

FDU 1015

1

ECONOMIC SITUATION REPORT

April - July, 1972

1. Government Actions

a. Exchange Market Reforms

In the last week of March, trading in the open exchange market was suspended to halt speculative activity, and prior to reopening the market on April 4, the government instituted a series of measures which involved it much more directly in the exchange market.

All purchases of foreign exchange by the public were subjected to prior verification and approval by an exchange authorizing commission (C.O.D.E.). The surrender requirement on export proceeds was increased to eighty percent. The RIG earmarked \$2 million of its own exchange resources for intervention in the commercial exchange market via FEOF, and unified the official exchange rate with the FEOF rate by increasing it from K240/\$ to K605/\$. The CODE system brought all exchange sales legally under administrative control. Sales initially were authorized for merchandise, for travel, and for student support. During the period May - August, a foreign exchange booth at the open market in Vientiane sold baht against customs declarations for foodstuffs entering from Thailand. In May the government opened a relatively free second market in which foreign exchange could be purchased for any purpose on payment of an exchange tax of K240/\$. At the same time it severely limited tax-free exchange authorizations for travel and student support. Finally, in August, the government ruled that exchange sales for merchandise imports must be covered by an additional K180/\$ to K240/\$ guarantee deposit held in escrow until arrival of merchandise. The list of ineligible goods was extended to include perfumes, alcoholic beverages, and certain other luxuries. These articles, plus gold, were to be financed with taxable exchange.

Institution of a completely new exchange system required the surmounting of many difficulties, particularly in the first months of operation. The parallel exchange market which resulted from exchange controls attracted some exchange out of the banking system. Curb market rates were stabilized by the creation of the second official market, for taxable exchange, at end-May. The time required to establish an efficient administration of the CODE system resulted in an early backlog of demand for some goods and services. Some special problems developed in areas outside Vientiane that lacked direct access to CODE-administered exchange; these areas generally were obliged to rely on the parallel market for their exchange transactions. These factors were taken by many merchants as justifications for price increases, particularly in the first months following the April reforms. These difficulties were gradually attenuated, and the exchange and merchandise markets showed increasing stability in the beginning of the third quarter, although at higher overall price levels.

b. Other Actions

RLG salaries were increased 20 percent of base pay in May, to off-set the cost-of-living effects of the November 1971 devaluation.

The FY-73 budget bill was sent to the National Assembly in June providing for revenues of Kip 8.3 billion, expenditures of Kip 22.8 billion, and a deficit of Kip 14.5 billion.

RLG trade policy underwent a second major revision in May. The government adjusted duty rates affecting about 22 percent of commercial imports with the aim of better aligning Lao taxes with the rates effective in Thailand. The government also increased its ceiling on import tax credit (traites) in April in an effort to stimulate trade.

Foreign loans were contracted during this period with New Zealand for construction of a modern slaughterhouse and with Germany for further development of the electricity distribution system.

2. Foreign exchange supply to Laos dipped 27 percent from \$10.5 million in the first quarter to \$7.6 million in the second quarter, due to a \$3.4 million decline in free market exchange. USIP letters of credit continued to be opened at the same rates in the preceding quarter. BNL official receipts increased nearly \$0.5 million, due mainly to greater exchange conversions by foreign embassies. Export proceeds to the BNL also rose, but did not fully reflect the quadrupled average surrender requirement instituted in April and the doubling of recorded timber production (one of Laos' principal exports) in the second quarter. Net of RLG contributions to PEOF, official exchange disbursements rose \$0.2 million, leaving the BNL an exchange surplus of \$0.3 million on current administrative account.

3. Imports of taxable goods excluding gold rose 23 percent in the second quarter, and stood 21 percent higher than the same period in 1971. Although recorded exports from Japan and Hong Kong also advanced slightly (primarily in June), it appeared that most of this increase in taxable merchandise imports reflected releases of available stocks from customs bond. Gold, which was disqualified in April from access to open market exchange, was not imported in either May or June. The interruption of gold imports accompanied a reversal in the traditional gold price structure. Previously Vientiane's price usually was higher than London's but lower than Saigon's; by June 1972, however, the Vientiane price was lower than London but higher than Saigon. This change was accompanied by unconfirmed reports of reverse gold flows from Saigon through Vientiane to Europe.

4. Government finance improved during the second quarter. Revenues, stimulated by tariff and traite adjustments, increased 13 percent compared to the first quarter of 1972, and 7 percent compared to the second quarter of 1971. Disbursements dropped 8 percent from the first quarter of 1972

and 3 percent compared to the second quarter of 1971, despite the 20 percent pay increase which became effective in May. These improvements allowed the RLG to reduce its net inflationary borrowing kip 466 million or 17 percent between the first and second quarters of 1972.

5. Money supply increased Kip 2.8 billion in the second quarter of 1972. On the expansionary side, the primary increases were French counterpart desterilization in April which equalled one year's FEOF pledge by that government, and private credit which expanded by kip 0.8 billion during the quarter. Private savings deposit reductions also increased liquidity by Kip 0.1 billion in the quarter. Although BNL foreign exchange transactions expanded kip circulation about K0.2 billion, this was counteracted by reductions in the FX positions of the commercial banks. RLG net inflationary borrowing, the largest expansionary factor, declined about K0.5 billion as indicated above.

On the other hand, FEOF operations, stabilized by the new exchange system instituted in April, exerted a lesser contractionary effect on money supply during the second quarter. The impact of the exchange tax did not register significantly until after the quarter had ended.

Although the nominal increase in money supply was 13.8 percent in the second quarter, consumer prices rose by a larger amount, and real money supply therefore declined about 2 percent. The annual rate of increase of this indicator of real economic activity fell from 12 percent in March to about 3 percent in June-July.

Private credit increased strongly during the second quarter, supported by a Kip 700 million increase in private deposits at commercial banks, expanded customs traites facilities by the RLG, and increased BNL and DBL direct loans to the public and discount operations with the commercial banks.

Consumer prices, measured by the RLG's index for Vientiane, rose 16.3 percent in the second quarter (the USAID index increased more: 24.8 percent). At end-July the RLG index stood 31 percent (and the USAID index 62 percent) above the levels registered one year earlier. Factors contributing to these increases in the second quarter were rice and meat supply bottlenecks seasonal scarcities of some fish and vegetables and some sluggishness and speculation in the foreign exchange market as the new exchange system started functioning. The general tendency of local merchants, both in Vientiane and in the provinces, was to price their commodities at the taxable exchange rate of K840/\$. Prices at the start of the third quarter also reflected tightened Thai rice supply: the published Thai export for glutinous rice increased 32 percent in July.

Production indicators reflected stronger Thai demand for timber, high but declining world tin prices, and a seasonal decline in charcoal demand. Consumption of electricity increased as ample supplies became available from the Nam Ngum Dam, and, more importantly, as work proceeded on the renovation of the electrical distribution system in Vientiane.

ECONOMIC INDICATORS FOR LAOS

data as of 9/10/72

ANNUAL

MONTHLY, 1972

	1969	1970	1971	Jan.	Feb.	Mar.	Q	Apr.	May	June	Q	July
1 Foreign Exchange Supply (\$000)	52743	48836	50930	4023	3048	3386	10457	1349	3593	2667	7609	4784
2 Free Market Supply	47878	44659	47018	3872	2833	3157	9862	1323	2913	2243	6479	4179
3 USIP L/C's opened	1971	2330	2029	0	158	42	200	0	92	100	192	87
4 BNL: Official receipts	2894	1947	1883	151	57	187	395	26	588	324	938	518
5 Exports	801	720	848	58	30	118	194	13	156	100	236	148
6 Embassies & Missions	2331	963	1048	47	39	19	89	24	400	199	614	297
7 RLG Administration	62	264	187	46	8	58	112	2	31	5	38	3
8 Official Disbursements	2544	2671	1833	222	108	94	424	4	273	383	660	342
9 Balance (= 4 - 8)	350	-724	-50	-71	-51	93	-29	22	315	-59	278	176
10 Imports: Gold (kg.)	32024	41766	15916	475	0	450	925	275	0	0	275	550
11 Taxable merchandise (Kip M)	11488	8432	8003	762	538	671	1971	521	937	960	2416	
12 Petroleum products	1048	1088	1050	178	98	124	312	110	120	137	367	
13 Other merchandise	10440	7344	6963	584	440	547	1659	411	816	823	2051	
14 Exports to Laos: Japan (Yen M)	2956	2402	2190	44	60	57	161	64	67	54	185	
15 Hong Kong (HK\$000)	9954	8261	12434	989	605	1088	2682	745	560	1402	2707	
Government Finance (Kip M)												
16 Revenues	7751	7933	6569	590	472	506	1567	459	655	652	1768	656
17 Certified expenditures	16680	18767	20246	2018	1830	1925	5773	1510	715	2216	5441	1050
18 Budgetary deficit	8929	10834	13677	1428	1358	1419	4206	1051	1060	1564	3675	394
19 Disbursements	17006	18611	20836	1724	1852	1949	5603	1448	1716	1928	5152	
20 Cash deficit	9255	10678	14267	1134	1380	1443	4036	989	1061	1336	3386	
21 Borrowing from BNL	9275	9610	14500	1070	1700	1300	4070	1200	1200	1100	3500	1100
22 Treasury assets*	372	130	202	(-4)	488	246	246	1186	177	539	539	311
23 Liabilities to private sectors	528	482	176	181	197	138	138	235	264	655	453	370
24 Money Supply (MS) (Kip M)*	13224	15393	18953	19372	19786	20449	20449	20764	22371	23275	23275	22976
25 Index (1968 = 100)	110.0	127.2	153.7	160.2	169.6	188.1	190.1	171.7	135.0	122.3	192.8	190.0
26 Increase (Kip M)	1481	1845	3560	419	417	680	1498	315	1607	804	2826	(-289)
27 Real MS (Index, 1968=100)	110.4	125.0	139.8	142.8	142.6	145.2	145.2	137.5	143.9	142.1	142.3	137.5
28 Percent change, 12 months	9.4	13.2	11.8	10.2	13.7	12.3	12.3	2.5	6.5	2.7	2.7	3.0
29 Factors expanding MS (Kip M)	14196	13608	18619	1373	1657	1723	4753	1808	3222	1139	8983	2144
30 RLG net inflationary borrowing	9723	9806	14122	1281	1225	1483	3989	359	2228	939	3523	1143
31 Net FY position of banks	34	-250	82	-177	-192	135	-120	-37	263	-223	-13	245
32 Private time/savings deposits**	-120	-241	-119	-85	7	48	0	19	76	-6	89	4
33 Credit to private sector	780	139	682	(-108)	257	(-338)	(-190)	124	452	221	797	169
34 Foreign missions: USIP	2642	2121	2781	322	323	272	727	284	160	109	653	322
35 French	893	858	944	-	-	-	-	858	-	-	858	-
36 Japanese	47	164	140	154	84	119	337	42	4	13	53	

	ANNUAL			MONTHLY, 1972									
	1969	1970	1971	Jan.	Feb.	Mar.	Q	Apr.	May	June	Q	July	
<u>Banking and Credit (Kip M)</u>													
37 Total private deposits*	1965	2536	1774	1930	1834	1920	1920	2200	2240	2889	2869	2370	
38 Kip demand deposits	1356	1182	1231	1374	1292	1427	1427	1681	1826	2161	2161	1853	
39 FX demand deposits	464	938	40	34	27	36	26	61	32	30	30	45	
40 Kip savings/time deposits	145	386	503	522	515	467	467	458	472	478	478	474	
41 Credit to private sector*	2805	2948	3630	3522	3779	3440	3440	3564	4016	4237	4237	4408	
42 By RLC (Customs traites)	1011	537	410	502	433	410	410	513	365	472	472	310	
43 By BNL and DEL	1023	1347	1575	1571	1679	1568	1568	1699	1738	1871	1871	1891	
44 By Commercial banks	775	1064	1645	1649	1667	1456	1456	1652	1893	1894	1894	1899	
FX assets of authorized banks*													
45 Gross	1168	1775	2106	1827	1374	1831	1831	1822	1688	1979	1979	1668	
46 Net	249	173	284	170	54	171	171	81	183	(-8)	(-8)	331	
47 Vientiane bank clearings	54786	53023	21291	1751	1332	1601	4684	1148	2032	1926	1926		
<u>Price Indicators</u>													
48 RLG Vientiane CPI (1968=100)	103.5	101.8	112.1	112.2	114.7	116.5	116.5	123.0	128.6	135.3	135.5	138.1	
49 Per cent change in period	2.0	-1.6	11.0	0.1	2.2	1.6	3.9	5.6	4.6	5.4	13.3	1.9	
50 USAID Vientiane index(1968=100)	93.7	78.7	100.2	102.7	101.8	106.4	106.4	117.2	149.5	132.8	132.8	137.1	
51 Per cent change in period	-8.0	-16.0	12.7	2.5	-0.9	4.5	6.2	10.1	27.6	-11.2	24.8	3.2	
52 Sticky rice (kip/kg):Vientiane	55	40	55	60	60	60	60	65	75	65	65	100	
53 Thai export price	62	33	49	58		56	56	53	59	57	57	75	
54 Gold (\$/kg)*:Vientiane	1245	1288	1468	1582	1600	1617	1617	1658	1895	1950	1950	1920	
55 London	1133	1201	1405	1525	1561	1557	1557	1592	1866	2082	2082	2198	
56 Saigon	NA	1381	1619	1691	1702	1713	1713	1746	1721	1790	1790	1922	
57 U.S. green, parallel market(K/\$)	501	501	601	601	601	604	604	760	810	820	820	837	
58 Tin (NYC, \$/100 kilos) Average	381	384	367	376	377	396	383	404	395	387	395		
<u>Production</u>													
59 Timber (Thousand M ³)	117.9	73.2	76.4	7.2	7.2	3.0	23.1	8.5	18.5	18.6	42.8	4.8	
60 Tin concentrate (MT)	1262	1380	1573	179	155	186	522	137	154	164	455		
61 Charcoal (thousand MT)	13.4	10.4	10.1	.4	1.7	.4	2.5	.3	.4	.2	.9	.4	
62 Private construction (Kip M ³)	1112	2516	770	58	0	13	69						
63 Private construction (000 M ³)	59.7	61.9	22.3	1.7	0	.3	2.0						
64 Domestic Civil passengers (000)	93.9	99.9	96.6	4.8	4.4	3.9	13.1	4.5	3.5	4.5	12.6		
<u>Consumption</u>													
65 Electricity(Vt., million KWH)	21.8	25.3	28.8	2.3	2.2	2.5	7.0	3.0	3.2	3.4	9.6		
66 Cattle slaughtered (thousand)	8.6	8.4	7.5	.8	.8	.7	2.2	.8	.8	.6	2.0		
67 Hogs slaughtered (thousand)	55.4	54.2	53.9	3.6	6.3	4.9	14.8	6.4	5.9	4.3	17.2		

SIGNS AND ABBREVIATIONS:

* End-of-period
** Negative signifies increase
CPI Consumer price index

M₃ Million
M³ Cubic meters
MS Money Supply
MT Metric ton

NYC New York City
K Kip
Kg Kilogram
Vta. Vientiane

50

NOTES: (Keyed to table lines)

- (1) Total foreign exchange supply equals free market plus USIP L/C's plus BNL official receipts.
- (2) Free market supply is recorded sales by commercial banks to public plus (for 1969, 1970 and 1971) direct sales by FEOF to petroleum companies. Supply in June and July includes both taxable and non-taxable exchange.
- (3) USIP letters of credit opened during indicated period.
- (4) Indicated BNL official receipts exclude SDR proceeds, investment interest and certain other transactions.
- (5) Proceeds surrendered to the BNL from licensed exports. Primary licensed exports are tin and lumber. In April 1972 the percentage surrender requirements was raised from an average of about 20% to a uniform 30% for all licensed exports.
- (8) Indicated BNL official disbursements exclude contributions to FEOF, subscriptions to IMF, and certain other transactions.
- (14) Japanese exports include aid goods.
- (17-20) The budgetary deficit is revenues less certified expenditures, and the cash deficit is revenues less disbursements. Revenues, certifications and payments are all subject to revision after receipt of late reports from provinces.
- (27) The index of real money supply equals the current MS index divided by the RIG price index.
- (30) RIG net inflationary borrowing equals (21) borrowing from BNL plus the decrease in (22) Treasury assets plus the increase in (23) treasury liabilities to private sector.
- (31) The indicated change in the net FX position of banks equals (9) the balance of BNL current receipts and expenditures converted at the official exchange rate, plus the increase in (10) the net FX assets of the authorized banks. The official exchange rate changed from K240/\$ to K895/\$ in April 1972.
- (32) Decline in (40) kip savings and time deposits.
- (33) Increase in (41) credit to the private sector from all sources.
- (34) USAID expansion equals withdrawals from FEOF less change in USAID kip assets.

- (35) French expansion equals withdrawals from FEOF less change in FEOF counterpart held by French Disbursing Officer at the Bank of Indochina.
- (36) Japanese expansion equals withdrawals from FEOF less change in Japanese counterpart and trust accounts at the BNL.
- (42) Traités (customs promissory notes) held both at Treasury and at BNL.
- (43) BNL credit to private sector and to commercial banks (discount facilities) plus investments.
- (44) Credit by commercial banks to private sector, net of BNL credit to commercial banks.
- (45-46) FX assets of commercial banks and DBL, but not BNL.
- (52) Non-subsidized Vientiane retail price per kilo of 10% glutinous rice.
- (53) Wholesale export price of 10% glutinous rice published by Thai Board of Trade in \$/MT and converted here at the FEOF par rate (K505/\$ to 11/71; K605/\$ thereafter).
- (54-56) Indicated gold prices are end-month, except when non-availabilities of end-month data require selection of an earlier date to maintain comparability among sources.
- (54) Price per kilo bar reported by a major Vientiane gold merchant.
- (55) London market Friday closing price for gold bullion for last week in month. Closest preceding quote shown when Friday quote not available.
- (56) Saigon price for gold leaf in piastres converted at current Saigon parallel market dollar rate for piastre.
- (57) Bank kip/\$ buying rate until 4/72, and curb market buying rate thereafter.
- (58) Average pig tin price in New York published in \$/100 lbs in IMF International Financial Statistics and converted here to \$/100 kilos (published Penang prices average about \$20/100k lower).
- (62-63) Construction data through 1/72 is from permits to initiate work; data for 2/72 onwards is from completion reports.
- (64) Domestic civil air passenger departures from Vientiane Airport only.
- (65) Electricity consumption in Vientiane metropolitan area from EDL network.
- (66-67) RLC Veterinary Service data on cattle and hogs slaughtered in all cities.