

Recent Economic Developments



2 May 2023

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Key messages

1. Where are we?

- The economy is **gradually recovering**, but partly **constrained by macroeconomic vulnerabilities and external environment**.
- **Addressing macroeconomic instability** is an **urgent priority**.

2. What could be done?

- **The Vital 5**
 - Revenue mobilization
 - Expenditure efficiency and reprioritization
 - Debt management
 - Financial sector stability
 - Business environment

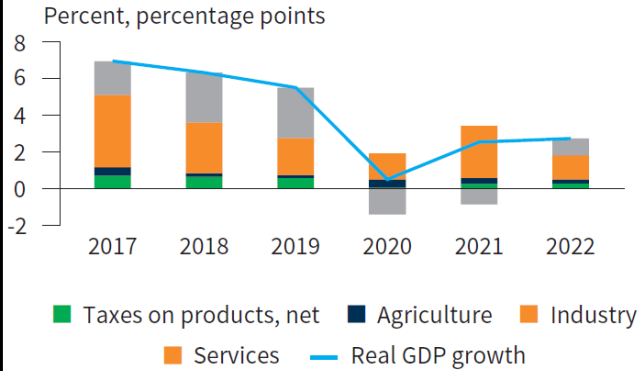


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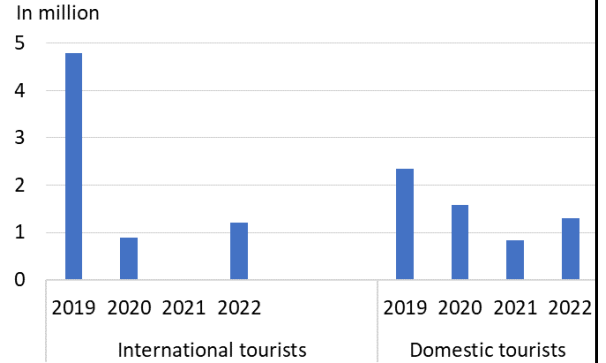
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The economy is gradually recovering

Gradual recovery

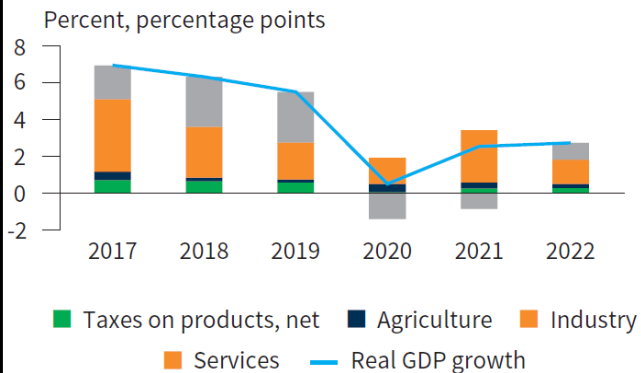


...led by the service sector rebound

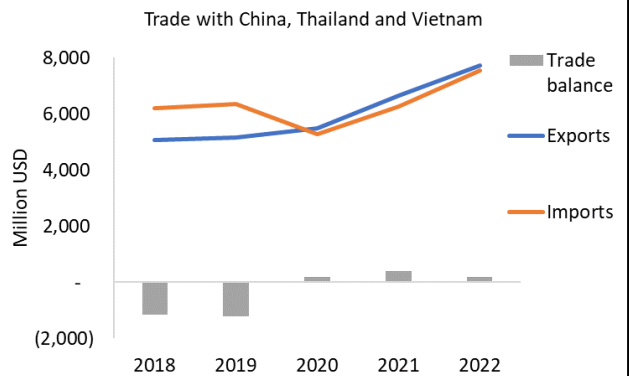


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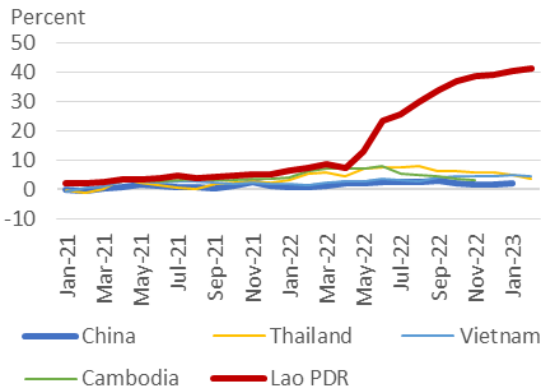


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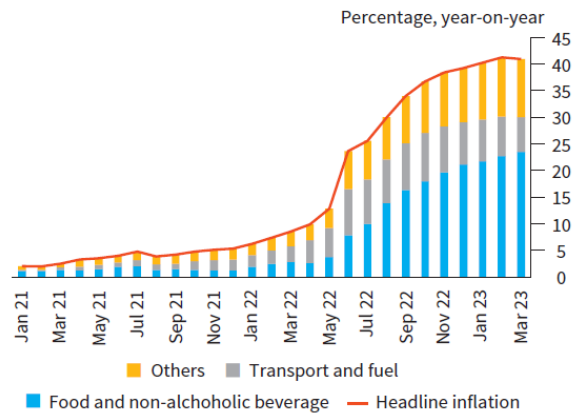


but recovery is partly constrained by macroeconomic vulnerabilities

Rising inflation has undermined the economic recovery



Inflation has been driven by a sharp kip depreciation and international prices

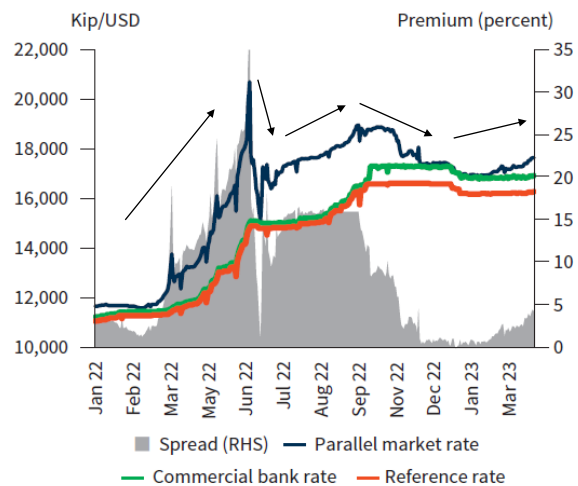
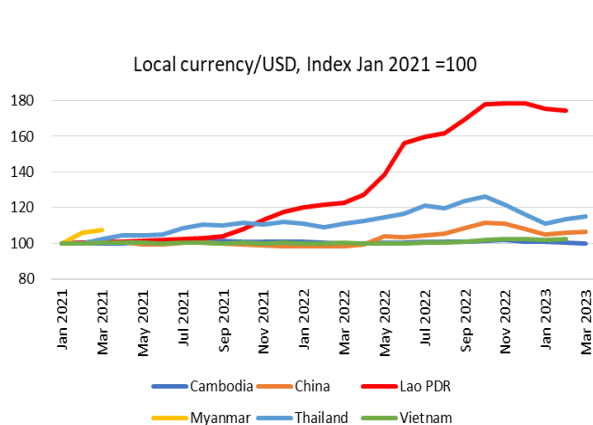


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but recovery is partly constrained by macroeconomic vulnerabilities

Limited foreign reserves and a stronger US dollar resulted in a sharp kip depreciation

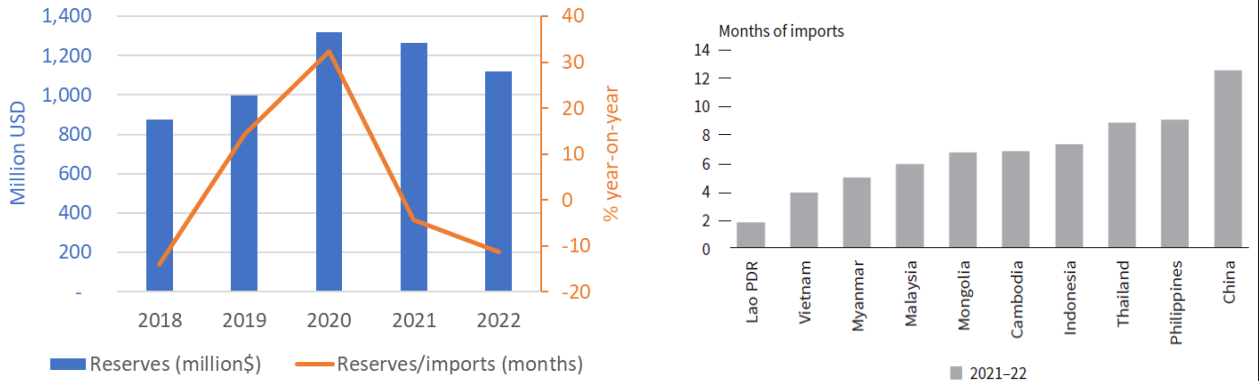


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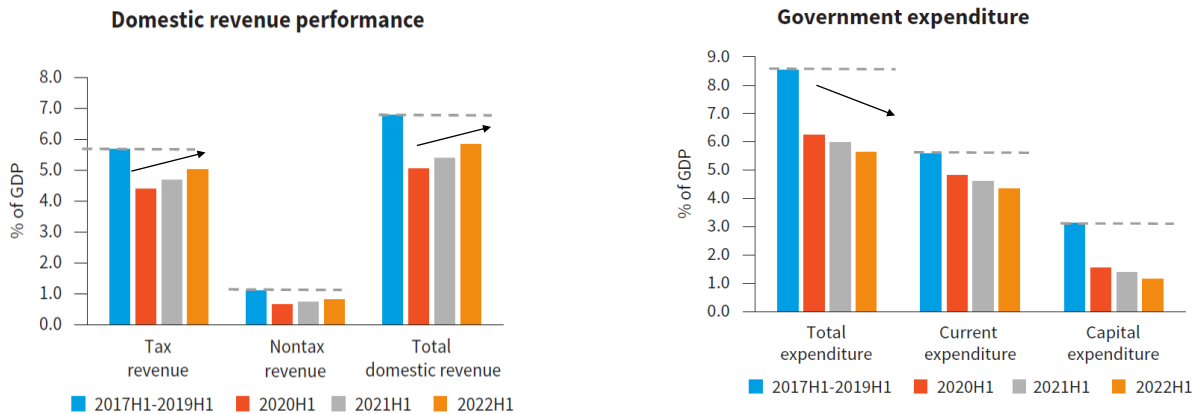
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but recovery is partly constrained by macroeconomic vulnerabilities

Fiscal consolidation has been driven by expenditure tightening and interest payment deferrals despite better revenue collection

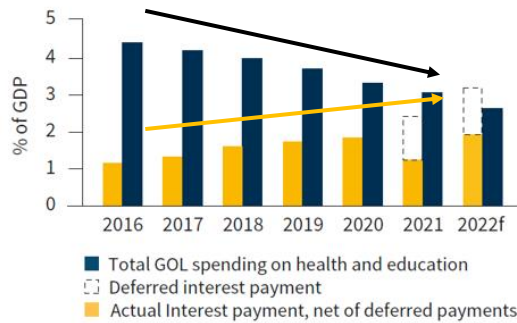


Source: Ministry of Finance.

but recovery is partly constrained by macroeconomic vulnerabilities

Limited fiscal space and rising debt service have constrained investments in human capital.

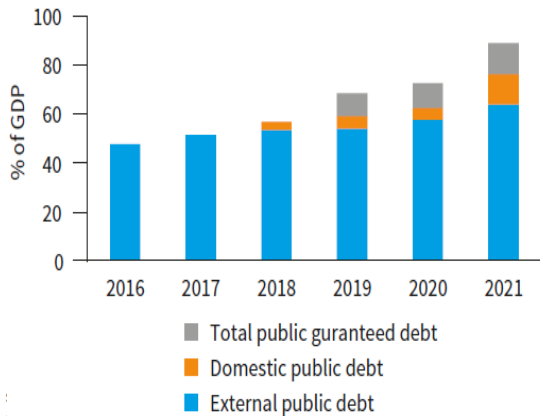
Interest payment and spending on health and education



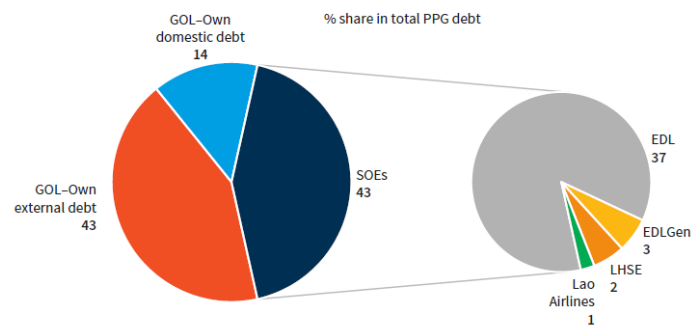
Source: Ministry of Finance.

but recovery is partly constrained by macroeconomic vulnerabilities

Debt sustainability hinges on successful renegotiations with major bilateral creditors and management of contingent liabilities



PPG debt stock by debtor

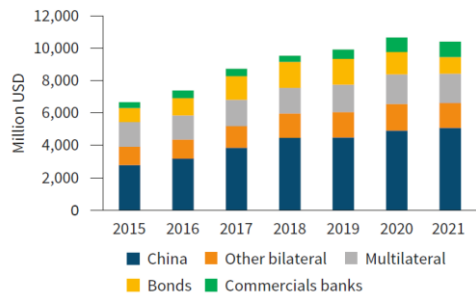


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External public debt stock

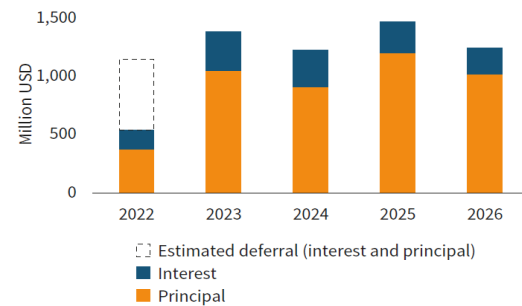
A. By creditors



Source: Ministry of Finance.

Public external debt service 2022-26 based on 2021 debt stock

A. in US\$ million



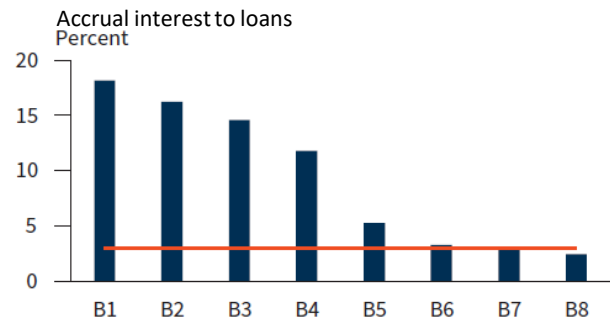
Source: MOF

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but recovery is partly constrained by macroeconomic vulnerabilities

While some aggregate financial soundness indicators improve, the financial sector vulnerabilities persist



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2. What could be done?

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The Vital Five

Reforms to Secure Macroeconomic Stability in the Lao PDR

1. CUT COSTLY TAX EXEMPTIONS TO RAISE PUBLIC REVENUE, PROTECT SOCIAL SPENDING

2. IMPROVE THE GOVERNANCE OF PUBLIC AND PUBLIC PRIVATE INVESTMENT

3. RESTRUCTURE PUBLIC DEBT THROUGH ONGOING NEGOTIATIONS

4. STRENGTHEN FINANCIAL SECTOR STABILITY THROUGH LEGAL AND REGULATORY TOOLS

5. ENHANCE THE BUSINESS ENVIRONMENT VIA EFFECTIVE REGULATORY REFORMS



Tax exemptions deprive the budget of much revenue every year, so less can be invested in human capital or used to service debt. Without investment in knowledge, skills and health, Laos will fall further behind.

Inefficient public investment is costly and public-private partnerships often create liabilities for the government.

High public debt levels undermine macroeconomic stability by constraining fiscal space, exerting pressure on the exchange rate, and jeopardizing banking sector stability.

Vulnerabilities in state-owned banks may hamper private sector credit growth. This exposure to risk can have widespread impacts on the rest of the economy.

Burdensome processes and regulations raise business costs and reduce productivity, undermining investment and exports.

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