



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

Source: World Development Indicators.

Lao PDR's real GDP growth will remain robust in 2011 with projected growth of 8.6 percent compared to 8.4 percent in 2010. Natural resources⁴⁷ and manufacturing sectors⁴⁸ are expected to drive growth this year. The expected growth in the garment exports (by about 15-20 percent in this year) is due to the EU relaxation in raw material sourcing requirement and increased orders by key garment producers. The service sector also shows signs of improvement, particularly the transport and tourism sectors (hotels and restaurants) and retail trading. Agriculture (fishery, livestock and crops) is expected to benefit from the recent increase in regional demand and higher food prices. Out of 8.6 percent growth in 2011, about 3.6 percentage points come from the resource sectors⁴⁹, about 1 percentage point each from manufacturing and

⁴⁷ Hydropower (with full operation of NT2, new operations of Nam Ngum 2 and Nam Lik 1-2) and sustained mining extraction (copper and gold output expansion by Sepon and Phubia projects).

⁴⁸ Based on steady growth in cement and construction materials, as well as the garment and food and beverage industries.

⁴⁹ Almost 3 percentage points come from the electricity sector (out of which around 1.3 percentage points come from NT2 and the rest from Nam Ngum 2 and Nam Lik 1-2). About 0.6 percentage points come from the mining sector - mostly copper and gold.

agriculture, 0.5 percentage points from construction and 2.5 percentage points from services.

The headline inflation, year on year (yoy), has declined notably in recent months down to 5.8 percent in December supported by lower food prices. Food prices in Lao PDR do not follow the global trend due to the subsistence nature of food production and relatively limited food exports and imports. The headline inflation which climbed up to more than 8 percent during August–September 2010 has dropped to 5.8 percent in December 2010 as food inflation (especially locally-produced sticky rice, meat and vegetables) declined during and after the wet season harvest to 8.8 percent in December from 14.2 in September. Government's actions partly contributed to lower food inflation by balancing the supply and demand for food (using rice reserves) in markets, a stable exchange rate policy and temporarily ban on rice exports from the country. Core inflation also decreased from 3.6 percent (yoy) in August to 2.4 percent in December. The annualized inflation is about 6 percent in 2010 and projected at around 5–6 percent in 2011. Although recent global food prices have limited impacts on Lao inflation, the recent rise in energy (fuel) prices is likely to put inflationary pressures on the country—a net importer of fuel.

The budget deficit is expected to drop to 2.8 percent in FY10/11 from 5.7 percent of GDP in FY09/10 due to tightened expenditure (for both current and capital spending) and projected higher revenue (especially resource tax revenues). Domestic revenue is expected to increase to 14.4 percent of GDP in FY10/11 from 13.3 percent in FY09/10 following anticipated transfers of taxes, royalties and dividends from the resource sectors as a result of higher commodity prices. The total revenue (including grants) is expected to increase to 18.3 percent of GDP from 17.5 percent in FY09/10 driven by higher non-project grants (about 3.3 percent of GDP). Overall spending is expected to decline to 21.1 percent of GDP in FY10/11 from 22.3 percent in FY09/10. This is due to the phasing out of quasi-fiscal spending (domestically funded capital expenditure) and a decline in recurrent spending (due to the completion of major events, such as the South East Asia Games

and the 450th Anniversary of the Vientiane Capital). The wage bill is expected to remain stable this fiscal year while an increase (in nominal terms) for compensations and transfers is budgeted to support expansion of public services to remote areas, especially for social sectors.

Lao export earnings are projected to soar in 2011 driven by higher commodity prices and increased regional demand. Lao exports grew rapidly by almost 43 percent (in nominal terms) in 2010 (boosting total merchandise exports to about \$2 billion) and are projected to grow by nearly 30 percent in 2011 driven largely by resource exports (electricity and copper). Resource export growth (in nominal terms) is estimated at 59 percent in 2010 and about 32 percent in 2011. Imports rose by about 11 percent in 2010 and are expected to grow by 20 percent in 2011 driven by higher imports of capital and consumption goods as well as the rise in petrol prices. Although the trade balance is expected to improve slightly, the current account deficit is projected to widen to about 10.4 percent in 2011 from about 9 percent in 2010 mainly due to larger transfers of profits and debt service payments abroad by large resource projects. The capital account surplus is projected to increase from 10 percent of GDP in 2010 to 15 percent in 2011 with a corresponding surge of new investment especially from large resource mega projects such as the Hongsa Lignite power plant, the expansion of the Phubia Mining gold production facility, and other small and medium-sized hydro power projects.

Net foreign assets and foreign reserves picked up by the end of 2010 after continuous decline during the preceding two quarters. Foreign exchange reserves, recorded at \$531 million, dropped sharply by 18 percent (yoy) in the third quarter. Nevertheless, they started to bounce back in the fourth quarter following transfers of operational expenditures and taxes payments of foreign companies and some new foreign investments were made. As a result, foreign reserves reached more than \$730 million by end-2010 (covering 3.1 months of imports of goods and services). Net foreign assets have also followed a similar pattern with a rebound of more than 10 percent (quarter on quarter) in the fourth quarter. Reserves and net foreign assets are expected

to build up in coming months along with stronger investment inflows and larger tax profits payments from mining projects.

The kip has depreciated marginally against the U.S. dollar by 0.2 percent during the past three months (November–January) while appreciating significantly by 3.3 percent against the Thai baht in the same period. The Government pursues to achieve a delicate balance of stabilized exchange rate vis-a-vis major currencies (with an objective of ± 5 percent of fluctuations per annum).

Credit growth is expected to decelerate for the second consecutive year in 2011 while risks remain. Credit growth continued to decelerate from 85 percent (yoy) at end-2009 to around 40 percent by end-2010 and is projected to slow further to about 30-35 percent in 2011. The phase out of Bank of Laos direct lending to projects has contributed to the decline in credit growth. In the meantime, credit to private sector continues to expand. The share of credit to GDP is estimated at 25 percent in 2010 and is projected to rise to about 30 percent 2011. Non-performing loans accounted a low 3 percent of GDP at end 2010 but nevertheless require close monitoring in an environment of relatively weak banking supervision.

Structural reforms have been progressing on different fronts. The treasury reform continues to gain pace with good progress being achieved in consolidation of spending units' accounts into the National Treasury and the launch of the pilot of Treasury zero-balance account at the Bank of Lao PDR and its provincial branches. The Government has started implementation of the new public investment management mechanism, which includes allocation norms for the capital budget. The application of the formula has resulted in a public investment program allocation more favorable to poorer provinces. With regard to regional and global integration, a Prime Minister's decree on Import and Export of Goods, which will introduce "national treatment" and "most favored nation" principles into Lao Law, is under the Government's review and approval. This decree is the last piece of requirement for WTO accession. The

preparation of Trade Facilitation Strategy and Action Plan, which envisages improved coordination among concerned agencies and strengthened institutional set up for trade facilitation issues, has progressed well.

Lao PDR Key Economic Indicators

	2007	2008	2009	2010e	2011f	2012f
	Year	Year	Year	Year	Year	Year
Output, Employment and Prices						
Real GDP (% change y-y)	7.4	7.5	7.5	8.4	8.6	7.6
Consumer price index (% change y-y)	4.5	7.6	0.1	6.0	5.5	5.0
Public Sector 1/						
Government balance (% GDP) 2/	-2.7	-2.6	-6.7	-5.7	-2.8	-2.5
Foreign Trade, BOP and External Debt						
Trade balance (millions US\$)	-817	-1,033	-988	-642	-614	-484
Exports of goods (millions US\$)	1,215	1,451	1,436	2,052	2,605	2,840
(% change y-y)	12.5	19.4	-1.0	42.9	27.0	9.0
Key export (% change y-y)	2.6	16.6	3.8	45.0	29.3	9.1
Imports of goods (millions US\$)	2,032	2,484	2,424	2,693	3,219	3,324
(% change y-y)	36.7	22.2	-2.4	11.1	19.5	3.2
Current account balance (millions US\$)	-812	-1,019	-857	-702	-912	-1,020
(% GDP)	-19.0	-18.2	-14.0	-9.2	-10.4	-10.4
Foreign direct investment (millions US\$)	838	976	774	761	1,088	1,285
External debt (millions US\$)	4,386	5,360	6,028	6,227	6,721	7,295
(% GDP)	100.6	96.4	101.5	91.5	92.1	94.6
Debt service ratio (% exports of g&s)	12.5	10.4	15.6	16.2	14.0	12.6
Foreign exchange reserves, gross (millions US\$) 3/	531	636	623	735	1,047	1,232
(months of imports of g&s)	3.1	3.2	2.9	3.1	3.7	4.2
Financial Markets						
Domestic credit (% change y-y)	13.9	68.6	98.3	39.8	..	..
Short-term interest rate (% p.a.) 4/	13.0	10.5	7.0	7.0	..	..
Exchange rate (Kip/US\$, ave)	9,603	8,635	8,516	8,235	8,029	..
Real effective exchange rate (2000=100)	105.3	124.7	116.6	..	..	..
(% change y-y)	-0.8	18.4	-6.5	..	..	..
Memo: Nominal GDP (millions US\$)	4,275	5,601	6,107	7,615	8,777	9,810

Source: National data sources.

e = estimate

f = forecast

1/ Fiscal year basis

2/ After grants

3/ Excluding gold

4/ Treasury bill rate