

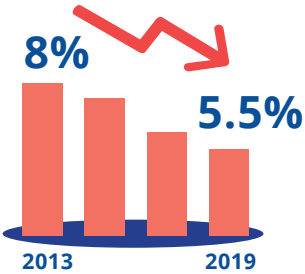


Public Finance Review: Lao PDR

Macroeconomic Performance

Findings

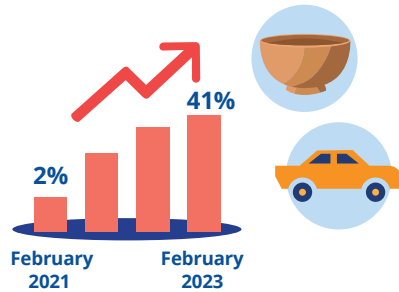
Economic **growth** was **slowing** before Covid-19 because the growth model was not sustainable.



External **shocks** have worsened pre-existing economic **imbalances**.



Inflation has **increased**, mostly due to kip **depreciation**.



High public **debt** and low **revenue** are weakening the **kip**.



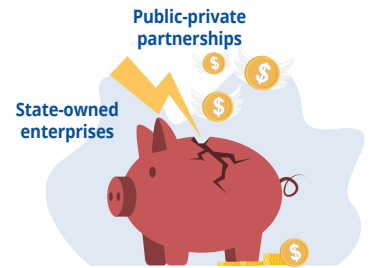
9,700 kip/USD

22,000 kip/USD

September 2021

September 2023

Fiscal risks intensify macroeconomic **vulnerabilities**.



Recommendations

Negotiate a credible and transparent debt **restructuring** plan.



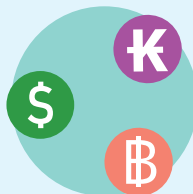
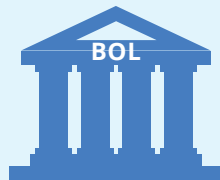
Increase **revenue** collection, improve **spending** efficiency, and reduce fiscal **risks**.



Develop a medium-term fiscal **framework** and revise the **Law** on Public Debt Management.



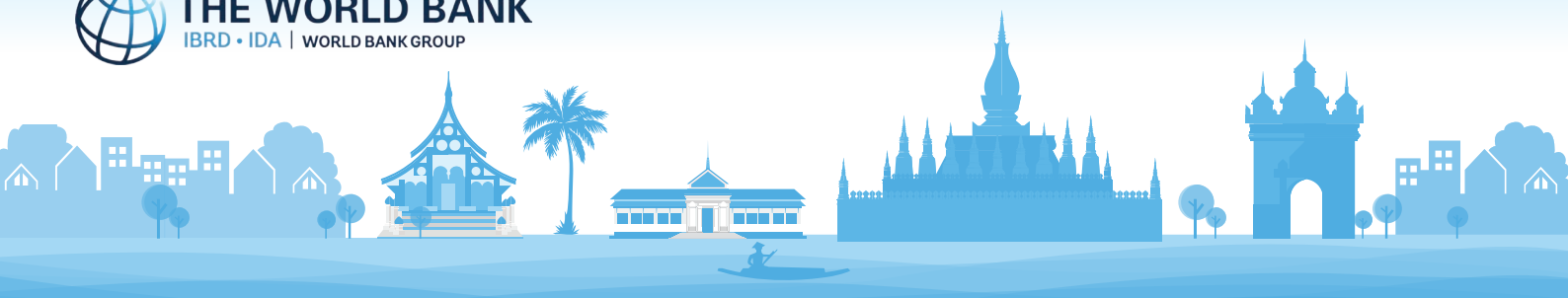
Adopt supportive **monetary** and **exchange rate** policies.



Enhance **bank** monitoring and operationalize emergency arrangements.



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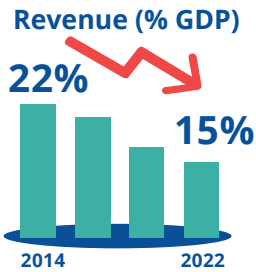


Public Finance Review: Lao PDR

Revenue Mobilisation

Findings

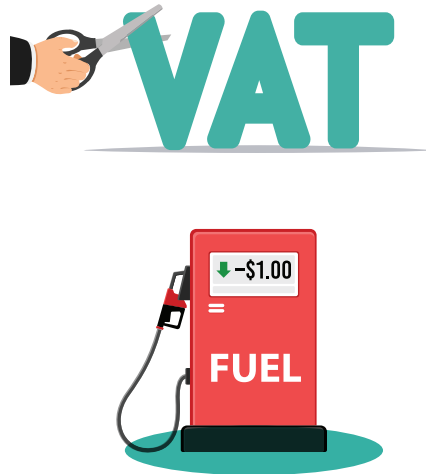
Revenue has **declined**, leading to spending cuts to avoid large deficits.



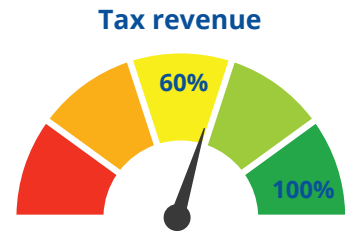
Generous tax **incentives** have led to large revenue losses.



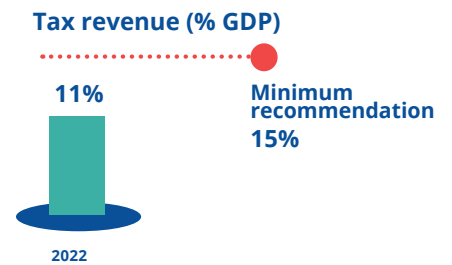
Recent tax cuts have further undermined revenue.



Low tax **rates**, narrow tax **base**, and low **compliance** weaken tax revenue.



Tax revenue is below **global benchmarks** to support growth.



Recommendations

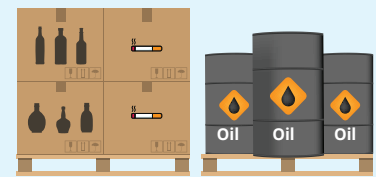
Restore **VAT** rate to 10 percent.



Revise the Law on Investment Promotion to reduce tax **incentives**.



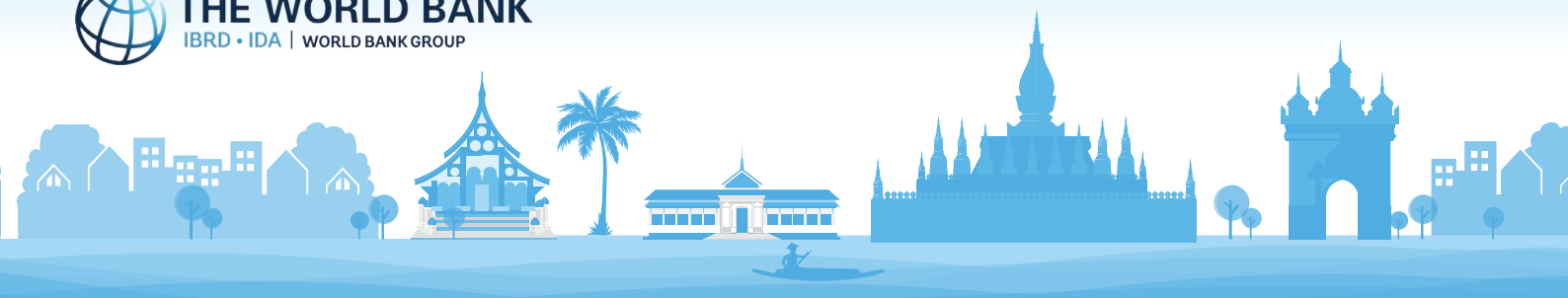
Reform **excise** tax structures and increase rates (particularly on beverages, tobacco, and fuel).



Reform **land tax** and prepare the introduction of a **property tax**.



Strengthen **compliance risk management** by focusing on large taxpayers.





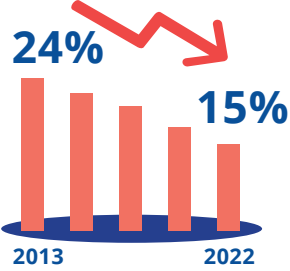
Public Finance Review: Lao PDR

Public Expenditure

Findings

Spending has **declined**, affecting public service delivery (quantity and quality).

Spending (% GDP)



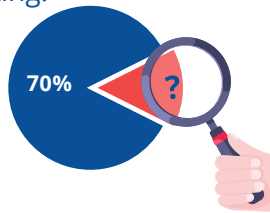
Growing debt **service** payments reduce fiscal space for critical spending.



Public financial **management** challenges compound fiscal pressures.

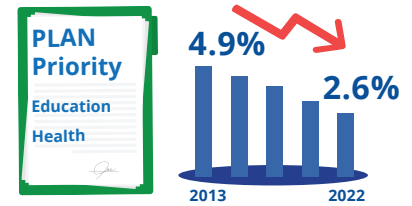


Lack of comprehensive **reporting** undermines transparency and policymaking.



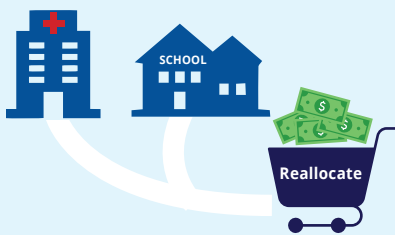
Budgets not aligned to stated **priorities** (especially education and health).

SOCIAL SPENDING (% GDP)



Recommendations

Reallocate spending toward **education, health, and social protection** (to avoid a collapse in human capital).



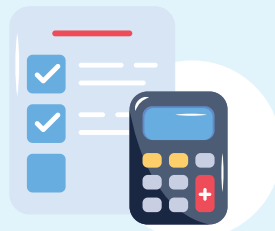
Strengthen **spending controls** (to avoid the accumulation of further expenditure arrears).



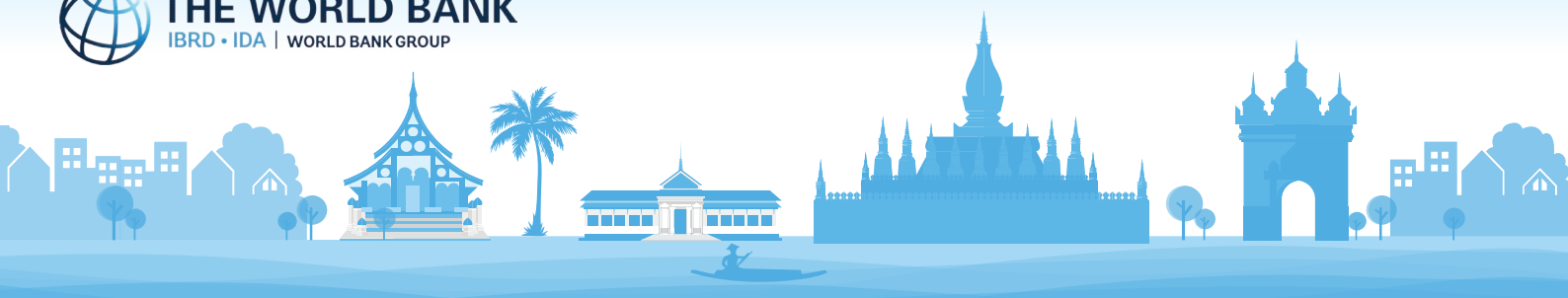
Report **data** for all spending units (to increase budget transparency and accountability).



Enhance budget **preparation** and **execution** (with a focus on procurement and public investment management).



Improve **human resource** planning (to enhance the effectiveness of the civil service).





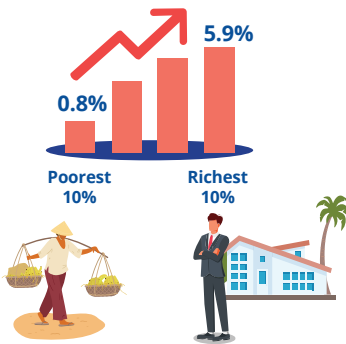
Fiscal Incidence Analysis: Lao PDR

Who pays? Who benefits?

Findings

Better-off households bear **larger VAT and excise tax burdens** than poorer households.

VAT BURDEN (% OF INCOME)



Poorer households benefit more from social spending (**public health and education**).



70% of **VAT revenue** is paid by the **richest 20%**.

58% of **excise tax revenue** is paid by the **richest 10%**.

For the **poorest 10%**, **health and education benefit** represents 21% of their income.



VAT cut has disproportionately benefited better-off households.

Decline in social spending has hurt poor households the most.

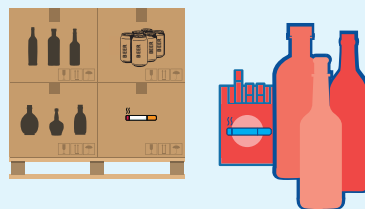


Recommendations

Restore VAT to 10% to increase revenue and reduce inequality (with small burden imposed on poor households).



Raise health taxes to increase revenue (with low immediate impact on poverty and inequality), and to reduce long-term healthcare burden and inequality as consumers adjust their behavior.



Tax and spend to increase revenue, reduce poverty, reduce inequality, and boost human capital.

