

Lao PDR Economic Monitor May 2025

Weathering Risks



Launch of
Lao PDR Economic Monitor May 2025
World Bank Office, 27th May 2025

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Outline

Part A. Recent Economic Developments and Outlook

1. Recent Developments in the Lao PDR
2. Outlook and Risks
3. Policy Recommendations

Part B. Unlocking Finance for Micro, Small, and Medium-sized Enterprises

1. Characteristics of MSMEs by Size and Sector
2. Understanding Supply and Demand-Side Challenges
3. Policy Recommendations



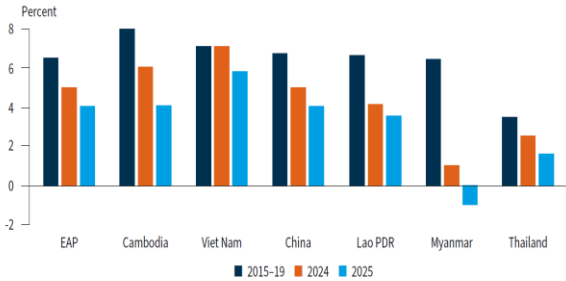
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The Lao economy is growing, driven by exports of services, electricity, mining, agriculture, and manufacturing

The regional economy is growing but below the pre-pandemic level and its potential

Real GDP growth

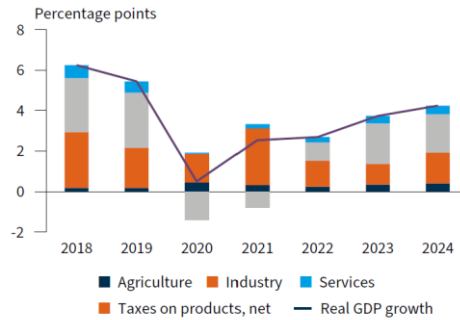


Source: A Longer View: East Asia and Pacific Economic Update, April 2025. World Bank.



The Lao economy grew by 4.1% in 2024

Real GDP growth

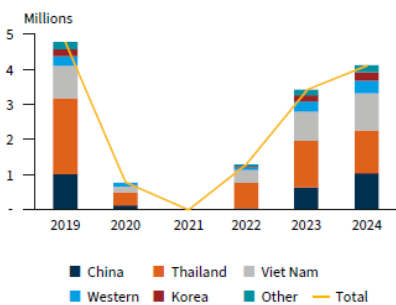


Source: Lao Statistics Bureau, World Bank staff estimates.

Macroeconomic conditions in Laos show signs of improvement, but underlying structural challenges persist

Tourism catching up with the pre-pandemic levels

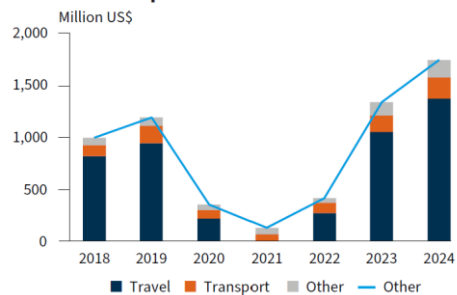
Tourist arrivals



Source: Ministry of Information, Culture and Tourism.

Tourism and improved connectivity supported service exports

Service exports



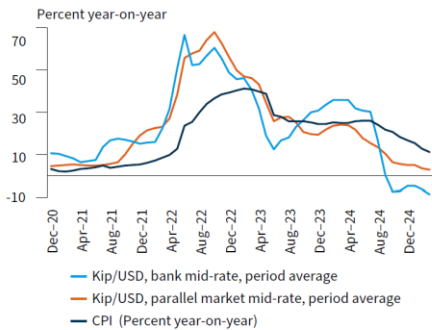
Source: World Bank staff calculations based on data from Bank of the Lao PDR and International Monetary Fund Balance of Payments statistics.

Inflation has been on a downward trend, and the exchange rate stabilized

The exchange rate has been the primary driver of inflation in the recent past.

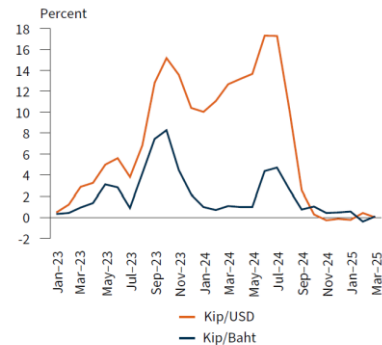
Parallel market rates have moved in line, narrowing the premium gap.

Exchange rates and inflation in 2024



Source: Bank of the Lao PDR and Lao Statistics Bureau.

Exchange rate premium



Source: Bank of the Lao PDR

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Monetary and fiscal tightening and increased FX inflows in 2024

1. Tighter monetary policy

- Policy rate adjustments
- Increased reserve requirement ratios
- Open market operations to manage money supply growth

2. Improved fiscal management

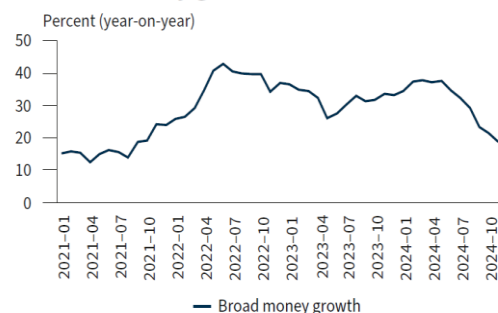
- Treasury Single Account (TSA)
- Improved revenue collection (including in FX)

3. Debt service deferrals

- Principal deferrals in 2024 reducing FX demand

4. Exporters FX deposits increased as result of FX management regulation

Broad money growth



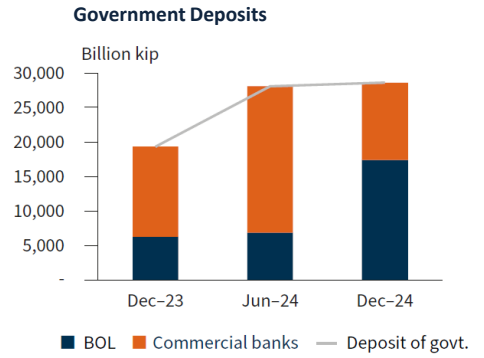
Source: World Bank staff calculation based on data from the Bank of the Lao PDR

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Improved liquidity management through monetary tightening and treasury single account (TSA)

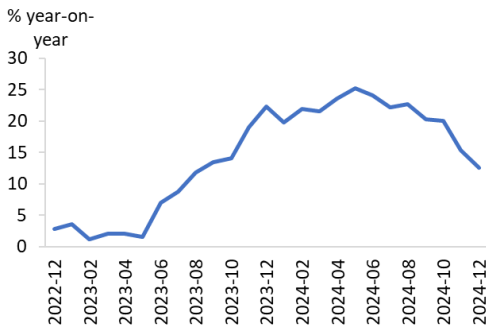
- TSA became functional in July 2024
 - Ensured a real time information on available resources and reduced excessive government borrowing.
 - Improved the BOL's ability to manage banking sector liquidity → better control of money supply growth.
 - Government deposits at commercial banks declined by 47% in the same period, reducing liquidity in banks.



Source: Bank of the Lao PDR

Foreign exchange management contributed to improved foreign exchange liquidity

Foreign currency deposit growth (% year-on-year, US\$ equivalent)

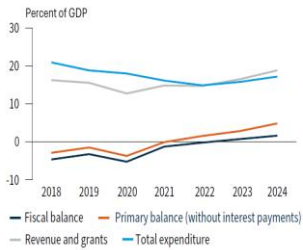


Source: Bank of the Lao PDR

- In March 2024, the BOL issued regulations mandating the repatriation and mandatory conversion of export proceeds to kip.
- 70.1% of export earnings were repatriated by the end of 2024.
- Foreign exchange rationing for priority imports still applies.
- However, it is uncertain whether firms will continue to accumulate cash balances over the medium term.
- Stock adjustments may not address problems of a lack of sustainable inflows.

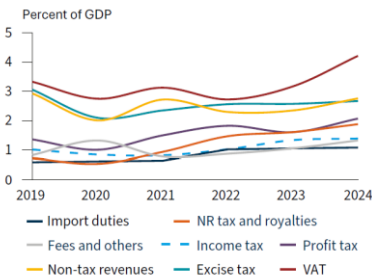
Fiscal consolidation is supported by stronger revenue collection, more than offsetting interest spending increases.

Fiscal performance



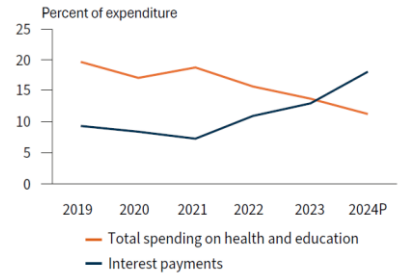
Source: Ministry of Finance, World Bank staff calculations

Revenue categories



Source: World Bank staff estimate based on data from Ministry of Finance

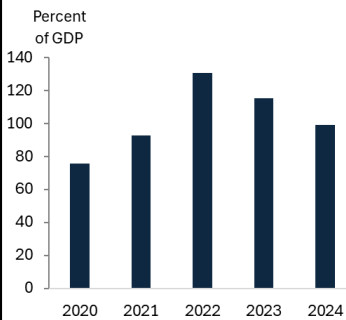
Social spending and interest payments



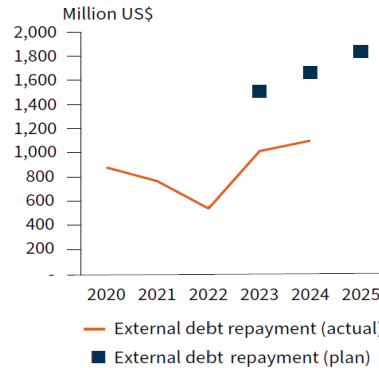
Source: Ministry of Finance, World Bank staff calculations

Public debt' share to GDP has declined but it remains at unsustainable levels.

Public debt stock in 2024

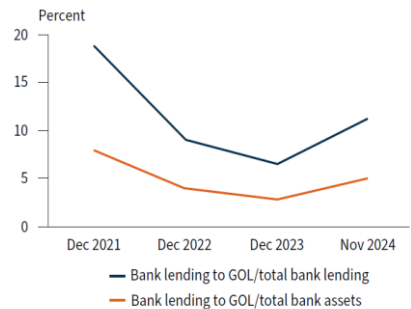


External debt repayment



Source: Ministry of Finance

Credit to government in 2024



Source: Bank of the Lao PDR, World Bank staff calculations

Growth is projected to slow to 3.5% in 2025, with services expected to grow more moderately than in 2024

Key assumptions:

- Weaker external demand from major trading partners—is expected to affect growth in the near term.
- Debt service deferrals accumulated over 2020–24 will not be paid during the forecast period.
- The baseline assumes that similar debt deferral arrangements as in 2024 will continue in the short term.

Table 2. GDP growth forecast

				April 2025 forecast	October 2024 forecast	
	2015–19	2020–23	2024	2025	2024	2025
East Asia and Pacific	6.5	4.4	5.0	4.0	4.8	4.4
East Asia and Pacific (excluding China)	5.2	2.3	4.9	4.2	4.7	4.9
China	6.7	4.8	5.0	4.0	4.8	4.3
Thailand	3.4	0.0	2.5	1.6	2.4	3.0
Vietnam	7.1	4.8	7.1	5.8	6.1	6.5
Lao PDR	6.6	2.4	4.1	3.5	4.1	3.7

Source: A Longer View: East Asia and Pacific Economic Update, April 2025. World Bank.

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Structural imbalances pose a risk to maintain the positive outlook in the short term

- Growth is projected to slow to 3.5% in 2025, with services expected to grow more moderately. Outmigration and labor shortages constrain growth.
- Inflation is expected to continue easing but will likely stay in double digits in 2025. Exchange rate remains a key determinant and highly uncertain.
- Revenue collection should strengthen, supported by the reinstatement of fuel excise rates and improved tax administration.
- Primary surplus in the coming years, but the overall fiscal balance is expected to return to deficit due to interest payments.
- Debt repayments will peak in 2025, exchange rate pressure may return.
- Financing sources are expected to come from revenues, locally issued bonds and loans, repayments on on-lending from SOEs, and asset sales.

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Risks

- **The baseline assessment is subject to significant domestic and external uncertainties.**
- Key **domestic** risks:
 - limited access to international capital markets result in reliance on domestic financing sources may increase, putting pressure on local financial markets.
 - Prolonged enforcement of administrative measures on foreign exchange management could also weaken business confidence. It is uncertain whether firms will continue to accumulate cash balances at this rate over the medium-term; if they do not, the depreciation pressure may return.
 - limited foreign exchange liquidity for debt service, which could worsen if deferrals are lower,
 - Slow 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.

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Policy Recommendations

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

- Review tax incentives and eliminate exemptions
- Reduce VAT exemptions.
- Reform excise tax structures and increase rates (e.g. tobacco, alcohol, and fuel)
- Reprioritize spending toward the human capital, and infrastructure maintenance

(ii) managing risks from contingent liabilities related to SOEs and PPPs

- managing risks from contingent liabilities related to state-owned enterprises and public-private partnerships

(iii) expediting ongoing debt renegotiations and strengthening public debt management

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(iv) Strengthening financial sector stability

- Enhance bank supervision and operationalize emergency arrangements
- Bolster the deposit protection fund and employ early warning system based on risk assessment

(v) Improving the business environment to promote investment and exports

- Implement electronic business registration processes,
- Streamlining nontariff measures (NTMs)
- Promoting electronic customs clearance and risk-based processes to facilitate trade

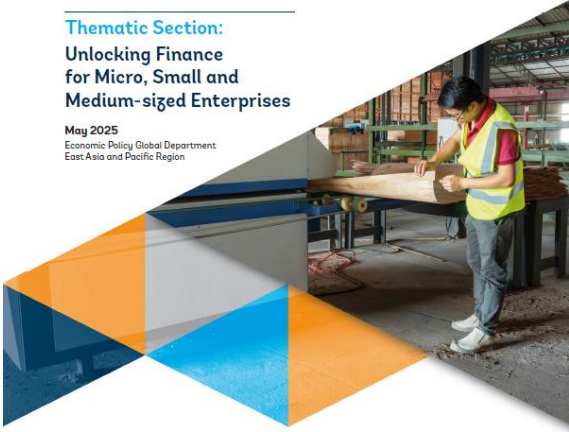
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LAO PDR ECONOMIC MONITOR

Weathering Risks

Thematic Section:
Unlocking Finance
for Micro, Small and
Medium-sized Enterprises

May 2025
Economic Policy Global Department
East Asia and Pacific Region



Thank you

