
LAO PEOPLE'S DEMOCRATIC REPUBLIC

PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY

National Assembly

No. 05/95/NA

**LAW NO. 5 DATED OCTOBER 14, 1995
ON
THE BANK OF THE LAO PDR**

**PART I
GENERAL PROVISIONS**

Article 1 The Function of the Law on the Bank of the Lao PDR

Law on the Bank of the Lao PDR determines the characteristics, role, rights and duties, organization and operations of the Bank of the Lao PDR in carrying out its monetary policy, maintaining price of kip stability and contributing to the socio-economic development of the Lao PDR to grow and to be efficient.

Article 2 Position of the Bank

The Bank of the Lao PDR shall be a financial institution of the Government, shall have the equivalent status of Ministry, shall be the Central Bank of the country, shall be a juridical person and has its headquarters in the capital, Vientiane.

Article 3 Roles of the Bank

The Bank of the Lao PDR shall have the following roles:

1. To be an organ of the Government to carry out the macro management in monetary and credit policies of the Bank all over the country.
2. To promote and maintain internal and external monetary stability, and efficient payments mechanism and solvency of the banking system in order to create proper functioning of a soundly based monetary, credit system of the Lao PDR.
3. To promote and facilitate the flows of money to serve the plan for socio-economic development of the Lao PDR.

Part II

Rights and Duties of the Bank of the Lao PDR

Article 4 Rights of the Bank

The Bank of the Lao PDR shall have the following rights:

1. Shall have the sole right to issue notes and coins denominated in kip with the approval of the Government and shall manage the currency circulation in the whole country;
2. To carry out macro monetary management and shall be the bank of the commercial banks and financial institutions under its supervision and shall be the lender of last resort of the commercial banks and financial institutions with the objective to implement the monetary policy;
3. To implement the policy of foreign exchange management and the exchange rate;
4. To issue its own central bank bills with the objective to carry out monetary policy. To buy and sell the bills directly with the commercial banks and other financial institutions;
5. To give a license for the establishment of its own branch, a license for the establishment of domestically incorporated bank, a branch of a foreign bank and a financial institution under its supervision.

Article 5 Duties of the Bank

The Bank of the Lao PDR shall have the following duties:

1. To supervise the commercial banks and other financial institutions under its supervision to ensure the stability of the banking system;
2. To maintain and manage the foreign reserve of the Government;
3. To collect data and information from the concerned people, commercial banks and financial institutions under its supervision in order to compile statistics and do the analysis of the banking sector;
4. To regularly report to the Government on the economic, monetary and banking situations;
5. To be the agent of the Government in the international monetary, credit and banking institutions and to sign the international agreements with the delegated power from the Government;
6. To carry out other duties according to the Government assignment.

Part III

Capital, Profits, Business Expansion Fund,
General Reserves of the Bank of the Lao PDR

Article 6 Capital of the Bank

The Bank of the Lao PDR's registered capital shall be subscribed by the Government and the Government shall be the sole holder of the capital. The bank of the Lao PDR shall operate under the principle of economic calculation.

Article 7 Annual Net Profit of the Bank

Annual net profit of the Bank of the Lao PDR is the difference between the annual revenue and annual expenditure.

The expenditure includes:

- Administration and technical costs;
- Depreciation of fixed assets;
- Devaluation of currency and doubtful debts;
- Risk taking provision of the Bank.

The Board of Governors of the Bank of the Lao PDR shall determine the ratio of the amount of fund deducting from revenue to be expenditure of different types.

Article 8 Business Expansion Fund of the Bank

Business expansion fund of the Bank of the Lao PDR shall be the reserve in order to expand the activities and assets of the Bank of the Lao PDR. The business expansion fund shall be deducted from the net profit of the Bank in each financial year. The Board of Governors of the Bank of the Lao PDR shall determine the ratio of the fund to be deducted in each financial year.

Article 9 General Reserve Account of the Bank

The general reserve account of the Bank of the Lao PDR shall be a specific fund of the Bank of the Lao PDR created to compensate losses incurred from the implementation of monetary policy of the Bank.

The general reserve account of the Bank shall be deducted from the net profit of the financial year after the deduction for the business expansion fund in accordance with the approval of the Board of Governors.

The remaining net profit of the Bank for the financial year shall be paid to the state budget. In case of making losses because of implementing a strategic plan of the Government, such losses shall be offset by the Government.

Part IV

Board of Government of the Bank of the Lao PDR

Article 10 Board of Governors

The Board of Governors of the Bank of the Lao PDR shall be the highest authority of the bank of the Lao PDR.

The Board of Governors shall comprise seven to nine members, namely chairman, vice chairman and other members.

Article 11 Structure of the Board of Governors

The Board of Governors of the Bank of the Lao PDR shall consist of:

- Deputy prime Minister who shall be a chairman of the Board;
- Governor of the Bank of the Lao PDR who shall be Vice Chairman;
- Minister of the Ministry of Finance who shall be a Vice Chairman;
- Vice Governor of the Bank of the Lao PDR who shall be a member;
- Other members shall be the people with competence and experience in agriculture, industry, trade, banking and finance selected from various sectors.

Article 12 Appointment and Terms of Office of the Board of Governors

Members of the Board of Governors of the Bank of the Lao PDR shall be appointed or removed from office by the Prime Minister based on the proposal of the Governor of the Bank of the Lao PDR.

The Board of Governors shall have terms of office for five years. Members of the Board of Governors may be re-appointed.

Article 13 Cease From Terms of Office of the Members of the Board

The members of the Board of Governors shall cease from terms of office in case of the expiry of the term, death, resignation or removal from office. The resignation shall be approved by the Prime Minister.

In case any member of the Board of the Governors dies, resigns or is removed from office causing inconvenience for the task of Bank, the Prime Minister shall appoint another person at the earliest opportunity in accordance with the provisions of Article 12 of this Act to ensure the continuity for the remaining period of the Board.

Article 14 Rights and Duties of the Board

The Board shall have the following rights and duties:

1. To assist the Government on economic and monetary matters;
2. To approve By-Laws of the Bank of the Lao PDR;
3. To approve the organizations, the operations of the commercial Banks and financial institutions under its supervision, including regulation for supervising;
4. To decide the bases for the determination of the external value of the kip to determine the exchange rate, unless when the exchange rate has changed a great deal, this shall be approved by the Government;
5. To determine the policy on foreign exchange management;
6. To determine the quick assets ratio and the reserve requirement ratios and similar obligations, to determine the calculation methods of those ratios for the same types of commercial banks to unanimously apply;
7. To approve regulations on the interest rates of loans and deposits, discount rates of bills and other ratios;
8. To study a draft of monetary, credit and banking policy and other drafts of policies based on the proposal of the Governors of the Bank of the Lao PDR before submitting to the Government for approval;
9. To approve the annual report, the balance sheet, the profit and loss statement and the annual budget of the Bank of the Lao PDR;
10. To approve the external auditor to do the auditing of the bank.

Article 15 Meetings of the Board

The Board shall carry out its functions by holding meetings. Meetings shall be held at least once every two months on the request of the Chairman or on the proposal of at least two members of the Board.

Ordinary meetings of the Board shall require a minimum of seven days written notice with agenda of the meetings to the members of the Board. In case of necessity, extraordinary meetings may be held at any time.

The quorum for a meeting of the Board shall consist of more than one half of the members of the Board. Decisions of the meetings shall be taken by a simple majority of those present and voting, In the case of an equality of votes, the Chairman shall have a casting vote.

Article 16 Qualifications of the Members of the Board

Members of the Board shall have the qualification as follows:

1. A member of the board shall be a person with sound behavior, ability, long experience and has credibility from money and finance business, from other professionals.
2. The following persons shall not be appointed as members of the board of the Bank of the Lao PDR.
 - Those whose husband or wife, father, mother, brother or sister is a partner or shareholder in the same company, in the commercial bank or financial institution.
 - Those who are members of the Board, the Managing Directors, the managers or employees of a commercial bank or financial institution.
 - Those that were criminally or civilly convicted by the court concerning the credibility of performing their duties as members of the Board of Directors.
3. A member of the Board shall fully disclose to the Board any direct or indirect interest which he/she has with regard to any matter placed before the Board and shall refrain from voting on any matter related thereto but shall not be disqualified for the purpose of constituting a quorum.
4. In performing the functions of his/her office, a member of the Board shall be prohibited to be inclined in accordance with the specific interest of the business or sector related to him/her.

Part V

The Governor, Deputy Governor of the Bank of the Lao PDR

Article 17 The Appointment of Governor and Deputy Governor

The Governor of the Bank of the Lao PDR shall be a member of the Government, shall be appointed or removed from office by the President of the country upon the proposal of the Prime Minister, then proposed to the National Assembly for approval.

The Deputy Governor shall be appointed or removed from office by the Prime Minister upon the proposal of the Governor of the Bank of the Lao PDR.

Article 18 Qualifications of the Governor and Deputy Governor

The person who will be appointed to be the Governor or the Deputy Governor of the Bank of the Lao PDR shall:

- Have sound behavior, knowledge and ability;
- Not be a member of the management team, a member of the Board of Directors of a commercial bank, neither an official institution, shall not be a partner or shareholder of a financial institution. In the case of currently holding such positions, he/she shall resign.

Article 19 Rights and Duties of the Governor and Deputy Governor

The Governor of the Bank of the Lao PDR shall have the following rights and duties:

1. To be responsible to the Government on monetary and Banking matters;
2. To facilitate and supervise all transactions of the Bank of the Lao PDR, commercial banks and financial institutions under the supervision of the Bank of the Lao PDR;
3. To issue regulations, announcements of the exchange rate, manage the foreign exchange transactions periodically;
4. To propose to the Prime Minister to appoint Directors of the Department;
5. To appoint Deputy Directors of the Departments of the Bank, the Managing Directors, Branch Head of the state-owned commercial banks;
6. To reshuffle and to place officers of the Bank and state-owned commercial banks under his/her responsibility;
7. To decide on all problems of the Bank of the Lao PDR under his/her responsibility.

The Deputy Governor of the Bank of the Lao PDR shall assist the Governor of the Bank of the Lao PDR and may be assigned to be responsible on some tasks by the Governor. When the Governor of the Bank of the Lao PDR is absent from office or is unable to perform his/her duties, the assigned Deputy Governor shall perform the functions of his/her office instead. The assignment to be acting Governor shall be made in writing stipulating clearly the contents and time frame.

Part VI

Auditing and Inspection on the Bank of the Lao PDR

Article 20 The Auditing

At the end of each financial year, the bank of the Lao PDR shall be audited by an audit committee from the Bank of the Lao PDR, an audit committee from the Ministry of Finance appointed by the Government or by an external auditor.

The financial accounts of the Bank of the Lao PDR shall be audited and certified by the aforesaid auditors before they shall be reported to the Government in order to be legally correct financial accounts of the year.

Article 21 Inspection of the Government

The Bank of the Lao PDR shall be inspected regularly by the Government. The Government's inspector shall be appointed or removed from office by the Prime Minister. He/she has the right to request data or ask about any problems from the officers of the Bank while he/she is performing his/her duties.

The Government's inspector may attend an ordinary and extraordinary meeting of the Board of the Governors of the Bank, may give opinions in such meeting but may not cast a vote. In the case that the opinion of the Government's inspector is different from the resolution of the Board, the Government's inspector shall report to the Prime Minister.

Article 22 Keeping the Confidentiality

While performing their duties, the auditors shall keep the confidentiality of any problems, any documents and any data of the Bank of the Lao PDR, of the commercial banks or financial institutions they have known and seen, except if it has been approved by the Board of Governors and Court ordered.

Part VII
Monetary Units, Notes and Coins

Article 23 The monetary unit of the Lao People's Democratic Republic shall be the "Kip", divided into one hundred "at".

Article 24 The Printing of Notes and the Mining of Coins.

The Bank of the Lao PDR shall print notes and mint coins, determine the form, design and the denominations of the notes and coins to be put into circulation after it gets approval from the Government.

The Bank of the Lao PDR shall arrange for the printing of notes and the mining of coins and for all matters related thereto, and for the security and safekeeping of non-issued notes and coins and for the custody and destruction, as necessary, of plates, dyes and retired notes and coins.

Article 25 The Legal Tender

Notes and coins issued by the Bank of the Lao PDR shall be the legal tender within the Lao People's Democratic Republic. In each note and coin, there shall be a clear denomination.

Article 26 The Withdrawal of Notes and Coins From Circulation

The Bank of the Lao PDR may withdraw notes and coins which are not suitable for use in a new situation with the approval of the Government. A notice shall be given to the public on such withdrawal. A holder of such notes and coins shall be entitled within a period of two years from the date of the notice, claim payment from the Bank of the Lao PDR. Such claim of payment shall not charge any fees.

Article 27 The Exchange of Notes Which are Unusable

The Bank of the Lao PDR may:

1. Set conditions for the exchange of notes which are mutilated or otherwise damaged partially. A notice for such conditions for exchange shall be made public;
2. Decide to exchange coins which have been perforated, cut, clipped, broken, or on which any mark has been privately impressed, or which shows signs of non-monetary use or the design of which is not distinguishable.

Article 28 The Responsibility For Shipment of Notes

The Bank of Lao PDR shall be responsible to compensate for any damages on the shipment of notes and coins only when such shipment is under its responsibility.

Part VIII
International Reserve Foreign Exchange Operations
And Special Reserve Account

Article 29 International Reserve

The Bank shall establish and maintain, such terms and conditions as it may be from time to time determine, an international reserve with the approval of the Government.

An international reserve shall consist of all or any of the following:

1. Gold;
2. Foreign exchange in the form of notes and coins or in the form of bank balances held abroad, denominated in a hard currency in a foreign country as approved by the Board;
3. Any internationally recognized asset including:
 - The reserve position of the Lao People's Democratic Republic in the International Monetary Fund;
 - Lao People's Democratic Republic's holdings of special drawing rights;
4. Bills of exchange and promissory notes, as well as treasury bills and other securities issued or guaranteed by foreign governments or international financial institutions, denominated in such foreign currencies and payable in such places within and outside the Lao PDR as the Board may approve;
5. Such other external assets as the Board may approve. In order to ensure the international transactions, the Bank of the Lao PDR shall maintain the international reserve to be at an appropriate level.

Article 30 The Report on the Level of International Reserve

The Board shall report to the Government once every month on the level of international reserve.

When such international reserve has declined or, in the opinion of the Board, appears to be in danger of declining to such an extent as to jeopardize its adequacy, the Bank shall submit to the Government a report urgently, together with recommendations concerning the measures that it considers necessary to remedy the situation and shall continue to submit such report at least twice a month until such time the situation has been rectified.

Article 31 The Transactions of the Bank

The Bank of the Lao PDR shall carry out transactions on foreign exchange and precious metals as the Board may approve:

1. Buy, sell or deal in, gold coins or bullion or other precious metals;
2. Buy, sell or deal in, foreign currencies using any of the instruments commonly used;
3. Buy, sell or deal in, treasury bills and other securities issued or guaranteed by foreign governments or international financial organizations;

4. Open and maintain accounts with international financial organizations, Central Bank, monetary authorities and authorized financial institutions outside Lao PDR;
5. Open and maintain accounts and act as agent or correspondent for institutions mentioned in "4" of this Article or for foreign governments and their agencies.

The Bank of the Lao PDR shall from time to time determine the rates at which it will buy, sell or deal in foreign currencies.

Article 32 The Limitation of Transactions of the Bank

The bank of the Lao PDR shall deal only with the government, licensed financial institutions, foreign governments and their agencies, international financial organizations, Central Banks, monetary authorities and authorized financial institutions outside Lao PDR.

Article 33 The Special Reserve Account

The Special Reserve Account shall credit the profit or debit the loss of the financial year of the Bank of the Lao PDR arising from any change in the valuations of the Bank's assets or liabilities in, denominated in, gold, special drawing rights or of any change in the values of the Bank's assets or liabilities in foreign currencies of the Government in terms of kip as stipulated in Article 29 of this law.

Article 34 The Methods of Accounting the Special Reserve Account

If the Bank of the Lao PDR has any net losses in any financial year arising from any such change as stipulated in Article 33 above, such losses shall be set off against any credit balance in the Special Reserve Account. If such balance is insufficient to cover such losses, the Government shall issue to the Bank non-negotiable securities to the extent of the deficiency, on such terms and conditions as the Bank of the Lao PDR may determine.

Neither net gains nor net losses referred to above shall be included in the computation of the annual net profits of the Bank.

Any credit balance in the Special Reserve Account at the end of each financial year of the Bank shall be applied to the redemption of any securities issued under section above.

No credits or debits shall be made to the Special Reserve Account except in accordance with this Article.

Part IX
Relations With Financial Institutions

Article 35 Rights and Preventions in Doing Transactions

The Bank of the Lao PDR may open accounts for, and accept deposits from financial institutions, called "account holders" under such terms and conditions as the Board may from time to time determine.

The Bank of the Lao PDR has no rights to invest in general business except what was stipulated in this Law.

Article 36 The Buying and Selling of Valuable Documents

The Bank of the Lao PDR may, on such terms and conditions as the Board may from time to time determine, purchase from, sell to, discount and rediscount from the account holders:

1. Bills of exchange, promissory notes, certificates of deposits and cheques drawn or made from commercial, industrial or agricultural purposes;
2. Treasury bills or other securities issued or guaranteed by the government which formed part of public issue;
3. Securities issued by the Bank.

The documents shall be valid for debt payment only if they bear two or more good signatures of which at least one shall be that of a financial institution, and maturing within one hundred and eighty three days from the date of acquisition by the Bank.

The Bank of the Lao PDR may, on such terms and conditions as the Board may determine, and in accordance with the by-laws thereof, grant to account holders advances of periods not exceeding one hundred and eighty three days.

Article 37 Secured Advances

The Bank of the Lao PDR may grant to account holders, advances secured by valuable documents as stipulated in Article 36 of this Law in accordance with by-laws of the Board or secured by the following instruments:

- Treasury bills and other securities guaranteed by the government and forming part of a public issue;
- Commercial papers, documents of the title issued in respect of insured commodities;
- Holding of any assets which the Bank is permitted to buy, sell or deal in under Article 31 of this Law.

Article 38 Unsecured Advances

The Bank of the Lao PDR may, on such special terms and conditions as the Board determines, grant unsecured advance when, in its opinion, such advance is exceptionally necessary to the liquidity requirements of the borrower.

Article 39 The Determination of the Interest Rates

The Bank of the Lao PDR shall determine the interest rates of deposits and loans for the commercial banks and financial institutions under its supervision to implement. If the economic situation is favorable the Bank of the Lao PDR shall adopt the interest rates in accordance with the market mechanism.

The Bank of the Lao PDR shall determine and publicly announce the rates for discounts, rediscounts and advances.

Article 40 The Maintenance of Reserve Requirement

The Bank of the Lao PDR may require commercial banks and financial institutions under its supervision, to maintain primary reserves and marginal primary reserves including the liquid assets to ensure the implementation of monetary policy, the payments of deposits and similar liabilities as may be specified by the Board for this purpose.

Article 41 The Determination the Position of Foreign Exchange

The Bank of the Lao PDR shall determine the position of one specified hard currency or currencies which the commercial banks and financial institutions may hold to ensure the different types of deposits and to maintain the foreign exchange reserve position of the Lao PDR.

Article 42 The Determination of Regulations on Credit of the Financial Institutions.

The Bank of the Lao PDR shall determine the regulations on credit of the commercial banks and financial institutions under its supervision.

Article 43 The Guarantee of Foreign Loans

The Bank of the Lao PDR shall guarantee foreign loans for commercial banks and financial institutions in accordance with the approval of the Government.

Article 44 Facilities of the Payment

The Bank of the Lao PDR shall organize a mechanism to facilitate the commercial banks and financial institutions under its supervision to have some instruments to clear payments and to use cheques for payment and other instruments for effecting payments.

Part X
Relations with the Government

Article 45 Reporting to the Government

It shall be the duty of the bank to furnish regular reports to the government on matters relating to the objectives of the bank.

Any matter which, in the opinion of the Board, is likely to affect the achievement of such objectives, the bank shall urgently report to the government.

Article 46 The Deposit Account of the Government

The Bank of the Lao PDR shall be the depository of the Government funds. The government may also maintain accounts and use the services of a commercial bank and financial institution as it sees appropriate.

Article 47 The Account Holding on Behalf of the Government Outside Lao PDR

The Bank of the Lao PDR shall be the account holder in foreign currencies of the government outside Lao PDR.

Article 48 The Management of the Bills

The Bank of the Lao PDR shall be the manager of the issuance, purchase and sale of government securities or government guaranteed securities which form a public issue in accordance with the ability to purchase by the majority of the public as the Government may approve.

Article 49 The Borrowing of Funds From Abroad

The Bank of the Lao PDR shall study and give opinion to the government on matters of foreign borrowing. For the commercial banks, financial institutions and state enterprises, prior to any foreign borrowing, they shall get the approval of the Bank of the Lao PDR.

Article 50 Granting Advances to the Government

The Bank of the Lao PDR may grant temporary advances to the Government in case of necessity, subject to repayment of the principal plus interest within six months. The Bank of the Lao PDR shall determine from time to time the interest rates as applied to the real situation.

The Bank of the Lao PDR may grant to the government additional advances on such terms and conditions as may be agreed in respect of subscriptions and other payments resulting from, or incidental to, the membership of the Lao PDR in any international organizations.

Article 51 Limitations on Advances

The Government may obtain advances from the Bank of the Lao PDR no more than twenty five per cent of the government's average annual ordinary revenue for the three financial years immediately preceding for which accounts are available. For the purpose of this Article, revenue shall not include borrowings, grants and other forms of economic aid.

Article 52 Relations with International Financial Institutions

The Bank of the Lao PDR shall serve as the depository of, and the fiscal agency of any international financial organization of which Lao PDR is a member.

Part XI

Accounts of the Bank and Reports

Article 53 The Financial Year of the Bank

The financial year of the Bank of the Lao PDR shall begin on the first day of January and end on the thirty first of December.

The Bank of the Lao PDR, the commercial banks and financial institutions under the supervision of the Bank of the Lao PDR shall implement the regulations on accounts of the Bank of the Lao PDR and accounts of the commercial banks and financial institutions promulgated periodically.

Article 54 Annual Report to the Government

Within three months after the close of each financial year, the Bank of the Lao PDR shall transmit to the Government:

- a report on certain issues of economic situation;
- a report of the operations and affairs of the Bank of the Lao PDR during that year; and
- a report on the annual accounts of the Bank certified by the auditor.

Part XII
Measures for those who Violate

Article 55 The Violation of the Reserve Requirement Ratio and Other Regulations

The commercial banks and financial institutions under the supervision of the Bank of the Lao PDR that have violated the reserve requirement ratio or the liquid assets ratio or other regulations shall be penalized or shall be guilty of an offence and shall be liable to a penalty in accordance with the law.

Article 56 Supply of a Wrong Information

Any person who supplies any false or misleading information to the Bank of the Lao PDR on purpose shall be penalized or shall be guilty of an offence and liable to a penalty in accordance with the law.

Article 57 Engaging in a Business Without a License

Any person who engages in the banking business or financial institution business without such license as may be required under the law, shall be penalized or shall be guilty of an offence and shall be liable to a penalty in accordance with the law.

Article 58 The Disclosure of Confidential Matters

If any officer or any person who has collected, known or seen the data and information of the Bank of the Lao PDR, a commercial bank or financial institution during their performance of duties, discloses such data or information without the approval as stipulated in Article 22 of this Law, shall be criminally penalized for disclosure of state secrets.

Article 59 The Abusing of Position

An officer of the bank who abuses his/her position as against the provisions of this law to gain interest for him/herself shall be punished in accordance with the Criminal Code.

Article 60 Other Violations

A person who counterfeits the notes, coins or financial instruments, uses counterfeited notes, coins and financial instruments, destroys notes or coins by way of cutting, tearing, perforating, writing, printing, stamping, drawing, affixing any seal upon such note or in any other way whatsoever mutilates any note or coin issued by the Bank of the Lao PDR, shall be punished in accordance with the Criminal Code.

Part XIII
Final Provisions

Article 61 The Implementation

The Government of the Lao People's Democratic Republic shall implement this Law.

Article 62 Effect of this Law

This Law is effective from the date the President of the Lao People's Democratic Republic issued a Decree Law to promulgate it.

This Law replaces Law No.4 on the creation of the Bank of the Lao PDR dated July 10, 1990. Any Decree and provisions conflicting to this Law shall be abrogated.