

## LAO PDR

Population	6.2 million
Population growth	1.8 percent
Surface area	236,800 sq. km.
Capital	Vientiane



Source: World Development Indicators.

A large increase in government spending and sustained demand for Lao's exports from countries in the region helped the economy weather the economic and financial crisis relatively well. Limited integration with global financial markets has also been a factor. Real GDP growth slowed by less than a percentage point to 6.7 percent in 2009, largely due to slower expansion in exports and lower foreign direct investment. The impact has been less significant than initially anticipated because of favorable external factors including sustained demand for Lao's exports of goods (minerals, electricity, and food processing) and services (tourism), lower import prices, and a domestic stimulus from increased public spending on consumption and investment.

Growth in 2010 is forecast at about 7.7 percent. The expansion is projected to be driven by strong growth in the natural resource sectors (mainly electricity exports from the Nam Thun 2 Dam, which started production from the start of 2010), steady growth in agriculture and a rebound in processing industry and tourism. The resource sectors are expected to contribute 3.6 percentage points to growth. In the medium term, the economic outlook remains favorable, with the expected benefits from sustained global commodity prices (mainly metals and agriculture), recovery in tourism, implementation of large hydropower projects under construction and in the pipeline, and a projected increase in demand for Lao main export products from neighboring countries (especially Thailand, China, and Vietnam) and the EU.

After a period of deflation in 2009, inflation is picking up again driven by prices for energy and food and increased liquidity in the economy. Consequently, prices rose 4.7 percent in the 12 months through February 2010 after falling 1.8 percent

in the 12 months through September 2009. Core inflation has remained relatively stable in recent months at above 2 percent. Nevertheless, energy and food prices rose 7 percent in the 12 months through February 2010 after falling almost 2 percent in the 12 months through October 2009. For 2010 as a whole, inflation is projected at 4.5 percent.

The fiscal deficit in 2008/09 was smaller than the 6.8 percent projected earlier, but much wider from the year before. The gap relative to the earlier projection is due to delays in the implementation of some public investment projects and over-budgeting in recurrent spending. The substantial increase from a year earlier, by contrast, is due to lower revenue collection and a significant rise in expenditures. The latter was driven by the government's commitments to host the South-East Asian Games and efforts to support economic growth.

The government targets the deficit to narrow to 3.5 percent of GDP in 2009/10. The projected decline reflects improvements in tax revenue collection and the introduction of VAT in January 2010. The expiration of one-off spending related to the SEA games will also help, as will the phasing out of Bank of Lao PDR's quasi-fiscal activities in FY2009/10. Although Lao PDR still has a high risk of debt distress, the debt profile has improved in recent years, thanks to robust economic growth and currency appreciation.

In 2009, the trade balance improved as a result of declining imports and fairly stable exports. Commodity exports earnings are estimated to have grown 2.9 percent in 2009 due to a recent recovery of commodity prices (especially metal and agriculture), increased copper output and robust regional demand. Garment exports decreased only marginally. Trade is likely to improve in 2010, with exports projected to grow 33 percent, driven by electricity and minerals. Imports are likely to increase by less, or about 12 percent, driven by consumer goods, raw materials and capital investment imports. As a result, the current account deficit is projected to further decline from 6.6 percent last year to only about 3 percent in 2010.

Credit growth has remained high, despite a recent slowdown. Credit growth was recorded at 89 percent y-o-y as of

September of 2009 (of which, credit to private sector increased by 76.3 percent). The Bank of Lao PDR's direct lending to local infrastructure projects contributed as much as 30 percent to the total credit growth y-o-y as of September 2009. The central bank helped reduce credit growth in 2009 through a variety of measures, including by not providing direct financing to any new projects and by strengthening bank credit supervision as a response to increasing concerns about macroeconomic and banking sector stability.

The government has continued to press on with structural reforms in different areas. In public finance management, the centralization of treasury operations in all provinces was completed in December 2009. In the financial sector, the central bank is preparing an action plan following the approval of the Financial Sector Strategy while the implementation decree for the Commercial Bank Law was approved in early 2009. Progress towards WTO accession has accelerated, as evidenced by the preparation of the Decrees on Import and Export Management as well as Rules-of-Origin. All products under the sensitive list have been transferred to the inclusive list under the AFTA CEPT framework. In some areas, reform progress has been slower than initially envisioned, including in the implementation of the investment and mining laws, procurement and budgetary norms for the education, and reforms of the health sector.

### Lao PDR: Key Indicators

	2005	2006	2007	2008	2009e	2010f
	Year	Year	Year	Year	Year	Year
<b>Output, Employment and Prices</b>						
Real GDP (% change y-y)	7.1	8.5	7.5	7.5	6.7	7.7
Consumer price index (% change y-y)	7.2	6.8	4.5	7.6	0.1	4.5
<b>Public Sector 1/</b>						
Government balance (% GDP) 2/	-4.5	-3.8	-3.2	-1.8	-4.6	-3.5
<b>Foreign Trade, BOP and External Debt</b>						
Trade balance (millions US\$)	-515	-406	-713	-838	-603	-308
Exports of goods (millions US\$)	725	1,080	1,188	1,429	1,471	1,950
(% change y-y)	35.2	49.0	10.0	20.2	2.9	32.6
Key export (% change y-y)	33.0	49.2	6.1	19.5	5.1	34.6
Imports of goods (millions US\$)	1,240	1,486	1,902	2,267	2,073	2,258
(% change y-y)	17.4	19.9	28.0	19.2	-8.5	8.9
Current account balance (millions US\$)	-466	-329	-597	-696	-395	-198
(% GDP)	-17.1	-9.3	-14.0	-12.6	-6.6	-2.9
Foreign direct investment (millions US\$)	298	502	826	914	702	675
External debt (millions US\$)	3,088	3,424	4,301	5,145	5,548	5,797
(% GDP)	113	97	101	93	93	84
Short-term debt (millions US\$)	109	..	..	..	..	..
Debt service ratio (% exports of g&s)	20.9	5.7	12.5	10.3	11.1	19.5
Foreign exchange reserves, gross (millions US\$) 3/	238	336	531	636	645	724
(months of imports of g&s)	3.1	2.5	3.1	3.2	3.5	3.6
<b>Financial Markets</b>						
Domestic credit (% change y-y)	5.5	-6.0	16.0	77.4	125.5	..
Short-term interest rate (% p.a.) 4/	15.0	14.5	13.0	10.5	7.0	7.0
Exchange rate (Kip/US\$, ave)	10635.8	10060.6	9603.0	8635.3	8498.4	8477.2
Real effective exchange rate (2000=100)	103.2	106.2	105.3	124.7	116.6	..
(% change y-y)	7.6	2.9	-0.8	18.4	-8.4	..
Memo: Nominal GDP (millions US\$)	2,730	3,520	4,277	5,545	5,987	6,922

Source: National data sources.

f = forecast

3/ Excluding gold

1/ Fiscal year basis

4/ Treasury bill rate

2/ After grants