upgrading in both industry and services. As a consequence, many old economy skills are becoming obsolete. The enhancement of human resources skills to facilitate the introduction of ICT in order to remain competitive in world trade and to attract foreign capital has become an urgent necessity in the region. Governments need to make a greater investment in education and training, particularly in those countries having to make a transition from labour-intensive, relatively low value-added activities to higher technology, relatively high value-added activities.

International financial system reform continues to be of critical importance for the region with its need for substantial access to global capital flows on a stable basis. The absence of concrete progress in this regard has encouraged some countries in the region to strike out on their own. The Chiang Mai Initiative by ASEAN is a case in point. While such initiatives have their merit, care must be taken to ensure that they do not lead to a weakening of the resolve of all countries to participate actively and meaningfully in multilateral initiatives in this area.

DEVELOPING ECONOMIES OF THE ESCAP REGION

Asian least developed countries

Most of the Asian least developed countries either maintained their recent growth performance or recorded somewhat higher growth in 2000 despite lower prices for several commodities and higher petroleum costs. This outcome reflected in part improved agricultural production, better export performance, facilitated in some cases by the regional economic recovery, and an absence of serious exogenous shocks. Equally notably, the rates of inflation were among the lowest recorded during the past decade, despite the continued weakness of currencies in several countries and the relatively high levels of fiscal deficit. However, these positive developments rest on a fragile foundation, especially in view of the narrow production base, the delicate fiscal position and an undiversified export basket. Moreover, the need for further acceleration of growth does not need to be emphasized in view of the low living standards in these countries. This remains a major issue on the United Nations agenda.

Growth performance

In Bangladesh, GDP went up by 5.5 per cent in 2000 from 4.9 per cent during the previous year because of good harvests and improved industrial production (table II.2). Growth in 2000 was led by the agricultural sector which expanded strongly by 6.4 per cent, compared with less than 5 per cent in 1999, on the back of higher (by over 6 per cent) crop and horticulture output. The *aman* harvest, in particular, rose by some 33 per cent, that of the *aus* crop, by just over 7 per cent, and *boro*[1] by 4.5 per cent while wheat production declined by 3.6 per cent. As a result, total food grain production (almost 25 million tons in 2000) was 14 per cent higher than the previous year's level and this helped reduce food grain imports to 2.1 million tons, compared with 5.5 million tons in 1999, to meet the flood-related production shortfall. Production of tuber increased by over 11 per cent, to 2.3 million tons, but that of jute declined by 12 per cent, to 3.9 million bales in 2000.

Industrial expansion, at 5.6 per cent in 2000, was marginally higher than the 4.9 per cent rate in 1999 and reflected strong mining, quarrying and power generation activities; their value added jumped by 6.5 per cent from just over 1 per cent in 1999. Manufacturing output grew by 4.2 per cent in 2000 compared with the flood-hit rate of 3.2 per cent a year earlier; in particular, small-scale manufacturing production, which had risen by less than 1 per cent in 1999, was 4 per cent higher. However, the construction subsector declined slightly by 1 percentage point (to 8 per cent in 2000) as major repair and maintenance of infrastructure damaged by the floods was nearing completion. Generally, manufacturing activities remained beset by such problems as power shortages and transport bottlenecks, trade union militancy, and some loss of external competitiveness. Meanwhile, the service sector has been growing at largely the same rate, some 5 per cent, over the past several years. Stronger performance from many services, including wholesale and retail trade, hotels and restaurants, transport and communications and public administration, offset a slowdown in others such as real estate, renting and business activities, and education services.

[1] *Aman, aus* and *boro* are all a variety of paddy.

In Bhutan also, the agricultural sector (including forestry and logging), accounting for more than one third of GDP, is a major determinant of overall growth performance. GDP was estimated to expand by 6 per cent in 2000. Agriculture recovered substantially to grow by 2.3 per cent in 1999. The government policy of maintaining forest coverage at not less than 60 per cent of the total land area, and a ban on log and raw timber exports contributed to a slower growth of some 3 per cent in this subsector in 1999.

Table II.2. Selected least developed countries of the ESCAP region: growth rates, 1997-2000

(Percentage)

		Rates of growth			
		Gross domestic product	*Agriculture*	*Industry*	*Services*
Bangladesh	1997	5.4	6.0	5.8	4.9
	1998	5.2	3.2	8.3	4.8
	1999	4.9	4.8	4.9	4.9
	2000	5.5	6.4	5.6	5.0
Bhutan[a]	1997	7.3	3.1	3.8	16.1
	1998	5.1	1.3	6.9	5.8
	1999	6.0	2.3	12.2	6.7
	2000	6.0	..	..	..
Cambodia	1997	4.1	5.8	20.4	–4.0
	1998	2.1	2.5	8.6	–1.0
	1999	5.0	1.5[b]	11.4	5.8
	2000	5.5	2.6	10.0	6.1
Lao People's Democratic Republic	1997	6.9	7.0	8.1	7.5
	1998	4.0	3.7	9.2	4.8
	1999	7.3	8.2	7.9	6.9
	2000	6.5	4.4	7.3	6.4
Maldives	1997	9.1	1.4	18.0	8.9
	1998	9.1	5.9	14.8	8.3
	1999	8.5	7.5[c]	8.4	8.9
	2000	7.6	4.4[c]	9.2	8.0
Myanmar	1997	5.7	3.7	8.9	6.7
	1998	5.8	4.5	6.1	7.0
	1999	10.5	10.9	13.1	9.1
	2000	..	..	..	..
Nepal[a]	1997	4.9	4.1	6.4	4.9
	1998	3.0	1.0	2.3	6.4
	1999	3.9	2.7	4.2	5.2
	2000	6.0	5.0	8.3	5.9

Sources: ESCAP, based on ADB, *Key Indicators of Developing Asian and Pacific Countries 2000* (Oxford University Press, 2000) and *Asian Development Outlook 2000* (Oxford University Press, 2000); and national sources.

Notes: Data for 2000 are estimates. Industry comprises mining and quarrying; manufacturing; electricity, gas and power; and construction.

[a] GDP at factor cost.
[b] Excluding forestry, agricultural growth was 8 per cent.
[c] Including coral and sand mining.

On the other hand, industrial output went up from nearly 7 to over 12 per cent between 1998 and 1999, with the relative share of manufacturing and electricity generation reaching about 22 per cent of GDP. The value added from electricity generation rose by 5.3 per cent in 1999 (from 3.8 per cent in the previous year) following a 50 per cent increase in the electricity export tariff to India, effective mid-1999. The relative importance of the power sector is expected to increase significantly with the completion in 2001-2002 of two new power projects, Basochu with 58 MW of capacity, and Kurichu with 60 MW. The major Tala hydropower project is to be built with an installed capacity of 1,020 MW in 2006. Meanwhile, construction activities are, and will probably remain, on an upward trend; this sector expanded by almost 31 per cent in 1999 and its GDP share went up by 2 percentage points to 10.5 per cent between 1998 and 1999.

The service sector, accounting for almost 28 per cent of GDP, grew by 6.7 per cent in 1999 from 5.8 per cent recorded a year earlier. Tourism was the most important component of this sector and in fiscal 2000, tourist arrivals increased by 12.5 per cent to 7,383 persons and tourism revenue, by 13.8 per cent to $9.3 million.

In Cambodia, strong growth in garment production, tourism, non-forestry agriculture and construction pushed GDP up by 5 per cent in 1999, compared with an earlier estimate of 4 per cent. In particular, improved weather conditions helped lift agricultural output by nearly 8 per cent; but a tighter logging policy reduced the value added from this sector (including forestry) to 1.5 per cent. Manufacturing production, led by export-driven textiles and garments, grew by 9 per cent and the recovery in tourism contributed to a 6 per cent growth in the service sector in 1999, its relative share being almost 37 per cent of total output. GDP had been forecast to go up by 5.5 per cent in 2000 and by 6 per cent in the following year, but the severe flooding in September 2000 will have an adverse impact on total production. The floods claimed 184 lives, destroyed over 100,000 hectares of rice and tens of thousands of hectares of other crops, and affected as many 2.2 million people, or nearly 20 per cent of the population; crop and property damage was estimated at $50 million.

Agriculture and forestry expanded by 2.6 per cent in 2000 while industrial sector growth of more than 11 per cent was largely underpinned by a rise of almost 7 per cent in manufacturing output in 2000. A major part of this output, textiles and garments, was facing quotas in some export markets. The service sector was expected to perform well, with value added being higher by nearly 6 per cent in 2000. This was the result of recent measures to encourage tourism, notably the declaration of an open skies policy that allowed foreign airlines to fly direct to Siem Reap, the nearest airport to the Angkor temple complex; tourist arrivals year-on-year increased by 50 per cent as of the end of May.

The GDP of the Lao People's Democratic Republic went up by 7.3 per cent in 1999 from 4 per cent during the previous year. The agricultural sector, with about 52 per cent of the total output, grew by over 8 per cent, driven by larger dry season paddy production resulting from the recent intensification of public investment in irrigation. Industry provided some 22 per cent of total output. Its performance remained strong, albeit at a moderate pace compared with the previous year, owing to falling demand for processed timber and garments from the regional markets. Hydroelectricity generation rose by 22 per cent as new projects came into operation. The service sector (accounting for 26 per cent of GDP) expanded by nearly 7 per cent in 1999, compared with 4.8 per cent in the preceding year. This robust performance was driven by tourism-related activities, such as transport, hotels and restaurants, and commerce, which were being promoted under the campaign "Visit Laos Year" in 1999-2000.

GDP growth in 2000, estimated at 6.5 per cent, was slightly lower with a more moderate expansion of 4.4 per cent in the agricultural sector. The industrial and service sectors remained healthy, with output being 7.3 and 6.4 per cent respectively, higher because of an enlarged flow of both imports and exports, and a greater number of incoming tourists. These two sectors were expected to perform even more strongly, with annual growth rates projected to be respectively around 6.9 and 7.3 per cent for the period 2001-2003. Increased public investment through central bank financing to counter the weakening of private investment owing to the regional financial crisis has caused a high level of fiscal deficits in recent years, with the consequent high rates of inflation. External financing is expected to fund most of the public investment programme over the period 2000-2003, complemented by greater revenue collection. The fiscal shortfalls as a proportion of GDP would be lower as a result.

In 1999, economic growth in Maldives continued to be strong owing to capacity expansion in the tourism sector and higher fish catch, although GDP increased by a marginally slower pace of 8.5 per cent. Consolidation in the tourism industry, among other factors, was expected to have a moderating impact on output expansion, 7.6 per cent in 2000 and 6.5 per cent in 2001. The primary sector (agriculture, fisheries and coral and sand mining) was projected to expand by 4.4 per cent in 2000, down from a robust 7.5 per cent in 1999. Fisheries directly employed over 19 per cent of the domestic labour force and constituted one tenth of GDP. The total fish landings and earnings from fish exports in the first quarter of 2000 were lower than those of the corresponding period in 1999. Meanwhile, the secondary sector (construction, manufacturing and electricity) performed slightly better with output rising by over 9 per cent in 2000 from 8.4 per cent in the previous year.

There was, however, a small decline in the relatively high growth rates of value added from the tertiary sector (distribution, transport, tourism, real estate and services, including banking and government administration), to 8 per cent in 2000 compared with nearly 9 per cent in 1999. Tourism directly accounted for 17 per cent of GDP and indirectly contributed an additional 30 per cent through its linkages to construction, distribution and transport. There were 139,700 tourist arrivals, with some four fifths from Europe, in the first quarter of 2000, but growth was slower than the corresponding quarter of 1999, so that capacity utilization declined from over 89 to 84 per cent while the average length of stay also dropped from 8.7 to 8.5 days. Ten new resorts with almost 1,800 beds had been completed by March 2000; no significant additions are anticipated because of environmental considerations.

According to official data, GDP in Myanmar surged by 10.5 per cent in fiscal 1999 from 5.8 per cent in 1998 owing to infrastructure building and efforts to bring more land into production; high growth was also forecast for 2000.[2] The reported economic upsurge, which was higher than the official forecast in early 2000, was partly the result of improved data collection which captured more of the large, informal economy. Agricultural output, accounting for almost 59 per cent of GDP in 1997, was reported to have risen by nearly 11 per cent in 1999 from 4.5 per cent during the previous year as a result of extensive farming; incentives to private investors had been on offer since 1998 to bring unused land into production. Land reclamation and the injection of private capital combined with improved weather conditions to boost rice output to 19.8 million tons in 1999 from 18.6 million tons in 1998. Nevertheless, agriculture remained constrained by shortages of key inputs such as fertilizers, seeds and diesel for irrigation pumps. There were also limited irrigation facilities and inadequate logistics, transport and marketing services.

With the recent commissioning of oil and gas projects, energy production expanded significantly by 54 per cent in 1998 and 69 per cent in 1999. Industrial output rose by over 13 per cent in 1999 from about 6 per cent in 1998. There was higher output of cotton yarn and fabrics, which increased by almost 19 and 62 per cent respectively, while cement production rose by over 5 per cent; the production of these three items maintained an upward trend in the first quarter of 2000 on a year-on-year basis. The service sector, which had expanded by over 9 per cent in 1999 from 7 per cent in the previous year, was expected to rise modestly in 2000 as the wage hikes for more than one million civil servants in April 2000 would boost the retail trade sector. Tourist arrivals, however, fell by over 14 per cent in 1999 (to about 246,000 persons) and the slide appears to have accelerated in the first quarter of 2000 with arrivals totalling just under 50,000 or about 20 per cent lower year-on-year.

In Nepal, GDP grew strongly by 6 per cent in fiscal 2000, the previous year's rate being less than 4 per cent. Agricultural production, with a share of more than 40 per cent in total output, went up by 5 per cent, compared with 2.7 per cent in 1999, mainly because of the favourable monsoon and an increased

[2] Other available estimates, including those from the Economist Intelligence Unit, indicate a more moderate rate of GDP expansion of about 5.7 per cent in 1999 and 5 per cent in 2000. These rates appear to be within the medium-term growth trend of the country.

supply of fertilizers following private-sector involvement in their distribution. There were larger harvests of all major food grains, such as paddy, maize and wheat, while the cash crop output, including sugar cane and potatoes, was up by 6.4 per cent.

Value added from the non-agricultural sector also increased strongly by 6.6 per cent in 2000. The electricity, gas and water subsectors grew robustly by over 16 per cent, compared with 6.8 per cent in 1999, following the operation of new hydroelectricity projects. Manufacturing output went up by nearly 12 per cent, or twice as fast as the previous year, as a result of significantly higher production of garments, processed food, beverages, and chemical products. The service sector also performed strongly, expanding by almost 6 per cent in 2000 in part owing to the revival of construction that, in turn, was attributable to higher farm incomes and government development spending. In addition, growth in tourist arrivals plus the promotion of internal tourism lifted output from wholesale and retail trade, restaurants and hotels from 2.5 per cent in 1999 to about 6 per cent in the following year. However, banking services and real estate activities did not expand as fast, despite signs of improvement in the latter.

Inflation

Inflation in Bangladesh dropped sharply, from nearly 9 per cent in flood-affected 1999 to 3.8 per cent in 2000, with the higher increases in food prices (by just over 4 per cent) being offset by a modest rise in non-food prices by 2.6 per cent. Consumer prices appeared to have stabilized at a relatively low level as they rose by only 0.5 per cent between July and September 2000, compared with 1.2 per cent during the same period a year earlier. However, inflation was expected to be somewhat higher by the end of 2001, reflecting more expensive costs of energy-related products and services; there was also a relatively high level of fiscal deficits and money supply (M2) growth during the last two years (table II.3).

Bhutan experienced a similarly sharp fall in consumer prices, from about 12 per cent in 1998 to 4.5 per cent in December 1999, as a result of moderate increases in the costs of both food and non-food items. This downward trend, in turn, reflected a significant drop of inflation in India in 1999 as there were close economic linkages between the two countries. There was, however, greater upward pressure on prices with the Thimphu food price index edging up by 5.3 per cent for the quarter ending June 2000, thus reversing the downward trend of the previous two quarters.

Consumer prices were also remarkably stable in Cambodia, with inflation falling from almost 15 per cent in 1998 to 4 per cent in 1999 and 3 per cent in 2000, the net result of falling food prices owing to increased supplies of rice and other crops, the improved fiscal balance in 1999 and lower M2 growth in 2000. Indeed, there were some deflationary pressures as consumer prices fell year-on-year by 2.5 per cent in the second quarter of 2000 while month-on-month inflation was negative throughout the quarter. Price increases are expected to be modest in 2001 even allowing for the impact of higher oil prices, a higher level of economic activities, and rising food prices in consequence of the widespread flood-related crop damage in September 2000.

Inflation in the Lao People's Democratic Republic went up from 87 per cent in 1998 to peak at 167 per cent as of March 1999. Thereafter, it was on a steep downward trend, averaging 134 per cent for 1999 as a whole, and just 15 per cent in the following year. Notably, year-on-year inflation was brought down to 6.6 per cent in August 2000 and it continued at a single-digit level through October 2000. The stabilizing factors included large increases in the output of rice and other commodities, an improved fiscal position, tight money policy, and the relative stability of the exchange rate from the latter part of 1999. Inflation was forecast to be below 10 per cent for the near to medium term in spite of higher energy prices.

Maldives had experienced a modest rate of deflation in 1998. Consumer prices were then on an upward trend with inflation reaching 3 per cent in the following year. Notwithstanding higher fuel prices, however, inflation slowed to 2 per cent. The moderate inflation rate largely reflected lower prices of fish, clothing and footwear against a backdrop of slow M2 growth and the relative stability of the exchange rate.

Inflation in Myanmar was also on a sharp decline from over 51 per cent in 1998 to 18 per cent during the following year; price increases then averaged only 6 per cent year-on-year in the first quarter of 2000, easing further to 4.3 per cent year-on-year in the second quarter. There were higher supplies, including increased rice production, relatively moderate budget deficits and lower M2 growth in 1999. The relative stability of the exchange rate

Table II.3. Selected least developed countries of the ESCAP region: summary of macroeconomic indicators, 1997-2000

(Percentage)

		1997	*1998*	*1999*	*2000*
Bangladesh	Savings/GDP	15.9	17.3	17.7	17.8
	Investment/GDP	20.7	21.6	22.2	22.4
	Budget balance/GDP[a]	–4.5	–4.2	–5.3	–5.8
	Current account balance/GDP	–1.3	–0.6	–1.1	0.4
	Money supply growth (M2)	9.9	11.4	12.8	18.6
	Inflation rate[b]	2.5	7.0	8.9	3.8
Bhutan	Savings/GDP	38.8	37.9	..	..
	Investment/GDP	48.1	47.3	..	..
	Budget balance/GDP	–2.1	3.0	–0.9	–4.0
	Current account balance/GDP	–14.1	–11.7	–26.1	–28.8
	Money supply growth (M2)	59.0	14.0	32.0	21.4
	Inflation rate[b]	6.5	12.1[c]	4.5[c]	..
Cambodia	Savings/GDP	6.1	5.4	7.3	6.2
	Investment/GDP	13.0	12.9	15.8	17.5
	Budget balance/GDP[a]	–4.2	–5.9	–4.4	–6.0
	Current account balance/GDP	–8.6	–7.8	–8.1	–9.0
	Money supply growth (M2)	16.6	15.7	17.3	12.0
	Inflation rate[b]	7.9	14.8	4.0	3.0
Lao People's Democratic Republic	Savings/GDP	9.4	15.5	13.4	13.0
	Investment/GDP	26.2	26.8	23.6	25.1
	Budget balance/GDP[a]	–10.1	–11.4	–10.5	–8.5
	Current account balance/GDP	–16.8	–10.6	–6.9	–9.3
	Money supply growth (M2)	113.3	78.4	78.4	36.0
	Inflation rate[b]	27.5	87.4	134.0	15.0
Maldives	Budget balance/GDP	–2.0	–2.8	–4.2	–1.5
	Current account balance/GDP	–10.8	–6.8	–15.2	–13.2
	Money supply growth (M2)	23.1	22.8	3.6	0.7[d]
	Inflation rate[b]	7.5	–1.4	3.0	2.0
Myanmar	Savings/GDP	11.8	12.0	13.1	..
	Investment/GDP	12.5	12.9	11.1	..
	Budget balance/GDP[a]	–0.1	–0.4	–1.7	–0.5
	Current account balance/GDP	–0.2	–0.2	–0.1	–0.1
	Money supply growth (M2)	28.8	34.2	29.7	33.2[e]
	Inflation rate[b]	29.7	51.5	18.3	7.0
Nepal	Savings/GDP	14.0	13.8	13.3	13.2
	Investment/GDP	25.3	24.8	20.2	20.9
	Budget balance/GDP	–5.1	–5.9	–5.3	–5.1
	Current account balance/GDP	–8.0	–1.5	0.3	–1.5
	Money supply growth (M2)	11.9	21.9	20.9	20.7
	Inflation rate[b,f]	7.8	8.4	11.3	3.3

Sources: ESCAP, based on ADB, *Key Indicators of Developing Asian and Pacific Countries 2000* (Oxford University Press, 2000) and *Asian Development Outlook 2000* (Oxford University Press, 2000); IMF, *International Financial Statistics*, vol. LIII, No. 9 (September 2000) and *International Financial Statistics,* vol. LIII, No. 12 (December 2000); and national sources.

Notes: Data for 2000 are estimates; savings/GDP refers to gross domestic savings/GDP; and investment/GDP refers to gross domestic investment/GDP.

a Excluding grants.
b Referring to changes in consumer price index.
c Referring to annual inflation in December.
d January-August.
e January-May.
f National urban consumer price index.

also helped curb import price increases. Some upward pressures on consumer prices could be felt in 2001 as local demand was expected to pick up following the pay hike granted to civil servants in April 2000 as well as faster M2 growth in 2000.

Nepal was another country with a sharply lower inflation of just over 3 per cent in 2000 in the wake of a substantial increase in 1999. This was largely a result of high food prices following a poor crop caused by adverse weather conditions. Local prices of food grains, especially rice, were comparatively stable owing to increased supplies and low prices of imported foodstuffs in 2000. In this context, mention should be made of the deceleration of price pressures in India, as noted earlier. The prices of pulses, vegetables and fruits, oil and butter, and sugar and sugar-related products were declining from the previous year's levels. Non-food prices were generally higher, in part owing to a hike in electricity and water charges, although the extent of increase was, by and large, modest.

Trade and exchange rates

In Bangladesh, export earnings had risen by an average of about 14 per cent in 1996-1998 although the 1998 floods contributed to a slowdown in export growth, to just under 3 per cent to reach $5.3 billion in 1999. The value of exports in 2000, at $5.8 billion, was thus higher by 8.3 per cent, mainly because of larger earnings from leather products (by over 16 per cent), fish and shrimps (by nearly 26 per cent), ready-made garments including hosiery and knitwear (by 8.3 per cent), chemicals (by 19 per cent), and fertilizers (by just over 3 per cent). However, jute goods, tea and handicrafts registered various rates of decline owing to lower external demand and, in the case of tea, falling production as well. The United States, Canada and the EU remained the principal markets for ready-made garments.

Spending on merchandise imports, which had totalled some $8 billion, was expanding at a slower pace, by 6.6 per cent in 1999 and 3.3 per cent in 2000 (table II.4). This was largely attributable to a sharp decline of nearly 60 per cent in food grain imports after a bumper harvest; food grain imports had risen by 170 per cent in value in 1999 to make up for the substantial, flood-related losses in rice and wheat production. On the other hand, import payments on several categories went up significantly in 2000, for example, by 91 and 48 per cent (to $225 and $400 million) for crude oil and petroleum products; by 19 per cent (to $410 million) for iron and steel; and by 13 per cent (to $1.2 billion) for textiles. Although the import bill for capital goods declined by just over 1 per cent, to $1.9 billion, the stronger pace

Table II.4. Selected least developed countries of the ESCAP region: exports and imports and their rates of growth, 1997-2000

	Exports (f.o.b.)					*Imports (c.i.f.)*				
	Value (millions of US dollars)	*Annual rate of growth (percentage)*				*Value (millions of US dollars)*	*Annual rate of growth (percentage)*			
	1999	*1997*	*1998*	*1999*	*2000*	*1999*	*1997*	*1998*	*1999*	*2000*
Bangladesh[a]	5 324.0	14.0	16.8	2.9	8.2	8 018.0	3.1	6.1	6.6	3.3
Bhutan[a]	108.1	1.7	12.1	–2.2	6.8[b]	165.2	18.3	3.7	21.4	12.6[b]
Cambodia[c]	933.0	34.5	14.3	9.2	1.0[b]	1 227.0	3.0	7.4	0.7	6.8[b]
Lao People's Democratic Republic[a]	305.5	–1.4	6.3	–10.3	7.1	554.3	–6.1	–14.7	0.3	29.5
Maldives[c]	88.6	15.8	5.4	–4.9	–0.5	312.0	15.6	1.5	7.2	5.0[b]
Myanmar[a]	1 503.0	8.8	12.2	21.6	..	2 440.0	15.0	8.2	–9.9	..
Nepal[a,c]	1 275.0	84.9	–24.5	29.7	44.7	1 601.0	31.7	–12.3	–1.7	22.2

Sources: ESCAP calculations based on national sources and IMF, *Staff Country Reports.*

[a] Fiscal year.
[b] Projection.
[c] Including re-exports.

of economic activities pushed up import demand considerably. The value of imports went up year-on-year by 30 per cent to $1.5 billion during the first four months of fiscal 2001. Meanwhile, export earnings also climbed on a year-on-year basis by 27 per cent to $2.2 billion during the same period.

The current account surplus deteriorated slightly because of a higher deficit in the trade accounts in 2000 and despite inflows of remittances by overseas workers; these inward transfers stood at $311 million in August and $775 million at the end of November 2000. As regards trade-related policies, the 2000 budget reduced import duty slabs from five to four, and duties on all primary raw materials were lowered from 7.5 to 5 per cent. At the same time, the exchange rate of the taka against the United States dollar fell by about 5.6 per cent, from 51 taka per dollar as of 1 June 2000 to 54 taka as of August 2000; the unofficial market rate was 3 to 4 taka higher per United States dollar.

In local currency terms, exports from Bhutan increased by just over 9 per cent (to 4,872 million ngultrum) in 2000 largely as a result of the tariff rate revision on electricity exports to India from 1 to 1.5 ngultrum per unit. On the other hand, import value went up by 15.5 per cent on account of higher capital imports related to the construction of the Basochu, Kurichu and Tala power plants. The overall trade deficit expanded by 27 per cent, and as a percentage of nominal GDP, it went up from about 14 to 16.6 per cent between 1999 and 2000. India accounted for more than 90 per cent of exports from, and two thirds of imports into, Bhutan and the trade deficit with India went up significantly (by over 80 per cent, to 1,471 million ngultrum) in 2000. This was because a rise of 10 per cent in exports (consisting primarily of electricity, mineral products, chemicals, and wood) was more than offset by higher imports (by over 21 per cent) from India, particularly of machinery and equipment for the Tala hydropower project.

The trade deficit, combined with a large amount of aid-related service transfers mainly in connection with turnkey project grants from India, resulted in a 30 per cent increase in the current-account deficit to 5,544 million ngultrum (or 29 per cent of GDP) in 2000. Of this amount, the bilateral deficit with India amounted to 4,337 million ngultrum, or about 38 per cent larger. In comparison, the current-account deficit with other countries went up at a more moderate rate of 10 per cent to 1,206 million ngultrum (or just over 6 per cent of GDP). The ngultrum, which is pegged at par with the Indian rupee, depreciated by just under 4 per cent against the United States dollar in fiscal year 2000.

In Cambodia, the current-account deficit (excluding official transfers) was estimated to have increased by about 50 per cent (to $346 million) in 1999 along with a higher trade deficit (by 52 per cent) of $294 million. Export performance remained strong although difficulties in the textile and garment sector, and weak commodity prices, contributed to a slowdown of export growth in 1999. Earnings from exports and re-exports, at $933 million, were about 9 per cent higher, largely consisting of receipts from garment and forestry products. Import spending, which had expanded by over 7 per cent in 1998, was up only marginally to about $1.23 billion during the following year. In recent years, the main export destinations were Viet Nam, followed by Thailand, the United States, Singapore and China, while the main import suppliers included Thailand; Viet Nam; Japan; Hong Kong, China; and China.

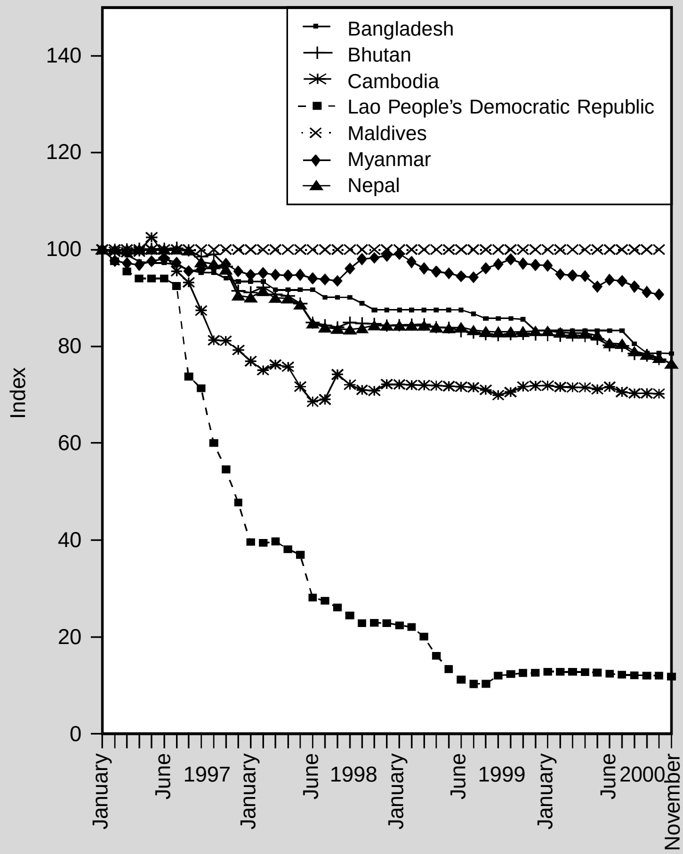
Both the trade and current-account deficits were expected to be larger in 2000. There were some uncertainties concerning textile and garment manufactures, the largest source of export earnings, not least because of labour unrest and the perceived loss of price competitiveness. However, the United States increased the size of the garment quota by 5 per cent in May 2000 and the EU guaranteed access of garment exports until 2002. There were higher tourism receipts, but continued aid inflows and foreign investment were necessary to finance the current-account deficit, which has remained at around 8-9 per cent of GDP over the past several years. The riel exchange rate has been broadly stable since the end of 1998 although the average value in 1999 of 3,808 riel to one United States dollar was some 40 per cent below that prior to the Asian financial crisis.

The merchandise trade deficit in the Lao People’s Democratic Republic widened by 17 per cent to $249 million (or 17.3 per cent of GDP) in 1999. Import spending in 1999 was, by and large, stagnant at about $554 million. Export earnings went down by some 10 per cent, to $933 million, with wood products showing the sharpest decline to $55 million in 1999 compared with over $115 million in 1998. Proceeds from coffee exports declined to $15 million from $48 million in 1998. In addition, there was a small drop in garment export value, but earnings from electricity and motorcycle exports went up significantly. Service exports showed a marked improvement with a higher surplus of over $98 million (or 6.8 per cent of GDP) from $71 million (or 5.6 per cent) in 1998. In particular, receipts from inward tourism increased sharply, by over 21 per cent. The current-account deficit stood over $90 million (or 6.9 per cent of GDP) in 1999.

The merchandise trade deficit for 2000 was expected to be wider at some $322 million (or 19 per cent of GDP), compared with $248.7 million or 17.3 per cent in 1999, as import expenditure expanded by over 29 per cent, compared with an export growth rate of 7 per cent in the first half of the year. The value of garment exports recovered strongly (by 12 per cent) with an extension of the generalized system of preferences from the EU while electricity exports were estimated to rise by almost 9 per cent. Earnings from wood products were on a declining trend because of continuing weak demand in regional markets and tighter logging control induced by heightened environmental concerns. The faster expansion of merchandise imports in 2000 reflected a rebound in imported capital goods in line with the projected strong growth in the industrial and service sectors, especially tourism. Overall, the current-account deficit was estimated to widen to 9.3 per cent of GDP, despite the sizeable surpluses in the service account and in net factor incomes and transfers. Meanwhile, a tight monetary policy stance and lower fiscal deficits helped reduce inflation and exchange rate volatility from the latter part of 1999 (figure II.1).

Figure II.1. Index of exchange rates of selected least developed countries, 1997-2000

(US dollar per domestic currency: January 1997 = 100)



Sources: IMF, *International Financial Statistics,* various issues, and *Far Eastern Economic Review,* various issues.

Exports and re-exports from Maldives were down by 5 per cent to $89 million in 1999 and were expected to remain more or less at this lower level in 2000. Owing to weaker prices, earnings from fish exports declined year-on-year by 22 per cent during the first quarter of 2000, despite a 14 per cent increase in export volume. On the other hand, the value of imports surged by 7 per cent to $312 million in 1999 and by another 5 per cent in 2000. This upward trend reflected higher expenditure associated with the ongoing expansion of tourism-related activities and services; earnings on inward tourism accounted for almost 80 per cent of the value of exports of goods and services. The trade deficit, enlarging from $265.5 million in 1999 to $284 million in 2000, was offset to a considerable extent by surpluses in the service and other accounts to result in a current-account shortfall of $60 million (or just over 15 per cent of GDP) in 1999 and an estimated deficit of $57 million (or 13.2 per cent) in 2000.

New trade legislation became effective from May 2000 and contained, among other things, a new import tariff structure with nine tariff bands ranging from 0 per cent for staple foods to 100 per cent for cars and 200 per cent for plastic bags; the nominal duty rate averaged 20 per cent. The protective impact of these measures is limited owing to the very small size of import-competing domestic production. On the other hand, duty exemptions granted to promote investment or economically important projects were estimated to cause revenue losses of some 30 per cent. The exchange rate has remained fixed at 11.7 rufiyaas to one United States dollar since 1995, providing an anchor for macroeconomic policies and business planning. Although the export of fisheries has lost some market share in recent years, the relative appreciation of the local currency in real terms was not seen as an obstacle to export expansion. Indeed, tourism was not greatly sensitive to changes in the exchange rate while the availability of flexible and low-wage expatriate labour contributed to the durable competitiveness in this sector.

Myanmar experienced a rising trend in export earnings in dollar terms, with exports reaching $1.5 billion in fiscal year 1999; this represented an increase of over 21 per cent or almost twice the previous year's rate. The main destinations of exports were India, followed by Singapore, China, Thailand and Japan, while major suppliers of imports were Singapore, followed by Thailand, Japan, China and Malaysia. Myanmar exports primarily agricultural commodities and natural resources such as rice, pulses and beans, rubber, and forestry and fishery products. Strong external demand for hardwood, including from nearby countries such as China and Thailand, resulted in surging export earnings from teak and other hardwoods. There are, however, growing concerns regarding the impact of heavy logging on forest resources and the environment. Despite higher rice output in 1999, exports of rice and rubber were down in both value and volume terms owing to weak international prices and demand, and efforts to ensure adequate supplies for local needs. The upward trend in overall export earnings continued into the first quarter of 2000; there was a marked upturn in both the volume and value of fish and maize exports, while rising prices of both rice and rubber were expected to boost export earnings from these commodities in 2000.

Import spending, on the other hand, fell by almost 10 per cent (to $2.4 billion) in fiscal 1999. The import of capital and intermediate goods such as machinery, electrical goods and metals fell steeply, in part as a result of the decline in FDI approvals. There was a noticeable upward movement in import expenditure in 2000. In a bid to conserve foreign exchange, monthly import spending by traders was limited from late September 2000 to a maximum of 1 million kyat (equivalent to about $154,000 at the official exchange rate, and around $3,000 at the free market rate).

The current account deficit in Myanmar fell markedly in 1999 to $222 million from over $494 million a year earlier owing to the large drop in the merchandise trade deficit. However, the inflows of aid, plus remittances by overseas workers, fell in 1998 and were most likely affected in 1999, partly because of the repatriation of workers from Thailand. Of the prevailing three-tiered exchange rate, the official one is pegged against the special drawing rights while the Foreign Exchange Certificates were traded close to the free-market rate. This rate was not expected to strengthen in 2000 owing to the high level of pent-up demand for both final and intermediate products, and capital goods relative to the available hard currency resources. In addition, there was continued upward pressure on consumer prices, albeit at a declining rate. There is a large gap between the official and free market exchange rate; the feasibility and the desirability of realignment require close examination.

In Nepal, exports and re-exports went up by nearly 30 per cent (to $1,275 million) in fiscal year 1999 and were projected to have surged further by 45 per cent in 2000. Such high growth was largely underpinned by export shipments to India which expanded by 42 and 80 per cent in 1999 and 2000. Thus, India was the source of some 44 per cent of Nepal's export earnings in 2000, rising from 35 per cent in the previous year. The expansion of exports to other countries averaged over 24 per cent annually during fiscal years 1999 and 2000; it was attributed mainly to higher exports of ready-made garments (by 43 per cent), handicraft goods (20 per cent), and paper and paper products (39 per cent).

Import spending also went up sharply by over 22 per cent in fiscal year 2000; it had declined by almost 2 per cent, to $1.6 billion a year earlier. Imports from India increased by 27 per cent, a faster rise than the rate of 17 per cent in 1999; those from other countries expanded by 19 per cent in 2000 but had fallen by over 10 per cent in the previous year. Aid-financed imports, which used to be nearly one fifth of the total in the 1980s, have now shrunk to less than 10 per cent, a trend which was due in part to the more rapid expansion of economic activities and services that are not related to or financed by ODA.

Notwithstanding higher export earnings, the trade deficit widened by almost 7 per cent (to just under 15 per cent of GDP) in 2000; a small decline in the bilateral deficit with India (by over 6 per cent) was offset by a larger increase (by almost 15 per cent) in the trade shortfall with the rest of the world. The net service income was estimated to have declined by about 12 per cent; certain constraints in air services (brought about by the suspension of air flights to Kathmandu) contributed to low receipts from tourism. In consequence, the current-account surplus, equivalent to 0.3 per cent of GDP in 1999, became a relatively modest deficit of 1.5 per cent in 2000. The Nepalese rupee had remained fairly stable until the third quarter of 2000 when it depreciated by 3 per cent against the United States dollar. Keeping with the virtually free mobility of goods, services and capital between these two countries, the local currency was freely convertible with the Indian rupee at a fixed peg.

Capital inflows and outflows

The overall balance of payments in Bangladesh turned around from a deficit of $171 million in 1999 to a surplus of $325 million in 2000 owing partly to an improved current-account position, from a deficit of about 1 per cent of GDP in 1999 to a surplus of 0.4 per cent in 2000. FDI inflows were estimated to have declined to $150 million in 1999 from $308 million in 1998, while aid commitments and disbursements stood at $2.04 billion and $1.23 billion respectively in 2000. The stock of foreign exchange reserves remained largely stable at $1.5 billion as of June 1999 and $1.6 billion (equivalent to three months of import coverage) a year later. Improvements in the capital and financial accounts were expected to compensate in part for the projected deterioration in the trade, current transfers and services accounts and lead to a stable position in the overall balance of payments in 2001.

In Bhutan, the trade and current-account deficits were more than offset by capital inflows (including grants and loans) resulting in a balance-of-payments surplus in 2000. Total grant receipts, at 3,616.3 million ngultrum, were marginally higher than the 1999 level; they were also equivalent to some 42 per cent of government spending. A decline of grant-in-aid from third countries was more than offset by higher grants from India. Meanwhile, external debt went up by almost 12 per cent to $174 million in 2000 as a result of greater recourse to external funding for government development activities. As a percentage of GDP, the amount of total debt was equivalent to 38 per cent in 1999 and over 39 per cent in 2000. Rupee debt rose by 22 per cent in 2000 owing to loan disbursements related to the Tala and Kurichu hydropower projects. However, the rupee debt-service ratio dropped to 2.3 per cent in June 2000 from 8.4 per cent in June 1999 because of the liquidation of the Government of India credit line. The convertible currency debt-service ratio also declined to 11 per cent in June 2000 from 16 per cent in June of the previous year, as a result of the liquidation of the Druk Air loan of $22.6 million. Rupee-denominated reserves increased by 23 per cent while convertible currency reserves, at $217.5 million, were about 11 per cent higher over the same period.

The current-account deficit, excluding official transfers, has remained at around 8-9 per cent of GDP in Cambodia over the past several years. The shortfall in net services was projected to increase to $131 million in 2000 (from an estimated $122 million in 1999) while official transfers were to rise to $243 million (from $220 million). Meanwhile, FDI inflows amounted to $120 million in 2000 and the balance-of-payment deficit was projected to be slightly lower at $93 million in 2000, compared with $98 million in the previous year. Continued donor support, among other things, would help ensure external financial viability for the country. The rescheduling of debt with the Russian Federation, the United States and other major creditors was undertaken in 2000. Debt service payments are projected at 4 per cent of gross current-account receipts over the period 2000-2003, amounting to about 6 per cent of gross official reserves, which were $466 million at the end of July 2000, equivalent to 3.5 months of import spending.

The capital account of the Lao People's Democratic Republic registered a surplus of $87 million in 1999, compared with $62 million a year earlier. There were higher FDI inflows, reaching $79 million in 1999. Meanwhile, the drop in official capital transfers by over one half (to $57 million), owing to declining long-term loan disbursements, was more than offset by a sharp fall in capital outflows (of some 122 per cent). However, the capital-account surplus was insufficient to cover the current-account shortfall of over $90 million, equivalent to almost 7 per cent of GDP, resulting in a small deficit of some $3 million in the balance of payments. The capital-account surplus was estimated to go up to $175 million in 2000 because of higher FDI ($112 million) and ODA loan disbursement ($88 million), resulting in a surplus of over $17 million in the balance of payments.

Official reserves were in the range of $106-$135 million in 2000, equivalent to 2.3-2.5 months of imports, or 9-11 per cent of the amount of convertible currency external debt. On the basis of the official exchange rate, the total debt reached $2.6 billion or about 154 per cent of GDP at the end of 2000; of this amount, some $1.25 billion were of a convertible nature. About 98 per cent of the non-convertible debt was owed to the Russian Federation and negotiations on the exchange rate for its conversion and rescheduling through the Paris Club are still pending.

The current-account deficit of Maldives more than doubled to over 15 per cent of GDP in 1999 and remained at a high level of over 13 per cent in the following year. Meanwhile, official capital inflows were estimated to have declined from $5.6 million in 1999 to $3.3 million in 2000 while those of private capital fell from $43 million to $30 million in the same period. As a result, the balance-of-payments shortfall went up from about $7 million to just over $24 million in 2000 while gross foreign-exchange reserves decreased from $128.5 million in 1999 (equivalent to 3.3 months of imports of goods and non-factor services) to $116.4 million (2.9 months of such imports) in 2000. The increasing monetization of the fiscal deficit and the ongoing consolidation in the tourism sector were expected to reduce the available level of external reserves in the medium term.

In Myanmar, the amount of foreign reserves rose marginally to almost $278 million at the end of August 2000, or less than two months of import coverage. Given the limited access to foreign aid or loans, the country is highly dependent on FDI and overseas workers' inward remittances. Asian countries have been the key sources of foreign investment. Despite a strong economic turnaround, however, the total FDI approvals declined from a peak of $2.8 billion in 1996 to $56 million in 1999 with the mining sector attracting the largest share. In the first quarter of 2000, FDI approvals for four new projects in the oil and gas sector, and five projects in the manufacturing sector, amounted to $64 million; implementation of these projects could bring in more hard currencies in 2000-2001. The relatively difficult operating environment, including a limited legal framework and complex foreign exchange system, may serve as a constraint on external private resource inflow. Myanmar was expected to continue to accumulate arrears on its external debts.

Nepal has adopted very liberal trade, industrial, foreign exchange and tax policies to attract FDI. The exact amount of such investment was difficult to determine, not least because of the absence of proper reporting systems. In addition, capital mobility between Nepal and India is unregulated and transactions can take place outside the banking system. Apparently, the volume of investment reported and compiled for balance-of-payments purposes, 578 million Nepalese rupees and 223 million Nepalese rupees respectively for 1999 and 2000, was only a fraction of the actual inflows. Foreign aid has been the major source of external resources; official capital amounted to 13.65 billion Nepalese rupees in 2000, an increase of 15 per cent over the previous year's level; nearly 95 per cent of this amount was concessional multilateral loans. Government external debt increased from 161 billion Nepalese rupees in July 1998 to 190 billion Nepalese rupees (or 51 per cent of GDP) in 2000. The debt-servicing burden, although increasing, has not become a critical problem. It was equivalent to 15 per cent of government current expenditure in 1999, estimated to rise to 19 per cent in 2000, and projected at 18 per cent for 2001. The balance-of-payments position remained strong with rising foreign exchange reserves, which at 94 billion Nepalese rupees as of mid-July 2000 was sufficient to cover almost 11 months of merchandise imports.

Fiscal developments

The budget of Bangladesh for fiscal year 2000 aimed at maintaining macroeconomic stability and ensuring high growth, with priority given to social-sector development. A variety of measures were introduced to ensure greater resource mobilization, including higher efficiency in tax collection and a broadening of the tax base. An environment more conducive to greater participation by overseas Bangladeshi nationals in the capital market was to be created along with tax incentives to encourage FDI. At the same time, the tax burden of low-income groups was reduced, customs duty schedule was revised, and 31 new retail items and 12 services were brought under the coverage of VAT. Despite these measures, the fiscal position deteriorated as government revenue was lower than the original estimate by 12 per cent (to 213.4 billion taka) while recurrent expenditures rose by 3 per cent (to 184.4 billion taka) in 2000. The revised development expenditure, at 165 billion taka, was 6.5 per cent higher than the budget estimate. The overall budget deficit was equivalent to about 5.8 per cent of GDP. Net foreign financing of the deficit fell steadily from 63 per cent in 1998, to 61 per cent in the following year and to 53 per cent in 2000; in comparison, bank financing of the deficit went up from 12 to 24 per cent between 1999 and 2000.

The 2001 budget envisaged higher overall revenue and expenditure, both by 13 per cent. The recent trends in development spending focused considerably on human resources development as well as on the resolution of infrastructure, and other, bottlenecks. These are crucial in ensuring a better environment to attract more external capital from private sources, especially FDI. Although FDI has not been flowing strongly into the country, amounting to less than 1 per cent of GDP in recent years, it constitutes a significant component of project financing in the natural gas, power generation, and telecommunications subsectors. The overall budget deficit was projected to rise to 5.9 per cent of GDP in 2001, and about one half of this shortfall was to be met by foreign financing, as against 53 per cent in the previous year.

In Bhutan, the rise in government wages and salaries in 1999 and in the number of projects under implementation led to higher current and capital expenditure in 2000. Government revenue went up strongly, by 18 per cent, owing to improved tax administration as well as successful measures to broaden the tax base. Non-tax revenue (including surplus transfers from public enterprises, such as the Chhukha hydropower project), totalled over 55 per cent of domestic revenue. Tax revenue, mostly generated through enterprise profit taxes and taxes on goods and services, grew by 25 per cent, to meet 18.5 per cent of total expenditure, as compared with 17.5 per cent in 1999. Both current and capital expenditure were on an upward trend, rising by some 18 per cent each. The budget deficit was enlarged to 766 million ngultrum; at 4 per cent of GDP, this shortfall was considerably larger than the 1999 level of just under 1 per cent. Around three fifths of the fiscal resource gap was met through external borrowings in 2000.

Budgetary performance in Cambodia improved significantly in 1999 with revenue rising (by 2.5 percentage points) to 11.5 per cent of GDP as a result of more effective tax collections, exceptional increases in non-tax revenue, and the successful introduction of VAT. Total expenditure, at almost 16 per cent of GDP, was kept within tight control, defence and security outlays being in line with the budgeted levels while social spending on a commitment basis slightly exceeded budgetary provisions. The higher current-budget surplus, at 1.8 per cent of GDP, helped lower the overall fiscal shortfall to 4.4 per cent of GDP. The government managed to reduce significantly its debt to the central bank with substantial external financial assistance.

The budget for 2000 projected a current surplus of 1.4 per cent of GDP and a larger budget deficit of 6 per cent. In the first half of 2000, domestic revenue increased by 5 per cent year-on-year, although this was below the targeted rate because of lower receipts, by some 11 per cent, of taxes on international trade. The share of domestic taxes in total tax revenue was 61 per cent in the first half of 2000, rising from 55 per cent during the comparable period in 1999. The additional measures aimed at strengthening tax administration and making up for the first-half revenue shortfall included the reinstatement of pre- and re-shipment inspection and improved customs duties valuation, and greater efforts to collect arrears from telecommunications, and the leasing of state assets. Domestic capital revenue from the privatization programme declined to insignificant levels, however. Total expenditure increased year-on-year by 23 per cent in the first half of 2000, with current expenditure up by 10 per cent and capital spending by 45 per cent. Expenditure on agriculture, education, health and rural development was to rise considerably in the second half of 2000 with the implementation of financial decentralization and action programmes for priority areas.

During fiscal year 2000, government revenue in the Lao People's Democratic Republic went up to over 12 per cent of GDP (to 1.68 trillion new kip) from nearly 11 per cent a year earlier. There were both higher tax and non-tax revenue receipts largely owing to stronger economic performance and more effective tax collections, including through the operation of the Large Taxpayers Unit. Public spending declined from 21.4 per cent of GDP in 1999 to 20.7 per cent in 2000 (to 2.71 trillion new kip) with some 37 per cent being for recurrent purposes. This slower pace was largely due to the streamlining of capital expenditure, including the postponement of non-priority projects. Current outlay on wages and allowances, however, went up by 1 percentage point of GDP, as did development allocations for the social sector and improved revenue from non-tax sources.

The fiscal deficit, in consequence, fell from 10.5 per cent of GDP to 8.5 per cent between 1999 and 2000. Further fiscal improvement was expected in 2001; higher revenue, by 1 percentage point of GDP, and lower capital spending, to 12 per cent of GDP, will help lower the overall deficit to about 8 per cent of GDP. About two thirds of this budget shortfall (600 billion new kip) were to be covered by ODA project loans.

Government expenditure accounts for more than one half of GDP in Maldives. Tourism provides directly about one third of government revenue (through a fixed tax and rents from resort leases) and a large indirect share as well through custom duties on tourism-related imports. The budget deficit deteriorated from 2.8 to 4.2 per cent of GDP between 1998 and 1999; higher receipts from import duties, resort rentals and profit transfers were more than offset by a 15 per cent increase in total expenditure and net lending. In particular, capital expenditure went up because of the purchase of vessels and infrastructure development associated with an expansion of tourism facilities and the policing of the country's exclusive economic zone. In the 2000 budget, total revenue and grants were to remain largely unchanged at just under 47 per cent of GDP while spending, including net lending, was to drop from 51 per cent of GDP in 1999 to 48.4 per cent. The projected decline in fiscal deficit to 1.5 per cent of GDP would depend considerably on, among other things, the anticipated drop in spending on internal security, advance loans and dividend payments by public enterprises, and the containment of costs associated with the closure of Air Maldives. An unbudgeted public-sector wage increase of 35 per cent granted in September 1999 was expected to affect the 2000 budget outcome.

Central government revenue in Myanmar declined from 7.3 per cent of GDP in 1998 to 4.9 and 4.5 per cent respectively during the following two years. Although public spending was also on a declining trend, from 7.7 per cent of GDP in 1998 to 6.7 and 5 per cent in 1999 and 2000, the budget deficit went up from 0.4 per cent of GDP in 1998 to an annual average of over 1 per cent in 1999 and 2000. Budget receipts from state economic enterprises comprised a significant share of GDP. Total revenue from these enterprises, however, declined from 15 per cent of GDP in 1998, to 14 and 13 per cent in the following two years. A similar downward trend was also registered in their expenditure, from 20.4 per cent of GDP in 1998 to 18 and 15 per cent in 1999 and 2000 respectively, contributing to a decreasing budget deficit from the state economic enterprise sector which had been 5.3 per cent of GDP in 1998, 3.3 per cent in 1999 and 2.4 per cent in 2000.

Government expenditure in Nepal increased by 13.4 per cent (to 67.6 billion Nepalese rupees or almost 18 per cent of GDP) owing to the rebound in development spending (by nearly 17 per cent). There was also the continued growth of 10 per cent in current outlays (constituting some 51 per cent of total spending) in fiscal year 2000. Notably, internal and external debt servicing absorbed 30 per cent of the recurrent expenses while the deteriorating law and order situation in some parts of the country necessitated more resources for internal security purposes. There were higher than average allocations of capital spending for education and economic services, especially agriculture and irrigation. Government revenue also went up strongly by over 14 per cent (to 42.6 billion Nepalese rupees or 11.3 per cent of GDP) with some 78 per cent coming from tax revenues. This outcome was attributable largely to higher collection of import duties, the implementation of VAT and more effective income-tax collections. The fiscal deficit was marginally lower at 5.1 per cent of GDP in 2000, against 5.3 per cent in the previous year. Foreign loans and (non-inflationary) domestic borrowings via treasury bills and saving certificates underwrote respectively about 71 and 29 per cent of the budget shortfall in 2000.

Money and finance

In Bangladesh, the monetary stance has been eased to stimulate economic activities. The bank rate was reduced from 8 to 7 per cent in August 1999 and cash reserve requirements were lowered from 5 to 4 per cent in October 1999. M2 went up by nearly 19 per cent in 2000, compared with less than 13 per cent a year earlier. The expansion, however, was also due to higher government borrowings from the banking sector, rising by 31 per cent in 2000 compared with 21 per cent in the previous year. Domestic credit to the private sector rose by less than 11 per cent, compared with almost 14 per cent a year earlier, indicating some apparent crowding-out effect. However, this could also reflect subdued private-sector demand. Private-sector credit picked up considerably in the first four months of fiscal year 2001.

The ongoing deregulation of interest rates continued with the interest bands for small and medium cottage industries (term loan) and agricultural credit being withdrawn in July 1999; the band on export credit (8-10 per cent) remained, however. In addition, loan classification and provisioning procedures were revised and upgraded along with the introduction of strict directives to prevent insider lending. Meanwhile, the stock markets in Dhaka and Chittagong remained, by and large, in a bearish mood in 2000, notwithstanding the establishment of a compulsory Investor's Protection Fund and a central depository system, the formation of the South Asian Federation of Exchange to promote national and regional investment, and the tightening of regulations to promote stock market transactions.

Monetary expansion in Bhutan continued at a relatively high rate, with M2 expanding by 21 per cent (to 8,930 million ngultrum) in 2000, following a 32 per cent expansion a year earlier. Growth in net foreign assets slowed to 17 per cent in 2000 from almost 25 per cent in the previous year; net domestic credit, on the other hand, doubled to 752.1 million ngultrum in June 2000. Credit to government enterprises fell by 10 per cent, but that extended to the private sector was up by over 4 per cent. In this context, bank finance channelled to construction and trade activities went up by 15 and 10 per cent respectively; however, there were declines of between 6-17 per cent in the volume of bank credit to the agriculture, transport and manufacturing sectors. The credit-to-deposit ratio also fell significantly to under 23 per cent in 2000 from 25.5 per cent a year earlier, a reflection perhaps of inadequate investment opportunities. Meanwhile, a variety of measures were being introduced to increase flexibility in the interest rate structure, improve the legal framework (including that concerning loan recovery and collateral standards), and enhance financial sector competition.

The expansion of 17 per cent in M2 in Cambodia in 1999 was largely due to an increase in net foreign assets. Despite strong growth in private sector credit (by 17 per cent), net domestic assets declined with lower credit being extended to the government. M2 growth, at an estimated 12 per cent in 2000, remained on a downward trend and contributed to the sharp deceleration of inflation in 1999 and the low level of inflation registered for 2000. Under the Financial Institutions Law, all banks were required to reapply for new banking licences by the end of May 2000; licences had been revoked from those considered non-viable in a preliminary review while those for the remaining banks were to be completed by the end of November 2000. Reform of the Foreign Trade Bank of Cambodia and payments system was also being undertaken.

Bank financing of public investment in irrigation in the Lao People's Democratic Republic led to high rates of expansion in M2 growth of 113 per cent in 1997 and of 78 per cent in the following two years. This, in turn, contributed to severe inflation (peaking at 134 per cent in 1999) and exchange rate depreciation in an economy highly dependent on imported consumption and capital goods. Monetary policy was significantly tightened, including through steep increases in the interest rates (to an annualized rate of up to 60 per cent) and high-interest bearing deposit certificates were introduced to absorb excess liquidity in the course of 1999. Central bank authorities also decided to stop granting credit for budget financing. M2 growth decelerated to 36 per cent, along with the steep drop in inflation (to 15 per cent) in 2000. The restored confidence in the currency was mirrored in a doubling of local currency savings and term deposits (to 198 billion new kip) between December 1999 and October 2000. Seven state commercial banks were restructured and merged into three. Their operations are being strengthened to enhance debt-recovery capability. Measures were also introduced to encourage prudential banking practices and to enhance supervisory capacity.

Foreign currency deposits and loans had been fully liberalized and a fixed exchange rate introduced in Maldives in 1995. Monetary management has thus relied on the imposition of bank-by-bank credit ceilings, a high reserve requirement, and interest rate controls, especially the 20 per cent ceiling on lending rates and the maximum spread of 7 points between lending and deposit rates. The annual rate of M2 growth decelerated sharply to an average of about 2 per cent in 1999-2000, from over 22 per cent in the previous biennium. The financial sector remained basically robust; the volume of NPLs dropped from nearly 9 per cent of total loans in 1997 to 4 per cent in 1999 with the loan loss provisions rising to 70 per cent of such impaired assets. Risk-weighted capital ratios, averaging more than 30 per cent in 1999, were well above international standards. Commercial banks also retained a net foreign-currency asset position in excess of 20 per cent.

The sharp decline in inflation to 7 per cent in 2000 led to positive real interest rates in Myanmar despite falling nominal rates. The central bank rate had fallen from 15 per cent in the first quarter of 1999 to 10 per cent by the second quarter of 2000; similar downward drifts were registered in deposit rates and lending rates on working capital to state-owned enterprises. The upswing in credit extension, by 31 per cent year-on-year in the first quarter of 2000, was attributable to the state sector, which accounted for 68 per cent of all such credit. M2 was on a similarly high trend, expanding by over 33 per cent for the year. Private banking was gaining in relative importance, with an estimated share of 70 per cent of demand deposits and 50 per cent of time and savings deposits as of March 1999. A downturn in the construction and property sectors between 1997 and 1999 led to a higher level of NPLs. Other difficulties and constraints faced by the banking system included outdated communications, accounting and clearing systems, an acute shortage of qualified and experienced staff, and inadequate financial and economic data. At another level, the prevailing interest rates did not always reflect accurately the scarcity of capital. An uneven playing field existed between state-owned banks and their private counterparts, since private banks operated with limits on foreign exchange dealings and stricter reserve requirements.

M2 in Nepal has grown at a comparatively high rate of about 21 per cent a year during the past three years, with the time deposit component going up by about 5 percentage points faster. This upward trend in part reflected an easier policy stance to boost domestic economic activities as well as the relatively large budget deficits (averaging over 5 per cent) in recent years. The lending and deposit rates of the commercial banks came down by about 5 percentage points within a period of two years. At the same time, the amount of net foreign assets of the monetary sector was 22 per cent higher in 2000, on top of a growth rate of nearly 18 per cent in the previous year. For fiscal year 2001, M2 was projected to go up by 15.5 per cent on the basis of a higher GDP growth target of 7 per cent and a lower inflation rate of 5 per cent.

Policy issues and responses

The least developed countries are, almost without exception, heavily dependent on external resources to help bridge the persistent fiscal and external current-accounts deficits. The need to contain fiscal shortfalls has become even more pressing, given the ongoing decline in concessional ODA to these countries and the likelihood of graduation of some of them from this grouping in the near future.

Public spending needs to be rationalized and kept under tight control. The limited amount of available resources has been thinly distributed over a large number of programmes and projects, a problem that tends to be compounded by selection criteria which are not always based on clear and consistent considerations of costs and benefits. However, it remains essential to ensure that public expenditure on human resources development activities is not undermined in view of the urgent need for capacity-building in most least developed countries.

Several least developed countries have set up independent committees to review and rationalize government expenditure, while efforts have been made to enhance transparency and accountability in the management of state assets and public procurement activities. Civil service reforms have been introduced in several of these countries to foster a more transparent, accountable and productive civil service. Better pay scales and ancillary benefits, and optional retirement schemes are among the incentives on offer to bring about greater efficiency and dedication in the public service.

The absence in many least developed countries of a well-developed capital market for effective and widespread secondary transactions in financial instruments, such as treasury bills and equity stocks, has remained a major constraint in mobilizing domestic resources. A compounding factor in this context is the inadequate availability of human resources and institutions for the effective and timely regulation and monitoring of the operations of capital-market institutions to ensure prudential and transparent practices. These constraints underscore the importance of a sound banking system to perform the essential intermediation functions required in a modern and growing economy.

The needs for banking sector reform have been recognized by the least developed countries. Cambodia, for example, passed legislation which created a solid legal basis for a sounder banking system. The legislation contains provisions in such areas as licensing requirements; prudential operational criteria, with special emphasis on controlling undue exposures; improving debt-recovery mechanisms; and higher net worth and solvency specifications. Likewise, the Asset Reconstruction Companies and Credit Rating Agency in Nepal have added further strength to the domestic financial sector and regulatory framework.

Another formidable challenge in least developed countries is the promotion of greater participation by the private sector in a wider spectrum of economic activities. State-owned enterprises continue to dominate certain sectors of several of the countries; most of such enterprises have incurred persistent and, not infrequently, heavy losses. Many least developed countries have resorted to privatization as a means to encourage the growth of private enterprise and to re-direct government operations to their core areas and competencies. However, the performance of divested enterprises has been, at best, mixed in terms of output, employment, prices and product quality. The speed and sequencing of privatization will need to be kept under review, along with the preconditions for successful privatization, including appropriate regulatory frameworks. Meanwhile, the practice of administered pricing and various types of subsidies would deserve a careful review, especially as regards their implications for fiscal burden, allocative efficiency and equity. Besides, efforts have to be redoubled to improve the operational efficiency of state-owned enterprises. In this connection, the continuing politicization of the labour unions in such enterprises, particularly in such critical sectors as transport, banking, telecommunications, and power generation, should be avoided through national consensus.

Least developed countries face difficult challenges in their efforts to integrate with the emerging new economy, characterized by a rapid and ongoing revolution in information technology. This applies to those least developed countries that are currently members of WTO (Bangladesh, Maldives and Myanmar) as well as those in the process of accession. The difficulties are greatly compounded for those least developed countries that are land-locked (Bhutan, Lao People's Democratic Republic and Nepal) or sea-locked (Maldives and least developed countries in the Pacific subregion) since transport tends to be more costly in terms of both financial expenses and time requirements. Least developed countries themselves need to take action in many areas in order to be able to avail themselves of the opportunities offered by the new economy and to minimize the associated risks, but they also require much stronger international support than has been available to them so far (see box II.1).

Box II.1. Key international support measures required for the least developed countries

In 1971, the international community recognized the existence of a category of countries, the least developed countries, whose distinctness lies in their profound structural handicaps in terms of economic, institutional and human resources and unfavourable geophysical location. To respond to this challenge, a variety of international support measures were envisaged during the 1980s and the 1990s. These were embodied in the Substantial New Programme of Action for the 1980s for the Least Developed Countries adopted at the first United Nations Conference on the Least Developed Countries in 1981, and in the Paris Declaration and Programme of Action for the Least Developed Countries for the 1990s adopted at the Second United Nations Conference on the Least Developed Countries in 1990. However, the international support measures have not materialized to the extent expected. Despite major policy reforms having been initiated by many least developed countries, their growth has been too slow to make any significant impact on poverty. In addition, they have remained on the periphery of global trade and capital flows.

In order to provide a new impetus for assistance to these countries, the General Assembly, in its resolution 52/187, decided to convene the Third United Nations Conference on the Least Developed Countries in 2001. In preparation for this Conference, a regional high-level preparatory meeting for the Asian and Pacific region was organized jointly by ESCAP and UNCTAD in collaboration with the Government of Bangladesh in Dhaka in November 2000. The meeting formulated a set of national actions and international support measures pertaining to four key areas: social development, economic infrastructure, trade and financing development. Most of the recommendations relating to the last area have been incorporated in part two of this *Survey*. This box highlights the key international support measures proposed in the Meeting for the first three areas:

(1) In order to provide adequate resources for social development, as well as for infrastructure, in the least developed countries, the international community should fulfil the provisions contained in various declarations and programmes of action emanating from United Nations-sponsored global conferences such as the World Summit for Social Development, the Global Conference on the Sustainable Development of Small Island Developing States, and the Second United Nations Conference on the Least Developed Countries.

(2) To ensure sustainability of social services, there should be adequate provision for the required current expenditure to meet personnel, maintenance and other operational costs. Such current expenditure has a clear developmental impact. Aid agencies should take this aspect into account in prescribing fiscal deficit ceilings for least developed countries.

(3) The international community and donor agencies are urged to provide technology and technical assistance for the development of human resources related to infrastructure.

(4) Where countries of the region agree, the international community should facilitate regional cooperation with a view to linking the transport and telecommunications networks of least developed countries with those of neighbouring countries. This is particularly vital for landlocked and island countries to be able to engage effectively in international trade and tourism.

(5) Recognizing that in spite of best efforts, private-sector participation in infrastructure development in the least developed countries, especially in providing access to remote, sparsely populated and mountainous areas, would be difficult, it was suggested that the international community should set up a special fund for infrastructure development. The modalities for creating such a fund should be immediately conceptualized and vigorously pursued.

(6) Asian and Pacific least developed countries called on their trading partners to provide bound, duty- and quota free access to all products exported by least developed countries.

(7) There should be simplification and harmonization of rules of origin to promote the exports of the least developed countries.

(8) Special and differential measures in favour of the least developed countries should be an integral part of the multilateral trading system.

(9) Preferential market conditions should be allowed for the least developed countries with respect to the movement of natural persons.

(10) Longer periods of transition should be given to the least developed countries in the implementation of WTO Agreements.

(11) The effective implementation of the Integrated Framework for Trade-related Technical Assistance to Least Developed Countries should be accelerated.

(12) The multilateral trade rules governing regional trade arrangements should be supportive of regional integration efforts and provide adequate flexibility to the Asian and Pacific least developed countries in adjusting to a more liberalized and competitive trade regime under these arrangements.

(13) Fast-track accession to WTO should be allowed for the least developed countries without asking them to assume obligations or commitments that go beyond what is applicable to WTO least developed country members.

Pacific island economies

GDP growth in this subregion remained positive in 2000 although the political crises and civil unrest in Fiji and Solomon Islands during the first half of the year contributed to a substantial contraction in their total output. In most cases, the growth rate recorded was lower than in 1999. Inflation within the subregion was generally on the decline, reflecting stable import prices from the main trading partners, especially Australia and New Zealand. However, higher oil prices put pressure on inflation and the budget from the second half of 2000. The various reforms and revenue-enhancing measures contributed to declining or low levels of budget deficits and a comparatively moderate rate of money supply growth in several countries in 1999. However, the fiscal position became relatively more fragile in some economies in 2000 as a result of revenue shortfalls or higher public spending or both.

Growth performance

In Fiji, GDP grew marginally in 1998 but expanded strongly by 6.6 per cent in 1999. The growth momentum, however, was stopped in 2000 with the political crisis and its severe economic reverberations. Despite a considerable increase in the sugar cane crop, GDP was estimated to fall by 12.5 per cent, the deepest contraction recorded since 1961 when GDP statistics were compiled (table II.5). Sugar cane output of 4 million tons, with sugar production of 450,000 tons for 2000, was much higher than the respective levels a year earlier. Nevertheless, the agricultural sector expanded by only 1 per cent owing to the adverse impact of the political crisis on domestic transportation and marketing of farm produce. The sector itself had grown by a massive 18.3 per cent in 1999. Its future outlook is clouded by land tenure problems for tenants (who are mostly third- to fourth-generation immigrants from India), lower investment in sugar cane cultivation, and the uncertainties of continuing market support from the EU, especially since the coup.

Tourism, Fiji's biggest industry with a relative share of some 20 per cent of GDP, was also on a downward trend with average daily arrivals of 600, about half the pre-crisis volume. There has been some recent recovery after heavy discounting on airfares and accommodation, but hotel occupancy rates were low, at 20 to 30 per cent for June 2000, compared with 80 to 90 per cent for the same month last year. As a whole, earnings on tourism were reduced by more than 50 per cent in the second half of 2000 and by 30 per cent for the calendar year, causing a contraction of some 20 per cent in the service sector for the year. Recovery of this sector is heavily contingent on the restoration of political stability and law and order. Manufacturing activities, particularly the large and rapidly growing garment industry, were hampered by international union boycotts of Fiji and reduced domestic demand for local manufactures because of the crisis. All these contributed to an estimated decline of 10 per cent in industrial sector output activity in 2000; industrial growth had been especially robust at over 10 per cent in the previous year.

The ratio of investment to GDP in Fiji, which exceeded 13 per cent in 1999, fell marginally to 12 per cent in the following year and is expected to remain dampened in the short term. No large public-sector investment projects are on-stream while several new hotel projects ready for, or already