The Implementation of Monetary Plan in the First 9 Months of 2019 and Plan for 2020

By: Mrs. Nakhonsy MANODHAM

Deputy Director General of Monetary Policy Department

MINISTRY OF PLANNING AND INVESTMENT, NOVEMBER 15, 2019

Monetary Plan for 2019

- Exchange rate to be stable (±5% against major currency);
- Inflation is **less than** economic growth;
- International reserve to cover **at least 3 months** of imported goods;
- Money supply M2 to grow **not more than 20%** compared to the previous year;
- Commercial banks' total deposits to cover **59,80% of GDP**;
- Commercial banks' loans to cover **55% of GDP** and NPL rate within 3% of the total credit.

The Implementation of Monetary Policy

The Bank of the Lao PDR has implemented the monetary policy by using indirect monetary policy tools such as:

- Policy rate at 4%;
- Reserve requirement at 5% for local currency and 10% for foreign currencies;
- Open Market Operation.

The Implementation of Exchange Rate Policy

- Set the daily reference rate of kip against US dollar to commercial banks to set their own exchange rate within ±0,25%;
- Spread between buying and selling rate at 0,50% for Euro, 0,75% for Thai Baht, and 2% for other currencies;

Moreover, derivative instruments have also been developed for the purpose of hedging against the risk of exchange rate.

Outcome (as of the first 9 months of 2019)

- Kip depreciated 2,88% against US dollar (planed ±5%) and 5,99% against Thai Baht;
- Inflation rate: on average of 2,47%;
- Foreign reserve covered 3,02 months of imported goods (planed at least 3 months);
- Money supply M2 increased by 13,96**%** (planed Not over than 20%);
- The deposit growth rate: 13,99%; covered 54,56% of GDP (planed 59,80% of GDP);
- The credit growth rate: 4,77%; covered 47,94% of GDP (planed 55% of GDP);
- NPL: 3,07% of the total credit (planed 3% of total credit).

Monetary Plan for 2020

- Exchange rate to be stable (±5% against major currency);
- Inflation is **less than** economic growth;
- International reserve to cover **at least 3 months** of imported goods;
- Money supply M2 to grow **not more than 20%** compared to the previous year;
- Commercial banks' total deposits to cover **51,30% of GDP**;
- Commercial banks' loans to cover **49,20% of GDP** and NPL rate within 3% of the total credit.

Policy Measures

1. **Monetary Policy:** continue to implement the monetary policy by using indirect monetary policy tools such as: BOL policy rate, reserve requirement, OMO…

2. **Exchange Rate Policy**: continue to conduct exchange rate policy by using the managed-floating exchange rate regime: set the daily reference rate of kip again US dollar…

3. **Foreign Exchange Management**:

   - Reviewing the policy, legislation and management mechanism of foreign currency to suitable with current economic situation;

   - Supervise the currency exchange bureau to strictly comply with regulations;

4. **Deposit**: Encourage commercial banks to develop more banking products to mobilize saving including providing modernize and Convenience service…

5. **Credit:**

   - Encourage commercial banks to develop a variety credit products and compliance with the government social economic development target. While assure the level of NPL to total credit not more than 3%;

   - Encourages commercial banks to simplify the lending documentation and procedures to promote banking credit to SMEs and strengthening Nayobai Bank to be more effectively providing lending to targeted poverty reduction districts.

Thank You