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Statement by Mr. Habib on Lao People's Democratic Republic
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In 1980, the Laotian authorities adopted a Five-Year Development Plan 1981-85. Development of the agricultural and forestry sector together with improvements in the economic infrastructure form the major objectives of the Plan. Production of food grains is expected to be raised to a level which will make the country self-sufficient. The infrastructure for internal and external transportation will be improved to promote both external trade and internal distribution of consumer goods and agricultural and industrial inputs. One of the major constraints to an effective and quick implementation of the Plan is the shortage of skilled and managerial manpower. These shortages are being remedied through various training programs but it appears that manpower problems will continue for some time. In the meantime, Laos will have to rely heavily on foreign technical assistance in the implementation of its Development Plan. In 1981 total value of foreign technical assistance was US\$28 million.

In recent years Laos has made considerable economic progress inspite of the adverse international economic environment and the temporary closure of access to the port of Bangkok which has been the main route for Laotian imports and exports. In 1979 and 1980, the real GDP growth of 10 percent was very impressive. In 1981, the growth rate declined to 5 percent and it is expected to decline further in 1982 due to a drought. Considerable progress has been achieved in food grain production which increased by 50 percent between 1978 and 1981. This progress has led to the elimination of food grain imports. Root crop production has also shown impressive growth of 17 percent in 1980 and 21 percent in 1981. These improvements are the result of land reclamation, and of the supply-oriented policies implemented by the government. The major elements of the supply policies include the relaxation of controls on production and marketing, elimination of restrictions on internal trade, increased procurement prices for the farmers, and the improved availability of consumer goods and of agricultural and industrial inputs.

The price performance continues to be worrisome. The cost of living in Vientiane increased from 3 percent in 1979 to 100 percent in 1980, and 55 percent in 1981; it is expected to rise again by 100 percent in 1982. Numerous internal as well as external factors have been responsible for the acceleration in the inflation rate. Disruptions in internal transportation, the closure of the Thai border, hoarding, the depreciation of the Kip in the parallel market from K15 per U.S. dollar in 1979 to K105 per U.S. dollar in 1982, the elimination of subsidies on a large number of consumer goods and the increases in procurement prices of agricultural commodities have been the major factors behind the high rate of inflation.

To the extent inflation was caused by exchange rate depreciation, by increases in procurement prices, and by the reduction in subsidies on consumer goods, a better balance may result between the demand and the supply of goods. It is hoped that as these price incentives gradually work their way to higher production levels, the rate of inflation would decline and exports would rise to strengthen the balance of payments position.

The budgetary performance has shown a remarkable improvement. As a result of the government program of price rationalization, the state enterprises have been able to increase their transfers to government. A substantial increase in revenues has also been generated from tariff increases on electricity sold to Thailand. Tax revenues have increased substantially because of improvements in the tax collection procedures and a higher level of economic activity. At the same time the Laotian authorities have made a bold effort to restrain expenditure by reducing the number of civil servants by 20 percent in 1981 and by imposing limits on pay increases for civil servants. As a result of these measures, the operating budget which showed a deficit in 1980 is expected to yield a surplus in 1982. In addition, the authorities have exercised extreme caution in their capital expenditure program by confining themselves to projects which are within their technical competence and for which financing is available. The entire budget deficit is being financed with foreign aid. The monetary policy has been one of restraint and the total liquidity growth fell from 164 percent in 1980 to only 4 percent in 1981.

The balance of payments has remained much weaker than anticipated although the current account deficit declined somewhat in 1981. The temporary closure of the Thai border, the decline in food grain imports, the increase in the price of electricity sold to Thailand and the exchange rate depreciation have helped in reducing the deficit. As Laos intensifies its development efforts, the current account of the balance of payments is likely to continue to show substantial deficits which will have to be financed with foreign resources. The availability of soft loans and grant aid on a substantial scale will continue to be the key factor in the future balance of payments outcome and on the ability of the Laotian authorities to implement their development program. The authorities have already introduced a series of measures to improve economic growth and balance of payments. These measures, which are adequately described in the staff papers, have started to bear fruit although improvements in the external sector have been somewhat less than what was expected. The overall developments in the economy and the conduct of financial policies have been satisfactory particularly in view of the severe shortages of skilled and managerial manpower and the difficult international environment.

On behalf of my authorities and myself, I wish to express our deep appreciation to the staff for its balanced and thorough report of the Laotian economy.