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.

Fiscal risks intensify macroeconomic vulnerabilities.

### Findings

![Graph showing economic growth](#)

- **2013:** 8%
- **2019:** 5.5%

![Graph showing inflation](#)

- **February 2021:** 2%
- **February 2023:** 41%

![Graph showing public debt and revenue](#)

- **2021:** 9,700 kip/USD
- **2023:** 22,000 kip/USD

### 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.**
Revenue has declined, leading to spending cuts to avoid large deficits. Recent tax cuts have further undermined revenue. Low tax rates, narrow tax base, and low compliance weaken tax revenue.

Generous tax incentives have led to large revenue losses. Tax revenue is below global benchmarks to support growth.

Revenue (% GDP)

2014 22%
2022 15%

Tax revenue (% GDP)

2022

11%

Minimum recommendation 15%

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 Revenue Mobilisation
Public Finance Review: Lao PDR

Public Expenditure

Findings

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

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).

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).

Spending (% GDP)

24% 15%

2013 2022

Social Spending (% GDP)

4.9% 2.6%

2013 2022
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)
  - Poorest 10%: 0.8%
  - Richest 10%: 5.9%

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.

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