Lao PDR Economic Monitor December 2025

Consolidating Recent Reform Momentum for Stability and Growth

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Lao PDR Economic Monitor December 2025
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Part B. Preserving Laos' Road Assets

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2. Key Factors for Road Network Deterioration
3. Investment Needs and Prioritization
4. Funding Sources: Current Mix, Gaps, and Options
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Part A. Recent Economic Developments and Outlook in the Lao PDR

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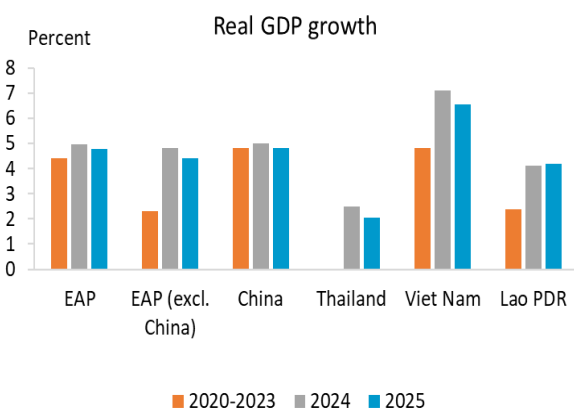
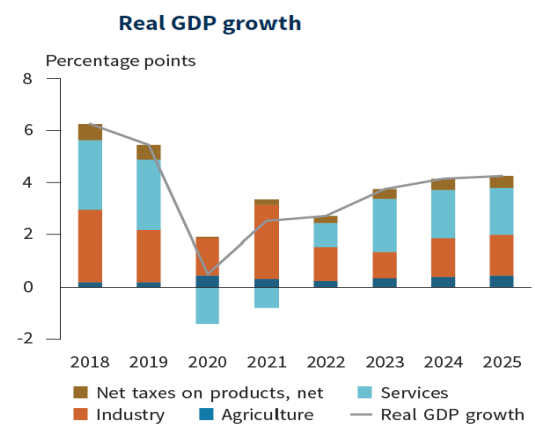
Macroeconomic conditions improved in 2025: a more stable exchange rate, easing inflation, and gradual economic recovery.

Growth is projected at 4.2%, driven by tourism, transport, energy, mining and manufacturing



Source: World Bank 2025 EAP Economic Update



Source: Lao Statistics Bureau, World Bank staff estimates.

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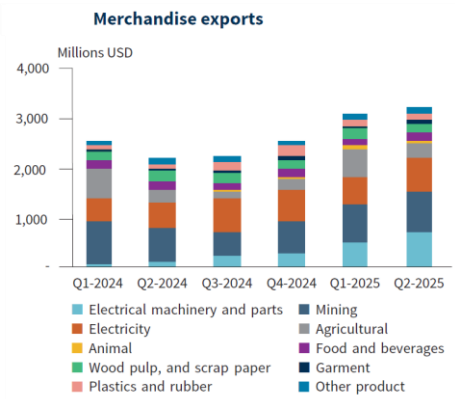
Real sector: Tourism and exports contribute to growth

External demand supports exports. Electrical equipment exports surged before trade restrictions



Source: Bank of the Lao PDR, Ministry of Industry and Commerce

Tourism strongly supports services growth

Source: Ministry of Culture and Tourism.

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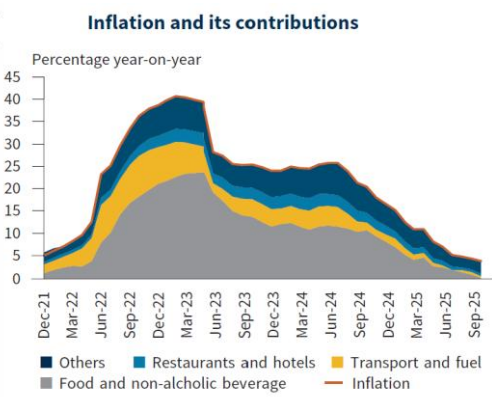
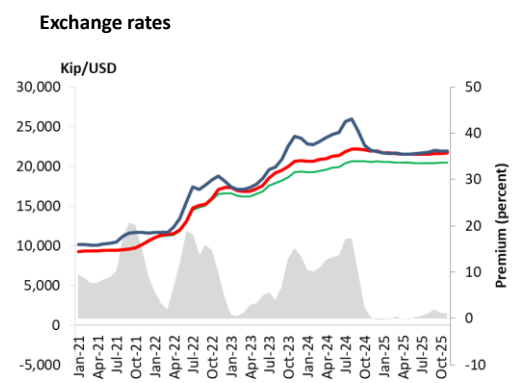
Inflation: Lower inflation due to stable exchange rate and falling commodity prices

Inflation eases as kip strengthens, macroeconomic policies tightened, and commodity prices declined.



Source: Lao Statistics Bureau

Exchange rate stabilization supported by tightened macro policies and FX management measures



Source: Bank of the Lao PDR

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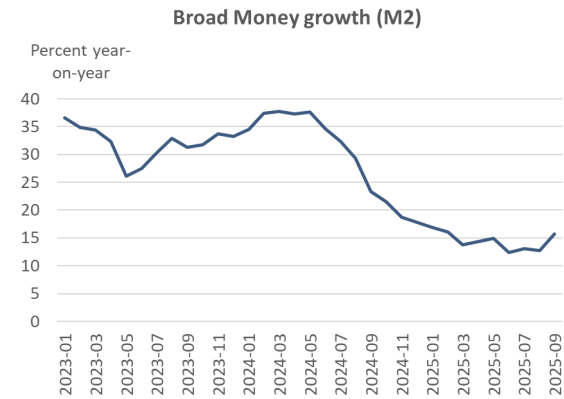
Policy tightening helps contain monetary expansion

- **Broad money expanded moderately**
- **Monetary conditions remained tightened**
  - Policy rate adjustment
  - Maintained reserve requirement ratio
  - BOL bonds issuance
  - Declining net lending to government
- **Treasury Single Account**
  - Consolidated government deposits at the BOL
  - Strengthened liquidity management,
  - Reduced the need for monetary financing



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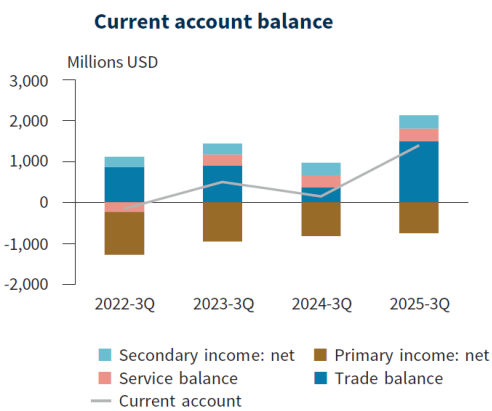
The external position strengthened in 2025, supported by a sizable current account surplus and FDI

Robust exports supported current account surplus



Source: Bank of the Lao PDR

Improved FX inflows and management measures helped rebuild reserves

Source: Bank of the Lao PDR and WB staff estimate

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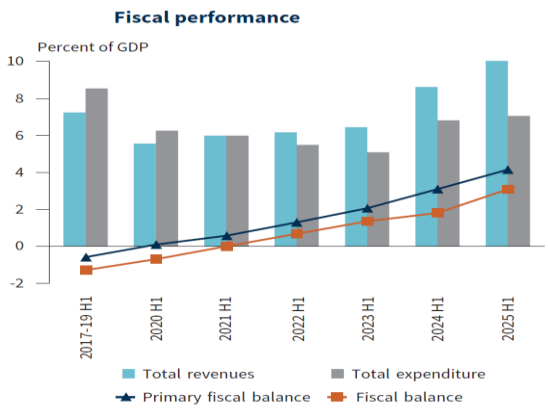
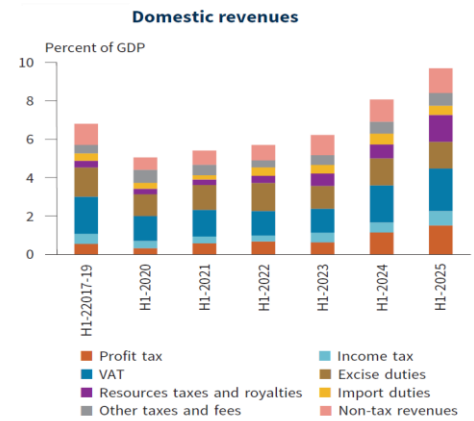
Fiscal developments: Improved revenues and moderate spending support consolidation amid ongoing fiscal pressures

Stronger revenue mobilization amid moderate expenditure increase



Source: Ministry of Finance and WB staff estimates



Source: Ministry of Finance and WB staff estimates

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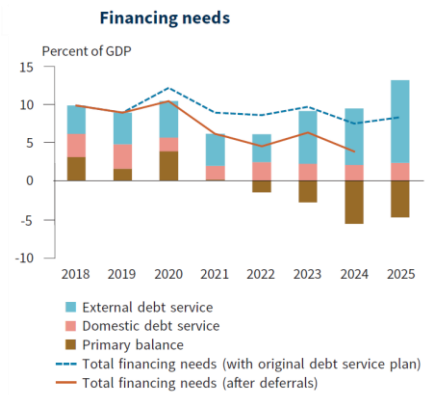
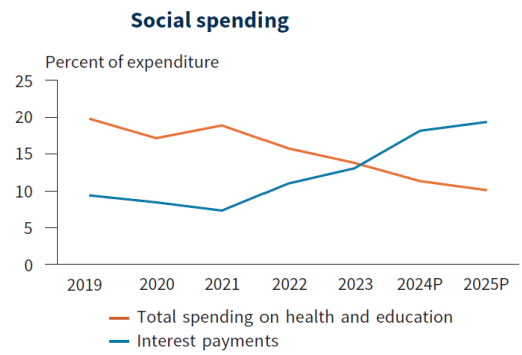
Large debt servicing obligations continue to crowd out development priorities

Financing needs remain high requiring various financing sources including deferrals. Return to bond market in November 2025.



Source: Ministry of Finance and WB staff estimates

Human capital spending share has declined.



Source: Ministry of Finance and WB staff estimates

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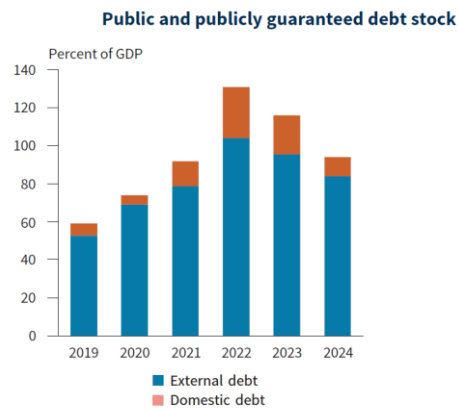
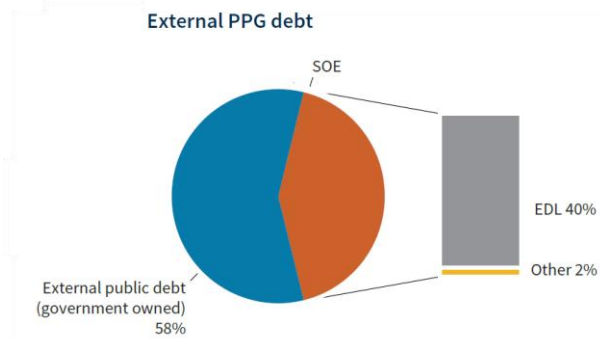
Fiscal developments: Public debt dynamics remain challenging despite recent improvements

Public and publicly guaranteed (PPG) debt ratio to GDP declined



Source: Ministry of Finance and WB staff estimates

EDL accounted for 40% of external PPG debt stock in 2024



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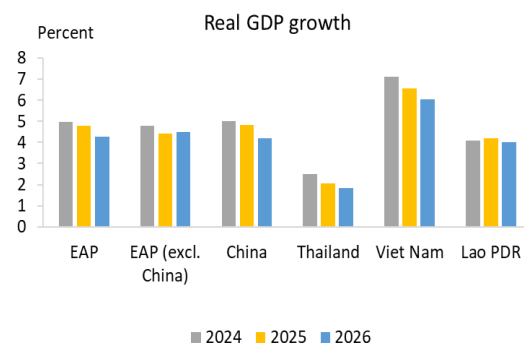
Outlook and Risks

- **Growth is projected to remain resilient in 2026**
  - The service, industry (resource sectors) are expected to be resilient.
  - Trade restrictions are expected to affect Laos primarily through slowdown of its major trading partners.
  - However, the medium-term outlook remains constrained by low productivity, skill shortages, and infrastructure gaps.
- **Inflation is projected to remain high in 2026 due to higher consumption following fiscal easing.**
- **The current account is expected to narrow but remain in surplus in 2026**



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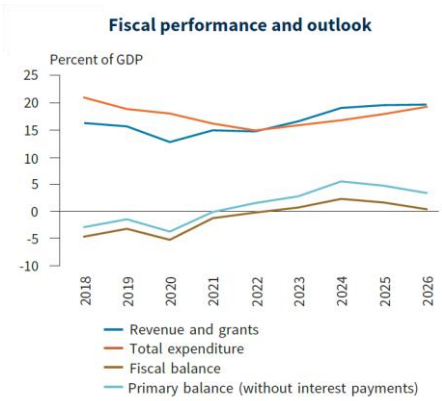
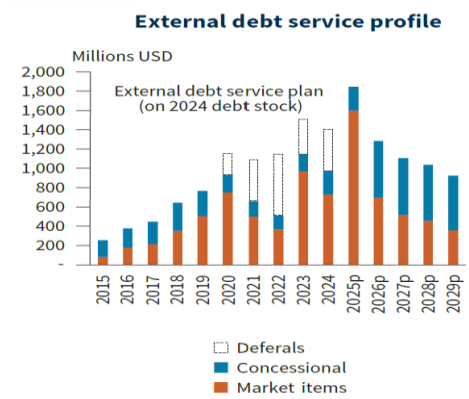
Outlook and Risks

Fiscal consolidation is expected to slow down in 2026 as wage increases will partly offset revenue gains.



Ministry of Finance and WB staff projections from 2025-26

However, debt service will remain an important challenge for sustainability



Source: Ministry of Finance

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Risks

- **The baseline assessment is subject to significant domestic and external risks**
- Key **domestic** risks:
  - Premature policy easing could offset the gains from recent macroeconomic improvements
  - A lack of labor productivity improvement and labor shortages could weigh on growth
  - Slower-than-expected progress with structural reforms on revenue mobilization, business reforms, financial sector.
- **Key external risks**
  - Heightened global trade uncertainty could further impact external demand and investment from key trading partners.
  - Reserve buffers remain thin compared to external financing needs

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Policy recommendations

(i) Raise revenues and boost spending on social services and infrastructure maintenance

- Review tax incentives and eliminate exemptions (corporate income tax gap estimated at 90%; enforce income tax law)
- Reform excise tax structures and increase rates (e.g. for tobacco, alcohol, and fuel)
- Reprioritize spending toward the human capital, and infrastructure maintenance

(ii) establish strong institutional and legal framework for public–private partnerships

- Monitor and manage risks from contingent liabilities related to state-owned enterprises
- Establish a strong institutional, legal and regulatory framework for public–private partnerships (PPP)

(iii) expedite ongoing debt renegotiations and strengthen public debt management

- Expedite ongoing debt renegotiations in a substantive and transparent manner
- Enforceme the PM Decree on Management of Public Borrowing and Guarantees

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Policy Recommendations

(iv) Enhance bank supervision

- Consistent enforcement of minimum capital requirements would address sector vulnerabilities
- Enhance risk-based bank supervision and strengthen crisis management and response capacity
- Sustain efforts to address AML/CFT deficiencies to exit the FATF grey list

(v) Improve the business environment to promote investment and export diversification

- Rollout electronic business registration processes and further reduce regulatory burdens
- Streamline nontariff measures to lower transaction costs for trade
- Promote electronic customs clearance and risk-based processes to facilitate trade

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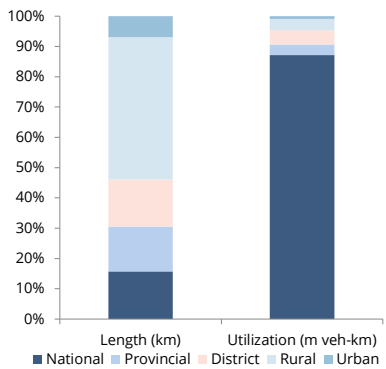
Part B: Preserving Laos' Road Assets

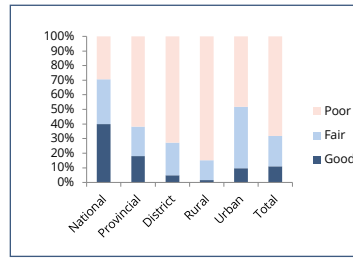
A Road Network Under Fiscal Stress

- **The road sector is critical for Laos** because it underpins growth, trade, and fiscal sustainability
- **Macroeconomic headwinds limit fiscal space for capital and maintenance spending** — the post-pandemic slowdown, depreciation of the Kip, high public debt service
- **Lao PDR's geography** (mountainous terrain with dispersed settlements) **makes roads indispensable for social and economic inclusion**
- **The road network in Lao PDR, a connectivity backbone to Lao's population, is extensive but faces significant challenges**

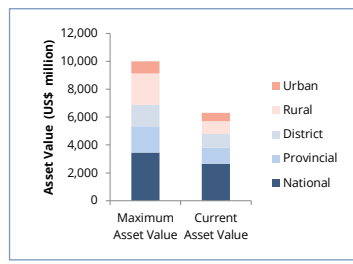
Laos' Road Network: Size, Conditions, and Utilization

Road network size and utilization are naturally mismatched





The current road network condition is still behind where it should be. Only 31.7% of the network is in sustainable condition (very good/good/fair). The shares vary sharply by road class—national (70.7%), provincial (38.3%), district (27.1%), rural (15.2%), urban (51.7%)—reflecting historic spending patterns and exposure.



Preservation of the road network is taking care of national asset value at stake. The current asset value (US$6.301 billion) of total road network represents 40% of GDP. The estimated maximum value of Lao's road network is as high as US$9.995 billion.

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What are the key factors for road network deterioration?

Climate impacts **are a top challenge for maintaining the road network.** Floods, landslides, and extreme rainfall routinely disrupt road services, with outsized impacts on gravel and earth roads.

→ A climate-informed maintenance program can reduce closures, lower emergency spending, and preserve asset value.

Overloading vehicles **is also another important factor.** Axle overloading remains a structural cause of premature deterioration.

→ The 2024 Overloading Control Study proposes 37 weigh stations and weigh-in-motion (WIM) along key corridors, combined with public awareness and substantial, proportional penalties

Dispersed investment, **combined with quality control challenges, contributes to the suboptimal outcomes.** With many road investments in the local networks, it strains the capacity of the Ministry of Public Works and Transport to provide sufficient supervision and quality control to upkeep the road conditions. Inadequate budget for road maintenance is also a challenge. Adding the climate impacts and overloading control factors, the tasks become even more difficult.

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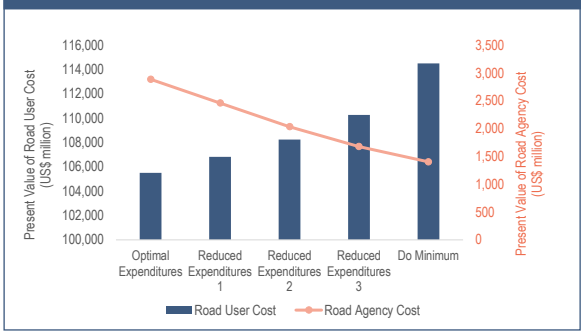
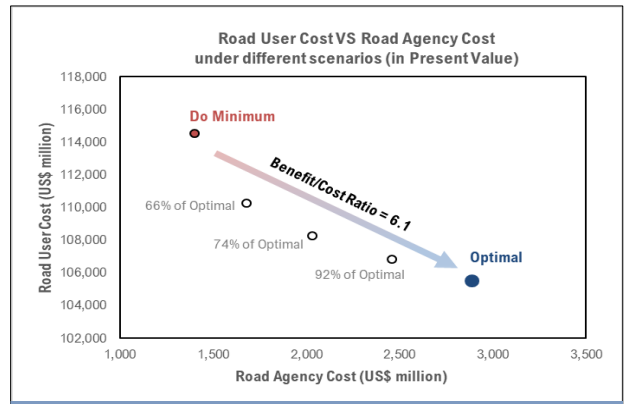
Investment Needs and Priorities

To optimize the long-term benefit-cost ratio of the road network, the World Bank's analysis suggests an annual funding of approximately US$335 million (or 7 trillion Kip) from 2025 to 2029.





The Optimal scenario is 6.1 times more cost-effective than the Do-Minimum

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Investment Needs and Priorities

For efficient spending on road assets, national roads and paved roads should be prioritized. The long-term upkeep cost of road assets can be minimized with proper planning for routine and periodic maintenance, rehabilitation, climate resiliency measures, and overloading control. Of the expenditure sum recommended under the Optimal scenario, 50 percent of the expenditure (or US$169.1 million per year) is focused on the rehabilitation, periodic and routine maintenance of national roads, and 75 percent of the total expenditure (or US$251.4 million per year, including all road types) is directed towards paved roads.

Investment in maintenance of the road network is financially prudent in the long term. Presently, the value of Laos' road network assets represents 40% of the country's GDP, with the potential to increase to 63% of GDP if the network condition is improved. In contrast, the underfunding of the road network would risk a 24% decline in asset value by 2029.

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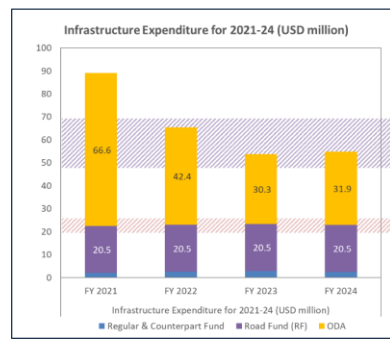
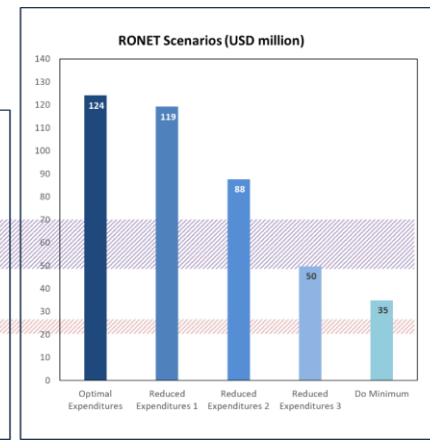
Funding Sources: Current Mix, Gaps, and Options

- **Current envelope for road asset management funding is far below the needs**
- **Road Fund resources had been shrinking, and the gap could be filled by complementary user charges and enforcement**
- **Improving value-for-money from road asset management is key**





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Institutional Modernization

ASSET MANAGEMENT

- **Utilize the unified, GIS-backed inventory that integrates road centerlines, functional classification, condition data (including IRI), traffic volumes (AADT), and works history with unit costs.** Given that the RMS and ProMMS have been established, the corresponding data should be refreshed/updated through an annual Road Network analysis. MPWT can use these existing tools for planning, prioritization, and budgeting; and use IRAM system to monitor the road network performance.

OVERSIGHT AND TRANSPARENCY

- **Effective oversight and transparency hinge on an empowered Road Fund Oversight Committee** with clear fiduciary and performance mandates (i.e., monitoring value-for-money of road expenditures vs network performance), complemented by a public dashboard tracking project status, physical progress, more resources for RF (e.g. fuel levy, transit charges, tolls) and outflows (maintenance, administrative costs, debt service), unit costs, and quality results.
- **Lao PDR should implement the 2024 Overloading Control Study and Action Plan** by installing weigh stations at 37 locations and weigh in motion sensors on key national corridors, supported by public awareness campaigns and a graduated penalty schedule.

PRIVATE SECTOR ENGAGEMENT

- **Private sector (or Public-Private Partnership; PPP) engagement should be disciplined and evidence-based.** Projects should be screened first for demand, focusing on corridors with traffic exceeding 5,000 vehicles per day and clear strategic importance, and then for user willingness to pay.
  - Screening must include a Public Sector Comparator and risk-adjusted PPP reference
  - Transparent and competitive procurement, with standardized bidding documents, integrity safeguards, independent observers, and clear evaluation manuals
  - Pricing benchmarks should be applied, and bids outside credible bands rejected unless thoroughly justified

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