

**FOR
AGENDA**

SM/13/283
Supplement 2

October 31, 2013

To: Members of the Executive Board

From: The Secretary

Subject: **Lao People's Democratic Republic—Staff Report for the 2013 Article IV Consultation—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2013 Article IV consultation with Lao People's Democratic Republic (SM/13/283, 10/31/13), which is tentatively scheduled for discussion on **Friday, November 15, 2013**. At the time of circulation of this paper to the Board, the authorities of 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. Ahuja (ext. 35464), Mr. Bannister (ext. 35975), and Ms. Ng (ext. 35682) 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.

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 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

October 31, 2013

Prepared By

Asia and Pacific Department
(In consultation with other Departments)

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FUND RELATIONS

(As of September 30, 2013)

Membership Status: Joined on July 5, 1961; Article XIV.

General Resources Account:

	SDR Million	Percent Quota
Quota	52.9	100.0
Fund holdings of currency (Exchange Rate)	52.9	100.0
Reserve Tranche Position	0.0	0.0

SDR Department:

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

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

Projected Payments to the Fund²

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Principal					
Charges/Interest		0.00	0.00	0.00	0.00
Total		0.00	0.00	0.00	0.00

¹ Extended Credit Facility (ECF), formerly PRGF.

² When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangement

The de jure arrangement is floating. The kip followed a depreciating trend against the U.S. dollar within a 2 percent band from mid-April 2013. Therefore, the de facto arrangement is reclassified retroactively as crawl-like from its previous classification as stabilized, effective April 18, 2013. The authorities' objective is to limit currency fluctuations vis-à-vis major currencies, including the U.S. dollar and Thai baht, within ± 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 ± 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).

Article IV Consultation

The last Article IV consultation discussions were held in Vientiane during June 26–July 5, 2012 and were concluded by the Executive Board on August 31, 2012. The staff report (Country Report No. 12/286) was published on October [date?] 2012.

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; external sector statistics; and the national accounts. A new Bangkok-based IMF office that will facilitate technical assistance to Lao P.D.R. as well as Myanmar was set up in September 2012.

Resident Representative

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

IMF-WORLD BANK COLLABORATION

The World Bank and the IMF country teams for Lao P.D.R. met on August 30, 2013 to discuss the economic outlook for Lao P.D.R. and the two teams' work for FY2014. The teams were led by Ms. Keiko Miwa (Country Manager, EASPR, World Bank), and Mr. Ashvin Ahuja (IMF Mission Chief for Lao P.D.R.).

The teams agreed that although Lao P.D.R. had made significant progress, macroeconomic policies have been overly expansionary, resulting in growing macroeconomic and financial sector vulnerabilities. Prudent fiscal and monetary policies, and a strengthening of policy frameworks, are essential to restore fiscal buffers, replenish international reserves, and safeguard banking sector soundness. Most urgently, fiscal policy needs to be put back on a consolidation path over the next few years, which will require lower growth in civil service compensation as well as reforms to public sector financial management.

In the longer run, a key challenge is to achieve more diversified growth, and ensure that the country's natural resource wealth is developed in a sustainable way that benefits the entire population.

Lao P.D.R.: Bank and Fund Planned Activities in Macro-Critical Structural Reform Areas, June 2013–May 2014

Title	Products	Provisional Timing of Missions	Expected Delivery Date
1. World Bank Program	New series of Poverty Reduction Support Operations (PRSOs)	Preparatory work and missions throughout fiscal year 2013–14 (identification mission for PRSO 10 tentatively scheduled in early 2014)	Implementation throughout fiscal year. PRSO9 Board discussion in September 2013. PRSO 10 Board discussion expected in September 2014
	Customs and Trade Facilitation Project (CTFP) and Trade Development Facility (TDF)	Ongoing	Implementation throughout fiscal year TDF2 approved in September 2013
	Multi-Donor Trust-Fund Project supporting the Government Public Financial Management Strengthening Program (PFMSP)	Recently closed	September 2013
	Hydro-Mining Technical Assistance Project	Ongoing	Implementation throughout fiscal year 2014
	Technical Assistance on improving financial soundness indicators	Ongoing	Implementation throughout fiscal year 2014
	Lao Statistical Capacity Building Project (LAOSTAT)	Ongoing	Implementation throughout fiscal year 2014

**Lao P.D.R.: Bank and Fund Planned Activities in Macro-Critical Structural (concluded)
Reform Areas, June 2013–May 2014**

	Analytical work:		
	Macroeconomic monitoring (Lao economic monitors);	Ongoing	Approval expected in November 2013
	Investment climate, human resource development and skills reports	Ongoing	Reports available by June 2014
2. IMF Work Program	Periodic staff visits by IMF resident representative based in Hanoi	June 2013	May 2014
	Article IV Consultation	August–September 2013	Board discussion November 2013
	TA on improvement of external sector statistics	June 2013	BTO/TA report in July 2013
	TA on natural resources revenue administration (Series of six visits over 2013–16)	Ongoing	BTO/TA report following each visit
	TA on tax administration reform	Ongoing	Aide memoire in FY2014
	TA on bank supervision	December 2013 and Q1 2014	BTO/TA report in FY2014
3. Joint Work Program	External Debt Sustainability Analysis	September 2013	October 2013

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 the 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 2012, provided Lao P.D.R. with an ADF allocation in the amount of US\$156.01 million for the biennial period 2013–14. The CPA for the next allocation period (2015–2016) will be finalized by the end of 2014.

As of end-2012, cumulative loans/grants approved stood at US\$752.94 million, out of which a cumulative amount of US\$313.84 million was awarded for contracts. During 2012, US\$68.61 million were disbursed and US\$73.65 million of contracts were awarded. Four new technical assistance (TA) projects for a total of US\$3.8 million were approved in 2012, including project preparation; TA projects related to the water supply and sanitation project; human resource development strategy; capacity building TA to strengthen the National Commission for Advancement of Women, supporting decentralized rural infrastructure and implementing regulatory impact assessment.

Lao P.D.R.: Asian Development Bank Commitments and Disbursements, 2002–12 ^{1/}

(In millions of U.S. dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Commitments	43.2	34.9	54.8	87.0	60.7	47.4	46.6	81.2	55.3	53.20	73.65
Disbursements	48.6	54.7	48.5	78.7	76.8	74.8	56.9	75.9	61.5	73.23	68.61

Source: Data provided by the Asian Development Bank.

^{1/} Starting from 2006, the commitments and disbursements included both loans and grants.

^{2/} The commitments and disbursements are as of December of each year

STATISTICAL ISSUES

Assessment of Data Adequacy for Surveillance

General: Data provision has serious shortcomings that significantly hamper surveillance, especially regarding national accounts, government finance, financial sector and external sector statistics. These shortcomings are due to a lack of capacity. During the recent Article IV mission, senior staff from STA held a high level seminar with government officials to discuss a strategy for improving statistics to support the country's development goals. A comprehensive technical assistance (TA) and training program was agreed to address the specific needs, covering the areas of national accounts, prices, government finance statistics, monetary and financial statistics, and external sector statistics.

National accounts:

National accounts (NA) comprise annual estimates of GDP by activity at current and constant prices (base year =2002), broadly following the System of National Accounts (SNA) 1993. The present methodology for compiling annual GDP by activity at current and constant prices largely uses outdated indicators and ratios, which has affected the accuracy and the quality of GDP. A program of surveys has been set up to improve the situation. The Lao Statistics Bureau (LSB) conducted an economic census in 2012–2013 with the aim of constructing a business register to be used for an annual establishment survey for NA compilation. 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 a February 2013 TA mission under this project, collection of quarterly data is scheduled to commence in March 2014, and the LSB plans to implement some methodological improvements at the same time. The first set of QNA is planned to be released early 2015. GDP by expenditure has not been published since 2005. Based on advice provided by a December 2011 mission, the LSB has compiled preliminary GDP by expenditure in current prices for 2007–2011 with 2007 as the base year. Compilation of GDP by expenditure at constant prices is in progress based on deflators discussed during the February 2013 mission.

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. A monthly producer price index (PPI), which is to be compiled on a quarterly basis, is currently under development. Its coverage is restricted to mining and quarrying, manufacturing, and electricity. In the medium term, coverage is to be expanded to include tourism and construction activities, and in the long term, to include agriculture, services and other activities.

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 for government finance statistics. Except for the annual data disseminated in the Official Gazette, no fiscal data are disseminated in the country. A mission took place during July 2013 to initiate participation in the Government Financial Statistics TA project funded by the Government of Japan through the Japan Administered Account for Selected IMF activities (JSA) and to launch an enhanced GFSM2001 compilation system starting with an in-country training workshop in August 2013.

Monetary statistics: The classification of monetary 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, have yet to be introduced. The authorities have requested a one-week MFS training mission that is planned for late January 2014.

External sector statistics:

Data gaps in external sector statistics include the need to implement BPM6, the compilation of the capital account, IIP and external debt statistics (EDS), and there are issues with the periodicity and timeliness of reporting. Limitations on financial resources and the number of compilers have constrained the LSB and the Bank of Lao PDR (BOL) from achieving progress in the compilation of IIP and EDS as initially expected.

Data Standards and Quality

Lao P.D.R. is currently not a General Data Dissemination System (GDDS) participant. The government has expressed its intention to collaborate with the IMF in moving Lao's macroeconomic statistics closer to the international standards, including to join the IMF's GDDS, and use it as a framework for development of the national data compilation and dissemination practices. No Data ROSC mission has been conducted.

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 P.D.R. 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 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 2011.

Table of Common Indicators Required for Surveillance As of October 8, 2012					
	Date of Latest Observation	Date Received	Frequency of Data ¹	Frequency of Reporting ¹	Frequency of Publication ¹
Exchange Rates	10/08/13	10/08/13	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	June 2013	08/27/13	M	I	Q
Reserve/Base Money	June 2013	08/27/13	M	I	Q
Broad Money	June 2013	08/27/13	M	I	Q
Central Bank Balance Sheet	June 2013	08/27/13	M	I	Q
Consolidated Balance Sheet of the Banking System	June 2013	08/27/13	M	I	Q
Interest Rates ³	August 2013	10/03/13	M	M	M
Consumer Price Index	August 2012	09/05/13	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ⁴ —General Government ⁵	June 2013 for Expenditure; July for Revenue	10/04/13	I	I	I
Revenue, Expenditure, Balance and Composition of Financing ⁴ —Central Government	June 2013 for Expenditure; July for Revenue	10/04/13	Q	I	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁶			NA	NA	NA
External Current Account Balance	Q2 2013	08/27/13	Q	I	I
Exports and Imports of Goods and Services	Q2 2013	08/27/13	Q	I	I
GDP/GNP	2011/12	09/16/13	A	A	A
Gross External Debt	Dec 2012	09/20/13	A	A	I
International Investment Position ⁷			NA	NA	NA
<p>1 Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).</p> <p>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.</p> <p>3 Both market-based and officially-determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.</p> <p>4 Foreign and domestic bank, nonbank financing.</p> <p>5 The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.</p> <p>6 Including currency and maturity composition.</p> <p>7 Includes external gross financial asset and liability positions vis-à-vis nonresidents.</p>					