

Government Report

On the Implementation of the Government's Action Plan

during the first semester and the Directives and Priority Tasks for the second semester

of 2008-2009 and 2009-2010

Presented at

The Seventh Ordinary Session of the Sixth Legislature of the National Assembly

by H.E. Bouasone Bouphavanh, Prime Minister of the Lao PDR

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- Honorable Secretary General, President of the Lao PDR,
- Honorable President of the National Assembly,
- Honorable Leaders of the Party and State,
- Honorable Members of the Presidium, Deputies of the National Assembly,
- Distinguished Lao and Foreign Guests.

It is a great honor for me to present, on behalf of the Government, the report on the Government's Action Plan during the first semester and the directives and priority tasks for the second semester of the Fiscal Year 2008-09 and 2009-2010 to the Seventh Ordinary Session of the Sixth Legislature of the National Assembly.

On behalf of the Government, I would like, first of all, to thank the President of the National Assembly and the Standing Committee of the National Assembly as well as the deputies for scrutinizing the implementation of Government's action plan and for rendering useful recommendations in the past.

I would like to take this opportunity to brief you that during the first semester of fiscal year 2008-2009, the Government has executed the resolutions of both the VIII Party Congress and the National Assembly on the National Socio-Economic Development Plan and the State Budget Plan 2008-2009 amid a number of key favorable conditions. But at the same time, there were more challenges and difficulties than last year. For instance, some localities encountered flood and torrent causing damages to the foundation of the national economy and property of the State and people in a loss of more than 838 billions kip; furthermore, the situation has been aggravated by food and oil prices crisis and followed by the global financial crisis and economic recession in many countries. All these have had an impact to our country both directly and indirectly.

Against this backdrop, the Government has quickly responded to and initiated directions and measures in a timely manner with a view to addressing flood's casualties and mitigating the impact from the global financial crisis.

The Government has issued a series of Order to serve as a reference for implementation and practical guidance. Moreover, the Government has proposed the adjustment of the State expenditure plan 2008-2009 with an increase of 6,2% or equal to 622,49 billions kip in order to address the impact and support the national development with the adoption by the National Assembly of the resolution NO 208/NA-VI, of 09 December 2008. The Government highly values the adjustment of the above mentioned expenditure plan as it has significantly contributed to the rehabilitation of irrigation infrastructure and production service roads, and the people's livelihood. Such an increase of state expenditure has stimulated the economy in the immediate term in connection with the creation of a growth base for the long term alike. At the same time, the Government has implemented policies to foster domestic production and services by increasing credit fund from the public banking system in order to promote and stimulate better production and business activities under this difficult situation.

The Government has attached importance and paid attention to implementing dialogue mechanism between Governmental Ministries and Agencies with Lao and foreign entrepreneurs, businessmen and investors so as to jointly address problems based on mutually beneficial relations. The Government has focused on encouraging and supporting labor intensive production sector for export, key State revenue sectors and economic growth base by compromising on some measures and regulations adjustment as a means to cut down expenses and difficulties for the business sector; at the same time, the Government has vigorously implemented the policy to encourage and promote both local and foreign investment while seeking support and Official Development Assistance (ODA) from friendly countries and the international community.

In parallel with addressing economic problems, the Government has also paid attention to preventing and mitigating the impact caused to the social sector. In particular, the Government has put emphasis on addressing problem leading to mass laid off and unemployment which in turn, could wreak havoc in society and jeopardize national stability and tranquility. At the same time, the Government has diligently paid attention to maintaining monetary and commodities price stability in order to prevent irregular price fluctuation that might send a negative impact on the production and businesses, and the living standard of the people.

The Government has spared no efforts to improve its working methodology and administration in a more efficient manner. Similar efforts have been devoted to addressing negative phenomena within State apparatus and official cadres; internal self-assessment and monitoring exercises were also conducted among cabinet members with the assignment of responsibility for every one to supervise sectoral activities and key emerging problems.

With this kind of management in place, the Government has been able to firmly ensure social and political stability at all times. For the first semester of fiscal year 2008-09, the Gross Domestic Product (GDP) has reached 7,1% (lower than the planned target of 8%). The average GDP per capita is 7,9 million kips (planned target is 8,3 million kips) or approximately 922 US\$. Here, agriculture and forestry has seen an increase of 3,1%, industrial sector 12% and service sector 7,7% respectively. Rice production stands at 2,87 million tons (91,1% of annual plan), cash crop production such as: corn, coffee, tobacco and others have all increased in terms of volume, but unfortunately, their selling price has been much lower than past year. As a result, the increased ratio of agriculture sector reflected in the overall GDP volume is not as high as it should be.

On the Macro-Economic front, the average inflation rate in the first semester is 3,17 % (8 months is 2,14 %), exchange rate remains stable, the value of the kip is appreciated 9,11 % against the US dollars and 13,12 % against the Thai bath. Foreign reserve as of May, 2009 can cover 5,49 months of import while export has reached 52 % of the annual plan (if compared to the same period of last year, export declined 5,65%)

Government revenue implementation has attained 42,86 % of the annual plan in which domestic revenue implementation stands at 38,34% which is at a lower implementation rate than in the last 3 years while Government expenditure implementation goes as planned.

Although some sectors have performed below par, it does not mean that the whole picture is so serious as to push the national economy into recession or stagnation. Generally speaking, we can say that the economy is still continuously growing. The key reasons for the achievements gained can be illustrated as follows:

- 1) The Government remains firmly committed to the overall direction as well as to the correct economic direction of the Party by implementing market economic mechanism with State supervision and law and regulations enforcement. The Government has exploited the overall potential of all economic sectors and people of all social strata into national development while vigorously addressing the impact of emerging problems.
- 2) It has deployed every effort to ensure political stability and social order, creates healthy environment for development and people's livelihood as well as for both domestic and foreign investment and tourism.
- 3) The Government has upgraded capacity building of public administration namely macro-economic management by complying with planning and financial disciplines.
- 4) It has promoted the participation of the entire people including entrepreneurs and businessmen through dialogue and close coordination and collaboration in addressing problems arisen from flood and global financial crisis
- 5) The Government has vigorously implemented a foreign policy of peace, friendship and cooperation through its involvement in the integration process of ASEAN and the sub-region; The Government has been in the forefront of mobilizing support and assistance from friendly countries and international organizations.

- Excellencies, distinguished guests,

The Government recognizes that in the implementation of its work plan during the first semester, there remain some shortcomings and setbacks that we need to address such as:

Growth is still not sustainable and mainly relied on natural resources exploitation and external financial sources. As the key sector, agricultural growth remains relatively slow. People's poverty eradication in association with village establishment and village development cluster still lack a focus and is not appropriate with the potential of each locality; there is no detailed project for halting slash and burn cultivation and is disconnected from people's resettlement and livelihood program. As a consequence, cases of disorderly people's movement have appeared.

There were also some instances where the implementation of directives and measures to address the effect of global financial crisis and flood casualties ran counter to the directives and priority target; there was no coherent and united coordination in addressing problems. The State budget expenditures and

banking financial sources have yet to meet priority targets and remain effectively low; effort and capacity for self-improvement of local businessmen-entrepreneurs is still limited.

- Honorable President,
- Excellencies,

Some sectors fell below expectation during the implementation of the socio-economic development plan and state budget plan for fiscal year 2008-2009, and it is foreseen that for the second semester, the overall situation will continue to undergo complex changes which is not conducive to the attainment of the target plan as well as the resolution NO 92/NA-VI of August 19, 2008. Therefore, The Government would like to propose to the meeting to consider to lower the projected GDP growth for the fiscal year 2008-2009 from 8% to 7.5% without making any adjustment to the State expenditure plan.

+ According to the calculation made by the Ministry of finance, the Government revenue for this fiscal year would fall short of approximately 500 billions kip or equal to 6,53 % of the plan. This means that if we do not adjust the state expenditure plan, the deficit would increase. Therefore, we propose the adjustment of the budget deficit from 4.56 % to 5,25 % of GDP.

Why the Government does not request budget expenditure adjustment? The Government considers the implementation of the budget expenditure as a measure to stimulate economic growth and social development. Fostering economic growth requires investment in sectors and necessary projects. Therefore, the Government does not request budget expenditure adjustment. At the same time, the Government will seek all means to acquire funds to balance budget expenditure shortfall.

How should the Government fulfill the budget expenditure shortfall of 500 billion Kip?

1. The Government will further guide and increase efforts to manage revenue collection as well as prevent and limit revenue leakage. In addition, the Government will seek new sources of revenue as much as possible in which the Finance Minister will provide more details later on.
2. The Government will further mobilize more ODA and external loan as there is still a potential window.
3. If it is of utmost necessity, the Government will issue bond to mobilize public financing for the implementation of priority projects while ensuring that the issuance of the bond volume will not affect financial and monetary stability.

Furthermore, the Government will continue to study and implement other necessary measures to deal with those issues.

Honorable President,
Distinguished Members of the National Assembly and Guests,

The directives and main tasks for the remainder of Fiscal Year 2008-2009 and for the next Fiscal Year 2009-2010 have been clearly outlined by the Government and will be presented by the Ministers of line

ministry. The Government considers the remainder of Fiscal Year 2008-2009 and Fiscal Year 2009-2010 to be a very significant period for implementing the resolution of the Eight Party Congress and the 6th Five Year National Socio-economic Development Plan (2006-2010). It could be said that it is the crucial period for achieving all targets. Therefore, the Government will actively continue to implement the main tasks with more efforts to achieve the target as follows:

- Ensure solid stability and security of the country; actively promote the business-production of all sectors to achieve annual growth rate of 7.5% or higher with the GDP per capita of 1.000-1.026 US dollars, collect revenue not less than 16% of GDP; ensure macroeconomic stability; convert the global challenge into opportunity to improve the national economic structure to be in line with the directive of industrialized and modernized transformation; strengthen public administration effectiveness and increase competitive capacity of business sector to actively integrate into the region and the world at large; raise investment in the culture-social sector; reduce poverty by 3% in association with resettlement and permanent occupation program for the people, and address the issue of disorderly migration.

In order to realize the above mentioned targets, the Government will put more emphasis on implementing some of the main tasks as follows:

1) Utilize all forces in the country to ensure security and address social negative phenomenon; continue working on grass-root development, village establishment and village development cluster through focused plans and detailed projects; ensure favorable conditions and environment for national development, people's livelihood, tourism and investment nationwide.

In particular, the Government will put all efforts and means to create favorable conditions to ensure the success of the 25th SEA Games which will be held in Vientiane Capital (or Vientiane Games) as envisaged. To make this event not only a sport event but also a great venue for promoting friendship, unity and cooperation between nations in South East Asia and the world at large.

2) The Government will give more emphasis on guiding ministries, government agencies and local authorities at all levels to implement the directions and measures on preventing the impact of the global financial crisis and stimulating continued economic growth as follows:

- First of all, the Government will pay a special attention to promoting rice production and commercial crop production during rainy season together with preparing pre-emptive measures to deal with possible flooding or drought. As we know, there will be a series of important commemorative events in the upcoming Fiscal Year 2009-2010. Therefore, the Government will have to ensure sufficient supply of food and commodities for the society, and must guarantee at all cost that there will be no food shortage and price speculation.

Generally speaking, the Government will further promote agriculture production in a more pro-active manner so as to gradually build the foundation for food security. In addition, the Government's role in managing market and food price will be further strengthened.

- The Government will continue to create favorable conditions and carry out policy on the promotion of potential industrial production; For instance, the garment industry for export using labor intensive and traditional handicraft with available markets will receive appropriate support and assistance for them to keep employment going on.

- The wood processing industry will be continuously restructured with more stringent measures and systematic regulations. At the same time, the Government will enhance its decisiveness and credibility in protecting forest and managing wood businesses, particularly the protection of national reserve forests and protected forest area by focusing on addressing problem of forest incursion and destruction.

- The Government has adopted the forest strategy until 2020 and planned to increase the forest covered area every year. Therefore, measures on forest rehabilitation and protection are considered to be an essential means. Additionally, plantation of various types of trees to increase the green area will be promoted both in urban and rural areas as well, thus contributing to the reduction of global warming and creation of sustainable environment.

The Government is engaged in the evaluation of land allocation and use for tree and commercial crop plantation nationwide. In the near future, there will be discussions and decisions made on suitable policies and measures to put the forest strategy into practice.

- Forest protection and rehabilitation is related to solving problem of deforestation for subsistence agricultural purposes and settlement areas of ethnic people. The Government is preparing a priority plan on resettlement management and permanent occupation for the people. This plan would be implemented in full swing from the Fiscal Year 2009-2010 with a focus on solving problems of unplanned resettlement and disorderly migration. Then, the resettlement project will be further implemented in each area continuously every year. This is considered to be the key task of rural development and poverty reduction, building village and village development cluster.

- The Government will continue to actively promote tourism industry, which is seen as another sector to stimulate economic growth as well as production and related services. At the same time, tourist attractions will be developed and public transportation services by roads, air and water navigation will be improved for more convenience, faster and safer service, especially more direct flights from Vientiane and Luangprabang to overseas will be also operated. The related ministry is negotiating and preparing agreements on this issue.

The Government will continue to solve the shortcoming in the implementation of state investment plan. For the past 6 months, the Government conducted the assessment on the use of state budget in implementing focused projects and has discovered some problems namely the use of public fund does not match the objectives and run over the approved budget expenditure which created future debts. The Government is well aware that the overspending activity does not comply with the plan and financial disciplines. However, some projects are technically necessary to be completed. The Government will persist to rectify this matter.

One important issue that needs to be emphasized in the economic field is to ensure macroeconomic stabilization which the Government considers as a priority task and duty. I will not go into detail about the target figures but I would like to reassure you that the Government will put all efforts to achieve the targeted macroeconomic figure.

3) The Government will carry on promoting foreign investment by focusing on potential sectors and sectors needed to be developed. Overall, our capacity to attract investment is still

high despite the global crisis. I believe that when the revised Law on Investment Promotion is adopted together with resolving problem on unfavorable investment conditions, our capacity, potential and opportunity will be further enhanced.

- The Government will continue to increase close cooperation with friendly countries, international organizations and financial institutions by encouraging more dialogue and cooperation in a systematic and harmonized manner aimed at securing assistance and support for development and utilize them efficiently.

4) The Government will continue to implement the Party directives, which is to develop social-culture sector in parallel with the economic growth. This means we must stimulate the economic growth to be the foundation and support for the development in the social-culture sector. If the economy does not expand or grows at a low rate, then the ability of developing social-culture sector will also decrease. An economy with high growth rate will create favorable conditions for development of social-culture sector.

The Government does not and will not pay less attention to social-culture sector development, but it will instead increase the investment in the development of this sector and implement promotion policy and broaden the participation from other sector (non-public sector) particularly in the development of education, health, labor and social security etc...

5). The Government will improve its management to allow better performance. Despite having appropriate plans and measures for development and remedies for the problems, there have been many observations made regarding the problem in the implementation, as many plans have been set out, but have never been realized. This statement reflects the true picture. The Government will therefore deploy all efforts to solve the problem concerning the actual implementation which will be in 4 areas as follows:

- ❖ The Prime Minister and Deputy Prime Ministers will further guide the management of priority works and resolve emerging problems.
- ❖ Increase the monitoring and leading ministries-Government agencies in assisting and cooperating with local authority.
- ❖ Enhance political responsibility, whilst taking a leading role in making decision and solving problems of the leadership in each level in the ministries-Government agencies and local authority.
- ❖ Increase the monitoring and evaluation of individual performance (especially leaders) and organization's performance.

- Honorable chair committee
- Excellencies,

For its activities for the remainder of this Fiscal Year and for 2009-2010, the Government will have to exert greater efforts and responsibilities as the situation can rapidly change and difficult to accurately predict. However, our country has some fundamental conditions and capacity for development which will allow us to overcome difficulties and challenges. As such, we earnestly hope to receive assistance and cooperation from the Party-Government organizations and mass public organizations, people of all walks of life, entrepreneurs-businesses nationwide, as well as friendly countries, international organizations and financial institutions.

Finally, may I wish the Sixth Ordinary Session of the Seventh Legislature of the National Assembly a resounding success.

Thank you.