

**FOR
AGENDA**

SM/07/271
Supplement 2
Correction 1

August 2, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Lao People's Democratic Republic—Staff Report for the 2007 Article IV Consultation—Informational Annex**

The attached corrections to SM/07/271, Supplement 2 (7/20/07) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 4, FAD, - Expert on customs administration: after "February 2005" add
"May 2005, March–April 2006, October–November 2006"

FAD: below " - Expert on public expenditure management" add

" - Expert on customs law and regulations" with date "March–June 2007."

Questions may be referred to Mr. Valdivieso (ext. 34705) and Mr. Ishi (ext. 38034) in APD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

VIII. Safeguards Assessments

A safeguards assessment of the Bank of Lao P.D.R. (BoL) was completed in April 2003 with respect to the PRGF arrangement approved in 2001. The main findings, recommendations, and progress thereon, were reported in EBS/03/127 and SM/04/391. Progress on safeguards recommendations has been slow. The authorities indicated that they were not in a position to implement an earlier agreement to undertake a joint-audit of the BoL's 2003 and 2004 accounts by the state auditor and an international audit firm. These audits have subsequently been completed by the state auditor, but the joint-audit issue remains unresolved.

IX. Exchange Rate

In September 1995, Lao P.D.R. adopted a managed floating exchange rate system. From October 1997, commercial banks have been encouraged to follow the parallel market closely. From October 27, 2003, the commercial bank exchange rate is calculated by the BoL as the weighted average of the previous day's commercial banks' and interbank market rates. The BoL provides this reference rate to the commercial banks, who then set their own rates, keeping them close to the parallel market rates. The foreign currency and precious metal decree (No.02/BoL, August 29, 2003) is under review.

X. Exchange and Payments System

Lao P.D.R. no longer maintains restrictions on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2, but maintains restrictions imposed for the preservation of national or international security, which have been notified pursuant to Decision No. 144-(52/51), and a restriction subject to Fund approval under Article VIII (tax payment certificates are required for some transactions). A joint LEG/MFD mission in August 2004 conducted a review of the exchange system to establish the remaining measures that would facilitate Lao P.D.R.'s acceptance of the obligations under Article VIII, including the elimination of an exchange restriction on the making of payments and transfers for current international transactions. During the 2007 Article IV consultation, the authorities informed staff that they would consider the elimination of the exchange restriction during the WTO accession process (expected to take place by 2010 under the current government plan).

XI. Last Article IV Consultation Discussions

The last Article IV consultation discussions were held in Vientiane during November 7–18, 2005. The staff report (SM/06/76) was discussed by the Executive Board on March 8 2006 and was published on November 7 2006.

XII. Resident Representative

Mr. Philippe Beaugrand assumed the post of resident representative in Vientiane on January 28, 2004.

XIII. Technical Assistance (since 2004)

Department	I. PURPOSE	A. Date
STA	- Government finance statistics.	April–May 2004
	- Money and banking statistics.	April–May 2004
	- National accounts statistics	November – December 2006
FAD	- Missions on tax policy and administration.	October 2004
	- Expert on tax administration.	March-April 2004, November 2004
	- Expert on customs administration.	January 2004, June 2004, February 2005, May 2005, March–April 2006, October–November 2006
	- Mission on public expenditure management.	June-July 2004, October 2004
	- Expert on public expenditure management.	November 2004, March-April 2005
	- Expert on customs law and regulations	March–June 2007
	LEG	- Desk review of the draft Anti-Money Laundering Decree and Regulation on Collecting Information and Reporting on Money Laundering and Terrorism Financing.
MFD	- Expert on banking supervision.	January–February, May-July, September-October 2004; January-March, April-June , September-December 2005
	- Mission on Central Bank audit.	May 2005
	- Expert on foreign exchange regulations.	July-August 2004
	- Mission of Article VIII (jointly with LEG)	August 2004