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Statement by Mr. Kharmawan on the
Lao People's Democratic Republic
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The Lao People's Democratic Republic entered into a standby agreement with the Fund in support of an economic program covering a 12 month period ending May 1981 in the amount of SDR 14 million. According to the Staff's report for the 1981 Article IV Consultation^{1/} and its survey on Recent Economic Developments^{2/} the program agreed with the Laotian authorities has on the whole been satisfactorily implemented. All the performance criteria were fulfilled and important price adjustment measures, in particular related to the procurement of such a basic commodity as rice, have been implemented.

The performance of the economy in 1980 can be characterized as relatively satisfactory. From the point of view of growth, in 1978 it amounted to 1 percent, 1979: 6 percent and 1980: 10 percent. Rice production reached a point of practical self-sufficiency increasing from 487.000 tons in 1978 to 520.000 tons and 625.000 tons in 1978 and 1980 respectively. The improvement in the real sphere was also reflected in the country's financial performance. Fiscal revenues increased due to price adjustments and improved tax administration, a larger share of budget outlays could go to economic development, and the overall deficit was more than covered by foreign aid. Credit policy was accommodating in the first half of 1980 but was tightened in the second half of the year and, on the whole, credit expansion was in line with the standby program limits. Price performance was not as good but the reasons were the adjustment of administered prices and the closure of the border with Thailand which affected the supply and price of imports.

The balance of payments was weaker than anticipated because of higher prices for imports and lagging exports partly due to the closure of the border but also because export producers did not receive the necessary incentives. The bop gap was only partly offset by net capital inflows resulting in a fall of international reserves which by the end of 1980 amounted to one month of imports.

While on the whole the picture of the Laotian economy in 1980 and until perhaps March 1981 showed encouraging signs of progress, developments in 1981 worsened substantially.

The staff considered two external factors, namely, increased political tensions in the Indochina peninsula, and a sharp reduction in foreign assistance as underlying causes for the deterioration. A renewed closure of the Lao/Thai border ensued in March 1981, which was later only reopened at one exit point. But there were, according to the staff, also internal factors contributing to the deterioration of the economy. Policy adjustments, including those of prices, were not further continued and state enterprises failed to perform better in the field of trade and distribution.

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^{1/} SM/81/185.

^{2/} SM/81/187.

GDP is expected to decline by 5 percent in 1981 in spite of a 4 percent increase in the rice crop. As a consequence of financial constraints, transportation problems, and a temporary ban in border trade, supply shortages emerged affecting output of state enterprises and forestry. Export receipts are estimated to be 8 percent less than in 1980, due to shipment difficulties and insufficient incentives to producers. The current account deficit is expected to decline by 19 percent in comparison to 1980 but there will still be an overall deficit of \$7 million. In any case an improvement due to a large decrease of imports of raw materials and capital goods cannot be considered as healthy. Net foreign aid in 1981 was originally projected to be U.S.\$114.0 million; at present the estimate is U.S.\$73.2 million.

Fiscal and monetary policies have to be further restrained in order to adjust to the circumstances. The restraint in fiscal and monetary policy is, however, at the cost of reducing expenditures for investment and maintenance.

It is clear that the situation in the Lao People's Democratic Republic in 1981 is far from satisfactory. The country is caught in the political instability of the region. But it cannot wait until the political climate has improved. Domestic measures are necessary to prevent the country from further deterioration. A number of measures has been discussed during the consultations, such as a larger mobilization of domestic resources by way of economizing on unnecessary public expenditures, better tax enforcement and a more realistic costing and pricing policies, including a review of subsidies which are burdening the budget.

The authorities are fully aware of the seriousness of the situation and the importance of introducing measures to increase efficiency. It is to be hoped that more assistance could be given to a country which is clearly facing numerous problems. It belongs to the category of poor countries with a per capita income of about U.S.\$80 dollars p.a. and the world should not be oblivious of the plight of the Laotian people.

On behalf of my authorities and myself I would like to express deep appreciation to the staff for its balanced analysis of the Laotian economy.