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Statement by Mr. Ismael on Lao People's Democratic Republic
Executive Board Meeting
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The main objective of the Laotian authorities is to promote agricultural and forestry sector development by improving the physical and marketing infrastructure and by ensuring adequacy of incentives. The government and the state enterprises play a key role in achieving the economic and social objectives laid down in the Development Plan 1981-85. The role of the private sector in the development process is somewhat limited. It is the policy of the authorities to make the private sector play a more active role in the development process than has been the case hitherto.

The Laotian economy has made considerable progress in recent years in spite of the severe and prolonged world economic recession, internal and external transportation difficulties, shortages of foreign exchange, and shortages of skilled manpower. The average growth in real GDP over the last few years has been around 4 per cent, which is better than what many other developing countries have managed to achieve. Considerable progress has been achieved in rice production which has increased by around 30 per cent in the last four years. As a result, Laos has now achieved self-sufficiency in food grain which in the previous years were in short supply. Progress has also been achieved in animal husbandry and the production of several other agricultural products. While industrial production has shown a significant growth because of higher level of electricity generation, the industrial base continues to be very narrow, and its expansion is likely to be slow. The country, however, has a tremendous potential for increasing and diversifying agricultural and forestry products as well as for the exploitation of its mineral and hydroelectricity generating potential. Development in these areas would require inflow of huge foreign capital, modern technology and technical assistance without which developments in these areas may take a long time.

The progress in budgetary performance in recent years has been very impressive. It was in 1982 that for the first time a surplus was achieved in the government's operating budget and a public savings equivalent to 4.3 per cent of GDP was achieved. Further measures were introduced in 1983 which resulted in higher revenues from turnover taxes and from taxes on industrial and commercial profits. Expenditures also increased, mainly on account of higher costs of materials and increased salaries for civil servants. These cost increases were partially offset by a reduction in the size of the civil service. The overall budget deficit declined from an equivalent of 24 per cent of GDP in 1982 to 18 per cent in 1983. This indeed is a commendable achievement. It may be questioned whether a fiscal deficit to the tune of 18 per cent of GDP is excessive. It would be my submission that for a centrally planned economy where much of the production, distribution as well as the developmental responsibilities are in the hands of the government, a deficit of the order of

18 per cent of GDP cannot be considered excessive, especially when one takes account of the fact that the entire deficit is financed from foreign assistance. In other words, a fiscal deficit of the order of 18-20 per cent is necessary to absorb the inflow of foreign assistance.

The public enterprise sector plays an important role in the economy and its recent performance has generally been satisfactory. It is heartening to note that none of the enterprises incurred any losses in 1983. The good performance of public enterprises has resulted from measures introduced by the authorities to improve productivity and financial performance. Among the measures introduced were the decentralization of decision making on investment, production and foreign marketing, the decision to allow enterprises to retain 40 per cent of their profits, the decision to allow enterprises to reward workers on the basis of productivity, and the acceptance of the need to allow greater flexibility in prices to take account of cost developments. These reforms are likely to result in further improvements in the efficiency and profitability of state enterprises.

One area where performance has not been very satisfactory is the area of prices. Official retail prices increased by 52 per cent in 1982 and by 39 per cent in the first three quarters in 1983. These large increases in retail prices were a direct result of increases in procurement prices and the desire of the government to contain rapid growth in consumer subsidies. It is hoped that improvement in incentives arising from higher procurement prices will result in greater production and lower level of prices. Another factor contributing to high inflation rate is the rapid growth in total liquidity which has been growing at an annual rate of around 50 per cent in the last two years. The major source of liquidity growth has been credit by the banking system to state enterprises. With improvements in the efficiency of state enterprises and the decision to allow enterprises to retain 40 per cent of their profits, it is expected that credit needs of the enterprises could ease somewhat.

Another area of concern is the prospects for the balance of payments. A substantial part of the current account deficit is being financed by foreign aid, and in the last three years, the deficit in the overall balance has been in the range of US\$4-5.5 million, not a large sum in absolute amount. Nonetheless, when considered against the low level of foreign reserves, deficits of the order US\$15.2 million, projected for 1984 and 1985, are clearly not sustainable. In these circumstances, the Laotian authorities will have to devise measures to improve export incentives, to curtail the import budget, and to arrange additional foreign assistance.

In conclusion, I wish to note that preparing an economic report on a country such as Laos is no mean task. The report demonstrates the considerable ability of the staff to improvise in the circumstances where the data base is weak and where different economic concepts are used. I wish to join my authorities in expressing our deep appreciation to the staff for its thorough and balanced report on the Laotian economy.