

## Lao PDR Economic Monitor: January 2014 - Managing Risks for Macroeconomic Stability

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Vientiane, March 4, 2014? The World Bank's latest Lao PDR Economic Monitor, released today, highlights the challenges and risks associated with accommodative macroeconomic policies while acknowledging still strong growth in recent years. Economic growth is projected at 7.2% in 2014 with a small projected slowdown in some sectors such as mining and construction. It also has a special section on the current conditions of school based management in Lao PDR. The Lao economy's growth is projected to moderate at 7.2 percent in 2014 compared to 8.1 percent last year. On the demand side, the forecast does not expect macroeconomic policies to be markedly less expansionary this year. On the production side, the resource sector is expected to provide a smaller direct contribution to growth in 2014, the report finds. This is due to most major projects are under construction and not expected to commence operation this year. It is also due to expected lower gold production, which is likely to offset some of the gains expected from higher copper production. Nevertheless, services, food processing and beverages are expected to continue to grow with support from strong domestic demand. The report also looks at the 2013/14 budget plan and finds that it indicates a slightly narrower fiscal deficit compared to 2012/2013. However, cuts in civil service benefits are offset by new recruitment, as well as further increases in salaries paid to civil servants for two consecutive years. It is important to review the pace of public wage bill increase going forward. The government has discussed some revenue administration measures to help address the issue. In addition to revenue measures, there is a need for more prudent medium-term expenditure planning and execution by the government. The report also notes that foreign exchange reserves, in 2013, fell to their lowest level in a decade in terms of import coverage, with only about 1.3 months of goods and services imports. This trend was fueled by the widening current account deficit, driven by resource sector investment as well as strong domestic demand and accommodative fiscal and monetary policies. Efforts will be required by the authorities to rebuild reserves so that the country is better able to absorb any adverse shocks in the future. "We encourage the government to increase efforts to tighten fiscal and monetary policies, so as to safeguard the economic achievements of recent years," said Keiko Miwa, World Bank Country Manager in Lao PDR. The Lao PDR Economic Monitor is the World Bank's regular publication presenting analysis of recent macroeconomic developments in Lao PDR and is issued in Lao and English twice a year by the World Bank Office in Vientiane. In Washington Diana Ya-Wai Chung <dchung1@worldbank.org> In Vientiane Meriem Gray <mgray@worldbank.org> For broadcast requests Natalia Cieslik <ncieslik@worldbank.org> 

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