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Monitoring of countries graduating  
from the list of LDCs

Lao People's Democratic Republic

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## Summary

**Lao PDR** continues to meet all LDC criteria and making progress towards sustainable graduation. The government's adoption of the STS in 2023, following thorough and effective preparation, underscores its commitment to progress. Despite successfully navigating many challenges posed by the COVID-19 pandemic and global food and energy crises, the country faces notable difficulties in managing its currency value and debt levels. The Committee advises continued implementation of appropriate macroeconomic policies to address these issues in line with the STS and other relevant strategies, and emphasizes the importance of international support for debt management and economic diversification.

**Regarding the adequacy of the length of the preparatory period for Lao PDR**, the county has effectively mitigated the adverse effects of the COVID-19 pandemic to some extent and made significant progress in preparing for sustainable graduation after the extended five-year preparatory period and for a smooth transition. The Committee concurred that further extending the additional preparatory period for Lao PDR beyond 2026 is unnecessary. The Committee will continue to closely monitor the progress in preparing and implementing its STS, including the support received by development and trading partners.

## Macroeconomic situation

Lao PDR's GDP continued to grow by 5.5-7.3 per cent per annum during 2015-2019. The economy was hit by the COVID-19 pandemic in 2020, resulting in a growth slowdown to 3.3 per cent.<sup>1</sup> The Government balance declined to minus 5.5 per cent of GDP in 2020. Post-Covid, the Lao economy has continued its recovery in 2023 with GDP growth at 3.7 per cent (see Table 1). Improved performance in tourism, transport and logistics services, and foreign investment has contributed to the recovery. However, growth is lower than previously expected, mainly because of the falling value of the kip, inflation, labor shortages, and unfavorable weather. To restore economic stability, it is crucial that ongoing debt renegotiations are successfully concluded.<sup>2</sup>

Table 1. Selected macroeconomic data for Lao PDR, 2017-2023

Indicator	2017	2018	2019	2020	2021	2022	2023
GDP growth rate (per cent, constant price)	6.9	6.2	5.5	3.3	3.5	4.4	3.7
Inflation rate (%)	0.8	2.0	3.3	5.1	3.8	23.0	31.3
Government revenue (billions of national currency)	22,925.0	24,758.3	25,143.5	21,780.9	27,177.1	32,380.1	39,995.6
Government expenditure (billions of national currency)	30,675.6	31,865.7	30,600.2	31,162.9	29,507.9	35,928.3	48,924.8
Government balance (billions of national currency)	-7,750.6	-7,107.4	-5,456.6	-9,382.0	-2,330.8	-3,548.2	-8,929.2
Government balance (per cent of GDP)	-5.5	-4.7	-3.3	-5.6	-1.3	-1.6	-3.4
Net ODA received (millions of US dollars)	480.4	588.7	621.6	529.5	575.7	547.7	
Balance of Payments (millions of US dollars)							
Current Account	-1,259.8	-1,648.9	-1,319.6	-231.0	446.5	-11.0	
Goods, Credit (Exports)	4,873.2	5,407.8	5,805.9	6,114.9	7,694.5	8,198.3	

<sup>1</sup> UNSD data. Also national source confirms 3.3% Lao's National Statistics Bureau :

<https://laosis.lsb.gov.la/majorIndicators.do?paramGrpld=all#majorIndicatorsConts>

<sup>2</sup> <https://www.worldbank.org/en/country/lao/publication/lao-economic-monitor-november-2023-fiscal-policy-for-stability-key-findings>

Goods, Debit (Imports)	5,667.3	6,314.6	6,271.9	5,370.4	6,275.0	7,244.1	
Balance on Goods	-794.2	-906.8	-466.0	744.5	1,419.5	954.1	
Services, Credit (Exports)	780.6	985.4	1,179.2	346.2	125.3	406.1	
Services, Debit (Imports)	1,116.4	1,249.4	1,246.3	445.5	252.1	528.3	
Balance on Services	-335.8	-264.0	-67.0	-99.3	-126.7	-122.2	
Balance on Goods and Services	-1,130.0	-1,170.8	-533.0	645.2	1,292.8	831.9	
Balance on Income	-446.4	-785.7	-1,084.5	-1,128.1	-1,072.2	-1,157.5	
Balance on Current Transfers	316.6	307.6	297.9	251.9	226.0	314.6	
Capital Account	21.8	12.5	14.9	12.6	2.4	8.0	
Financial Account	-1,962.2	-2,335.0	-1,819.4	-760.1	-365.2	-429.6	
Direct investment (net)	-1,683.4	-1,358.0	-755.5	-967.7	-1,071.9	-635.8	
Portfolio investment (net)	-326.1	-521.9	41.3	256.5	310.2	-71.3	
Financial derivatives (other than reserves) and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	
Other investment (net)	-167.5	-313.6	-1,229.6	-368.1	445.1	407.7	
Reserve assets	214.7	-141.5	124.5	319.2	-48.6	-130.1	
Reserves (months of imports)	1.8	1.4	1.5	2.4	2.3	1.6	

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.

The growth prospects in Lao PDR are dimmed amid mounting domestic and international challenges. Lao PDR has an external debt<sup>3</sup> of 127 per cent of GNI owing to the high volume of loans contracted for large scale infrastructure projects, such as hydropower and railways. Repayment of existing debt will be a major challenge for Lao PDR in the coming years. The sovereign default risk remains high. Laos' credit rating was downgraded to "CCC-" in August 2022.<sup>4</sup> The authorities decided to pursue fiscal consolidation to address heavy debt burden.

According to the World Bank, public and publicly guaranteed (PPG) debt is undermining macroeconomic stability and development prospects. The PPG debt stock reached 112 per cent of GDP at the end of 2022 (the value rises to 125 per cent of GDP if expenditure arrears and a swap arrangement are included)<sup>5</sup>. About half of the debt stock in 2022 and half of external debt repayments scheduled for 2024–27 is owed to China. Deferrals of debt payments due to China amounted to about \$2 billion between 2020-23, providing some temporary relief. However, a high degree of uncertainty surrounds future repayment plans, so a successful conclusion to ongoing debt renegotiations will be crucial to restoring macroeconomic stability.

While the government earned more than it spent in the first half of 2023, high debt repayments mean

<sup>3</sup> 2022. Supplementary graduation indicators (SGIs) data.

The latest IMF WEO estimated that Lao PDR's general government gross debt to GDP ratio was 128 per cent in 2022. 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>4</sup> <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-laos-long-term-foreign-currency-idr-to-ccc-04-08-2022#:~:text=to%20'CCC%2D',Fitch%20Downgrades%20Laos'%20Long%2Dterm%20Foreign%2D,Currency%20IDR%20to%20'CCC%2D'&text=Fitch%20Ratings%20%2D%20Hong%20Kong%20%2D%2004,Country%20Ceiling%20at%20'B%2D'..>

<sup>5</sup> <https://www.worldbank.org/en/country/lao/publication/lao-economic-monitor-november-2023-fiscal-policy-for-stability-key-findings>

fiscal space is still limited, constraining investment in human capital. According to World Bank, assuming that Lao PDR resumes making debt repayments on schedule, economic growth is projected to accelerate to an average of 4.2 per cent in the medium term, led by the services sector and exports<sup>6</sup>.

The IMF Article IV report from May 2023 states that public debt has increased further, largely driven by currency depreciation, but also by additional Government arrears, domestic bond issuances to recapitalize banks, and state owned enterprises debts.<sup>7</sup> While the prospect is for a return to steady growth in 2023, public debt is assessed to be unsustainable, and servicing Government debt presents substantial risks to this outlook.<sup>8</sup> But even with higher growth and despite eliminating the primary fiscal deficit, public debt would remain at high levels for an extended period. The scale of public and external debt poses substantial risks to the outlook, including from significant financing needs, low foreign exchange liquidity and reserves, and the prospect of tight global financial conditions limiting external market access.

Consumer price inflation remains elevated in Lao PDR, having peaked at 41.3 per cent in February 2023 and gradually declining to 24.4 per cent in January 2024. Low official reserves and high external debt service payment put continued pressure on the currency depreciation. The kip depreciated by 14.4 per cent against the United States dollar during the first nine month of 2023<sup>9</sup>, and by over 100 per cent since the onset of the pandemic. Continued currency depreciation could translate into further consumer price inflation. Although the central bank managed to bolster foreign reserves from \$1.1 billion at the end of 2021 to \$1.5 billion at the end of June 2023<sup>10</sup> reserve still just covers about 2 months of imports.

Growth to date has been accompanied by only limited economic transformation, and the economy remaining reliant on a small number of sectors and trading partners. Also, Lao PDR has relied heavily on use of natural resources, which are reaching environmental limits and leading to increasingly stark trade-offs between headline growth and environmental protection. Environmental factors and upstream dams in China are posing threat to electric power industry, which implies the necessity of economic diversification.

Growth has also not created opportunities evenly, with fewer opportunities for women and youth to take part in economic development in particular due to women's high burden of unpaid house labour, as well as a large informal economy, lacking social safety net.

## LDC Criteria and Supplementary Indicators

The GNI per capita of Lao PDR is estimated as \$2,503 in 2024. The EVI score for 2024 slightly increased to 29.8, which still satisfies the threshold standard of 36 or below. The HAI of the country increased to 74.8 in 2024, 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.

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<sup>6</sup> Ibid.

<sup>7</sup> <https://www.imf.org/en/Publications/CR/Issues/2023/05/22/Lao-People-s-Democratic-Republic-2023-Article-IV-Consultation-Press-Release-Staff-Report-533636>

<sup>8</sup> <https://www.imf.org/en/Publications/CR/Issues/2023/05/22/Lao-People-s-Democratic-Republic-2023-Article-IV-Consultation-Press-Release-Staff-Report-533636>

<sup>9</sup> Calculation based on data from CEIC.

<sup>10</sup> CEIC data.

Table 2. Indicators for LDC Identification, Lao PDR, 2020-2024.

	HAI	EVI	GNI per capita
2020	71.8	29.8	2,268
2021	72.6	29.8	2,408
2022	73.7	29.7	2,511
2023	74.2	29.5	2,550
2024	74.8	29.8	2,503

Source: CDP Secretariat, Time series estimates (LDC criteria) dataset (2002-2024), available at <https://bit.ly/LDC-data>

Note 1: For GNI per capita, Year refers to the year of a (actual or hypothetical) review. The data reflects the latest three-year average available for a review, i.e., the value for 2024 refers to the 2020-2022 average. Data differ from previous official triennial review data due to data revisions.

Note 2: For EVI and HAI, 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.

Note 3: Data differ from previous official triennial review data due to data revisions, changes in data sources, methodological changes and most notable, changes in composition of the composite indices HAI and EVI. Minor differences can also occur due to rounding.

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

Table 3. Selected supplementary graduation indicators, Lao PDR, 2018-2022

	2018	2019	2020	2021	2022
External debt (% of GNI)	91.44	107.45	114.81	108.31	126.64
Total debt servicing (% of exports and primary income)	11.68	12.85	12.03	23.80	13.08
Share of employment in agriculture	62.80	64.40	66.37	67.75	69.57

Source: CDP Secretariat, Supplementary graduation indicators (SGI) dataset (2000-2024), available at <https://bit.ly/LDC-data>

## Productive Capacity

The Lao PDR has improved its Productive Capacities Index, which puts it ahead of the group of LDCs but still leaves a significant gap to the average ODC. The emerging manufacturing sector is driving structural change, where the country now ranks significantly higher than the average ODC. The same is the case in the energy component, thanks to the large hydropower capacity. In the areas of Information and Communication Technology (ICT), human capital and institutions, Lao PDR ranks higher than the LDC average but below the average ODC.

In the period 2012-2022, Lao PDR has made progress in most components of the PCI but somewhat fell behind in natural capital and private sector and worsened markedly in transport, which is a particularly sensitive sector for a landlocked developing country.

Table 4: Productive Capacity Index, Lao PDR, 2022

	PCI	Human capital	Natural capital	Energy	Transport	ICT	Institutions	Private sector	Structural Change
Lao People's Dem. Rep.	36	30.1	39.3	52.6	15.1	37.4	39.4	33.5	61.3
Other developing countries	46.8	44.3	38.4	61.2	34.1	49.6	51.1	50.9	53.2
LDCs	30.9	27.9	49.8	26.3	19.7	25.2	38.3	37.8	41

Source: UNCTAD

## Data gap

Lao PDR's overall statistical capacity index was 50 in 2020, slightly lower than the average of LDCs (51).<sup>11</sup> While scores on methodology and availability fall behind, periodicity of the given data is superior to middle-income countries.

## Smooth transition

The UN General Assembly adopted a resolution on Lao PDR's graduation from the LDC category on 24 November 2021.<sup>12</sup> The country is scheduled to graduate on 24 November 2026, after five years of extended preparatory period, granted mainly due to the need to address the impact of the devastating COVID-19 pandemic. CDP will monitor Lao PDR annually until 2029, and two more times at the triennial review years in 2030 and 2033.

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. The participation rate is 100 per cent (three national monitoring report and three consultation meetings in three monitoring cycles).

On 25 December 2023 the Prime Minister has officially endorsed the Smooth Transition Strategy (STS) of Lao PDR. The official Decree includes the endorsement of the STS and its implementation (2022-2026 and until 2030) and the assignation of the Ministry of Foreign Affairs as the focal point to coordinate with other line ministries and local authorities to implement the STS and regularly report its implementation progress to the Prime Minister.

The 9th Five-Year National Socio-Economic Development Plan (2021-2025)<sup>13</sup> is in line with the country's STS. In July 2023 the 9th NSEDP Financing Strategy was signed by the Prime Minister. 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 is not expected to significantly affect Lao PDR's trade sector. However, exports to the EU

<sup>11</sup> World Bank, WDI, accessed October 2023.

<sup>12</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/>

<sup>13</sup> Lao People's Democratic Republic (2021). 9<sup>TH</sup> Five-Year National Socio-Economic Development Plan (2021-2025), accessed 5 January 2022.

will be a concern, particularly in the garment industry. Considering the EU's market share (86.2 per cent) in Lao textile and clothing exports,<sup>14</sup> the country may lose its competitiveness once it cannot benefit from the EU's Everything-But-Arms (EBA) arrangement. The end of LDC-specific preferences by the EU in December 2029 (3 years after graduation) on garments will imply face higher tariffs and the need to comply with more stringent rules of origin. Although the EU provides additional three years after the LDC graduation, it is recommended to improve Lao PDR's productivity and prepare for market diversification. 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>15</sup>

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>16</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.

Some of the issues highlighted by the CDP in its recommendation as priorities for a smooth transition from the LDC category for Lao PDR include:

- Strong debt relief and improved macroeconomic stability;
- Sustainable and inclusive structural transformation; economic diversification; regional integration;
- Reduction of rural/urban and other inequalities;
- Building disaster resilience and reversing environmental degradation.

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<sup>14</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.

<sup>15</sup> ASEAN, RCEP Agreement enters into force, retrieved from <https://asean.org/rcep-agreement-enters-into-force/>

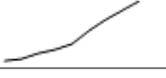
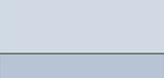
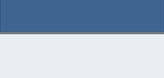
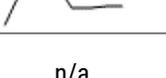
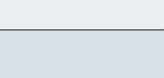
<sup>16</sup> European Commission, Country Risk Profile, retrieved from <https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Risk/Country-Risk-Profile>

## Annex 1. Supplementary graduation indicators (SGIs)

The supplementary graduation indicators (SGIs) complement the official LDC criteria. They provide quantitative, internationally comparable data for vulnerabilities and other factors that are not fully captured by the LDC criteria but that might be relevant for graduation from the LDC category. For more detailed information on indicators and data sources, see the SGI dataset available on the CDP website.

All data are current as of 13 March 2024.

Indicator	Source	Latest available data	Year most recent data refer to	Relative performance in latest year (legend below)	Trend (last decade)	
ECONOMIC VULNERABILITY	GDP growth rate (%)	United Nations Statistics Division	4.42	2022		
	GDP growth volatility	United Nations Statistics Division	3.39	2022		
	External debt (% of GNI)	World Bank	126.64	2022		
	Total debt servicing (% of exports and primary income)	World Bank	13.09	2022		
	Personal Remittances, received (% of GDP)	World Bank	1.28	2022		
	ODA received as percentage of GNI	World Bank	3.21	2021		
	Tourism receipts as share of exports	World Bank	3.51	2020		
	Current account balance (% of GDP)	World Bank	-0.07	2022		
	Standard deviation of net barter terms of trade over 20 years	World Bank	15.28	2021		
	Cereal import dependency	Food and Agriculture Organization	-0.01	2021		
	Tax revenue as share of GDP	World Bank				n/a
	Gross domestic savings (% of GDP)	World Bank	20.33	2016		

Indicator	Source	Latest available data	Year most recent data refer to	Relative performance in latest year (legend below)	Trend (last decade)
Adjusted net savings (% of GNI)	World Bank	-2.55	2016		
Share of employment in agriculture	International Labour Organization	69.57	2022		
Productive capacities index	United Nations Conference on Trade and Development	36.03	2022		
Percentage of individuals using the internet	World Bank	62.00	2021		
Renewable electricity capacity per capita	International Renewable Energy Agency	1.28	2022		
Percentage of population with access to electricity	World Bank	100.00	2021		
Environmental Performance Index	Yale/Columbia University	30.70	2022		n/a
Global Adaptation Index	University of Notre Dame ND-GAIN	43.78	2021		
INFORM Climate Change Risk Index	European Commission - Joint Research Center	4.00	2022		n/a
Economic loss from natural disaster (% of GDP)	United Nations SDG Global Database	1.03x10 <sup>-3</sup>	2012		n/a
Annual mean levels of fine particulate matter (e.g. PM2.5) in cities (population weighted)	United Nations SDG Global Database	21.15	2019		
Access to at least basic sanitation (% of population)	United Nations SDG Global Database	79.51	2022		
Access to at least basic drinking water (% of population)	United Nations SDG Global Database	85.46	2022		
Freshwater withdrawal as a proportion of available freshwater resources	United Nations SDG Global Database	4.79	2020		
Proportion of water basins experiencing high surface water extent changes	United Nations Water	30.00	2020		n/a
Red list index, showing trends in overall extinction risks of species	United Nations SDG Global Database	0.81	2023		

	Indicator	Source	Latest available data	Year most recent data refer to	Relative performance in latest year (legend below)	Trend (last decade)
	Change in forest cover (percentage)	United Nations SDG Global Database	-0.21	2020		n/a
	Domestic material consumption per capita	United Nations SDG Global Database	43.37	2019		
HUMAN ASSETS	Human development index	United Nations Development Programme	0.62	2022		
	Multidimensional poverty index	United Nations Development Programme	0.11	2017		n/a
	Proportion of population covered by at least one social protection benefit	United Nations SDG Global Database	12.10	2020		n/a
	Prevalence of undernourishment	Food and Agriculture Organization	4.70	2022		
	Mortality from CVD, cancer, diabetes or CRD between exact ages 30 and 70 (%)	World Bank	26.80	2019		
	Diphtheria tetanus toxoid and pertussis (DTP3) immunization coverage among 1-year-olds (%)	World Health Organization	80.00	2022		
	Gross secondary school enrolment rate	United Nations Educational, Scientific and Cultural Organization	56.88	2022		
	Mean years of schooling	United Nations Development Programme	5.95	2022		
	Learning-adjusted (expected) years of school	World Bank	6.25	2020		
	Total fertility rate (live birth per woman)	United Nations Development Programme	2.41	2023		
	Dependency ratio, i.e. the ratio of youth (Age 0-14) and elderly (age 65+) to population of age 15-64	United Nations Development Programme	53.47	2023		
	Labor force participation rate, female (% of female population ages 15+) (modeled ILO estimate)	World Bank	55.82	2022		
	INCOME	Gross national disposable income (GNDI) per capita, market exchange rates	World Bank	1942.49	2022	
GDP per capita, market exchange rates		United Nations Statistics Division	2040.34	2022		

	Indicator	Source	Latest available data	Year most recent data refer to	Relative performance in latest year (legend below)	Trend (last decade)
	Gross national income (GNI per capita) at purchasing power parity conversion factors	World Bank	8680.00	2022		
	Gini coefficient of disposable income	Standardized World Income Inequality Database	36.70	2018		
	Percentage of population below international poverty line (\$2.15)	World Bank	7.10	2018		n/a
OTHER	Battle deaths per 100,000, 20-year average	Uppsala University	$6.92 \times 10^{-2}$	2022		
	Population of concern to UNHCR as percentage of total population	United Nations High Commissioner for Refugees	0.00	2022		
	Stock of persons internally displaced by conflict as percent of total population	International Displacement Monitoring Centre	0.00	2022		
	Intentional homicides (per 100,000 people)	World Bank				n/a
	Voice and accountability, capturing perceptions of citizens' participation in selecting governments as well as of freedom of expression, association, and media	World Bank	-1.66	2022		
	Government effectiveness, capturing perceptions of the quality of public services and policies	World Bank	-0.60	2022		
	Women empowerment index, providing information on women's civil liberties, civil society participation, and political participation	Varieties of Democracy	0.45	2022		

**Legend:**

On the chromatic scale below, dark blue indicates the most positive performance relative to a reference point; and the darkest orange indicates the poorest relative performance. The reference point is determined, for each indicator, as the performance of the group of LDCs relative to all developing countries (e.g. the 33rd percentile).



No data available for the corresponding indicator

n/a denotes that a trend cannot be presented due to either only one data point or no data being available for the last ten years.