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December 3, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Lao People's Democratic Republic - Staff Report for the
1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with the Lao People's Democratic Republic, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 18.

Mr. Evers (ext. 7611) or Mr. Mendras (ext. 7368) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Lao People's Democratic Republic

Staff Report for the 1985 Article IV Consultation

Prepared by the Staff Representatives for the 1985
Consultation with the Lao People's Democratic Republic

Approved by Douglas A. Scott and Eduard H. Brau

December 2, 1985

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I. Introduction

The 1985 Article IV consultation discussions with the Lao People's Democratic Republic were held in Vientiane during September 14-28, 1985. The Lao representatives included Mr. Kikham Vongsay, Vice Minister of Finance, Mr. Boutsabong Souvannavong, President of the State Banking Committee, Dr. Somphavanh Inthavong, Vice President of the State Planning Committee, and senior officials of various ministries and public enterprises. The staff team consisted of Messrs. Evers (head of mission), Kim (both ASD), Kronenberg (ETRD), Mendras (ASD), and Mrs. Kime (secretary, ASD).

Laos continues to avail itself of the transitional arrangements under the provisions of Article XIV and maintains exchange restrictions under those arrangements.

II. Background and Recent Economic Developments

Laos' main economic activity is agriculture, which provides the principal livelihood for the majority of the people and accounts for about 60 percent of GDP. Seasonal and regional variations in rainfall may cause substantial fluctuations in output, particularly of rice, which is the main staple and which is grown on about 87 percent of the cultivated area. The average yield of rice cultivation is among the lowest and the average per capita consumption among the highest in the world. The industrial base consists mainly of a number of light industries in the Vientiane region and a 150 megawatt hydroelectric facility on the Nam Ngum river, which exports most of its output to Thailand. Although Laos has considerable potential for raising agricultural yields and developing its resources in timber, hydroelectricity, and minerals, its development effort is hampered by constraints in internal and external transportation. Other constraints on development include a low rate of savings, shortages of technical and managerial skills, and organizational weaknesses in many government departments. At about \$30 per capita, foreign aid receipts are among the highest of the developing countries.

GDP rose by 12 percent in 1984 and by an estimated 6 percent in 1985, largely because of rapid growth in agricultural output. In 1985, rice production is expected to reach the self-sufficiency target of 1.4 million tons of paddy equivalent that had been set under the First Five-Year Plan (1981-85). In addition to favorable weather, the increase in agricultural output was due to a 150 percent hike in official procurement prices for paddy, greater flexibility in determining procurement prices according to local conditions, and the promotion of relatively simple improvements in cultivation techniques, including better weed control, increased use of natural fertilizer, and the planting of more rice plants per area. Manufacturing output, which, as the result of shortages of imported raw materials, had declined in both

1983 and 1984, showed a sharp rebound in 1985, and the production of tin and gypsum has continued to rise at an annual rate of about 20 percent. However, the coming into operation of a fifth generator at the Nam Ngum hydroelectric facility in October 1984 merely terminated overuse of the other generators, and did not result in higher output of electricity.

The budget deficit in 1984 declined from 14 percent to 10.5 percent of GDP, but this apparent improvement reflects mainly the increasingly unrealistic exchange rate at which government expenditure for imports were made (Table 1). Profitability of public enterprises in 1984 was seriously affected by official prices that continued to lag behind cost and a 37 percent decline in manufacturing output. Public enterprises could only maintain their cash transfers to the Government in relation to GDP because of a sharp increase in the net credit they received under bilateral payments agreements. 1/ The Government refrained from borrowing from the banking system except for seasonal requirements and, as in previous years, bank credit to public enterprises was the main cause for the continuation of rapid monetary expansion. The growth in cash in circulation, which is an important determinant of the level of consumer prices, rose from 36 percent in 1983 to 41 percent in 1984 (Table 2).

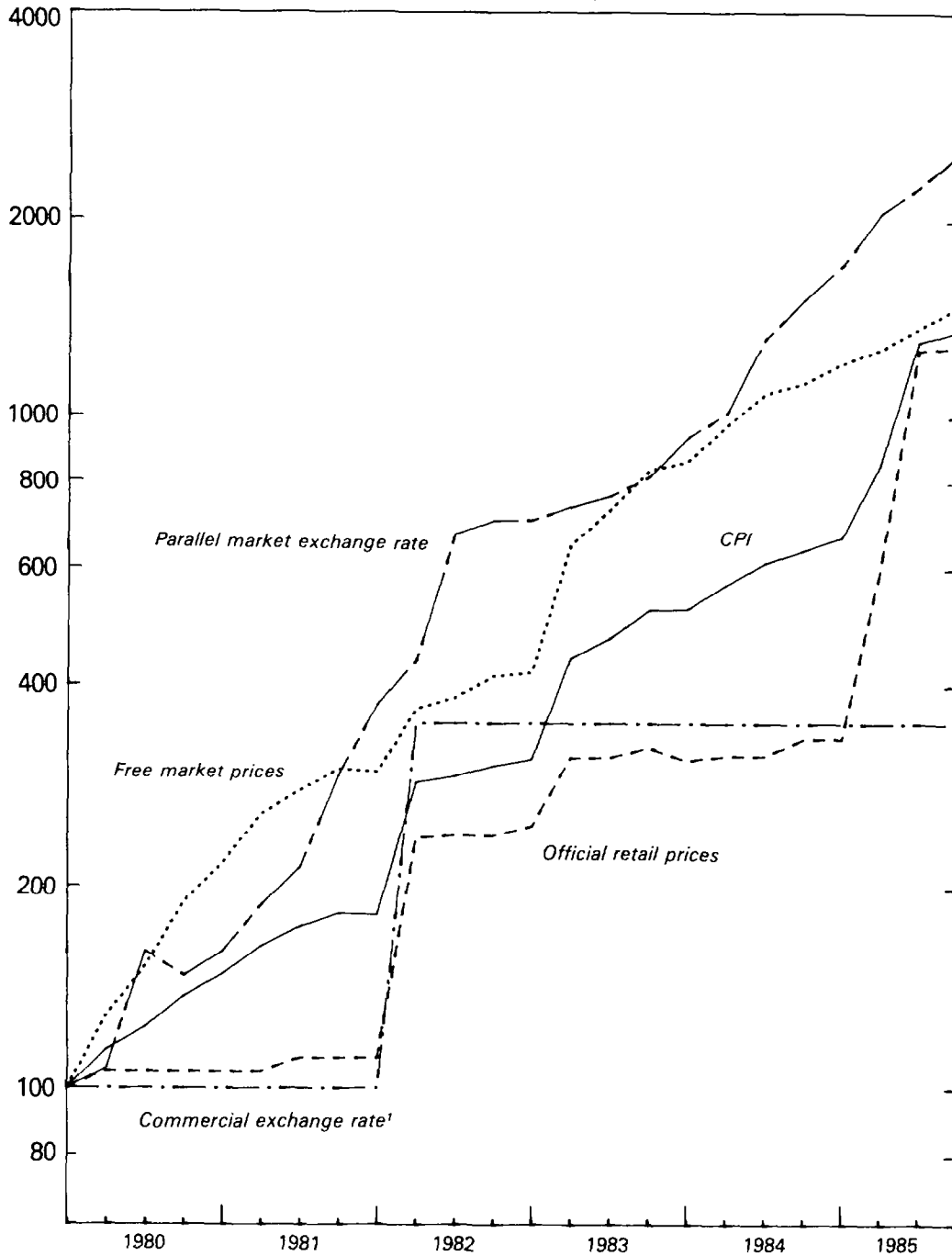
Since the beginning of 1985, the authorities have taken a number of measures that signify important departures from past policies. Foremost among these were the decisions to raise official prices so as to eliminate consumer subsidies and restore profitability of public enterprises. On average, official retail prices have risen almost fourfold in 1985. Salaries of civil servants and public enterprise workers were raised by a factor of 3-5, with the higher increases going to the more senior positions. 2/ However, in an attempt to reduce pressures on prices in the free market and strengthen the official distribution system, 90 percent of salaries will henceforth be paid in vouchers that can only be spent in government shops. Laos does not compile price indices but the staff estimates that the cost of living in the Vientiane area about doubled in 1985, compared with a 28 percent increase in 1984 (Chart 1). In July 1985, bank lending rates were raised from 3-12 percent to 3-15 percent and bank deposit rates from 3.6-7.2 percent to 5.4-15 percent.

1/ Clearing accounts under bilateral payments agreements with CMEA countries are held with the Lao Trade Corporation, with the exception of the account with Viet Nam. Debit balances in excess of the swing limit are usually converted into long-term loans.

2/ It is estimated by the authorities that about 50 percent of the family income of civil servants and public enterprise workers is derived from salaries. Total average income of civil servants and public enterprise workers rose by about 100 percent.

CHART 1
LAOS
PRICE DEVELOPMENTS, 1979-85

(Dec. 1979 = 100)



Source: Based on data provided by the Lao authorities

¹The commercial exchange rate is the rate at which most official transactions take place.

Table 1. Laos: General Government Budget, 1981-85

	1981	1982	1983	1984	1985 <u>1/</u>
(In millions of kip)					
Revenue	989	2,755	3,496	4,947	6,143
Transfers from public enterprises	521	1,895	2,113	2,962	3,831
Depreciation funds	(100)	(300)	(429)	(473)	(563)
Profit tax	31	60	125	250	260
Turnover tax	195	383	565	960	1,113
Import duties	84	143	152	150	170
Other	162	274	541	624	769
Expenditure	1,956	5,475	6,695	8,384	10,474
Current expenditure	1,028	2,259	2,945	4,126	5,439
Capital expenditure	928	3,216	3,750	4,258	5,035
Overall deficit (-)	-976	-2,720	-3,199	-3,437	-4,331
Bank financing <u>2/</u>	--	--	--	--	--
External loans and grants <u>3/</u>	976	2,720	3,199	3,437	4,331
Memorandum items:					
Cost of rice subsidy	310	764	1,550	1,655	1,550
Credit from bilateral clearing agreements <u>4/</u>	86	686	966	1,711	2,100
(As percent of GDP)					
Revenue	11.9	19.2	15.3	15.3	9.8
Transfers from public enterprises	6.3	13.2	9.3	9.1	6.6
Depreciation funds	(1.2)	(2.1)	(1.9)	(1.5)	(0.9)
Profit tax	0.3	0.4	0.5	0.8	0.4
Turnover tax	2.4	2.7	2.5	2.9	1.8
Expenditures	23.6	38.1	29.3	25.8	16.6
Current expenditures	12.4	15.7	13.0	12.7	8.6
Capital expenditures	11.2	22.4	16.3	13.1	8.0
Overall deficit	11.7	18.9	14.0	10.5	6.9
Cost of rice subsidy	3.7	5.3	6.8	5.1	2.5
Credit from bilateral clearing agreements	1.0	4.8	4.2	5.2	3.4
(As percent of imports)					
Import duties	7.7	3.1	2.9	2.8	3.0

Source: Data provided by the Lao authorities; and staff estimates.

1/ Budget estimates, except for memorandum items. Unlike the estimate on GDP, the budget estimates do not take into account the effect of price and salary measures taken during the course of 1985.

2/ Data on bank financing do not agree with those in the monetary survey.

3/ One fourth to one third of foreign assistance consists of grants.

4/ Except for the one with Viet Nam, clearing accounts under bilateral payments agreements are held with the Lao Trade Corporation. The figures are staff estimates based on balance of payments data.

Table 2. Laos: Monetary Survey, 1981-85

(In millions of kip; end of period)

	1981	1982	1983	1984		1985
		December		June	Dec.	June
Net foreign assets <u>1/</u>	-448	-363	-446	-472	-527	33
Domestic credit	<u>1,125</u>	<u>1,388</u>	<u>1,670</u>	<u>1,971</u>	<u>2,056</u>	<u>2,175</u>
Government (net)	18	10	-13	19	-109	-235
Public enterprises	1,055	1,312	1,585	1,852	2,031	2,262
Private sector	52	66	98	100	134	148
Total liquidity	<u>805</u>	<u>1,222</u>	<u>1,695</u>	<u>1,593</u>	<u>1,692</u>	<u>1,712</u>
Currency in circulation <u>2/</u>	169	236	320	385	450	510
Demand deposits <u>3/</u>	616	969	1,348	1,176	1,205	1,157
Savings deposits	20	17	27	32	37	45
Other items (net)	128	197	471	94	163	-496
Memorandum items						
Cash/total liquidity (in percent)	21	19	19	24	27	30
Annual rate of increase (in percent)						
Total liquidity	2	52	39	14	--	7
Cash in circulation	8	40	36	40	41	32
Cost of living	22	71	67	29	28	114
Official prices	5	122	26	1	8	301
Free market prices	37	41	106	50	40	26

Source: Data provided by the Lao authorities; and staff estimates.

1/ Includes only assets and liabilities in convertible currencies and balances under the bilateral payments agreement with Viet Nam. Bilateral balances under payments agreements with other CMEA countries are held with the Lao Trade Corporation.

2/ Excluding substantial amounts of U.S. dollars and Thai baht.

3/ Mainly of public enterprises.

Another important development in 1985 was the greater autonomy granted to public enterprises and the introduction of profitability as a major criterion for evaluating their performance. Henceforth, public enterprises will be permitted to determine their investment, production, and employment targets; to adjust their prices according to trends in cost; and to include performance as a consideration in the determination of wages. In order to strengthen their financial position they will also be permitted to retain their depreciation funds and a larger share of their profits. ^{1/} As the allocation of foreign exchange from the central level and the completion of other import procedures were often subject to undue delays, public enterprises have also been authorized to retain up to 100 percent of their foreign exchange earnings, and to make their own import and export arrangements.

The deficit on the current account of the balance of payments is estimated to have risen from \$85.4 million in 1984 to \$95.3 million in 1985 (Table 3). The current account deficit fell from 9 percent of GDP in 1984 to 5 percent in 1985, but this apparent improvement reflects mainly the increasingly unrealistic exchange rate at which GDP is converted into dollars. In both years, Laos faced a considerable rise in its foreign debt service payments (including those to the Fund), which, in view of the low level of reserves, could only be met by restricting imports from the convertible area. However, reductions in imports from the convertible area were more than offset by increases in those from the nonconvertible area. Export earnings rose in both years, as exports of wood and wood products reversed their declining trend of earlier years, and exports of tin and gypsum continued to rise rapidly. However, because of low procurement prices and the growing divergence between the commercial exchange rate and the exchange rate on the parallel market, official exports of coffee are estimated to have fallen from \$8.1 million in 1984 to \$2.9 million in 1985. The overall balance of payments incurred a deficit of \$2.8 million in 1984 but, despite substantially higher foreign debt service payments, a small surplus is estimated for 1985. In June 1985, gross convertible reserves amounted to \$16.8 million, equivalent to about five weeks of imports.

The kip in the parallel market depreciated from KN 225 to KN 370 per dollar during the year ended September 1985, while the commercial rate, at which most transactions take place, remained unchanged at KN 35 per dollar. In July 1985, the authorities changed the special rate for private inward remittances to Lao nationals from KN 108 to KN 270 per dollar; the special rate for tourist receipts and remittances to non-Lao nationals remained at KN 108 per dollar. During the course of 1985, private importers were requested to reorganize their activities in a joint cooperative venture with the municipality of Vientiane. Foreign exchange for imports is made available to this organization at a new

^{1/} Previously, depreciation funds had to be transferred to the budget.

Table 3. Laos: Balance of Payments, 1981-85

(In millions of dollars)

	1981	1982	1983	1984	1985 <u>1/</u>
Trade balance	-86.4	-92.2	-108.6	-108.8	-115.7
Convertible area	-34.8	-45.9	-48.5	-21.2	-13.9
Nonconvertible area	-51.6	-46.3	-60.1	-87.6	-101.8
Exports	23.1	40.0	40.8	45.1	47.6
Convertible area	16.9	27.8	27.8	30.1	34.8
Of which: Electricity	10.8	23.9	24.0	25.2	27.4
Wood products	5.1	3.5	1.7	3.7	5.6
Nonconvertible area	6.2	12.2	13.0	15.0	12.8
Of which: Coffee	3.1	8.1	6.9	8.1	2.9
Wood products	--	0.5	1.3	1.3	3.0
Tin and gypsum	1.6	2.0	2.8	3.5	4.2
Imports	-109.5	-132.2	-149.4	-153.9	-163.3
Convertible area	-51.7	-73.7	-76.3	-51.3	-48.7
Cash	-36.2	-44.0	-52.1	-35.4	-29.7
Aid	-15.5	-29.7	-24.2	-15.9	-19.0
Nonconvertible area	-57.8	-58.5	-73.1	-102.6	-114.6
Under clearing arrangements	-13.8	-30.2	-40.0	-62.0	-70.8
Aid	-44.0	-28.3	-33.1	-40.6	-43.8
Services and transfers	17.2	23.9	12.9	23.4	20.4
Convertible area	12.3	26.4	15.6	13.0	14.4
Nonconvertible area	4.9	-2.5	-2.7	10.4	6.0
Current account	-69.2	-68.3	-95.7	-85.4	-95.3
Convertible area	-22.5	-19.5	-32.9	-8.2	0.5
Nonconvertible area	-46.7	-48.8	-62.8	-77.2	-95.8
Capital account	51.4	60.2	76.5	89.6	99.0
Convertible area	4.7	11.4	13.7	12.4	3.2
Loans	6.4	11.6	9.5	10.1	10.0
Amortization	-4.3	-1.0	-1.3	-3.3	-7.6
Other	2.6	0.8	5.5	5.6	0.8
Nonconvertible area	46.7	48.8	62.8	77.2	95.8
Loans	39.1	30.8	35.8	30.2	37.8
Amortization	-0.1	-1.6	-0.6	-1.9	-2.4
Use of clearing arrangements	7.7	19.6	27.6	48.9	60.4
Errors and omissions	13.2	3.8	31.1	-7.0	--
Overall balance	-4.6	-4.3	11.9	-2.8	3.7
Change in reserves (increase-)	4.6	4.3	-11.9	2.8	-3.7
Assets	0.5	5.1	-11.2	8.3	2.7
Liabilities	4.1	-0.8	-0.7	-5.5	-6.4

Source: Based on data provided by the Lao authorities.

1/ Estimate.

exchange rate of K 300 per dollar. Since 1980, the representative rate established with the Fund has remained unchanged at KN 10 per dollar.

On the occasion of the 1984 Article IV consultation, Executive Directors urged the authorities to strengthen the financial position of the public sector through the adoption of more flexible pricing policies and a reduction in subsidies. Directors stressed that an appropriate adjustment of the exchange rate of the kip, adjustment in domestic prices, and other appropriate production incentives--including the adoption of more realistic official export prices--were essential for achieving a viable balance of payments. Directors also stressed the importance of terminating the existing multiple currency practice.

III. Policy Issues

Like its predecessor, the Second Five-Year Plan (1986-90) does not constitute a quantitative framework for policy formulation with regard to growth, savings, investments, and the balance of payments. However, its more general economic objectives remain unchanged from the previous Plan: (1) consolidation of self-sufficiency in food; (2) improvement of the basic infrastructure, particularly transportation; (3) development of natural resources, especially timber, minerals, and hydroelectricity; and (4) industrialization based on locally available raw materials. A tentative list of projects, which, however, excludes several projects financed by CMEA member countries, such as improvements in the road system to Viet Nam and investments in mineral resources, envisages foreign assistance of \$306 million during the Plan period. This compares with disbursements of about \$350 million during 1981-85, of which \$200 million from CMEA countries. The authorities will continue making investment decisions only if adequate domestic and external financing is available. In addition, projects financed with foreign loans will be evaluated with particular regard for their potential effect on the balance of payments.

1. Production and investment policies

About 30 percent of total rice production is cultivated in the highlands under slash and burn techniques, which damage about 250,000 hectares of valuable forest resources a year. ^{1/} In order to reduce this type of cultivation, the Government aims at annual increases in rice output from lowland areas somewhat in excess of the growth of population. The construction of irrigation facilities permitting rice cultivation during the dry season will continue to be an important

^{1/} Under slash and burn techniques, farmers in the highlands burn down tracts of forest to make room for the cultivation of rice and other food crops. Because of the rapidly deteriorating condition of the soil, these tracts are seldom cultivated for more than three years.

element in the policy to increase the production of rice. During the next five years, the Government intends to increase irrigable land from 28,000 to 60,000 hectares.

Less than 3 percent of lowland areas under rice cultivation is now irrigable and, mainly because of a reluctance of farmers to work the fields during a time that is traditionally reserved for other activities, only about one third of this has been used in recent years. In addition, because of shortages of fertilizer and other inputs, the average yield of irrigated rice has remained 25-60 percent below potential. Together with favorable weather, recent increases in total rice output have been due mainly to the adoption of relatively simple yield-increasing techniques on rain-fed areas, such as the planting of rice plants closer together, regular weeding, and the use of natural fertilizer. There appears to be ample scope for further increases in yield through the application of these techniques. Furthermore, the wide disparity in the free market price of rice among the various regions of the country points to serious bottlenecks in transportation and distribution rather than insufficient production. Against this background, the staff team suggested consideration of a change in emphasis in investment priorities of the next Five-Year Plan, away from irrigation projects, which are capital-intensive and entail dependence on imported inputs, and toward faster development of the transport system, which would benefit exports and facilitate the movement of rice from surplus to deficit areas.

The objective of self-sufficiency in food, and the associated investments in the agricultural sector, should also be evaluated in light of Laos' considerable potential of exporting timber and hydro-electricity. Current production of logs is less than 10 percent of the output that would be permissible without depleting standing timber resources, and the completion of hydroelectric facilities that are currently envisaged for the Third Five-Year Plan (1991-95) would increase exports of electricity at least by a factor of eight. Higher export earnings could, in the long term, make it possible to import rice at lower cost than that of rice cultivated in Laos on irrigated land.

In order to reduce the vulnerability of food supplies to fluctuations in agricultural output, the Government intends to establish a security stock of rice equivalent to about six months of consumption by nonfarmers. In view of the current transportation problems, consideration might be given to the establishment of a contingency fund of about \$15 million to be used for importing rice in years when the harvest is affected by bad weather. As most of the urban areas, where shortages are likely to develop, are on the border with Thailand, such a strategy might be preferable to the maintenance of large stocks, for which the storage facilities do not as yet exist. The Government's target regarding food self-sufficiency would also benefit from more accurate estimates of per capita and total rice requirements. Per

capita requirements have, at various times, been estimated at 300 kg., 350 kg., and 390 kg. of paddy equivalent, and a recent census has put the population at 3.6 million, compared with 4.2 million assumed earlier.

The IBRD is studying the investment program of the Second Five-Year Plan, but is in broad agreement with the above observations.

2. Financial policies

Revised estimates on the outcome of the 1985 budget were not available and the authorities were not in a position to discuss the net result of the measures that have been taken during the course of the year. The staff believes that, on balance, the impact of these measures on the public sector deficit has been more or less neutral, with the effect of higher official retail prices being offset by salary increases. However, the more realistic system of determining prices and wages will permit public enterprises to assess properly their cost of production, and the profitability of these enterprises will benefit from the higher productivity that may result from the decentralization of decision making. In fact, since the introduction of these measures, substantial increases in productivity have already been observed in some enterprises. In order to avoid future price distortions, the authorities intend to keep official prices flexible. To this end, retail prices of industrial goods will be allowed to reflect production cost and retail prices of agricultural commodities and imported goods will not be permitted to deviate significantly from free market prices.

As the result of the substantial reduction in food subsidies borne by the Lao Food Corporation, and the permission granted to public enterprises to retain their depreciation funds and a larger share of their profits, it is expected that credit expansion to public enterprises, which has been a major cause of inflationary pressures in the past, will level off substantially in the future. However, the more rational distribution of costs and resources that has now been adopted will weaken the financial position of the Government and, in the absence of additional fiscal measures, it is unlikely that the Government's traditional policy of refraining from borrowing from the banking system can be maintained. This is the more so because, with the completion of a number of development projects and higher defense outlays, current expenditures were slated in the 1985 budget proposal to rise in real terms, reversing an earlier trend toward expenditure restraint. Revenue measures that would be relatively easy to implement and that have been under consideration are the adjustment of the exchange rate used for the valuation of custom duties from KN 10 per dollar to the commercial rate, which is now KN 35 per dollar, and the extension of import duties to commodity aid from the convertible area and all imports from the nonconvertible area. Failure to implement these measures has led to a fall in the effective duty rate from 8 percent in 1981 to 3 percent in 1984, a level that is extremely low compared with the effective duty

rates in some comparable Asian countries. Although there is also scope for raising government revenue through more active exchange rate and other pricing policies in the export sector, renewed expenditure restraint will have to be an essential element in any concerted effort to reduce recourse of the public sector to bank financing.

The system whereby 90 percent of salaries of civil servants and employees of public enterprises is paid in vouchers that can only be spent in government shops, was introduced to reduce pressure on prices in the free market and to strengthen the official distribution system. Although the system may have a stabilizing influence on free market prices, this will be at the cost of limiting consumer preference and, particularly at times when shortages develop in the official distribution system, compulsory savings by wage earners. However, expenditures by wage earners comprise only a relatively small portion of total spending, and inflationary pressures, which are caused mainly by excessive monetary expansion and supply bottlenecks rather than growth in real wages, are therefore not likely to be reduced much by the voucher system. Moreover, in attempting to strengthen official distribution by administrative means, the system runs counter to other recent measures that stress profitability and price flexibility as a means to improve efficiency. If the system is to be maintained, it should be applied flexibly, among other things, by reducing the share of salaries paid in vouchers when shortages develop in the official distribution system.

The principal objective of monetary policy is to accommodate credit requirements of public enterprises in accordance with the production and investment targets of the Annual Plan. Credit policies have also increasingly focused on meeting the credit needs of the private sector, in particular rural cooperatives. Although still amounting to only a small fraction of the total, credit to the private sector has increased rapidly in recent years. Another recent development is that, with their demand for credit generally exceeding their allotments, public enterprises have tended to draw on their deposits in order to obtain cash for salaries and agricultural procurement. Since 1983, the growth of cash in circulation, which is an important determinant of the level of consumer prices on the free market and a key policy variable of the authorities, has been consistent not only with continued credit expansion but also with a substantial decline in deposits. Cash in circulation rose from 20 percent of total liquidity in December 1983 to 30 percent in June 1985.

With recent moves toward decentralized decision making, rational pricing, and profitability as a measure of enterprise performance, the objectives of monetary policy will have to be determined more on the basis of efficient allocation of credit and containment of inflationary pressures than on the promotion of the production and investment targets of the Annual Plan. Within the framework of reducing overall credit expansion to a level consistent with relative price stability, credit

policy will therefore have to become more selective than it has been in the past, by, among other things, taking into account the overall liquidity position of borrowers and the profitability of individual projects. In this new policy environment, the adoption of positive real interest rates would not only facilitate efficient allocation of credit, but would also guard against the subsidized use of scarce capital resources. This is particularly so because the banks lack sufficient expertise to appraise individual credit applications. With monetary data still subject to substantial misclassifications, as evidenced by the large fluctuations in "other items," a more active monetary policy would also require a thorough review of the compilation of monetary data.

3. External policies

Balance of payments projections for 1986-88 indicate a widening of the current account deficit with both the convertible and nonconvertible area (Table 4). Export receipts from electricity will rise in 1986, but decline thereafter because of growing domestic consumption and the expiration of the agreement with Thailand whereby the price of electricity from the Nam Ngum hydroelectric facility is raised each year by 9 percent. With the adoption of more realistic export prices, exports of logs to the convertible area are expected to rise further, while exports of plywood and veneer, which are exported mainly to the nonconvertible area, will benefit from expansion of production capacity and improved road connections to Vietnamese ports. Increased production capacity will also lead to further growth of exports of tin and gypsum, both of which are exported to the nonconvertible area. In the case of tin, the expected growth in volume will probably more than offset the effect of the recent decline in world market prices, particularly as under current arrangements its export price is determined on the basis of a five-year moving average of world market prices. In the absence of more remunerative procurement prices, official exports of coffee are expected to rise only marginally after their sharp drop in 1985.

The limited growth of exports to the convertible area, coupled with a gradual decline in debt service payments, leaves little room for increasing cash imports from the convertible area. In order to keep the economy supplied with an adequate level of basic inputs and consumer goods, Laos will therefore have to increase further its reliance on imports from the nonconvertible area and the associated financing under bilateral payments agreements. Deficits under bilateral payments agreements already amount to about 4 percent of GDP ^{1/} and, although currently converted into long-term loans, their eventual repayment may cause considerable strains on the balance of payments during the 1990s.

^{1/} A percentage that would be much higher if a more realistic exchange rate were used for converting GDP in dollars.

Table 4. Laos: Balance of Payments Projections, 1984-88

(In millions of dollars)

	1984 Actual	1985 Est.	1986	1987	1988
			Projection		
Trade balance	-108.8	-115.7	-118.3	-123.7	-130.1
Convertible area	-21.2	-13.9	-19.0	-20.2	-21.1
Nonconvertible area	-87.6	-101.8	-99.3	-103.5	-109.0
Exports	45.1	47.6	53.2	56.3	58.9
Convertible area	30.1	34.8	38.3	39.2	40.1
Of which: Electricity	(25.2)	(27.4)	(29.3)	(28.7)	(27.9)
Timber	(3.7)	(5.6)	(6.5)	(7.5)	(8.7)
Nonconvertible area	15.0	12.8	14.9	17.1	18.8
Of which: Coffee	(8.1)	(2.9)	(3.0)	(3.1)	(3.2)
Timber	(1.3)	(3.0)	(3.1)	(3.8)	(3.9)
Tin and gypsum	(3.5)	(4.2)	(5.8)	(6.9)	(8.1)
Imports	-153.9	-163.3	-171.5	-180.0	-189.0
Convertible area	-51.3	-48.7	-57.3	-59.4	-61.2
Cash	(-35.4)	(-29.7)	(-36.6)	(-36.9)	(-38.7)
Aid	(-15.9)	(-19.0)	(-20.7)	(-22.5)	(-22.5)
Nonconvertible area	-102.6	-114.6	-114.2	-120.6	-127.8
Under clearing arrangements	(62.0)	(-70.8)	(-69.4)	(-75.1)	(-81.3)
Aid	(-40.6)	(-43.8)	(-44.8)	(45.5)	(46.5)
Services and transfers	23.4	20.4	20.7	19.7	21.6
Convertible area	13.0	14.4	19.7	12.2	13.1
Nonconvertible area	10.4	6.0	1.0	7.5	8.5
Current account	-85.4	-95.3	-97.6	-104.0	-108.5
Convertible area	-8.2	0.5	0.7	-8.0	-8.0
Nonconvertible area	-77.2	-95.8	-98.3	-96.0	-100.5
Capital account	89.6	99.0	97.6	104.0	108.5
Convertible area	12.4	3.2	5.1	8.0	8.0
Loans	(10.1)	(10.0)	(12.0)	(14.0)	(14.0)
Amortization	(-3.3)	(-7.6)	(-6.9)	(-6.0)	(-6.0)
Other	(5.6)	(0.8)	(--)	(--)	(--)
Nonconvertible area	77.2	95.8	92.5	96.0	100.5
Loans	(30.2)	(37.8)	(38.0)	(38.0)	(38.0)
Amortization	(-1.9)	(-2.4)	(-3.0)	(-5.5)	(-7.0)
Use of clearing arrangements	(48.9)	(60.4)	(57.5)	(63.5)	(69.5)
Errors and omissions	-7.0	--	--	--	--
Change in reserves (increase -)	2.8	-3.7	--	--	--
Assets	8.3	2.7	1.8	--	--
Liabilities	-5.5	-6.4	-1.8	--	--

Source: Based on data provided by the Lao authorities.

Although rising, projected official merchandise exports over the next three years remain far below potential and past performance. The volume of log exports in 1988 is slated at only 60 percent of the average achieved in 1979-81, and the export volume of sawn wood at about 25 percent. In addition, projected exports of plywood will remain below 50 percent of current production capacity. Probably foremost among the reasons for the sluggish performance of exports of wood and wood products is the Government's 1980 decision to bar the private sector and provincial authorities from the production and trade in timber, and to grant a monopoly in these activities to the state-run Lao Trade Corporation. Since then, the supply of logs for export and for domestic processing has been greatly reduced because of, among other things, lack of trained manpower and supervision in the extraction of logs, inadequate extension and maintenance of access roads, and reluctance to use private transport facilities in hauling the logs to processing plants and border crossing points. In addition, poor maintenance of recently introduced modern extraction equipment has aggravated shortages of spare parts and contributed to frequent interruptions of production. Exports were hampered by inadequate marketing knowledge, adherence to a rigid structure of export prices, and inadequate grading. The Government has taken a number of measures to improve export performance, including, most recently, the adoption of more flexible export pricing, and the upgrading of a large timber processing plant near Vientiane. However, it is unlikely that exports can be brought closer to their potential without greater reliance on the private sector in the cutting, transporting and processing of timber.

The diversion through unofficial channels has been an important contributing factor in the sluggish performance of official exports. Because of smuggling, exports of sticklaque and benzoin have all but disappeared from official records, while, for the same reason, official exports of coffee showed a substantial decline in 1985. Although adjusted at regular intervals to reflect rising costs, official procurement prices of the main export products are still substantially below those in the free market, in part because the latter also reflect rising demand for Lao exports as the result of the rapidly depreciating exchange rate in the parallel market. The current official procurement price for logs is KN 6,000 per cubic meter, compared with KN 35,000 per cubic meter on the free market. Similar distortions exist for benzoin, sticklaque, and coffee. In addition, despite the artificially low price of logs, official exports of sawn wood and of plywood are made at losses of up to 120 percent of cost.

The authorities were in agreement with the staff's view that a substantial devaluation of the kip was essential to stimulate exports and to attract more exports into official channels. To be effective, the devaluation will have to be accompanied by more remunerative official procurement prices for export products. As prices in the free market largely reflect the level of the exchange rate in the parallel exchange market, and official retail prices have recently been revised

to levels close to the corresponding prices in the free market, a devaluation would not require substantial further adjustment in official retail prices. If, subsequent to the initial correction, the exchange rate would be kept flexible according to developments in foreign and domestic prices, the large adjustments that have characterized exchange rate policy in the past could be avoided in the future. Such a policy would also eliminate the need for maintaining the special exchange rates that are now in effect for certain imports, tourist receipts, and inward private remittances.

At the end of 1984, total disbursed external debt amounted to \$413 million, of which \$288 million was owed to countries in the nonconvertible area. In recent years, loan disbursements from the convertible area have come only from multilateral organizations; bilateral aid from the convertible area has been exclusively in the form of grants. Largely because of declining repurchase obligations to the Fund, debt service payments with respect to the convertible area are projected to decline from \$19 million in 1985 to \$8 million in 1988, or from 37 to 14 percent of projected current earnings (Table 5). Debt service payments with respect to the nonconvertible area are projected to rise from \$2.5 million in 1985 to \$7 million in 1988, or from 19 to 37 percent of projected current earnings. Under current arrangements, debt service payments to the nonconvertible area are channeled through the accounts of bilateral payments agreements, and the annual deficits in these accounts are more or less automatically converted into long-term loans.

The exchange and trade system remains highly restrictive and bilateral payments agreements are maintained with the Soviet Union, Bulgaria, Czechoslovakia, the German Democratic Republic, and with two Fund members, Viet Nam and Hungary. The introduction of new preferential exchange rates of KN 270 per dollar for inward remittances to Lao nationals and of KN 300 per dollar for certain imports requires approval under Article VIII.

IV. Staff Appraisal

During the last two years, the Lao economy has been marked by rapid growth of output. In addition to the effects of favorable weather, agricultural production benefited from more remunerative procurement prices and the application of improved cultivation techniques. Important gains were also made in mineral output, and manufacturing production, which declined in 1984 as the result of shortages of imported raw materials, showed a sharp rebound in 1985. However, inflationary pressures have continued unabated, with the cost of living accelerating as the result of continued monetary expansion and an adjustment in official prices. The balance of payments position

Table 5. Laos: External Debt Service Projections, 1985-88 1/

(In millions of U.S. dollars)

	1985	1986	1987	1988
Convertible area	<u>18.36</u>	<u>12.18</u>	<u>9.76</u>	<u>7.84</u>
Principal	<u>13.82</u>	<u>8.73</u>	<u>5.99</u>	<u>5.99</u>
Interest	4.54	3.45	3.77	1.85
Multilateral loans	6.61	3.80	3.91	2.22
Principal	3.92	2.01	1.43	1.61
Interest	2.69	1.79	2.48	0.61
Bilateral loans	1.94	3.16	2.58	2.36
Principal	1.30	2.31	2.03	1.85
Interest	0.64	0.85	0.55	0.51
IMF	9.81	5.22	3.27	3.26
Repayments/repurchases	8.60	4.41	2.53	2.53
Charges	1.21	0.81	0.74	0.73
Nonconvertible area	<u>2.41</u>	<u>3.01</u>	<u>5.50</u>	<u>7.00</u>
Principal	<u>2.41</u>	<u>3.01</u>	<u>5.50</u>	<u>7.00</u>
Interest	--	--	--	--
Total	<u>20.77</u>	<u>15.19</u>	<u>15.26</u>	<u>14.84</u>
Principal	<u>16.23</u>	<u>11.74</u>	<u>11.49</u>	<u>12.99</u>
Interest	4.54	3.45	3.77	1.85
Memorandum items:				
Debt service ratio <u>2/</u>	33	22	21	19
Convertible area	37	23	18	14
Nonconvertible area	19	20	32	37

Source: Based on data provided by the Lao authorities.

1/ Projected debt service payments to the nonconvertible area are for debt outstanding at the end of 1984. Projected debt service payments to the convertible area include payments on projected disbursement from multilateral loans; no further disbursements from bilateral loans are expected.

2/ Debt service payments as percent of current earnings.

continues to be characterized by merchandise exports considerably below potential and by increasing dependence on import financing under bilateral payments agreements.

During the course of 1985, the authorities took a number of measures that depart from past policies. Food subsidies were eliminated, official retail prices of other commodities were brought into line with free market prices, and public enterprises were given authority to determine production, investment, employment, and, within certain limits, prices and wages. They were also allowed to retain their depreciation funds, a larger share of their profits, and up to 100 percent of their foreign exchange earnings. Interest rates were raised substantially but remained negative in real terms. The staff believes that the more realistic system of prices and wages will enable enterprises to assess more properly their production costs and that the decentralization in decision-making could lead to substantial gains in productivity. The staff welcomes the Government's intention to keep official prices flexible so as to maintain profitability of public enterprises and avoid future price distortions.

The strengthening of the financial position of the public enterprises will be largely at the expense of reduced revenue for the Government and, in order to reduce the rate of monetary expansion, it will therefore remain necessary to take additional revenue measures. Measures that have now been under consideration for some time include an adjustment in the customs valuation rate and the extension of import duties to imports that are currently exempt. The effective duty rate could further be increased from its currently low level by appropriate measures to attract a larger share of foreign trade into official channels. The staff does not believe that the voucher system of wage payments will be effective in controlling prices in the free market. If the system is to be maintained it should be applied flexibly so as to maintain wage earners' access to basic necessities at times of shortages in the official distribution system.

With the greater degree of decentralization and the shift in economic management from directives to incentives, it will be important that credit policy be applied according to more stringent criteria, among other things, with a view to reduce inflationary pressures. The adoption of positive real rates of interest and improvements in the compilation of monetary data would greatly facilitate the achievement of this objective.

The attainment of self-sufficiency in food continues to be an important objective of the authorities and the construction of irrigation facilities that will permit cultivation during the dry season continues to be a key element in the strategy to achieve that goal. The staff believes that the objective of food self-sufficiency and the means by which it is to be achieved should be critically re-appraised in light of, among other things, the relative costs and benefits of investment in

other sectors, and possibilities to import rice at lower cost than that of the rice cultivated in Laos on irrigated land. The authorities should also consider a foreign reserves policy that would permit contingency imports as an alternative to the present objective of establishing a rice stock equal to six months' consumption in urban areas. Finally, food policies would benefit from a more accurate determination of per capita and total requirements.

The external outlook is for continued dependence on balance of payments financing under bilateral payments agreements. The staff believes that the rapid accumulation of debt under these agreements is as unsustainable over the longer term as it is avoidable with the adoption of corrective measures. A substantial devaluation of the kip, accompanied by more remunerative procurement prices in the export sector, is essential for an improvement in the balance of payments. Such a devaluation would also be consistent with recent adjustments in official retail prices. The adoption of a policy whereby, subsequent to the initial adjustment, the exchange rate would be determined flexibly according to domestic and foreign price developments would eliminate the need for large adjustments in the future and would also permit the abolishment of multiple currency practices. In the meantime, the staff does not recommend approval of the new multiple currency practices that have arisen with the introduction of the special rates for certain imports and inward private remittances.

The lack of adequate and timely statistics on key sectors of the economy continues to be a serious constraint on economic management. The authorities should seek technical assistance in areas where the compilation of data can be improved with relative ease, such as balance of payments, government finance, and monetary statistics.

The staff urges the authorities to establish a more realistic representative rate with the Fund.

It is recommended that the next Article IV consultation with Laos be held on the standard 12-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to exchange measures of the Lao People's Democratic Republic subject to Article VIII, Sections 2 and 3, and in concluding the 1985 Article XIV consultation with the Lao People's Democratic Republic in the light of the 1985 Article IV consultation with the Lao People's Democratic Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that the Lao exchange system remains restrictive and involves multiple currency practices described in SM/85/321. The Fund encourages the authorities of the Lao People's Democratic Republic to terminate the multiple currency practices as well as the bilateral payments arrangements with Fund members.

LAOS

Basic Data

Area and population

Area	236,800 square kilometers
Population (March 1985)	3.6 million
Annual rate of population increase	2.9 percent

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u> <u>Est.</u>
<u>GDP</u> (at current prices: KN mn.)	8,281	14,373	22,836	32,516	62,966
<u>Output</u> (percentage change)					
Real GDP	6.8	3.8	1.2	12.5	6.2
Production of rice	9.6	-5.4	-8.3	31.9	8.1
Gross industrial production	-0.2	2.3	-8.2	-2.0	16.1
Of which: Manufacturing	(10.3)	(-19.5)	(-19.3)	(-36.7)	(95.7)
Electricity	(-5.5)	(7.6)	(-5.2)	(3.2)	(1.0)
<u>Prices</u> (percentage change)					
Consumer price index (end of period)	22.8	71.3	66.5	28.2	113.6 <u>1/</u>
Official prices	4.9	121.4	25.5	7.7	284.9 <u>1/</u>
Free market prices	37.2	40.3	106.5	40.3	30.4 <u>1/</u>
GDP deflator	39.7	67.2	57.0	26.6	82.3
<u>Budget</u> (percentage change)					
Revenue	32.2	178.6	26.9	41.5	24.2 <u>2/</u>
Expenditures	10.1	179.9	22.3	25.2	24.9 <u>2/</u>
Current	--	119.7	30.4	38.7	31.8 <u>2/</u>
Capital	23.9	246.5	16.6	13.5	18.2 <u>2/</u>
<u>Monetary survey</u> (percentage change)					
Domestic credit	51.1	-12.2	-12.3	121.9	25.7 <u>3/</u>
Total liquidity	-5.2	33.1	38.2	32.1	27.9 <u>3/</u>
Cash in circulation	7.6	39.6	35.6	40.6	32.5 <u>3/</u>
<u>Balance of payments</u> (US\$\$ mn.)					
Exports	23.1	40.0	40.8	45.1	47.6
Convertible area	16.9	27.8	27.8	30.1	34.8
Of which: Electricity	(10.8)	(23.9)	(24.0)	(25.2)	(27.4)
Nonconvertible area	6.2	12.2	13.0	15.0	12.8
Imports	-109.5	-132.2	-149.4	-153.9	-163.3
Convertible area	-51.7	-73.7	-76.3	-51.3	-48.7
Nonconvertible area	-57.8	-58.5	-73.1	-102.6	-114.6
Trade balance	-86.4	-92.2	-108.6	-108.8	-115.7
Convertible area	-34.8	-45.9	-48.5	-21.2	-13.9
Nonconvertible area	-51.6	-46.3	-60.1	-87.6	-101.8
Current account	-69.2	-68.3	-95.7	-85.4	-95.3
Convertible area	-22.5	-19.5	-32.9	-8.2	0.5
Nonconvertible area	-46.7	-48.8	-62.8	-77.2	-95.8
Capital account (including errors and omissions)	64.6	64.0	107.6	82.6	99.0
Overall balance	-4.6	-4.3	11.9	-2.8	3.7

LAOS

Basic Data (concluded)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u> <u>Est.</u>
<u>International reserves (US\$ mn.)</u>					
Gross international reserves	13.34	8.27	19.44	11.20	16.78 <u>4/</u>
(In weeks of imports)	(6.3)	(3.3)	(6.8)	(3.8)	(5.3) <u>4/</u>
Net international reserves	-1.72	-6.00	5.89	3.11	12.04 <u>4/</u>
<u>External debt operations (US\$ mn.)</u>					
External debt outstanding					
(disbursed)	312.4	342.5	379.1	412.6	...
Of which: Convertible area	(110.0)	(120.0)	(121.3)	(124.6)	(...)
External debt service payments	7.2	7.4	6.6	13.0	20.8
Of which: Convertible area	(7.1)	(5.8)	(6.0)	(11.2)	(18.4)
<u>Exchange rate (end of period; KN/US\$)</u>					
Commercial	30	35	35	35	35 <u>5/</u>
Inward remittances	--	--	108	108	270 <u>5/</u>
Free market	56	105	140	253	370 <u>5/</u>
<u>Selected ratios to GDP (percent)</u>					
Budget revenue	11.9	19.2	15.3	15.2	...
Budget expenditure	23.6	38.1	29.3	25.8	...
Overall budget deficit	-11.7	-18.9	-14.0	-10.6	...
Total liquidity	3.1	2.4	2.0	1.9	...
Cash in circulation	2.0	1.6	1.4	1.4	...
Merchandise exports	6.4	9.7	6.3	4.9	2.6
Merchandise imports	-30.4	-32.2	-22.9	-16.6	-9.1
Current account of balance					
of payments	-19.2	-16.6	-14.7	-9.2	-5.3
Overall balance of payments	-1.3	-1.0	1.8	-0.3	0.2
External debt outstanding					
(disbursed)	86.8	83.4	58.1	44.4	...
External debt servicing	2.0	1.8	1.0	1.4	1.2

1/ September 1985 over September 1984.

2/ Based on 1985 budget estimates.

3/ June 1985 over June 1984.

4/ Outstanding in June 1985.

5/ As of September 1985.

Fund Relations with Laos

(As of October 31, 1985)

I. Membership status

- (a) Date of membership: 1961
- (b) Status: Article XIV

A. Financial Relations

II. General Department

- (a) Quota: SDR 29.3 million
- (b) Total Fund holdings of kip: SDR 31.93 million (109.0 percent of quota)
- (c) Fund credit: SDR 2.63 million (9.0 percent of quota)
Of which: Credit tranche purchases (ordinary resources)--
SDR 2.63 million (9.0 percent of quota)
- (d) Reserve tranche position: Nil
- (e) Current operational budget: Not included
- (f) Lending to the Fund: None

III. Current stand-by or extended arrangement and special facilities

- (a) Current arrangement: None
- (b) Previous stand-by and extended arrangements during the last few years: Stand-by arrangement, June 1980-May 1981 for SDR 14 million, or 87.5 percent of quota. The amount was fully purchased.
- (c) Special facilities during the past two years: None

IV. SDR Department

- (a) Net cumulative allocation: SDR 9.41 million
- (b) Holdings: SDR 0.24 million, or 2.6 percent of net cumulative allocations
- (c) Current designation plan: Not included

V. Administered accounts

- (a) Trust Fund loans
 - (i) Disbursed: SDR 12.7 million
 - (ii) Outstanding: SDR 9.49 million
- (b) SFF subsidy account: None

B. Nonfinancial Relations

VI. Overdue obligations to the Fund: Nil

VII. Exchange Rate Arrangement:

The official exchange rate, which is used only for custom valuation purposes, is KN 10 per U.S. dollar. A commercial rate of KN 35 per U.S. dollar applies to all other transactions, with the exception of inward remittances and tourist receipts, for which a rate of KN 108 per U.S. dollar was introduced in July 1983; the rate applied since July 1985 to inward remittances is KN 270 per U.S. dollar. In September 1985, the exchange rate in the parallel market was KN 370 per U.S. dollar. The representative rate is KN 10 per U.S. dollar.

VIII. Last Article IV consultation and stand-by discussions

Last Article IV consultation: Staff discussions were held in Vientiane during November 15-29, 1984; the Executive Board discussed the Staff Report (SM/85/42) on February 27, 1985. The decision was:

1. The Fund takes this decision relating to exchange measures of the Lao People's Democratic Republic subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article IV consultation with the Lao People's Democratic Republic in the light of the 1984 Article IV consultation with the Lao People's Democratic Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that the Laotian exchange system remains restrictive and involves a multiple currency practice described in SM/85/42. The Fund encourages the authorities of the Lao People's Democratic Republic to terminate the multiple currency practice as well as the bilateral payments arrangements with Fund members.

IX. Technical assistance:

A member of the Bureau of Statistics visited Vientiane from March 28-April 11, 1985 to provide technical assistance in the field of balance of payments statistics.

X. Resident Representative/Advisor: None

Laos: Relations with World Bank Group

The World Bank is in agreement with the general development objectives of the authorities. Provided existing bottlenecks in absorption can be sufficiently reduced, IDA disbursements are expected to increase during 1985-89. Proposed future projects cover a wider range of sectors than in the past, including telecommunications, rural electrification, transport development and higher technical education, as well as another hydroelectric project on the Nam Ngum River. Projects currently financed with IDA credits include various agricultural rehabilitation and development programs, and the extension of a hydroelectric facility. Since 1978, the amount of IDA credits committed and disbursed have been as follows:

	Amount committed	Amount disbursed
	(As of June 1985)	
	(U.S. dollars mn.)	
1978	8.2	--
1979	10.4	0.2
1980	13.4	0.2
1981	15.0	4.9
1982	--	5.9
1983	6.2	3.0
1984	--	7.7
1985	--	<u>7.0</u>
Total	53.2	28.9

Laos--Statistical Issues

Laos does not report data to the Fund for inclusion in International Financial Statistics, the Balance of Payments Yearbook, the Government Finance Statistics Yearbook, or the Direction of Trade Statistics.

National Accounts

The National Accounts are compiled according to the Material Product Accounts system (MPA), which differs from the concept of GDP in that it excludes the value of nonmaterial services and depreciation. The accounts are compiled at constant prices. The reliability and the degree of detail of the accounts leave much to be desired. The series on agriculture and industry have been adjusted by the staff on the basis of indices calculated for agricultural output and industrial output.

Production

Crop estimates are subject to wide margins of errors. Data on industrial output cover only state-owned enterprises, located in the Vientiane Plain. Data on the output of rice mills, sawing mills, and other small units in the provinces are not available.

Prices and wages

No price indices are currently compiled. However, prices for a large number of items in the city of Vientiane are collected on a monthly basis. The staff uses those price series for establishing a consumer price index by making assumptions on the consumption pattern of a middle-income household in Vientiane. Sub-indices are established for free market prices and official retail prices, as well as for the main categories of goods and services.

Information on salaries is not available.

Government sector

The breakdown of the consolidated budget between the Central Government and the provinces is not available. Budget transfers to public enterprises are not shown separately, and there is no breakdown of expenditure by major categories. The data on foreign loans and grants in the budget are not reconcilable with those in the balance of payments. Accounts of public enterprises are not provided to the staff. The costs of consumer subsidies is mainly borne by the official

distribution agencies and is not reflected in the budget accounts. The staff has estimated these costs on the basis of available price and volume data.

Money and banking

Balance sheets of the banking system are established on a monthly basis. The classification and the degree of detail of the information need to be improved, particularly in view of the large size and variability of the item "other assets."

There is no estimate of the substantial amount of foreign currency circulating in the economy.

Balance of payments

Laos does not compile balance of payments statistics. The staff has estimated balance of payments flows on the basis of incomplete information provided by the Foreign Trade Bank and various government agencies. Data are particularly deficient regarding the transactions with the nonconvertible area.

