

## **H.E Mr. Sila Viengkeo, Deputy Minister of Finance, Lao PDR's speech at 4<sup>th</sup> High Level Dialogue in Financing for Development, Session 1 "Enhancing public revenues for sustainable development"**

Thank you Mr. Chairman for the question.

Distinguished guest, ladies and gentlemen, it is my great pleasure to be invited and speak here at this important meeting.

We take note of low global economic growth and global trade growth; of uncertainties and downside risk continue to persist. Despite of challenges, Lao PDR has accomplished strong growth in the last two decades accompanied also with significant poverty reduction. The growth rate of the economy moderated this year, but at around 7.02 percent it remains robust. The moderation is mostly due to a slowing regional growth and weak copper and commodity prices which affected the mining sector and incomes in agriculture and a slowdown in budget spending as we adjusted our fiscal policy to the new realities.

Our broader priorities and development objectives are guided by the Vision 2030, the ten-year Socio-Economic Development Strategy 2016-2025 and 8<sup>th</sup> five year National Socio-Economic Development Plan 2016-2020. The Vision 2030 aims to transform Lao PDR into a upper-middle income developing country with innovative, green and sustainable economic growth. There is availability of industrial pillars and a strong basic infrastructure system to support industrialization and modernization. Furthermore, the overall objective of the 8th NSEDP is to ensure stability, peace and order in the society; the poverty of the people is reduced significantly in all areas; the country is developed out of LDC status by 2020 through continuous, inclusive, and sustainable growth; there is effective management and efficient utilization of natural resources; development is enhanced through the national potential and advantages; Lao PDR participates in regional and international integration with ownership.

Mr. Chairman,

To address spending deficits and the challenges of financing sustainable development, the Government has put in a lot of efforts to achieve the planned targets. Policies and legislation have been improved conducive for attracting investment boost socio-economic development. The development of "Single Door Mechanisms" to facilitate fast and transparent development projects was also introduced as an effort of the Government in managing the micro-economy with the Law on Investment Promotion and other related regulation also amended and going into force. The forwarding policy on saving and anti-extravagance measures, the implementation of the regulation on leaders' vehicles and the realization of measures made for some high leaders also were put in practice.

Aside from the efforts made, the Government recognized that the national economy at a macro-level has remained fragile, with the state budget remaining in deficit. To endure increasing the budget deficit and financial stability, the Government will seek some expenditure measures that can be suspended or postponed. In this regards, we will also strictly implement mechanisms on spending approval, if it's not necessary there will be no need to approve such planning and activities that are not yet implemented. This should in turn promote every sector to implement frugality measures, strictly on administration expenditures.

Budget revenue collection issues have created pressure on planning implementation due to the basic economy still expanding slowly. Some policies and measures about revenue

collection are still in initiation or in limited implementation as well as inspection and new revenue data should take more time to accumulate. To strictly adapt the regulations on implementation, the Government will spend more time in improving the basic economy such as stopping the timber export and rechecking the mining projects so that we can finance sustainable development of the country. Also, as of August 2016, we eliminated the import duty and tax exemption on imports of fuel and vehicles for most investment projects. We will improve monitoring of the exemptions that remain and intend to phase-out all remaining exemptions which are not envisioned in the Investment Law and the existing Concession Agreement. We also amended the Tax Law and increased the excise tax rates for a number of products (alcohol, fuels, vehicles etc.) to be effective as of 2018 and 2019. We also plan to introduce an environment tax in 2018 and are considering introducing land and property taxes. Our efforts will be guided by the findings of an Integrated Tax Review, covering both tax policy and administration, which we will complete by mid-2018 with support from the World Bank and the IMF.

At the same time, we understand the need for discipline on the expenditure side. We will also be upgrading our public procurement function by upgrading the Decree on Public Procurement to a Law on Public Procurement. Further savings are expected from more detailed guidance being currently drafted on the use of public assets (vehicles, fuel, mobile phones etc.) by civil servants. Stronger controls over public investment, including better screening of proposals, ensuring strict adherence to Budget Law and Public Investment Law requirements should result in more effective spending. In case our revenues underperform, we are committed to identifying further savings in order to ensure that the targeted deficit levels are not breached.

Mr. Chairman,

In terms of Infrastructure development, we believe that it is key to tackling poverty and promoting inclusive growth. Well-functioning infrastructure is essential to overcome bottlenecks to growth in emerging and developing economies, and as an enabler of private sector led growth. In this regards, we have implemented the most important connectivity strategy in transforming from “land-locked” to “land-linked” and “land-bridge” country, for example, the Laos-China Railway Express Link Project. It is undeniable that as a least developed and land-locked country, Lao PDR has encountered some challenges and constraints on technical and financial resources. The country’s development is contributed significantly by ODA; therefore, there is still a critical need for international community to continue their supports to our development, especially on infrastructure.

Infrastructure investment is needed in both our cities and our regional areas. Cities are fundamental to Lao PDR’s economic prosperity and are where the majority of people live and work, thus investment in infrastructure helps reducing the overhead cost of products. Our regional industries, in particular agriculture, are a central pillar of the national economy and must be more efficiently connected to markets here and overseas. Investment in infrastructure indeed is needed to ensure our cities and regions remain competitive, livable and sustainable.

Thank you for your attention.