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CONFIDENTIAL

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The Chairman's Summing Up at the Conclusion of the 1983 Article IV
Consultation with the Lao People's Democratic Republic
Executive Board Meeting 84/26 - February 17, 1984

My understanding is that the Directors are in general agreement with the thrust expressed in the appraisal in the staff report for the 1983 Article IV consultation with the Lao People's Democratic Republic. It was noted that, mainly because of bad weather, the Lao economy had remained stagnant in 1982 and 1983; and in the view of Directors, rapid monetary expansion contributed to an acceleration in inflation. As a result of higher current expenditures and a slowing in receipts from public enterprises, the public savings rate had declined in 1983 and, largely because of sluggish exports to the convertible area, the balance of payments registered a deficit for the fourth consecutive year.

Given the limited possibilities for extending the area under cultivation or for applying modern agricultural techniques, Directors welcomed the Government's reliance on more realistic farmgate prices as a means to increase agricultural production. But given the limited potential of the agricultural sector in the Lao People's Democratic Republic and the endowment of the country in natural resources, notably in the hydroelectric and timber fields, the question was asked whether the time had not come for the Lao People's Democratic Republic to shift somewhat from the food self-reliance policy that has characterized the Lao People's Democratic Republic's strategy to a broadening of the productive base of the economy, a strengthening of the infrastructure--notably in the transport field--and an expansion of exports. Public investment, foreign aid, and the World Bank could be instrumental in this redirection of economic policies. Directors also welcomed the greater autonomy granted to public enterprises; it would certainly increase efficiency and profitability.

In view of the heavy dependence on foreign aid and the urgent need to improve the basic infrastructure, domestic resource mobilization should continue to receive high priority. Directors therefore welcomed the intention of the authorities to keep the growth of public expenditures to a minimum, and to enhance the profitability of public enterprises. They observed, however, that other measures to raise public savings, such as adjustment of the customs valuation rate and the extension of recently introduced taxes to public enterprises, should also be given consideration. More stringent criteria for the granting of credit and higher interest rates, in the view of Directors, should contribute to the abatement of inflationary pressures and a more efficient allocation of scarce capital resources.

Directors noted that, with the low level of reserves and the limited scope for foreign borrowing, the balance of payments position was not sustainable. It was felt that the introduction of a more flexible exchange rate policy and the adoption of flexible export prices were essential for an improvement in the balance of payments. In order to avoid shortages of convertible foreign exchange becoming a major constraint on development, measures to strengthen the balance of payments should not be unduly delayed.

The next Article IV consultation with the Lao People's Democratic Republic will be held on the standard 12-month cycle.