The economic recovery is expected to continue in 2022, mainly supported by industry and services, with growth projected to accelerate to 3.8 percent. However, growing macroeconomic vulnerabilities – mainly stemming from a high debt burden – and external shocks may affect the outlook. Labor market conditions remain subdued, while rising fuel and food prices are threatening poverty and food security. Addressing macroeconomic imbalances will be critical to laying the foundation for sustained economic growth and support poverty reduction.

**Key conditions and challenges**

Unaddressed debt challenges can hamper medium-term economic growth. High public debt levels and rising debt service obligations pose liquidity and solvency problems that compound other macroeconomic vulnerabilities – such as low revenue collection and limited foreign reserves. A positive conclusion of ongoing debt renegotiations will be vital for restoring macroeconomic stability. Growing debt service requirements, in a context of declining revenues and expenditure consolidation, have narrowed the fiscal space for investments in human and physical capital that are essential for long-term growth. While the financial sector provided some support to mitigate the impacts of COVID-19, vulnerabilities are high and forbearance measures impede a clear assessment of bank balance sheets. Improved connectivity and trade integration present an opportunity for greater economic dynamism, but need to be accompanied by structural reforms to enhance export competitiveness.

Domestic and external uncertainty affects economic prospects. COVID-19 vaccination rates have improved, with 58 percent of the population fully vaccinated, but a large Omicron outbreak could still undermine economic activity. Tightening global macroeconomic conditions and geopolitical tensions could impact Lao PDR through higher commodity prices (especially fuel) and additional exchange rate depreciation pressures, which would increase inflation. Moreover, a slower-than-expected economic recovery in key trading and investment partners may curtail external demand. However, high mineral prices and the opening of the Lao-China railway (in December 2021) will likely support merchandise exports and the domestic services sector – especially transport and logistics services.

Domestic and external uncertainty affects economic prospects. COVID-19 vaccination rates have improved, with 58 percent of the population fully vaccinated, but a large Omicron outbreak could still undermine economic activity. Tightening global macroeconomic conditions and geopolitical tensions could impact Lao PDR through higher commodity prices (especially fuel) and additional exchange rate depreciation pressures, which would increase inflation. Moreover, a slower-than-expected economic recovery in key trading and investment partners may curtail external demand. However, high mineral prices and the opening of the Lao-China railway (in December 2021) will likely support merchandise exports and the domestic services sector – especially transport and logistics services.

**Recent developments**

GDP growth is estimated to have rebounded to 2.5 percent in 2021, driven by industry (particularly mining, energy and some manufacturing subsectors) and agriculture...
– both of which were supported by solid external demand. However, the services sector continued to struggle. Inflation increased from less than 2 percent in February 2021 to 7.3 percent in February 2022 (year-on-year), mainly driven by fuel prices and a sharp depreciation against the US dollar. Nevertheless, the annual average inflation rate declined from 5.1 percent in 2020 to 3.8 percent in 2021. The fiscal deficit declined significantly in 2021, owing to a recovery in revenue and expenditure cuts. Revenue collection rebounded mainly due to non-tax revenue and consumption taxes. Expenditure curbs continued with the postponement of new capital projects—which led to a 24 percent decline in capital spending. With limited access to international capital markets, financing needs were met through strong short-term domestic bank borrowing at the end of 2021. The current account deficit improved, partly due to a large merchandise trade surplus. Merchandise exports grew by 22 percent – owing to electricity, minerals, and several agricultural and manufactured products – supported by strong external demand and commodity prices. Merchandise imports also increased, driven by fuel, vehicles, and machinery. Nonetheless, trade in services remained subdued and external debt service payments are elevated. High demand for foreign currency (especially to service external debts) coupled with limited reserve buffers contributed to a strong depreciation against the US dollar – 22 percent as of February 2022 (year-on-year). The labor market remains subdued, and rising food prices place an additional burden on households. The share of adults employed fell from 76 percent in Q2 2021 to 69 percent in Q4 2021, following an outbreak of COVID-19. Disruptions to economic activities led to a decline in household income, with 63 percent of households experiencing a fall in household income between Q2 and Q4 2021, of which 21 percent saw their income reduced by more than half. Income losses combined with rising food prices present a threat to poverty and food insecurity. Constrained by limited fiscal space, government assistance programs were limited and mainly targeted formal workers. The poverty headcount rate (measured at the lower-middle-income poverty line or $3.2 (2011 PPP) a day) is estimated to have marginally declined from 36.9 percent in 2020 to 36.8 percent in 2021.

**Outlook**

Economic activity is expected to recover gradually to 3.8 percent in 2022, supported by merchandise exports and the services sector – especially transport and logistics services (linked to the new railway) as well as wholesale and retail activities. In contrast, tourism will likely take longer to rebound. Infrastructure construction (including power projects and highway extensions) is also expected to contribute to the recovery. From the demand side, private consumption will increase, although public consumption and public investment will remain constrained – owing to the difficult fiscal situation. Private investment and exports will provide an important stimulus to the economy, although higher imports will partly offset these trends. Existing macroeconomic vulnerabilities and a less conducive external environment – due to tighter macroeconomic conditions and the war in Ukraine – will avert a faster economic recovery. In a downside scenario where domestic and external risks materialize, economic growth could slow to 3.3 percent in 2022. Domestic labor market conditions are expected to improve gradually following the growth rebound, although permanent job losses and business closures induced by COVID-19 will continue to put pressure on household income. Rising food and fuel prices undermine households’ purchasing power and, without adequate relief measures, put them at risk of falling into poverty. Addressing internal and external imbalances will be key to accelerate economic growth and improve welfare. The deteriorating public debt situation is a main concern, with external debt repayments averaging around $1.3 billion a year over 2022-2025 – about half of the average domestic revenue. Upside risks to the outlook include a positive outcome from the ongoing debt renegotiations – providing much-needed fiscal space for growth-enhancing expenditures – and a fast and effective implementation of planned revenue-enhancing measures. A strengthened legal framework for foreign currency management may enhance foreign reserve buffers, while business environment reforms would help boost growth and job creation.

### Table 2 Lao PDR / Macro poverty outlook indicators

<table>
<thead>
<tr>
<th>(annual percent change unless indicated otherwise)</th>
<th>2019</th>
<th>2020</th>
<th>2021e</th>
<th>2022f</th>
<th>2023f</th>
<th>2024f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth, at constant market prices</td>
<td>5.5</td>
<td>0.5</td>
<td>2.5</td>
<td>3.8</td>
<td>4.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Real GDP growth, at constant factor prices</td>
<td>5.5</td>
<td>0.5</td>
<td>2.5</td>
<td>3.8</td>
<td>4.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1.2</td>
<td>3.2</td>
<td>2.3</td>
<td>2.2</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Industry</td>
<td>5.6</td>
<td>4.0</td>
<td>7.6</td>
<td>5.2</td>
<td>4.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Services</td>
<td>7.0</td>
<td>-3.5</td>
<td>-2.2</td>
<td>2.9</td>
<td>4.4</td>
<td>5.7</td>
</tr>
<tr>
<td>Inflation (Consumer Price Index)</td>
<td>3.3</td>
<td>5.1</td>
<td>3.8</td>
<td>6.0</td>
<td>5.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Current Account Balance (% of GDP)</td>
<td>-8.1</td>
<td>-1.5</td>
<td>1.3</td>
<td>-2.7</td>
<td>-4.6</td>
<td>-5.4</td>
</tr>
<tr>
<td>Fiscal Balance (% of GDP)</td>
<td>-3.3</td>
<td>-5.2</td>
<td>-1.4</td>
<td>-2.9</td>
<td>-2.6</td>
<td>-2.3</td>
</tr>
<tr>
<td>Debt (% of GDP)</td>
<td>59.0</td>
<td>62.3</td>
<td>77.9</td>
<td>79.0</td>
<td>79.3</td>
<td>79.2</td>
</tr>
<tr>
<td>Primary Balance (% of GDP)</td>
<td>-1.6</td>
<td>-3.7</td>
<td>-0.1</td>
<td>-0.1</td>
<td>0.1</td>
<td>0.5</td>
</tr>
<tr>
<td>International poverty rate ($1.9 in 2011 PPP)</td>
<td>9.7</td>
<td>9.8</td>
<td>9.7</td>
<td>9.5</td>
<td>9.3</td>
<td>9.1</td>
</tr>
<tr>
<td>Lower middle-income poverty rate ($3.2 in 2011 PPP)</td>
<td>36.8</td>
<td>36.9</td>
<td>36.7</td>
<td>36.4</td>
<td>35.9</td>
<td>35.5</td>
</tr>
<tr>
<td>Upper middle-income poverty rate ($5.5 in 2011 PPP)</td>
<td>69.8</td>
<td>70.0</td>
<td>69.8</td>
<td>69.4</td>
<td>69.0</td>
<td>68.5</td>
</tr>
<tr>
<td>GHG emissions growth (mtCO2e)</td>
<td>1.9</td>
<td>3.2</td>
<td>4.1</td>
<td>4.4</td>
<td>5.0</td>
<td>4.7</td>
</tr>
<tr>
<td>Energy related GHG emissions (% of total)</td>
<td>48.0</td>
<td>48.5</td>
<td>49.5</td>
<td>50.6</td>
<td>51.9</td>
<td>53.0</td>
</tr>
</tbody>
</table>

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

b/ Projection using annualized elasticity (2012-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.