

SUR/85/20

CONFIDENTIAL

March 1, 1985

The Acting Chairman's Summing Up at the Conclusion
of the 1984 Article IV Consultation with the
Lao People's Democratic Republic
Executive Board Meeting 85/31 - February 27, 1985

Executive Directors were in general agreement with the views expressed in the appraisal of the staff report. It was noted that both agricultural production and mineral output had increased in 1984. However, Directors noted that, due to shortages of raw materials and spare parts, manufacturing production had declined, and that the deterioration in the finances of the public sector had led to an acceleration in monetary expansion. Inflation had leveled off in 1984 as a result of the abundant harvest that had led to lower rice prices in the free market. Declining merchandise exports and rising foreign debt service payments had contributed to a sharp curtailment of imports.

Concern was expressed that, in addition to severe limitations imposed by geographic location, bottlenecks in transportation, and a lack of trained manpower, the Lao economy had become subject to severe foreign exchange constraints and continued inflationary pressures. Directors urged the authorities to strengthen their efforts to mobilize domestic resources and to stem the growth in current expenditures by the Government. Other measures to improve the financial position of the public sector that were mentioned include more flexible pricing policies and a reduction in subsidies for selected groups of consumers. In order to reduce the financial burden on public enterprises, the cost of consumer subsidies should be included in the Government's budget, which would allow an evaluation of these costs within the context of the budgetary process.

Directors also stressed that an appropriate adjustment of the exchange rate of the kip, domestic price adjustments, and other appropriate production incentives--including the adoption of more realistic official export prices--were essential for achieving a viable balance of payments, and that the World Bank could be helpful in providing technical assistance in various sectors of the economy. Directors urged the authorities to terminate the existing multiple currency practice.

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