Recent Economic Developments

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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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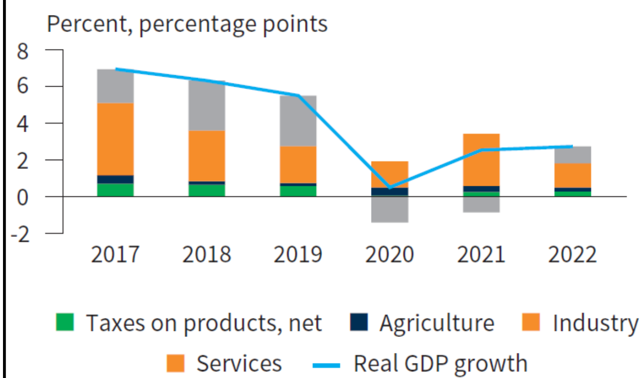
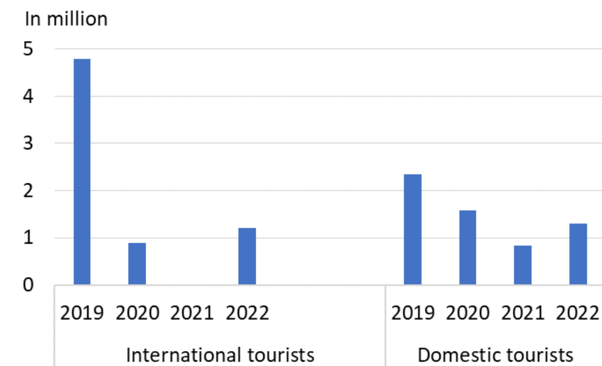
The economy is gradually recovering

Gradual recovery



...led by the service sector rebound



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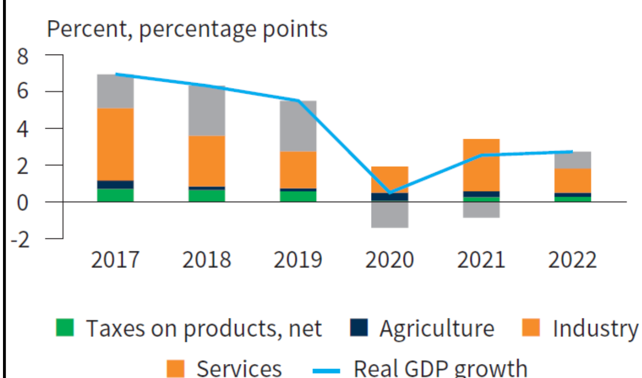
Gradual recovery



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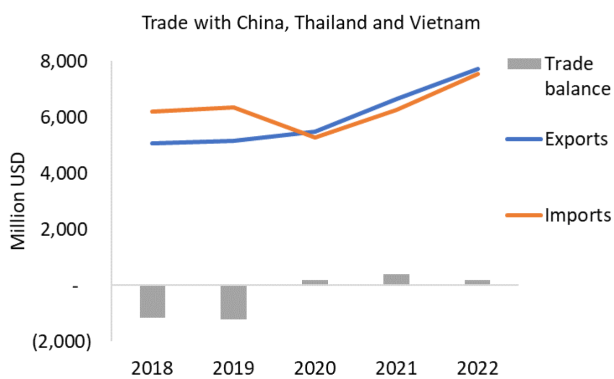

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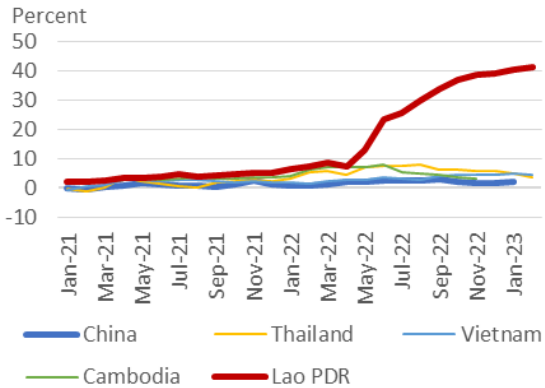
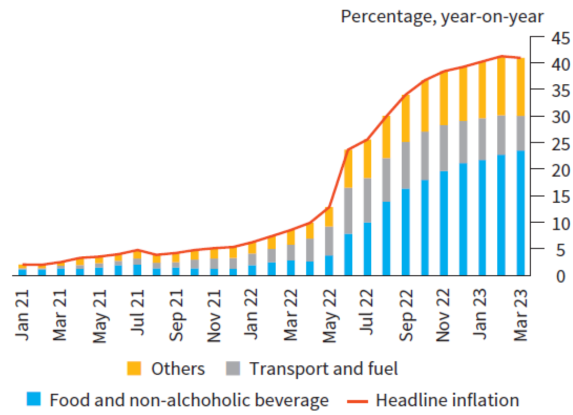
but recovery is partly constrained by macroeconomic vulnerabilities

Rising inflation has undermined the economic recovery



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



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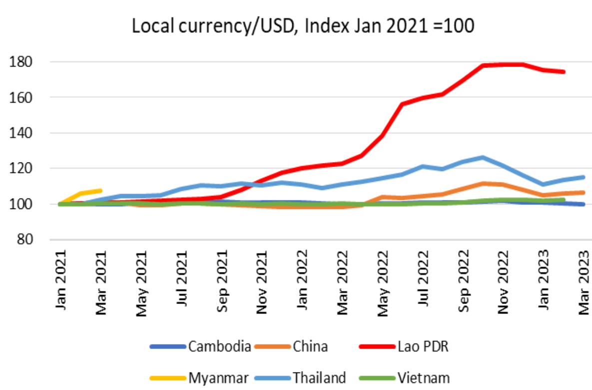
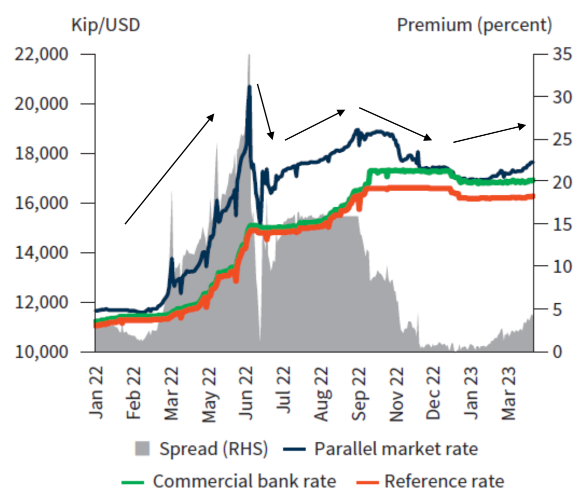
but recovery is partly constrained by macroeconomic vulnerabilities

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





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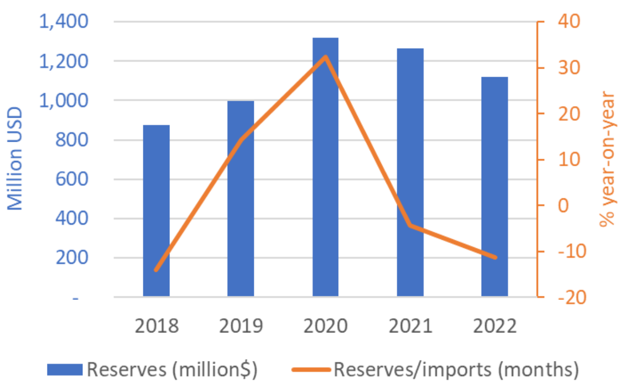

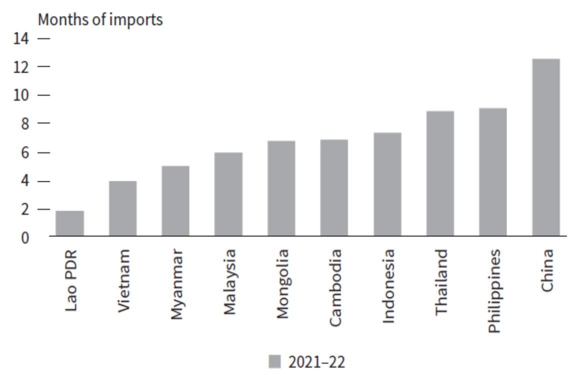

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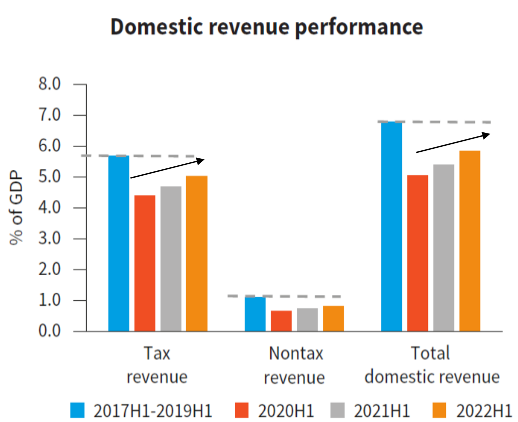
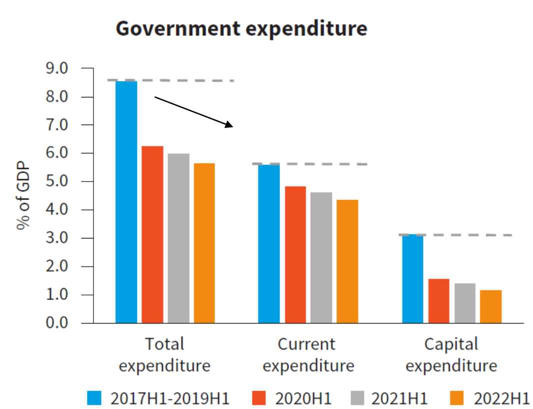
but recovery is partly constrained by macroeconomic vulnerabilities

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





Source: Ministry of Finance.

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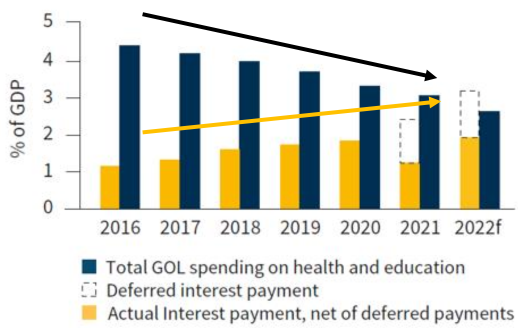
but recovery is partly constrained by macroeconomic vulnerabilities

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.

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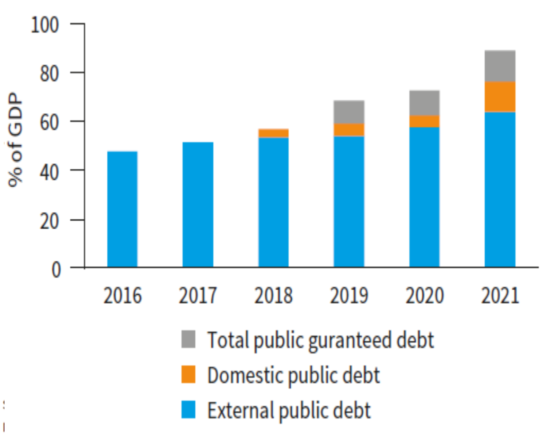
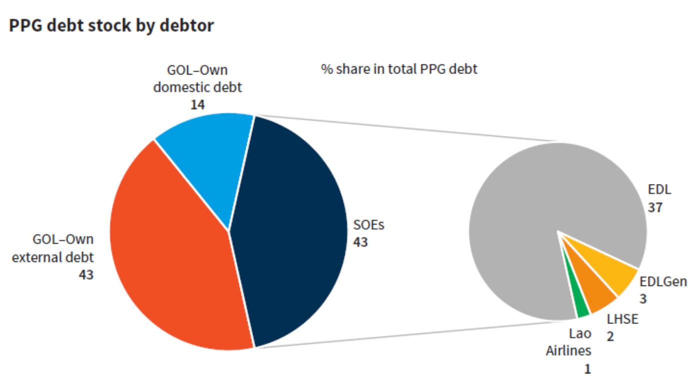
but recovery is partly constrained by macroeconomic vulnerabilities

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





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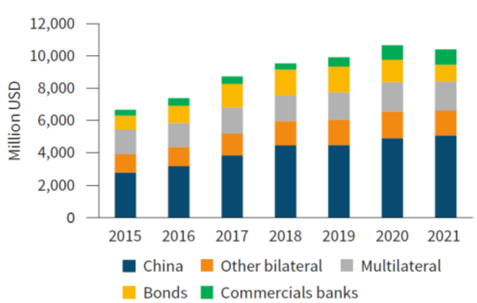
but recovery is partly constrained by macroeconomic vulnerabilities

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

External public debt stock

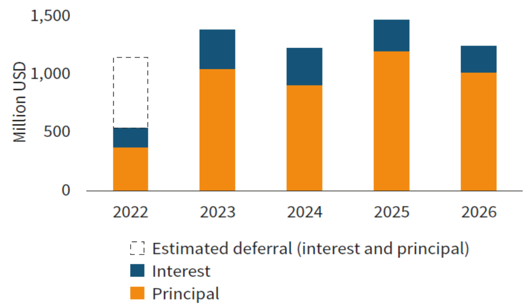
A. By creditors



Source: Ministry of Finance.

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

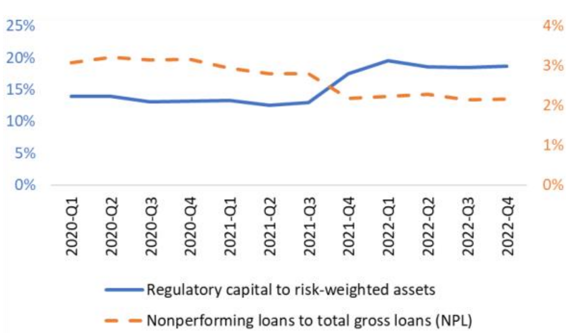
A. in US$ million

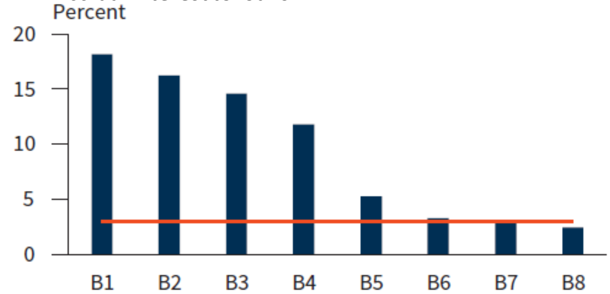


Source: MOF

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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