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Monitoring of countries graduating and  
graduated from the list of LDC category:  
Lao People's Democratic Republic

**SUSTAINABLE  
DEVELOPMENT**  **GOALS**

## Contents

Summary .....	2
Macroeconomic situation .....	2
LDC criteria and supplementary indicators.....	3
Productive Capacity .....	4
Data gap .....	5
Smooth transition, national plan and country specific factors.....	5
Annex 1. Heatmap extract of the supplementary graduation indicators (SGIs) for LDCs and former LDCs (2022 or most recent year) .....	8

## Summary

Lao PDR had robust economic growth, averaging over 6% per annum over 2015-2019, but the growth slowed down significantly due to the COVID-19 pandemic. The negative impacts of the COVID-19 added additional difficulties for the country to maintain macroeconomic stability and manage the national debt – around 70% of GDP, owing to high volume of loans contracted for large scale infrastructure projects. The country has limited fiscal space to maintain macroeconomic stability, and to achieve recovery from the COVID-19 at the same time.

The Government of Lao PDR presented a strong commitment on graduation and has established the consultative mechanism with trading and development partners, while drafting the STS. The CDP suggests Lao PDR to include concrete plans and activities in the STS to reduce macroeconomic instability and achieve long term growth towards the SDGs. The CDP also recommends ECOSOC to call for international community to continue providing technical and financial assistance to Lao PDR, particularly, on debt sustainability, to enable the country securing resources to recover from the impacts of the COVID-19 pandemic.

## Macroeconomic situation

Lao PDR's GDP continued to grow by 4.7-7.3 per cent per annum during 2015-2019. The economy, however, was hit by the COVID-19 pandemic in 2020. GDP growth rate fell to 3.3 per cent, as estimated by DESA and Lao government<sup>1</sup>, whereas the IMF estimated a much larger contraction by 0.4 per cent.<sup>2</sup> The government balance declined by 5.5 per cent of GDP in 2020, and it is likely that this trend will continue until 2023. The tax to GDP ratio of Lao PDR is 10.8 per cent (2019).<sup>3</sup>

Lao PDR is encountering development challenges, mainly due to its fiscal vulnerability. The country has a debt to GDP ratio of 68.2 per cent,<sup>4</sup> owing to the high volume of loans contracted for large scale infrastructure projects. The sovereign default risk also remains high. Laos' credit rating was downgraded to "CCC" in 2020, which remained the same in 2021.<sup>5</sup> The authorities decided to pursue fiscal consolidation to address heavy debt burden. As repayments are scheduled in 2022 (\$861 million) and 2023 (\$854 million), it is anticipated that China, which constitutes 42% of public and publicly guaranteed debt (PPG), will partially delay its repayments.

The real GDP growth in 2022 is forecast to be 4.2 per cent.<sup>6</sup> The recovery may be underpinned by private consumption and increasing exports.<sup>7</sup> In particular, Laos-China railway launched in December 2021 and electricity exports will contribute to economic growth. Additionally, Lao PDR is expected to attract industries in search of low-cost labour-intensive manufacturing. Though, tourism, which accounted for most of its service export, will remain below pre-pandemic level until 2024.

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<sup>1</sup> UN DESA (2022). World Economic Situation and Prospects; Bank of the Lao PDR (2020), Annual Economic Report.

<sup>2</sup> IMF (2021). World Economic Outlook, accessed 31 January 2022.

<sup>3</sup> CEIC. Laos Tax Revenue: % of GDP, retrieved from <https://www.ceicdata.com/en/indicator/laos/tax-revenue--of-gdp>

<sup>4</sup> Statista. Laos: National debt in relation to GDP from 2016 to 2026, retrieved from <https://www.statista.com/statistics/804959/national-debt-of-laos-in-relation-to-gross-domestic-product-gdp/>

<sup>5</sup> Fitch Ratings. Fitch Affirms Laos at 'CCC,' retrieved from <https://www.fitchratings.com/research/sovereigns/fitch-affirms-laos-at-ccc-09-08-2021>

<sup>6</sup> UN DESA, World Economic Situation and Prospects, 2022.

<sup>7</sup> Economic Intelligence Unit (2021). Lao PDR country report, accessed 4 January 2022.

Table 1. Selected macroeconomic data for Lao PDR, 2015-2020

Indicator	2015	2016	2017	2018	2019	2020
GDP growth rate (per cent, constant price)	7.3	7.0	6.9	6.2	5.5	3.3
Inflation rate (%)	1.3	1.6	0.8	2.0	3.3	5.1
Government revenue (billions of national currency)	23,699	20,716	22,615	24,758	25,144	21,781
Government expenditure (billions of national currency)	30,230	26,990	30,339	31,866	32,300	31,193
Government balance (billions of national currency)	-6531.34	-6273.67	-7723.56	-7107.39	-7156.64	-9,413
Government balance (per cent of GDP)	-5.6	-4.9	-5.5	-4.7	-4.4	-5.5
Net ODA received (millions of US dollars)	471.09	399.46	480.36	588.67	621.53	
Balance of Payments (millions of US dollars)						
Current Account	-2,267.6	-1,384.7	-1,259.8	-1,648.9	-1,319.6	-115.2
Goods, Credit (Exports)	3,653.3	4,244.8	4,873.2	5,407.8	5,805.9	6,115
Goods, Debit (Imports)	5,675.3	5,372.4	5,667.3	6,314.6	6,271.9	5,370
Balance on Goods	-2,022.0	-1,127.6	-794.2	-906.8	-466.0	745
Services, Credit (Exports)	844.1	834.9	780.6	985.4	1,179.2	346
Services, Debit (Imports)	1,078.5	1,022.4	1,116.4	1,249.4	1,246.3	445
Balance on services	-234.4	-187.6	-335.8	-264.0	-67.0	-99
Balance on Goods and Services	-2,256.4	-1,315.2	-1,130.0	-1,170.8	-533.0	645
Balance on income	-232.1	-324.7	-446.4	-785.7	-1,084.5	-1,012
Balance on current transfers	220.9	255.1	316.6	307.6	297.9	251.9
Capital Account	35.9	22.0	21.8	12.5	14.9	12.6
Financial Account	-2,747.6	-2,705.3	-1,962.2	-2,335.0	-1,819.4	-845
Direct investment (net)	-1,038.1	-920.1	-1,683.4	-1,358.0	-755.5	-967.7
Portfolio investment (net)	-537.8	-513.9	-326.1	-521.9	41.3	256.5
Financial derivatives (other than reserves) and employee stock options	...	...	0.0	0.0	0.0	0.0
Other investment (net)	-1,346.4	-1,102.5	-167.5	-313.6	-1,229.6	-453.2
Reserve assets	174.6	-168.8	214.7	-141.5	124.5	319.2
Reserves (months of imports)	1.8	1.6	1.8	1.4	1.5	2.4

Source: GDP growth and inflation are from UN DESA, WESP, Government balance is from IMF, World Economic Outlook Database. Net ODA is from OECD, OECD.Stat. All external sector indicators are from IMF, Balance of Payment Data Reports.

### LDC criteria and supplementary indicators

The GNI per capita of Lao PDR is estimated as \$2,539 in 2022, reaching the income-only graduation threshold of \$2,484. The EVI score for 2022 decreased to 27.1, which still satisfies the threshold standard of 32 or below. The HAI of the country increased to 73, which is higher than the graduation threshold of 66. Although Laos' GNI per capita increased rapidly by exploiting natural resources, it is essential to improve further its EVI and HAI scores for sustainable growth.

Supplementary graduation indicators shows some areas that requires attention. External debt level and also debt servicing has been at the high level and are likely to increase in coming years. The share of employment in agriculture is high, implying that the country's transformation has currently implimted impact on employment structure.

Table 2. Indicators for LDC identification, Lao PDR, 2018-2022.

Year	GNI per capita	EVI	HAI
2018	1,973.1	28.3	70.4
2019	2,115.4	28.3	71.6
2020	2,280.5	27.8	72.4
2021	2,431.5	27.5	72.8
2022	2,539.0	27.1	73.0

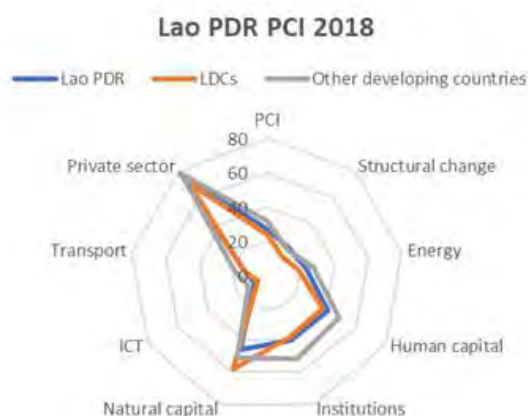
Source: CDP Secretariat

Table 3. Selected supplementary graduation indicators, Lao PDR, 2017-2021.

Indicator	2017	2018	2019	2020	2021
External debt (% of GNI)	89.5	92.1	89.8	97.3	94.9
Total debt servicing (% of exports and primary income)	3.7	4.6	5.1	3.0	5.7
Share of employment in agriculture	65.6	64.7	63.6	62.4	61.4

Source: CDP Secretariat

## Productive Capacity



The Lao PDR has achieved a level of development of productive capacities which puts it ahead of the group of LDCs. This has been pushed by two types of specialization of its economy: manufacturing and hydropower, by virtue of which the country widely outperforms the LDC group in Structural Change and Energy. The country achieved improvements on most dimensions of productive capacities during the 2010s.

In common with other graduating countries, the Lao PDR tracks other developing countries along most dimensions of productive capacities. The gaps are especially wide in the cases of Transport, ICTs and Institutions.

For the country to achieve graduation with momentum it needs, however, to address its lingering economic and environmental vulnerabilities.

Table 4. Productive Capacity Index, Selected Countries, 2018 value.

Country	PCI	Energy	Human capital	ICT	Institutions	Natural capital	Private sector	Structural change	Transport
<b>Angola</b>	22.2	22.8	35.9	5.0	32.2	51.9	65.6	12.3	10.5
<b>Bangladesh</b>	26.8	25.3	44.7	6.7	37.7	58.1	72.7	16.5	13.6
<b>Bhutan</b>	30.1	22.4	46.5	9.2	63.3	41.5	73.9	16.7	21.7
<b>Lao PDR</b>	27.1	23.5	41.0	8.2	40.1	46.0	78.0	20.6	12.5
<b>Nepal</b>	26.3	18.3	46.2	7.8	39.9	52.3	70.6	15.9	14.8
<b>Sao Tome and Principe</b>	26.7	19.6	43.7	7.2	48.4	46.7	75.8	16.3	15.2
<b>Solomon Islands</b>	26.2	21.2	40.0	5.5	46.9	44.7	81.1	13.5	20.7
<b>Vanuatu</b>	29.4	23.1	41.2	6.7	55.5	46.2	80.4	17.7	24.2
<b>LDCs</b>	23.9	18.8	37.9	6.1	38.2	58.2	71.0	14.0	13.4
<b>ODCs</b>	31.9	27.8	48.7	12.4	51.4	51.3	77.7	19.4	19.2

Source: UNCTAD.

### Data gap

Lao PDR's overall statistical capacity index was 62.2 in 2019, slightly lower than the average of lower middle-income countries (66.4).<sup>8</sup> While scores on methodology and availability fall behind, periodicity of the given data is superior to middle-income countries.

### Smooth transition, national plan and country specific factors

The UN General Assembly adopted a resolution on Lao PDR's graduation from the LDC category on 24 November 2021.<sup>9</sup> The country is scheduled to graduate in 2026, after five years of extended preparatory period.

Lao PDR has experienced rapid economic growth led by natural resource-based exports. The economy is highly reliant on few sectors such as hydropower, mining and forestry. Electricity has become an integral part of Lao PDR's economy, accounting for 29.8% of exports in 2020. Meanwhile, construction of hydropower dams on the Mekong River exacerbated the country's debt burden. Repayment of existing debt will be a major challenge for Laos in the coming years. In addition, environmental factors and upstream

<sup>8</sup> World Bank, WDI, accessed 4 January 2022.

<sup>9</sup> UN DESA, Graduation of Bangladesh, Lao People's Democratic Republic and Nepal from the LDC category, retrieved from <https://www.un.org/development/desa/dpad/2021/graduation-of-bangladesh-lao-peoples-democratic-republic-and-nepal-from-the-ldc-category/>

dams in China are posing threat to electric power industry, which implies the necessity of economic diversification.

Lao PDR has submitted the annual report on preparation of the smooth transition strategy (STS). The report outlined the progress the country has made, international supports for graduation, impacts of COVID-19 and preparation of the STS. It is developing the STS through the whole-of-government approach, engaging all relevant stakeholders. Furthermore, it is working closely with the LDC Graduation support joint group as part of Lao PDR-UN Sustainable Development Cooperation Framework (2022-2026). The country organized national consultation meetings and participated in regional/international conferences in preparation of the concept note, and the STS is expected to be finalized by May 2022. It will mainly focus on trade, development assistance, COVID-19 recovery, disaster reduction and promotion of gender equality.

The report also pointed out international supports for graduation. Regarding trade, Lao PDR has signed bilateral agreements and has been joining WTO, ASEAN Economic Cooperation (AEC) and Regional Comprehensive Economic Partnership (RCEP). Meanwhile, since the ODA grants have been declining in recent years, finding other sources of funding has been a challenge. In addition, securing debt sustainability, which has been exacerbated by the COVID-19 remains a major concern. The government is under negotiation for long-term debt rescheduling and it plans to adopt policies to reach macroeconomic sustainability. The annual report also tackled issues concerning the impacts of the COVID-19: poverty and high unemployment rate, volatile commodity price, supply chain disruption and reduced investments. It pointed out the need for new programme of action to deal with current health crisis and financial constraints.

The 9th Five-Year National Socio-Economic Development Plan (2021-2025)<sup>10</sup> is in line with the country's preparation on STS and will cover most of its preparatory period. The plan focuses on six main outcomes, which are 1) continuous quality, stable and sustainable economic growth achieved; 2) improved quality of human resources to meet development, research capacity, science and technology needs, and create value-added production and services; 3) enhanced well-being of the people; 4) environmental protection enhanced and disaster risks reduced; 5) engagement in regional and international cooperation and integration is enhanced with robust infrastructure and effective utilisation of national potentials and geographical advantages; 6) public governance and administration is improved, and society is equal, fair and protected by effective rule of law.

LDC graduation will not significantly affect Lao PDR's trade sector. As a member of the Association of Southeast Asian Nations (ASEAN), the country has practiced the Common Effective Preferential Tariff (CEPT) scheme under ASEAN Free Trade Area (AFTA) since 1998. It also joined the Regional Comprehensive Economic Partnership (RCEP), a mega trade bloc, which entered into force on 1 January 2022.<sup>11</sup> Exports to the EU will be a major concern, particularly in the garment industry. Considering the EU's market share (86.2%) in Lao textile and clothing exports,<sup>12</sup> the country may lose its competitiveness once it cannot benefit from the EU's Everything-But-Arms (EBA) arrangement. Although the EU provides additional three years after the LDC graduation, it is recommended to improve its productivity and prepare for market diversification.

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<sup>10</sup> Lao People's Democratic Republic (2021). 9<sup>TH</sup> Five-Year National Socio-Economic Development Plan (2021-2025), accessed 5 January 2022.

<sup>11</sup> ASEAN, RCEP Agreement enters into force, retrieved from <https://asean.org/rcep-agreement-enters-into-force/>

<sup>12</sup> UN DESA (2021). Firm-level preparedness for the LDC graduation in the Lao garment industry and expected loss of preferential market access conditions, accessed 5 January 2022.

Lao PDR is enhancing its climate resilience. It ranked 79<sup>th</sup> out of 191 countries from 2022 INFORM Risk Index, showing high exposure to floods.<sup>13</sup> It has received funding from the Green Climate Fund (GCF) for three projects (\$87.2 million) and 11 readiness activities (\$4.0 million). From GEF, the country received \$52.7 million for 24 national projects and \$315.5 million for 32 regional/global projects. The country also benefited \$32 million and \$15 million for 8 national projects and two regional/global projects respectively.

Regarding the response to the pandemic, the vaccine program started in January 2021. As of 31 December 2021, 62.2 per cent of the population received at least one dose of COVID-19 vaccine.<sup>14</sup> It is likely that more than 60 percent of residents will be fully vaccinated by the first quarter of 2022.<sup>15</sup> Consequently, the government may loosen restrictions against the coronavirus, reopening the economy.

The CDP held a virtual consultation with the Government of Lao PDR on 30 November 2021. An active discussion took place among the government representatives, the CDP members and the UN entities. The country gave an overview of the works undertaken and plans in preparing for the graduation. The concept note of smooth transition strategy (STS) was developed by the key ministries and will be finalized by May 2022. The country hoped to specify the means of implementing the strategy and to share lessons learned from peer LDCs. Besides, the CDP secretariat introduced the Enhanced Monitoring Mechanism (EMM), and the Lao Statistics Bureau expressed interest in identifying indicators that needs to be prepared.

Some of comments made by the CDP members include dealing with current macro-economic instability, preparing for the loss of trade preferences, securing international support measures, developing data capacity, improving the country ownership and recovering from the pandemic situation. Accordingly, Lao Ministry of Planning and Investment gave a brief introduction to its pandemic recovery framework, which will focus on five thematic areas: 1) fiscal policy; 2) trade, value chains and tourism; 3) employment; 4) green growth and risk management; 5) human capital. Moreover, it was emphasized that the national development plans and financing strategies should be linked to STS.

The government of Lao PDR showed interest in having regular communication with the CDP country rapporteur and appreciated the assistance made by the UN entities. It also stressed out the importance of coordination among resident and non-resident agencies. Additionally, it was highlighted both by the country and the CDP that the monitoring report should be used to mobilize developing partners.

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<sup>13</sup> European Commission, Country Risk Profile, retrieved from <https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Risk/Country-Risk-Profile>

<sup>14</sup> CDP secretariat (2022). COVID-19 vaccination in LDCs – Status report as of 31 December 2021. Updated information is available at <https://www.un.org/development/desa/dpad/least-developed-country-category/covid-19-and-the-ldcs.html>

<sup>15</sup> Economic Intelligence Unit (2021). Lao PDR country report, accessed 4 January 2022.



Annex 1: Heatmap extract of the supplementary graduation indicators (SGIs) for LDCs and former LDCs (2022 or latest available year)



Legend:

