55,300	7,600	42,567
Clothing cooperative (pieces)	3,922	15,285	17,365	426,147	23,965	533,000
Matches (mn. boxes)	2,071	2.58	--	--	4,720	1.88
Agricultural implements (pieces)	1,869	57,970	3,244	64,120	3,917	77,834
Flooring/wood products (m ²)	1,716	13,240	4,700	12,300	13,933	33,622
Wood furniture (Km 7; pcs.)	1,646	37,317	1,750	16,391	3,231	35,794
Wood furniture (Km 9)	15,046	...	12,650	...	17,185	...
Tire recapping (tires)	1,224	1,587	1,800	638	1,919	1,000
Insecticides (boxes)	600	14,000	409	17,000	1,920	80,000
Oxygen (bottles)	537	3,027	2,100	3,024	3,150	4,500
Ceramics (pieces)	<u>500</u>	39,018	<u>1,590</u>	76,487	<u>2,250</u>	76,357
	172,357		310,785		439,414	

Source: Data provided by the Lao authorities.

Table VIII. Laos: Official Retail Prices, 1980-83

(In kip per kg.)

Monthly Rationed Volume per Public Employee		1980		1981		1982		1983		
		June	Dec.	June	Dec.	June	Dec.	March	June	Sept.
Rice										
Civil servants	20 kg. <u>1/</u>	3	3	3	3	3	3	3	3	3
Employees of public enterprises	20 kg. <u>1/</u>	3	3	3	3	3	3	6	6	6
Sugar	1 kg.	8	8	8	8	60	60	60	60	80
Pork	2 kg.	65	65	65	65	65	65	80	80	80
Beef	1 kg.	80	80	80	80	80	80	120	120	120
Fish	2 kg.	22	22	22	22	22	22	22	22	37.5
Condensed milk (per can)	3 cans	5	5	5	5	37.5	37.5	55	55	55
Salt	0.5 kg.	1.6	1.6	1.6	1.6	4	4	4	4	4
Egg (per item)	15 pieces	1.5	1.5	1.5	1.5	1.5	1.5	3	3	3
Detergent	0.5 kg.	16	16	16	16	70	70	70	70	70
Cloth (per item)	2 pants and 2 shirts a year	32.5	32.5	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Gasoline (per liter)	10 liters <u>2/</u>	4	4	4	4	12.5	12.5	12.5	12.5	12.5

Source: Data provided by the Lao authorities.

1/ In addition, 15 kg. per child.2/ For motorcycle owners. Twenty liters are distributed to car owners.

Table IX. Laos: Consumer Price Indices, 1980-83

(1979 June = 100)

	Weights	1980		1981		1982		1983		
		June	Dec.	June	Dec.	June	Dec.	March	June	Sept.
Free market prices <u>1/</u>	0.50	165.3	238.8	291.2	317.4	397.6	435.4	546.8	700.3	824.2
Food and beverages	0.31	177.9	253.9	295.2	319.4	384.5	400.6	518.2	702.3	882.6
Of which:										
Rice	(0.03)	(228.6)	(253.9)	(300.0)	(357.1)	(514.3)	(485.7)	(600.0)	(1,085.7)	(1,285.7)
Meat	(0.02)	(277.8)	(333.3)	(361.1)	(416.7)	(555.6)	(666.7)	(861.1)	(1,111.1)	(1,222.2)
Vegetables	(0.03)	(166.7)	(250.0)	(500.0)	(416.7)	(333.3)	(250.0)	(416.7)	(416.7)	(666.7)
Clothing	0.04	127.4	159.7	165.4	169.2	228.5	268.2	270.8	400.0	446.2
Energy	0.07	143.4	250.7	325.7	371.7	415.1	482.4	544.7	577.2	588.1
Of which: Gasoline	(0.04)	(142.9)	(257.1)	(357.1)	(428.6)	(428.6)	(500.0)	(571.4)	(571.4)	(571.4)
Others	0.08	153.4	204.6	305.3	331.8	522.0	621.0	809.8	964.6	1,002.0
Of which: Rent	(0.04)	(142.9)	(214.3)	(285.7)	(285.7)	(571.4)	(714.3)	(1,000.0)	(1,214.3)	(1,285.7)
Official prices <u>2/</u>	0.50	101.9	101.9	101.9	101.9	154.9	154.9	198.5	198.5	214.7
Of which:										
Rice	0.15	100.0	100.0	100.0	100.0	100.0	100.0	130.0	130.0	130.0
Pork	0.13	100.0	100.0	100.0	100.0	100.0	100.0	123.1	123.1	123.1
Beef	0.08	100.0	100.0	100.0	100.0	100.0	100.0	150.0	150.0	150.0
Total consumer prices	1.00	133.6	170.4	196.6	209.7	276.3	295.2	372.7	449.4	519.5
Annual percentage changes		33.6	62.3	47.2	23.1	40.5	40.8	38.8	62.6	79.0
Memorandum:										
Construction material prices in free market	...	134.3	215.6	246.1	281.4	386.9	488.9	500.9	720.0	679.6

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

1/ Free market prices were obtained by aggregating 28 commodities: 11 for food and beverages; 5 for clothing; 4 for energy; and 8 for others (see Appendix Table X).2/ Official prices were obtained by aggregating 11 commodities, which are included in official distribution system.

Table X. Laos: Free Market Prices in Vientiane, 1980-83

(In kip per unit)

Annual Consumption by Average Family ^{1/}		(In Savanakheth Area)									
		1980		1981		1982		1983		1982	
		June	Dec.	June	Dec.	June	Dec.	March	June	Sept.	Dec.
Food and beverages											
Rice	384 kg.	8	10	10.5	12.5	18	17	21	38	45	18
Pork	24 kg.	50	60	65	75	100	120	155	200	220	100
Chicken	12 kg.	35	40	45	60	80	95	130	170	200	...
Cooking oil	12 liters	55	70	80	100	110	120	120	130	130	...
Vegetables	90 kg.	10	15	30	25	20	15	25	25	40	...
Sugar	18 kg.	24	55	62	65	80	70	68	90	100	65
Condensed milk	36 cans	10	25	28	35	55	60	70	75	65	65
Eggs	180 pieces	2.5	3	4	3.5	4	6	8	10	12	4
Fish	36 kg.	40	50	60	70	60	80	100	150	190	100
Salt	6 kg.	2	2.5	5	4	5	5	5	5	5	4
Beer	160 bottles	15	25	25	25	30	30	45	45	45	...
Clothing											
Shoes	2 pairs	28	75	70	65	90	120	120	150	150	...
Pants	2 pairs	150	180	180	190	250	280	280	360	400	...
Shirts	2	100	120	120	120	180	190	200	300	300	...
Skirts	2	120	140	140	150	200	240	240	300	350	...
Other cloth	3.6 meters	55	60	75	75	95	120	120	250	300	270
Energy											
Electricity	900 kw.	0.04	0.04	0.23	0.23	0.23	0.4	0.4	0.4	0.4	...
Gasoline	120 liters	10	18	25	30	30	35	40	40	40	35
Charcoal	80 kg.	2	5	5	6	5	8	9	9	8	...
Battery	12 pieces	15	23	25	25	40	40	45	55	60	...
Others											
Rent	12 months	100	150	250	250	400	500	700	850	900	...
Bicycle	0.1 unit	2,000	2,500	4,000	6,000	7,500	7,500	7,500	9,000	9,000	...
Bus ticket	120 tickets	1	1	1	1	2	3	3	3	3	...
Cigarette	12 packs	18	20	25	30	50	50	65	70	70	...
Pencil	10 pieces	4	5	5	5	7	8	8	10	10	...
Soap	12 pieces	10	18	23	25	40	40	45	50	50	...
Detergent	12 kg.	22	22	25	35	60	70	90	120	110	100
Electric bulb	6 pieces	30	30	35	35	50	60	60	70	60	...
Construction materials											
Iron sheets	...	75	80	90	100	200	230	250	300	320	...
Cement	...	200	300	300	300	450	750	900	1,300	850	...
Timber	...	1,700	3,600	4,600	5,500	6,500	8,000	7,000	12,000	13,000	...
Bricks	...	1	1.5	1.5	1.8	2.3	2.3	2.5	2.5	2.5	...

Source: Data provided by the Lao authorities.

^{1/} Annual consumption volumes are estimated by the State Planning Committee on the basis of a sample survey in Vientiane. The average family consists of parents and two children.

Table XI. Laos: Budgetary Revenue, 1980-83

(In millions of kip)

	1980	1981	1982		1983	
			Budget	Results	Budget	Preliminary estimates
Fiscal receipts	<u>300.3</u>	<u>395.6</u>	<u>503.8</u>	<u>775.0</u>	<u>829.0</u>	<u>1,056.5</u>
Tax on industrial and commercial profits	15.4	30.8	35.0	60.0	99.0	125.0
Tax on wages and salaries	1.3	1.0	3.0	2.0	4.0	10.2
Agricultural tax	31.0	55.4	81.0	117.0	136.0	157.0
Other	0.1	...	...	1.0	4.0	20.0
Turnover tax	90.5	195.1	256.0	383.0	410.0	565.0
Of which: public enterprises	(81.0)	(119.3)	(166.0)	(223.3)	(229.0)	(232.0)
Business licenses	6.6	4.4	5.0	7.0	7.0	7.0
Tax on foreign trade	155.4	108.9	123.8	205.0	169.0	172.3
Import duties	(...)	(83.9)	(89.2)	(142.5)	(145.5)	(152.0)
Of which: public enterprises	[...]	[54.9]	[56.0]	[83.5]	[90.0]	[82.0]
Export duties	(...)	(25.0)	(34.6)	(62.5)	(24.0)	(20.3)
Of which: public enterprises	[...]	[21.3]	[30.1]	[53.2]	[20.0]	[14.1]
Nonfiscal receipts	<u>447.9</u>	<u>593.6</u>	<u>686.2</u>	<u>1,980.0</u>	<u>2,621.0</u>	<u>2,439.7</u>
Operating surpluses of public enterprises	312.4	420.4	474.4	1,595.0	1,890.0	1,684.0
Depreciation allowances paid by public enterprises	53.4	100.0	150.0	300.0	450.0	428.4
Other	<u>82.1</u>	<u>83.2</u>	<u>61.8</u>	<u>85.0</u>	<u>281.0</u>	<u>327.3</u>
Total	748.2	989.2	1,190.0	2,755.0	3,450.0	3,496.2

Source: Ministry of Finance.

Table XII. Laos: Economic Classification of Budgetary Expenditure, 1980-83

(In millions of kip)

	1980	1981	1982		1983	
			Budget	Results	Budget	Preliminary estimates
Current expenditure	<u>1,028.0</u>	<u>1,028.3</u>	<u>1,053.6</u>	<u>2,259.0</u>	<u>2,850.0</u>	<u>2,945.5</u>
Wages and salaries	269.6	200.0 <u>1/</u>	200.0 <u>1/</u>	280.0 <u>1/</u>	...	320.0 <u>1/</u>
Materials and supplies	667.8	725.0	765.0	1,798.0	...	2,145.0
Subsidies to public enterprises )	)	--	--	--	--	120.0
Scholarships)	59.9	56.1	58.0	82.0	58.0	90.0
Pensions)	2.4	2.6	3.0	3.0	20.0	20.0
Other subsidies and)))))))
transfers)	9.7	--	--	--	--	150.0
Debt service	22.6	44.6	27.6	96.0	100.0	100.0
Capital expenditure	<u>748.9</u>	<u>927.5</u>	<u>1,098.4</u>	<u>3,216.0</u>	<u>3,700.0</u>	<u>3,750.0</u>
Education	23.5	20.7	30.0	77.0	100.0	100.0
Health	112.4	66.5	84.0	253.5	280.0	280.0
Agriculture)))))))
Forestry)	178.8	282.8	307.3	955.5	980.0	980.0
Industry, mining, and energy	43.4	148.9 <u>2/</u>	174.3 <u>2/</u>	573.0 <u>2/</u>	820.0	820.0
Transportation and communications	282.8	)	)	)	100.0	100.0
Trade and cooperatives )	)	373.0	440.0	1,237.2	100.0	100.0
Public works)	108.0	)	)	)	) 1,020.0	) 1,150.0
Other	<u>--</u>	<u>35.6</u>	<u>62.8</u>	<u>119.8</u>	<u>300.0</u>	<u>220.0</u>
Total	1,776.9	1,955.8	2,152.0	5,475.0	6,550.0	6,695.5

Source: Ministry of Finance.

1/ Estimates.2/ Includes also SCL.

Table XIII. Laos: Consolidated Balance Sheet of the BNL and BCEL,
1980-83

(In millions of kip; end of period)

	1980	1981	1982	1983		
	Dec.		June	Dec.	Mar.	June
Assets						
Foreign assets	192	139	292	376	292	244
Domestic credit	<u>1,034</u>	<u>1,297</u>	<u>1,313</u>	<u>1,578</u>	<u>1,643</u>	<u>1,696</u>
Government	190	190	190	200	200	200
Public enterprises	812	1,055	1,070	1,312	1,368	1,411
Private sector <u>1/</u>	32	52	53	66	75	85
Other assets (net)	315	194	164	265	292	433
Total	1,541	1,630	1,769	2,219	2,227	2,373
Liabilities						
Foreign liabilities	<u>619</u>	<u>653</u>	<u>649</u>	<u>807</u>	<u>852</u>	<u>785</u>
Short-term	22	23	44	144	145	145
Letter of credit	123	66	70	118	165	143
Long-term	97	97	97	97	97	77
International organizations	374	464	435	445	442	417
Other	3	3	3	3	3	3
Foreign currency deposits	19	10	10	8	9	15
Demand deposits	<u>736</u>	<u>788</u>	<u>870</u>	<u>1,159</u>	<u>1,099</u>	<u>1,286</u>
Government	135	172	183	190	175	193
Public enterprises	519	551	610	884	829	983
Private sector <u>1/</u>	82	65	77	85	95	110
Savings deposits	10	10	9	9	10	12
Currency in circulation	157	169	231	236	257	275
Total	1,541	1,630	1,769	2,219	2,227	2,373

Source: Data provided by the Lao authorities.

1/ Includes cooperatives.

Table XIV. Laos: Composition of Credit, 1981-83

(In millions of kip)

	1981	1982		1983	
	Dec.	June	Dec.	Mar.	June
I. Investment capital	--	--	90	105	117
Agriculture	--	--	20	26	36
State enterprises	--	--	67	74	77
Government	--	--	--	--	--
Other sectors	--	--	3	5	5
II. Working capital	721	863	840	875	906
Agriculture	31	37	35	36	38
State enterprises	480	611	597	631	661
Of which: Commerce	(350)	(453)	(416)	(426)	(445)
Government	140	140	200	200	200
Other sectors	20	25	8	8	7
Total I + II	721	863	930	980	1,023

Source: Data provided by the Lao authorities.

Table XV. Laos: Factors Affecting Total Liquidity, 1981-83

(In millions of kip)

	1981	1982	1982 Jan.-June	1983 Jan.-June	1983 Amounts at end June
Net foreign assets <u>1/</u>	<u>-78</u>	<u>85</u>	<u>157</u>	<u>-117</u>	<u>-556</u>
Domestic credit	<u>226</u>	<u>263</u>	<u>5</u>	<u>115</u>	<u>1,503</u>
Government	<u>-37</u>	<u>-9</u>	<u>-11</u>	<u>-3</u>	<u>7</u>
Public enterprises	243	257	15	99	1,411
Private sector	20	14	1	19	85
Other assets (net)	<u>-121</u>	<u>71</u>	<u>-30</u>	<u>168</u>	<u>433</u>
Total liquidity	<u>27</u>	<u>419</u>	<u>132</u>	<u>166</u>	<u>1,380</u>
Currency in circulation	<u>12</u>	<u>67</u>	<u>62</u>	<u>39</u>	<u>275</u>
Public enterprise deposits	32	333	59	99	983
Private sector deposits	-17	20	12	25	110
Savings deposits	--	-1	-1	3	12

Source: Data provided by the Laos authorities.

1/ Includes only assets and liabilities in convertible currencies and balances under bilateral trade and payments agreements with Viet Nam. Bilateral balances under trade and payments agreements with other CMEA countries are held with the State Trading Corporation.

Table XVI. Laos: Composition of External Assistance, 1980-83

(In millions of U.S. dollars)

	1980	1981	1982	1983	
				Jan.-June	Est.
Commodity aid	<u>15.3</u>	<u>21.5</u>	<u>8.1</u>	<u>3.3</u>	<u>5.0</u>
Convertible area	...	...	8.0	2.2	...
Nonconvertible area	...	...	0.1	1.1	...
Project aid	<u>35.0</u>	<u>38.0</u>	<u>49.9</u>	<u>31.0</u>	<u>36.5</u>
Convertible area	19.8	...	21.7	5.2	...
Nonconvertible area	15.2	...	28.2	25.8	...
Technical assistance	<u>6.0</u>	<u>6.5</u>	<u>7.5</u>	<u>7.9</u>	<u>8.5</u>
Convertible area	...	...	5.0	5.0	...
Nonconvertible area	...	...	2.5	2.9	...
Total external assistance	<u>56.3</u>	<u>66.0</u>	<u>65.5</u>	<u>42.2</u>	<u>50.0</u>
Convertible	21.1	21.9	34.7	12.2	18.0
Nonconvertible area	35.2	44.1	30.8	30.0	32.0
Of which:					
Grants	<u>13.0</u>	<u>15.5</u>	<u>24.9</u>	<u>8.7</u>	<u>12.0</u>
Convertible area	<u>13.0</u>	<u>15.5</u>	<u>24.9</u>	<u>8.7</u>	<u>12.0</u>
Nonconvertible area	...	...	...	...	...
Loans	<u>43.3</u>	<u>50.5</u>	<u>40.6</u>	<u>33.5</u>	<u>38.0</u>
Convertible area	<u>8.1</u>	<u>6.4</u>	<u>9.8</u>	<u>3.5</u>	<u>6.0</u>
Nonconvertible area	35.2	44.1	30.8	30.0	32.0

Source: Data provided by the Lao authorities.

Table XVII. Laos: External Debt Service, 1980-83

(In millions of U.S. dollars)

	1980	1981	1982	1983 Est.
Debt service	<u>3.07</u>	<u>4.40</u>	<u>6.10</u>	<u>7.01</u>
Principal	<u>1.26</u>	<u>2.45</u>	<u>2.64</u>	<u>3.21</u>
Interest	1.81	1.95	3.46	3.80
Multilateral loans	<u>1.03</u>	<u>1.24</u>	<u>3.05</u>	<u>4.05</u>
Principal	<u>0.25</u>	<u>0.25</u>	<u>0.38</u>	<u>1.08</u>
Interest <u>1/</u>	0.78	0.99	2.67	2.97
Bilateral loans	<u>2.04</u>	<u>3.16</u>	<u>3.05</u>	<u>2.96</u>
Convertible area	<u>2.04</u>	<u>3.10</u>	<u>1.43</u>	<u>1.46</u>
Principal	(1.01)	(2.14)	(0.64)	(0.63)
Interest	(1.03)	(0.96)	(0.79)	(0.83)
Nonconvertible area	--	0.06	1.62	1.50
Principal	(--)	(0.06)	(1.62)	(1.50)
Interest	(--)	(--)	(--)	(--)
Memorandum item:				
Debt service ratio <u>2/</u> with convertible area	23	29	17	20

Source: Data provided by the Lao authorities.

1/ Including Fund charges.

2/ Debt service payments as percentage of merchandise exports.

Table XVIII. Laos: Exchange Rates, 1980-83

(In kip per U.S. dollar)

	Official Exchange Rate	Commercial Exchange Rate	Exchange Rate for Private Remittances	Exchange Rate in the Parallel Market
1980				
Dec.	10	10-15	--	24
1981				
Dec.	10	30	--	56
1982				
March	10	35	--	65
June	10	35	--	100
Sept.	10	35	--	105
Dec.	10	35	--	105
1983				
Jan.	10	35	--	101
Feb.	10	35	--	100
March	10	35	--	110
April	10	35	--	115
May	10	35	--	110
June	10	35	--	114
July	10	35	108	121
August	10	35	108	120
Sept.	10	35	108	120

Source: Data provided by the Lao authorities.



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