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**WORLD BANK GROUP**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL FINANCE CORPORATION  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES  
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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**INTERNATIONAL MONETARY FUND**

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Statement by the Hon. **PHOUPHET KHAMPHOUNVONG**,  
Governor of the Fund for the **LAO PEOPLE'S DEMOCRATIC REPUBLIC**,  
at the Joint Annual Discussion



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Mr. Chairman,

First of all, I would like to congratulate the Government of Turkey on hosting this very important meeting in a very beautiful and historical city of Istanbul. Our delegation would like to thank the Government and people of Turkey for their warm hospitality extended to us.

As we have known, 2008 and 2009 have witnessed the start and deterioration of global financial crisis that has caused economic recession, high unemployment and rapid aggregate demand contraction in both developed and developing countries. This has urged Governments and international organizations to closely cooperate to tackle the crisis by directly injecting funds into the economies, expanding the liquidity of the banks and financial institutions, restoring public confidence, such as by raising threshold of deposit guarantee, reducing interest rates and taxes with an aim to stimulate domestic consumption thereby help to stimulate the economy.

Mr. Chairman, the impact of the global financial crisis has also inevitably impacted on Lao PDR since Lao economy is increasingly linked to the region and the world. However, general stability of the country politically and socially, combined measures introduced by the government as well as the strong effort made for the implementation of the Socio-Economic Development Plan as well as strong policy responses made by various sectors and locality, Lao Economy continued to maintain steadily GDP growth at 7.9 per cent in 2008, and the estimated growth of 2009 will be 7.5 per cent. Macroeconomic fundamentals remain sound, creating an environment conducive to investment and national development. In this connection, allow me to

update you on the fiscal and monetary situation of Lao PDR. For the FY2008-2009, it is estimated that total revenue would be short of its target and achieve only 95.5 per cent of the plan, due to lower tax collection as a result of decreasing commodity price. On the expenditure side, the Government maintains the same level as planned, and therefore, budget deficit would increase from 3.3 to 4.5 per cent of GDP. In the wake of budget deficit, the Government issued Treasury bonds, and receives increased budget support grants through Poverty Reduction Support Operations 5 (PRSO 5) from the World Bank from USD 10 to USD 20 million, in addition, AusAID, and European Commission have committed to provide about USD 6 million through the same operations. Furthermore, the Government of Japan has pledged to provide Budget Strengthening Support Loan in the amount of Japanese Yen 1,500 million. In this regard, allow me to thank the World Bank, Australia, European Commission, Japan and other development partners for their generous support to Lao PDR in this difficult time. through Poverty Reduction Support Operations 5 (PRSO 5)

On the monetary policy side, the Bank of Lao PDR (BoL) implemented an expansionary monetary policy, mainly using indirect monetary tools in maintaining the national economic stability as demonstrated as follows:

1. Adjusted downward short term policy interest rate (BOL rate) three times in 2008 from 12 per cent per annum to 7 per cent (At present at 5 per cent).
2. Maintained reserve requirement ratio (RR) at 5 per cent for Kip and 10 per cent for foreign currencies and also allow to include 2 per cent of eligible securities (bonds) into RR ratio.
3. Improved the activities of open market operations to run actively.
4. Strived to elevate the international reserves to cover more than 5 months of imports of goods and services.
5. Continued to implement a managed floating exchange regime.

6. Implemented a policy to ease the foreign exchange transactions to create favorable conditions for the public to be able to access to foreign exchange with banks and foreign exchange units.
7. Improved better the coordination mechanism between sectoral level and local level, especially, fiscal policy and monetary policy

On the conduct of various policies over a year, BOL was to play its role in a good manner. The most salient features, are able to maintain a sound monetary stability, a single digit inflation rate and lower than economic growth rate (annual average inflation rate was 7.63 per cent in 2008), while in 8 months of 2009 the average inflation was minus 0.33 per cent. Exchange rate continued to stabilize, having higher purchasing power, creating more public confidence and became to use more domestic currency. International reserves can cover 5.9 months of imports. Banking sector significantly expanded and its service was improved and developed toward modernization.

Nevertheless, there are still uncertainties with regard to the recovery of the global economy in 2009-2010; it is therefore encouraged all of us to put stronger efforts to turn this crisis into opportunity for developing national economic fundamentals. The Government will try to achieve the GDP growth at 7.5 per cent. In particular, on the fiscal side, for 2009-2010 fiscal year, it is targeted to increase revenue collection to 20 per cent of GDP and expenditure to 23 per cent of GDP. Moreover, the Government will take measures to tackle the crisis, such as the strict and efficient enforcement of relevant laws and regulations, with the aim to increase transparency, accountability of the public financial management both at the central and local levels, utilize resources to priorities projects and programs in order to maintain growth and to safeguard spending in social sectors, i.e. health and education.

With regard to the monetary side, it is needed further to gradually develop the sound and robust banking sector in the wake of international integration, steadily maintain the monetary stability and stable exchange rate and keep the international

reserve to cover more than 5 month of imports. Banking sector aims to actively contribute better in supporting economic growth and poverty reduction of the people as determined by the government

Mr. Chairman, in conclusion, we can assure that the Government will continue its reform efforts, such as improvement of business environment, including enhancing efficiency of the financial sector, as well as integration to the world market by accessing to WTO. I, on behalf of the Government of Lao PDR, would like to express sincere thanks to the Bank and the Fund for supporting the Lao PDR in implementing its national socio-economic plan, eradicating poverty and moving toward the achievement of the Millennium Development Goals by 2020.

Finally, I wish this annual meeting a great success.

Thank you.