

# Lao PDR Economic Monitor April 2024

## Accelerating Reforms for Growth



Launch of  
Lao PDR Economic Monitor April 2024  
Crowne Plaza, 30 April 2024

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## Outline

### Part A. Recent Economic Developments and Outlook

- Recent Developments in the Lao PDR
- Outlook and Risks
- Policy Recommendations

### Part B. Education for Growth and Development



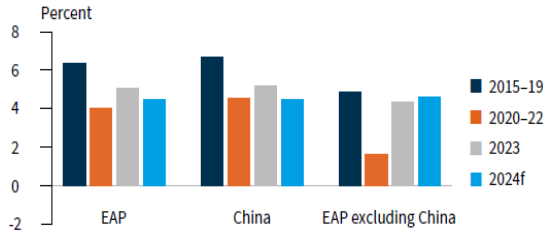
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## Economic growth remains subdued, mainly owing to protracted macroeconomic instability

Regional growth was favorable in 2023, but will likely ease in 2024

Regional GDP growth

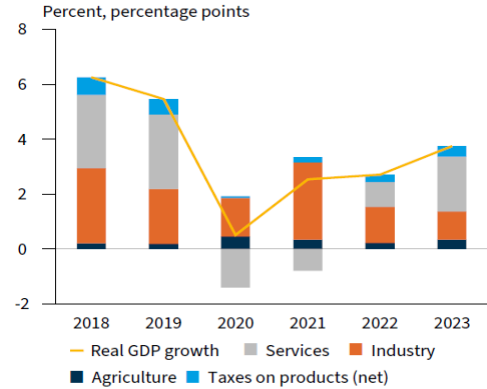


Source: World Bank EAP Economic Update April 2022. Legend  
 Note: EAP: East Asia Pacific; EMDE: emerging markets and developing economies



GDP growth in Laos is estimated at 3.7% for 2023, significantly below 2019 level

Real GDP growth

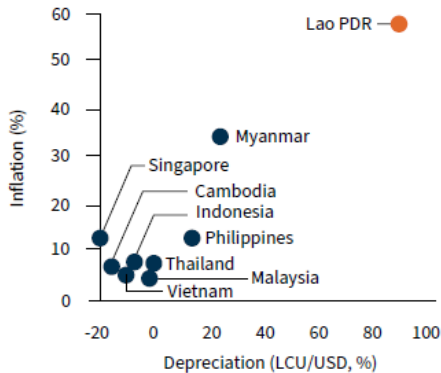


Sources: Lao Statistics Bureau and World Bank staff estimates.

## Persistent depreciation resulted in high inflation

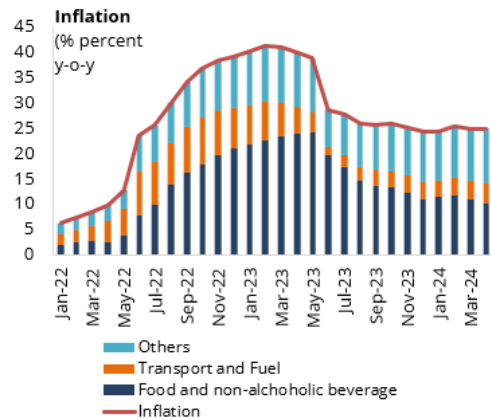
High depreciation and inflation levels in Laos are due to domestic factors

Cumulative depreciation and inflation (2021-23)



Sources: Lao Statistics Bureau and, International Monetary Fund International Financial Statistics IMF IFS (August 2023)

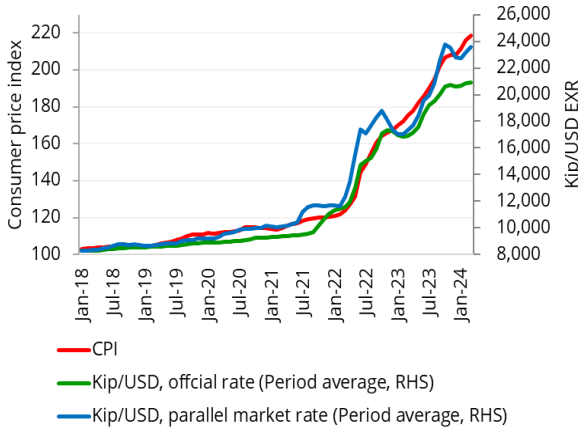
Main contributors to high inflation: food, transport, and hotel and restaurant prices



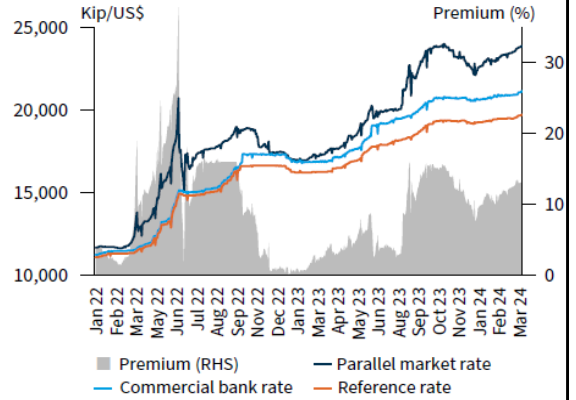
Source: Lao Statistics Bureau

## Persistent depreciation resulted in high inflation

**Stronger kip depreciation leads to higher inflation**



**Exchange rate seasonality correlated with debt service payments**

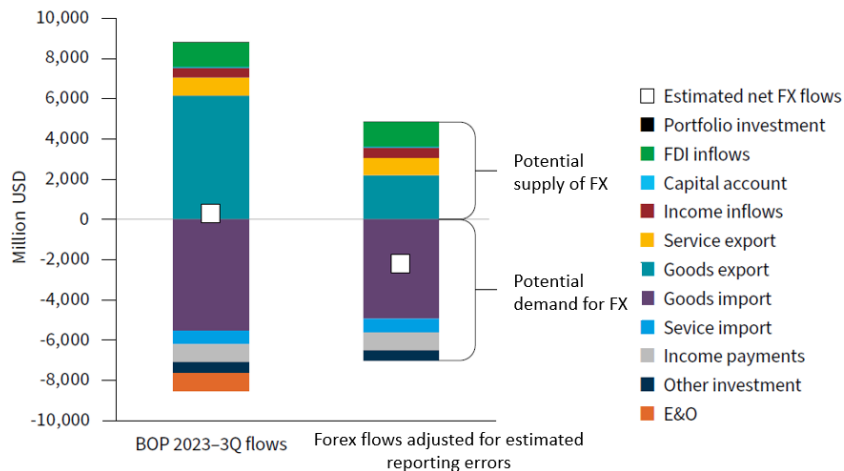


Source: World Bank staff calculation based on Bank of the Lao PDR data.

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## Persistent depreciation pressures result from limited foreign exchange liquidity

**Indicative scenario of potential foreign exchange supply-demand imbalances on balance of payments by end of Q3 2023**



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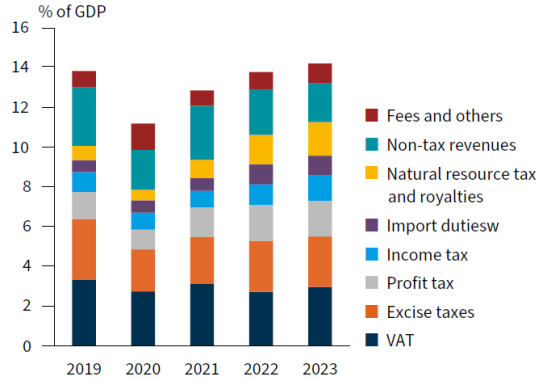
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# Fiscal developments: both revenue collection and expenditures increased in 2023

Improved revenues owing to more economic activity, tax base, inflation and exchange rate

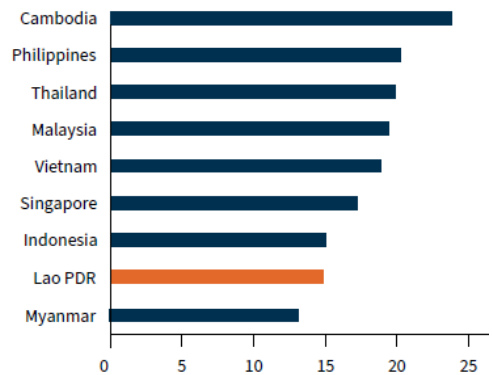
However, total revenues were still low compared to regional peers

Domestic revenues



Source: Ministry of Finance, World Bank staff estimate

Total revenues (% of GDP in 2022)



Source: International Monetary Fund, Fiscal Monitor October 2023.

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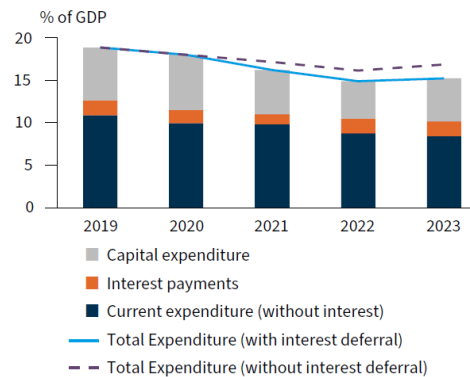
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# Both revenue collection and expenditures increased in 2023

Expenditure rose slightly due to capital spending

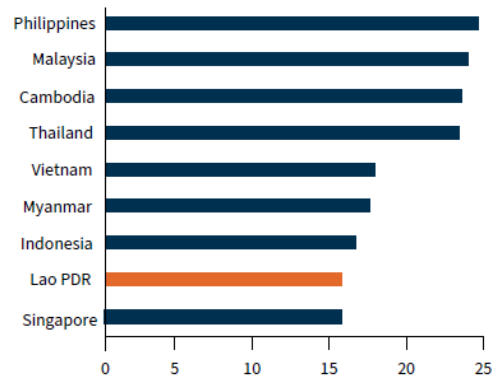
Expenditure were low compared to regional peers

Total expenditure



Source: Ministry of Finance, World Bank staff estimate.

Expenditure (% of GDP in 2022)



Source: International Monetary Fund, Fiscal Monitor October 2023.

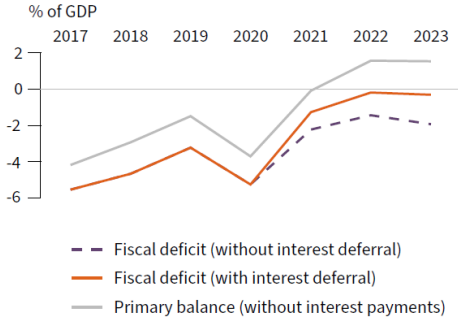
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# The fiscal deficit was low, but debt repayments kept financing needs high despite deferrals

The fiscal deficit remained at an estimated 0.2 percent of GDP in 2023

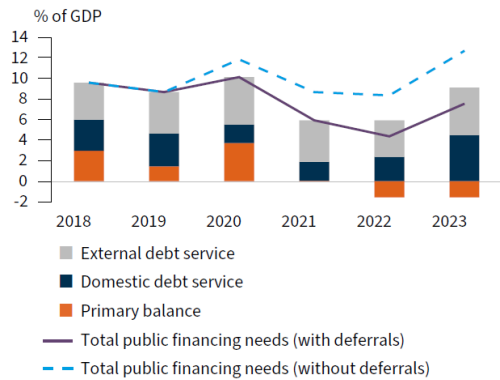
Fiscal performance



Source: Ministry of Finance, World Bank staff estimate

But financing needs in 2023 were higher as debt repayment exceeded primary surplus

Total public financing needs



Source: Ministry of Finance, World Bank staff estimate

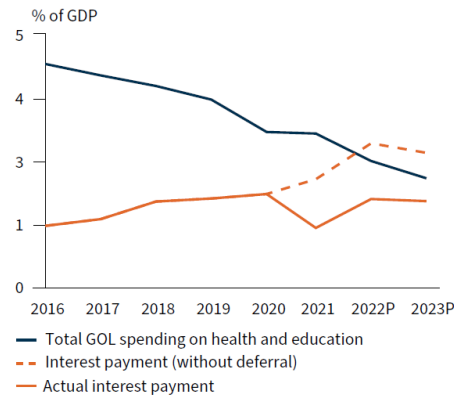
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# Declining investment in human capital

Public spending on human capital has continued to decline

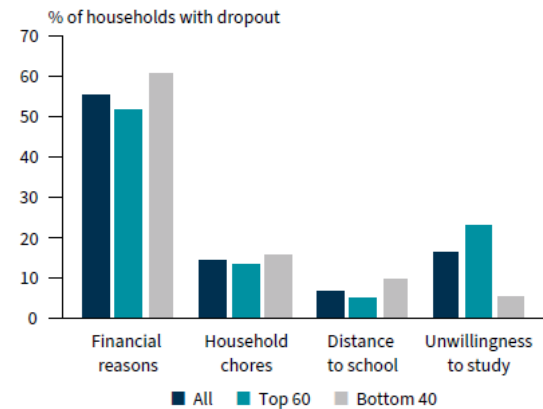
Human capital spending



Source: Ministry of Finance and World Bank staff calculations.

Households' financial difficulties contribute to rising school dropouts

Reasons for school dropout



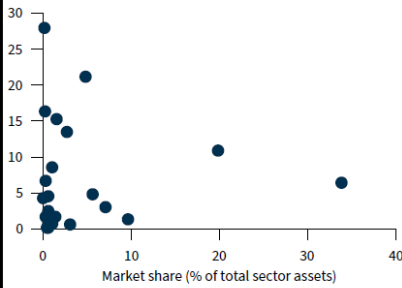
Source: World Bank rapid phone survey January–February 2024

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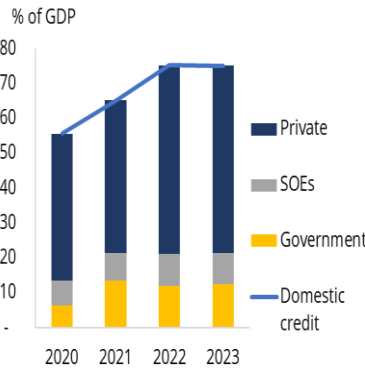
# Forbearance and rising exposure to public sector borrowing increases financial sector vulnerabilities

**Accrued interest to loans ratios**  
(Each dot represents a different bank, percent)

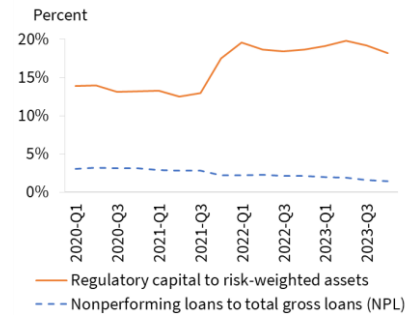


Source: World Bank staff calculations based on bank financial reports as of Q3-2023.  
Note: Each dot represents a different bank and percent.

**Exposure to public sector borrowing**



**Financial soundness indicators**



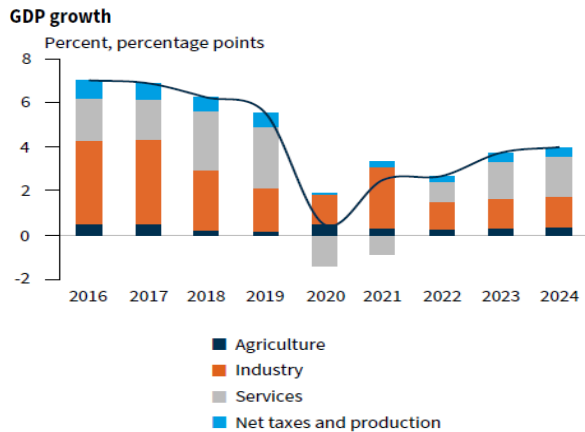
## Outlook and Risks

- **East Asia and Pacific** (include China) growth is forecast to ease to 4.5% in 2024, reflecting more moderate growth in China
- EAP growth (exclude China) to pick up by 4.6%, due to anticipated recovery of global trade and easing financial conditions
- EAP economies affected by both
  - **external** factors (slowing global growth, tight financial conditions, and more trade protectionism)
  - **domestic** factors (high public and private debt, tight macroeconomic policies, and rising political and policy uncertainty).
- **Laos' key trade partners**
  - **China** growth to slow, owing to high debt levels, property sector weaknesses, and longer-term structural factors (e.g., ageing).
  - **Thailand** and **Vietnam** growth to accelerate

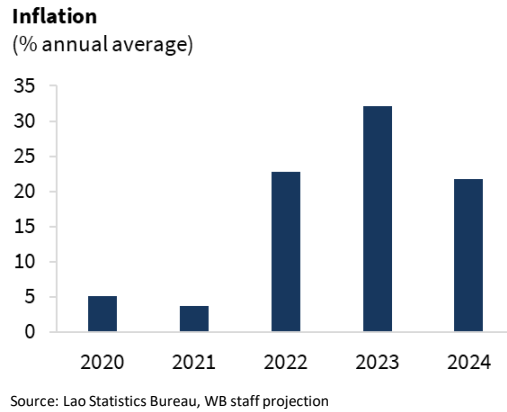
	2015-19	2020	2021	2022	2023	2024
<b>EAP</b>	6.4	1.3	7.5	3.4	5.1	4.5
<b>EAP (excl China)</b>	4.9	-3.5	2.7	5.8	4.4	4.6
<b>China</b>	6.7	2.2	8.4	3	5.2	4.5
<b>Thailand</b>	3.4	-6.1	1.6	2.5	1.9	2.8
<b>Vietnam</b>	7.1	2.9	2.6	8.1	5.0	5.5

# Outlook and Risks

**Growth potential is constrained by structural challenges**



**Annual inflation is expected to remain high due to persistent depreciation**

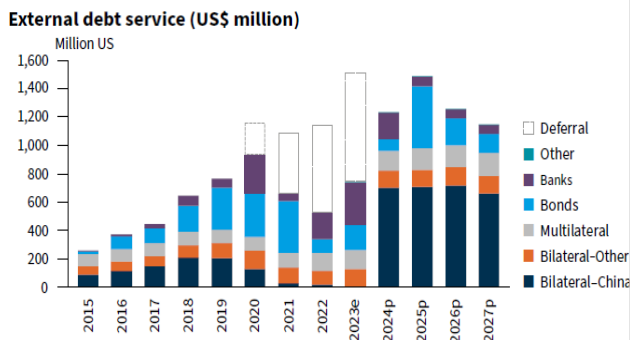


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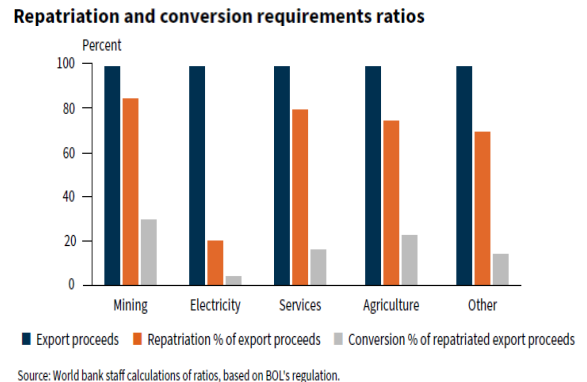
# Outlook is dependent on debt renegotiation outcome

**External debt service obligations are very high in the absence of further deferrals**



*Note: The outlook assumes no new debt service deferrals in 2024 and beyond, while deferrals accumulated during 2020–2023 would continue to be deferred.*

**Recent administrative measures may bring forex in short-term, but not address underlying structural imbalances**



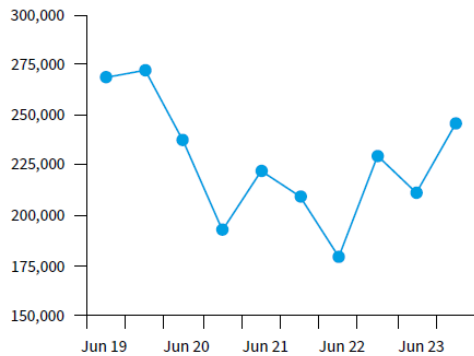
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## Structural challenges (Labor market)

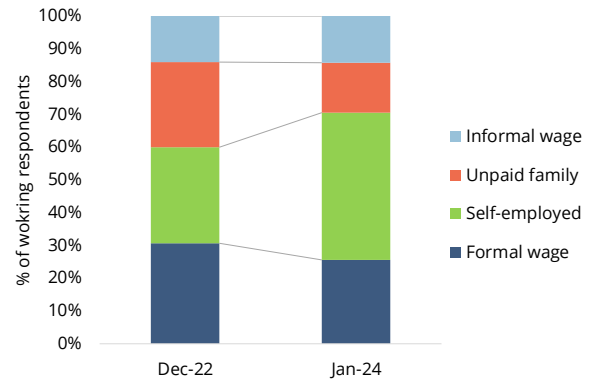
### Economic difficulties are pushing people to move abroad

Registered Lao workers in Thailand



Source: Ministry of Labour, Government of Thailand

### More people are becoming self-employed



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## Risks

The outlook is subject to significant domestic and external **uncertainty**:

- The outcome of ongoing **debt negotiations** will have significant implications for both debt sustainability and macroeconomic stability (high debt service obligations and accumulated deferrals).
- **External** risks include subdued global and regional economic growth (which would weaken external demand), a stronger US dollar, and commodity price shocks.
- **Domestic** risks include tight foreign exchange liquidity to refinance external debt, labor shortages, deteriorating balance sheets in large banks, and slow progress with structural reforms.

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## Policy Recommendations

### Public debt management

- Expedite ongoing debt renegotiations and strengthen public debt management
- Assess and manage contingent liabilities

### Revenue mobilization

- Implement the return of the value-added tax (VAT) rate to 10 percent and reduce VAT exemptions
- Review tax incentives and eliminate exemptions (Revised Investment Promotion Law)
- Reform excise tax structures and rates

### Public expenditure

- Reprioritize spending toward the social sectors

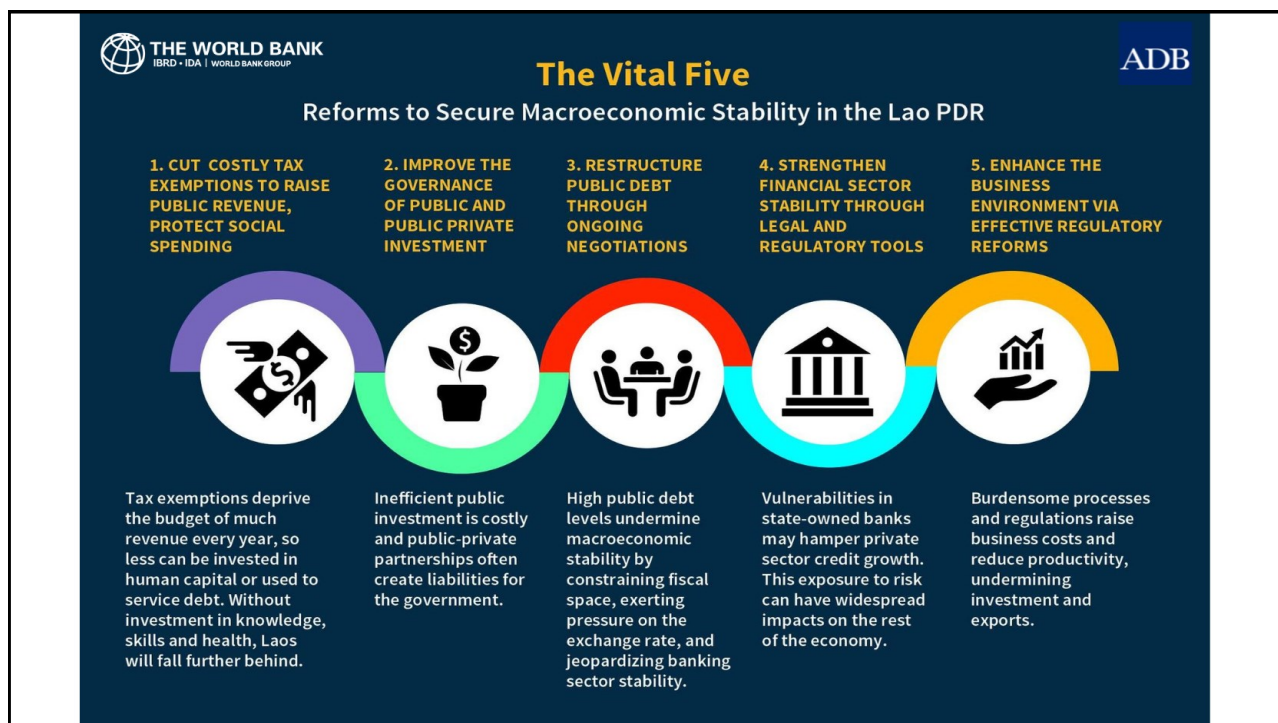
### Financial sector

- Enhance bank supervision and employ an early warning system
- Operationalize emergency arrangements
- Strengthening the deposit protection fund

### Private sector

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

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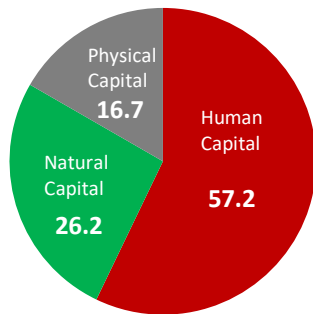
# Thematic Chapter

## Education for Growth and Development



### Lao's economic growth is at risk because of low human capital

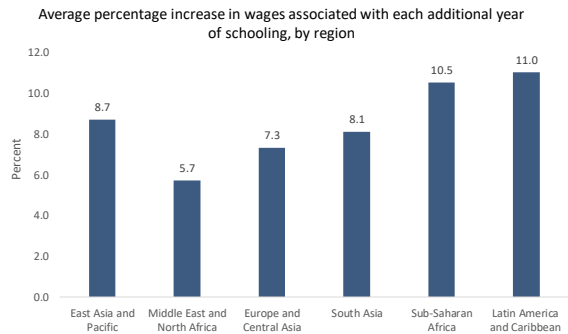
Human capital is the largest asset group across all income groups and countries



Source: The Changing Wealth of Nations 2021. Managing Assets for the Future. World Bank.



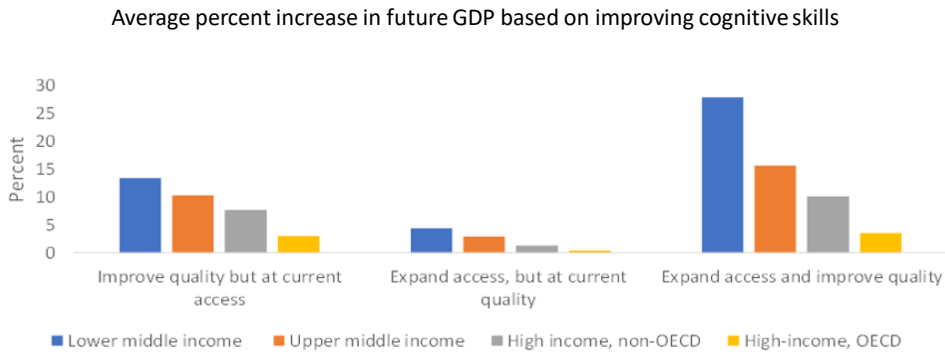
Education is consistently associated with higher wages



Source: Psacharopoulos, G., Patrinos, H.A. 2018. Returns to investment in education: A decennial review of the global literature. Policy Research Working Paper 8402. World Bank Group.



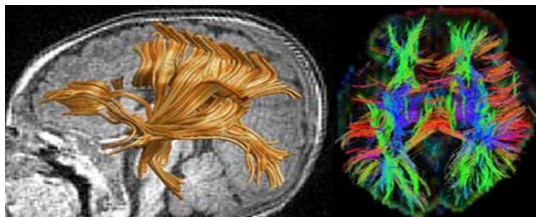
## Increasing education quality and basic skills is especially important for growth



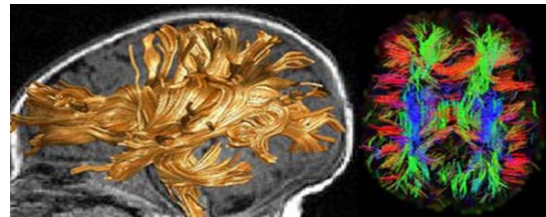
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## The acquisition of skills begins early. Foundational skills are critical

Infant exposed to high deprivation



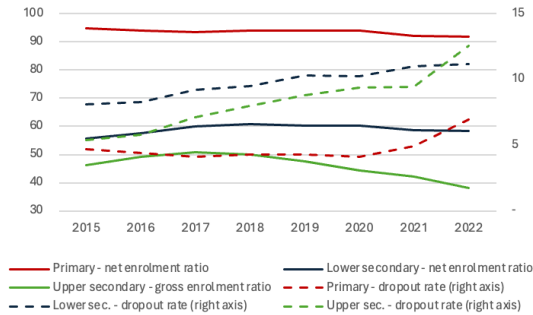
Non-deprived infant



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# Primary education is no longer universal in Laos

## Enrolment rates are falling as drop-out rates increase

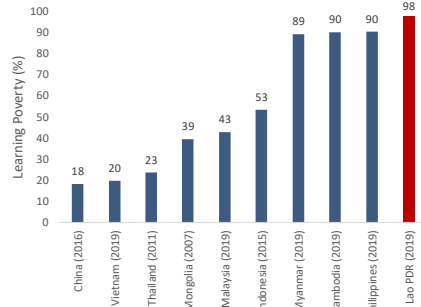


Sources: World Bank staff estimates based on Lao Annual School Census, UN Population Data, and UNESCO UIS.



## Lao students have low foundational skills

Percentage of 10-year olds who cannot read proficiently

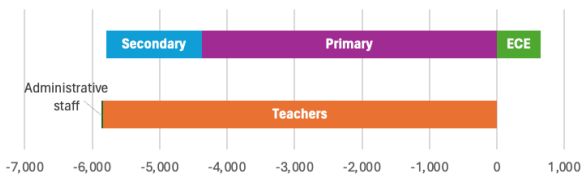


Source: World Bank 2023. Fixing the Foundation. World Bank. Washington DC.

# A key challenge in Laos pertains to teacher availability and quality

## Teacher numbers have been shrinking

Change in civil service positions between 2015-16 and 2022-23

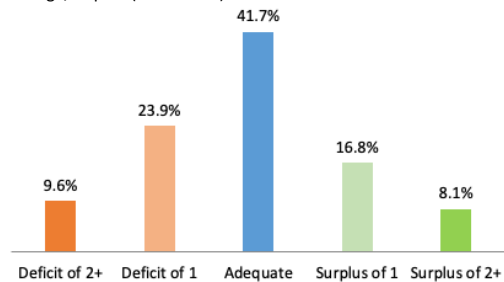


Sources: Ministry of Education and Sport Annual School Census and Department of Organization and Personnel civil service data.



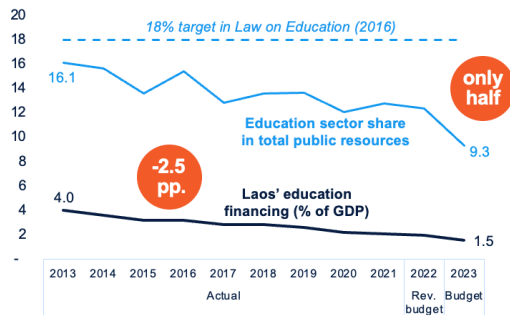
## A considerable imbalance in teacher allocation

Proportion of primary school teachers with adequate teachers versus shortage/surplus (2022-2023)



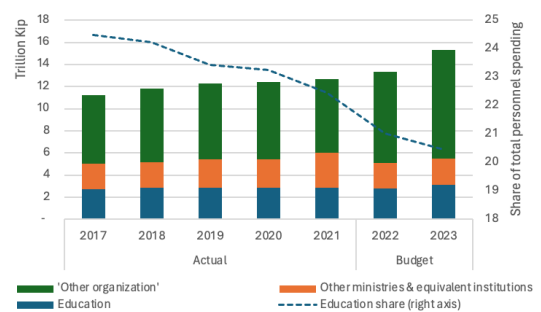
## Adequate financing is essential for schools to hire the teachers they need in Laos

### Public education spending in Laos has been declining



Sources: State budgets, state budget implementation reports, World Bank staff estimates.

### The share of education in personnel spending has fallen dramatically



Sources: State Budgets, State Budget Implementation Reports, World Bank staff estimates

## Policy recommendations

### Increase budgetary allocation to education

- Prioritize education in the state budget plan
- Undertake economic, fiscal and PFM reforms to improve domestic resource mobilization
- Protect the teaching workforce from civil servant cuts

### Balance the allocation of teachers across education levels and schools

- New staff quotas should be allocated to teaching positions
- Prioritize positions in disadvantaged districts
- Fill vacant positions by redeploying within districts

### Invest systematically in evidence-based in-service teacher training

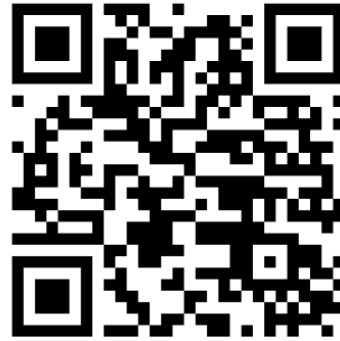
- 4Cs: Content, Colleagues, Continuous, Career
- Greater understanding of teacher constraints: Make reforms Clear, Doable and Rewarding

# LAO PDR ECONOMIC MONITOR

Accelerating Reforms for Growth

**Thematic Section:**  
Education for growth  
and development

April 2024  
Macroeconomics, Trade and Investment  
Global Practice  
East Asia and Pacific Region



<https://www.worldbank.org/en/country/lao/publication/lao-economic-monitor-april-2024-accelerating-reforms-for-growth-key-findings>