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



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Summary

Lao PDR had robust economic growth, averaging over six per cent per annum over 2015-2019, but the growth trend slowed down significantly due to the COVID-19 pandemic, and the recovery is still slow. The massive devaluation of the national currency and high inflation in 2022 as well as lingering negative impacts of the COVID-19 added difficulties for the country to maintain macroeconomic stability and manage the national debt, owing to high volume of loans contracted for large scale infrastructure projects, large fiscal deficit due to the low tax revenue and social expenditure during the COVID-19 pandemic.

The Government of Lao PDR participated actively in the annual monitoring by submitting the national draft report on STS and also attending the CDP consultation meeting, showing the preparation of the STS is well on track. The CDP suggests a careful review of data gap for the country, in particular in the area of debt. The Government also made repeated requests for in-person assistance on EMM, particularly crisis monitoring indicators.

Macroeconomic situation

During 2016-2019, the Lao PDR's GDP grew by 5-7 per cent annually. In 2020, the economy was hit hard by the COVID-19 pandemic. The GDP growth rate decreased to 3.3 per cent in 2020¹ and 3.5 per cent in 2021². The GDP growth is estimated to have fallen further to 2.1 per cent in 2022, according to DESA.³ The government balance decreased to -5.6 per cent of GDP in 2020. Lao PDR's tax-to-GDP ratio is only 10.8 per cent (2019).⁴

Due mostly to its budgetary fragility, the Lao PDR has challenges to address in the financing. The nation's debt-to-GDP ratio is conservatively estimated between 55 and 68.2 per cent in 2020, depending on sources⁵, due to the vast number of loans secured for big-scale infrastructure projects. It is estimated to have reached over 107 per cent in 2022. The possibility of sovereign default also remains elevated. In 2020, Lao PDR's credit rating was reduced to "CCC", which has been downgraded to "CCC-" in Aug 2022.⁶ The government chose to undertake fiscal consolidation to reduce the burden of debt. Given the high-level amount of repayments due in 2022 (\$861 million) and 2023 (\$854 million), it is expected that China, which accounts for 42 per cent of the public and publicly guaranteed debt (PPG), has and would continue to partly defer its obligations.

For coming years, the recovery may be supported by rising private consumption and exports.⁷ In particular, the December 2021 inauguration of the Lao PDR-China railway and power exports is expected to support economic recovery. In addition, the Lao PDR is anticipated to attract businesses seeking low-cost, labour-intensive manufacturing. However, most of its service exports, tourism, will stay below pre-pandemic levels until 2024.

¹ UNSD, National Accounts Statistics: Analysis of Main Aggregates (AMA) database

² UN DESA. World Economic Situation and Prospects 2023

³ UN DESA. World Economic Situation and Prospects 2023

⁴ CEIC. Lao PDR Tax Revenue: per cent of GDP. See: [https://www.ceicdata.com/en/indicator/Lao PDR/tax-revenue-of-gdp](https://www.ceicdata.com/en/indicator/Lao%20PDR/tax-revenue-of-gdp)

⁵ Trading economics, [https://tradingeconomics.com/Lao PDR/government-debt-to-gdp](https://tradingeconomics.com/Lao%20PDR/government-debt-to-gdp)

and Statista. Lao PDR: National debt in relation to GDP from 2016 to 2026.

[https://www.statista.com/statistics/804959/national-debt-of-Lao PDR-in-relation-to-gross-domestic-product-gdp/](https://www.statista.com/statistics/804959/national-debt-of-Lao-PDR-in-relation-to-gross-domestic-product-gdp/)

⁶ Fitch Ratings. <https://www.fitchratings.com/entity/laos-93737890#ratings>

⁷ Economist Intelligence Unit. Lao PDR country report. See:

https://country.eiu.com/FileHandler.ashx?issue_id=1252635708&mode=pdf

Table 1. Selected macroeconomic data for Lao PDR, 2016-2021

Indicator	2016	2017	2018	2019	2020	2021
GDP growth rate (per cent, constant price)	7.0	6.9	6.2	5.5	3.3	3.5
Inflation rate (%)	1.6	0.8	2.0	3.3	5.1	4.0
Government revenue (billions of national currency)	20,716.3	22,925.0	24,758.3	25,143.5	21,780.9	24,798.0
Government expenditure (billions of national currency)	26,990.0	30,675.6	31,865.7	30,600.2	31,162.9	31,309.6
Government balance (billions of national currency)	-6,273.7	-7,750.6	-7,107.4	-5,456.6	-9,382.0	-6,511.7
Government balance (per cent of GDP)	-4.9	-5.5	-4.7	-3.3	-5.6	-3.6
Net ODA received (millions of US dollars)	399.5	480.4	588.7	621.6	529.1	569.2
Balance of Payments (millions of US dollars)						
Current Account	-1,384.7	-1,259.8	-1,648.9	-1,319.6	-231.0	446.6
Goods, Credit (Exports)	4,244.8	4,873.2	5,407.8	5,805.9	6,114.9	7,694.5
Goods, Debit (Imports)	5,372.4	5,667.3	6,314.6	6,271.9	5,370.4	6,275.0
Balance on Goods	-1,127.6	-794.2	-906.8	-466.0	744.5	1,419.5
Services, Credit (Exports)	834.9	780.6	985.4	1,179.2	346.2	125.3
Services, Debit (Imports)	1,022.4	1,116.4	1,249.4	1,246.3	445.5	252.0
Balance on Services	-187.6	-335.8	-264.0	-67.0	-99.3	-126.7
Balance on Goods and Services	-1,315.2	-1,130.0	-1,170.8	-533.0	645.2	1,292.8
Balance on Income	-324.7	-446.4	-785.7	-1,084.5	-1,128.1	-1,072.2
Balance on Current Transfers	255.1	316.6	307.6	297.9	251.9	226.0
Capital Account	22.0	21.8	12.5	14.9	12.6	2.4
Financial Account	-2,705.3	-1,962.2	-2,335.0	-1,819.4	-760.1	-365.2
Direct investment (net)	-920.1	-1,683.4	-1,358.0	-755.5	-967.7	-1,071.9
Portfolio investment (net)	-513.9	-326.1	-521.9	41.3	256.5	310.2
Financial derivatives (other than reserves) and employee stock options	...	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-1,102.5	-167.5	-313.6	-1,229.6	-368.1	445.1
Reserve assets	-168.8	214.7	-141.5	124.5	319.2	-48.6
Reserves (months of imports)	1.6	1.8	1.4	1.5	2.4	2.3

Source: GDP growth is from UN DESA, WESP 2023 for 2021 data and UNSD for 2016-2020 data. Inflation is from UN DESA, WESP 2023. 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 latest three-year average (2019-2021) GNI per capita of Lao PDR reaches \$2,539 in 2023, over two times the graduation threshold of \$1,222 which is established at the 2021 triennial review. The EVI score for 2023 improved to 26.9, meeting the threshold level of 32 or lower. The country's HAI has risen to 74.2, which is far over the graduation level of 66. Lao PDR appears to be a balanced growth path on all of the LDC criteria. However, the massive currency depreciation might lead in the coming years to declining per capita income in United States dollar terms.

Table 2. Indicators for LDC identification, Lao PDR, 2019-2023

Year	GNI per capita	EVI	HAI
2019	2,101.5	27.9	72.1
2020	2,269.0	27.7	73.0
2021	2,409.7	27.5	73.6
2022	2,506.1	27.1	74.3
2023	2,538.9	26.9	74.2

Source: CDP Secretariat Time series estimates (LDC criteria) dataset (2002-2023), available at <https://bit.ly/LDC-data>

Notes: a) Year refers to the year of a (actual or hypothetical) review. The timeliness of source data varies by indicator; generally, criteria capture data up to two years prior to a review. See the 'read me' in the source as well as the data sheet (Annex 1) for details on original data sources.

b) Data for 2021 might differ from official triennial review data and previous monitoring reports due to data revisions.

Additional graduation indicators reveal certain areas requiring work (see table 3). The debt data vary a lot by data sources, depending on the measurement methodology, but external debt and debt service in general have been at a high level and are expected to rise in the coming years. A substantial proportion of the labour force is employed in agriculture, indicating that the country's transition is having little effect on the employment structure.

Table 3. Selected supplementary graduation indicators, Lao PDR, 2018-2021.

Indicator	2018	2019	2020	2021
External debt (% of GNI)	89.5	93.9	97.6	97.2
Total debt servicing (% of exports and primary income)	13.5	11.5	10.5	9.1
Share of employment in agriculture	60.1	59.2	58.8	58.1

Source: CDP Secretariat, Supplementary graduation indicators

Data gap

In 2019, latest data, the total statistical capacity index for Lao PDR was 62.2, which was somewhat below the average for lower middle-income nations (66.4). While methodology and availability ratings lag below middle-income nations, the frequency of the provided data is greater.

Smooth transition, national plan and country specific factors

On 24 November 2021, the United Nations General Assembly adopted the resolution regarding Lao PDR's graduation from the LDC category. The country is set to graduate in 2026, after a preparation phase of five years.

The participation rate of Lao PDR in monitoring exercise is 100 per cent. It attended a consultation meeting and submitted annual report to CDP, both in 2022 and 2023 monitoring. Graduation has been a national

priority for the Government and the people of Lao PDR and successive National Socio-Economic Development Plans (NSEDP).

Exports of natural resources have driven fast economic expansion in the Lao PDR. The economy is primarily dependent on a few industries, including hydropower, mining, and forestry. Electricity has become a vital aspect of the Lao PDR's economy, accounting for 29.8 per cent of exports in 2020. Meanwhile, the building of hydroelectric dams on the Mekong River increased the country's debt load. In the next years, the repayment of current debt will be a key burden for Lao PDR. Moreover, environmental problems and upstream dams in China pose a danger to the electric power business, necessitating economic diversification.

Lao PDR has submitted its yearly report on the preparation of the STS. In 2022, Lao PDR reached several milestones in preparing for STS: 1) Formalizing technical team, comprising all line ministries and UN county team; 2) LDC focal point meeting - Identification of four thematic areas of the STS (30th June 2022, with focuses on Financial resilience and sustainability, Trade and connectivity, Economic transformation, and Climate change and disaster management; 3) South-South Exchange with other graduation countries (22nd – 24th August 2022); 4) Internal Government meeting to discuss proposed policy areas clustered around four thematic areas of the STS (8th September 2022); 5) Prioritization workshop (18th October 2022) and writeshop (3rd-4th November 2022).

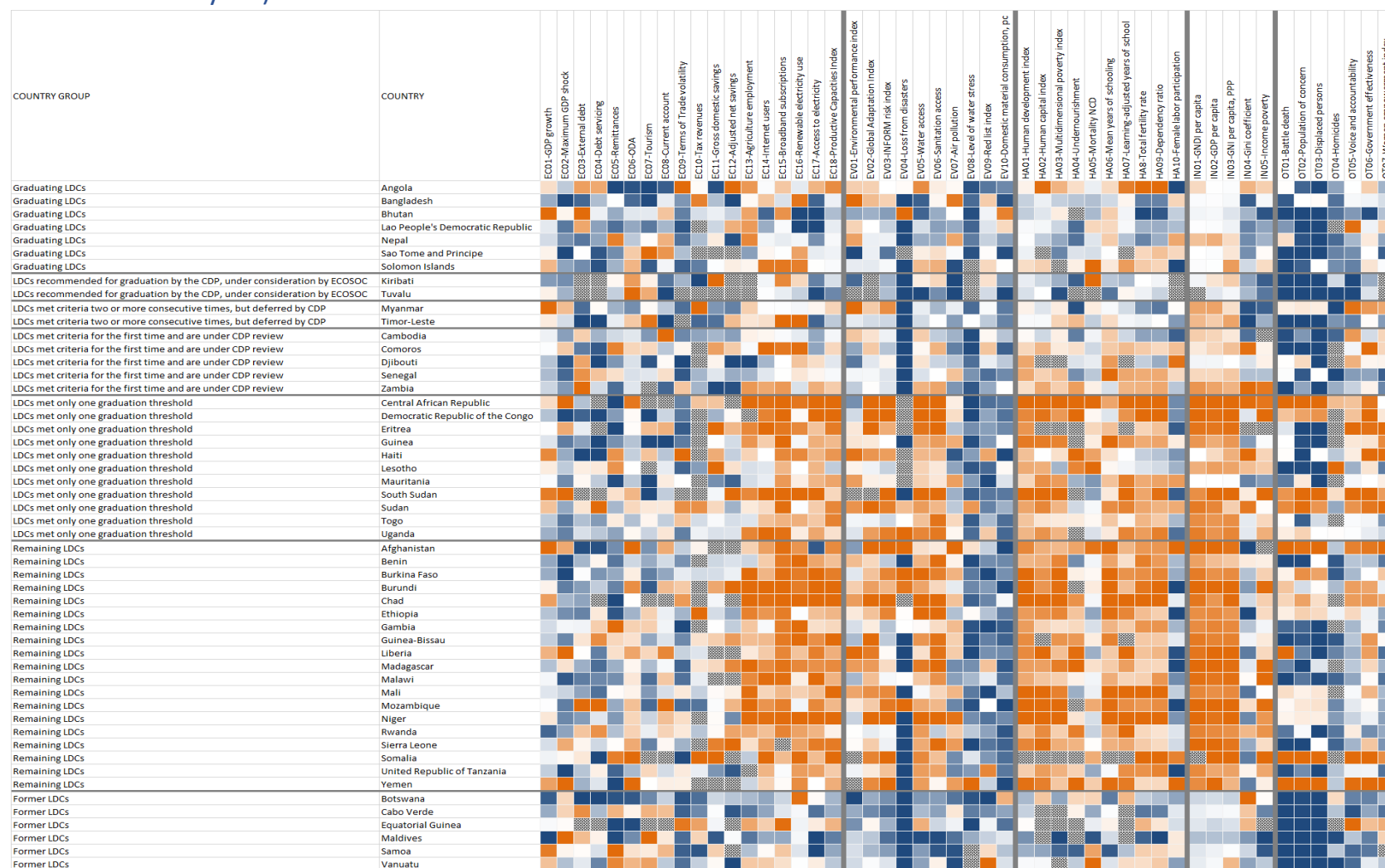
On 21 November 2022, the CDP held a virtual consultation with the Government of Lao PDR. Government representatives, CDP members, and UN agencies participated in the meeting. The country provided an overview of the preparations made and planned for the graduation. The government had 13 roundtable discussions on the development of STS in 2022. Inter-ministerial consultations were organized in August 2022 in Bangkok, to facilitate the finalization of the STS. As of January 2023, zero draft of the STS has been prepared and circulated to relevant entities for comments and suggestions.

While borders have reopened since April 2022, and positive developments have been recorded (such as high vaccination rates, decreasing unemployment, and increasing tourism) – Lao PDR is not back on track to achieve the national development priorities contained in the 9th NSEDP and the SDGs.

Also, as mentioned in their STS draft, the war in Ukraine has affected global economic prospects in a multifaceted crisis of fuel, food, fertilizer, and finance. The Lao kip depreciated by 62 per cent against the USD between January and August 2022, leading to temporary fuel shortages, while prices increased by 37 per cent in the first 10 months of 2022, largely driven by the rising costs of imports. The Government has taken steps to mitigate and recover from COVID-19 and the multiple crisis, through a Multi-Stakeholder Taskforce on the recalibration of the 9th NSEDP to COVID-19 in 2020.



Overall, Lao PDR's financial difficulties, including high levels of debt and the effects of the current multiple global crises, represent a challenge for a continued development progress. The Government requested continued support from UN system and an exchange of dialogue with other LDCs.

Annex 1: Heatmap extract of the supplementary graduation indicators (SGIs) for LDCs and former LDCs (2023 or latest available year)



Legend:

- Indicator furthest below reference point, indicating most concern (5th percentile)
- Indicator furthest above reference point, indicating least concern (95th percentile)

 Reference point (e.g. 33th percentile)
 No data available