Evaluation of Macroeconomic Policy in Laos

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Abstract

Macroeconomic stability is one of the most important factors in maintaining high economic growth, especially in a transitional economy likes Laos. The Government of Laos (GoL) seems to prioritize growth over macroeconomic stability in order to escape from Least Developed Country (LDC) status by 2020. However, there are very few studies on this issue in Laos in terms of quantitative analysis. Therefore, the main objective of this study is to evaluate the impact of macroeconomic policy, especially growth and stability policies on the economy. A simple macroeconomic model was developed for this simulation, whose results show that stability policy has a more positive impact on the economy than growth policy. Therefore, in order to maintain high growth, it is important for the GoL to implement stability policy by controlling prices through a tight money supply and a stable exchange rate.

Keywords: macroeconomic policy, macroeconomic model, GDP and Price.

JEL Classification: E17; E52; C01

1. 0 Introduction

The development goal of Lao People's Democratic Republic (Laos) is to liberate the country from the group of Least Developed Countries (LDCs) by the year 2020[1]. To achieve this national goal, the National Economic Development Plan (NEDP) and the National Poverty Eradication Programme (NPEP) were implemented. The main NEDP target is to maintain high economic growth with macroeconomic stability (GoL, 2006).

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[1] According to UNDP(2007/2008), in terms of human development index, Laos was ranked as 130th out of 177 countries. GDP per capita was US$580 in 2007 (WB, 2008). 34 percent of population live below the poverty line (NSC, 2003)