

**FOR  
AGENDA**

SM/12/221  
Supplement 2

August 16, 2012

To: Members of the Executive Board

From: The Secretary

Subject: **Lao People's Democratic Republic—Staff Report for the 2012 Article IV Consultation—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2012 Article IV consultation with the Lao People's Democratic Republic (SM/12/221, 8/16/12), which is tentatively scheduled for discussion on **Friday, August 31, 2012**. At the time of circulation of this paper to the Board, the authorities of the Lao People's Democratic Republic have indicated that they need more time to consider whether they will consent to the Fund's publication of this paper. Publication will only proceed upon the receipt by the Fund of the member's explicit consent. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Botman (ext. 34214) and Ms. Duma (ext. 37583) in APD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Asian Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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# LAO PEOPLE'S DEMOCRATIC REPUBLIC

## STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 16, 2012

Prepared By

Asia and Pacific Department  
(In consultation with other Departments)

### CONTENTS

<b>I. FUND RELATIONS</b> .....	<b>2</b>
<b>II. IMF-WORLD BANK COLLABORATION</b> .....	<b>4</b>
<b>III. RELATIONS WITH THE ASIAN DEVELOPMENT BANK</b> .....	<b>6</b>
<b>IV. STATISTICAL ISSUES</b> .....	<b>7</b>

## ANNEX I. FUND RELATIONS

(As of July 31, 2012)

### A. Membership Status

Joined: July 05, 1961; Article XIV

### B. General Resources Account

	SDR Million	Percent of Quota
Quota	52.90	100.00
Fund holdings of currency	52.90	100.00
Reserve position in Fund	0.00	0.00

### C. SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	50.68	100.00
Holdings	51.07	100.78

### D. Outstanding Purchases and Loans

	SDR Million	Percent of Quota
ECF arrangements	1.81	3.43

### E. Latest Financial Arrangements

In millions of SDRs (mm/dd/yyyy)

Type	Date of Arrangement	Expiration Date	Amount Approved	Amount Drawn
ECF <sup>1</sup>	04/25/2001	04/24/2005	31.70	18.12
ECF <sup>1</sup>	06/04/1993	05/07/1997	35.19	35.19
SAF	09/18/1989	09/17/1992	20.51	20.51

### F. Projected Payments to Fund

In millions of SDRs (based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	0.91	0.91			
Charges/interest		0.00	0.00	0.00	0.00
<b>Total</b>	<b>0.91</b>	<b>0.91</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

<sup>1</sup> Extended Credit Facility (ECF), formerly PRGF.

### G. Exchange Arrangement

The exchange rate arrangement is classified as "stabilized." The de jure arrangement is floating. The authorities' objective is to limit currency fluctuations vis-à-vis major currencies, including the U.S. dollar and Thai baht within  $\pm 5$  percent per annum. The Bank of the Lao P.D.R. (BoL) sets a daily official reference rate, which is calculated as a weighted average of the previous day's interbank rates. Commercial banks and foreign exchange bureaus are required to maintain their buying and selling rates within  $\pm 0.25$  percent of the BoL's daily reference rate for the U.S. dollar. For the euro and baht, the buying and selling rates may not exceed a margin of 0.5 percent. For other currencies, a margin of 2 percent applies.

On May 28, 2010, Lao P.D.R. accepted the obligations under Article VIII, Section 2, 3, and 4, following the elimination of one restriction subject to Fund jurisdiction under Article VIII arising from a requirement to obtain tax payment certificates for some transactions. Lao P.D.R. now maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for restrictions imposed solely for the preservation of national or international security notified to the Fund pursuant to Decision No. 144-(52/51).

### H. Article IV Consultations

The last Article IV consultation discussions were held in Vientiane during May 11–24, 2011 and were concluded by the Executive Board on

July 8, 2011. The staff report (Country Report No. 11/257) was published on August 2011.

### **I. Technical Assistance**

Over the past three years, Lao P.D.R. has received technical assistance in the areas of customs and tax revenue administration; price statistics; and the national accounts. A new IMF office that will facilitate technical assistance to

Lao P.D.R. as well as Myanmar was announced in July 2012. The office will be based at the Bank of Thailand.

### **J. Resident Representative**

Mr. Sanjay Kalra assumed the Senior Resident Representative post for Vietnam and Lao P.D.R., based in Hanoi, on October 16, 2011.

## ANNEX II. IMF-WORLD BANK COLLABORATION

The Bank and the IMF country teams for Lao P.D.R. met on July 3, 2012 to identify macro-critical structural reforms and to coordinate the two teams' work for FY13. The teams were led by Ms. Keiko Miwa (Country Manager, EASPR, World Bank), Mr. Sudhir Shetty (Director, EASPR, World Bank) and Mr. Dennis Botman (IMF Mission Chief for Lao P.D.R.).

The teams agreed that Lao P.D.R. had made impressive progress and that the key challenge going forward is to maintain macroeconomic and financial stability, achieve more diversified growth, and ensure that the country's natural resource wealth is developed in a sustainable way that benefits the entire population.

Prudent fiscal and monetary policies and a strengthening of policy frameworks, including financial sector supervision and regulation, are essential to preserve banking sector soundness and replenish international reserves. Reforms to public financial management will need to be strengthened further—on both the tax and spending side—along with improvements in the enabling environment for private sector development to help ensure that Lao P.D.R.'s resource wealth is not the only source of economic progress and that economic development results in a generalized improvement in living standards and reduction in poverty.

**Lao P.D.R.: Bank and Fund Planned Activities in Macro-Critical Structural Reform Areas, June 2012–May 2013**

Title	Products	Provisional Timing of Missions	Expected Delivery Date
<b>1. World Bank Program</b>	New series of Poverty Reduction Support Operations (PRSOs)	Preparatory work and missions throughout fiscal year 2012–13 (identification mission tentatively scheduled in September 2011)	Board discussion expected in August 2012 and July 2013
	Customs and Trade Facilitation Project (CTFP) and Trade Development Facility (TDF)	Ongoing	Implementation throughout fiscal year TDF2 expected in December 2012
	New IDA and Multi-Donor Trust-Fund Project supporting the Government Public Financial Management Strengthening Program (PFMSP)	Ongoing	New IDA approval expected in February 2013
	Hydro-Mining Technical Assistance Project	Ongoing	Implementation throughout fiscal year 2013
	Lao Statistical Capacity Building Project (LAOSTAT)	Ongoing	Approval expected in November 2012
	Analytical work: macroeconomic monitoring (Lao economic monitors), investment climate, human resource development and skills reports	Ongoing	Reports available by May 2013
<b>2. IMF Work Program</b>	Periodic staff visits by IMF resident representative based in Hanoi	July 2012	July 2013.
	Article IV Consultation	July 2012	Board discussion including on the JSAN August 2012
	Article IV Consultation	July 2013	Board discussion on a Lapse of Time Basis
	TA on customs revenue administration and modernization	FY2012, peripatetic expert visit and/or an FAD mission	BTO/TA report in FY12
<b>3. Joint Work Program</b>	External Debt Sustainability Analysis	July 2012 July 2013	July 2012 July 2013

## ANNEX III. RELATIONS WITH THE ASIAN DEVELOPMENT BANK

The Asian Development Bank's (AsDB) current Country Partnership Strategy (CPS) 2012–2016 is aligned with the government's development strategy (National Socio-Economic Development Plan (NSED, 7th Five-Year Plan)), and seeks to promote inclusive and sustainable economic growth and poverty reduction. The country assistance program evaluation, 2000–09, concluded that the AsDB's assistance was successful, relevant, and effective. The CPS is designed to help the government diversify the economy in a sustainable and inclusive manner through agriculture and natural resources, education, energy, urban development, and public sector management. The CPS aims to maximize efficiency and sustainability through larger operations implemented over a longer period; maximize synergies with Greater Mekong Subregion program; and increase responsiveness to emerging issues in a rapidly changing economy. It highlights four thematic areas that will influence the design and focus of activities, including private sector development, governance, gender equity, and regional cooperation and integration. The CPS focuses on four core sectors: education, agriculture and natural resources, water supply

and other municipal infrastructure and services, and energy. Strengthening public sector management is a crosscutting issue, key to efficient and effective development in Lao P.D.R. The performance-based allocation of the Asian Development Fund (ADF), based on the country performance assessment (CPA) finalized in 2010, provided Lao P.D.R. with an ADF allocation in the amount of US\$152 million for the biennial period 2011–12. The CPA for the next allocation period (2013–2014) will be finalized by the end of 2012.

As of end-2011, cumulative loans/grants approved stood at US\$631.48 million, out of which a cumulative amount of US\$266.66 million was awarded for contracts. During 2011, US\$73.2 million of grants were disbursed and US\$53.2 million of contracts were awarded. Seven new technical assistance (TA) projects for a total of US\$7.6 million were approved in 2011, including project preparation; TA projects related to transport and renewable energy; and capacity building TA to improve management and operational effectiveness.

### Lao P.D.R.: Asian Development Bank Commitments and Disbursements, 2001–11 <sup>1/</sup>

(In millions of U.S. dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Commitments	65.0	43.2	34.9	54.8	87.0	60.7	47.4	46.6	81.2	55.3	53.20
Disbursements	44.7	48.6	54.7	48.5	78.7	76.8	74.8	56.9	75.9	61.5	73.23

Source: Data provided by the Asian Development Bank.

<sup>1/</sup> Starting from 2006, the commitments and disbursements included both loans and grants.

<sup>2/</sup> The commitments and disbursements are as of December of each year

## ANNEX IV. STATISTICAL ISSUES

### Assessment of Data Adequacy for Surveillance

**General:** Macroeconomic and financial data provided to the IMF have shortcomings that significantly hamper surveillance. Strengthening balance of payments (BOP) and national accounts statistics is a priority.

**National accounts:** National accounts comprise annual estimates of GDP by activity at current and constant base year 2002 prices, broadly following the System of National Accounts (SNA) 1993. Despite some improvements following the implementation of annual enterprise and household surveys, unresolved gaps and inappropriate data collection and compilation methodology continue to undermine the coverage and reliability of the GDP estimates. Lao P.D.R. participates in the IMF's Statistics Department (STA) project to implement the SNA and International Comparison Project (ICP), funded by the government of Japan, and has received technical assistance (TA) to improve annual national accounts and develop quarterly national accounts (QNA). Following the TA mission of December 12–21, 2011 under this project, the authorities launched the updating of the base year of their national accounts from 2002 to 2007 and this is planned for release in late 2012. It is expected that the QNA and parts of the 2008 SNA will be released in October 2014.

**Prices statistics:** Lao P.D.R. compiles a monthly CPI (December 2010=100) using weights based on the 2007/08 Lao Expenditure and Consumption Survey. To date no PPI has been developed. A TA mission was held on June 4–15, 2012 to improve the CPI and begin

developing a PPI. The authorities have begun to develop a new PPI for LAO. It is expected that the new PPI will be released in July 2013. The mission was funded through the authorities' participation in the STA project to implement the SNA and ICP.

**Government finance statistics:** Government finance statistics remain weak. The timeliness of fiscal reporting needs significant improvement. Off-budget activities are not included in the fiscal data, although they have expanded rapidly. Annual budget and outturn data formats do not follow international standards. Except for the annual data disseminated in the Official Gazette, no fiscal data are disseminated in the country.

**Monetary statistics:** Regarding the compilation of monetary statistics, the classification of data by institutional sector and by financial instrument as well as valuation principles need to be strengthened. The Standardized Report Forms (SRFs), which embody the IMF-recommended framework for compiling monetary statistics need to be introduced. Financial soundness indicators should also be compiled and published. An STA mission to introduce the SRFs has been proposed, however, the authorities have not taken this up yet.

**External sector statistics:** The last TA mission was conducted in 2002. Lao P.D.R. would be one of the beneficiaries of the recently approved Japan Administered Account (JSA) Project on the improvement of external sector statistics in the Asia and Pacific region. A TA mission on balance of payments statistics may take place in FY 2013.

### ***Data Standards and Quality***

Lao P.D.R. is not a General Data Dissemination System participant. No data ROSC is available.

### ***Reporting to STA***

Government finance statistics reporting for publication in the International Financial Statistics (IFS) and the Government Finance Statistics Yearbook, which was initiated in early 2009, is limited to budgetary central government and has been irregular and with long delays. Lao PDR reports quarterly and

annual summary budget data in the *GFSM 2001* format for publication in *IFS* and the *GFS* Yearbook, with a time lag of six months or more, and on an irregular basis.

The reporting of monetary data is very irregular and also with long delays. Quarterly BOP data are reported once a year in a highly aggregated format. The last published data in the IFS and the Balance of Payments Statistics Yearbook correspond to 2010.

### Table of Common Indicators Required for Surveillance

As of July 13, 2012

	Date of Latest Observation	Date Received	Frequency of Data <sup>1</sup>	Frequency of Reporting <sup>1</sup>	Frequency of Publication <sup>1</sup>
Exchange Rates	06/29/12	06/29/12	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>2</sup>	Apr 2012	07/06/12	M	I	Q
Reserve/Base Money	Apr 2012	07/06/12	M	I	Q
Broad Money	Apr 2012	07/06/12	M	I	Q
Central Bank Balance Sheet	Apr 2012	07/06/12	M	I	Q
Consolidated Balance Sheet of the Banking System	Apr 2012	07/06/12	M	I	Q
Interest Rates <sup>3</sup>	Q4 2011	06/29/12	M	M	Q
Consumer Price Index	Jun 2012	07/12/12	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> —General Government <sup>5</sup>	Q2 FY12	06/14/12	I	I	I
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> —Central Government	Q2 FY12	06/14/12	Q	I	M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>6</sup>			NA	NA	NA
External Current Account Balance	Q4 2011	07/12/12	Q	I	I
Exports and Imports of Goods and Services	Q4 2011	07/12/12	Q	I	I
GDP/GNP	2010/11	06/29/12	A	A	A
Gross External Debt	Dec 2011	06/29/12	M	M	I
International Investment Position <sup>7</sup>			NA	NA	NA

1 Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

2 Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency, but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency, but settled by other means.

3 Both market-based and officially-determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.

4 Foreign and domestic bank, nonbank financing.

5 The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

6 Including currency and maturity composition.

7 Includes external gross financial asset and liability positions vis-à-vis nonresidents.