

LAO PDR

Table 1

	2023
Population, million	7.6
GDP, current US\$ billion	15.1
GDP per capita, current US\$	1983.1
International poverty rate (\$2.15) ^a	7.1
Lower middle-income poverty rate (\$3.65) ^a	32.5
Upper middle-income poverty rate (\$6.85) ^a	70.5
Gini index ^a	38.8
School enrollment, primary (% gross) ^b	97.2
Life expectancy at birth, years ^b	68.1
Total GHG emissions (mtCO2e)	49.4

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2018), 2017 PPPs.

b/ WDI for School enrollment (2022); Life expectancy (2021).

Economic growth remains significantly below pre-Covid-19 levels, partly due to a protracted period of macroeconomic instability. The Lao kip continues to depreciate, while average annual inflation is expected to remain above 20 percent for the third consecutive year. Economic growth is forecast to pick up to 4 percent in 2024, in a context of high economic uncertainty and limited reform progress. Progress in poverty reduction is estimated to have stalled in 2023.

Key conditions and challenges

Tighter monetary and fiscal policies and renewed efforts to enforce foreign exchange restrictions have had limited impacts on restoring macroeconomic stability. The Lao kip continued to depreciate (albeit more mildly since October), while inflation remained high. Limited foreign exchange liquidity and hence a weaker kip have put pressure on external public debt servicing, which constrains fiscal space and exacerbates financial sector vulnerabilities. Sizeable debt service deferrals during 2020-2023 have provided temporary relief, but access to international capital markets remains constrained. Public and publicly guaranteed debt (PPG) reached 112 percent of GDP in 2022, mostly due to the large currency depreciation. This value rises to over 120 percent if a currency swap and expenditure arrears are included. External debt service deferrals accumulated to 16 percent of GDP in 2023. Average annual external debt repayment obligations remain at \$1.3 billion (9 percent of GDP) in the medium term. Therefore, a positive outcome from ongoing debt renegotiations with large bilateral creditors is crucial to restoring debt sustainability and economic growth.

Recent developments

Economic activity grew at 3.7 percent in 2023, benefiting from the services sector recovery. Increased tourism, transport and logistics services, mining, and foreign investment supported growth, while electricity generation was weighed down by weather conditions.

Persistent depreciation reflects foreign exchange liquidity constraints. In 2023, the central bank tightened monetary policy, closed foreign exchange bureaus, and started to enforce the repatriation of export receipts. Despite these measures, the Lao kip still depreciated by 23 percent against the US dollar during January 2023–February 2024, with the parallel market premium reaching 11 percent. This factor feeds into high inflation, which remained at 25 percent in February 2024, while core inflation reached 26 percent. Food and transport price increases were the key drivers.

The fiscal deficit remained at 0.2 percent of GDP in 2023, owing to stronger revenue collection, while public spending slightly increased. Domestic revenue recovered, supported by price and exchange rate effects, higher resources tax, fees, value added tax (tax base expansion and price effect). Excise revenue was stable (as a share of GDP), as higher volume sales, price increases, and some rate increases were offset by lower fuel excise rates. Public spending rose slightly as higher capital spending and transfers more than offset a decline in

FIGURE 1 Lao PDR / Real GDP growth and contributions to real GDP growth

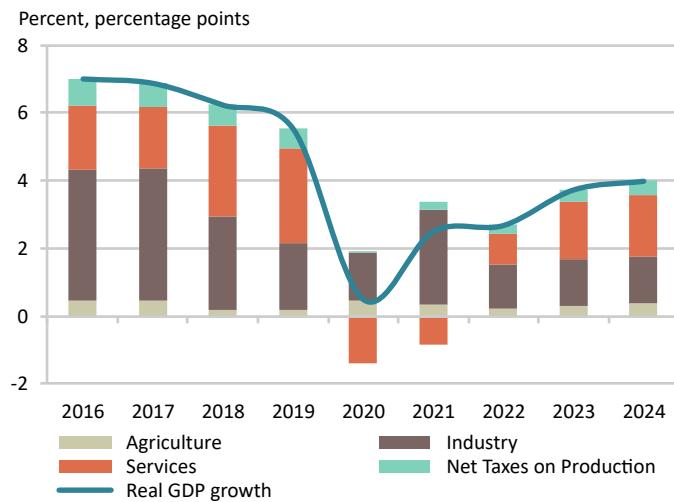
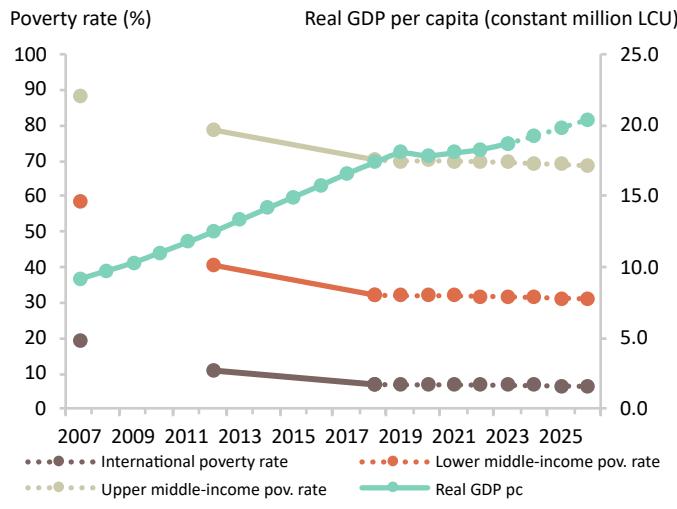


FIGURE 2 Lao PDR / Actual and projected poverty rates and real GDP per capita



Sources: Lao Statistics Bureau and World Bank staff estimates.

Source: World Bank. Notes: see Table 2.

wages. Interest payments remained stable (as a share of GDP), supported by the deferrals.

The current account deficit narrowed in 2023, supported by strong services exports and lower primary income outflows. Foreign investment recovered strongly, supported by investment in the resource sectors. Gross foreign reserves were reported at \$1.8 billion in October 2023. Excluding the \$900 million swap arrangement, net reserves is estimated to cover only 1.2 months of imports.

Employment improved in 2023. High inflation and a sharp currency depreciation disproportionately affected wage employment and non-farm businesses, incentivising workers to switch from non-tradable service sectors to agriculture and manufacturing. These shifts, coupled with increasing migration for higher wages, have caused labour shortages in labour-intensive sectors. One-third of households saw their income stagnate or decline in 2023 and therefore were severely hit by the rising cost of living. Food inflation stood high at 25 percent in February 2024, forcing households to reduce food consumption and switch to cheaper food. Progress in poverty reduction stalled, with the poverty rate (measured at the lower-middle-income poverty line of \$3.65 a day 2017 PPP) estimated to stagnate at around 32 percent in 2023.

Outlook

Real GDP is projected to grow by 4 percent in 2024, led by a continued service sector recovery. This outlook assumes continued suspension of deferred debt service repayments. Inflation is expected to remain above 20 percent, reflecting continued depreciation pressure. Macroeconomic stability is contingent on critical revenue reforms and a successful conclusion of ongoing debt negotiations.

Elevated debt service levels will continue to constrain fiscal space. Revenue is expected to gradually increase with tax policy and administration improvements, but high-interest obligations, if fully paid, would crowd out other expenditures. The outlook assumes a primary surplus in the next few years, but no further deferrals in 2024 onward. As a consequence, the fiscal deficit is expected to increase, reflecting full interest payments. External debt service obligations average \$1.3 billion per year during 2024-2027, keeping total public financing needs high.

The current account deficit is expected to remain at around 3 percent, as improvements in tourism, transport, and logistics services, and remittances are offset by higher import and interest payments. Despite the repatriation requirement of export proceeds, reserve adequacy, net of the

swap, is expected to remain thin (covering less than two months of imports).

The outlook is subject to significant domestic and external uncertainty. Limited foreign reserves, high public debt, and higher imports will continue to pressure the kip and thus inflation, undermining household consumption and investments in human capital. Labour shortages could also threaten labour-intensive sector growth. Subdued global and regional economic growth would weaken external demand. Domestic risks include tight foreign exchange liquidity to refinance external debt, slow progress with structural reforms, and deteriorating balance sheets in large banks. The outcome of ongoing debt negotiations will have significant implications for both debt sustainability and macroeconomic stability.

High inflation will continue to affect real household income. Macroeconomic instability will undermine the poverty outlook. Despite the moderate growth, the poverty rate is expected to remain steady in 2024. Meanwhile, a contraction in human capital spending will likely compromise prospects for poverty reduction in the long term.

Addressing macroeconomic instability requires five critical reforms: (i) restoring the VAT rate to 10 percent, curbing tax exemptions, and reforming health taxes; (ii) improving the governance of public and public-private investments; (iii) finalising debt negotiations; (iv) strengthening financial sector stability; and (v) improving the business environment.

TABLE 2 Lao PDR / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	2.5	2.7	3.7	4.0	4.1	4.1
Real GDP growth, at constant factor prices	2.5	2.7	3.7	4.0	4.1	4.1
Agriculture	2.3	1.6	2.4	2.7	3.1	3.1
Industry	7.6	3.3	2.6	3.6	3.4	3.3
Services	-2.2	2.5	5.5	4.9	5.2	5.3
Inflation (consumer price index)	3.8	22.7	31.2	21.2	15.3	6.9
Current account balance (% of GDP)	-2.9	-1.7	-1.3	-2.9	-3.5	-3.8
Fiscal balance (% of GDP)	-1.3	-0.2	-0.2	-1.4	-1.5	-1.6
Revenues (% of GDP)	14.9	14.7	14.9	15.2	15.3	15.4
Debt (% of GDP)	77.9	95.9	95.2	94.7	94.1	93.7
Primary balance (% of GDP)	0.0	1.5	1.7	1.3	1.3	1.1
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	7.0	6.9	6.8	6.7	6.6	6.5
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	32.0	31.9	31.7	31.4	31.1	30.8
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	70.0	69.9	69.6	69.3	69.0	68.7
GHG emissions growth (mtCO2e)	5.0	3.7	4.6	4.7	5.2	5.3
Energy related GHG emissions (% of total)	41.4	42.4	43.5	44.6	45.6	46.6

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

Notes: e = estimate, f = forecast.

a/ Calculations based on EAPPOV harmonization, using 2012-LECS and 2018-LECS. Actual data: 2018. Nowcast: 2019-2023. Forecasts are from 2024 to 2026.

b/ Projection using annualized elasticity (2012-2018) with pass-through = 0.5 based on GDP per capita in constant LCU.