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Statement by the Hon. **VIENGTHONG SIPHANDONE**,
Governor of the Bank for **THE LAO PEOPLE'S DEMOCRATIC REPUBLIC**,
at the Joint Annual Discussion

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It is my honor and a great pleasure to represent the Government of the Lao People's Democratic Republic at the 2008 Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank. Let me join my fellow Governors in congratulating Mr. Chairman, the President of the World Bank, the Managing Director of the IMF, and the Government and people of the United States for the excellent arrangements made for this important meeting. I would also like to take this opportunity to express my congratulations to President Zoellick for continuing his fruitful work in enhancing the World Bank's role in supporting poverty reduction of all regions in the world, regardless of the gloomy economic situation in the United States and around the world recently.

Mr. Chairman,

Although, the Lao People's Democratic Republic is not directly affected by the sub-prime mortgage crisis in the United States, we share the concern that this crisis could develop into a global financial meltdown, and are greatly concerned about the potential effect on emerging countries and poor countries. We urge the U.S. Government and other industrialized countries to implement all possible measures to remedy the situation and to restore the investors' confidence in the financial market.

Mr. Chairman,

I would like to take this opportunity to describe the Lao People's Democratic Republic's economic performance during 2007–2008. Our macroeconomic situation remains fairly stable, with continued strong growth of above 7%, which is expected to continue into 2008. Output has expanded in mining, newly emerging processing industries, agriculture, new construction of hydropower projects, tourism and other services, as well as large FDI inflows from neighboring countries.

Nonetheless, there are some risks of rising inflation. After falling to a record low level of 4.5% in 2007, overall inflation climbed to 6.4% in the second half of 2008. High fuel prices pushed up the cost of individual living, agriculture, and industry. Moreover, we recently faced floods from the north to the south, which affected plantations, livestock, transportation, and infrastructure; this has had a cost not only in monetary terms, but also with regard to the well being of the villagers. Vientiane itself experienced its highest water level in 40 years; thanks to the proactive efforts of the Lao community-government, the private sector, individuals, and the international community from different parts of Vientiane, we were able to save the capital from flooding. We are confident that the Bank and other donors will support us in restoring normal living and working conditions in the regions of the Lao People's Democratic Republic affected by the floods

Mr. Chairman, during 2007–2008, the Government has adopted and implemented many reforms. On fiscal front, the Government has continued the implementation of a comprehensive medium-term Public Expenditure Management Strengthening Program (PEMSP) since 2005, focusing on strengthening Public Financial Management systems and building the capacity of the Ministry of Finance and Provincial Finance Departments. In addition, the new Budget Law was adopted in 2007 to address weaknesses in the intergovernmental fiscal framework. Other key reforms include centralizing the treasury, customs and tax departments, developing a new fiscal transfer system, establishing greater control of public finance resources, and aligning policies to the budget, as well as promulgating the new Audit Law. The implementation of the value-added tax has started early this month.

The financial sector remains small and dominated by banks. The government has taken measures to strengthen the banking sector and level the playing field. There are more new investments in the private banking sector, the ANZ commercial bank, which is shared by IFC and Australian ANZ Bank, as well as Phongsavanh Bank, which is Lao's first commercial bank. As a result, the commercial banking law promulgated in 2007 provides for transparent, clear, and easy licensing for establishing private banks.

Furthermore, in order to fulfill the socioeconomic development plans set for the period ahead, the Government has initiated other major reforms such as improvement of the business environment, enhanced efficiency of investment, reduction of tariffs under AFTA commitments, and intensified preparation for WTO accession.

Mr. Chairman, we highly value the support of the international community, including bilateral and multilateral organizations, and international financial institutions. The Fund and the Bank have continued to provide vigorous support and assistance to the Lao People's Democratic Republic in term of policy advice, infrastructure, economic programs and projects, capacity building, and technical assistance. That support has played a vital role in helping the Lao People's Democratic Republic achieve economic growth and sustainable development. The Poverty Reduction Support Operations (PRSO) which, from the donor side, led by the Bank, has remarkably supported the structural reform to a more market-oriented economy, especially the improvement in the legal framework, which will form a foundation for sound and efficient development in the key sectors. We would also like to take this opportunity to urge the World Bank Group to continue the efforts in supporting the social and economic development and poverty reduction in the poor countries of our region as the Bank does with other regions of the world. ODA is an important factor in supporting the poor countries of this region to achieve their poverty reduction agenda and MDGs.

Ladies and gentlemen, on behalf of the Government of the Lao People's Democratic Republic, I would like to express my sincere appreciation to the management and the staffs of the Fund and the Bank, and the fellow member countries for supporting the Lao People's Democratic Republic. I wish the Annual Meetings great success.

Thank you.