

January 2000

IMF Staff Country Report No. 3

## **Lao People's Democratic Republic: Recent Economic Developments**

This Recent Economic Developments report on Lao People's Democratic Republic was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Lao People's Democratic Republic or the Executive Board of the IMF.

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INTERNATIONAL MONETARY FUND

LAO PEOPLE'S DEMOCRATIC REPUBLIC

**Recent Economic Developments**

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Approved by Asia and Pacific Department

November 8, 1999

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## I. Introduction and Overview

1. Economic reforms in the Lao P.D.R. started in 1986 and were supported by Fund arrangements in the period 1989-1997. Responding to initial reforms, the economy grew annually at between 5-8 percent, and the government achieved broadly stable macroeconomic conditions through prudent policies. The basic elements of a market economy were introduced through implementation of tax, trade, state enterprise and other market reforms. However, as the authorities relaxed monetary and fiscal policies in 1997, economic conditions started to deteriorate and structural reforms slowed. The inability to tighten macroeconomic policies, and the authorities' attempts to contain foreign exchange and price pressures largely through administrative measures, exacerbated the situation in 1998. Inflation increased rapidly, from a 12-month rate of 26 percent in December 1997 to 142 percent in December 1998.

2. This report discusses major developments in 1998, and parts of 1999, and updates the statistical tables in last year's report on recent economic developments.<sup>1</sup> It also discusses selected issues relating to the fiscal, FDI and foreign exchange regimes.

- **Chapter II** provides an overview of developments in the real sector. It notes that real growth declined to an estimated 4 percent in 1998, as domestic policies weakened and the negative effects of the Asian crisis became more pronounced.
- **Chapter III** discusses fiscal developments in 1997/98 and developments so far in 1998/99.<sup>2</sup> It also provides an analysis of factors that have limited revenue collections since 1995/96.
- **Chapter IV** presents developments in the monetary and financial sectors. It discusses the continued weakness of monetary policy that contributed to an inflation-depreciation spiral. It also explores the weaknesses in the financial sector and recent efforts to reform the banking system.
- **Chapter V** deals with external sector developments in 1998. The current account deficit narrowed significantly with rising power exports and falling FDI related imports as a result of reduced regional investor activity. An more detailed examination of FDI developments is provided in Chapter VII.
- **Chapter VI** examines the institutional framework and historical experience of foreign direct investment in the Lao P.D.R.
- **Chapter VII** details the evolution of the foreign exchange regime.

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<sup>1</sup> SM/98/124 "Lao P.D.R.—Recent Economic Developments" June 1, 1998.

<sup>2</sup> The fiscal year starts on October 1.

## II. Real Sector

### A. Overview

3. Real GDP growth declined in 1998, to 4 percent from the recent average of 7 percent. This deterioration primarily reflected weak domestic policies exacerbated by the continued effects of the regional crisis. Agriculture sector growth was an estimated 3.7 percent, over 3 percentage points lower than growth achieved in 1997, partly as a result of adverse weather conditions. Growth in the industrial sector increased slightly, from 8.1 percent in 1997 to 8.5 percent in 1998, but growth in the service sector declined to 4.8 percent from 7.5 percent, reflecting both weaker domestic and regional activity.

### B. Developments by Major Sector

4. **Agriculture.** Agriculture accounts for over 50 percent of GDP, employs 80 percent of the workforce, and remains predominantly subsistence in nature (Table 3, Chart 1). Crop production grew by an estimated 6.6 percent in 1998, partly affected by drought conditions and far below the unusually high 14 percent growth recorded in 1997 which reflected recovery from floods. Total rice output stagnated as declines in rainy season rice output were offset by increases in dry season production, benefiting from improved irrigation under the government's large scale irrigation project accelerated in 1997 (see below). Output of cash crops increased substantially, mainly due to a doubling of sugarcane production to meet demand in the Thai market. Coffee (for European markets) and peanut production also experienced significant growth. Livestock production rose 2.5 percent in 1998 but this masks a significant stock depletion because large numbers of buffalo, cattle and pigs were exported to neighboring countries. The decline in logging production continued in 1998 and the forestry sector contracted by 4.4 percent. This was due to the continued weak regional demand and low world prices resulting from the Asian crisis. However, the harvest of 500,000 cubic meters was in line with the government's estimate of sustainable logging.

5. **Irrigation.** Under the five year plan adopted in 1996 and following food supply problems in 1997, the government embarked on an ambitious irrigation project to make the Lao P.D.R. self-sufficient in terms of rice by 2000. The irrigated rice area was planned to expand from 22,000 ha in 1997 to 100,000 by 2000 and further to 130,000 ha by 2003. The government estimates that for the 1998 dry season the irrigated rice area increased to 53,000 ha as planned, nearly doubling the output of irrigated rice from 114,000 tons in 1997 to 212,000 tons in 1998. Up to December 1998 over KN 220bn (5 percent of 1998 GDP) of the project costs were financed by the central bank, the Bank of the Lao P.D.R. (BOL). For 1999, some 89,000 ha of irrigated rice were planted, yielding 289,000 tons.

6. **Industry.** The continued impact of the regional economic crisis restricted growth of the industrial sector (mining, manufacturing, construction and electricity), which accounts for 22 percent of GDP. 1998 growth is an estimated 8.5 percent, similar to that recorded in 1997, but well below the double digit growth enjoyed during the period 1993-1996. The manufacturing sector, accounting for three quarters of industrial output, grew at 9.6 percent, similar to growth in 1997. Among the major manufacturing outputs, garment production expanded modestly in 1998

following the reinstatement of the European Union's Generalized System of Preferences (GSP) and appears to have responded further in 1999. Beer production also continued to expand. These were offset by declining output in the cement, plastic and furniture sectors (Table 4). Activity in the construction sector declined significantly in 1998 with the completion of existing hydropower projects and the continued delay of Asian investment projects. The dramatic increase in electricity generation reflects the coming on-stream of the Theun Hinboun hydropower plant in April 1998 with annual output of 1,660 GWH.

7. **Services.** Growth in the service sector, that accounts for 25 percent of GDP, is estimated to have fallen to below 5 percent in 1998, from 7.5 percent in 1997. The transportation and retail related sectors displayed continued strength but the problems of the largely insolvent banking sector led to a collapse of output in the financial services sector, an 87 percent decline. Growth in tourist arrivals fell from 15 percent in 1997 to 8 percent in 1998. In particular, regional tourist arrivals grew by only 3 percent in 1998 down from 12 percent in 1997. This impacted on hotels and restaurants reducing growth in this sector for a second consecutive year. It should be noted that the service sector component of the GDP statistics remains a weakness of the statistical base.

### C. Prices, Wages and Employment

8. Inflation (as measured by the National Statistical Centre index, in 1995 prices) rose rapidly from a twelve month rate of 27 percent in December 1997 to 142 percent in December 1998 and further still to a peak of 167 percent in March 1999 (Table 5). It has since fallen to 123 percent in September 1999. These movements largely reflect BOL credit extension to the economy, initially through the financing of large scale irrigation investments. This money creation and accompanying fiscal expansion were the principal source of both exchange rate depreciation and inflation in 1998. In an undermonetized and dollarized economy<sup>3</sup> in which imports from Thailand play a dominant role in price determination, this led to higher prices and the continued erosion of confidence in the kip and flight from it. In the absence of a decisive tightening of monetary and fiscal policies a vicious inflation-depreciation circle emerged. Price increases have been driven by both the food and nonfood components of the CPI. Rapid monthly food price increases reached a peak of 28 percent in June 1998 before returning to single digit levels for the second half of 1998. In 1998 monthly non-food price inflation followed a broadly similar trend to that of food prices but with lower volatility. However, the first half of 1999 saw a return to high monthly increases in both food and nonfood prices.

9. Real wages for civil servants have declined significantly in the last three years (Table 6). Although the average monthly basic wage has risen nominally from KN 40,700 in 1996/97 to an estimated KN 58,137 in 1998/9, an increase of 43 percent, real wages have fallen by over 50 percent given high inflation. There are no official statistics on unemployment and private sector wages in the Lao P.D.R. The most recent census (1995) reported the unemployment rate at 2.4 percent. The population and employment structure at that time is reported in Table 7.

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<sup>3</sup> Broad money is 20 percent of GDP, 80 percent of which is in foreign currencies.

### III. Public Finance<sup>4 5</sup>

#### A. Overview

10. Weak fiscal management has been a major cause of recent macroeconomic instability. Revenues fell from 13 percent of GDP in 1995/96 to 11 percent in 1997/98 in part because of delays in implementing announced revenue measures and in part because of weak tax administration. Despite revenue shortfalls, spending was expanded in 1997/98 leading to a large fiscal imbalance; central bank financing of the budget deficit was required for the first time in six years, creating strong inflationary pressures. Revenue shortfalls and rigidities in the tax system continued in 1998/99, and the authorities severely compressed current expenditures in an effort to reduce the deficit.

#### B. 1997/98 Budget

11. **Revenue.** Revenues suffered significant shortfalls in 1997/98. The original 1997/98 budget targeted revenue collection of 13.7 percent of GDP. This target was higher than the 1996/97 outcome by more than 2 percentage points of GDP and was to be achieved through new tax measures including a reduction in turnover tax rates from four (3, 5, 10 and 15 percent) to two (5 and 10 percent) and increasing the rates for most goods; raising excise rates; increasing the minimum income tax from 0.5 percent to 1 percent of revenues; increasing income tax from real estate leasing; introducing a stamp duty, and adjusting fuel prices to reflect market prices.

12. However, the newly announced tax measures were not implemented, and higher than expected inflation reduced revenues further as a share of GDP because of weak tax administration. As a result the actual 1997/98 revenues fell 2.5 percent of GDP short of the revised target (Table 8).

13. **Expenditures.** Despite revenue shortfalls, expenditures were allowed to expand. Total expenditure was targeted at 21 percent of GDP in the original budget, a modest increase over the 20.4 percent of GDP in 1996/97. Of the 1997/98 target, current expenditures accounted for 10.4 percent of GDP and capital expenditures 10.7 percent. While the expenditure target was revised in mid-year to 24.1 percent of GDP, this still significantly underestimated actual expenditure in 1997/98, which rose close to 27 percent of GDP. This increase in expenditures was largely because of capital spending that rose to 18.8 percent of GDP reflecting both high spending by the government on irrigation outside the formal budget process and higher valuation of foreign financed projects as a result of the depreciation of the kip. Current spending was compressed to 8.1 percent of GDP, especially civil servants' wages which fell from a planned 4.4 percent to 3.5 percent of GDP despite significant nominal increases.

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<sup>4</sup> As much of half the Lao budget consists of foreign-currency denominated items. Although exchange rate movements have a minimal impact on the deficit, ratios as a percent of GDP for individual items are subject to large exchange rate effects.

<sup>5</sup> Text boxes in this chapter have been contributed by Mr. Asakawa (FAD).



14. The revenue shortfalls and expenditure overruns raised the **overall deficit** to 10 percent of GDP by the end of the fiscal year against the originally projected 4.7 percent of GDP. Although available foreign financing could have covered the originally targeted deficit, and still allowed an accumulation of government deposits, the increased deficit necessitated government borrowing from the banking system of KN163 billion or 5 percent of (fiscal year) GDP. The budget based spending plans on anticipated disbursements of two balance-of-payment support loans from international financial institutions. However, the authorities did not adjust spending or increase revenues when these disbursements were delayed exacerbating macroeconomic imbalances.

### C. 1998/99 Budget <sup>6</sup>

15. **Revenue.** The 1998/99 budget set a revenue target of 12.7 percent of GDP, a planned increase of 1.5 percentage points of GDP over the previous years outturn. This was to be achieved by adopting revenue measures that had been announced but not implemented in 1997/98. As in 1997/98, macroeconomic policy continued to be weak and resulting inflation far exceeded levels anticipated at the time of budget preparation. Consequently the authorities revised budget targets in March raising the nominal revenue target by 22 percent. Although it is expected that the authorities will achieve at least their revised target which is more than double that of the nominal 1997/98 outcome, this level of revenue would be 10 percent of estimated GDP, the lowest level in 9 years.

16. **Expenditures.** Total expenditure was targeted at 21.1 percent of GDP, a reduction of nearly 6 percentage points of GDP from the 1997/98 outturn in an effort to tighten the fiscal position. This was to be achieved by cutting capital expenditures to 12 percent of GDP while raising current expenditures to 9.1 percent of GDP. The mid year budget revision left nominal kip spending levels basically unchanged, reflecting only the increased kip value of foreign funded investment projects.

17. Government efforts to contain the fiscal deficit in the face of revenue shortfalls continued to focus on the compression of current expenditures and the prioritization and postponement of projects<sup>7</sup>, especially domestically-financed investment projects. Current expenditures, are now estimated to be 6.4 percent of GDP compared with the initial target of 9.1 percent. In particular, wages and salaries are now estimated to be only 2.2 percent of GDP compared with 4-4.5 percent of GDP in the pre-crisis period and 3.5 percent of GDP envisaged in the budget. This pattern is not sustainable as real wages have declined by more than 50 percent over the last three years. Capital expenditures now are estimated to rise to 14 percent of GDP compared with the planned target of 12 percent. This results largely from depreciation effects on foreign financed projects but also weak administrative controls over line ministries and provinces.

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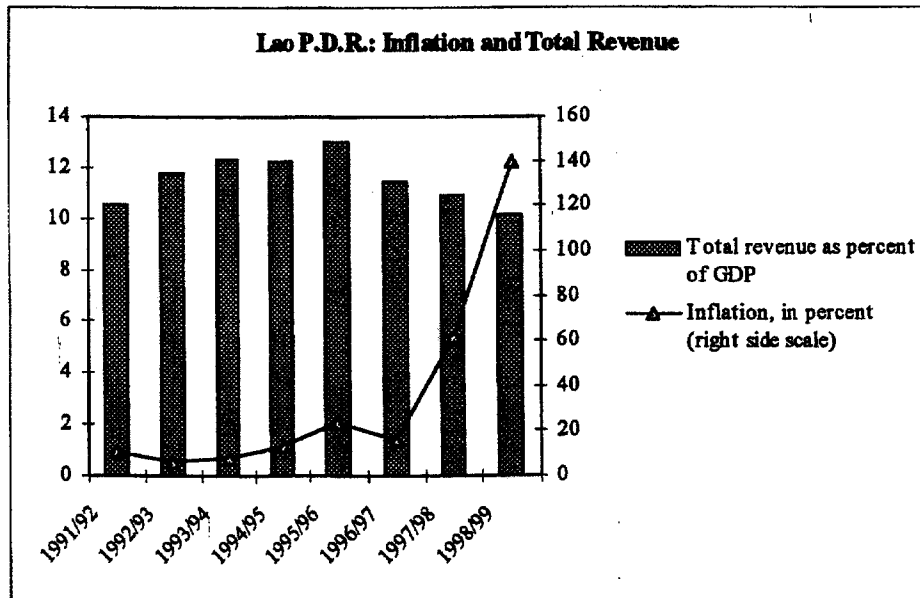
<sup>6</sup> At the time of writing, information on the 1998/99 actual is not available.

<sup>7</sup> In mid 1998/99, about 201 projects from a budgeted 2761 projects were cancelled or postponed.

18. The original overall deficit was planned to be 8.4 percent of GDP, to be financed entirely by foreign borrowing. The compression of current spending allowed the outturn current surplus to be maintained at an estimated 3.6 percent of GDP, offsetting real revenue declines. The overall deficit is projected at a somewhat higher 10.3 percent of GDP but remains wholly financed by foreign savings while allowing a KN 100 billion government deposit build-up with the banking system.

#### D. Tax Administration<sup>8</sup>

19. As discussed above, revenues have continuously declined since 1995/96 as percent of GDP (see chart below). This was mainly due to weak tax administration, which depends to a significant extent on negotiations of tax liabilities with tax payers, exacerbated by an inefficient tax sharing agreement with provinces. In addition, the authorities often used outdated and appreciated exchange rates in customs import valuation to stem inflationary pressures, undermining their own objective of revenue mobilization. The authorities have taken a number of steps including the introduction of new tax measures and establishment of a large taxpayer unit to rectify the situation. However, these measures have so far shown little visible impact on increasing real revenues. This section discusses a number of underlying tax administration issues.



20. **Negotiated nominal revenue targets.** A significant part of revenues are collected on the basis of nominal payment targets negotiated with taxpayers early in the fiscal year. Given the limited tax administration capacity and paucity of taxpayer records on which to base assessments, tax obligations have often been negotiated on a presumptive and a lump sum basis. A major weakness of this system is that it cannot respond flexibly to changing economic

<sup>8</sup> Prepared with the assistance of Mr. Asakawa (FAD).

circumstances. These payment targets are not revised regularly to reflect an increase in the tax base when, for example, price increases have been higher than anticipated. In addition, individual tax offices and officers have a substantial amount of discretion in determining how much a given taxpayer must pay.

21. **Provincial Revenue Sharing Arrangements.** The existing revenue sharing arrangement between the center and the provinces does not give sufficient incentive to provinces to collect additional revenues. Upon the approval of the budget by the National Assembly, each province is assigned a revenue target based on, among other factors, the previous year's collection. Recognizing that this system was rigid and gave little incentive to provinces to strengthen revenue mobilization beyond the pre-assigned targets, the authorities introduced a new revenue sharing arrangement in 1998/99 (Box 1). In particular, provinces with a budget surplus are now allowed to retain 50 percent of any tax collection above the revenue target for projects approved by the central government. Provinces not in surplus are given a fixed transfer from the center, and must collect the balance of their budget spending; shortfalls must be met by cutting spending.

22. Experience demonstrates several weaknesses with this tax sharing arrangement. First, it still does not provide provinces, in particular those in surplus, with strong incentives to exceed pre-assigned targets because the extra revenue they raise cannot be spent on provincial priorities. Second, the arrangement is inflexible as the target for each province is established through *ad-hoc* pre-budget negotiations rather than based on clear policy guidelines. Thus the arrangement does not respond to actual developments during the fiscal year because targets cannot be revised in line with actual growth or inflation unforeseen at the time of budget preparation. Third, the classification of provinces into one of three types is not stable from year to year and is based on historical tax collection in each province. Since surplus provinces have the highest obligations to the central government, an incentive exists for provinces not to exceed their pre-assigned targets and thus avoid being classified as a surplus province.

23. **Large Taxpayer Unit.** This unit (box 2) has been established to improve tax administration by significantly reducing tax collection based on negotiated targets. It collects taxes from large taxpayers based on their actual business and financial activities. The unit has collected approximately 40 percent of total tax revenues during the past two years. However, its tax collection potential is yet to be fully realized. In particular, the unit's full time leader has only recently been appointed and the staff of the unit were often diverted away from their primary task of tax collection to administrative work of the tax department of the Ministry of Finance. Furthermore, the coverage of taxpayers is more limited than initially envisaged. For example, about 20-30 large taxpayers were transferred from the LTU to the Vientiane municipality in 1998/99 keeping LTU staff from collecting taxes from these taxpayers. Based on a follow up review, however, the authorities reversed this decision.

### **Box 1. Provincial Tax Sharing Arrangement**

The tax sharing arrangement introduced in April 1999 classifies provinces into three types:

(a) Provinces in budget surplus (4 provinces)

These must submit 60 percent of revenue to the central government and keep 40 percent for use by the province. If the revenue collection exceeds the target in the budget, 50 percent of the excess amount must be remitted to the central government, and the remaining 50 percent be invested in projects approved by the central government, such as irrigation construction, and/or lent to the central government.

(b) Self sufficient provinces (9 provinces)

If their revenue collection exceeds the target in the budget, 100 percent of the exceeded amount is to be kept in the province for internal construction projects authorized by the central government .

(c) Provinces in budget deficit (4 provinces)

The central government subsidizes their budget deficit on a monthly basis and if the revenue collection exceeds the target in the budget, 100 percent of the excess amount is to be kept in the province to pay salaries and administrative costs.

24. **Outdated Exchange Rates.** The decline in import duty collection has been the most precipitous among major tax items as percent of GDP, in the recent past (Chart below). The use of outdated and appreciated exchange rates for customs valuation purposes to stem inflationary pressures was a major source of shortfalls in import duty collections. In 1997/98 a rate of 2,000 kip per dollar was used for import valuation while the commercial bank rate averaged 2,700 kip per dollar. In 1998/99, a rate of 4,000 kip per dollar was used for import valuation even when the commercial bank rate fell to 9,000 kip per dollar (an average 6,345 kip per dollar for the fiscal year) depriving the budget of an estimated 2.4 percent of GDP in revenues. Using the weight of imported goods in deriving the CPI mechanically, the price impact of moving to the market exchange rate will be estimated as 5-10 percent. But, as most goods sold in the Lao P.D.R. already incorporate parallel market exchange rates, the actual impact on prices of using market related exchange rates should be much smaller. The use of

### **Box 2: The Large Taxpayer Unit (LTU) in the Lao P.D.R.**

The Large Taxpayer Unit (LTU) was set up in the Tax Department of the Ministry of Finance headquarters in 1991 under the IMF/NORAD/UNDP Tax and Customs Administration Reform project. The unit is responsible for registering large taxpayers, receiving and processing their tax returns and payments, detecting under reporting, and collecting tax arrears.

#### **Current situation**

The LTU has recently collected 40 percent of total tax revenue from approximately 800 taxpayers. With the implementation of a number of new initiatives, the LTU is expected to increase revenue collections further. First, self-assessment turnover tax obligations has been introduced, and large taxpayers prepare their own returns and submit their payments directly to the treasury. Because the LTU has enhanced capacity to detect stop-filers, filing compliance on turnover tax has increased to 75 percent from the previous 30 percent. Second, the unit has developed procedures for field audits and has now started to conduct these audits. Third, work has begun to improve arrears collection. Finally, a computerised system has been developed to strengthen tax payer data base.

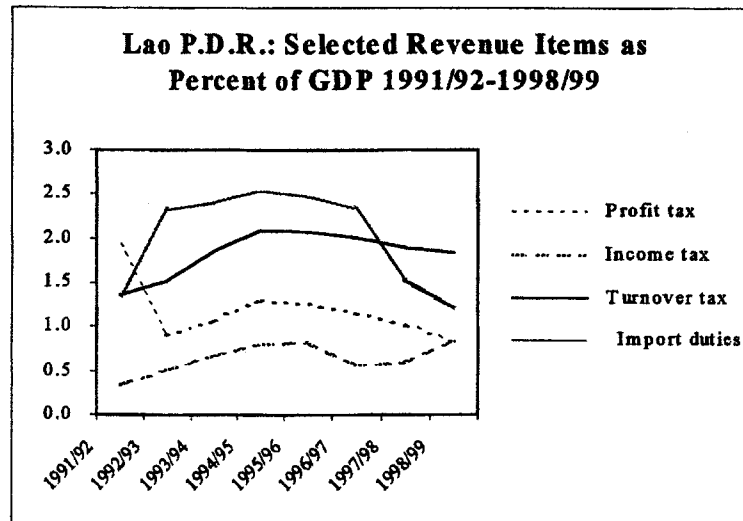
#### **Current challenges**

*Organisation:* It is important to identify an organisational structure that allow the unit to achieve its full potential of tax collection. The LTU was separated from the Department in 1997 to allow unit to focus on tax collection rather than administrative work of the Department, but it was reorganised into the Department in 1999.

*Personnel:* Another important task is to appoint unit management that has the qualifications, experience and authority to collect taxes from largest taxpayers.

*Coverage:* It is also important that the LTU cover all establishments that meet predetermined financial criteria of large taxpayers, and not change the coverage for nonfinancial reasons.

outdated exchange rates reduced not only import duties but turnover taxes and excise duties on imported goods, taxes on exports, royalties<sup>9</sup>, and some non-tax revenues.



25. **Other Tax Exemptions.** Other important tax expenditures are more difficult to quantify, as it is believed that *ad hoc* exemptions are widespread. The one case which has been publicly announced is the case of petroleum products, in which a general exemption from indirect taxes was announced as a measure to avoid raising the local price of fuel in the face of rising world oil prices. This exemption, if continued in full for an entire year, could amount to as much as 1/2 percent of GDP. The staff has not been able to confirm report of exemptions given to other enterprises.

#### IV. Monetary Policy and Financial System

##### A. Overview

26. Throughout 1998 monetary policy was essentially passive as the government drew on the central bank to finance the budget deficit. Given revenue shortfalls and the limited deposits growth in the banking system, the Bank of the Lao P.D.R. (BOL), was the government's only ready source of funds for public policy purposes. In response to triple digit inflation, efforts to tighten monetary policy were started late in 1998 and continued into 1999. However, tight policy was abandoned periodically and the decline in the value of the kip and high inflation continued unabated. Only in the third quarter of 1999 did the government take a firm position against resorting to the BOL for financing.

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<sup>9</sup> Revenues from royalties are collected in foreign currency so losses from this source are mainly of an accounting nature.

## **B. Developments in Money and Credit**

27. The loosening of monetary policy that started in 1997, with the abandonment of bank by bank credit ceilings, continued in 1998. Growth in broad money during 1998 was 113 percent (51 percent excluding the valuation effects of a rapidly depreciating exchange rate on foreign currency denominated items). This rapid growth occurred consistently throughout the year (Tables 11 and 12).
28. Domestic credit grew by 94 percent in 1998 (63 percent valuation adjusted) driven in equal measures by an expansion of credit to government and the private sector. Credit to SOEs increased by only 7 percent (a valuation adjusted decline of some 20 percent) after adjustments are made for irrigation expenditure.<sup>10</sup> The BOL continued to extend credit in the first three quarters of 1998 to finance the government irrigation project and periodically throughout 1998 for budgetary support. Reserve money increased by close to 90 percent over the year.
29. An accommodative monetary policy resulted in a fourfold increase in credit to government, to KN 171 billion, over the 12-month period to December 1998. Credit extended for the irrigation project (some KN 147 billion) accounted for nearly half of all new credit extended in 1998. Of this US\$11 million was provided to SOEs for the importation of pumps and a further KN 45 billion was directly injected into the economy by the BOL as loans to local authorities and farmer organizations. Repayment terms vary, and have been the subject of extensive debate within the government, as some projects were undertaken prior to agreement on repayment terms. Furthermore, early in 1998/99 the authorities increased BOL financing of the budget in large part to fill the gap created by delayed or cancelled balance of payment support from donors instead of adjusting revenues and spending. Equally significant in expanding domestic credit was the 75 percent growth (40 percent valuation adjusted) in private sector credit. This was facilitated by the increase of BOL and government deposits in the banks, by the removal in 1997 of individual bank credit ceilings, banks' poor lending practices and weak supervision and prudential enforcement by the BOL.
30. In 1998 net foreign assets of the financial system remained broadly unchanged in dollar terms. However, this hides the US\$18 million decline in BOL net international reserves and the offsetting increase in net foreign assets of the commercial banking system. The decline in international reserves is partly explained by the BOL's irrigation financing but may also be explained by the sale of foreign exchange to commercial banks for "priority imports". Foreign currency deposits (FCDs) with commercial banks rose rapidly, from US\$107 million in December 1997 to US\$25 million by May 1998 (67 percent of broad money), as individual depositors sought to transfer their savings into an asset that would hold value. The government's

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<sup>10</sup> BOL credit for irrigation investments was initially conducted off-budget and were recorded as credit either to the private sector (to farmers for installation and operation of pumps) or SOEs (for importation of irrigation equipment). These credits were reclassified as claims on government for monetary survey purposes. Because details of financing are not available, this reclassification may not be accurate.

crackdown on parallel market activities in June led to a temporary decline in FCDs but by December 1998 they had recovered to US\$ 136 million.

### **C. Monetary Policy**

31. Attempts to tighten monetary policy were lackluster until late 1998. The intention to reintroduce individual bank credit ceilings, announced in early 1998, was not implemented. As the BOL had abandoned the use of reserve money programming in early 1997 the BOL was further hampered in its ability to implement an active monetary policy. Equally damaging was the continued reluctance of the government to bear higher interest costs of issuing securities to absorb excess liquidity due to a tight fiscal environment, which prevented timely issue of these bills at attractively high interest rates. Treasury bill auctions (Table 15) continued in 1998, principally for budgetary financing, and were increasingly conducted as placements of bills with SOCBs at administered interest rates. Since the last auction in October 1998 the stock of auction bills has gradually dwindled to zero. Despite nominal interest rates of between 19-24 percent, and the increasingly negative real interest rates they offered, banks still held the bills as an alternative to holding idle balances.

32. Efforts to remove excess liquidity from the economy became more active in late 1998 and early 1999 with renewed sales of BOL and treasury bills to the public at interest rates of 30 percent, somewhat above bank deposit rates. Initial sales were successful, and KN 17 billion of each type were outstanding by March 1999. A new initiative to sell BOL bills at 60 percent interest rates in April 1999 proved extremely successful in stabilizing prices and the kip, as they attracted investors from dollars back in to kip. However, these sales were suspended prematurely as concerns arose again over the budgetary costs of high interest payments, and stabilization gains dissipated soon thereafter.

33. Interest rates are determined administratively. With rapidly rising inflation, bank interest rates became increasingly negative (Table 16). Interest rates on one year kip deposits were revised upwards twice in 1998 from 17 ¼ percent in December 1997 to a range of 19-25 percent by December 1998. This still did not fully compensate savers for the erosion in the real value of their savings.

### **D. Banking Sector Developments**

34. The Lao banking system consists of the central bank, BOL, three newly merged state owned commercial banks (SOCBs), of which the largest by far is the Banque pour le Commerce Exterieur (BCEL), seven branches of foreign banks (all but one from Thailand) and two joint venture banks. The state owned Agricultural Promotion Bank continues to direct subsidized agricultural loans to rural areas and to administer donor-funded microenterprise credit schemes through its extensive branch network.

35. A first step to consolidate the SOCBs was taken in 1999 with the merger of the six smaller provincial banks into two, supported by the AsDB's second Financial Sector Program Loan. The BCEL remains a separate institution and continues to service Vientiane municipality and conduct international transactions. After the consolidation of commercial banks, new operation manuals and business plans have been prepared and Boards of Directors have been



appointed. However, managerial and operational improvements are still required (e.g., in credit risk appraisal, collateral valuation, debt recovery, and liquidity management) to avoid a repetition of a previous recapitalization exercise that led to rapid credit growth and the re-emergence of significant levels of nonperforming loans.

36. The banking system in Lao P.D.R. remains largely insolvent as described in the last RED<sup>11</sup>. Indeed, the further dramatic depreciation of the kip and weak economic performance is likely to have exacerbated the insolvency problems exposed by the 1996 and 1997 external audits. The original estimates that non-performing loans ranged between 25-70 percent of bank portfolios and that recapitalization of the sector would cost some US\$70 million could prove conservative.

37. Efforts to address some of the problems identified in these audits have been undertaken. A Credit Information Bureau has been established with the objective of sharing information on loans above KN 30 million among SOCBs and thereby prevent bad debtors accumulating non-performing loans in several institutions. The BOL has announced new prudential regulations on loan classification, provisioning and capital adequacy ratios. It has also created a Banking Supervision Department charged with enforcing these regulations through surveillance and on-site inspections. The success of these measures will be determined by their implementation, especially enforcing the prohibition on capitalizing interest arrears.

## V. External Sector

### A. Overview

38. The economy of the Lao P.D.R. is dependent on, and therefore vulnerable to, regional trade and investment developments. The current account deficit has been large in recent years, between 10-16 percent of GDP excluding grants, although precise estimates are complicated by significant unrecorded trade and likely capital flight. Progress with trade liberalization was a major achievement in the reform of the Lao economy in the early 1990s but in practice many informal restrictions remain. Accession to ASEAN offers considerable opportunities for further regional trade liberalization but most tariff reductions have yet to take effect.

### B. Recent Developments in the Balance of Payments

39. In 1998 **current account deficit** stood at 10.6 percent (excluding official transfers), a significant reduction from the 16.3 percent deficit in 1997. This was driven largely by an improvement in the recorded merchandise trade balance (Table 18). Despite the lower current account deficit, the central bank still drew down net international reserves by US\$18 million to finance specific imports.

40. **Exports** grew by over 6 percent in dollar terms in 1998 following a small decline in 1997 (Table 19). This was driven by a sharp increase in electricity exports with the coming on stream

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<sup>11</sup> SM/98/124 "Lao P.D.R.—Recent Economic Developments" June 1, 1998.

of the Theun Hinboun hydroelectric plant and a recovery in wood exports. On the basis of strong volume growth to the European market, coffee exports more than doubled in value terms. Garments exports declined in 1998, though following the reinstatement of preferential market access to the European Union, this trend has recently been reversed. As a proportion of GDP, exports rose significantly from a recent average of 18 percent to over 26 percent in 1998, largely explained by the sharp decline of GDP in dollar terms.

41. Recorded **imports** declined by over 14 percent in dollar terms in 1998 (Table 20), a development that was partly attributable to the completion of a hydropower project (and no new start taking place) and the depreciation of the baht vis-à-vis the U.S. dollar given the significant level of baht priced imports that enter the country. However, in the context of an increasingly restrictive trade and foreign exchange regime the extent of unrecorded imports is likely to have risen (see below). The rise of the share of imports in GDP from 37 percent in 1997 to 44 percent in 1998 is also largely explained by exchange rate movements.

42. Since 1995, the staff estimates that interest and dividend payments on assets held by foreign direct investors in the Lao P.D.R. have increased steadily, and with rising interest payments on official borrowing, this has led to a further deterioration in the **factor income** balance in 1998 (Table 22). The **services** balance improved sharply in 1998, largely as a result of higher tourism income and lower construction service payments in the final phases of hydropower construction (Table 23).

43. Both **grant and loan** disbursements declined in 1998 (Table 24). Grants declined to US\$74 million in 1998 from US\$ 98m in 1997, largely due to declines in contributions from bilateral donors. Official loan disbursements also fell, to US\$150 million in 1998 from US\$179 million in 1997, reflecting in part, a decline in policy based lending brought on by the slowdown of reforms, and limited counterpart funds for foreign aid projects.

44. **Foreign direct investment** is estimated to have declined to about US\$56 million from US\$104 million, again largely due to lower hydropower investment with the completion of the Theun Hinboun project and the imminent completion of the Huay Ho project. FDI project approvals of US\$122 million in 1998 were similar to approvals of US\$114 million in 1997, but significantly below approvals of US\$1.3 billion in 1996 (Tables 26 and 27). Chapter VI provides a more detailed analysis of FDI experience in the Lao P.D.R.

### C. External Debt

45. At the end of 1998, the Lao P.D.R.'s debt to creditors other than Russia amounted to US\$1040 million or about 83 percent of GDP. While the largest part of this debt is on concessional terms from the World Bank and AsDB, the Theun Hinboun power company, which is majority-owned by the government, has incurred a stock of debt of about US\$160 million from commercial creditors. This explains the sharp increase in debt service presented in Table 28. The Lao P.D.R. also holds SUR 789 million in loans from the Russian Federation. Until 1998, a small portion of this stock of debt has been serviced through in kind payments, though by agreement no payments were made in 1999 pending a more comprehensive resolution of the ruble debt.

## **D. Exchange and Trade System**

46. In September 1995, the Lao P.D.R. formally adopted a managed floating exchange rate system. In practice however, the BCEL, the largest SOCB and the bank which handles most foreign currency transactions through the banking system sets the commercial bank rate in consultation with the authorities. Other banks and exchange bureaus follow the BCEL rate. During 1998 the kip lost more than 50 percent of its value against the U.S. dollar, reaching KN 4,274, and by 60 percent against the Thai baht. The bank rate has generally followed the parallel market exchange rate. However, the premium of the parallel market rate over the bank rate varied considerably, though the official policy is to keep the premium to less than 2 percent. Exchange market developments are covered in more detail in Chapter VII.

47. The Lao P.D.R. currently applies five tariff rates, at 5, 10, 15, 30 and 40 percent. Based on information from the ASEAN secretariat, in 1998 the simple tariff average amounted to 9.6 percent and the trade-weighted average was 14.7 percent. Tariffs effectively paid to customs, however, are currently less than half of what these rates suggest, as an overvalued exchange rate (4000 kip/US\$) is used for the calculation of customs payments. Imports for foreign investment projects pay only reduced tariffs at 1 percent. A feature of the Lao trade regime is the high degree of administrative discretion in imposing trade restrictions. The Prime Minister's Order 06/PM of March 1999 sharply reduced the number of licensed trading companies. The amalgamation of trading companies into six trading groups is intended to facilitate the management of imports in any one product group. Each importer is licensed to import no more than the allocated quantity per year and in addition individual shipments need to be licensed by the Ministry of Commerce and Transport. Imports of luxury goods and of foodstuffs produced in the Lao P.D.R. are discouraged.

## **VI. Experience with Foreign Direct Investment**

### **A. Overview**

48. Foreign direct investment (FDI) has played an important role in Lao P.D.R.'s transition to a market system and contributed to the country's rapid economic growth during the 1990s: since 1988, when FDI was first permitted, real GDP has more than doubled. The onset of the Asian crisis, however, brought about a slowdown in FDI, as the Thailand and other crisis-affected Asian countries were both a major source of investors and a major market for the output of their investments, especially in the all-important power sector. Moreover, the more cautious attitude of the authorities towards further economic reform over the past few years, coupled with the macroeconomic instability the country has experienced, has made the business environment for foreign investors less welcoming than in earlier years. Macroeconomic stabilization and renewed economic reform will therefore be as important as recovery in Lao P.D.R.'s partner countries for a renewal of investor interest.

### **B. Legal Regime for Foreign Investment**

49. The legal regime for foreign investors continues to be somewhat ambiguous. The primary piece of legislation governing FDI is the 1994 Foreign Investment Law (FIL). However, implementing regulations for the law have not been issued five years after the law came into

force. At the same time, other laws and decrees at times conflict with the Foreign Investment Law, with no clear means of resolving the difference. This creates substantial scope for discretionary enforcement on the part of the authorities, creating a lack of predictability. Indeed, the ambiguity in some cases is interpreted to the advantage of foreign investors and sometimes to their detriment.

50. The 1994 Foreign Investment Law itself is an open and liberal one, generally friendly to foreign investors. For example:

- All sectors are open to foreign investors, except for those detrimental to health, environment, culture, or public order. Foreign investors are permitted 100 percent ownership, free from state interference.
- Profits are taxed at a flat 20 percent rate, and expatriate staff incomes at a rate of 10 percent.
- Materials and equipment imported for use of the investor enjoy a special 1 percent import tariff.
- Profits may be freely repatriated.
- Foreign investors are protected from expropriation, except when it is in the public interest, in which case reasonable and speedy compensation is to be paid.

51. Considering some of these provisions more closely, however, may give a clearer picture of the overall situation. Although all sectors are in principle open to foreigners under the FIL, the 1995 Business Law specifically lists areas from which foreigners are barred. Full foreign ownership is permitted under the FIL, but explicitly ruled out for the relevant sectors in the Mining and Electricity Laws. Foreign investors get a preferential income tax rate, but the 1995 Domestic Investment Law provides for better tax treatment for domestic investors in industries designated as "promoted" by the authorities. Foreign investors' imports are given a preferential import tariff of 1 percent. Although the law makes no mention of it, the government has made a practice of waiving turnover and excise taxes on those same goods (this could be reversed at anytime). Profits may in principle be repatriated, the availability of foreign exchange at the banks for investors whose profits are in kip has been poor, especially over the past two years, and highly dependent on the level of foreign exchange inflows at the time the foreign exchange is sought by the investor.

52. In addition to the ambiguity created by the law itself, investors are subject to a substantial amount of uncertainty regarding the array of licenses, permits, and approvals needed for various activities, of which the foreign investment license itself is but the first. The approval of foreign investment is the responsibility of the Foreign Investment Management Committee (FIMC), a body established under the Prime Minister's Office and charged with evaluating proposed investment projects. Although there have been efforts to centralize the investment approvals process in the FIMC and make it a genuine "one-stop-shop", line ministries have been reluctant to relinquish their authority over foreign investors.

### **C. Experience with FDI Inflows**

#### **Commitments, 1988-1999**

53. Between 1988, when approvals of FDI projects began, and mid-1999, investors from 35 countries registered over 750 investment projects in Lao P.D.R., with a total value of over US\$7 billion. Of this amount, some US\$2 billion has already been disbursed (Tables 31 and 32).

54. The number of projects approved annually rose very quickly, from less than 40 per year in 1988-90 to over 100 per year in 1994-96. In both 1997 and 1998, about 60 projects were approved; in the first ten months of 1999, only 43 projects were approved.

55. Although in the early years of FDI (1988-91) investors from industrial countries dominated the FDI approvals, in each year since 1994 more than 85 percent of the total value of investment approvals have come from Asian countries (excluding Japan). By value of investment, Thailand is by far the largest investor in the Lao P.D.R., with 37 percent of the approved total. The other leading investors are the United States (22 percent), Malaysia (11 percent), Korea (9 percent), and France (6 percent). Of the total amount committed, the contribution of local joint venture partners has amounted to some US\$1.2 billion, or slightly less than 20 percent of the total.

56. In value terms, the leading sector for foreign investors has been the hydropower sector. Although there have been only 7 investments approved for the sector, their aggregate value of US\$4.5 billion comprises almost two-thirds of the total approvals. Manufacturing activities, led by wood processing and textiles; transport and telecommunication; and tourism each comprise an additional 10 percent of the total.

#### **Recent FDI Disbursements**

57. About US\$2 billion (30 percent) of the US\$7 billion in FDI commitments have been disbursed. To a large extent, this is due to delays in the start-up of the large hydropower projects that were approved before the Thai recession caused a drop in the projected demand for electricity imports in the northeast of Thailand. Of the seven projects in this sector, only the two smallest have been built so far, so that US\$4 billion of the undisbursed amount comes from the five other registered foreign-invested hydropower projects. However, the worsening domestic economic climate, due to the economic instability and bureaucratic hurdles faced by investors as the reform process slowed, has served to reduce the prospects for many other projects as well.

58. An informal survey conducted among the embassies of the leading foreign investors as to the status of approved FDI projects from their respective countries reveals an interesting pattern.<sup>12</sup> Of the 240 projects, worth over US\$3 billion, for which the status could be verified,

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<sup>12</sup> Thailand and Vietnam were excluded from the survey, despite their importance, because of the ease with which investors could move back and forth across the border, making a determination of their status problematic.

only 9, with an investment value of less than US\$13 million, were abandoned prior to start-up. Some 167 projects, worth US\$1.3 billion, were currently in operation, with an additional 15 projects, worth US\$0.8 billion, planning to begin operations in the near future.

59. However, at the same time, it appears that 49 projects, with wide sectoral coverage, worth US\$0.9 billion have ceased operation. Although the specific reasons for the cessation of these operations are not known, the economic situation has become sufficiently difficult that even some established companies have discontinued operations for now. This highlights a trend that has become increasingly apparent over the past year, that of foreign investors withdrawing from their commitments. Most of these withdrawals take place quietly because of the apparent reluctance of the authorities to see an investment project "fail". Some investors choose to go through a simplified legal procedure to make their companies dormant, while others simply depart without formally shutting down operations. For Thai investors especially, the cost of moving in and out may be quite low, making it difficult to judge whether a concern remains ongoing or not.

60. One final aspect of recent experience should be noted. The large numbers for foreign investment registered from hydropower and other large projects distort, in certain ways, the role of foreign investment in the economy. In recent years, around 75 percent of all the FDI projects approved have had a registered capital of less than US\$1 million but discussions suggest that these smaller investors may have the most difficult time gaining investment approval. The smaller investors are located primarily in manufacturing and services, where the potential for job creation, skills transfer and integration into the broader economy is greatest. Certainly the garment industry, with total investment over the past decade of less than US\$50 million (on average, less than US\$2 million each), has made a significant contribution to urban employment by creating approximately 20,000 jobs.

#### **D. Obstacles Facing Foreign Investors**

61. The largest obstacle facing investors is the overall economic environment. The current macroeconomic instability, with high inflation and volatile exchange rates complicates investment decisions, making projections of future revenues and profitability extremely uncertain. Prices, wages, and import costs are all highly sensitive to small variations in inflation and exchange rates. In addition, the current difficulties in obtaining foreign exchange in a timely manner even to pay for priority goods pose additional cost to investors.

62. The regulatory and legal environment governing FDI remains difficult to negotiate and nontransparent. No improvement of the investment climate should be overlooked especially given the still-difficult economic environment in Asia and the competition to attract potential foreign investors.

63. In addition, the low level of infrastructure development and service provision impose higher costs, in the following areas;

- **Financial services.** Good banking can be a big help to growing companies, especially when they want to export. The banking system is now largely insolvent, and loans are difficult to get. Nevertheless, the implementation of necessary reforms has been slow.

- **Communications.** Lao Telecom, in the agreement where a regional communications company took a 49 percent stake in it, received a 5-year monopoly on basic services. The rates for international calls are now extremely high by world standards. High international rates push up the costs of operating in the export sector, reducing competitiveness to potential foreign investors.
- **Electricity.** Lao P.D.R. has developed the electricity industry into a major exporter, and domestic service is quite reliable. However, as a result of keeping the domestic price of the electricity too low, EDL is making losses, putting at risk the future level of service.
- **Freight transport.** Internal transport by road is steadily improving, thanks largely to donor investment, although further improvements are still needed. International goods transport is hampered by monopolistic practices in the shipping industry. Price fixing results in too-high charges to ship to Bangkok Port, further discouraging potential exporters by reducing competitiveness.
- **Air transport.** Lao Aviation has the potential to provide frequent air links to major Asian cities, but instead is in financial trouble, with limited international service.<sup>13</sup> This makes the task of investors more difficult, and also hurts tourism, a potentially attractive sector for foreign investors.

## E. Conclusions

64. Foreign direct investment has been a major source of growth, capital inflows, and investment in recent years. However, the investment climate has deteriorated, jeopardizing future FDI commitments. Additional investment in hydropower is unlikely in the near future, and the authorities could usefully concentrate on improving the environment for investors, domestic as well as foreign. In this regard, the experience of recent years suggests that without renewed efforts to stabilize the economy and implement structural reforms, such as the completion of suitable implementing regulations for the Foreign Investment Law, investors will remain wary of committing new funds, or even continuing with existing investments. The consequence of such a reduction in FDI will surely be a lower rate of economic growth over the coming years.

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<sup>13</sup> The ending of service by Silk Air to Singapore and Malaysian Air Services to Kuala Lumpur is seen to be largely due to conditions in their home countries and to runway construction in Vientiane.

## VII. The Evolution of the Foreign Exchange System

### A. Overview

65. Between 1976 and 1988, the foreign exchange system was tightly restricted, and the multiple exchange rates then in use played little role in allocating resources in the economy. The liberalization of the foreign exchange system that started in 1988 led to *de facto* current account convertibility under a unified exchange rate. The exchange crises of 1995 and 1997, however, prompted the return to a more restrictive system and a wide divergence between the *de facto* and *de jure* systems.

66. The foreign exchange system is divided between the banks and the parallel market. Foreign exchange is often rationed at banks, even for "priority imports." The exchange rate set by the banks needs to follow the parallel market rate closely: too large a difference between the two rates can result in an incentive for companies to sell their hard currency to the parallel market, leaving the banks without foreign exchange. The parallel market, in which hundreds (or thousands) of merchants trade informally each day, remains illegal. During the periodic enforcement of exchange regulations, it is often difficult to learn what is happening in the market, but the market is sufficiently important to the functioning of the economy that it cannot be shut down for long.

67. The evolution of the system to its present shape - a history of incomplete liberalization followed by a series of crisis-driven clampdowns - is the focus of this chapter.

### B. The Legal Regime for Foreign Exchange

68. The guiding document for the foreign exchange system in the 1990s has been Prime Ministerial Decree 53, the "Decree of the Council of Ministers Governing the Management of Foreign Exchange and Precious Metals", which came into effect on September 7, 1990, replacing previous regulations in force since 1976. Decree 53 is a relatively liberal document, which can be interpreted as opening the door to full current account convertibility. It is under this decree, for example, that independent foreign exchange bureaus were first permitted. However, the implementing regulations for this decree, issued in 1990 and 1991, make a more restrictive interpretation.

69. The experience under the Lao exchange rate regime is one where different parts of the same legal/regulatory framework have been enforced with different degrees of restrictiveness at different times. An increasingly liberal interpretation of the regime continued until 1994/95, when more restrictive measures started to be employed. In 1999, however, despite some difficulties, the trend seems to be to reduce reliance on administrative measures.

70. It is difficult to formally classify the exchange system. Although the Lao P.D.R. formally moved to a managed float in 1995, typically the exchange rate is fixed on a daily basis with foreign exchange rationing a fundamental element of the system. There is little intervention in the usual sense. Moreover, the authorities effectively control the bank exchange rate on a day-to-day basis. The BCEL dominates foreign exchange transactions in the banking system, and all other banks follow the BCEL exchange rate on a daily basis. A close relationship between BCEL



and the BOL facilitates official influence over the bank exchange rate. At the same time, the importance of the truly floating parallel market, both in terms of the volume of transactions and its influence on the bank rate, give the system many of the characteristics of a floating system, particularly during periods when the parallel market is in official favor.

### **C. Exchange Rate Policies and Developments, 1988-1996**

71. Before 1988, there was a complex system of exchange controls, accompanied by multiple official exchange rates. Export proceeds had to be surrendered and residents were not permitted to hold foreign currency deposits. Most private foreign exchange transactions were conducted in the parallel exchange market. Four different official rates existed, mostly for official transactions, and there was a marked difference between official and parallel market rates.

#### **Liberalization and stabilization**

72. At the beginning of 1988, the four official exchange rates were unified simultaneously with price liberalization. Under the new system, the central bank set the buying and selling rates for the kip against the U.S. dollar. These unified rates were established at a rate close to the prevailing parallel market rate (350 kip per dollar), representing a depreciation of 75 percent. This move was accompanied by the adoption of a "managed float" exchange system, under which small, regular adjustments were made to the official rate in line with parallel market developments.

73. With continued macroeconomic instability, the parallel market exchange rate depreciated, and the official rate followed, though the gap between them at times rose as high as 20 percent. By late 1989, the two rates stabilized at around 700 kip per dollar due to slower monetary growth and greater inflows of foreign exchange associated with the opening up of the economy.

74. Between 1990-95 the exchange rate fluctuated around 720 kip per U.S. dollar, with the parallel rate seldom rising more than 3 percent above the official rate and never more than 6 percent above it (chart 2). In principle, the central bank determined the official exchange rates on the basis of recent movements in the parallel market. In the interest of exchange rate stability, however, the authorities preferred in practice to take a "wait and see" approach to movements in the parallel rate, as it did not want to validate parallel market fluctuations which often would reverse themselves in a matter of weeks.

#### **The 1995 crisis**

75. Continuing inflation, fueled by rapid credit expansion in the wake of the 1994 recapitalization of the state-owned commercial banks, led to growing expectations of depreciation in late 1994 and into 1995. The parallel market premium rose during the first quarter of 1995 and in April, the parallel market depreciated sharply. The authorities initially responded to this with a small depreciation in the official rate in May 1995 and the extension of administrative controls. These included some restrictions on the activities of exchange bureaus, price surveillance on certain commodities, establishment of a list of "priority imports", and other exchange restrictions. In particular, the number of independent exchange bureaus (that is, those not owned by a commercial bank) was reduced from 32 to 6.

76. In June 1995, the authorities also tightened financial policies. Reserve requirements on banks were raised from 10 to 12 percent of deposits. Bank-by-bank credit ceilings were imposed. Interest rate measures were taken. And fiscal measures were pursued to ensure achievement of budgeted revenue and expenditure targets.

77. However, neither the administrative measures nor the financial tightening were sufficient to reverse the depreciation in the parallel market. By September 1995, the official exchange rate had been abolished and a managed float formally adopted, while the commercial bank exchange rate, with strong official guidance, had depreciated to around 930 kip per U.S. dollar, in line the parallel market. The measures taken temporarily restored stability to the exchange market.

#### **D. Exchange Rate Policies and Developments, 1996-1999**

78. During most of 1996, the exchange rate remained stable around 930 kip per U.S. dollar while the spread between the commercial bank and parallel market rates remained below 2½ percent. However, macroeconomic policies again became increasingly expansionary and in August 1996, the parallel market rate began to depreciate. Responding to this widening premium amid signs of a worse-than-expected export performance, the BCEL started to adjust the bank rate to close the gap with the market rate. However, the market exchange rate continued to depreciate and by May 1997, the premium had risen to around 10 percent.

#### **The 1997 crisis**

79. In mid-June, the Vientiane municipal government reiterated part of Decree 53 (the foreign exchange transactions should only take place at banks or licensed foreign exchange bureaus), following which the parallel market rate fell from 1,080 kip per dollar to about 1,150 kip per dollar. On June 20, the authorities closed down the remaining independent foreign exchange bureaus for violations of Decree 53 that they had been prepared to overlook so long as the exchange rate had remained stable and the parallel market premium small. The commercial bank rate was then, on June 23, adjusted down by 6 percent, to 1,080 kip per dollar. By this stage, the parallel market had either gone completely underground or moved operations to Thailand.

80. At this point, the situation was exacerbated by the flotation and subsequent depreciation of the Thai baht. Although the U.S. dollar serves as the reference currency and the preferred store of value, Thai baht are widely used in border trade, and the two currencies circulate in parallel with the kip within the country. In general, the kip broadly followed the depreciation of the baht against the dollar: during the second half of 1997, the kip depreciated by 10 percent more against the baht, while losing half its value against the U.S. dollar.

81. Also during the second half of 1997, the authorities began to lift some of the restrictions against the parallel market. By late August, although independent exchange bureaus remained illegal, their renewed activities were tolerated. In October, a circular was issued by the central bank enumerating the types of domestic transactions that were permissible to transact in foreign exchange, effectively ending the strict interpretation of Decree 53.

### **Renewed instability and repetitive crises**

82. As discussed in earlier chapters, the macroeconomic stability resulting from loose financial fiscal policies during 1998 and into 1999 was felt most strongly in the foreign exchange market. The record of this period is one of temporary stability, interspersed with episodes of rapid depreciation.

83. From February until mid-May 1998 the rate against the U.S. dollar remained fairly steady at around 2,600 kip per dollar. During this period the strengthening of the Thai baht against the U.S. dollar helped to conceal the weakness of the kip. However, rapid depreciation in late May and early June saw the rate fall as low as 5,500 kip per dollar. The bank rate was adjusted only gradually and did not keep up with the plummeting parallel market even with a 13 percent step devaluation on May 28. Prices rose very quickly, particularly for imported goods, including many food items. In response, the government introduced administrative measures, notably the temporary detention of many parallel market dealers, to restrict the operation of the parallel market. This caused the parallel market rate to appreciate closer to the bank rate. By June 10, the two rates were again within 5 percent of each other, and stability was temporarily restored at a rate of about 3,500 kip per dollar.

84. This pattern of rapid depreciation was repeated in September 1998, January 1999, March 1999, and June 1999. On earlier occasions, the parallel market premium rose sharply, reflecting the reluctance of the authorities to adjust the bank rate with market developments. The premiums were occasionally significant, and at times long lasting, creating enormous distortions in the economy and imposing a large tax on those entities continuing to transact at the bank exchange rate. The parallel market premium that emerged in January was never less than 30 percent until eliminated with the introduction of sharply higher interest rates (on sales of central bank bills) at the beginning of April 1999. However, faced with these distortions, in the second quarter of 1999 the authorities became increasingly willing to move the bank rate. During the June crisis the bank rate adjusted much more closely to the market rate and with each subsequent crisis the appetite of the authorities for administrative measures seems to have diminished.

### **Crisis in reverse**

85. Following a period of exchange rate stability in July and August 1999, when the kip stood around 9,700-9,800 kip per dollar, the market exchange rate began to strengthen; gradually at first but by late September, rapid appreciation had raised the rate to 8,800 kip per dollar (buying) and 9,400 kip per dollar (selling).

86. This surge in the value of the kip was a result of tighter economic policies that had been put in place over the preceding months and was largely driven by a shortage of banknotes. At the end of July, there were only KN 84 billion in currency in circulation in the economy, less than US\$9 million at prevailing exchange rates, despite the fact that the economy is overwhelmingly cash-based. It appears that tighter policies and a period of exchange rate stability increased the demand for cash balances which was not initially accommodated by the BOL. The inflexibility of interest rates did not permit the banks to attract currency, and so they were forced to ration cash withdrawals which, together with the evident strengthening of the exchange rate, triggered cash hoarding by the public. The strengthening of the kip in the market was matched as closely

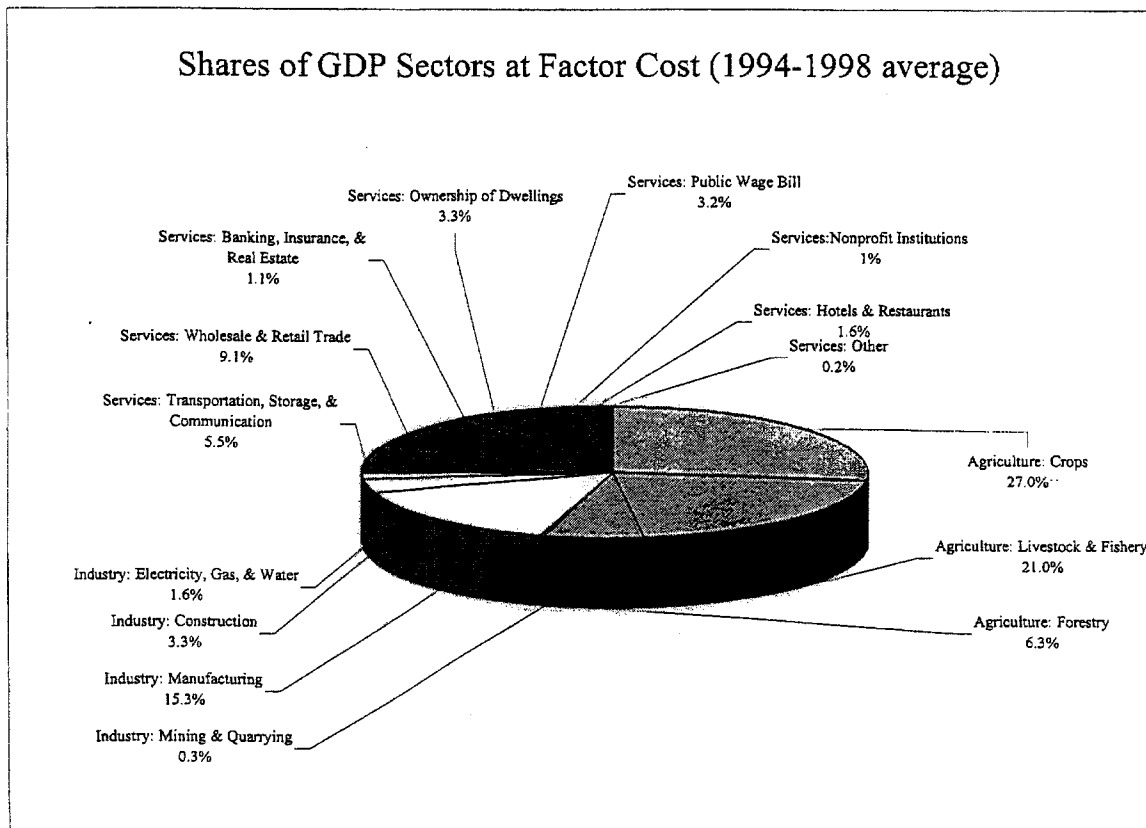
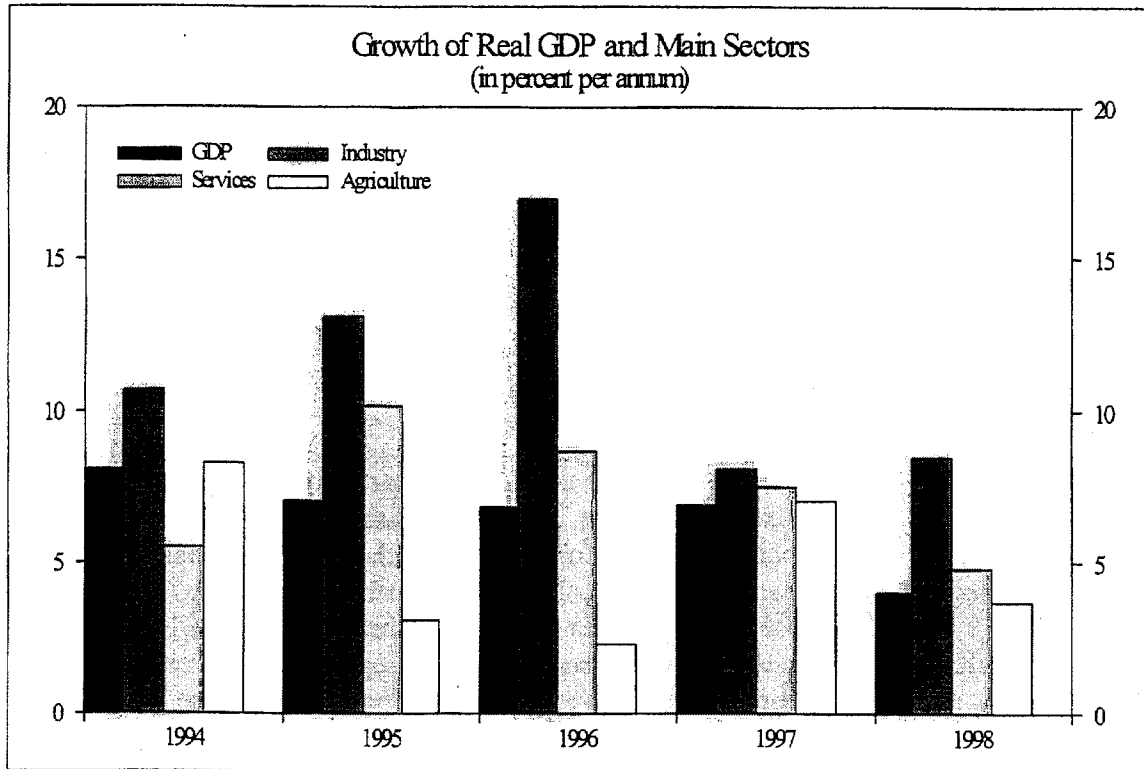
as possible by the banks, as the parallel market premium at times turned into a parallel market discount. By September 20, the authorities began to issue significant amounts of new banknotes, which quickly became visible in circulation and triggered the return to exchange rates closer to those that prevailed before the shortage. The banks, however, were slower to adjust their rates back down again, triggering a parallel market premium that peaked at 50 percent, before returning gradually to around 2 percent by the middle of October 1999.

### **E. Conclusions**

87. The parallel foreign exchange market thrived in the Lao P.D.R. even before the advent of economic reforms and the New Economic Mechanism were introduced in the late 1980s, and it continues to do so. The authorities made laudable progress in reducing the distortions in the foreign exchange system during the early 1990s, reaching a point that in practice resembled full convertibility, with a stable exchange rate and only a minimal spread between the bank exchange rate and the parallel market.

88. However, the authorities continue to make use of administrative measures to address unfavorable developments in the exchange market. During the past two years of acute instability with a highly variable economic policy stance, efforts to control the foreign exchange system in lieu of implementing consistent macroeconomic policies have further undermined confidence in the kip. It has left a system in which the authorities exercise discretion over the allocation of foreign exchange flowing through the banking system, while disregarding the parallel market—except for sporadic attempts to suppress it in between periods of benign tolerance. This has meant not only instability in the exchange rate itself, but also in the relation between the bank and market exchange rates, with large premia appearing and disappearing as the authorities attempt to cope with the latest market developments.

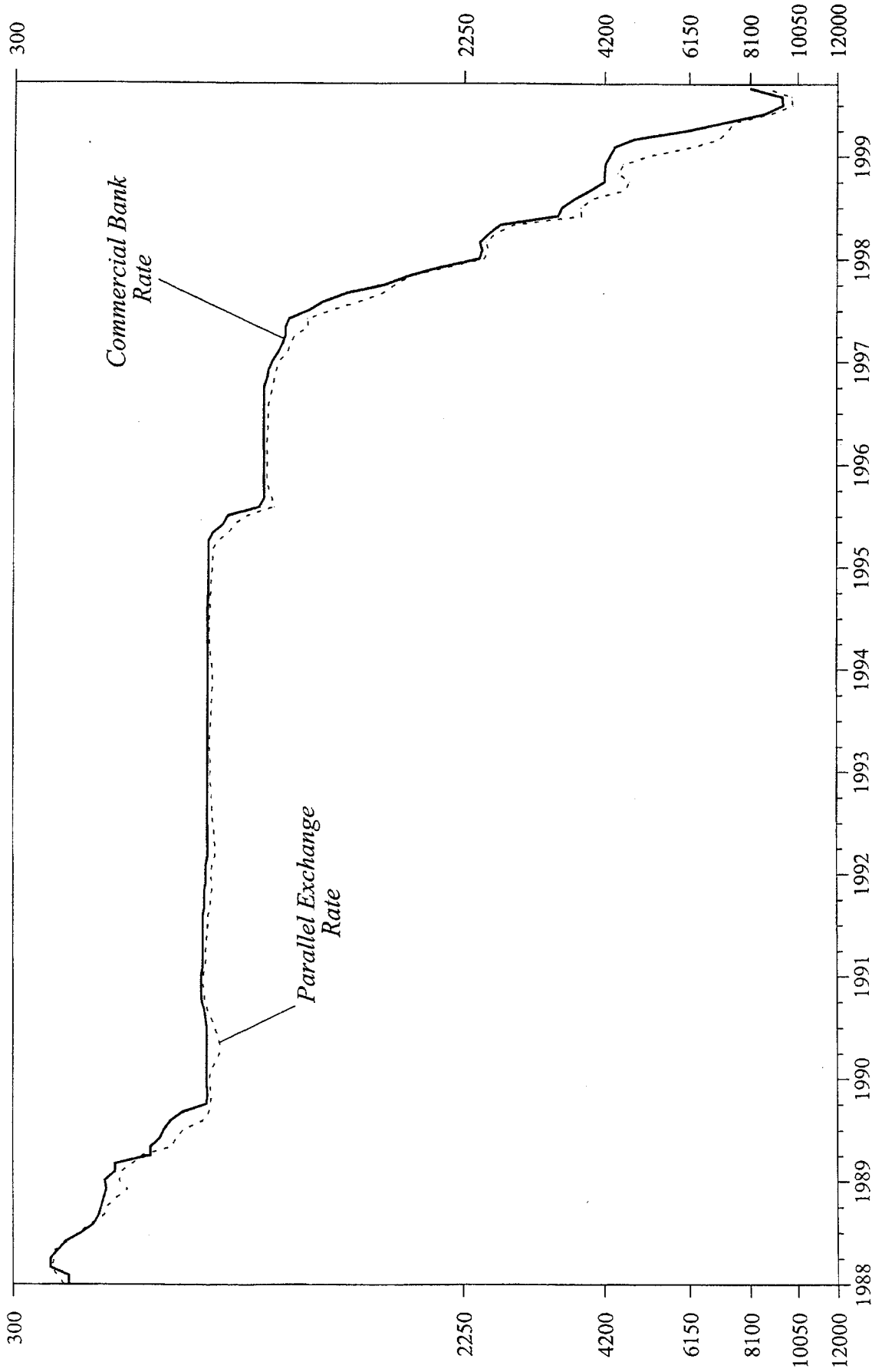
REAL GDP AND MAIN ECONOMIC SECTORS, 1994-98



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

LAO P.D.R.  
CHART 2

# COMMERCIAL BANK AND PARALLEL MARKET EXCHANGE RATES, 1988-99 1/ (Kip per \$U.S.)



1/Based on mid-point average values.

Table 1. Lao P.D.R.: Selected Economic and Financial Indicators, 1994-98

	1994	1995	1996	1997	1998 Est.
Nominal GDP (1997):	\$1,746m				
Population (1997):	5.2 million				
GNP per capita (1997):	\$336				
Fund Quota:	SDR 39.1 million				
Growth (percent change)					
Real GDP	8.1	7.0	6.8	6.9	4.0
Prices (percent change)					
Consumer prices (end-year to end-year)	6.8	19.4	7.3	26.4	142.0
GDP deflator (annual average)	7.7	19.6	13.8	18.2	84.0
Government budget (percent of annual GDP) 1,2/					
Revenue	12.3	12.2	13.0	11.3	11.2
Expenditure	23.8	21.9	22.1	21.3	26.9
Current account balance (excluding grants)	0.4	1.4	2.8	1.8	3.0
Overall balance					
Excluding grants	-11.5	-9.7	-9.1	-10.0	-15.8
Including grants	-5.2	-4.2	-5.6	-6.5	-10.0
Domestic financing	0.5	-0.4	-1.1	0.9	3.3
Foreign financing (net)	4.7	4.6	6.7	5.6	6.7
Money and credit (percent change; end of period)					
Broad money	31.9	16.4	26.7	65.8	113.3
Credit to the private sector	50.0	30.4	20.8	67.3	76.3
Interest rates (in percent; end of period)					
On one-year deposits	12.0	16-19	16-19	17.5	19-25
On short-term loans	24	22-28	24-27	20-27	30-36
External trade (percent change)					
Exports (value in US\$)	24.9	4.3	2.6	-1.4	6.3
Imports (value in US\$)	30.6	4.4	17.1	-6.0	-14.7
Balance of payments (percent of annual GDP)					
External current account balance					
Including official transfers	-6.3	-6.9	-12.2	-10.6	-4.7
Excluding official transfers	-14.4	-13.0	-16.6	-16.3	-10.6
Overall balance (in millions of US\$)	-12.0	15.0	69.3	-30.5	-17.8
Gross official reserves (millions US\$)	61	93	167	136	114
In months of gnfs imports	1.3	1.9	2.9	2.5	2.5
Net official reserves (millions US\$)	14	30	100	69	51
External debt (in percent)					
Ratio of debt to GDP 3/	38.2	37.7	43.5	55.9	87.6
Debt-service ratio 4/	3.3	5.7	5.3	8.9	8.4
Fund operations (in SDR millions)					
Drawings	6	12	6	6	0
Exchange rate					
Kip per U.S. dollar (end of period) 5/					
Commercial bank rate	719	925	954	2,135	4,274
Parallel market rate	730	940	975	2,205	4,750

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

1/ Fiscal data are on a fiscal year basis (October-September).

2/ GDP figures for 1998 have been revised.

3/ Excludes debt to nonconvertible area; includes debt to the Fund (SAF and ESAP).

4/ As a ratio of exports of goods and nonfactor services.

5/ Average of buying and selling rate.

Table 2. Lao P.D.R.: Real GDP Growth, 1994-98  
(In percent)

	1994	1995	1996	1997	1998
Agriculture	8.3	3.1	2.3	7.0	3.7
Crops	12.7	-2.5	0.9	14.0	6.4
Livestock and fishery	4.3	3.7	4.0	2.4	2.5
Forestry	4.0	28.2	2.0	-4.9	-4.4
Industry	10.7	13.1	17.0	8.1	8.5
Mining and quarrying	30.4	-3.7	37.1	28.5	13.7
Manufacturing	7.0	17.7	18.9	9.3	9.6
Construction	17.2	6.8	8.7	5.0	-18.2
Electricity, gas, and water	29.0	-8.8	15.0	-1.9	62.7
Services	5.5	10.2	8.7	7.5	4.8
Transportation, storage, and communications	4.3	18.2	15.2	10.3	7.4
Wholesale and retail trade	7.9	9.3	9.9	10.8	20.2
Banking, insurance, and real estate	8.2	42.0	-0.9	9.0	-8.7
Ownership of dwellings	8.6	3.4	4.3	2.5	-9.1
Public wage bill	-6.6	-4.5	0.0	1.1	4.5
Nonprofit institutions	-3.8	2.4	11.4	-1.2	18.1
Hotels and restaurants	53.6	35.0	14.5	9.6	6.2
Other	3.0	15.4	16.4	3.2	-1.3
GDP at factor cost	8.0	7.0	6.7	7.6	5.0
Import duties	13.2	25.0	8.6	-10.5	-45.7
GDP at market prices	8.1	7.0	6.8	6.9	4.0

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



Table 3. Lao P.D.R.: GDP by Industrial Origin, 1994-98  
(In billions of kip, at 1990 constant market prices)

	1994	1995	1996	1997	1998
Agriculture	439.9	453.7	463.9	498.7	517.1
Crops	221.6	216.0	218.0	253.4	269.7
Livestock and fishery	172.6	179.0	186.1	188.3	192.9
Forestry	45.8	59.0	60.0	56.9	54.4
Industry	138.6	156.8	183.9	198.8	215.7
Mining and quarrying	1.7	1.7	2.4	3.6	4.1
Manufacturing	98.8	116.2	138.3	150.0	164.5
Construction	25.9	27.7	30.1	32.6	26.7
Electricity, gas, and water	12.3	11.2	12.9	12.6	20.5
Services	185.4	204.3	222.1	238.3	249.7
Transportation, storage and communication	36.9	43.6	50.2	52.9	56.8
Wholesale and retail trade	63.2	69.0	75.9	85.1	102.3
Banking, insurance, and real estate	8.5	12.0	11.9	12.8	1.7
Ownership of dwellings	27.5	28.4	29.6	30.9	28.1
Public wage bill	28.9	27.6	27.6	28.0	29.3
Nonprofit institutions	10.1	9.9	11.0	10.5	12.4
Hotels and restaurants	9.2	12.4	14.2	16.5	17.6
Other	1.1	1.3	1.6	1.5	1.5
GDP at factor cost	764.0	814.9	869.6	935.8	982.5
Import duties	16.7	20.8	22.6	19.2	10.4
GDP at market prices	780.7	835.7	892.2	955.0	992.9
Memorandum items:					
Nominal GDP at market prices <sup>1/</sup>	1,107.8	1,419.1	1,726.0	2,173.9	4,159.0
Percentage growth	16.5	28.1	21.6	26.0	91.3

Sources: Data provided by the Lao authorities.

<sup>1/</sup> Alternative staff estimates of deflator in 1997 and 1998 result in different estimates for nominal GDP in these years.

Table 4. Lao P.D.R.: Output of Major Commodities, 1994-98

Item	Unit	1994	1995	1996	1997	1998
<b>Agriculture</b>						
Paddy	'000 tons	1,577	1,418	1,414	1,660	1674
Corn	'000 tons	56	48	76	78	109
Sweet potatoes and cassava	'000 tons	160	99	92	94	107
Coffee	'000 tons	9	9	10	12	17
Tobacco	'000 tons	32	27	26	28	26
<b>Livestock</b>						
Buffalo	'000 tons	45	46	47	47	48
Cattle	'000 tons	36	38	39	40	42
Pigs	'000 tons	78	81	83	85	87
Poultry	'000 tons	15	16	16	17	17
<b>Forestry</b>						
Logs	'000 m3	500	819	659	560	500
<b>Industry</b>						
Tin	tons	810	636	736	665	785
Gypsum	'000 tons	131	124	113	151	131
<b>Manufacturing</b>						
Hydropower	million kwh	1,197	1,085	1,248	1,219	1,996
Beer	'000 hectoliter	102	151	240	286	332
Soft drinks	'000 hectoliter	92	105	108	122	125
Cigarettes	million packs	47	43	49	50	55
Agricultural tools	'000 units	4	4	3	3	4
Corrugated iron sheet	million sheets	1	1	2	2	2
Detergent	tons	700	877	913	870	912
Nails	tons	56	61	544	750	624
Oxygen	'000 bottles	15.0	17.3	24.0	24.0	21
Electric cord	'000 m	1,798	2,192	2,441	3,100	2,250
Plastic products	tons	460	500	2,940	3,568	3,225
Salt	'000 tons	10	11	14	16	16
Wood furniture	million kip	6,500	6,622	7,210	7,800	7,155
Rattan furniture	million kip	110	133	175	148	...
Garments	million pieces	11	18	19	21	23
Sugar	tons	0	147	189	400	...
Tobacco	tons	910	813	1,219	1,560	1,000
Plywood	mill. sheets	2	2	2	2	...
Cement	1,000 tons	7	59	78	84	...
Bricks	million pieces	55	56	57	69	53
Wood	1,000 meters	271	289	231	255	...
Ventilators	1,000 units	243	202	543	420	...
Concrete columns	units	...	...	1,592	1,047	756

Sources: Data provided by the Lao authorities.

Table 5. Lao P.D.R.: Consumer Price Indices, 1996-99

	1996	1997	1998	1999
NSC Index (December 1995 = 100)				
January	101.4	113.0	148.3	372.0
February	103.3	115.7	167.3	419.0
March	105.6	118.7	172.9	461.7
April	107.5	120.7	196.1	508.4
May	109.5	127.3	207.3	529.4
June	110.0	127.5	257.0	577.5
July	111.2	133.0	271.1	639.0
August	111.3	139.9	279.1	670.4
September	113.9	145.4	300.1	668.0
October	112.5	142.7	303.3	
November	111.8	139.9	330.5	
December	112.8	142.8	345.4	
(Twelve-month percentage change)				
January	30.3	11.4	31.3	150.8
February	29.6	12.0	44.6	150.5
March	28.0	12.4	45.6	167.1
April	23.8	12.3	62.4	159.3
May	24.1	16.2	62.8	155.4
June	20.9	15.9	101.6	124.7
July	19.0	19.6	103.8	135.7
August	13.0	25.7	99.5	140.2
September	13.4	27.7	106.3	122.6
October	11.4	26.9	112.5	
November	10.9	25.1	136.3	
December	12.8	26.6	141.9	
Period average	19.8	19.3	87.4	

Source: Data provided by the Lao authorities.

Table 6. Lao P.D.R: Personnel and Salaries of Civil Servants, 1995/96-1998/99.

	1995/96	1996/97	1997/98	1998/99
Civil servants 1/ (percentage change)	68,108 -1.5	69,013 1.3	72,000 4.3	74,504 3.5
Monthly average of basic salaries per civil servant 2/ (percentage change)	36,506 2.3	40,703 11.5	45,078 10.7	58,137 3/ 29.0
Memorandum item: Total wage bill 4/ (millions of kip)	78,524	91,787	117,010	182,244

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

1/ Data relate to beginning of fiscal year (October). Military personnel is excluded. Number for 1998/99 is target for the year.

2/ Excludes bonuses and other compensations.

3/ Calculated on the basis of the ratio of (base) civil service salary to total base salary for the 1995/96-1997/98 period.

4/ Includes wages, salaries, and other compensations of military and non-military personnel.

Table 7: Lao P.D.R. - Population and Employment, 1995  
(In thousands of persons)

	1995
Total Population	4575
of which	
Urban	782
Rural	3793
Male	2261
Female	2314
Age under 15	2013
Age 15-64	2379
Age 65 and over	183
Total Employment <sup>1/</sup>	2166
Urban	301
Rural	1865
Male	1044
Female	1222
Age under 15	131
Age 15-64	1981
Age 65 and over	54
Paid Employee	
Of which	
Government	131
Parastatal	19
Private	8
State Enterprise	52
Employer	5
Own Account Worker	1227
Unpaid Family Worker	725

Source: National Statistical Centre, State Planning Committee.

<sup>1/</sup> Of population age 10 years and above.

Table 8. Lao P.D.R.: General Government Operations, 1994/95-1998/99

	1994/95	1995/96	1996/97	1997/98	Approved Budget 1998/99	Projected 1998/99
(In billions of kip)						
Revenue	161.7	212.4	228.3	367.0	659.2	826.4
Tax	134.7	176.0	189.6	290.3	552.7	686.6
Nontax	27.0	36.4	38.7	76.7	106.5	139.8
Grants	72.7	57.7	69.9	189.7	162.4	485.7
Expenditure	289.8	360.7	430.2	886.1	1094.4	1685.1
Current expenditure	142.7	166.0	192.2	267.6	471.5	535.7
Wages and salaries	68.3	78.5	91.8	117.0	182.0	182.2
Materials and supplies	42.7	52.0	56.9	62.9	132.3	148.3
Transfers	18.6	23.4	26.0	30.2	58.2	59.6
Interest payments	10.9	10.4	16.3	38.9	79.0	93.5
Severance payments	2.3	1.8	1.2	0.9	1.0	1.0
Capital expenditure and on-lending	147.1	194.7	238.0	618.6	622.9	1149.4
Overall balance 1/	-55.4	-90.6	-132.0	-329.4	-272.8	-373.1
Total financing	55.4	90.6	132.0	329.4	272.8	373.1
Domestic financing (net)	-5.0	-18.6	18.5	107.4	7.8	-50.6
Bank	-10.2	-15.2	-13.7	163.5	-4.4	-100.0
Nonbank	3.0	-7.3	-15.7	-59.7	0.0	42.8
Asset sales	2.2	4.0	47.9	3.6	12.2	6.6
Foreign financing (net)	60.4	109.2	113.5	222.0	265.0	423.7
(In percent of GDP)						
Revenue	12.2	13.0	11.3	11.2	12.7	9.9
Tax	10.2	10.8	9.3	8.8	10.7	8.2
Nontax	2.0	2.2	1.9	2.3	2.1	1.7
Expenditure	21.9	22.1	21.3	26.9	21.1	20.2
Current expenditure	10.8	10.2	9.5	8.1	9.1	6.4
Of which: Wages and salaries	5.2	4.8	4.5	3.5	3.5	2.2
Capital expenditure and onlending	11.1	11.9	11.8	18.8	12.0	13.8
Current balance 2/	1.4	2.8	1.8	3.0	3.6	3.5
Overall balance						
Including grants	-4.2	-5.6	-6.5	-10.0	-5.3	-4.5
Excluding grants	-9.7	-9.1	-10.0	-15.8	-8.4	-10.3
Domestic financing 3/	-0.4	-1.1	0.9	3.3	0.1	-0.6
Foreign financing	4.6	6.7	5.6	6.7	5.1	5.1
Memorandum item:						
GDP fiscal year (in billions of kip)	1,323	1,631	2,029	3,290	5,187	8,329

Source: Data provided by Lao authorities; and staff estimates

1/ Including grants.

2/ Excluding grants.

3/ Comprising bank and nonbank financing, and receipts from government asset sales.

Table 9a. Lao P.D.R.: General Government Revenue, 1994/95-1998/99

	1994/95	1995/96	1996/97	Approved Budget	
				1997/98	1998/99
Tax revenue	134.7	176.0	189.6	290.3	552.7
Profits tax	17.3	20.7	23.4	33.6	64.0
Income tax	10.7	13.5	11.5	19.7	32.0
Agricultural land tax	1.6	2.1	2.5	3.1	4.5
Business licenses	0.2	0.1	0.2	0.3	0.8
Turnover tax	27.6	33.9	40.0	62.5	131.8
Tax on foreign trade	38.7	46.7	53.3	58.3	124.0
Import duties	33.8	40.6	47.0	50.8	100.0
Export duties	4.9	6.0	6.3	7.5	24.0
Excise tax	5.5	15.5	17.9	49.4	109.6
Timber royalties	26.7	34.6	31.7	36.9	35.0
Hydro royalties	0.0	0.0	0.0	4.2	9.0
Other1/	6.5	8.8	9.1	22.3	42.1
Nontax revenue	27.0	36.4	38.7	76.7	116.5
Payment for depreciation/ dividend transfers	3.0	5.2	9.4	7.1	9.1
Other	24.0	31.2	29.3	69.6	107.4
Leasing income	5.0	3.8	4.9	8.8	13.0
Concession	0.4	0.4	0.2	0.3	0.5
Overflight	7.9	9.8	10.0	29.7	40.0
Interest	6.8	10.5	8.3	17.5	35.0
Other1/	3.9	6.7	5.9	13.4	18.9
Total revenue	161.7	212.4	228.3	367.0	669.2

Source: Data provided by Lao authorities

1/ 1997/98 Other items includes error and omissions for consistency with aggregate totals.

Table 9b. Lao P.D.R. General Government Revenues 1991/92-1998/99  
(In percent of GDP)

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98		1998/99	
	Actual	Actual	Actual	Actual	Actual	Original budget target	Actual	Original budget target	Original budget target	Staff Proj.
Tax revenue	7.6	9.1	10.0	10.2	10.8	10.8	9.3	11.3	10.7	8.2
Profit tax	1.9	0.9	1.1	1.3	1.3	1.5	1.2	1.5	1.2	0.8
Income tax	0.3	0.5	0.7	0.8	0.8	0.9	0.6	0.7	0.6	0.8
Agric./land tax	0.2	0.1	0.2	0.1	0.1	0.2	0.1	0.2	0.1	0.1
Business licenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Turnover tax	1.4	1.5	1.9	2.1	2.1	2.1	2.0	2.6	2.5	1.8
Tax on foreign trade	2.6	2.7	3.2	2.9	2.9	2.7	2.6	2.8	2.4	1.3
Import duties	1.3	2.3	2.4	2.6	2.5	2.4	2.3	2.5	1.9	1.2
Export duties	1.3	0.3	0.8	0.4	0.4	0.3	0.3	0.3	0.5	0.1
Excise taxes	0.4	0.5	0.5	0.4	1.0	1.3	0.9	1.0	2.1	2.0
Royalties	0.0	2.5	2.0	2.0	2.1	1.7	1.6	1.9	0.8	1.0
Timber	0.0	2.5	2.0	2.0	2.1	1.7	1.6	1.8	0.7	1.0
Hydro	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.0
Sattelite	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other taxes	0.7	0.4	0.6	0.5	0.5	0.5	0.4	0.5	0.8	0.4
Registration tax	0.0	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Other	0.0	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.7	0.4
Nontax revenue	2.9	2.6	2.3	2.0	2.2	2.2	1.9	2.4	2.1	1.7
Depreciation/dividends SOEs	0.5	0.5	0.3	0.2	0.3	0.3	0.5	0.6	0.2	0.3
Other	2.5	2.1	2.0	1.8	1.9	1.9	1.4	1.8	2.0	1.4
Leasing	0.8	0.5	0.4	0.4	0.2	0.3	0.2	0.3	0.3	0.1
Concession	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overflight	1.1	0.9	0.7	0.6	0.6	0.5	0.5	0.6	0.8	0.6
Interest	0.3	0.5	0.7	0.5	0.6	0.6	0.4	0.7	0.6	0.5
Other	0.2	0.2	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.1
Total revenue	10.5	11.8	12.3	12.2	13.0	13.0	11.3	13.7	12.7	9.9

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



Table 10. Lao P. D. R.: General Government Expenditure, 1996/97 and 1997/98 1/  
(In billions of kip)

	1996/97			1997/98 2/		
	Total	Current	Capital	Total	Current	Capital
<b>Total</b>	430.2	192.2	238.0	541.3	241.5	299.8
<b>Ministries:</b>						
Public health	8.8	4.1	4.7	17.3	4.1	13.2
Social welfare	19.4	7.2	12.2	14.9	6.1	8.8
Education	31.0	4.6	26.4	37.4	8.4	29.0
Information and culture	7.6	3.8	3.8	6.2	2.3	3.9
Agriculture and forestry	10.7	0.9	9.8	17.5	1.4	16.1
Industry	43.6	0.2	43.4	45.2	10.1	35.1
Communication, transport and post	66.9	0.5	66.4	108.5	5.0	103.5
Commerce	0.2	0.1	0.1	0.4	0.3	0.1
Interior	15.3	12.7	2.6	17.3	14.3	3.0
Defense	49.2	47.4	1.8	53.5	51.4	2.1
Justice	0.4	0.3	0.1	0.5	0.5	0.0
Finance	1.4	1.3	0.1	1.9	1.8	0.1
Administration	24.5	20.0	4.5	17.9	16.3	1.6
Foreign affairs	4.9	4.6	0.3	7.7	7.5	0.2
Committee for Planning and Coordination	0.3	0.3	0.0	0.4	0.4	0.0
<b>Provinces:</b>						
Phongsali	7.3	2.3	5.0	7.2	2.4	4.8
Louangnamtha	6.7	2.1	4.6	6.8	2.4	4.4
Oudomxia	4.3	2.3	2.0	6.3	2.9	3.4
Bokeo	3.5	1.7	1.8	6.9	2.2	4.7
Louang Prabang	8.7	4.6	4.1	11.5	5.4	6.1
Houaphan	5.0	2.8	2.2	12.1	3.3	8.8
Xaignabouli	6.4	3.9	2.5	10.5	4.4	6.1
Xiang Khoang	4.2	2.7	1.5	6.6	3.5	3.1
Vientiane Prefecture	21.0	7.0	14.0	13.6	8.0	5.6
Vientiane Province	6.2	4.3	1.9	8.6	4.6	4.0
Bolikhamxai	4.2	2.5	1.7	5.8	3.1	2.7
Khammouan	5.5	3.7	1.8	9.2	4.4	4.8
Savannakhet	13.0	7.7	5.3	15.0	8.7	6.3
Salavan	4.5	2.7	1.8	6.4	3.1	3.3
Xekong	4.0	1.6	2.4	5.2	2.0	3.2
Champassak	10.4	7.6	2.8	15.1	8.1	7.0
Attapu	2.8	1.4	1.4	4.3	2.0	2.3
Xiasomboun Special Region	2.9	1.4	1.5	4.0	1.5	2.5
<b>Memorandum items: (in percent of total)</b>						
Public health	2.0	2.1	2.0	3.2	1.7	4.4
Social welfare	4.5	3.7	5.1	2.8	2.5	2.9
Education	7.2	2.4	11.1	6.9	3.5	9.7
Industry	10.1	0.1	18.2	8.4	4.2	11.7
Defense and security	15.0	31.3	1.8	13.1	27.2	1.7
Provinces	27.9	32.0	24.6	28.6	29.7	27.8

Source: Data provided by Lao authorities

1/ Most Recent Data

2/ Original budget.

Table 11. Lao P.D.R.: Monetary Survey 1995-98

	1995	1996	1997	1998			
				March	June	Sept.	Dec.
(in billions of Kip; end of period)							
Net Foreign Assets	78	156	250	339	416	417	498
Net Domestic Assets	115	89	156	136	186	304	368
Domestic Credit	157	150	362	414	521	632	704
Net credit to government	1	-43	33	70	110	143	171
Credit to non-government sector	157	193	330	344	412	488	533
Public enterprises	28	37	69	55	57	67	74
Private Sector	129	156	260	289	355	422	459
Other items (net)	-42	-60	-207	-277	-336	-327	-337
Broad Money	193	245	406	475	609	722	866
Narrow money	67	76	80	88	96	113	169
Currency outside banks	42	43	53	56	56	60	63
Demand deposits	25	33	27	32	40	53	106
Quasi money	126	169	326	387	512	608	697
Time and savings deposits	44	70	96	101	113	136	116
Foreign currency deposits	82	99	230	286	399	472	581
(Annual increase in percent)							
Domestic credit	22	-5	142	135	154	138	94
Credit to non-government sector	35	23	71	60	72	71	62
Broad money	16	27	66	84	117	129	113
Memorandum Items							
Reserve Money (in billions of kip)	84	104	150	169	200	264	282
Money Multiplier 1/	2.3	2.3	2.7	2.8	3.0	2.7	3.1

Sources: Data provided by the Lao authorities; and staff estimates

1/ Broad money divided by reserve money

Table 12: Lao P.D.R.: Sources of Broad Money Growth 1997-98

	1997			1998				
	March	June	Sept.	Dec.	March	June	Sept.	Dec.
Broad Money	5.5	8.6	12.3	28.8	17.0	28.1	18.6	20.0
Narrow money	-2.1	2.5	-1.2	2.0	2.0	1.7	2.8	7.7
Time and savings deposits	4.7	-0.4	3.4	1.9	1.1	2.6	3.8	-2.8
Foreign currency deposits	2.9	6.4	10.1	24.9	14.0	23.8	12.0	15.0
Contributions								
Net Foreign Assets	3.6	-0.5	2.8	25.1	21.8	16.3	0.2	11.2
Net credit to government	1.8	1.8	4.9	16.8	9.2	8.4	5.5	3.9
Net credit to non-government	8.9	9.6	16.7	13.8	3.5	14.3	12.6	6.2
Other items (net)	-8.8	-2.2	-12.3	-26.9	-17.4	-12.3	1.4	-1.3

Sources: Data provided by Lao authorities; and staff estimates

Table 13 Lao P.D.R.: Balance Sheet of the Bank of the Lao P.D.R., 1995-98  
(In millions of kip; end of period)

	1995	1996	1997	1998
Net foreign assets	26,562	94,980	147,340	215,516
Foreign assets	85,316	158,840	290,124	479,527
Foreign liabilities	-58,758	-63,840	-142,784	-264,011
Net claims on Government	-3,325	-60,697	-48,166	13,641
Claims on Government	4,127	4,127	4,577	91,149
Government deposits	-7,452	-64,824	-52,743	-77,508
Claims on state-owned enterprises	6,975	10,867	59,540	112,799
Claims on private sector	10,399	13,901	38,223	72,051
Claims on other banking institutions	46,585	52,371	57,944	80,345
Other items (net)	-3,025	-7,050	-104,788	-212,607
Other assets	93,700	83,639	70,379	141,159
Restricted deposits	-2	-2	-2	-2
Government lending fund	-16,167	-18,036	-31,085	-54,371
Obligations 1/	-12,984	-20,657	-29,310	-43,024
Capital account	-13,651	-12,675	-57,921	-116,102
Other liabilities	-53,921	-39,318	-56,849	-140,267
Reserve money	84,172	104,373	150,093	281,746
Memorandum items:				
Broad money 2/	193,266	244,929	405,662	865,933
Required reserve ratio	12	12	12	12

Source: Data provided by the Lao authorities.

1/ Mainly BOL bills.

2/ Includes foreign currency deposits of residents.

Table 14. Lao P.D.R.: Balance Sheet of Commercial Banks, 1995-98  
(In millions of kip; end of period)

	1995	1996	1997	1998
Net foreign assets	51,438	60,601	103,051	282,663
Foreign assets	91,195	107,473	180,295	451,999
Foreign liabilities	-39,757	-46,872	-77,244	-169,336
Net claims on government	3,977	17,577	4,437	-65,604
Claims on government	19,382	39,179	40,775	37,858
Deposits of government	-15,405	-21,602	-36,338	-103,462
Claims on state-owned enterprises	20,691	26,063	60,877	110,748
Claims on private sector	118,457	141,789	247,352	460,770
Other items (net)	-43,257	-42,075	-63,084	14,189
Other liabilities	-52,782	-66,353	-67,081	-122,390
Capital account	-56,547	-66,514	-126,783	-215,970
Restricted deposits	-1,729	-1,555	-2,120	-4,427
Credit from monetary authorities	-41,925	-49,115	-51,461	-81,672
Other assets	65,565	80,221	106,659	226,333
Reserves	44,161	59,241	77,705	212,415
Current deposits	25,218	32,584	26,622	105,816
Time and savings deposits	44,448	70,163	96,346	116,181
Foreign currency deposits	81,641	99,208	229,720	580,769

Source: Data provided by the Lao authorities.

Table 15. Lao P.D.R.: Treasury Bill Auctions  
(June 1997-July 1999)

Auction date	Settlement date	Maturity date	Amount available (million KN)	Amount bids received (million KN)	Amount issued (million KN)	Range of bids offered (percent)	Range of bids accepted (percent)	W. Average yield of successful bid (percent)	Bills outstanding (million KN)
5-Jun-97	10-Jun-97	7-Dec-97	2,500	2,860	2,500	23-24	23-24	23.21	29,500
19-Jun-97	24-Jun-97	21-Dec-97	2,000	2,780	2,000	23-25	23-23.5	23.31	30,000
3-Jul-97	8-Jul-97	4-Jan-98	1,500	2,300	1,500	23.5-23.75	23.50	23.50	30,000
17-Jul-97	22-Jul-97	18-Jan-98	1,500	2,300	1,500	23.25-24	23.25	23.34	30,000
31-Jul-97	5-Aug-97	1-Feb-98	1,500	4,960	1,500	23.0	23.00	23.00	29,000
14-Aug-97	19-Aug-97	15-Feb-98	1,500	3,720	1,500	22.5	22.50	22.50	29,550
28-Aug-97	2-Sep-97	1-Mar-98	3,000	7,820	3,000	22-22.5	22-22.5	22.20	29,500
11-Sep-97	16-Sep-97	15-Mar-98	2,500	3,600	2,500	22.0	22.00	22.00	29,500
25-Sep-97	30-Sep-97	29-Mar-98	3,000	7,550	3,000	21.8-24	21.8-24	21.87	30,500
9-Oct-97	14-Oct-97	12-Apr-98	2,000	3,650	2,000	21-21.5	21-21.5	21.25	30,000
23-Oct-97	28-Oct-97	26-Apr-98	4,500	5,250	4,500	21-22.5	21.00	21.00	30,000
6-Nov-97	11-Nov-97	10-May-98	2,000	4,180	2,000	21-23.9	21.00	21.00	29,500
4-Dec-97	9-Dec-97	9-Dec-98	1,500	1,500	1,500	20.0	20.00	20.00	29,000
18-Dec-97	23-Dec-97	23-Dec-98	1,500	1,500	1,500	19-19.3	19-19.3	19.15	28,000
8-Jan-98	13-Jan-98	13-Jan-99	1,500	1,500	1,500	19.0	19.00	19.00	27,500
22-Jan-98	27-Jan-98	27-Jan-99	1,500	1,500	1,500	..	19.40	19.40	27,500
5-Feb-98	10-Feb-98	10-Feb-99	2,000	2,000	2,000	..	19.50	19.50	28,000
19-Feb-98	24-Feb-98	24-Feb-99	2,000	2,000	2,000	..	19.00	19.00	28,500
5-Mar-98	10-Mar-98	10-Mar-99	2,000	2,000	2,000	..	19.50	19.50	29,000
19-Mar-98	19-Mar-98	19-Mar-98	2,000	..	..	..	..	..	26,000
2-Apr-98	7-Apr-98	7-Apr-98	2,000	..	..	..	..	..	23,500
9-Apr-98	14-Apr-98	14-Apr-98	4,000	..	..	..	..	..	20,500
23-Apr-98	28-Apr-98	28-Apr-99	4,000	4,000	4,000	24.0	24.00	24.00	22,500
7-May-98	12-May-98	12-May-99	2,600	2,600	2,600	24.0	24.00	24.00	20,600
21-May-98	26-May-98	26-May-99	2,900	2,900	2,900	22-24	22.24	22.00	21,500
4-Jun-98	9-Jun-98	9-Jun-99	1,500	1,500	1,500	24.0	24.00	24.00	23,000
18-Jun-98	23-Jun-98	23-Jun-99	1,000	1,000	1,000	24.0	24.00	24.00	24,000
2-Jul-98	7-Jul-98	7-Jul-99	500	500	500	24.0	24.00	24.00	24,500
16-Jul-98	21-Jul-98	21-Jul-99	500	500	500	24.0	24.00	24.00	25,000
30-Jul-98	4-Aug-98	4-Aug-99	500	..	..	..	..	..	25,000
13-Aug-98	18-Aug-98	18-Aug-99	500	..	..	..	..	..	25,000
27-Aug-98	1-Sep-98	1-Sep-99	500	..	..	..	..	..	25,000
10-Sep-98	15-Sep-98	15-Sep-99	500	..	..	..	..	..	25,000
24-Sep-98	29-Sep-98	29-Sep-99	..	..	..	..	..	..	29,780 1/
15-Oct-98	20-Oct-98	20-Oct-99	1,000	1,000	1,000	24.0	24.00	24.00	30,780
30-Nov-98									26,000
30-Dec-98									23,000
29-Jan-99									20,000
26-Feb-99									16,000
31-Mar-99									14,000
30-Apr-99									10,000
31-May-99									4,500
30-Jun-99									2,000
30-Jul-99									1,000

Source: Data provided by the Bank of the Lao P.D.R.

1/ Unexplained KN4 billion increase in stock, September 1998.

".." data not available

Table 16. Lao P.D.R.: Interest Rates, 1995-98  
(In percent; end of period)

	1995	1996	1997	June 1998	Dec 1998
<b>Commercial Banks</b>					
<b>Deposit Rates 1/</b>					
<b>Kip accounts</b>					
Demand		0	0	0	0
Savings		16	16-16½	16	19
<b>Time:</b>					
3 months	16-16½	16-16½	16¼	19-20	19-23
6 months	16-17	16-17	16¼	19-21	19-24
12 months	16-19	16-19	17¼	19-22	19-25
<b>Baht accounts</b>					
Demand		0	0	0	0
Savings		3¼-6	3½-6	3¼	6-7
<b>Time:</b>					
3 months	5½-8	4½-8	5¼	6-7	6-7
6 months	6-8	2¼-9	6½	6	
12 months	6-10	5¼-10	6¾	6-11	5-10
<b>U.S. dollar accounts</b>					
Demand	0	0	0	0	0
Savings		2-3	2-3	2¼	4-4½
<b>Time:</b>					
3 months	3-4	3-4	3¼	4½-5	4½-5½
6 months	3¼-5	3¼-5	4	4-6	4½-6
12 months	3¼-6	3¼-6	4¾	4½-8	4¾-7
<b>Lending rates 2/</b>					
<b>Kip accounts</b>					
Agriculture & forestry	7-28	10-26	18-19	7-27	7-30
Industry & manufacturing	22-28	24-26	20-25	21-29	31-34
Construction & transport	23-28	25-26	22-25	28-31	30-34
Commerce & services	25-28	26-27	24-27	28-29	32-36
<b>Baht accounts</b>					
Agriculture & forestry	12-19	10-19	13-15	12-20	12-15
Industry & manufacturing	14-19	14-19	14-17	14-17	15-17
Construction & transport	14-19	14-19	14-17	15-17	15-17
Commerce & services	16-19	16-19	16-17	16-17	16-18
<b>U.S. dollar accounts</b>					
Agriculture & forestry	8-14	8-14	11-12	10-15	10-15
Industry & manufacturing	9-14	10-14	11-14	11-17	11-17
Construction & transport	9-14	10-14	11-14	11-17	12-17
Commerce & services	10-14	10-14	13-14	12-17	12-17
<b>Bank of the Lao P.D.R.</b>					
Overdrafts		35	35	35	35
Required reserves	1.5	1.5	1.5	1.5	1.5

Source: Data provided by the Lao authorities.

1/ The guidelines on minimum deposit rates were abolished in January 1996.

Table 17: Lao P.D.R Summary of Open Market Instruments 1999

Type of Bill	Volume (billions of kip)	Sale Date	Interest Rate (%)	Jan	Feb	Mar	Apr	May	June	Jul
BOL bills										
	20	Sept. 96	24	8.0	6.0	5.6	5.0	3.2	3.4	3.3
	15	Jan. 98	26	15.0	15.0	15.0	15.0	11.3	10.7	11.4
	20	Nov. 98	30	14.6	16.0	17.5	18.2	18.7	18.9	19.1
		Apr. 99	60					12.4	12.4	12.4
Treasury Bills										
	13	Oct. 96	22-24	13.0	13.0	13.0	13.0	9.3	9.6	8.6
		auction 1/		20.0	16.0	14.0	10.0	4.5	2.0	1.0
	55	Jan. 99	30	3.4	11.5	17.0	18.3	23.5	24.7	25.1

Source: The Bank of the Lao P.D.R



Table 18: Lao P.D.R. Balance of Payments, 1994-1998  
(In millions of U.S. dollars)

	1994	1995	1996	1997	1998
Current account	-97	-124	-226	-185	-60
(excluding official transfers)	-221	-233	-307	-282	-133
Merchandise trade balance	-264	-276	-368	-331	-216
Exports, f.o.b.	300	313	321	317	337
(in percent change)	...	(4.3)	(2.6)	(-1.4)	(6.3)
Imports, c.i.f.	564	589	690	648	553
(in percent change)	...	(4.4)	(17.1)	(-6.0)	(-14.7)
Services (net)	35	27	25	28	71
Factor income (net)	-2	-6	-7	-21	-37
<i>Of which</i>					
Interest payments	5	6	6	-19	-26
Transfers (net)	134	131	125	140	123
Private	10	22	43	43	49
Official	125	109	82	97	74
of which: technical assistance	21	14	14	19	17
Capital account	85	139	295	154	42
Long-term loans	65	83	139	161	131
Disbursements	73	98	155	179	150
Amortization	-8	-15	-16	-18	-19
Foreign investment incl ext. loans	60	95	176	104	56
Other private flows, errors and omissions	-40	-39	-20	-110	-145
commercial banks (net)	8	10	-7	14	-18
Errors and omissions	-48	-49	-13	-125	-126
Overall balance	-12	15	69	-30	-18
Financing	12	-15	-69	30	18
Central bank net foreign assets	12	-16	-69	30	18
Assets (increase -)	2	-31	-74	31	21
Liabilities (reduction -)	10	16	5	-1	-3
Memorandum items:					
Current account (% of GDP)	-6.3	-6.9	-12.2	-10.6	-4.7
(excluding official transfers)	-14.4	-13.0	-16.6	-16.3	-10.6

Sources: Data provided by the Lao authorities and staff estimates.

Table 19. Lao P.D.R.: Composition of Exports, 1994-98

	1994	1995	1996	1997	1998
(In millions of U.S. dollars)					
Total Exports 1/	300.4	313.3	321.4	316.9	336.7
Custom data	147.5	166.6	195.3	142.3	181.9
Wood products	96.1	88.3	124.6	89.7	115.4
Logs	41.8	28.7	34.3	16.7	10.5
Timber	48.5	51.5	78.7	67.4	87.4
Other	5.8	8.1	11.6	5.6	17.5
Coffee	3.1	21.3	25.0	19.2	48.0
Agriculture/forest products	12.1	13.7	17.8	18.1	8.4
Manufactures 2/	36.3	43.3	27.9	15.3	10.1
Garments	58.2	76.7	64.1	90.5	70.2
Motorcycles	46.2	17.7	12.5	17.1	17.8
Electricity	24.8	24.2	29.7	20.8	60.7
Gold re-exports	18.8	21.9	15.2	41.5	1.3
Fuel purchases by foreign carriers	0.4	0.4	0.4	0.5	0.6
(In percent)					
Memorandum items:					
Total exports/GDP	19.5	17.5	17.4	18.3	26.7
Growth rate exports	24.9	4.3	2.6	-1.4	6.3

Sources: Data provided by the Lao authorities and staff estimates.

1/ Discrepancies to the sum total of the items listed are due to adjustments for the valuation of payments in kind to the Russian Federation.

2/ Excludes garments and wood-products.

Table 20. Lao P.D.R.: Composition of Imports, 1994-98

	1994	1995	1996	1997	1998
	(In millions of U.S. dollars)				
Total imports (cif)	564.1	588.8	689.6	647.9	552.8
Investment goods	146.1	189.3	277.0	226.8	226.7
Machinery and equipment	32.0	43.8	71.3	52.0	44.4
Vehicles 1/	25.0	36.0	71.7	53.8	39.4
Fuel 1/	21.4	30.8	32.8	38.2	61.8
Construction/electrical equipment	67.7	78.8	101.2	82.8	81.1
Consumption goods	276.5	283.8	308.0	267.7	234.1
Materials for garments industry	51.3	66.3	70.0	73.7	66.8
Motorcycles parts for assembly	34.6	13.3	12.0	24.9	17.0
Cars for re-export	4.5	0.0	0.0	0.0	0.0
Gold and silver 2/	46.8	29.5	18.8	50.4	0.7
Electricity	2.4	3.1	2.6	3.2	5.8
Fuel purchased abroad by Lao carriers	2.0	3.5	1.2	1.3	1.7
Total imports (c.i.f.)	564.1	588.8	689.6	647.9	552.8
	(In percent)				
Total import/GDP	36.6	32.9	37.3	37.3	43.8
Growth rate total imports	30.6	4.4	17.1	-6.0	-14.7

Sources: Data provided by the Lao authorities and staff estimates.

1/ Estimates based on the assumption that 50 percent of imported total are consumption goods.

2/ Includes gold for re-export.

Table 21a. Lao P.D.R.: Direction of Trade, Exports, 1994-97 1/  
(In millions of U.S. dollars)

	1994	1995	1996	1997
Thailand 2/	77.2	83.3	96.7	70.1
Vietnam	81.2	87.7	157.6	135.2
France	10.3	11.1	8.2	20.0
United Kingdom	0.9	0.9	6.6	14.9
United States	5.0	5.3	2.7	7.0
Russia	1.0	1.1	0.5	0.0
China	8.1	8.8	0.8	0.3
Germany	11.8	12.7	4.8	16.2
Taiwan	4.6	5.0	1.3	0.5
Japan	4.9	5.3	1.7	6.7
Finland	1.6	1.7	0.8	1.5
Netherlands	5.0	5.4	0.0	0.1
Italy	0.7	0.8	1.0	4.7
Korea	0.0	0.0	0.5	0.7
Belgium	1.2	1.3	2.0	17.9
Norway	0.6	0.7	1.8	3.2
Singapore	0.1	0.1	0.8	0.3
Other	86.2	81.6	32.9	17.9
Total	300.4	312.8	320.7	316.9

Lao P.D.R.: Direction of Trade, Exports, 1994-97 1/  
(In percent of total exports)

	1994	1995	1996	1997
Thailand 2/	25.7	26.6	30.2	22.1
Vietnam	27.0	28.0	49.1	42.7
France	3.4	3.5	2.6	6.3
United Kingdom	0.3	0.3	2.1	4.7
United States	1.7	1.7	0.8	2.2
Russia	0.3	0.4	0.2	0.0
China	2.7	2.8	0.2	0.1
Germany	3.9	4.1	1.5	5.1
Taiwan	1.5	1.6	0.4	0.2
Japan	1.6	1.7	0.5	2.1
Finland	0.5	0.5	0.2	0.5
Netherlands	1.7	1.7	0.0	0.0
Italy	0.2	0.3	0.3	1.5
Korea	0.0	0.0	0.2	0.2
Belgium	0.4	0.4	0.6	5.6
Norway	0.2	0.2	0.6	1.0
Singapore	0.0	0.0	0.2	0.1
Other	28.7	26.1	10.3	5.6
Total	100.0	100.0	100.0	100.0

Source: Ministry of Trade.

1/ Most recent data

2/ Exports to Thailand may be overestimated as they may include transient goods countries.

Table 21b. Lao P.D.R.: Direction of Trade, Imports, 1994-97 1/  
(In millions of U.S. dollars)

	1994	1995	1996	1997
Thailand 2/	270.3	287.8	310.0	336.6
Japan	45.8	48.8	52.5	10.4
Vietnam	22.5	23.9	25.8	25.1
Singapore	14.7	15.7	16.9	0.6
China	20.2	21.5	23.2	4.9
France	5.9	6.2	6.7	1.7
Taiwan	4.6	4.9	5.3	4.3
United States	1.4	1.5	1.6	0.6
Hong Kong	7.0	7.5	8.1	9.5
Russia	2.6	2.8	3.0	0.0
Cambodia	2.6	2.8	3.0	0.0
Korea	2.2	2.3	2.5	3.3
Australia	0.4	0.4	0.5	0.3
Denmark	0.5	0.6	0.6	0.0
Macao	0.4	0.4	0.5	1.3
Pakistan	0.7	0.8	0.8	0.0
Other 3/	162.3	160.9	228.6	249.5
Total	564.1	588.8	689.6	647.9

Lao P.D.R.: Direction of Trade, Imports, 1994-97 1/  
(In percent of total imports)

	1994	1995	1996	1997
Thailand 2/	47.9	48.9	45.0	51.9
Japan	8.1	8.3	7.6	1.6
Vietnam	4.0	4.1	3.7	3.9
Singapore	2.6	2.7	2.5	0.1
China	3.6	3.7	3.4	0.8
France	1.0	1.1	1.0	0.3
Taiwan	0.8	0.8	0.8	0.7
United States	0.2	0.3	0.2	0.1
Hong Kong	1.2	1.3	1.2	1.5
Russia	0.5	0.5	0.4	0.0
Cambodia	0.5	0.5	0.4	0.0
Korea	0.4	0.4	0.4	0.5
Australia	0.1	0.1	0.1	0.0
Denmark	0.1	0.1	0.1	0.0
Macao	0.1	0.1	0.1	0.2
Pakistan	0.1	0.1	0.1	0.0
Other 3/	28.8	27.3	33.1	38.5
Total	100.0	100.0	100.0	100.0

Source: Data provided by the Ministry of Trade.

1/ Most recent data

2/ Imports from Thailand may be overestimated as they may include some transient goods originating from other countries.

3/ Imports from Other may be overestimated as they may include imports of unidentified origin

Table 22. Lao P.D.R.: Composition of Factor Income, 1994-98 1/

(In millions of U.S. dollars)

	1994	1995	1996	1997	1998
Net factor income	-2.1	-6.5	-6.2	-21.0	-36.4
Receipts	6.8	7.4	9.0	11.5	6.9
Payments to Lao workers by embassies abroad	0.5	0.4	0.5	0.5	0.6
Interest on Bank of Lao reserve assets	2.4	3.3	4.5	7.3	4.2
Interest on commercial banks foreign assets	3.9	3.7	4.0	3.6	2.1
Payments	9.0	13.9	15.2	32.5	43.3
Payments to foreign workers in Lao embassies	0.5	0.4	0.4	0.4	0.4
Income from direct investment	2.7	5.8	7.1	11.9	13.5
Interest on official borrowing	4.4	5.9	5.3	18.4	26.3
Interest on Bank of Lao foreign liabilities	0.1	0.4	0.4	0.4	0.9
Interest on commercial banks foreign liabilities	1.2	1.4	2.0	1.4	0.4
Interest on private sector loans	...	...	...	...	1.8

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

1/ Excludes workers remittances.

Table 23. Lao P.D.R.: Composition of Nonfactor Services, 1994-98

(In millions of U.S. dollars)

	1994	1995	1996	1997	1998
Nonfactor services (net)	35.0	27.1	25.0	27.5	70.6
Receipts	85.7	96.5	104.3	100.4	129.7
Transportation	11.4	15.1	16.0	17.7	18.8
Overflight	8.4	10.3	9.9	10.5	11.8
Freight to Lao carriers (exports) 1/	0.1	2.7	3.3	3.7	2.9
International fares to Lao carriers	1.9	1.2	1.4	2.5	2.2
Lao port charges	1.0	0.9	1.5	1.0	1.9
Lao road taxes	0.0	0.0	0.0	0.0	0.0
Travel	42.7	51.4	62.3	54.0	80.0
Communications	0.0	0.4	0.4	0.6	0.7
Insurance	0.4	0.4	0.4	0.5	0.8
Embassies (non-salary) and international organizations	31.2	29.2	25.2	27.6	29.4
Payments	50.7	69.4	79.3	72.9	59.1
Transportation	7.9	4.0	7.1	6.3	5.4
International fares to foreign carriers	4.3	3.3	6.3	5.4	4.6
Foreign port charges	3.6	0.4	0.8	0.9	0.8
Overflight	0.0	0.3	0.0	0.0	0.0
Travel	18.0	29.6	22.2	21.0	17.2
Communications	0.8	0.4	0.6	0.7	0.8
Construction	10.8	24.0	36.1	35.4	26.1
Hydropower	2.9	7.4	16.9	12.0	3.6
Other projects	7.9	16.6	19.2	23.5	22.5
Technical assistance (50 percent of inflow)	10.5	8.4	9.9	5.9	6.3
Lao embassies abroad (non-salary)	2.7	3.0	3.4	3.6	3.3

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

1/ Includes only receipts from ticket sales

Table 24. Lao P.D.R.: External Aid and Loan Disbursements, 1994-98  
(In millions of U.S. dollars)

	1994	1995	1996	1997	1998
Grants 1/	124.7	109.3	81.7	97.5	73.6
Bilateral	93.3	89.3	73.2	77.8	58.1
Program grants	3.9	22.5	11.1	10.4	8.5
Project grants	89.3	66.8	62.1	67.4	49.6
o/w technical assistance	18.1	10.6	13.0	15.8	12.6
Multilateral	31.4	20.1	8.5	19.6	15.6
UN agencies	18.8	9.2	2.3	9.4	10.7
Asian Development Bank	5.2	1.1	0.2	1.5	2.3
Other (including NGOs)	7.5	9.8	6.0	8.7	2.6
Loan disbursements	66.8	97.8	154.9	179.0	149.5
Program loans	24.4	14.9	23.1	8.9	0.0
World Bank (IDA)	18.0	0.0	19.6	0.0	0.0
Asian Development Bank	6.4	14.9	3.5	8.9	0.0
Project loans 2/	42.4	83.0	131.8	170.1	149.5
Of which:					
World Bank (IDA)	8.3	27.1	40.2	42.0	17.5
Asian Development Bank	15.9	47.0	63.8	89.0	71.8
Memorandum item:					
Technical assistance	20.9	13.7	14.1	19.4	16.7

Sources: Data provided by the Lao authorities and staff estimates.

1/ Includes project-related and general technical assistance.

2/ Also includes OPEC, the International Fund for Agricultural Development, the Nordic Fund, and bilateral loans.



Table 25. Lao P.D.R.: International Reserves, 1994-98  
(In millions of U.S. dollars, end of period stock)

	1994	1995	1996	1997	1998
Net foreign assets of the banking system	81.7	87.2	166.5	118.2	118.8
Total foreign liabilities	76.5	103.9	116.1	102.1	103.3
Central bank net foreign assets	14.5	30.3	99.6	69.2	51.4
Foreign assets	61.1	92.5	166.6	135.5	114.3
Foreign liabilities	46.6	62.2	67.0	66.4	62.9
Commercial banks net foreign assets	67.1	56.9	63.6	49.1	67.4
Foreign assets	97.1	98.6	115.0	84.8	107.8
Foreign liabilities	29.9	41.7	49.2	35.7	40.4
Memorandum item:					
Total gross reserves of the banking system	158.2	191.1	279.4	220.4	222.1
(in months of imports, c.i.f.)	3.4	3.9	4.9	4.1	4.8
Of which:					
Foreign reserves of the Central Bank	1.3	1.9	2.9	2.5	2.5

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

Table 26. Lao P.D.R.: Approved Foreign Investments by Value and Sector, 1994-99  
(In million of U.S. dollars)

	1994	1995	1996	1997	1998	1999 <sup>1/</sup>
By investment value						
Less than \$100,000						
Number of projects	28	13	9	7	7	5
Total value	1.2	0.6	0.5	0.4	0.4	0.2
\$100,000 - \$999,000						
Number of projects	61	35	42	43	46	28
Total value	22.4	14.2	15.6	20.0	17.9	10.5
More than \$1,000,000						
Number of projects	41	15	12	16	15	10
Total value	2,574.7	600.2	1,276.5	122.3	104.1	83.2
Total investments						
Number of projects	130	55	63	66	68	43
Total value	2,598.3	615.0	1,292.6	142.4	122.5	94.0
By economic sector						
Agriculture						
Number of projects	7	3	6	11	8	8
Total value	6.8	5.1	1.9	6.3	7.9	62.0
Garments/textiles						
Number of projects	8	6	4	4	7	2
Total value	12.3	13.1	2.7	2.6	5.0	0.9
Wood-based industries						
Number of projects	5	1	2	2	1	0
Total value	22.4	0.6	12.0	2.1	2.5	0.0
Other manufacturing						
Number of projects	20	9	14	13	.....	5
Total value	18.0	46.0	320.1	13.4	.....	4.9
Mining/petroleum						
Number of projects	3	9	0	2	3	2
Total value	9.6	27.1	0.0	14.0	8.3	4.7
Trade						
Number of projects	16	4	11	8	5	6
Total value	8.9	0.4	7.9	5.0	1.0	2.6
Hotels/tourism						
Number of projects	6	1	3	2	4	0
Total value	279.3	0.3	211.7	0.5	1.8	0.0
Electric power						
Number of projects	3	1	1	0	0	0
Aggregate value	2,146.0	498.4	231.8	0.0	0.0	0.0
Other						
Number of projects	62	21	22	24	30	20
Total value	30.1	24.0	504.4	18.5	96.0	19.0
Total investments						
Number of projects	130	55	63	66	68	43
Aggregate value	2,598.3	615.0	1,292.6	142.4	122.5	94.0

Source: Data provided by the Lao authorities.

1/ First 10 months.

Table 27. Lao P.D.R.: Approved Foreign Investments by Country Source, 1994-99  
(In millions of U.S. dollars)

	1994	1995	1996	1997	1998	1999 <sup>1/</sup>
Thailand	54	21	17	15	15	7
Value	2,013.0	35.2	761.5	9.5	65.6	4.7
United States	8	2	4	4	2	5
Value	4.9	0.1	6.7	0.9	1.2	0.9
Taiwan Province of China	6	1	1	2	3	1
Value	8.2	6.7	0.5	0.3	1.3	0.1
France	11	6	8	5	11	4
Value	3	1.5	1	1	2.3	0.4
China	13	9	6	4	6	4
Value	8.9	8.1	3.2	3.5	6.5	5.4
Malaysia	1	2	2	5	2	1
Value	3.4	5.1	211.2	73.2	3	11.4
United Kingdom	1	1	3	1	2	1
Value	3.5	4	17.9	0.2	0.3	41.7
Australia	7	6	0	6	3	0
Value	7.1	1.7	0	5.6	1.5	0
South Korea	5	2	6	3	5	5
Value	2.8	277.4	276.8	6.9	6.6	3.8
Singapore	1	1	1	3	2	1
Value	0.5	0.2	10	2.2	0.4	1
Japan	5	5	4	8	5	1
Value	1	5.2	2.8	4.3	2	0.7
Germany	4	0	0	1	1	0
Value	1.5	0	0	0.1	0.4	0
Canada	1	1	0	1	1	1
Value	0.1	0.3	0	0.2	0.7	0.02
Other	14	6	11	15	10	12
Value	6.5	15.7	1.1	5.8	30.7	8.3
Total licensed investments 1/ (Total value in millions of U.S. dollars)	131 2,064.3	63 366.3	63 1,292.6	72 113.8	68 122.5	43 78.4

Source: Data provided by the Lao authorities.

1/ First 10 Months

2/ Some investments have multiple foreign partners.

3/ The total aggregate value of overall investments excludes the proposed capital contributions of domestic Lao investors as well as some energy-related investments.

Table 28. Lao P.D.R.: External Debt Service, 1994-98  
(In millions of U.S. dollars)

	1994	1995	1996	1997	1998
Convertible currency					
Principal	4.5	7.7	9.6	11.3	12.0
Interest	4.5	6.2	5.9	18.8	26.0
Bilateral creditors	1.8	2.8	5.1	14.1	18.9
Principal	1.4	2.5	4.4	2.1	0.8
Interest	0.5	0.4	0.7	12.0	18.1
Multilateral creditors	7.1	11.1	10.4	16.0	19.1
Principa	3.1	5.2	5.2	9.2	11.2
Of which: IMF 1/	0.0	1.8	3.0	4.8	2.5
Interest	4.0	5.8	5.2	6.8	7.9
Of which: IMF 1/	0.0	1.8	3.0	4.8	6.3
Non-convertible currency					
Principal	3.8	3.8	3.8	3.8	3.8
Interest	0.0	0.0	0.0	0.0	0.0
Memorandum item:					
Debt-service ratio 2/	3.3	5.7	5.8	8.9	9.9

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

1/ Includes operations under the Trust Fund.

2/ In percent of total exports of goods and nonfactor services.

Table 29. Lao P.D.R.: External Debt Outstanding, 1994-98  
(In millions of U.S. dollars; end of period)

	1994	1995	1996	1997	1998
Convertible currency	579	687	803	955	1,100
Bilateral creditors	34	41	46	67	115
France	4	3	2	1	1
China	2	2	2	2	2
Japan	27	26	22	20	19
Other	1	10	21	43	
Multilateral creditors	546	646	756	889	985
AsDB	222	280	343	430	500
EU	3	3	3	3	2
IDA	251	267	307	348	363
IFAD	14	14	16	18	19
OPEC	4	3	3	3	5
Nordic Fund	6	13	17	21	23
IMF	46	65	68	67	73
Nonconvertible currency 1/	1,391	1,382	1,372	1,368	1,361
(Former USSR)	1,366	1,357	1,349	1,344	134
Other 2/	26	25	24	24	24

Sources: Data provided by the Lao authorities; Fund accounts; and staff estimates.

1/ Valued at the official exchange rate of SUR 0.6 per U.S. dollar.

2/ Includes Bulgaria, (former) Czechoslovakia, (former) G.D.R., Hungary, and Poland.

Table 30. Lao P.D.R.: Exchange Rates, January 1997- September 1999  
(in kip per US dollar)

		Parallel		Commercial Bank	
		<u>(Monthly Average /1)</u>		<u>(Monthly Average /1)</u>	
		Buying	Selling	Buying	Selling
1997-	January	989	998	961	966
	February	1,025	1,037	985	990
	March	1,039	1,049	1,003	1,008
	April	1,058	1,070	1,018	1,023
	May	1,120	1,150	1,018	1,023
	June	1,124	1,139	1,036	1,041
	July	1,252	1,277	1,132	1,141
	August	1,398	1,457	1,217	1,217
	September	1,567	1,617	1,340	1,351
	October	1,652	1,672	1,588	1,604
	November	1,775	1,793	1,760	1,764
	December	2,068	2,088	2,013	2,023
	Average	1,339	1,362	1,256	1,263
1998-	January	2,428	2,493	2,404	2,414
	February	2,458	2,547	2,431	2,442
	March	2,425	2,539	2,406	2,421
	April	2,534	2,631	2,506	2,523
	May	2,760	2,853	2,627	2,649
	June	3,658	3,918	3,408	3,428
	July	3,729	3,845	3,471	3,491
	August	3,891	4,047	3,672	3,701
	September	4,529	4,698	3,932	3,964
	October	4,617	4,765	4,178	4,228
	November	4,415	4,528	4,173	4,235
	December	4,516	4,628	4,180	4,250
	Average	3,497	3,624	3,282	3,312
1999-	January	5,067	5,231	4,275	4,333
	February	6,130	6,243	4,365	4,435
	March	6,925	7,119	4,766	4,840
	April	7,212	7,407	6,055	6,135
	May	7,463	7,587	7,187	7,265
	June	8,827	8,953	8,610	8,691
	July	9,752	9,860	9,323	9,418
	August	9,697	9,806	9,300	9,400
	September	8,639	8,832	8,024	8,163

Source: Data provided by the Lao authorities.

1/ Monthly averages of exchange rates include weekends.

Table 31 Lao PDR: Major Commitments of Foreign Direct Investment 1988-99 <sup>1/</sup>

Name	Sector	Licensed (US\$ m)	Nationality of Investors	Year of Approval
Nam Theun 2	Energy	982	Thai/Australia/Fr/Lao	94
Thai Lao Power Co.,Ltd	Energy	900	Thai	94
Nam Gniep 1 (Shlapak)	Energy	773	USA	91
Lao Dong Ah Co.,LTD	Energy	688	S.Korea/Lao/Thai	95
Nam Gnum 2 (Shlapak)	Energy	656	USA	91
Lao Star	Telecom	400	Thai/Lao	96
Thai Petrochemical Industry	Processing Ind.	300	Thai/Lao	96
Theun Hinboun Hydro Power Co.,Ltd	Energy	270	Thai/Norway/Lao	94
Lao Holding Co.,Ltd	Tourism	263	Thai/Lao	94
Huay Ho Power Co.,Ltd	Energy	232	S.Korea/Lao/Thai	96
Lao Syuen Development Co.,Ltd	Tourism	211	Malaysia/Lao	96
Lao Telecommunication Co.,Ltd	Telecom	92	Thai/Lao	96
Land Peace Laexang	Tourism	92	Thai/Lao	91
Lanexang Forest Resources Development	Wood Processing	80	Malaysia/Lao	97
Lao Railways Transportation	Transport	75	Thai/Lao	98
Lao Shinawatra Telecom Co.,Ld	Telecom	61	Thai/Lao	94
B.G.A. Plantation Forestry Co., Ltd	Agriculture	49	U.K./Lao	99
Joint Development Bank	Banking	26	Thai/Lao	89
Lao Brewery Co.,Ltd	Processing Ind.	22	Thai/Lao	93
The Econ.Quadrangle Joint Development	Processing Ind.	22	Thai/Lao	95
Lao Canadian Galvanizing Corporation	Processing Ind.	21	Canada/Lao	95

Source:FIMC

1/Licensed Commitments above \$20 million

Table 32 Lao PDR : Foreign Direct Investment <sup>1/</sup>  
( In million of U.S.dollars)

		Planning to begin soon	In operation	Ceased operation	Abandoned before start-up	Status not clear	Total by sector ( Survey)	Total by sector (all countries)
1	Agriculture	Number 2 (0.6) Capital 1.78 (0.1)	17 (4.9) 78.49 (2.6)	5 (1.4) 1.51 (0.0)	3.00 (1) 5.06 (0)	14 (4.0) 4.67 (0.2)	41 (11.8) 91.51 (3.0)	82 (10.9) 130.74 (1.9)
2	Textile&Garment		Number 10 (2.9) Capital 9.73 (0.3)	2 (0.6) 2.37 (0.1)		11 (3.2)	23 (6.6)	78 (10.4)
3	Processing industry	2 (0.6) 10.99 (0.4)	18 (5.2) 25.56 (0.8)	6 (1.7) 3.17 (0.1)	3.00 (1) 1.24 (0)	18 (5.2) 8.14 (0.3)	47 (13.6) 49.10 (1.6)	131 (17.4) 472.39 (6.7)
4	Wood processing	1 (0.3) 80.00 (2.6)	3 (0.9) 3.83 (0.1)			3 (0.9)	7 (2.0)	37 (4.9)
5	Mining	1 (0.3) 1.50 (0.0)	6 (1.7) 22.68 (0.7)	6 (1.7) 59.41 (1.9)	1.00 (0) 6.00 (0)	1 (0.3) 1.50 (0.0)	15 (4.3) 91.09 (3.0)	33 (4.4) 139.46 (2.0)
6	Trade		Number 22 (6.4) Capital 16.33 (0.5)	4 (1.2) 2.17 (0.1)		21 (6.1) 11.55 (0.4)	47 (13.6) 30.05 (1.0)	112 (14.9) 67.63 (1.0)
7	Hotel, tourism		Number 13 (3.8) Capital 225 (7.3)	1 (0.3) 0.55 (0.0)		4 (1.2) 1.61 (0.1)	18 (5.2) 226.7 (7.4)	34 (4.5) 600.63 (8.6)
8	Banking&Insurance		Number 3 (0.9) Capital 12.00 (0.4)	1 (0.3) 6.00 (0.2)			4	11 (1.5)
9	Consultant service	1 (0.3) 0.10 (0.0)	11 (3.2) 1.06 (0.0)	2 (0.6) 0.05 (0.0)	2.00 (1) 0.30 (0)	3 (0.9) 0.98 (0.0)	19 (5.5) 2.48 (0.1)	32 (4.2) 7.00 (0.1)
10	Other service	6 (1.7) 3.25 (0.1)	51 (14.7) 21.72 (0.7)	12 (3.5) 9.39 (0.3)		24 (6.9) 11.52 (0.4)	93 (26.9) 45.87 (1.5)	141 (18.7) 64.26 (0.9)
11	Construction		Number 4 (1.2) Capital 10.17 (0.3)	7 (2.0) 21.04 (0.7)		5 (1.4) 4 (0.1)	16 (4.6) 34.80 (1.1)	39 (5.2) 64.76 (0.9)
12	Telecom.&Transportation		Number 6 (1.7) Capital 3.28 (0.1)	2 (0.6) 0.10 (0.0)		2 (0.6) 2 (0.1)	10 (2.9) 5.52 (0.2)	16 (2.1) 637.66 (9.1)
13	Energy	1 (0.3) 655.70 (21.4)	2 (0.6) 920.12 (30.0)	1 (0.3) 773 (25.2)			4	7 (0.9)
14	Sector not clear	1 (0.3) 0.30 (0.0)	1 (0.3) 0.30 (0.0)			0.00 (0.0) 2.50 (0.1)	2 (0.6) 3.10 (0.1)	4,501 (64.3)
	Total Number ( Survey)	15 (4)	167 (48)	49 (14)	9 (3)	106 (31)	346 (100)	753 (100)
	Total of Capital (Survey)	754 (25)	1,350 (44)	879 (29)	13 (0)	67 (2)	3,062 (100)	7,000 (100)

Source: Staff estimates

1/ Based on informal survey of FDI from 9 major investing countries without Thailand.

2/ Figures in parenthesis are percentage shares of total commitments of surveyed projects.



Lao P.D.R.: Summary of Tax System as of May 1999

Tax	Nature of Tax	Exemptions and Deductions	Rates
I.	<u>Taxes on income and profits</u>		
1.1	Taxes on enterprise profits (profit tax) Annual levy on profits derived in the Lao P.D.R. by enterprises from business operations (production, trade, and service), payable in advance on a quarterly basis.	<p>a. Expenses normally incurred in producing income with limits for gifts (0.10 percent) and travel costs (0.15 percent for each trip) of annual income.</p> <p>b. Asset amortization of each asset permitted, using fixed line or declining balance methods and using the following four annual rates: <u>50 percent</u>: business formation, <u>20 percent</u>: land transportation, machines and other equipment; <u>10 percent</u>: sea transport equipment, office improvement, supplies and temporary trade premises; <u>5 percent</u>: industrial, permanent trade premises and air transport. Unallowed residue is deducted from the sale price to compute the profit or loss.</p>	<u>Tax Rate (In per cent)</u>  35  20 15 10
		<p>General rate</p> <p>Discount rates:</p> <p>For enterprises in designated areas/city</p> <p>For enterprises in rural and lowland areas</p> <p>For enterprises in mountain and remote areas.</p>	
		<p>c. Carry-forward of losses available for up to 3 years.</p>	
		<p>d. Three computational regimes. <u>Full real regime</u>: based on extended accounting system for foreign investors, import-export traders and businessmen with annual turnover greater than KN 240 million; <u>partial real regime</u>: based on ordinary or common accounting system, for other businessmen with annual turnover between 24 million and 240 million kip; <u>contract regime</u>: for those with primary accounting system, based on agreed estimation for turnover less than 24 million kip with progressive rates for production, construction, and transport (1-7 percent), trade (2-8 percent), and services, drinking bars (3-9 percent).</p>	
		<p>e. Amounts appropriated to savings or recapitalization accounts, bonuses, meeting allowances or received from capital reduction, enterprise merging, share transfer, bankruptcy or debt liquidation.</p>	

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2.	Minimum profit tax (Impôt minimum fiscal)	Applicable to gross turnover of the previous year of those enterprises subject to the extended or ordinary accounting system. Advance once-and-for-all payment on a quarterly basis. Creditable against final liability but no reimbursement of over payment.	1.0 percent
1.3.	Tax on social/religious/cultural organizations and associations	Incomes from immovable property leasing and non-business activities	10 percent
1.4.	Tax on personal income from employment	Levied on wages, salaries, bonuses, and other emoluments derived from employment in Lao P.D.R. or, when deputed to international organizations, by Lao citizens receiving emoluments abroad on which they are not taxed. Withheld at source by the employer on a monthly basis.	<p>Monthly Wage or Salary (In kip)</p> <p>Tax Rate (In percent)</p> <p>30,001-125,000 5</p> <p>125,001-250,000 10</p> <p>250,001-500,000 15</p> <p>500,001-1,000,000 20</p> <p>1,000,001-2,000,000 25</p> <p>2,000,001-3,000,000 30</p> <p>3,000,001-5,000,000 35</p> <p>5,000,001 and above 40</p>
1.5.	Tax on personal incomes of persons in self-employment	Levied on net profits made by individuals from business operations, and immovable property leasing. Payment on an advance quarterly basis.	<p>General activities (In kip)</p> <p>Tax Rate (In percent)</p> <p>360,001-1,500,000 10</p> <p>1,500,001-3,000,000 15</p> <p>3,000,001-6,000,000 20</p> <p>6,000,001-12,000,000 25</p> <p>12,000,001-24,000,000 30</p> <p>24,000,001-36,000,000 35</p> <p>36,000,001-60,000,000 40</p> <p>60,000,000 and above 45</p>
1.6.	Tax on personal incomes from immovable property leasing	Levied on incomes received by individuals from immovable property leasing.	<p>House with domestic lease holder:</p> <p>Permanent house - 30 percent of rent price</p> <p>Half permanent (wooden) house - 25 percent of the rent price</p>

f. Reliefs: Case-by-case tax relief given to new and rehabilitated domestic enterprises (1-5 years) under Decree 47/SNA of June 1989 and to foreign and jointly owned enterprises (2-4 years), under Law 1/94 of March 1994

Foreign and local investors who are in a system of annual profit tax exemption.

First KN 360,000 is exempt.

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.7. Tax on investment income	Levied on incomes of entities and individuals from gross market-based rents, dividends, lending interest rates, and guarantee fees on a global basis, where appropriate.	House with foreign leaseholder: House with 2 floor or building - 2.0US\$/M <sup>2</sup> /Month House with 1 floor - 1.7US\$/M <sup>2</sup> /Month Block house with 2 floor or more - 1.2US\$/M <sup>2</sup> /Month Block house with 1 floor - 1.0US\$/M <sup>2</sup> /Month Incomes from leasing land and other property	25 percent
1.8. Tax on property rights	Licenses and other intellectual property rights.	None	10 percent
2. Taxes on land and property	2.1. Transfer taxes Applied to the market value of real estate property transferred between private persons through inheritance, sale, or gift.	None	Tax Rate (In per-cent)
2.2. Land tax	Annual tax levied on land area. Tax is collected from January to end-April. Taxable land is divided in three categories: • Occupied land (i.e., land occupied by buildings and factories) • Agricultural land • Other	<p>Transfers between:</p> <ul style="list-style-type: none"> <li>• direct descendants 0.5</li> <li>• second-degree relatives 1</li> <li>• third-degree relatives 2</li> <li>• other land and houses 3</li> <li>• undeveloped land 4</li> </ul> <p>1. <u>Occupied land:</u> Rates vary from KN 0.5 to KN 30 per square meter per year in accordance with the use (housing, production factories, business or service and unused open land) and location.</p> <p>2. <u>Agricultural land:</u> Rates vary from KN 500 to KN 6,000 per hectare per year in accordance with: (i) land use (rice land, garden land, and farm land); (ii) location (level field and mountainous areas); and (iii) type of production (for rice, number of crops per year and for garden, type of trees).</p> <p>3. <u>Other land:</u> KN 1,000-6,000 per hectare per year.</p> <ul style="list-style-type: none"> <li>• Land occupied by temples, public welfare buildings, embassies, and housing for disabled persons (for extensions of less than 5,000 sq km).</li> <li>• Agricultural land, not exceeding two hectares per family, occupied by disabled military personnel and civilians.</li> <li>• Agricultural land situated in mountainous areas yielding less than 150 kg rice per person per year.</li> <li>• Agricultural land affected by natural disaster or other damages in accordance to the damage.</li> <li>• Newly cleared rice fields in mountainous (5 years) and flat land (3 years).</li> <li>• Industrial orchards (2-3 years).</li> </ul>	

Tax	Nature of Tax	Exemptions and Deductions	Rates
<p>3. <u>Taxes on goods and services</u></p>	<p>3.1 Turnover tax</p> <p>The tax is levied on the turnover of importers, domestic manufacturers, and service providers (but not retailers) and allows for a credit for tax paid at earlier stages. <u>Importers and domestic distributors pay tax monthly on their sales and receive credit for the turnover tax they may have paid on their imports. Domestic manufacturers pay monthly, on their sales (at wholesale prices inclusive of 20 percent profit margin) and receive credit for any tax that has been paid on their raw material purchases or imports (but not on their capital good purchases or purchases of services). Service providers also pay tax monthly, on their sales receipts and receive credits for their input purchases. Retailers are not subject to tax. Thus, the tax is a wholesale stage sales tax with partial credit mechanism.</u></p> <p>All imports, not exempt from import duties, are subject to turnover tax and the base of taxation is customs value plus customs duty, and fees plus excise duty, if any.</p> <p>Large suppliers, with an annual turnover of more than KN 7.2 million, who are subject to accounts-based profits tax, pay turnover tax based on the issued invoices and their sale invoices are required to show the payment of the tax separately.</p>	<p>The following activities are exempt from turnover tax:</p> <ul style="list-style-type: none"> <li>• import of crop seeds, animal breeds and insecticides;</li> <li>• import of materials, instruments and chemical components for research purposes;</li> <li>• import of gold for the notes issuing institution;</li> <li>• import of bank notes or coins;</li> <li>• import or activity relating to tax or post stamps;</li> <li>• import of planes and instruments for international air transportation;</li> <li>• import of goods or accessories for components of international air transportation;</li> <li>• import of goods for selling to diplomats and international organizations in the Lao PDR according to permissions of Ministry of Foreign Affairs;</li> <li>• import of goods with tax exemption or temporary import;</li> <li>• import and sales of animal treating medicines;</li> <li>• sales of self-produced agricultural products by peasants;</li> <li>• forestry activities, industrial trees and fruits planting;</li> <li>• sales of agricultural and handicraft products by the government employees or cooperative members on family basis or limit;</li> <li>• export of goods and services;</li> <li>• sales of allowed text books, newspaper and magazines;</li> <li>• international transportation and relevant services;</li> <li>• (international transportation-transportation of passengers or cargoes from abroad or to abroad by land, air and sea/river)</li> <li>• transport by people, animals and boats without engines;</li> <li>• provision of leasing immovable properties, such as land, houses and others by persons who do not have business activities;</li> <li>• export services;</li> <li>• independent job-occupation by one's own labor;</li> <li>• educational activities: child schools, primary schools, secondary and high schools, universities and professional technical schools;</li> </ul>	<p>The turnover tax is levied at 5 percent and 10 percent.</p> <p><u>Illustrations of items subject to these rates follow:</u></p> <p style="text-align: center;"><u>Category</u></p> <p>Agricultural products, fertilizers, and insecticide 5</p> <p>Chemicals and mineral products 5</p> <p>All foodstuff 5</p> <p>Machinery and equipment 5</p> <p>Medical services 5</p> <p>Agricultural services 5</p> <p>Goods and services not specifically mentioned in 10 percent rates 5</p> <p>Electricity and fuel 5</p> <p>Consumer durables 5</p> <p>Furniture, clothes, tea and coffee 5</p> <p>Capital equipment, raw materials, and spare parts 5</p> <p>Construction and land development 10</p> <p>Softdrinks and non-alcoholic drinks 10</p> <p>Transportation 10</p> <p>Motorcycle, trucks, minibus, bus and their spare parts 10</p> <p>Imports and sales of TV, radio and other electronic equipment 10</p> <p>Passenger car, jeep, pickup, plane ship, motorboat for recreation 10</p> <p>Precious metals and jewelry 10</p> <p>Hotels and tourism 10</p> <p>Telecommunication services 10</p> <p>Alcoholic drinks and cigarettes 10</p> <p>Games 10</p> <p>Entertainment activities 10</p>

Tax	Nature of Tax	Exemptions and Deductions	Rates																																																																
3.2 Excise duties	Levied equally on imports and domestic supplies of petroleum products and selected consumer goods. Imported items are subject to tax on customs duty-inclusive values while domestic suppliers are subject to tax on ex-factory costs.	<ul style="list-style-type: none"> <li>• activities for public benefits held by government authorities and international organizations; and</li> <li>• banking and insurance activities.</li> <li>• rice</li> <li>• fertilizer</li> <li>• wheelchairs</li> <li>• fire trucks</li> </ul> <p>The following are exempt:</p> <ul style="list-style-type: none"> <li>• Purchases by embassies and international organizations</li> <li>• Kerosene</li> <li>• Accon (90) for medical purposes</li> <li>• Purchases of petroleum products for externally-funded projects</li> <li>• Exports of excisable goods</li> </ul>	<p>The ad valorem excise duties are as follows:</p> <table border="1"> <thead> <tr> <th data-bbox="568 1365 592 1428">Item</th> <th data-bbox="568 1428 592 1575">Tax Rate (In per-cent)</th> </tr> </thead> <tbody> <tr> <td data-bbox="600 1365 625 1428">Petroleum products:</td> <td></td> </tr> <tr> <td data-bbox="625 1365 649 1428">  Super gasoline</td> <td data-bbox="625 1428 649 1470">23</td> </tr> <tr> <td data-bbox="649 1365 673 1428">  Regular gasoline</td> <td data-bbox="649 1428 673 1470">24</td> </tr> <tr> <td data-bbox="673 1365 698 1428">  Diesel</td> <td data-bbox="673 1428 698 1470">12</td> </tr> <tr> <td data-bbox="698 1365 722 1428">  Kerosene</td> <td data-bbox="698 1428 722 1470">10</td> </tr> <tr> <td data-bbox="722 1365 747 1428">  Hydraulic, brake, lubricating, and grease oil</td> <td data-bbox="722 1428 747 1470">5</td> </tr> <tr> <td colspan="2" data-bbox="763 1365 787 1575">There is an additional excise duty on:</td> </tr> <tr> <td data-bbox="787 1365 812 1428">  Regular</td> <td data-bbox="787 1428 812 1470">21 kip/tr</td> </tr> <tr> <td data-bbox="812 1365 836 1428">  Diesel</td> <td data-bbox="812 1428 836 1470">10 kip/tr</td> </tr> <tr> <td data-bbox="836 1365 860 1428">  Kerosene for aeroplanes</td> <td data-bbox="836 1428 860 1470">10 kip/tr</td> </tr> <tr> <td data-bbox="876 1365 901 1428">  Alcohol</td> <td data-bbox="876 1428 901 1470">60</td> </tr> <tr> <td data-bbox="901 1365 925 1428">  All types with 15 proof and more</td> <td data-bbox="901 1428 925 1470">50</td> </tr> <tr> <td data-bbox="925 1365 950 1428">  All types with less than 15 proof</td> <td data-bbox="925 1428 950 1470">30</td> </tr> <tr> <td data-bbox="950 1365 974 1428">  Soft drinks</td> <td></td> </tr> <tr> <td data-bbox="990 1365 1015 1428">  Cigarettes and cigars</td> <td data-bbox="990 1428 1015 1470">50</td> </tr> <tr> <td data-bbox="1015 1365 1039 1428">  Cosmetics and perfumes</td> <td data-bbox="1015 1428 1039 1470">20</td> </tr> <tr> <td data-bbox="1039 1365 1063 1428">  Playcards, and the like</td> <td data-bbox="1039 1428 1063 1470">70</td> </tr> <tr> <td data-bbox="1079 1365 1104 1428">  Vehicles - Cars</td> <td></td> </tr> <tr> <td data-bbox="1104 1365 1128 1428">    Pick up two doors</td> <td data-bbox="1104 1428 1128 1470">25</td> </tr> <tr> <td data-bbox="1128 1365 1153 1428">    Pick up four doors</td> <td data-bbox="1128 1428 1153 1470">30</td> </tr> <tr> <td data-bbox="1153 1365 1177 1428">  Bus</td> <td data-bbox="1153 1428 1177 1470">20</td> </tr> <tr> <td data-bbox="1177 1365 1201 1428">  Mini-bus</td> <td data-bbox="1177 1428 1201 1470">15</td> </tr> <tr> <td data-bbox="1201 1365 1226 1428">  Jeep</td> <td data-bbox="1201 1428 1226 1470">30</td> </tr> <tr> <td data-bbox="1226 1365 1250 1428">  Cars hp less than 1000cc</td> <td data-bbox="1226 1428 1250 1470">60</td> </tr> <tr> <td data-bbox="1250 1365 1274 1428">    1000-1500cc</td> <td data-bbox="1250 1428 1274 1470">62</td> </tr> <tr> <td data-bbox="1274 1365 1299 1428">    1500-3000cc</td> <td data-bbox="1274 1428 1299 1470">72</td> </tr> <tr> <td data-bbox="1299 1365 1323 1428">    more than 3000cc</td> <td data-bbox="1299 1428 1323 1470">104</td> </tr> <tr> <td data-bbox="1323 1365 1347 1428">  Motorcycles</td> <td data-bbox="1323 1428 1347 1470">30</td> </tr> <tr> <td data-bbox="1347 1365 1372 1428">  Truck</td> <td data-bbox="1347 1428 1372 1470">50</td> </tr> <tr> <td data-bbox="1372 1365 1396 1428">  Miscellaneous Items</td> <td></td> </tr> <tr> <td data-bbox="1396 1365 1421 1428">    Electrical appliances (freezer,</td> <td data-bbox="1396 1428 1421 1470">12</td> </tr> </tbody> </table>	Item	Tax Rate (In per-cent)	Petroleum products:		Super gasoline	23	Regular gasoline	24	Diesel	12	Kerosene	10	Hydraulic, brake, lubricating, and grease oil	5	There is an additional excise duty on:		Regular	21 kip/tr	Diesel	10 kip/tr	Kerosene for aeroplanes	10 kip/tr	Alcohol	60	All types with 15 proof and more	50	All types with less than 15 proof	30	Soft drinks		Cigarettes and cigars	50	Cosmetics and perfumes	20	Playcards, and the like	70	Vehicles - Cars		Pick up two doors	25	Pick up four doors	30	Bus	20	Mini-bus	15	Jeep	30	Cars hp less than 1000cc	60	1000-1500cc	62	1500-3000cc	72	more than 3000cc	104	Motorcycles	30	Truck	50	Miscellaneous Items		Electrical appliances (freezer,	12
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Tax	Nature of Tax	Exemptions and Deductions	Rates
3.3. Business and professional license	Levied annually on registered industrial and commercial enterprises, based on turnover and on import-export enterprises, based on capital. Payable during the first three months of the year on a current basis.	None	heater, a.c. unit, washing machine, vacuum, color TV, camera, VCR, VCR camera) 10 Entertainment tools and services, hunting guns
			Different rates apply to enterprises producing for the local market and import-export enterprises.
			<u>Turnover</u> Rates applicable to local enterprises (In millions of kips) (In kip)
			0-1 0.0 1-5 6,000 5-10 10,000 10-20 20,000 20-50 40,000 50-100 70,000 100-200 100,000 200 and above 150,000
			<u>Capital</u> Rates applicable to import-export (In millions of kips) (In kip)
			10-50 100,000 50-100 200,000 100-150 300,000 150-200 400,000 200 and above 500,000
3.4. Road tax	Levied annually on all motor vehicles (motorcycles, cars, trucks, etc.)	The following are exempt: <ul style="list-style-type: none"><li>• Government cars</li><li>• Cars of the diplomatic corps, international organizations, and foreign experts</li><li>• 50 percent reduction for government staff, soldiers, policemen, students for one vehicle</li><li>• 60 percent reduction for pensioners</li></ul>	Fees vary according to size of engine (for cars and motorcycles), weight (for trucks), and number of seats (for buses). KN 2,000 to KN 360,000
3.5. Air travel fees	Levied annually for:	None	Fees vary according to weight.
	(i) Civil aviation registration		KN 7,000- KN 70,000

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.6	Airspace overflight fees (ii) Examination issuance and renewal of permits Levied on all aircraft without regard to nationality overflying the territory of the Lao P.D.R.	<ul style="list-style-type: none"> <li>• VIP special aircraft</li> <li>• Hospital aircraft carrying patients</li> </ul>	KN 5,000- KN 40,000  \$160-\$250 per over-flight
3.7	River transport fees Levied annually	None	KN 200- KN 20,000
3.8	Border entry and exit fees Persons Vehicles	<ul style="list-style-type: none"> <li>• Diplomatic personnel and relatives</li> <li>• Foreign experts and relatives</li> </ul>	Nationals: Foreigners Land and water vehicles KN 500 \$5 KN 1,500- KN 11,000
3.9	Fees for extended residence in the Lao P.D.R.	<ul style="list-style-type: none"> <li>• Diplomatic corps, foreign experts, and their relatives</li> </ul>	Fees vary according to size of boats  Fees vary according to length of stay. KN 6,000- KN 12,000
3.10	Fee for temporary border passes	None	KN 200- KN 3,000
3.11	Fees on delivery of passports, visas, and laissez-passer documents	None	Fees vary according to nature of document and applicant:  Foreigners: \$10-\$80 Lao nationals: KN 300- KN 10,000
3.12	Consular fees overseas Levied every five years.	None	\$2-\$32  KN 3,000- KN 4,000
3.13	Fees on possession of personal arms Levied annually.	None	KN 500 KN 1,000
3.14	Television and audio use fees	None	Television sets: Video cassette recorders:

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.	<p><u>Taxes on international trade</u></p>		
4.1	<p><b>Import duties</b></p> <p>Until recently, imposed on values fixed in U.S. dollar terms. Such values were fixed for most items, jointly by the Ministry of Trade and the Customs Department. The main exceptions are motor vehicles and selected computer equipment, for which invoice values are accepted. The U.S. dollar values are converted into local currency at the market rate.</p> <p>Increasingly, duties are being levied on c.i.f. values.</p>	<p>Imports of diplomats and army/police are exempt. Goods imported by the Government for use in externally-financed development projects are also exempt; the Government otherwise pays duties on its other imports. Imports of fuel by Lao Aviation for international transport is exempt. Also exempt are imports under bilateral grants and externally-funded humanitarian imports.</p> <p>Imported inputs (raw materials, machinery and equipment, building materials) for approved foreign-financed private sector and joint venture investment projects are subject to an import fee of 1 percent.</p> <p>There are no discretionary exemptions. The Minister of Finance does not have the power to grant duty exemptions.</p>	<p>Six rates ranging from 5 to 40 percent. The kinds of goods subject to these rates are as follows:</p> <p>5</p> <p>Raw materials, chemicals (including fertilizers), packaging materials, some machinery (incl. tractors and tools for agriculture), and essential consumer goods (rice, wheat flour, salt, baby foods, medicines, books and printed materials), cameras</p> <p>10</p> <p>Other machinery and spare parts, and less essential goods (sugar, cheese, butter, chocolate, cooking oils, footwear, garments, photographic films, refrigerators, dishwashers, household electrical appliances, stereo systems, carpets, pearls and diamonds).</p>
		<p>Currently, there is no drawback scheme for import duties paid on inputs for exports.</p>	<p>20</p> <p>Selected luxury consumer goods (premium petrol, cosmetics and toiletries, TVs and VCRs, radio cassette players, table games and funfair articles, buses, minibuses, a.c. units).</p>
			<p>30</p> <p>Other luxury consumer goods (prepared meats and fish, cereals and prepared foods, white chocolate confectionery, toilet soaps and deodorants, perfumes, wines, and spirits), pick up trucks.</p>
			<p>40</p> <p>Soft drinks, liquors, beer, tobacco, detergents, processed wood, jeeps, cars, motorbikes, cigarettes, cigars.</p>
		<p>In addition, one highest rate applies:</p>	<p>50</p> <p>Essentially a protective tariff rate (on unprocessed vegetables and fruits, unroasted coffee, roasted coffee, furniture, soft drinks, motorcycles).</p>
4.2	<p><b>Export duties</b></p> <p>Levied on selected products. (Duties on exports of logs and wood products are included in timber royalties or stumpage</p>	<p>None</p>	<p>Electricity: 20 percent of invoice value; coffee: 5 percent of FOB value; livestock: 5 percent of FOB value; logs: specific rates; sawwood: specific rates; semifinished wood</p>



Tax	Nature of Tax	Exemptions and Deductions	Rates
4.3	Transit tax	Imposed on "transit" vehicles shipping traded commodities between Thailand, Vietnam, and China via the Lao P.D.R. prices.)	products (lumber, parquet): 30 percent of FOB value; finished wood products (plywood): 3 percent of FOB value.
4.4	Tax on foreign investments	Imposed on declared profits of new government ventures and private enterprises with foreign capital.	20 percent
5.	<u>Taxes on timber and other natural resources</u>	Several tax holidays.	Royalties established by the Ministry of Commerce and the Forestry Department of the Ministry of Agriculture. Since February 1995, royalties average about US\$15,650, depending on the timber quality.
5.1.	Timber royalties	Levied as a fixed dollar amount per cubic meter of timber sold, both for domestic consumption and export. Timber royalties incorporate other taxes previously levied on timber products, i.e., the reforestation tax, the resource tax levied on the timber production rate, and the export duties, levied by the Customs department on exported timber.	None
5.2.	Taxes on natural resources	Levied in the form of specific duties on volume of mineral extraction, or ad valorem duties on sale price of mineral products.	<ul style="list-style-type: none"> <li>• Ferrous metals 2% of sale value</li> <li>• Non-ferrous metals 2-5%</li> <li>• Coal 2-3%</li> <li>• Construction Materials KN 50 per 100m<sup>3</sup></li> </ul>

Source: Ministry of Finance.

This summary incorporates the revised tax rates and revisions in other aspects of the tax system which are part of the new tax law, adopted by the National Assembly at the end of 1995.