



LAO PEOPLE'S DEMOCRATIC REPUBLIC

February 2026

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LAO PEOPLE'S DEMOCRATIC REPUBLIC

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Lao People's Democratic Republic (Lao PDR), the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 13, 2026 consideration of the staff report that concluded the Article IV consultation with Lao PDR.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 13, 2026, following discussions that ended on November 20, 2025, with the officials of Lao PDR on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 27, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the World Bank.
- A **Statement by the Executive Director** for Lao PDR.

The documents listed below will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2025 Article IV Consultation with Lao People's Democratic Republic

FOR IMMEDIATE RELEASE

- Supportive external conditions and domestic policy tightening helped stabilize Lao PDR's economic imbalances, though policies eased recently. Growth is expected to remain strong in the near term but moderate over the medium term. Significant vulnerabilities persist, and risks to the outlook are tilted to the downside.
- Policies should continue to focus on strengthening economic stability and achieving debt sustainability through tighter monetary policy, greater exchange rate flexibility to allow further accumulation of international reserves, maintaining stronger primary surpluses supported by further improving revenue collection and establishing a sound medium-term debt management and financing strategy, and improving financial oversight.
- Ambitious yet feasible structural reforms to strengthen the business environment, human capital, and governance are essential to achieving upper-middle-income-country status in a sustainable manner.

Washington, DC – February 20, 2026: On February 13, 2026, the Executive Board of the International Monetary Fund (IMF) concluded the 2025 Article IV Consultation with Lao People's Democratic Republic (Lao PDR).¹ The authorities have consented to the publication of the Staff Report prepared for this consultation.

Supportive external conditions and domestic policy tightening have supported macroeconomic and exchange rate stability and a rapid decline in inflation, though policies have eased recently. Strong growth in key partner countries boosted GDP growth in 2024–2025:Q3, while debt service deferrals by the Chinese mainland, resilient foreign direct investment, and favorable terms of trade strengthened external balances and international reserves. Alongside tighter monetary policy and sizable fiscal surpluses, these factors eased exchange rate pressures. Inflation has declined, leading to recent policy rate cuts. However, Lao PDR remains vulnerable to external shocks given its large negative net international investment position, high external debt, low international reserves, limited diversification, and challenges in the state-owned enterprise and financial sectors.

Looking ahead, growth is expected to remain strong in 2025–26, supported by rising electricity production from new projects and an expansionary 2026 budget, offsetting the impact of slower activity in key partner countries in 2026. Inflation is projected to increase toward end-

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

2026 due to the fiscal expansion, wage increases, and electricity tariff adjustments, while still declining on average annually. External balances are projected to remain stable, aided by long-term electricity export contracts, favorable terms of trade, continued FDI, and debt service deferrals. Over the medium term, growth is expected to moderate amidst labor outmigration and weaker productivity growth. On current policies, external balances are projected to weaken, with inflation pressures re-emerging. Public debt remains unsustainable despite a falling debt-to-GDP ratio. Near-term risks to the outlook are tilted to the downside, though ongoing regional integration, if well implemented, offers upside risks in the medium term.

Executive Board Assessment²

Executive Directors commended the authorities for the economic stabilization since the second half of 2024, with significant disinflation and reduction in public debt-to-GDP ratios. Directors noted that policies have been eased recently amid still elevated external and debt vulnerabilities and with risks to the outlook tilted to the downside. Against this backdrop, they called on the authorities to sustain sound macroeconomic policies and implement ambitious structural reforms to continue strengthening macroeconomic stability, further improve debt dynamics, and boost sustainable growth. Directors also noted that continued capacity development support by the Fund and other partners will remain essential.

Directors emphasized that sustaining strong primary surpluses is essential for maintaining macroeconomic stability and helping restore debt sustainability. They welcomed recent gains in revenue mobilization and called for further strengthening revenue administration, especially the Large Taxpayers Office, and for broadening the tax base to create space for critical spending needs. Directors emphasized the need for a sound medium-term financing and debt management strategy, including enhanced debt transparency and coverage. To improve fiscal risk management, Directors encouraged further efforts to enhance public investment management and state-owned enterprise oversight, particularly in the electricity sector.

Directors emphasized that an appropriately tight monetary policy stance is needed to ensure that inflation remains within the central bank's inflation target range. They welcomed recent reforms to the monetary policy framework and called for sustained progress in this area. Directors underscored the importance of strengthening external buffers and accelerating export diversification to enhance resilience to external shocks. In this context, they encouraged continued opportunistic reserve accumulation while allowing the exchange rate to absorb shocks. Directors agreed that improving external sector and debt statistics is critical for sound foreign exchange and debt management.

Directors stressed the importance of strengthening financial stability. In particular, they recommended enhancing supervision, improving data and stress-testing frameworks, ensuring the implementation of capital and liquidity requirements, developing strategies to strengthen undercapitalized banks, and enhancing the resolution of non-performing loans. Directors

² At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

welcomed the upcoming Financial Sector Stability Review, which will help identify further reform priorities.

Directors underscored the importance of structural reforms to improve governance, the business environment, and human capital, which would support sustainable growth and help the country achieve upper-middle income status by 2035. In particular, they recommended strengthening anti-corruption agencies and the effectiveness of the AML/CFT framework, digitalizing government processes, upgrading regulations, and improving data quality, coverage, and transparency.

Table 1. Lao PDR: Selected Economic and Financial Indicators, 2021–30

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Output and prices										
Nominal GDP (in billions of kip)	180751	217350	280844	342976	385488	430090	470763	513354	559284	618889
Real GDP, with contributions from 1/	2.1	2.3	3.7	4.3	4.5	4.5	4.0	3.5	3.0	3.0
Domestic public demand	-4.1	-2.6	1.4	-3.3	1.4	3.0	-0.9	0.7	0.7	0.8
Domestic private demand	-5.0	-0.2	-8.7	4.9	0.5	3.1	2.9	2.5	2.1	2.0
Net exports	11.1	5.1	11.0	2.7	2.6	-1.7	2.0	0.3	0.2	0.2
Consumer prices (annual average) 2/	3.8	23.0	31.2	23.1	7.7	6.9	5.2	5.4	5.7	7.4
Consumer prices (end-period) 2/	5.3	39.3	24.4	16.9	5.6	9.0	4.8	5.4	6.0	8.6
GDP deflator	4.8	25.1	24.7	17.1	7.6	6.8	5.3	5.4	5.7	7.4
Public finances										
Revenue and Grants	15.0	14.8	16.4	18.0	19.5	19.0	18.8	18.9	18.9	18.8
Tax revenue	10.3	11.4	12.3	14.2	15.8	15.6	15.6	15.7	15.7	15.7
Non-tax revenue	2.7	2.5	2.3	2.9	2.3	2.1	2.1	2.1	2.1	2.1
Expenditure	15.7	14.7	16.4	15.7	17.9	19.1	17.6	17.8	17.8	17.8
Current Expenditure	11.0	10.4	11.1	11.4	13.0	13.7	12.2	12.3	12.3	12.3
of which: interest payment	1.2	1.8	0.9	3.7	3.6	3.0	1.9	1.9	1.7	1.6
Net acquisition of nonfinancial assets	4.7	4.3	5.3	4.3	4.9	5.4	5.4	5.5	5.5	5.5
Overall balance	-0.7	0.1	0.0	2.3	1.6	-0.2	1.2	1.2	1.1	1.0
Primary balance	0.5	1.8	0.9	6.0	5.2	2.9	3.1	3.0	2.8	2.7
Money and credit										
Reserve money	23.2	27.2	13.7	-2.2	4.7	5.3	5.4	5.7	6.2	6.2
Broad money	24.0	36.9	33.3	17.8	11.7	10.7	9.7	9.2	10.3	11.0
Credit to the economy	11.5	45.6	27.8	19.0	7.7	7.5	7.0	6.8	7.9	8.6
Balance of payments										
Current account balance	2.3	-3.0	2.7	3.3	5.7	1.6	0.5	-0.1	-0.7	-1.1
of which: trade balance	7.7	6.3	4.8	4.5	7.5	4.7	4.5	4.3	4.0	4.0
Exports, f.o.b.	41.5	54.2	55.8	59.0	63.3	59.0	57.8	56.6	55.7	55.1
Imports, c.i.f.	33.9	47.9	51.0	54.5	55.9	54.3	53.3	52.3	51.7	51.2
Capital and Financial account balance	-0.9	4.7	2.6	0.8	-0.9	-0.4	0.7	0.2	0.3	0.4
Gross official reserves (in millions of U.S. dollars) 3/	1245.0	990.5	1182.5	1606.9	2470.7	2698.8	2938.7	2963.6	2871.7	2704.2
In months of prospective imports of goods and services	1.9	1.4	1.4	1.7	2.5	2.6	2.8	2.7	2.5	2.2
Memorandum items:										
Total debt	175.9	216.2	211.5	197.0	179.4	173.0	166.3	160.3	155.8	151.2
Public and public guaranteed debt 4/	92.2	115.7	108.8	94.0	80.6	75.7	69.7	64.6	60.6	57.4
Domestic	12.6	11.8	12.4	9.0	7.1	5.7	4.4	3.7	3.2	2.8
External	79.6	103.9	96.4	85.0	73.5	70.0	65.3	61.0	57.4	54.6
Private debt	83.7	100.4	102.8	103.0	98.9	97.3	96.6	95.7	95.2	93.8
Domestic 5/	44.2	54.0	53.6	54.0	52.1	50.5	49.5	48.5	48.1	47.3
External	39.5	46.5	49.2	49.0	46.7	46.8	47.1	47.2	47.1	46.5
Official exchange rate (kip per U.S. dollar; end-of-period)	11166	17238	20480	21757	21566	...	...	...	...	...
percentage change, y/y	20.3	54.4	18.8	6.2	-0.9	...	...	...	...	...
Real GDP growth (published by authorities) 6/	3.5	4.4	4.2	4.6	...	...	...	...	...	...

Sources: Data provided by the Lao P.D.R. authorities; and IMF staff estimates and projections.

1/ Due to concerns about data quality, the 2019–23 GDP numbers are staff estimates using leading indicators such as electricity and mining productions, harvest volumes in major crops, export of goods and services, and tourism revenues. GDP by expenditure components are staff estimates due to lack of official statistics. Base year for real GDP is 2012. Under unchanged policies, medium-term growth is projected to decline due to slower labor force and productivity growth due to outward skilled labor migration.

2/ Base year of CPI basket is 2015.

3/ Includes drawings on the swap agreement with the People's Bank of China (PBoC) of US\$400 million in 2020, and the Special Drawing Right (SDR) allocations of SDR 41.3 million in 2009 and SDR 101.4 million in 2021.

4/ Includes publicly-guaranteed debt in the stock of external debt for which data was missing prior to 2020, and drawings on the swap agreement with the People's Bank of China (PBoC) of US\$400 million in 2020.

5/ Estimated based on commercial banks' credit to the private sector.

6/ Lao Statistics Bureau (LSB) data.



LAO PEOPLE'S DEMOCRATIC REPUBLIC

January 27, 2026

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

KEY ISSUES

Supportive external conditions and domestic policy tightening helped stabilize economic imbalances and the exchange rate (ER), though policies have eased recently. Stronger-than-expected activity in key partner countries boosted GDP growth in 2024–25:Q3, and, along with Chinese debt service deferrals, resilient FDI and favorable terms of trade, strengthened external balances and reserve accumulation. Tight monetary and fiscal policies in 2025, and monetary policy framework reforms, eased ER pressures and allowed rapid disinflation. However, monetary policy was eased in 2025:Q4 and the fiscal stance is projected to ease in 2026 relative to the stronger-than-expected 2025 primary surplus.

Growth is expected to remain strong in the near term, but moderate over the medium term. Growth is projected to average 4.5 percent in 2025–26, largely reflecting the expansionary draft 2026 budget and increased electricity production from new projects coming onstream. External balances are likely to remain stable, supported by long-term electricity export contracts, favorable commodity and food prices, and continued FDI. However, inflation is expected to rise due to the fiscal impulse and significant wage and electricity tariff increases in the pipeline. Over the medium term, weaker labor and productivity growth from continued outmigration will weigh on growth, and a gradual weakening of external balances is expected to erode gross international reserves (GIR) and rekindle inflation. Despite declining public debt-to-GDP ratios, debt dynamics remain unsustainable.

The economy remains vulnerable and risks to the outlook are on the downside. External vulnerabilities arise from high external debt, below adequate levels of GIR (2.4 months of imports at end-September 2025), and limited economic diversification. Moreover, near-term risks to growth are tilted to the downside, notably from intensifying geopolitical and escalating trade tensions, commodity price volatility, tighter global financial conditions, and domestic policy reversals.

Policy Recommendations. Policy discussions focused primarily on measures to stay the course on strengthening macroeconomic, external, and financial stability, restoring debt sustainability, and navigating spillovers from global shocks, while achieving the government's goal of reaching upper middle-income status by 2035. The policy priorities of the 10th National Socio-Economic Development Plan (NSED) for 2026–30 are appropriate but require strong and effective implementation.

- **Monetary and ER policies.** Tighter monetary policy is warranted to ensure that disinflation is firmly entrenched, given somewhat accommodative monetary conditions, indications of elevated inflation expectations, and inflationary pressures in train for 2026. Allowing the ER to absorb shocks while building GIR opportunistically would enhance resilience. Continuing the strong ownership of IMF TA, monetary policy reforms should proceed as planned.
- **Fiscal policy.** Achieving a stronger primary surplus in 2026 and maintaining sustained strong primary surpluses over the medium term, supported by improved revenue collection, and a sound medium-term financing and debt management strategy (MTDS), continues to be critical. The priorities are to improve revenue administration, notably by strengthening the large taxpayer's office, and broadening the tax base particularly to the corporate sector. Civil service wage increases need to be accompanied by civil service and regulatory reforms to improve public sector productivity. A sound debt and financing strategy—anchored in stronger public financial management, public-private partnership, and debt-fiscal risk frameworks—is vital for debt sustainability.
- **Financial sector policy.** Supervisors need to closely monitor liquidity and solvency conditions using sound financial sector data and stress-testing frameworks to mitigate financial sector risks. It is critical to accelerate the implementation of new capital and liquidity requirements and develop strategies to address undercapitalized banks. Loan forbearance and NPL regulatory limits should be eliminated to reduce moral hazard, with adequate NPL provisioning and sound NPL resolution. Strengthening SOE balance sheets would help reduce credit risk.
- **Structural policies.** Ambitious yet feasible structural reforms to strengthen the business environment, human capital, and governance can help raise potential output closer to the government's target. The priorities include: improved data coverage, quality, and transparency (including public access to information); greater inter-agency coordination; enhanced digitalization of government processes; consistent and strengthened enforcement of upgraded but streamlined regulations; stronger oversight of SOE balance sheets; an effective AML/CFT framework; and stronger anti-corruption measures.

Approved By

**Rupa Duttagupta
(APD) and Niamh
Sheridan (SPR)**

Discussions took place in Vientiane during November 5-20, 2025. The staff team comprised Angana Banerji (Head), Jochen Schmittmann (Resident Representative), Weining Xin, SeokHyun Yoon, and Taku Zakoji (all APD), Anousa Kounnavong and Vimaly Savannarideth (Resident Representative's Office). Kaweevudh Sumawong and Evelyn Chen (OEDST) joined the meetings. The team received excellent research support from Liangliang Zhu and Aishwary Trivedi (APD) and administrative and logistical support from Dian Permana (APD) and Lamngern Pharakhone (Resident Representative's Office). The IMF team met with Deputy Prime Minister Saleumxay Kommasith, Finance Minister Santiphab Phomvihane, Bank of Lao PDR Governor Bounkham Vorachit, and other senior officials.

CONTENTS

Acronyms	5
CONTEXT: A COURSE CORRECTION	6
OUTLOOK: WEATHERING GLOBAL SHOCKS	8
SIGNIFICANT VULNERABILITIES AND DOWNSIDE RISKS TO THE OUTLOOK	11
POLICIES TO ACHIEVE RESILIENCE AND UPPER-MIDDLE-INCOME STATUS SUSTAINABLY	13
A. Monetary Policy	14
B. External Sector Policies	16
C. Fiscal Policy	17
D. Financial Sector Policies	22
E. Structural Reforms To Boost Growth Potential	25
STAFF APPRAISAL	31
BOX	
1. Policies to Boost International Tourism to Diversify Exports	28

FIGURES

1. Structural Gaps Relative to Upper-Middle-Income Countries	26
2. Robust GDP Growth	40
3. Strengthening External Balances	41
4. Rapid Disinflation and Exchange Rate Stabilization	42
5. Improved Fiscal Performance	43
6. Slow Progress on Governance	44
7. Growing Access to Financial Services	45

TABLES

1. Selected Economic and Financial Indicators, 2021–30	33
2a. Balance of Payments, 2021–30 (in millions of U.S. Dollars)	34
2b. Balance of Payments, 2021–30 (in percent of GDP)	35
3. Monetary Aggregates, 2021–30	36
4a. Central Government Operations, 2021–30 (in billions of Kip)	37
4b. Central Government Operations, 2021–30 (in percent of GDP)	38
5. Selected Financial Stability Indicators, 2021–25:Q2	39
References	46

ANNEXES

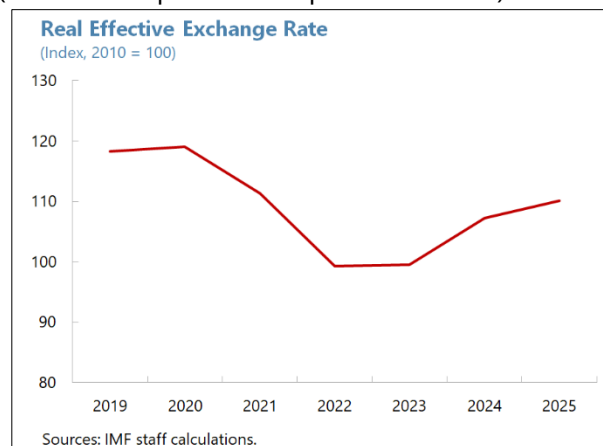
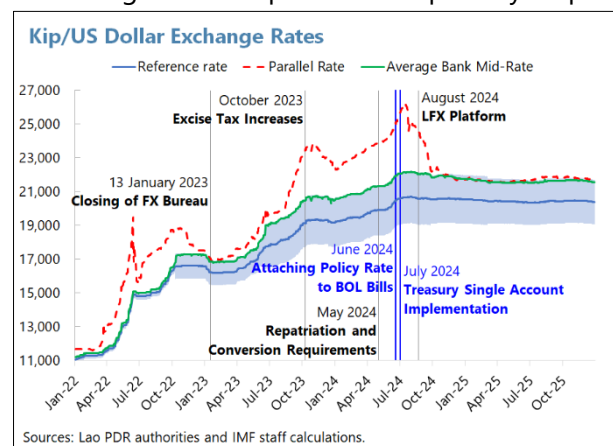
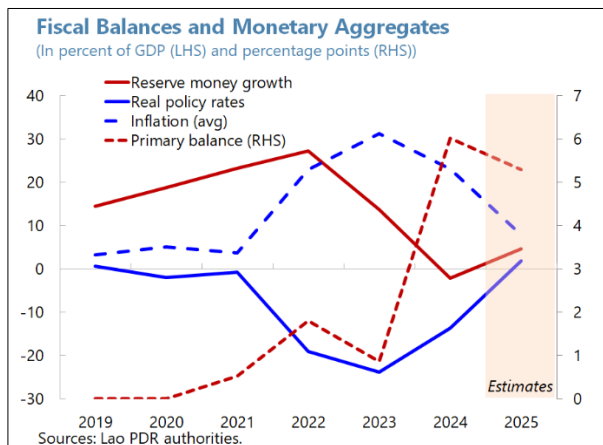
I. Implementation of 2024 Article IV Recommendations	47
II. External Sector Assessment	52
III. Risk Assessment Matrix	56
IV. Estimating Monetary Conditions in Lao PDR	58
V. Estimating the Tax Frontier for Lao PDR	63
VI. Data Issues	66

Acronyms

ADB	Asian Development Bank
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BOL	Bank of Lao PDR
CAR	Capital Adequacy Ratio
CFM	Capital Flow Management Measure
CIT	Corporate Income Tax
EDL	Électricité du Laos
ESS	External Sector Statistics
FATF	Financial Action Task Force
FSI	Financial Soundness Indicator
FSSR	Financial Sector Stability Review
GIR	Gross International Reserves
IIP	International Investment Position
IV	Institutional View on the Liberalization and Management of Capital Flows
LTO	Large Taxpayer Office
MCP	Multiple Currency Practice
MOF	Ministry of Finance
MTDS	Medium-Term Financing and Debt Management Strategy
NIM	Net Interest Margin
NIIP	Net International Investment Position
NPL	Non-Performing Loans
PFM	Public Financial Management
PIM	Public Investment Management
PIT	Personal Income Tax
PPP	Public-Private Partnership
SDG	Sustainable Development Goals
SOE	State-Owned Enterprise
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment Tool
TSA	Treasury Single Account
UMI	Upper Middle-income
UMIC	Upper Middle-Income Country
VAT	Value Added Tax
WB	World Bank

CONTEXT: A COURSE CORRECTION

1. Supportive external conditions and domestic policy tightening helped stabilize economic imbalances and the exchange rate (ER), though policies have eased recently. GDP growth was robust in 2024–25:Q3 due to strong electricity exports, tourism and FDI inflows (Figure 2). Favorable terms of trade (TOT),¹ stronger-than-expected growth in key external partners, and Chinese debt service deferrals, strengthened external balances, boosting gross international reserves (GIR) to US\$2.3 billion (2.4 months of imports) at end-2025:Q3 (Figure 3).² Monetary policy reforms and fiscal surpluses helped tighten monetary conditions, resulting in positive real interest rates since May 2025 (Text Figure). Improved external balances and synchronous fiscal and monetary policy tightening helped ease ER pressures, largely eliminating the parallel market premium, and leading to a real effective exchange rate (REER) appreciation (Text Figures below).³ Inflation fell from 26 percent in June 2024 to 5.6 percent in December 2025. This led the Bank of Lao (BOL) to cut its policy rate four times in 2025, from 10.5 percent at end-2024 to 8.5 percent in November 2025 while maintaining positive real interest rates. Moreover, the draft 2026 budget implies an easing fiscal stance relative to the larger-than-expected 2025 primary surplus (5.2 versus a planned 4.2 percent of GDP).



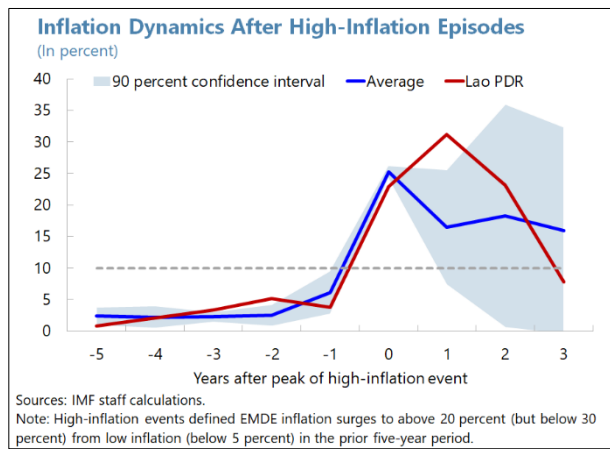
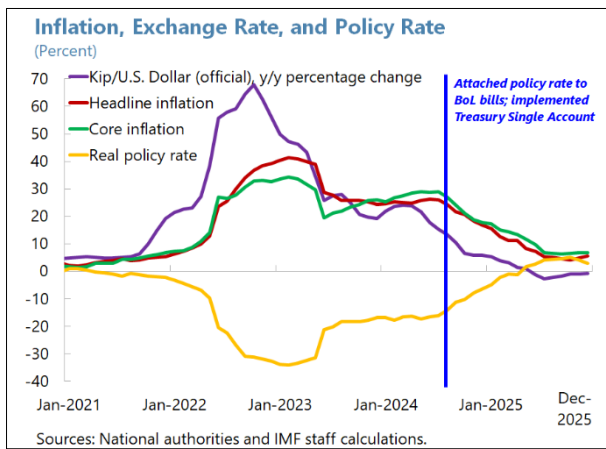
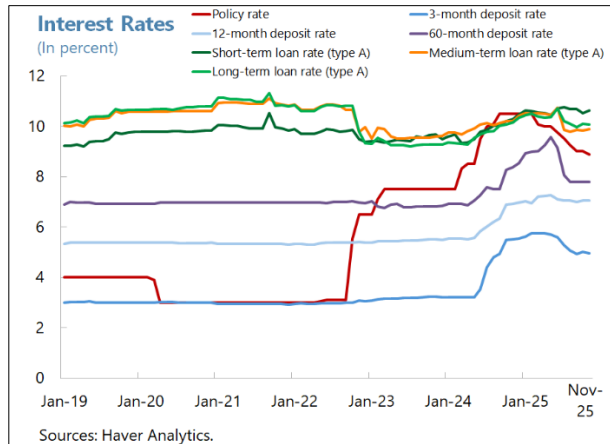
¹ Higher metal and mineral export prices and significantly lower oil import prices.

² Reflecting the macroeconomic stabilization, Lao PDR’s sovereign ratings were upgraded recently, allowing it to return to international capital markets in November 2025. Fitch and Standard and Poor’s (S&P) upgraded Lao PDR’s sovereign rating to CCC+ with stable and positive outlook respectively in October 2025. Lao PDR issued US\$300 million in senior unsecured notes in the Singapore market in November 2025, with a coupon rate of 11.25 percent. In December 2025, Moody’s upgraded Lao PDR’s sovereign credit rating at Caa2 with a stable outlook.

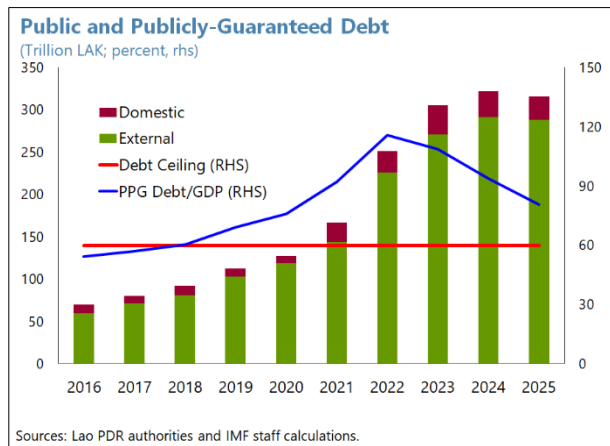
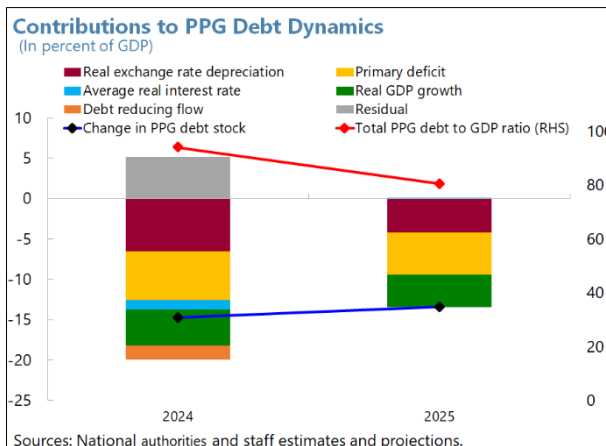
³ Since May 2024, the BOL has implemented mandatory repatriation and conversion requirements, requiring exporters to repatriate their FX proceeds and sell a portion of them to commercial banks, which, in turn, are obliged to sell 30 percent of these FX receipts to the BOL. These measures constitute a capital outflow management measure (CFM) under the IMF’s Institutional View (IV). See [IMF Country Report No. 24/319](#).

2. Monetary policy framework reforms also continued, strengthening monetary

transmission (Text Figure, Figure 4). The establishment of a Treasury Single Account (TSA) at the BOL helped shrink excessive liquidity in the banking system by gradually shifting government deposits from commercial banks to the BOL (Text Figure below). These measures—and the gradual unwinding of BOL’s quasi-fiscal spending—tightened financial conditions, allowing faster-than average disinflation in Lao PDR relative to other comparable countries (Text Figure).



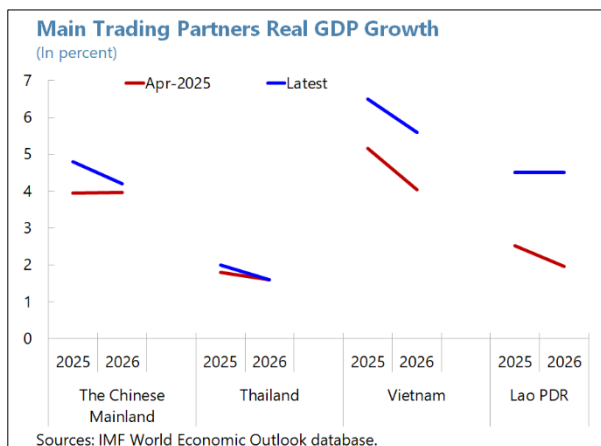
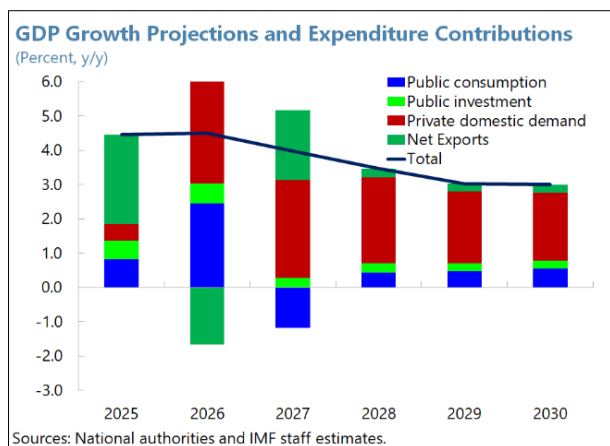
3. Public debt remains elevated, although declining as a share of GDP due to debt repayments, REER appreciation, stronger growth, and fiscal consolidation (Figure 5, Text Figures). Lao PDR continues to benefit from debt deferrals and its access to international markets remains constrained. Moreover, it continues to rely on domestic bond issuance at below-market rates to contain borrowing costs and faces sizeable contingent liabilities from the banking and state-owned enterprise (SOEs) sectors, which continue to face challenges (Sections D and E).



4. Progress on reforms has been uneven (Annex I: Implementation of 2024 Article IV Recommendations). With strong BOL and MOF ownership of IMF TA, monetary policy framework reforms are progressing well. Slower reform momentum elsewhere partly reflects capacity constraints and delays related to the 2025 government restructuring. Data quality improvements have lagged, notably in external sector statistics (ESS) and GFSM. The World Bank (WB) and Asian Development Bank (ADB) are assisting the government with a medium-term budget framework (MTBF), fiscal risk assessment, and strengthening public finance management (PFM). Despite several high-profile cases, and strengthened powers of relevant state agencies, perceptions of corruption remain elevated (Figure 6).

OUTLOOK: WEATHERING GLOBAL SHOCKS

5. Near-term growth is expected to remain strong, though inflation is expected to rise (Table 1).⁴ Growth is projected at 4.5 percent in 2025–26. Increased electricity production from new projects coming onstream in 2025:Q4 is expected to support exports, offsetting the drag from slower growth in key partner countries due to the full-year U.S. tariff impact. Moreover, significant increases in minimum and public sector wages, and relaxation of the fiscal stance in 2026 are expected to boost domestic demand by raising disposable incomes (Text Figures below). While continued monetary policy reforms and stable external balances are expected to support further disinflation, inflation is expected to rise by end-2026 due to the large fiscal impulse, additional electricity tariff increases, and the recent easing of monetary conditions.



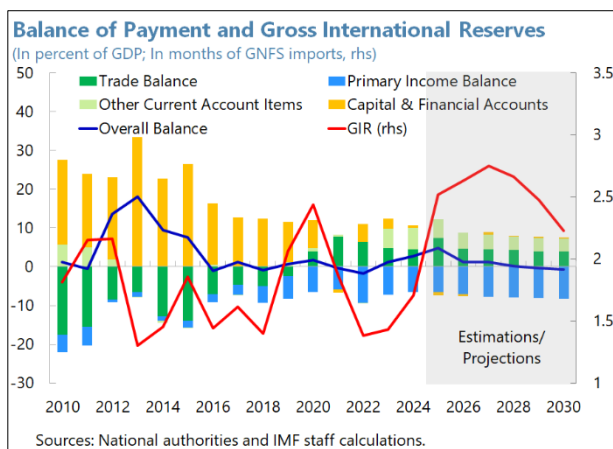
6. The current account surplus (CAS) is projected to narrow in 2026 as the impact of U.S. tariffs weighs on partner countries (Tables 2a-2b). The record-high 2025 CAS reflects the

⁴ The projections are based on current policies and global assumptions in the October 2025 *World Economic Outlook* (WEO). The projections assume no new BOL fiscal or quasi-fiscal financing; continued transition of government deposits from commercial banks to the BOL; and unchanged reserve requirements and policy rate. Fiscal forecasts incorporate the draft 2026 budget, and continued financial repression (i.e., domestic debt financing at below market rates, with state agencies directed to hold government debt). On Chinese debt, the assumptions include: repayment of half of the debt maturing in 2026 (around US\$250 million); the repayment of past-deferred debt over 2027–40; and the financing of Chinese debt repayments through “unidentified financing” from 2027 onwards. Debt and external sector forecasts do not fully include offtake contracts.

front-loading of exports in response to U.S. tariffs, increased electricity and agricultural exports, favorable TOT, and strong tourism.⁵ The external position for 2025 is assessed to be moderately weaker than implied by medium-term fundamentals and desirable policy settings (Annex II: External Sector Assessment). For 2026, the CAS is expected to shrink as slower growth in key export and tourism partners offsets new electricity exports that came on stream at end 2025 and the still supportive TOT. The direct impact of the 37.8 percent effective U.S. tariffs on Lao PDR will be limited given its small U.S. trade exposure, though indirect effects would be larger because of slower trading partner growth. Nonetheless, overall external balances are likely to remain stable, supported by steady FDI inflows for ongoing power and transportation projects.

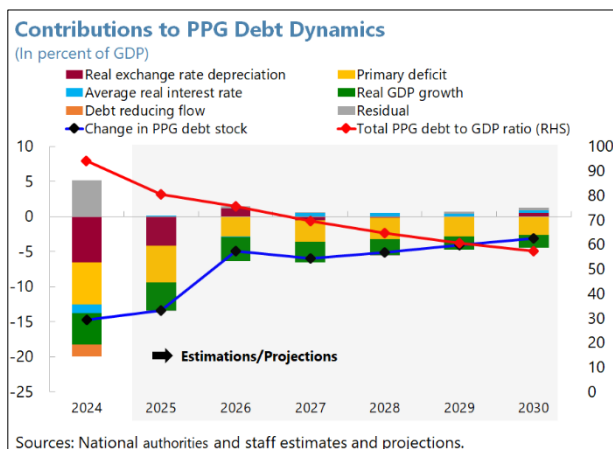
7. Assuming unchanged policies, growth and external balances are expected to weaken over the medium term, with the latter contributing to inflation (Tables 2a-2b and 3). Although

capital accumulation is expected to remain resilient largely reflecting FDI in energy and transportation sectors, growth is projected to slow to 3 percent, due to weaker labor force productivity growth resulting from continued skilled labor outmigration.⁶ Despite broadly stable exports, external balances are projected to weaken due to rising income net outflows—stemming from the negative net international investment position (NIIP)—and robust imports. Rising external pressures, and the projected moderate easing of fiscal policy, are expected to rekindle inflation. Assuming an unchanged monetary policy rate, the gradual decline in real interest rates is projected to induce capital outflows, adding to external pressures, eroding GIR (projected to decline to 2.2 months of imports by 2030 (Text Figure)).



8. Although public debt-to-GDP is expected to decline over the medium term, it continues to be assessed as unsustainable.

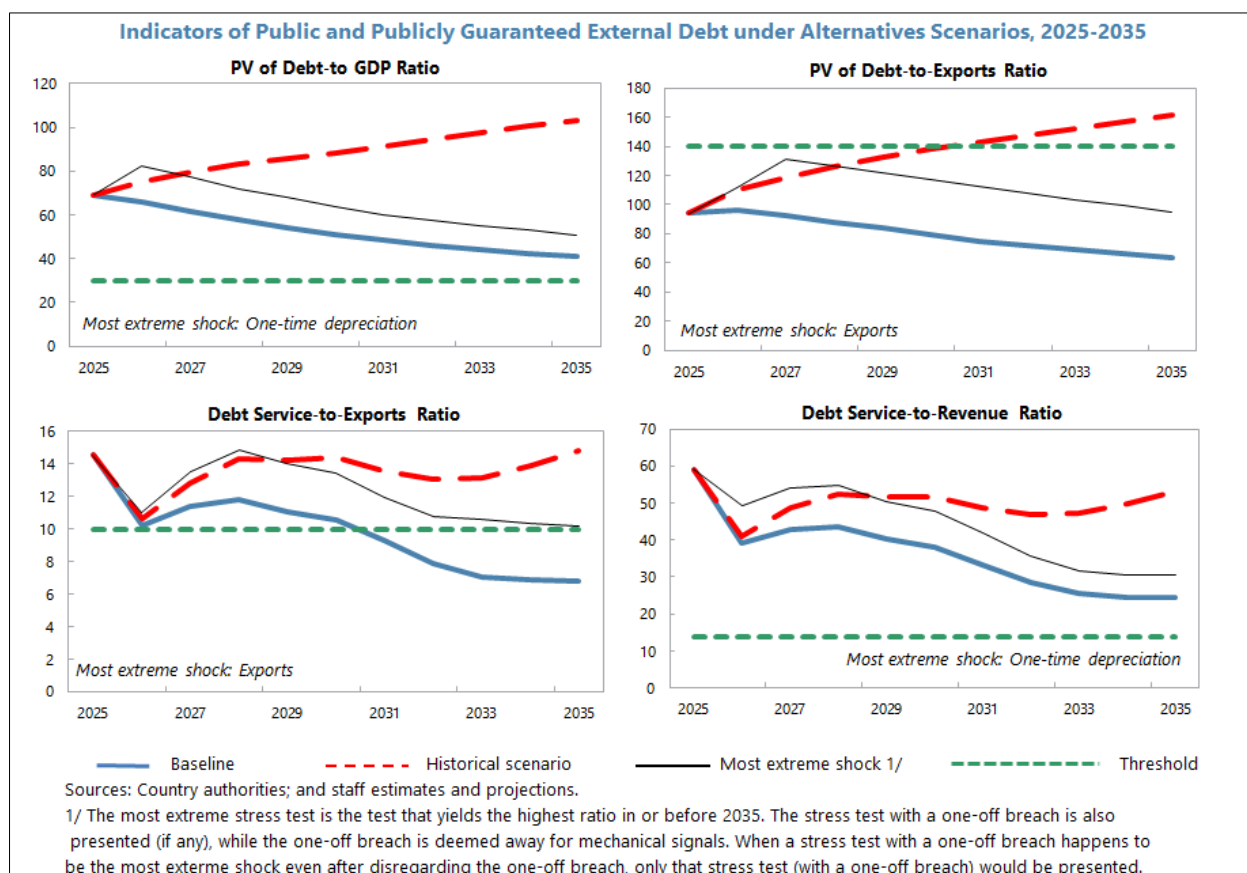
The forecasted continuation of primary budget surpluses and stable GDP growth would reduce public debt to 56.2 percent of GDP by 2030 (Text Figure). However, as most debt-burden



⁵ A temporary import restriction on luxury cars introduced in 2024 and extended into 2025 to prevent foreign currency shortages, is estimated to have a small impact on the current account due to its narrow scope and lax implementation.

⁶ Improved FDI prospects, due to the macroeconomic stabilization and sector-specific pull factors, as reflected in large FDI projects already at various stages of implementation, are projected to boost potential growth relative to the 2024 Article IV consultation.

indicators are expected to remain above their indicative thresholds under current policies (Text Figure below), Lao PDR is assessed to be in external and overall debt distress, with public debt deemed unsustainable (Lao PDR: Debt Sustainability Analysis).

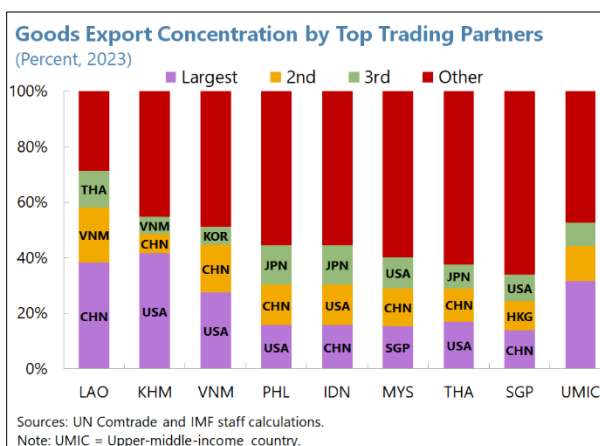
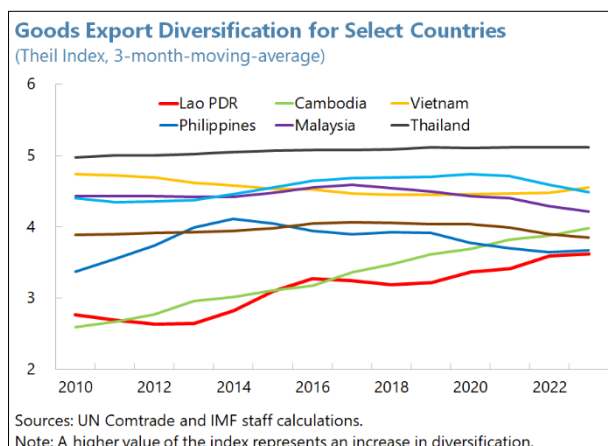
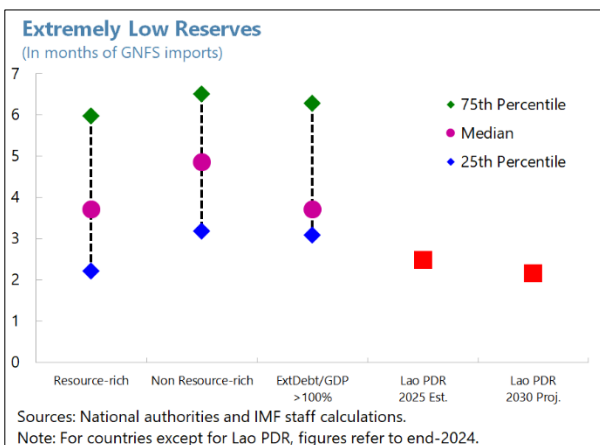
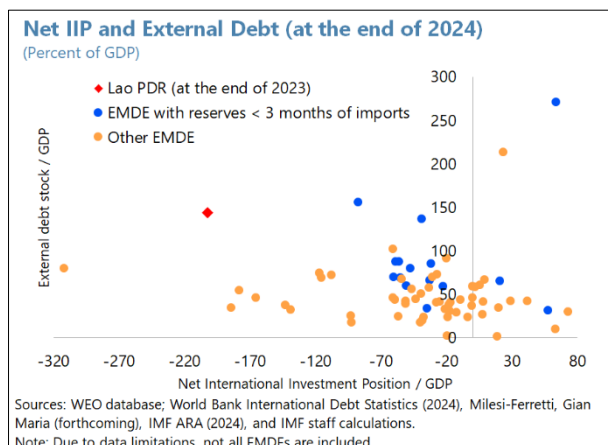
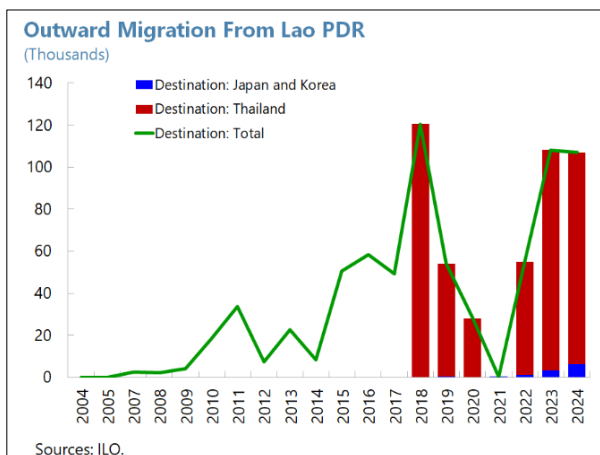


Authorities' Views

9. The authorities broadly agreed with the overall assessment of the near-term outlook, while being more optimistic about the medium term. They expect robust growth and rising inflation in the near term due to wage increases. Medium-term growth is expected to remain strong at around 5 percent (with the draft 2026–30 National Socio-Economic Development Plan (NSEDP) targeting 6 percent growth on average), supported by planned higher energy sector FDI and exports, and ongoing infrastructure improvements. The BOL noted its firm commitment to maintaining inflation within the new narrower target range (5±2 percent) established in the 10th NSEDP. The authorities were more optimistic about debt sustainability, reflecting their optimism about the medium-term outlook and financing strategy. The authorities also broadly concurred with the external sector assessment, noting that the substantial increase in the 2025 CAS reflected front-loading due to U.S. tariffs. They concurred with the need for further GIR accumulation.

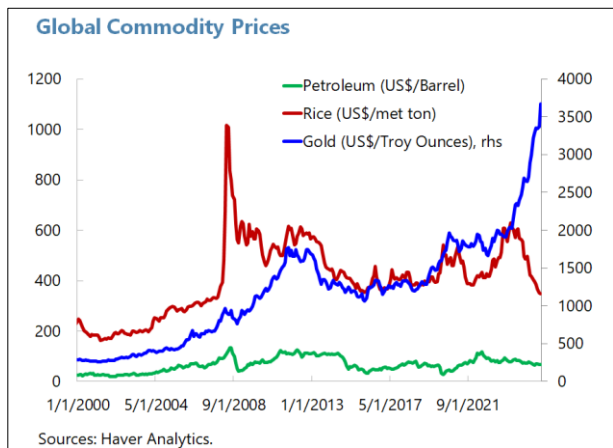
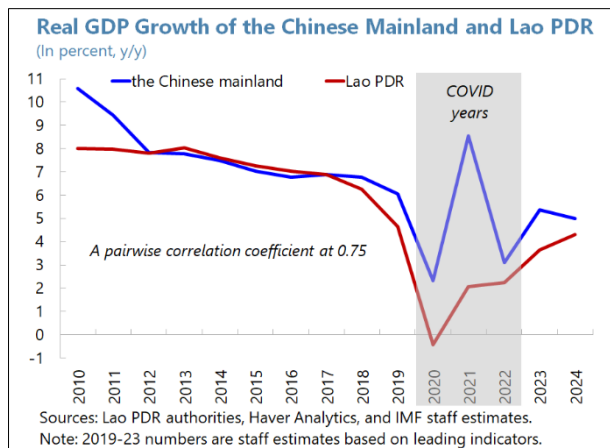
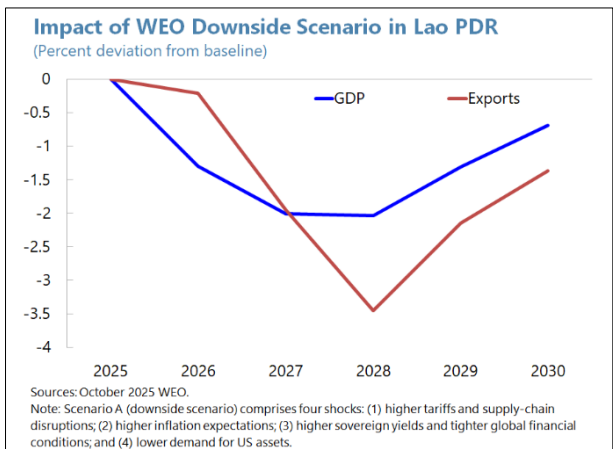
SIGNIFICANT VULNERABILITIES AND DOWNSIDE RISKS TO THE OUTLOOK

10. The economy remains vulnerable (Text Figures), given a negative NIIP due to high private and public sector external debt and less than adequate GIR levels. Although moderating, dollarization remains pervasive, and despite some improvement, the still-concentrated commodity-oriented export base leaves the economy exposed to external shocks. Finally, the continued outward migration of skilled labor constrains productivity growth.

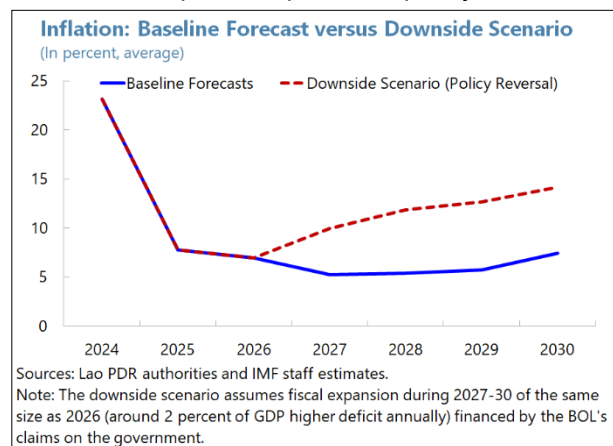


11. Near-term risks to growth are tilted to the downside, arising from external and domestic factors (Annex III: Risk Assessment Matrix), with upside risks to inflation.

- Global risks* stem from intensifying geopolitical tensions; escalating trade tensions and prolonged policy uncertainty; commodity price volatility; and tighter global financial conditions. Should these risks materialize together, they could result in lower global demand, including from Lao PDR's key trading partners (October 2025 WEO scenario), and higher global commodity price volatility (Text Figures below). Lao PDR's growth would weaken due to weaker exports and FDI inflows—given historically large spillovers from the Chinese mainland—worsening external imbalances (Text Figure), triggering FX and inflationary pressures, weighing on bank, SOE and government balance sheets, and worsening debt dynamics.



- Domestic risks* include unexpected private sector debt developments, potential policy reversals, and natural disasters. Banking sector stress could also emerge, given its vulnerability to adverse shocks. A premature reversal of policies would, *ceteris paribus*, fuel inflation (Text Figure) and raise inflation expectations, triggering a reemergence of inflation-depreciation spirals, worsening external and domestic imbalances, and debt dynamics. Such dynamics could also be triggered by unforeseen repayments of SOE offtake contracts using export receipts.



12. There could be upside risks to the medium-term outlook stemming from ongoing efforts to deepen regional integration. If well implemented, and provided domestic policies

remain prudent, ongoing initiatives to advance trade integration could bolster exports, growth and external balances (1138).

Authorities' Views

13. The authorities concurred with the assessment of economic vulnerabilities and downside risks to the outlook, noting Lao PDR's significant exposure to external shocks given its high import dependence, high debt, limited buffers, and limited export diversification.

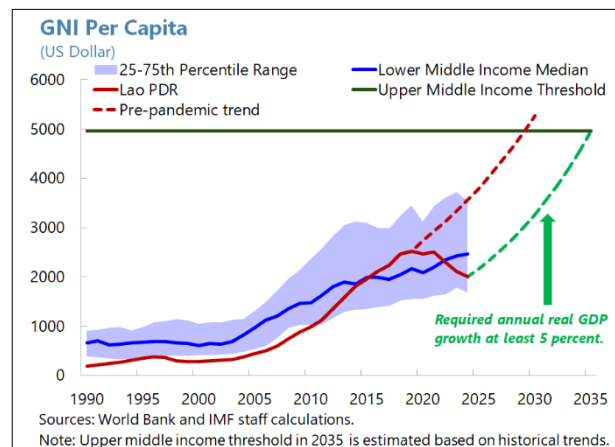
POLICIES TO ACHIEVE RESILIENCE AND UPPER-MIDDLE-INCOME STATUS SUSTAINABLY

Discussions primarily focused on a macroeconomic and financial policy mix to strengthen economic and financial resilience, restore debt sustainability, and navigate global shocks, while supporting the government's ambitious growth targets. To this end, it would be appropriate to tighten monetary policy; continue to allow greater ER flexibility to act as a shock absorber while building GIR to boost external resilience; maintain strong fiscal surpluses, supported by strengthened revenue collection and a sound medium-term debt and financing strategy to create space for priority spending, and improve debt dynamics. Ambitious yet feasible structural reforms to strengthen the business environment, human capital, and governance can raise potential output closer to the government's target. Improved oversight of bank and SOE balance sheets is vital for economic and financial resilience.

14. Discussions focused on policies to sustain the improved macroeconomic stability to lay the groundwork for durable high growth. The government's overarching goal is for Lao PDR to

achieve upper-middle-income (UMI) status by 2035. The draft 10th NSEDP sets a growth target of 6 percent annually for 2026–30 to achieve this goal by 2035 (Text Figure). The pre-pandemic growth strategy comprising unsustainable expansionary policies led to debt distress and double-digit inflation, severely reducing policy space. The draft 10th NSEDP focuses on appropriate policy priorities (Text Table 1 next page), notably macroeconomic stability, public finances, debt management, governance, and human capital development.

Given significant vulnerabilities and downside risks, a premature easing of fiscal and monetary policies would be counterproductive. Instead, accelerating fiscal, structural, financial sector and SOE reforms and the right composition of fiscal policy would not only boost resilience and improve debt dynamics, but also steer the economy toward achieving UMI status in a sustainable manner.



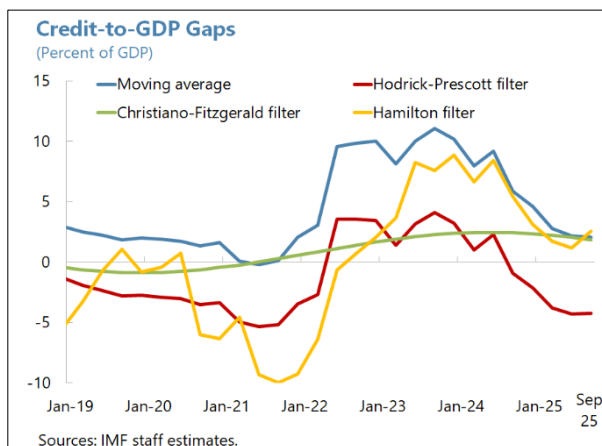
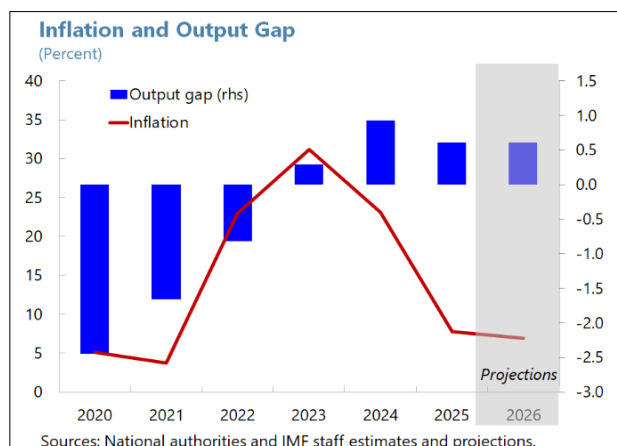
Text Table 1. National Socio-Economic Development Plan, 2026–30

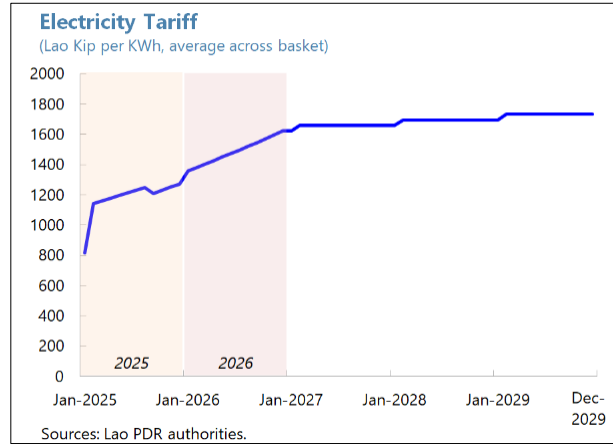
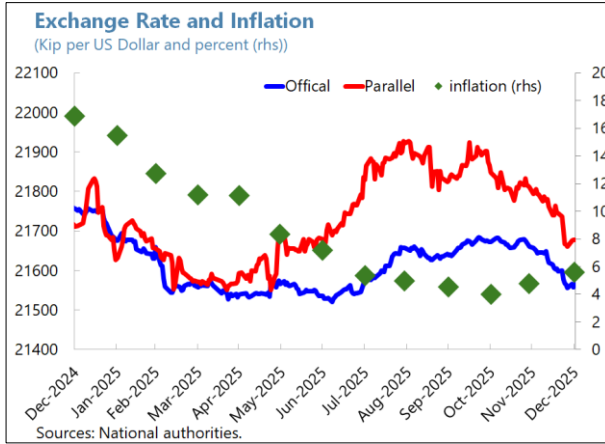
Goals	Measures
1. An independent, self-sustaining economy	1. Diversify production and service base 2. Promote investment 3. Ensure macroeconomic stability 4. Enhance public finance and debt management 5. Enable private sector development
2. Higher quality human resource	1. Increase human capital investment 2. Plan for long-term demographic trend 3. Solve labor market frictions
3. Better living conditions	1. Promote investment into rural development 2. Reduce gender inequality 3. Protect elder and younger population
4. Sustainable environment	1. Strengthen natural resources and environmental management 2. Enhance climate risk monitoring 3. Promote investment in climate adaptation and mitigation
5. Effective regional and international linkages	1. Enhance trade-investment cooperation 2. Encourage investment in regional connectivity 3. Promote sustainability of energy sector
6. Improved public sector administration	1. Modernize the management and administration of the government 2. Upgrade quality of civil servant and public service 3. Improve administration and coordination between agencies 4. Combat corruption at all levels 5. Improve statistics

Sources: Lao PDR National Socio-Economic Development Plan for 2026-30, 4th Draft.

A. Monetary Policy

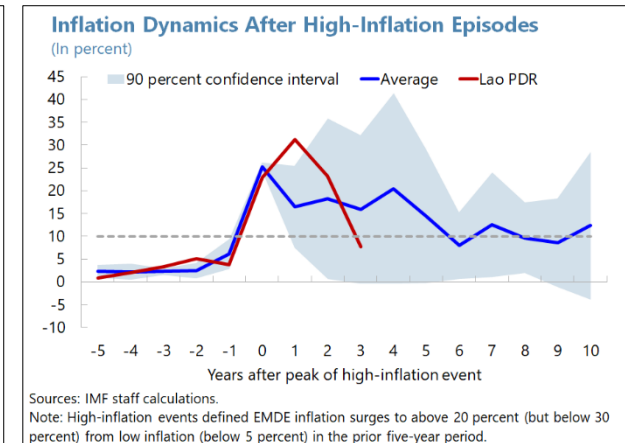
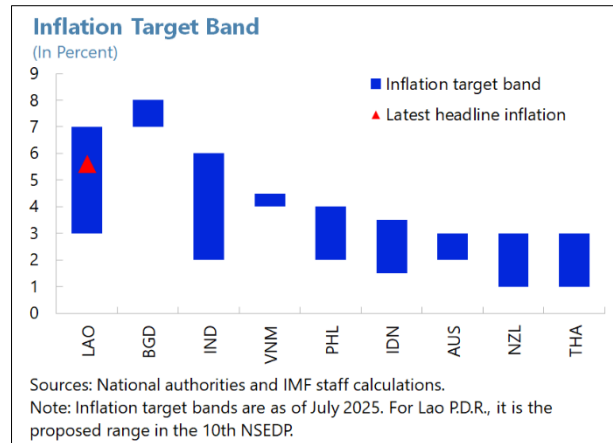
15. Monetary conditions remain somewhat accommodative, with significant upside risks to inflation (Annex IV: Estimating Monetary Conditions for Lao PDR). Headline inflation inched up in 2025:Q4, though core inflation remained broadly stable. Estimated output and credit gaps remain somewhat positive in 2025, and the largely eliminated parallel market ER premium has widened marginally, signaling that inflation expectations may be elevated (Text Figures). Moreover, inflation is expected to rise during 2026 due to a relaxation of the fiscal stance, and higher minimum and civil service wages, and a planned 30 percent further electricity tariff increase. The impact of recent and planned electricity tariff and wage increases could be larger than forecasted, given the significant structural economic changes since 2015, not captured by the current CPI. Upside risks to inflation remain significant, given global and domestic risks (¶11).





16. Monetary policy should be tightened to ensure that disinflation is firmly entrenched.

Cross-country evidence suggests that high inflation can persist for some time, especially in dollarized economies (Text Figure). Accommodative monetary conditions, the recent uptick in inflation, and inflationary pressures expected in 2026, warrant higher real policy rates to close output and credit gaps and keep inflation expectations anchored. This would strengthen the BOL’s credibility in containing inflation within the new inflation target range, appropriately lowered to 5±2 percent. If upside risks to inflation materialize, monetary policy should be further tightened to prevent de-anchoring inflation expectations.



17. Continued progress on monetary policy reforms remains essential. Ongoing reforms in collaboration with IMF TA should stay on course, including completing the TSA implementation, introducing liquidity supply instruments, and developing an interest rate corridor. The planned 2026 CPI rebasing and 2026:Q1 survey of inflation expectations would help improve the BOL’s ability to assess inflationary pressures to inform its monetary policy decisions.

Authorities’ Views

18. Reaffirming its commitment to price stability and the new inflation target range, the BOL saw scope for some flexibility and a balanced approach to making real-time monetary

policy decisions. Their views on the estimation of monetary conditions are not different from the IMF staff views, but the operational approaches are flexible to maintain price stability to support the economy under high uncertainty, reflecting in the policy rate reductions in 2025. However, they concurred with the assessment of risks to the inflation outlook, which warranted caution when considering easing, and the need to maintain a tight monetary stance.

B. External Sector Policies

19. Continuing to allow the ER to act as a shock absorber, while boosting GIR opportunistically, would strengthen resilience to external shocks, as would export diversification (Section E). BOL's November 2025 announcement that it will be more flexible in setting its daily reference ER, while maintaining the current ER band ($\pm 6.5\%$), is welcome. Should the BOL choose to use gold to boost GIR, it needs to ensure that it has legal title to the gold with requisite purity standards to protect GIR liquidity. The BOL is encouraged to continue assessing whether existing CFMs achieve their intended goal and consider phasing them out once crisis-like conditions have passed, since they are likely to be of limited effectiveness given the relatively open financial account and have side effects if maintained for a long time. If crisis-like conditions were aggravated, well-designed CFMs could be considered provided they are effective given the open financial account, complemented with needed adjustment in line with the IMF's IV. Following the elimination of a previously identified exchange restriction due to improving external conditions and FX market efficiency,⁷ the BOL is encouraged to remove the remaining exchange restriction to ensure compliance with obligations under the IMF's Article VIII.

20. Improving external sector and debt statistics and reducing unrecorded trade and capital outflows through improved customs administration and SOE balance sheets transparency are urgent priorities. Comprehensive and accurate information on large private sector external liabilities and offtake contracts is vital for effective FX and debt management. The BOL-led cross-agency effort to strengthen external sector and debt statistics, with IMF TA, must be reinforced.

Authorities' Views

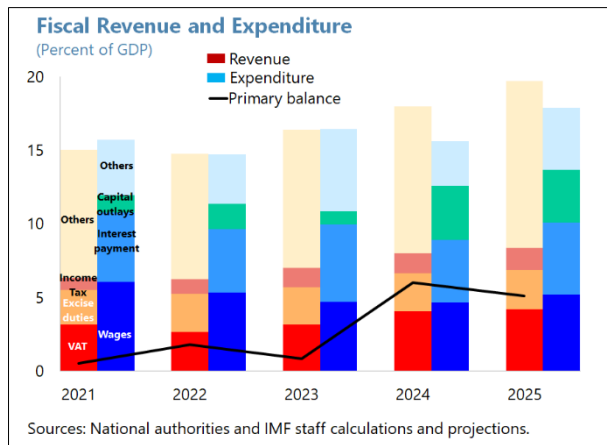
21. The authorities noted that FX policy has become more flexible but emphasized the continued need for FX stability. They maintained that, while the ER is no longer the nominal anchor, FX stability remains a priority given the economy's high import dependence and significant exposure to external shocks. Accordingly, a range of policy measures could be considered to

⁷ Lao PDR previously maintained an exchange restriction arising from the authorities' restrictions on the commercial banks' setting of a market-clearing exchange rate and FX prioritization, contributing to FX shortages resulting in undue delays in accessing FX for current international transactions. As of end-December 2025, market participants have indicated that the supply of FX has improved, and they do not generally report any undue delays or inability in accessing FX for current international transactions. Thus, this exchange restriction is eliminated. Lao PDR continues to maintain an exchange restriction subject to Fund approval under Article VIII, arising from a tax clearance certificate requirement (see Informational Annex).

support FX stability, including efforts to promote export diversification and regulatory tools, such as CFMs and import management measures.

C. Fiscal Policy

22. The 2026 budget envisages a relaxation of the fiscal stance relative to the larger-than-expected 2025 fiscal surplus (Tables 4a-4b). Following a fifth consecutive primary surplus in 2025, largely due to higher revenues (Text Figure),⁸ the primary surplus is expected to narrow in 2026, with the overall surplus shifting to near balance (Text Table). This is due to current and capital expenditure increases to address the sharp spending compression in wages, education, and health spending during 2021–24, including a substantial wage-bill increase.⁹ The impact of the spending increases on the fiscal stance is moderated by the expectation that revenue performance will remain robust due to permanent gains from tax policy and administration improvements introduced in 2024–25.¹⁰



	Fiscal Projections (in percent of GDP)		
	2025	2026	
	Est.	Budget	Staff proj.
Revenue and Grants	19.5	20.0	19.0
Tax revenue	15.8	16.6	15.6
Non-tax revenue	2.3	2.1	2.1
Grants	1.5	1.2	1.2
Expenditure	17.9	19.1	19.1
Current Expenditure	13.0	13.7	13.7
of which :			
Compensation of employees	5.2	6.8	6.8
Transfers	2.2	2.2	2.2
Interest payments	3.6	3.0	3.0
Other recurrent	2.1	1.7	1.7
Capital expenditure	4.9	5.4	5.4
Overall Balance	1.6	0.9	-0.2
Primary Balance	5.2	4.0	2.9

Sources: Lao PDR authorities and IMF staff projections.
 Note: Staff projections assume no changes in tax policy or revenue administration and a normalization of the 2025 tax prepayments.
 Nontax revenue factors in a projected decline in SOE dividend payments. Expenditures follow the authorities' budget figures.

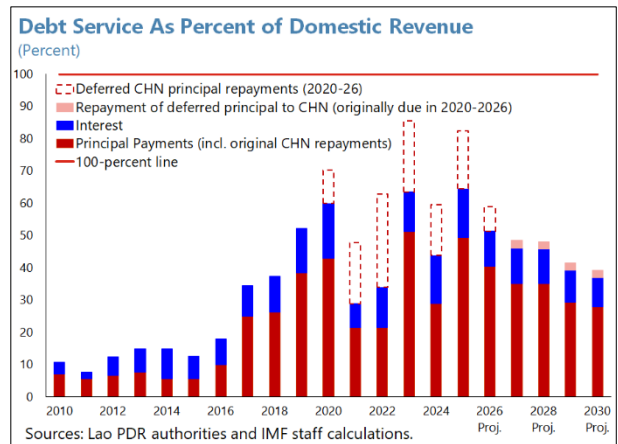
23. A stronger fiscal stance in 2026 is needed to underpin macroeconomic stability and help sustain strong primary surpluses over 2026–30. Further strengthening the quality of public expenditure would help support sustainable growth. Recent efforts to strengthen revenue

⁸ The VAT rate, which was lowered from 10 percent to 7 percent during the pandemic, was restored to 10 percent in March 2024. Excise taxes on selected goods—including cigarettes and soft drinks—were raised in January 2024.

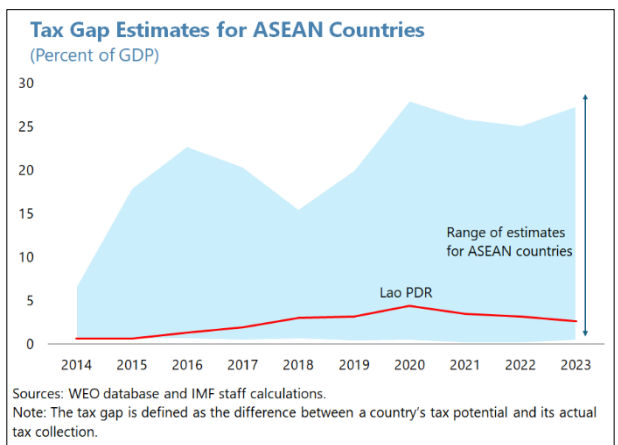
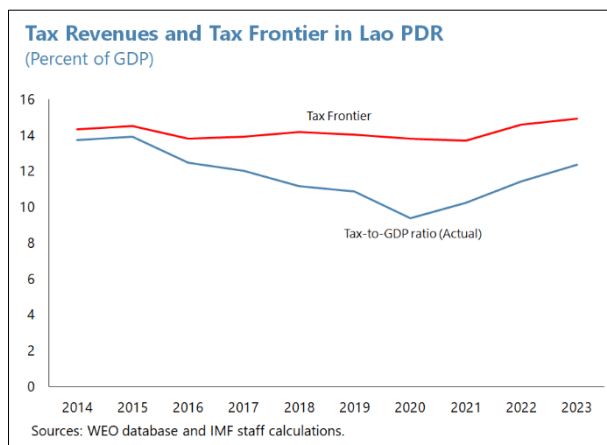
⁹ The wage bill increase reflects a 30 percent rise in civil-service base salaries, one-off severance payments associated with the ongoing civil-service restructuring, and the conversion of teachers from lower-paid voluntary service to civil servants to strengthen the education sector (125). The 10th NSEDP states that the purpose of the civil service restructuring is to streamline the government structure, improve administrative performance, and enhance local government administration.

¹⁰ This includes a higher VAT rate and increases in the number of VAT-registered corporates; stronger profit/income tax collections due to improved tax compliance following the simplification and reduction of corporate tax rates and the introduction of a lump-sum tax for casino businesses, both adopted in 2025. Higher royalty revenues reflect robust mining and electricity exports. The forecasts do not include planned new tax policy measures being discussed with the WB or tax administration improvements based on the results of the 2026 IMF TADAT assessment.

mobilization—through higher tax rates and improved tax administration—needs to be accelerated in 2026 to enhance debt-servicing capacity (Text Figure), reduce the 2026 fiscal impulse and create space for more high-quality priority spending (education, health, other safety nets, and productive infrastructure). Such a rebalancing, underpinned by a sound medium-term financing and debt management strategy (MTDS) (1126) would support growth by reducing structural gaps (Section E),¹¹ reduce fiscal risks, alleviate financial repression, and help achieve debt sustainability.



24. Revenue mobilization requires multi-faceted efforts (Annex V: Estimating the Tax Frontier). Despite significant gains, Lao PDR’s revenue performance remains below potential, relative to an estimated tax frontier of about 15 percent of GDP, with large tax gaps relative to ASEAN peers (Text Figures). Achieving the NSEDP target—a tax-to-GDP ratio to 20 percent by 2030—requires comprehensive tax policy and administration reforms to harness the substantial untapped revenue collection capacity, and broader efforts to strengthen governance, institutional capacity, and growth (Section E).

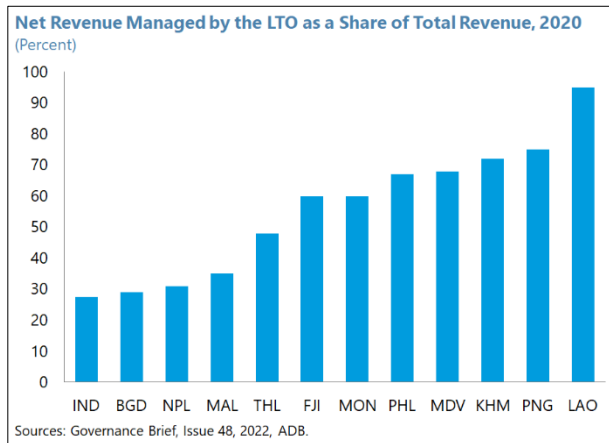
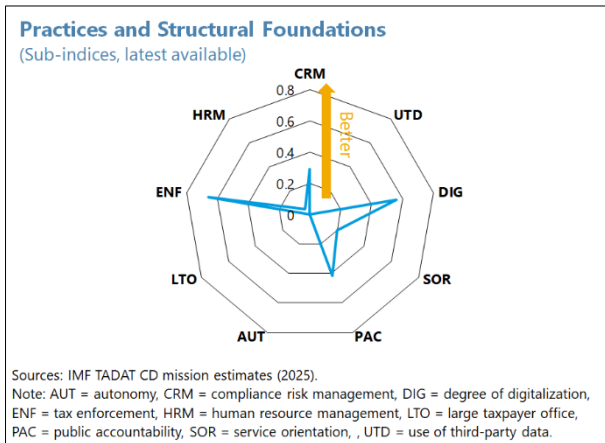


- **Strengthening revenue administration.** While tax enforcement, digitalization, and public accountability are relatively strong, significant weaknesses remain in human resource management and compliance risk management—particularly in the Large Taxpayers’ Office (LTO), accounting for nearly 90 percent of tax collections (Text Figures next page).¹² Strengthening the LTO—through centralized management, improved risk assessment, and

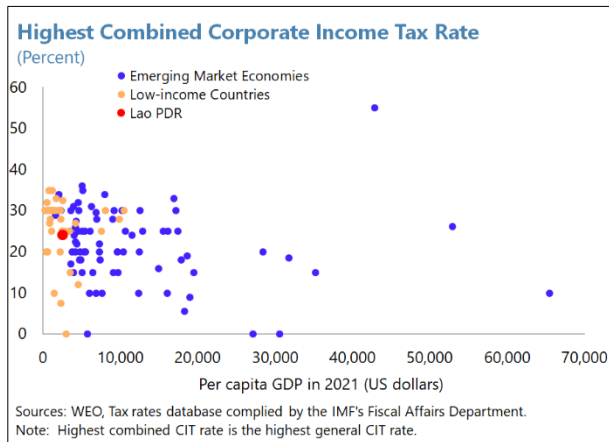
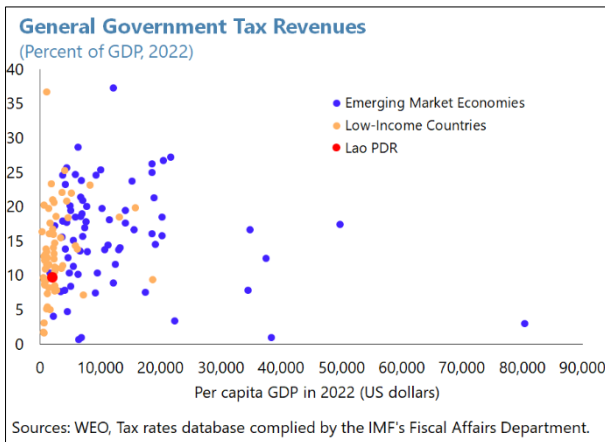
¹¹ Development partners estimate that the cost of fully implementing the 10th NSEDP at 100-106 percent of 2025 GDP over 2026–2030, based on sectoral costing of infrastructure, human capital, climate resilience, agriculture, and governance priorities.

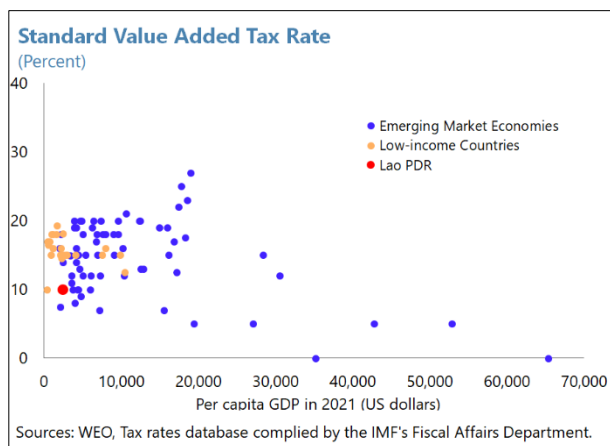
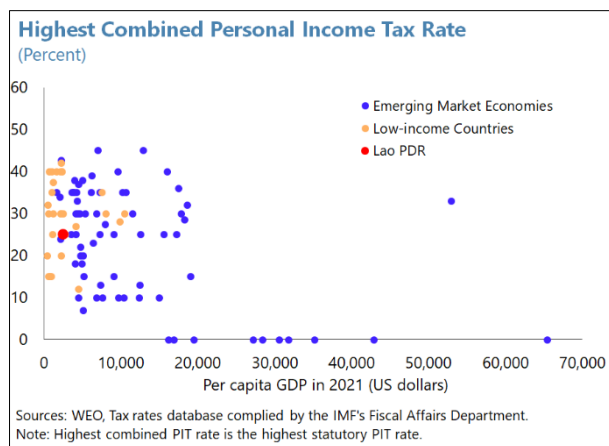
¹² Based on a 2025 IMF staff assessment of Lao PDR’s tax administration performance.

enhanced compliance risk management—could yield substantial revenue gains. The ongoing fiscal decentralization needs to be carefully reconsidered as it stretches scarce expertise and weakens oversight. A 2026 IMF staff assessment based on the tax administration diagnostic assessment tool (TADAT) will identify additional reform priorities. Strengthening customs administration, including through improved valuation, automation, and risk-based inspections, and post-clearance audits—with a focus on the special economic zones—would help curb revenue losses.

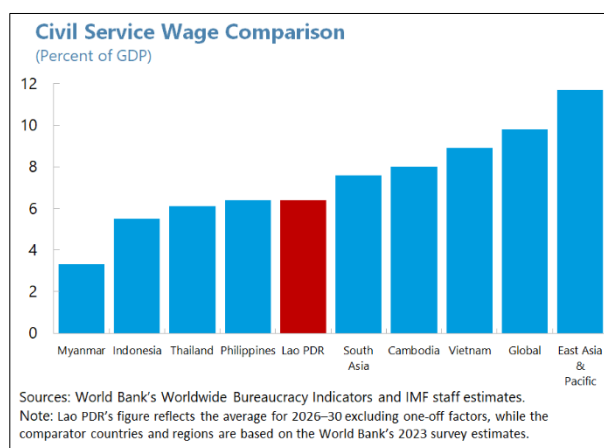
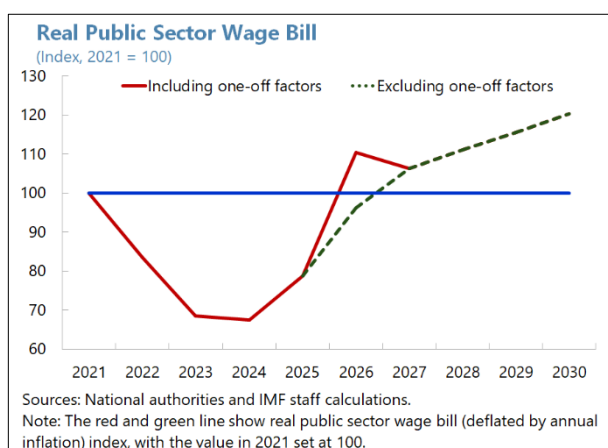


- Broadening the tax base.** Streamlining and disclosing tax incentives—particularly corporate income tax (CIT) exemptions—would help narrow the sizable gaps with comparable countries (Text Figures). The government is encouraged to publish a comprehensive tax expenditure report quantifying revenues forgone by measure, sector, and beneficiary; and establish a clear legal framework for defining, classifying, and periodically reviewing all tax expenditures to prevent the proliferation of *ad hoc* exemptions and improve transparency. Diversifying revenue sources should continue, e.g., improving VAT collection on cross-border e-commerce and the fast-growing digital economy; enhancing excise taxes on fuels, tobacco, and alcohol; and developing a property valuation system and improving land registration for a recurrent property tax. Higher personal income and VAT rates could also be considered (Text Figures, next page).





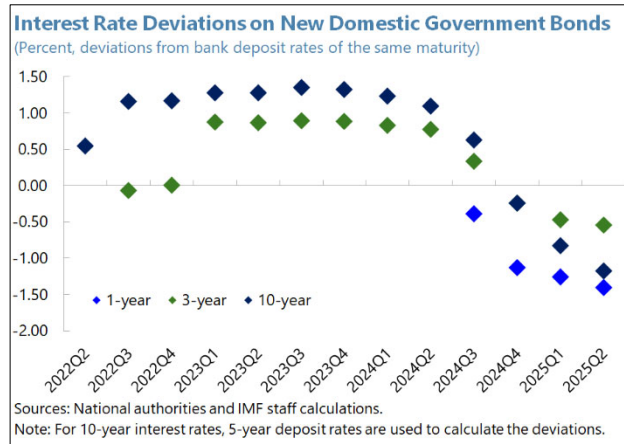
25. Civil service wage increases must be accompanied by measures to boost public sector productivity. The wage adjustment may have been needed to retain skilled workers including in the education and health sectors and boost government capacity and medium-term growth potential, given significant real wage erosion since 2021 (a cumulative nominal wage increase of 2 percent relative to 117 percent inflation over 2021–25, Text Figures) and outmigration. The average 2026–30 wage bill is broadly aligned with ASEAN countries. However, any civil service wage increase should ideally be accompanied by deeper civil service and regulatory reforms rooted in functional reviews to improve public-sector productivity, including skills-based hiring and promotions; streamlined regulations and procedures to expedite decision-making; and improved data systems and interagency coordination. Without productivity-enhancing reforms, a large wage increase would likely prove inflationary, while compressing fiscal space for larger priority spending increases. The MOF needs full visibility into planned civil-service restructuring to support sound fiscal management. Finally, MOF’s internal guidance capping the wage bill at 40 percent of domestic revenue is procyclical and merits reconsideration.¹³



¹³ The guidance was introduced to protect fiscal space. The wage bill in the 2026 budget accounts for 31 percent of domestic revenue.

26. A prudent MTDS is essential to restore debt sustainability.

- The government’s plan to cover its financing needs through revenue mobilization, international bond issuance, and debt refinancing (to reduce debt servicing costs and extend maturities), is appropriate. Domestic bonds must be issued at market rates to address financial repression (Text Figure) to boost demand and prevent further weakening bank, SOE and social security fund balance sheets. The MTDS should incorporate contingency plans to address revenue shortfalls and the realization of contingent liabilities, external shocks and natural disasters. It should be aligned with portfolio cost-risk objectives and be published.



- Building on ongoing progress in debt reporting and regulations, there is scope to strengthen incentives for effective debt management by enhancing reporting, transparency and oversight. Debt-related regulations need to incorporate: a clear and comprehensive definition of debt to ensure consistent recording, reporting, and monitoring; independent audits of debt management operations; and enhanced operational tools. A broad-ranging IMF TA is scheduled to begin in 2026.¹⁴

27. Further efforts are needed to strengthen fiscal risk oversight.

- Enhancing risk and contingent-liability assessments—including oversight of SOE balance sheets—remains critical. Full disclosure of asset sales, investment contracts, and debt agreements would further strengthen fiscal governance and help reduce FX leakages.
- PFM reforms to strengthen project selection, expenditure control, and oversight are essential to enhance spending efficiency. Recent initiatives to involve the private sector in infrastructure spending underscores the importance of strengthened public investment management (PIM). Establishing a sound public-private partnership (PPP) framework is critical, to strengthen project selection and oversight, and control expenditure, with a central decision-making role for MOF to limit fiscal risks. Continued progress on the TSA and the planned adoption of a new Chart of Accounts for the 2027 budget is key to improving cash flow management and forecasting, strengthening debt management and aligning fiscal statistics with the GFSM.

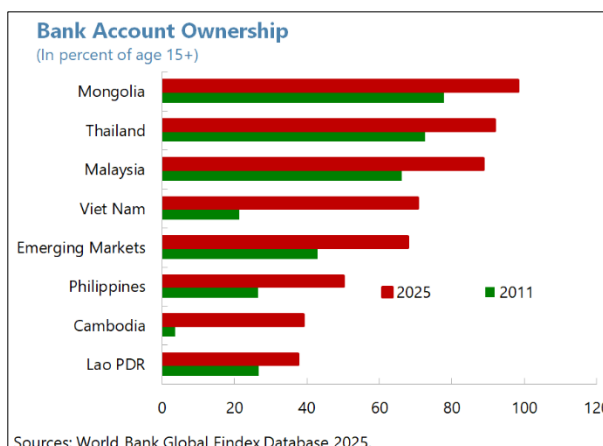
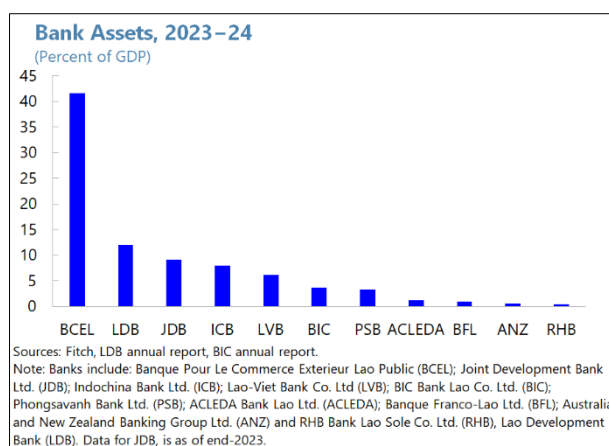
¹⁴ IMF TA is expected to enhance debt data quality and coverage; support the drafting the MOF’s first MTDS and developing an annual borrowing plan; guide the reorganization of MOF Debt Management Department along functional lines; assist in developing the domestic bond market; and support the formulation and implementation of an investor relations strategy to help restore access to international capital markets.

Authorities' Views

28. The authorities concurred with the need to maintain a strong fiscal surplus, develop a sound MTDS, and strengthen revenue collection and PFM. They expect strong revenue performance to persist in 2026, supported by ongoing improvements in revenue administration and further reforms to be developed following the TADAT. MOF intends to centralize and strengthen the LTO and is considering publication of a VAT tax expenditure report, currently under preparation. They underscored that capping the wage bill at 40 percent of domestic revenues will help contain rapid wage increases, while acknowledging concerns about procyclicality. The authorities reaffirmed their commitment to enhancing debt-reporting transparency and to adopting a new Chart of Accounts for the 2027 budget. Building on the recent successful international bond issuance, the authorities intend to continue accessing international markets in 2026 to strengthen debt management.

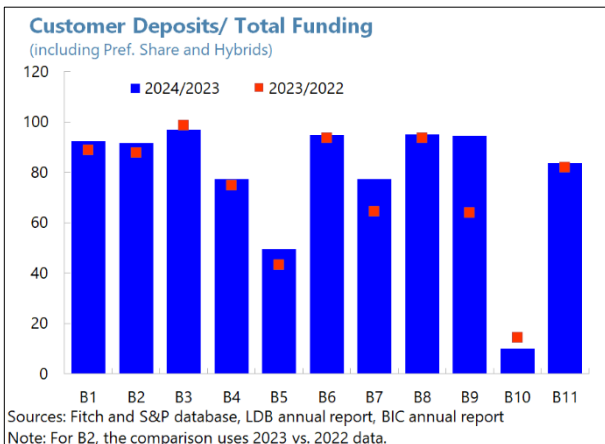
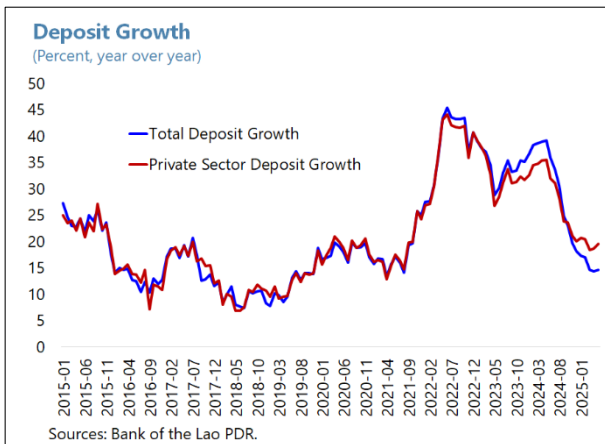
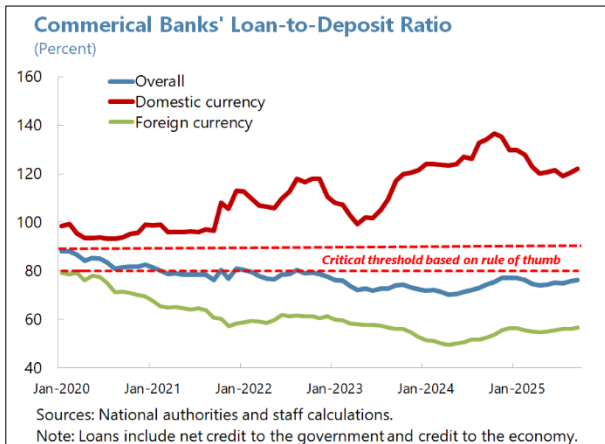
D. Financial Sector Policies

29. The concentrated banking system, dominated by a state-owned bank alongside several private and foreign banks (Text Figure), is not sufficiently prepared to withstand adverse shocks. While financial access is improving through mobile and branchless banking and the rapid growth of digital payments supported by better connectivity and payment reforms, the limited market size, weak infrastructure, and institutional gaps constrain financial inclusion (Text Figure, Figure 7). The banking sector faces liquidity, FX, and credit risks, based on internationally accepted metrics. Underlying vulnerabilities remain obscured by continued (though declining) regulatory forbearance, data limitations,¹⁵ and regulatory limits on non-performing loans (NPLs). Low profitability and inadequate capital buffers leave several banks vulnerable to adverse macroeconomic and external shocks and the transition to IFRS9 in 2026.

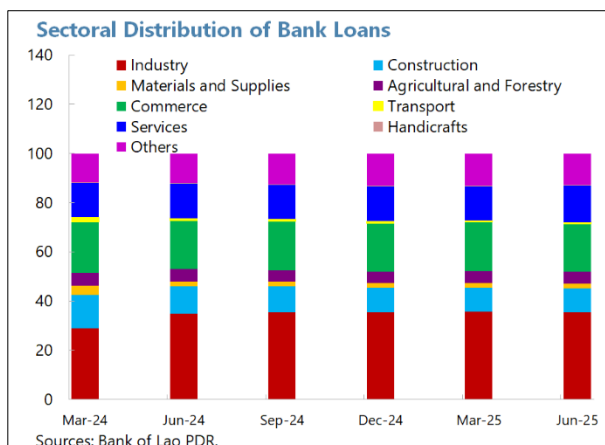
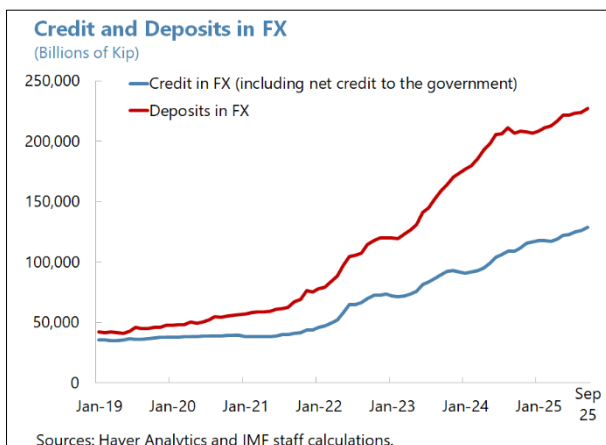


¹⁵ Published FSIs do not fully conform to IMF methodology ([IMF 2019 Financial Soundness Indicators Compilation Guide \(2019 FSI Guide\)](#)), while public audited bank financial statements are released with a lag. BOL does not provide FSI data to the IMF. The analysis is based on publicly available IFRS data from audited end-year annual reports compiled by Fitch, and S&P and published annual financial statements.

30. There are pockets of liquidity squeeze, with the Kip loan-to-deposit ratio above 100 percent (Text Figure). Declining private sector deposits and the transfer of government deposits to the TSA tightened liquidity for some banks (Text Figures).¹⁶ As TSA implementation advances, the system is likely to shift from a structural liquidity surplus to a structural deficit, especially if external pressures limit GIR accumulation. Banks holding government debt at below-market rates and loans to unprofitable SOEs are more constrained in their ability to raise deposit rates in response to tightening domestic financial conditions.



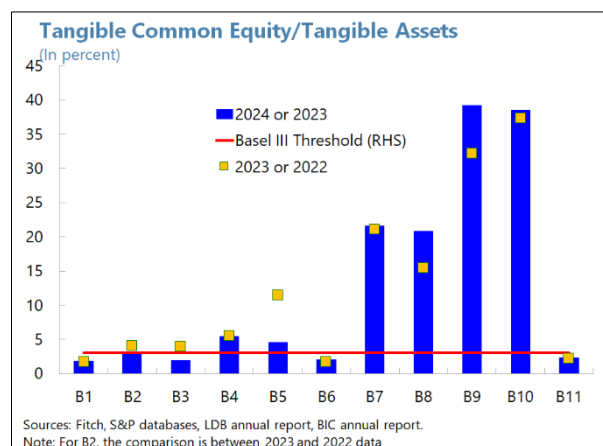
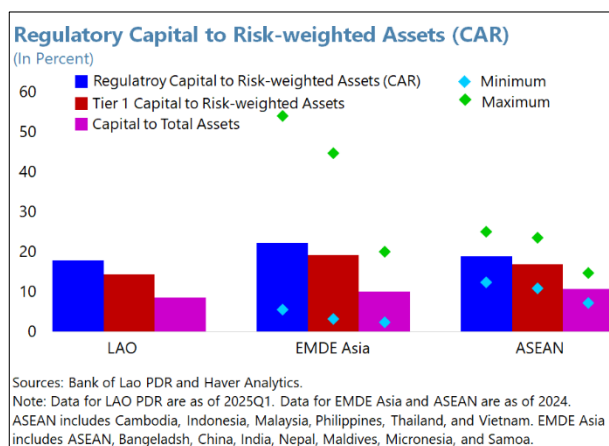
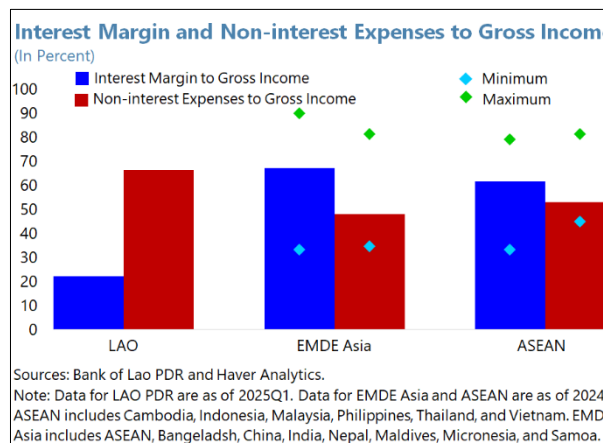
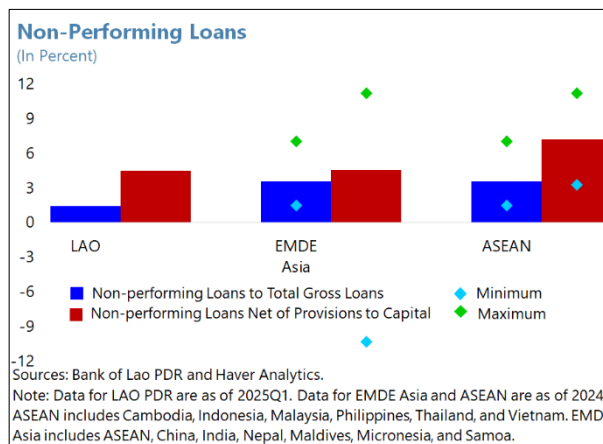
31. FX and credit risks are elevated. Increasingly negative net FX positions signal rising FX liquidity risks, further complicated by the low GIR (Text Figure). Credit risk remains elevated due to the lagged impact of rapid credit growth during 2022–25:Q1; high lending concentration in cyclically vulnerable sectors (Text Figure) and directed lending and debt rollovers to unprofitable SOEs, and potential FX exposures among borrowers.



¹⁶ Banks are primarily funded by customer deposits, while a few foreign branches rely on wholesale funding.

32. Underlying asset quality weaknesses persist. NPLs remain low due to continuing loan forbearance and a 3 percent NPL ratio target, extended in the draft 10th NSDEP (Text Figure).¹⁷ Many banks meet the latter through loan write-offs, exacerbating moral hazard, and weakening credit discipline.¹⁸

33. Persistently low profitability has left a large segment of the banking system undercapitalized. Narrow net interest margins (NIMs)—driven by rising funding costs amidst liquidity pressures—and high operating expenses weigh on earnings (Text Figure). Tangible common equity-to-tangible assets ratios, a proxy for capital adequacy ratios (CAR), remains below the 3 percent Basel III leverage threshold, contrasting with reported CARs (Table 5) above the regulatory minimum (8 percent) (Text Figure).¹⁹ On a positive note, a large bank addressed its capital shortfalls in 2025 through a rights and public offering.²⁰ The forthcoming adoption of IFRS9, though



¹⁷ Compared with other ASEAN peers, Lao PDR began unwinding COVID-related loan-forbearance measures relatively late, in March 2024. Under the BOL's instruction (No. 368, March 25, 2024), banks may normalize forbearance loans only after their maturity, which results in an underestimation of NPLs.

¹⁸ The Lao Asset and Debt Administration Company (LADAC), established in 2023 and fully government-owned, took over NPLs from two restructured state-owned banks in 2024, amounting to LAK8 trillion (about 2 percent of GDP). Since then, LADAC has focused on recovering and resolving distressed assets. Constrained by limited staffing and insufficient capital (a registered capital of LAK300 million), LADAC has yet to expand operations more broadly.

¹⁹ Reported CARs are a simple average across banks and not indicative of the true strength of bank capital buffers.

²⁰ The bank raised about LAK 840 billion (about 0.2 percent of GDP) from shareholders, including the state.

necessary, could further weaken bank profitability and capital through more forward-looking and higher loan-loss provisioning.

34. Further efforts are needed to strengthen banking supervision based on sound financial sector data and stress-testing frameworks. Solvency and liquidity conditions require close monitoring and timely supervisory actions. It is critical to accelerate the implementation of new capital and liquidity requirements and enforce existing regulations on capital, develop strategies to address undercapitalized banks, including halting their dividend payouts. Loan forbearance and regulatory limits on NPLs must be eliminated to reduce moral hazard, with adequate provisioning and sound resolution frameworks. The forthcoming Financial Sector Stability Review (FSSR) provides an opportunity to develop well-sequenced reforms to strengthen financial stability and deepen individual bank risk assessments with IMF TA. Strengthening SOE balance sheets would help reduce bank credit risk, while refraining from directed lending or debt rollovers to unprofitable SOEs would help limit fiscal and financial vulnerabilities.

Authorities' Views

35. The authorities maintained a more constructive view on banking sector stability. They clarified that some of the reported pressures on banks' profitability and capital adequacy stem from differences between Lao PDR's general accounting principles and IFRS, and that loans under forbearance, that has already been terminated since 2024, are being monitored by the supervisor, though they are a small share of bank portfolios. The BOL is reviewing the regulatory NPL ceiling and is likely to adjust this ceiling upward soon.

E. Structural Reforms to Boost Growth Potential

36. There is significant scope for Lao PDR to better align its structural policies with upper-middle income countries (UMIC), its aspirational peers, relative to whom Lao PDR faces significant gaps in governance, business regulation, and human development (Text Figure, Figure 1). There are significant gaps related to government effectiveness and regulatory quality, with substantial room to reduce bureaucracy costs and improve public administration. Lao PDR's human development and education outcomes remain well below those of UMICs. By contrast, Lao PDR's external sector outcomes are relatively favorable.

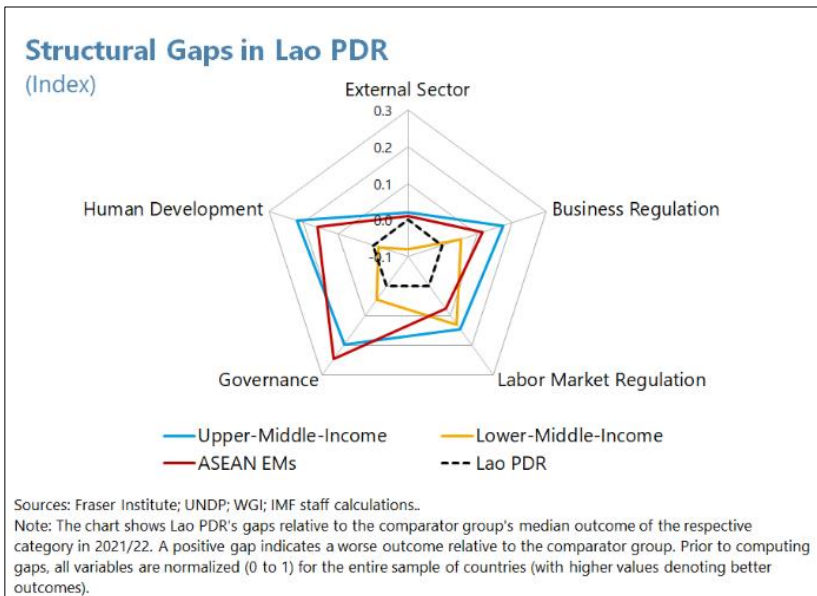


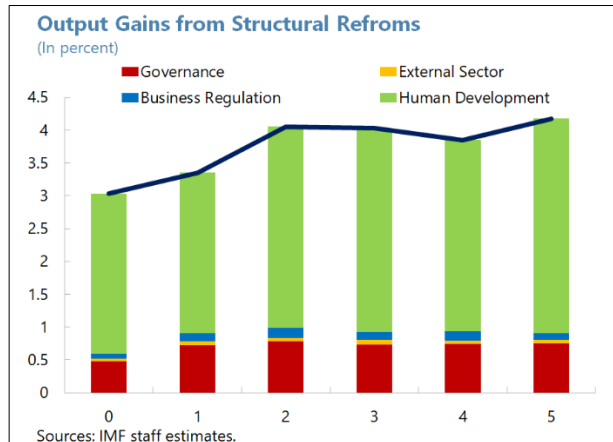
Figure 1. Lao PDR: Structural Gaps Relative to Upper-Middle-Income Countries



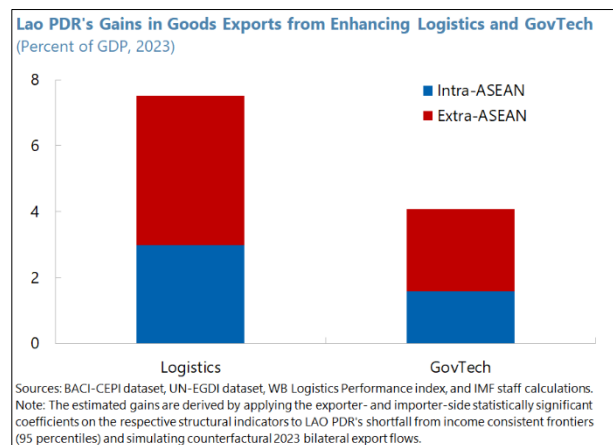
Sources: Fraser Institute; UNDP; WGI; IMF staff calculations.

Notes: The chart shows Lao PDR's gaps relative to the comparator group's median outcome in the respective category in 2021. A positive gap indicates a worse outcome relative to the comparator group. Prior to computing gaps, all variables are normalized (0 to 1) for the entire sample of countries (with higher values denoting better outcomes).

37. Substantial output gains—exceeding 4 percent of GDP over the medium term—are achievable if reforms could close even 5-10 percent of structural gaps in governance, external sector openness, business regulations, and human development (Selected Issues Paper: Structural Reforms to Lift Growth, Text Figure). The proposed pace of improvements is achievable as it is below the 80th percentile of the historical distribution of annual progress among lower-middle-income countries. Potential growth dividends would mostly stem from improvements in human development and governance. The latter would bolster productivity and growth and lead to sustained improvements in policy management (¶140).



38. Diversifying exports—across products and markets—through deeper regional integration would also boost macroeconomic resilience and growth potential (Text Figure). Given the highly concentrated export base (¶10), ongoing efforts to diversify away from commodities toward higher-valued added agriculture, manufacturing, and international tourism need to be accelerated (Box 1). Boosting intra-ASEAN trade requires measures to improve government efficiency, including through the adoption of digital technologies, better logistics, and stronger human capital and deeper trade agreements that remove non-tariff barriers.



39. Deeper reforms to improve operational efficiency in the unprofitable and indebted SOE sector remain critical, especially in the electricity sector. Some progress is underway: Lao Airlines is being privatized with the government taking over its debt, and large electricity tariff hikes are being implemented to strengthen the highly indebted Électricité du Laos's (EDL) balance sheet. A State Enterprise Reform Committee, established under the Prime Minister's Office to oversee SOE management. It should deepen SOE oversight through enhanced monitoring and transparency (including the publication of audited financial statements) to reduce fiscal risks, and by modernizing regulatory frameworks. EDL's reforms should continue to improve operational efficiency, strengthen electricity transmission and distribution, and restore the power sector's financial sustainability by boosting cost recovery through continued adjustments of below-cost tariffs and addressing transmission and distribution network vulnerabilities.²¹

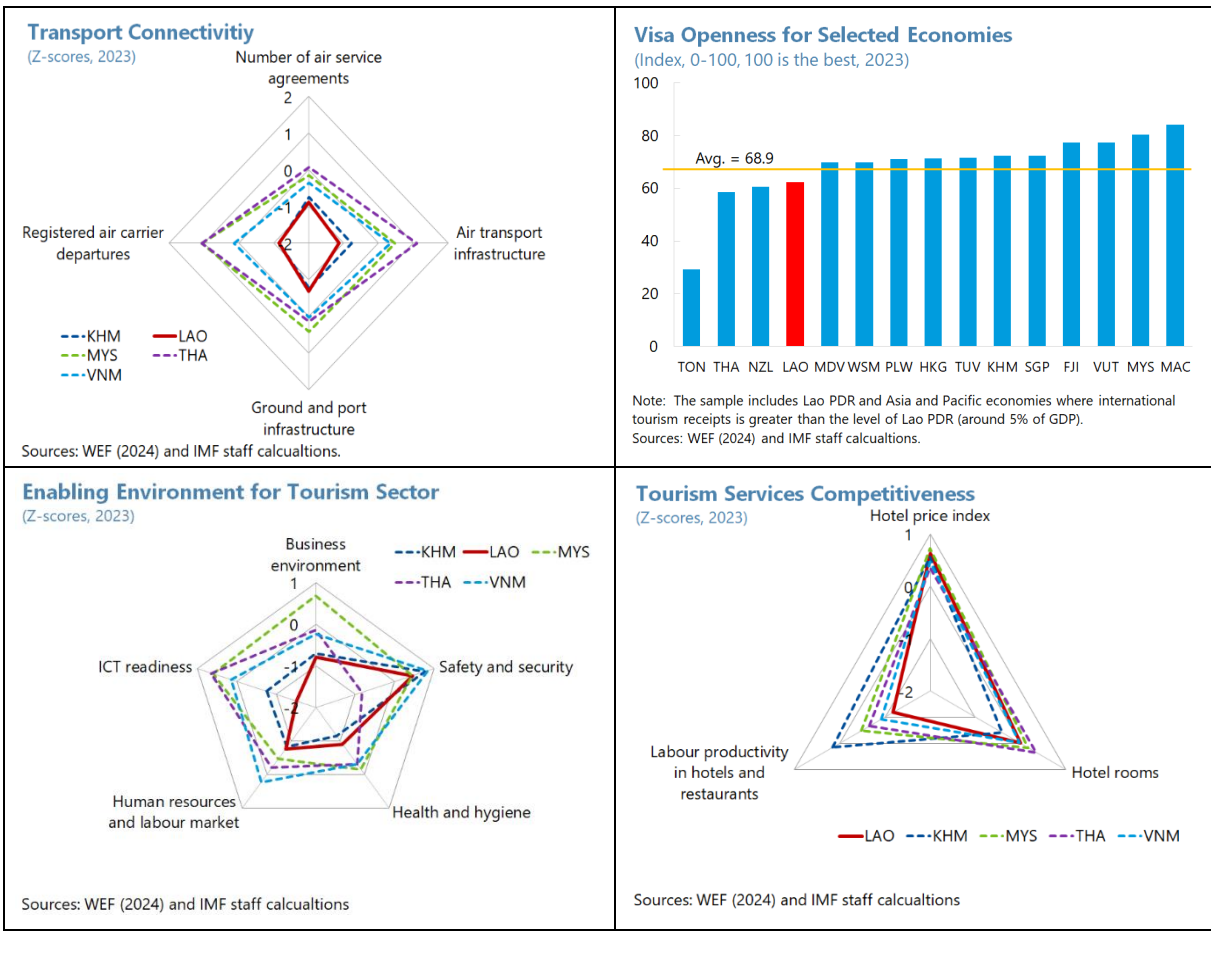
²¹ Subsidies were provided to reduce the burden of tariff increases for low-income households—estimated at US\$8-10 million and financed through the EDL's balance sheet—during September–December 2025.

Box 1. Lao PDR: Policies to Boost International Tourism to Diversify Exports

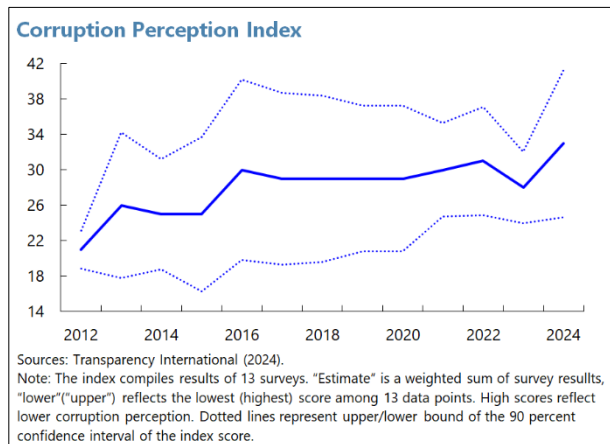
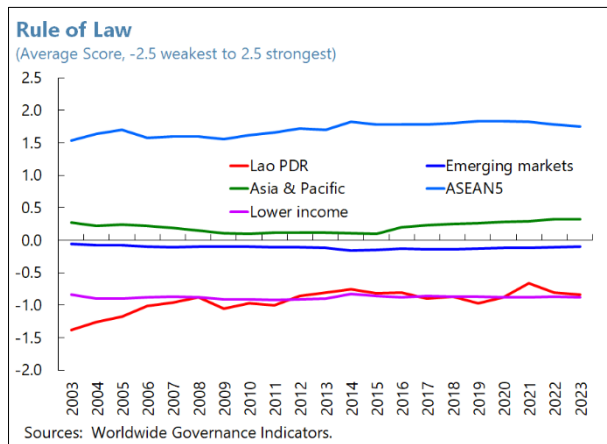
More diversified exports help reduce output volatility and boost resilience to external shocks.

Boosting international tourism could help diversify Lao PDR’s highly concentrated export sectors, while creating jobs. Tourism inflows into Lao PDR are highly concentrated with some 80 percent of visitors originating from three neighboring countries. While export diversification is an important policy priority of the government, further efforts are needed to strengthen the tourism sector.

Policies could prioritize closing four key policy gaps with ASEAN peers: transport connectivity, entry barriers, business environment, skills and service quality. Expanding direct air links and upgrading airport infrastructure would help attract tourists from non-contiguous economies. Simplifying visa procedures and expanding exemptions—building on the success of the 2024 “Visit Laos Year” campaign—could help diversify source markets. Streamlining regulations, investing in ICT infrastructure, and improving training and education would enhance service quality and promote private-sector participation. Export diversification strategies are most effective when accompanied by stronger institutional capacity and continued investment in human capital. Sustained reforms in tourism, logistics, and investment facilitation will be critical to achieving more resilient and inclusive growth.



40. Addressing pervasive corruption, enhanced transparency, and the effective implementation of regulations are vital for strengthening the business climate. Despite gradual improvements, enduring corruption and limited transparency continue to undermine policy effectiveness and discourage private investment. Recent steps to streamline the bureaucracy and enhance accountability by restructuring ministries and via the 2025 public administration reform action plan, could improve efficiency by reducing duplication. Nevertheless, upgrading and effectively enforcing regulations, boosting collaboration and coordination between critical oversight agencies, including through greater public access to information and fiscal transparency, remain critical priorities. Strengthening the independence and capacity of anti-corruption agencies and access to their activities and annual reports, publishing audit and procurement results, and digitalizing government processes would help reduce discretion and improve accountability. Similarly, strengthening the asset declaration system through publication of declarations by senior officials remains critical.



41. Steady implementation of the FATF action plan is necessary to safeguard financial stability and improve the investment climate. Lao PDR's inclusion on the FATF grey list in February 2025 underscores the need to strengthen the effectiveness of its Anti Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework. With continued TA from development partners, it will be critical to reinforce financial integrity to facilitate a timely removal from the grey list to mitigate adverse effects on the financial sector, economy, and investor confidence.

42. Addressing data gaps is crucial to facilitate policy and risk management (Annex VI: Data Issues). Shortcomings in national accounts and ESS significantly hamper surveillance. Weaknesses in government finance, and monetary and financial statistics somewhat hamper surveillance.

- *National accounts.* Following the publication of quarterly GDP, the priorities are to complete the planned rebasing GDP and CPI to improve measurement accuracy; strengthen GDP by expenditure data; and undertake regular inflation expectation surveys.
- *Government finance statistics (GFS).* Ongoing efforts to strengthen fiscal reporting and broaden coverage across central and local governments and off-budget entities should be accompanied

by continued progress to regularly compile and disseminate quarterly GFS, initially covering the budgetary central government.

- Further progress is needed, with ongoing IMF TA, to improve ESS on external debt, IIP, FDI, tourism and remittances. IMF TA will continue to collaborate with the authorities to help address their concerns about IIP data quality to facilitate the sharing of such data.
- Building on the publication of an annual public debt bulletin, it would be important to strengthen debt data quality and coverage (to include sub-sectoral debt), compile private sector/SOE debt, and publish information on debt service schedules.
- Monetary and financial *statistics*. In addition to ongoing efforts to broaden data coverage and strengthen reporting standards, continued improvements in and consistent reporting of key indicators—such as NPLs and FSI—and the timely consolidation of information banks is necessary to strengthen financial stability assessments.

Authorities' Views

43. The authorities agreed with the need for structural reforms to boost growth potential and strengthen resilience. They emphasized that strengthening macroeconomic stability, human development, and regional linkages are well-aligned with the development priorities in the draft 10th NSEDP but acknowledged that effective implementation will be critical. They concurred with the importance of strengthening SOE balance sheets, particularly through enhanced oversight. The State Inspection and Anticorruption Authority reported continued efforts to strengthen legal and regulatory frameworks, enhanced coordination with domestic and international agencies, and expanded staffing. They plan to implement the 2025–2035 Anti-Corruption Strategy—including legal reforms and administrative improvements—to further improve prevention, investigation, and asset-recovery.

44. The authorities recognized the importance of improving the quality of macroeconomic, fiscal, financial and external sector statistics. They appreciated the IMF's continued capacity-building support and underscored the need to strengthen cross-agency collaboration to produce and disseminate comprehensive and higher-quality data, especially on FDI and NIIP. The Lao Statistics Bureau indicated that capacity constraints and staff shortages—resulting from the government restructuring—may delay efforts to address data weaknesses and expressed interest in further Fund TA for CPI and GDP rebasing and developing producer price indices. The BOL indicated the need to strengthen FSIs following the FSSR and its continued commitment to improving ESS with IMF TA. IIP data will be shared following further improvements in data quality.

STAFF APPRAISAL

45. The economy has stabilized since 2024:H2, though policies have eased recently. Favorable external conditions and prudent macroeconomic policy tightening reduced external imbalances, stabilized the ER, and led to rapid disinflation. Nevertheless, Lao PDR remains vulnerable to external and domestic shocks, given a large negative NIIP, low GIR, high public debt, limited diversification, and persistent weaknesses in the SOE and financial sectors. The external position for 2025 is assessed to be moderately weaker than implied by medium-term fundamentals and desirable policy settings.

46. The near-term growth outlook is strong, but risks are tilted to the downside. Growth is expected to average 4.5 percent in 2025–26, supported by rising electricity production from new projects and a significant fiscal relaxation in 2026. Inflation is expected to pick up by end-2026 due to the fiscal impulse and substantial wage and electricity tariff hikes. Over the medium term, however, growth is projected to moderate due to continued labor outmigration, with upside risks from regional integration. Weaker external balances are likely to erode GIR and stoke inflation over time.

47. Policies will need to strengthen macroeconomic resilience and improve debt dynamics, while also supporting the government's growth ambitions. Given global uncertainties, limited buffers, high import dependence, and large exposure to external shocks, premature fiscal and monetary easing would be counterproductive.

48. Tighter monetary policy is warranted to firmly entrench disinflation and anchor inflation expectations. Monetary conditions remain somewhat accommodative, and the large fiscal relaxation and wage/electricity tariff hikes planned in 2026 indicate the need for higher real policy rates to maintain inflation within the lower inflation target range. Continued progress on monetary policy reforms remains essential.

49. Stronger external buffers are needed to boost resilience to external shocks. To this end, the BOL should continue to opportunistically build GIR, while allowing the ER to absorb shocks. Accelerating export diversification—by supporting the tourism sector and deepening regional integration—is important. Improving external sector and debt statistics and reducing unrecorded trade and capital outflows through improved customs administration and greater SOE debt transparency are urgent priorities for FX and debt management.

50. Stronger primary surpluses in 2026 and over the medium term based on higher revenues, and a sound MTDS, is critical for preserving macroeconomic stability, further boosting priority spending and improving debt dynamics. Recent revenue collection improvements can be enhanced by further improving revenue administration—e.g., by strengthening a centralized LTO—and broadening the tax base, to include the corporate and

emerging sectors. Civil-service wage hikes should be accompanied by deeper civil service and regulatory reforms to improve government productivity. Improving debt coverage; full disclosure of asset sales, investment contracts, concessional agreements, and debt agreements; increased transparency on tax expenditure and financial position of SOEs; improved fiscal risk and debt management frameworks; and sound PIM and PPP frameworks with MOF serving as gatekeeper, are critical.

51. Safeguarding financial sector stability remains a key priority. Strengthening financial supervision, accelerating the implementation of new capital and liquidity requirements, developing strategies to address undercapitalized banks, ending COVID-era forbearance and ensuring adequate provisioning, removing NPL limits and improving NPL resolution, are essential. Supervisors are encouraged to closely monitor liquidity and solvency conditions using sound financial sector data and stress-testing frameworks to mitigate financial sector risks.

52. Structural reforms are critical to achieve higher growth. Ambitious yet feasible reforms to strengthen governance, the business climate, and human capital are essential for achieving UMIC status in a sustainable manner. Strengthening national accounts, external statistics, government finance, and monetary and financial statistics would improve economic assessment and more effective policy management. Addressing pervasive corruption, strengthening the AML/CFT framework, and effective implementation of streamlined and upgraded regulations, remain key priorities. SOE balance sheets require strengthening and stronger oversight. The authorities should continue strengthening collaboration between AML/CFT competent authorities and tax and customs authorities, leveraging AML/CFT tools to improve tax compliance.

53. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Table 1. Lao PDR: Selected Economic and Financial Indicators, 2021–30

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
				Est.	H1 Est.	Est.	Proj.	Proj.	Proj.	Proj.	
(Percentage change, unless otherwise indicated)											
Output and prices											
Nominal GDP (in billions of kip)	180,751	217,350	280,844	342,976	185,063	385,488	430,090	470,763	513,354	559,284	618,889
Real GDP, with contributions from 1/	2.1	2.3	3.7	4.3	4.7	4.5	4.5	4.0	3.5	3.0	3.0
Domestic public demand	-4.1	-2.6	1.4	-3.3	...	1.4	3.0	-0.9	0.7	0.7	0.8
Domestic private demand	-5.0	-0.2	-8.7	4.9	...	0.5	3.1	2.9	2.5	2.1	2.0
Net exports	11.1	5.1	11.0	2.7	...	2.6	-1.7	2.0	0.3	0.2	0.2
Consumer prices (annual average) 2/	3.8	23.0	31.2	23.1	10.9	7.7	6.9	5.2	5.4	5.7	7.4
Consumer prices (end-period) 2/	5.3	39.3	24.4	16.9	7.2	5.6	9.0	4.8	5.4	6.0	8.6
GDP deflator	4.8	25.1	24.7	17.1	11.8	7.6	6.8	5.3	5.4	5.7	7.4
(In percent of GDP, unless otherwise indicated)											
Public finances											
Revenue and Grants	15.0	14.8	16.4	18.0	9.4	19.5	19.0	18.8	18.9	18.9	18.8
Tax revenue	10.3	11.4	12.3	14.2	8.2	15.8	15.6	15.6	15.7	15.7	15.7
Non-tax revenue	2.7	2.5	2.3	2.9	1.2	2.3	2.1	2.1	2.1	2.1	2.1
Expenditure	15.7	14.7	16.4	15.7	6.3	17.9	19.1	17.6	17.8	17.8	17.8
Current Expenditure	11.0	10.4	11.1	11.4	5.1	13.0	13.7	12.2	12.3	12.3	12.3
<i>of which</i> : interest payment	1.2	1.8	0.9	3.7	0.7	3.6	3.0	1.9	1.9	1.7	1.6
Net acquisition of nonfinancial assets	4.7	4.3	5.3	4.3	1.7	4.9	5.4	5.4	5.5	5.5	5.5
Overall balance	-0.7	0.1	0.0	2.3	3.1	1.6	-0.2	1.2	1.2	1.1	1.0
Primary balance	0.5	1.8	0.9	6.0	3.8	5.2	2.9	3.1	3.0	2.8	2.7
(Percentage change, unless otherwise indicated)											
Money and credit											
Reserve money	23.2	27.2	13.7	-2.2	-1.4	4.7	5.3	5.4	5.7	6.2	6.2
Broad money	24.0	36.9	33.3	17.8	12.4	11.7	10.7	9.7	9.2	10.3	11.0
Credit to the economy	11.5	45.6	27.8	19.0	11.8	7.7	7.5	7.0	6.8	7.9	8.6
(In percent of GDP, unless otherwise indicated)											
Balance of payments											
Current account balance	2.3	-3.0	2.7	3.3	6.1	5.7	1.6	0.5	-0.1	-0.7	-1.1
<i>of which</i> : trade balance	7.7	6.3	4.8	4.5	6.1	7.5	4.7	4.5	4.3	4.0	4.0
Exports, f.o.b.	41.5	54.2	55.8	59.0	34.9	63.3	59.0	57.8	56.6	55.7	55.1
Imports, c.i.f.	33.9	47.9	51.0	54.5	28.8	55.9	54.3	53.3	52.3	51.7	51.2
Capital and Financial account balance	-0.9	4.7	2.6	0.8	-1.4	-0.9	-0.4	0.7	0.2	0.3	0.4
Gross official reserves (in millions of U.S. dollars) 3/	1245.0	990.5	1182.5	1606.9	2,142.9	2470.7	2698.8	2938.7	2963.6	2871.7	2704.2
In months of prospective imports of goods and services	1.9	1.4	1.4	1.7	2.2	2.5	2.6	2.8	2.7	2.5	2.2
(In percent of GDP, unless otherwise indicated)											
Memorandum items:											
Total debt	175.9	216.2	211.5	197.0	...	179.4	173.0	166.3	160.3	155.8	151.2
Public and public guaranteed debt 4/	92.2	115.7	108.8	94.0	...	80.6	75.7	69.7	64.6	60.6	57.4
Domestic	12.6	11.8	12.4	9.0	...	7.1	5.7	4.4	3.7	3.2	2.8
External	79.6	103.9	96.4	85.0	...	73.5	70.0	65.3	61.0	57.4	54.6
Private debt	83.7	100.4	102.8	103.0	...	98.9	97.3	96.6	95.7	95.2	93.8
Domestic 5/	44.2	54.0	53.6	54.0	...	52.1	50.5	49.5	48.5	48.1	47.3
External	39.5	46.5	49.2	49.0	...	46.8	46.8	47.1	47.2	47.1	46.5
Official exchange rate (kip per U.S. dollar; end-of-period)	11,166	17,238	20,480	21,757	21,535	21,566	...	...	...	...	...
percentage change, y/y	20.3	54.4	18.8	6.2	-2.4	-0.9	...	...	...	...	...
Real GDP growth (published by authorities) 6/	3.5	4.4	4.2	4.6	4.7	...	...	...	...	...	...

Sources: Data provided by the Lao PDR authorities; and IMF staff estimates and projections.

1/ Due to concerns about data quality, the 2019–23 GDP numbers are staff estimates using leading indicators such as electricity and mining productions, harvest volumes in major crops, export of goods and services, and tourism revenues. GDP by expenditure components are staff estimates due to lack of official statistics. Base year for real GDP is 2012.

Under unchanged policies, medium-term growth is projected to decline due to slower labor force and productivity growth due to outward skilled labor migration.

2/ Base year of CPI basket is 2015.

3/ Includes drawings on the swap agreement with the People's Bank of China (PBoC), and the Special Drawing Right (SDR) allocations of SDR 41.3 million in 2009 and SDR 101.4 million in 2021.

4/ Includes publicly-guaranteed debt in the stock of external debt for which data was missing prior to 2020, and drawings on the swap agreement with PBoC.

5/ Estimated based on commercial banks' credit to the private sector.

6/ Lao Statistics Bureau (LSB) data.

Table 2a. Lao PDR: Balance of Payments, 2021–30

(in millions of U.S. dollars)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account	432	-459	405	531	1,023	304	101	-20	-165	-252
Merchandise trade balance	1,419	954	721	723	1,329	892	911	915	908	941
Exports, f.o.b.	7,695	8,198	8,370	9,386	11,290	11,255	11,711	12,130	12,579	13,090
<i>of which: electricity</i>	2,169	2,358	2,382	2,511	2,837	3,064	3,248	3,443	3,615	3,796
<i>of which: potassium</i>	139	320	401	785	841	875	901	923	946	970
<i>of which: gold</i>	962	805	703	702	1,366	1,315	1,284	1,226	1,182	1,153
Imports, c.i.f.	6,275	7,244	7,649	8,663	9,961	10,362	10,800	11,215	11,671	12,149
Oil and mineral products	894	1,410	1,276	1,371	1,342	1,353	1,417	1,479	1,538	1,584
Non-oil	5,381	5,834	6,373	7,292	8,618	9,009	9,383	9,736	10,134	10,565
Services (net)	-127	-332	380	465	432	387	365	352	348	348
<i>of which: travel (credit)</i>	0	265	1,043	1,171	1,242	1,305	1,364	1,426	1,491	1,559
Income (net)	-1,087	-1,395	-1,075	-1,047	-1,165	-1,360	-1,566	-1,683	-1,822	-1,962
<i>of which: interest payments</i>	260	240	617	753	935	1,150	1,347	1,457	1,591	1,723
Transfers (net)	226	315	378	390	427	384	391	396	401	421
Official (net)	329	111	240	148	181	134	137	137	135	149
Private (net)	-103	204	138	243	246	250	254	259	265	272
Capital account	2	8	2	2	1	1	1	1	1	1
Financial account	-160	709	383	119	-161	-77	138	44	73	84
Direct investment (net)	1,072	726	1,781	988	1,106	1,175	1,248	1,320	1,390	1,463
Portfolio investment (net)	-310	71	-99	-250	-337	-207	-214	-231	-263	-281
Other investment (net)	-922	-89	-1,299	-620	-930	-1,045	-895	-1,045	-1,055	-1,098
Public sector 1/ Disbursements	-24	335	-67	142	-287	-208	-70	-173	-139	-131
<i>of which: unidentified financing</i>	491	681	921	767	1,191	1,002	1,111	1,110	1,103	1,108
Amortization	516	347	987	625	1,478	1,210	1,181	1,284	1,242	1,238
Banking sector (net)	-809	-134	-640	116	-189	-241	-258	-273	-289	-310
Other flows	-89	-289	-593	-877	-454	-595	-567	-599	-627	-658
Errors and omissions	-353	-512	-598	-227	0	0	0	0	0	0
Overall balance	-80	-255	192	424	864	228	240	25	-92	-167
Memorandum items:										
Gross official reserves 2/	1,245	990	1,183	1,607	2,471	2,699	2,939	2,964	2,872	2,704
In months of prospective imports of goods and services	1.9	1.4	1.4	1.7	2.5	2.6	2.8	2.7	2.5	2.2
Merchandise Exports, f.o.b. in mirror trade data 3/	8,537	10,129	10,198	12,494	...	...	...	...	...	...
Gold price (U.S. dollar per ounce)	1,800	1,802	1,943	2,387	3,247	3,556	3,657	3,657	3,657	3,657
Potassium price (U.S. dollar per ton)	220.2	586.2	518.9	346.4	353.5	358	358	358	358	358
GDP growth (main trading partners) 4/	4.2	4.6	4.1	4.5	3.8	3.3	3.8	3.9	3.8	3.8
Share of exports to main trading partners 4/	82	80	81	82	...	...	...	...	...	...
Total External Debt	20,200	20,124	20,610	21,185	21,444	22,019	22,573	22,972	23,339	23,634
PPG debt	12,883	13,099	13,219	13,395	13,108	13,100	13,030	12,856	12,718	12,587
Private debt	7,317	7,025	7,391	7,790	8,335	8,919	9,543	10,116	10,622	11,046
Current account excluding official transfers	102	-569	165	384	842	170	-36	-157	-301	-401
Current account excluding petroleum imports	1,325	951	1,681	1,903	2,365	1,657	1,518	1,459	1,372	1,331

Sources: Data provided by the Lao P.D.R. authorities; and IMF staff estimates and projections.

1/ Large repayments due in 2025 of government bonds (US\$628 million) and commercial bank loans (US\$541 million) are assumed to be partly rolled over with USD-denominated governments bonds.

2/ Includes drawings on the swap agreement with the People's Bank of China (PBoC), and the Special Drawing Right (SDR) allocations of SDR 41.3 million in 2009 and SDR 101.4 million in 2021.

3/ Data source is Trade Data Monitor (TDM). Mirror trade data may vary depending on the data source.

4/ Includes Thailand, Vietnam, and the Chinese mainland.

Table 2b. Lao PDR: Balance of Payments, 2021–30

(in percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account	2.3	-3.0	2.7	3.3	5.7	1.6	0.5	-0.1	-0.7	-1.1
Merchandise trade balance	7.7	6.3	4.8	4.5	7.5	4.7	4.5	4.3	4.0	4.0
Exports, f.o.b.	41.5	54.2	55.8	59.0	63.3	59.0	57.8	56.6	55.7	55.1
<i>of which: electricity</i>	11.7	15.6	15.9	15.8	15.9	16.1	16.0	16.1	16.0	16.0
<i>of which: potassium</i>	0.7	2.1	2.7	4.9	4.7	4.6	4.4	4.3	4.2	4.1
<i>of which: gold</i>	5.2	5.3	4.7	4.4	7.7	6.9	6.3	5.7	5.2	4.9
Imports, c.i.f.	33.9	47.9	51.0	54.5	55.9	54.3	53.3	52.3	51.7	51.2
Oil and mineral products	4.8	9.3	8.5	8.6	7.5	7.1	7.0	6.9	6.8	6.7
Non-oil	29.0	38.6	42.5	45.8	48.3	47.2	46.3	45.4	44.9	44.5
Services (net)	-0.7	-2.2	2.5	2.9	2.4	2.0	1.8	1.6	1.5	1.5
<i>of which: travel (credit)</i>	0.0	1.7	6.9	7.4	7.0	6.8	6.7	6.7	6.6	6.6
Income (net)	-5.9	-9.2	-7.2	-6.6	-6.5	-7.1	-7.7	-7.9	-8.1	-8.3
<i>of which: interest payments</i>	1.4	1.6	4.1	4.7	5.2	6.0	6.6	6.8	7.0	7.3
Transfers (net)	1.2	2.1	2.5	2.5	2.4	2.0	1.9	1.8	1.8	1.8
Official (net)	1.8	0.7	1.6	0.9	1.0	0.7	0.7	0.6	0.6	0.6
Private (net)	-0.6	1.3	0.9	1.5	1.4	1.3	1.3	1.2	1.2	1.1
Capital account	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-0.9	4.7	2.6	0.7	-0.9	-0.4	0.7	0.2	0.3	0.4
Direct investment (net)	5.8	4.8	11.9	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Portfolio investment (net)	-1.7	0.5	-0.7	-1.6	-1.9	-1.1	-1.1	-1.1	-1.2	-1.2
Other investment (net)	-5.0	-0.6	-8.7	-3.9	-5.2	-5.5	-4.4	-4.9	-4.7	-4.6
Public sector 1/	-0.1	2.2	-0.4	0.9	-1.6	-1.1	-0.3	-0.8	-0.6	-0.5
Disbursements	2.7	4.5	6.1	4.8	6.7	5.3	5.5	5.2	4.9	4.7
<i>of which: unidentified financing</i>							4.9	4.6	3.5	3.2
Amortization	2.8	2.3	6.6	3.9	8.3	6.3	5.8	6.0	5.5	5.2
Banking sector (net)	-4.4	-0.9	-4.3	0.7	-1.1	-1.3	-1.3	-1.3	-1.3	-1.3
Other flows	-0.5	-1.9	-3.9	-5.5	-2.5	-3.1	-2.8	-2.8	-2.8	-2.8
Errors and omissions	-1.9	-3.4	-4.0	-1.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.4	-1.7	1.3	2.7	4.8	1.2	1.2	0.1	-0.4	-0.7
Memorandum items:										
Gross official reserves 2/	6.7	6.6	7.9	10.1	13.9	14.2	14.5	13.8	12.7	11.4
In months of prospective imports of goods and services	1.9	1.4	1.4	1.7	2.5	2.6	2.8	2.7	2.5	2.2
Merchandise Exports, f.o.b. in mirror trade data 3/	46.1	67.0	67.9	78.5	...	...	...	...	...	...
Gold price (U.S. dollar per ounce)	1,800	1,802	1,943	2,387	3,247	3,556	3,657	3,657	3,657	3,657
Potassium price (U.S. dollar per ton)	220	586	519	346	354	358	358	358	358	358
GDP growth for main trading partners 4/	4.2	4.6	4.1	4.5	3.8	3.3	3.8	3.9	3.8	3.8
Share of exports to main trading partners 4/	82	80	81	82	...	...	...	...	...	...
Total External Debt	119.1	150.3	145.6	133.9	120.3	116.8	112.4	108.2	104.5	101.1
PPG debt	79.6	103.9	96.4	85.0	73.5	70.0	65.3	61.0	57.4	54.6
Private debt	39.5	46.5	49.2	49.0	46.7	46.8	47.1	47.2	47.1	46.5

Sources: Lao P.D.R. authorities and IMF staff estimates and projections.

1/ Large repayments due in 2025 of government bonds (US\$628 million) and commercial bank loans (US\$541 million) are assumed to be partly rolled over with USD-denominated governments bonds.

2/ Includes drawings on the swap agreement with the People's Bank of China (PBoC), and the Special Drawing Right (SDR) allocations of SDR 41.3 million in 2009 and SDR 101.4 million in 2021.

3/ Data source is Trade Data Monitor (TDM). Mirror trade data may vary depending on the data source.

4/ Includes Thailand, Vietnam, and the Chinese mainland.

Table 3. Lao PDR: Monetary Aggregates, 2021–30

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Est.	Proj.	Proj.	Proj.	Proj.	Proj.
(In billions of kip, unless otherwise indicated)										
Bank of Lao P.D.R. (BoL)										
Net foreign assets	7,815	9,046	14,402	24,088	42,837	50,804	57,779	60,225	60,145	59,466
In millions of U.S. dollars	700	525	703	1,107	1,981	2,210	2,449	2,474	2,382	2,215
Net domestic assets	32,195	41,856	43,492	32,559	16,467	11,624	8,029	9,349	13,763	19,049
Government (net)	3,129	6,358	5,537	-5,736	-22,871	-24,574	-26,233	-30,455	-33,927	-37,377
Claims	5,026	9,482	11,812	11,636	11,636	11,636	11,636	11,636	11,636	11,636
Deposits	-1,897	-3,124	-6,275	-17,371	-34,507	-36,210	-37,868	-42,091	-45,563	-49,013
State-owned enterprises	6,908	8,631	9,192	9,278	8,954	8,954	8,954	8,954	8,954	8,954
Banks	13,309	15,331	16,677	16,812	16,616	16,616	16,616	16,616	16,616	16,616
BoL securities	-2,251	-4,298	-6,081	-8,874	-11,407	-13,689	-15,058	-10,540	-9,486	-8,538
Other items (net)	11,100	15,835	18,167	21,078	25,181	24,317	23,750	24,775	31,607	39,394
Reserve money	40,011	50,902	57,894	56,647	59,304	62,428	65,808	69,574	73,908	78,515
Currency in circulation	13,386	12,662	13,014	13,543	18,514	20,656	22,609	24,655	26,861	29,723
Deposits	26,624	38,240	44,880	43,104	40,790	41,772	43,199	44,919	47,047	48,791
Monetary survey										
Net foreign assets	461	5	16,768	23,448	49,157	57,525	64,675	67,340	67,524	67,314
In millions of U.S. dollars	41	0	819	1,078	2,274	2,502	2,742	2,767	2,675	2,507
<i>Of which: Commercial banks</i>	-659	-524	116	-29	292	292	292	292	292	292
Net domestic assets	138,264	189,843	236,224	274,622	283,698	311,106	339,736	374,360	419,751	473,710
Government (net)	19,506	18,050	16,208	17,333	7,427	5,724	4,065	-157	-3,629	-7,079
Credit to the economy	94,206	137,189	175,282	208,529	224,530	241,481	258,377	276,014	297,847	323,522
<i>Of which: Private credit</i>	79,963	117,316	150,394	185,287	200,914	217,132	232,951	248,940	268,962	292,643
Other items (net)	24,551	34,604	44,654	48,760	51,741	63,900	77,294	98,503	125,533	157,267
Broad money	138,724	189,849	252,993	298,070	332,854	368,631	404,411	441,701	487,275	541,024
Currency outside banks	10,490	9,500	9,174	9,595	9,637	10,752	11,769	12,834	11,745	6,808
Kip deposits	52,839	60,356	70,057	81,595	97,970	114,658	132,484	147,562	168,304	189,690
Foreign currency deposits (FCDs)	75,395	119,993	173,762	206,880	225,247	243,221	260,158	281,305	307,226	344,526
(Annual percentage change)										
Reserve money	23.2	27.2	13.7	-2.2	4.7	5.3	5.4	5.7	6.2	6.2
Broad money	24.0	36.9	33.3	17.8	11.7	10.7	9.7	9.2	10.3	11.0
Credit to the economy	11.5	45.6	27.8	19.0	7.7	7.5	7.0	6.8	7.9	8.6
Credit to the private sector	10.6	46.7	28.2	23.2	8.4	8.1	7.3	6.9	8.0	8.8
Deposit growth	25.0	40.6	35.2	18.3	12.0	10.7	9.7	9.2	10.9	12.3
Memorandum items:										
Loan/deposit (percent)	93	91	86	88	84	80	78	75	72	69
Gross official reserves (in millions of U.S. dollars) 1/	1,743	1,489	1,681	1,596	2,471	2,699	2,939	2,964	2,872	2,704
M2 velocity	1.30	1.14	1.11	1.15	1.16	1.17	1.16	1.16	1.15	1.14
Dollarization rate (FCDs/broad money; in percent)	54	63	69	69	68	66	64	64	63	64
Gross reserve/Reserve Money (percent)	49	50	59	61	90	99	105	104	98	92

Sources: Lao PDR authorities; and IMF staff estimates and projections.

1/ Defined as foreign assets of the Bank of the Lao P.D.R. Includes drawings on the swap line with the People's Bank of China (PBoC), and the Special Drawing Rights (SDR) allocations of SDR 41.3 million in 2009 and SDR 101.4 million in 2021.

Table 4a. Lao PDR: Central Government Operations, 2021–30
(in billions of Kip)

	2021	2022	2023	2024	2025	2026		2027		2028		2029		2030	
						Est.	Est.	Draft Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Revenue and Grants	27,177	32,139	46,123	61,701	75,317	86,600	81,583	88,703	97,166	105,542	116,456				
Taxes	18,534	24,858	34,646	48,695	60,894	72,300	67,309	73,314	80,642	87,819	97,154				
Income taxes	1,494	2,206	3,728	4,615	5,625	6,300	6,276	6,869	7,491	8,161	9,031				
Profit taxes	2,733	4,004	4,493	6,886	9,082	10,300	10,133	11,091	12,095	13,177	14,581				
VAT	5,709	5,826	8,862	14,024	18,707	23,000	20,978	22,972	25,740	28,036	31,009				
Excise duties	4,288	5,551	7,193	8,886	10,275	12,000	11,411	12,487	13,616	14,747	16,231				
Import duties	1,182	2,180	2,936	3,595	3,785	4,400	4,108	4,412	4,722	5,084	5,565				
Royalties	1,679	3,175	4,486	6,264	7,592	9,800	8,470	9,355	10,297	11,328	12,660				
Mining	1,200	2,656	3,543	5,025	6,090	7,800	6,795	7,438	8,111	8,836	9,778				
Hydropower	479	519	944	1,239	1,502	2,000	1,675	1,918	2,187	2,492	2,882				
Other taxes	1,449	1,916	2,948	4,426	5,828	6,500	5,946	6,152	6,709	7,309	8,088				
Nontax revenues	4,966	5,372	6,563	9,790	8,723	9,200	9,220	10,092	11,006	11,990	13,268				
<i>Of which: Dividends 1/</i>	1,475	925	978	1,502	1,600	...	1,273	1,394	1,520	1,656	1,832				
Grants	3,678	1,908	4,914	3,216	5,700	5,100	5,054	5,296	5,519	5,733	6,034				
Total Expenditure	28,387	32,010	46,158	53,678	69,102	82,600	82,289	83,089	91,122	99,312	110,101				
Current Expenditure	19,856	22,701	31,300	39,076	50,200	59,300	59,004	57,485	63,072	68,614	75,976				
Compensation of employees	10,947	11,648	13,193	16,041	20,000	29,400	29,401	29,827	32,782	35,995	40,140				
Transfers	3,388	3,287	4,594	4,568	8,400	9,400	9,424	10,315	11,248	12,255	13,561				
Interest payments	2,163	3,806	2,455	12,612	13,800	13,300	12,966	9,048	9,599	9,678	10,052				
<i>Of which: External</i>	1,762	2,492	1,321	9,238	10,200	11,200	11,013	8,504	9,263	9,476	9,942				
Other recurrent	3,359	3,959	11,058	5,855	8,000	7,200	7,214	8,294	9,443	10,686	12,223				
Net acquisition of nonfinancial assets	8,531	9,310	14,857	14,602	18,902	23,300	23,285	25,604	28,049	30,699	34,125				
Domestically financed	2,748	3,727	4,184	5,077	6,000	9,500	9,480	10,494	11,572	12,747	14,260				
Externally financed	5,782	5,582	10,673	9,525	12,902	13,800	13,805	15,110	16,477	17,951	19,864				
Primary Balance	953	3,935	2,420	20,634	20,015	17,300	12,260	14,662	15,643	15,908	16,407				
Overall Balance	-1,210	129	-34	8,023	6,215	4,000	-706	5,614	6,044	6,230	6,356				
Net financing	1,210	-129	34	-8,023	-6,215	-3,800	706	-5,614	-6,044	-6,230	-6,356				
Domestic	1,484	-5,896	-4,721	-3,386	-18	-8,700	5,390	-3,725	-2,064	-2,717	-2,479				
Foreign	-275	5,767	4,755	-4,637	-6,197	-4,900	-4,911	-2,377	-4,486	-3,938	-4,369				
Net acquisition of financial assets	267	2,160	6,422	3,386	-1,896	-3,800	-3,792	5,614	6,044	6,230	6,356				
Domestic	267	2,160	6,422	3,386	-1,896	-3,800	-3,792	5,614	6,044	6,230	6,356				
Foreign	0	0	0	0	0	0	0	0	0	0	0				
Net incurrence of liabilities	1,477	2,032	6,457	-4,637	-8,111	-7,600	-3,086	0	0	0	0				
Domestic	1,752	-3,736	1,702	0	-1,914	-2,700	1,703	1,659	4,223	3,472	3,450				
Foreign	-275	5,767	4,755	-4,637	-6,197	-4,900	-4,789	-1,659	-4,223	-3,472	-3,450				
Public and publicly guaranteed debt	166,665	251,518	305,442	322,367	310,655	...	325,624	328,268	331,791	338,898	355,524				
Domestic	22,820	25,711	34,723	30,937	27,258	...	24,414	20,910	18,874	17,841	17,593				
External	143,846	225,807	270,720	291,431	283,397	...	301,210	307,358	312,917	321,058	337,931				
Memorandum items:															
Nominal GDP (in billions of kip)	180,751	217,350	280,844	342,976	385,488	430,090	430,090	470,763	513,354	559,284	618,889				

Sources: Data provided by the Lao PDR authorities; and IMF staff estimates and projections.

1/ Includes dividends from mining and hydropower projects.

Table 4b. Lao PDR: Central Government Operations, 2021–30
(in percent of GDP)

	2021	2022	2023	2024	2025	2026		2027	2028	2029	2030
				Est.	Est.	Draft Budget 1/		Proj.	Proj.	Proj.	Proj.
Revenue and Grants	15.0	14.8	16.4	18.0	19.5	20.1	19.0	18.8	18.9	18.9	18.8
Taxes	10.3	11.4	12.3	14.2	15.8	16.8	15.6	15.6	15.7	15.7	15.7
Income taxes	0.8	1.0	1.3	1.3	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Profit taxes	1.5	1.8	1.6	2.0	2.4	2.4	2.4	2.4	2.4	2.4	2.4
VAT	3.2	2.7	3.2	4.1	4.9	5.3	4.9	4.9	5.0	5.0	5.0
Excise duties	2.4	2.6	2.6	2.6	2.7	2.8	2.7	2.7	2.7	2.6	2.6
Import duties	0.7	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9
Royalties	0.9	1.5	1.6	1.8	2.0	2.3	2.0	2.0	2.0	2.0	2.0
Mining	0.7	1.2	1.3	1.5	1.6	1.8	1.6	1.6	1.6	1.6	1.6
Hydropower	0.3	0.2	0.3	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.5
Other taxes	0.8	0.9	1.0	1.3	1.5	1.5	1.4	1.3	1.3	1.3	1.3
Nontax revenues	2.7	2.5	2.3	2.9	2.3	2.1	2.1	2.1	2.1	2.1	2.1
<i>Of which: Dividends 2/</i>	0.8	0.4	0.3	0.4	0.4	...	0.3	0.3	0.3	0.3	0.3
Grants	2.0	0.9	1.7	0.9	1.5	1.2	1.2	1.1	1.1	1.0	1.0
Total Expenditure	15.7	14.7	16.4	15.7	17.9	19.2	19.1	17.6	17.8	17.8	17.8
Current Expenditure	11.0	10.4	11.1	11.4	13.0	13.7	13.7	12.2	12.3	12.3	12.3
Compensation of employees	6.1	5.4	4.7	4.7	5.2	6.8	6.8	6.3	6.4	6.4	6.5
Transfers	1.9	1.5	1.6	1.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Interest payments	1.2	1.8	0.9	3.7	3.6	3.0	3.0	1.9	1.9	1.7	1.6
<i>Of which: External</i>	1.0	1.1	0.5	2.7	2.6	2.6	2.6	1.8	1.8	1.7	1.6
Other recurrent	1.9	1.8	3.9	1.7	2.1	1.7	1.7	1.8	1.8	1.9	2.0
Net acquisition of nonfinancial assets	4.7	4.3	5.3	4.3	4.9	5.4	5.4	5.4	5.5	5.5	5.5
Domestically financed	1.5	1.7	1.5	1.5	1.6	2.2	2.2	2.2	2.3	2.3	2.3
Externally financed	3.2	2.6	3.8	2.8	3.3	3.2	3.2	3.2	3.2	3.2	3.2
Primary Balance	0.5	1.8	0.9	6.0	5.2	4.0	2.9	3.1	3.0	2.8	2.7
Overall Balance	-0.7	0.1	0.0	2.3	1.6	0.9	-0.2	1.2	1.2	1.1	1.0
Net financing	0.7	-0.1	0.0	-2.3	-1.6	-0.9	0.2	-1.2	-1.2	-1.1	-1.0
Domestic	0.8	-2.7	-1.7	-1.0	0.0	-2.0	1.3	-0.8	-0.4	-0.5	-0.4
Foreign	-0.2	2.7	1.7	-1.4	-1.6	-1.1	-1.1	-0.5	-0.9	-0.7	-0.7
Net acquisition of financial assets	0.1	1.0	2.3	1.0	-0.5	-0.9	-0.9	1.2	1.2	1.1	1.0
Domestic	0.1	1.0	2.3	1.0	-0.5	-0.9	-0.9	1.2	1.2	1.1	1.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	0.8	0.9	2.3	-1.4	-2.1	-1.8	-0.7	0.0	0.0	0.0	0.0
Domestic	1.0	-1.7	0.6	0.0	-0.5	-0.6	0.4	0.4	0.8	0.6	0.6
Foreign	-0.2	2.7	1.7	-1.4	-1.6	-1.1	-1.1	-0.4	-0.8	-0.6	-0.6
Public and publicly guaranteed debt	92.2	115.7	108.8	94.0	80.6	...	75.7	69.7	64.6	60.6	57.4
Domestic	12.6	11.8	12.4	9.0	7.1	...	5.7	4.4	3.7	3.2	2.8
External	79.6	103.9	96.4	85.0	73.5	...	70.0	65.3	61.0	57.4	54.6
Memorandum items:											
Nominal GDP (in billions of kip)	180,751	217,350	280,844	342,976	385,488	...	430,090	470,763	513,354	559,284	618,889
Public debt ceiling 3/	65	65	65	65	65	...	65	65	65	65	65
Overall deficit ceiling 4/	2	2	2	2	2	...	...	...	...	...	...

Sources: Data provided by the Lao PDR authorities; and IMF staff estimates and projections.

1/ Staff-projected nominal GDP is used for calculations expressed as a percent of GDP.

2/ Includes dividends from mining and hydropower projects.

3/ The public debt ceiling was set in the Public Debt Management Law adopted in 2018.

4/ The overall deficit ceiling was set in the Five-Year National Socio-Economic Development Plan (2021-25).

Table 5. Lao PDR: Selected Financial Stability Indicators, 2021–2025:Q2

	2021	2022	2023	2024				2025	
				Mar	Jun	Sep	Dec	Mar	Jun
Capital Adequacy									
Regulatory Capital to Risk-Weighted Assets	17.5	18.7	18.2	18.5	18.5	18.6	18.0	17.8	17.6
Tier 1 Capital to Risk-Weighted Assets	14.1	14.7	13.1	14.9	14.7	14.1	13.0	14.3	14.4
Tier 1 Capital to Total Assets	6.2	6.1	5.4	5.8	5.6	5.7	5.4	6.1	6.2
Capital to Total Assets	8.1	8.7	8.2	7.9	7.7	8.2	8.4	8.5	8.3
Liquidity									
Liquid Assets to Total Assets	54.3	53.6	57.5	57.2	62.9	61.5	61.0	60.3	57.3
Liquid Assets to Total Liabilities	72.9	58.3	62.4	62.1	68.1	67.0	66.5	65.8	62.4
Liquid Assets to Short Term Liabilities	80.7	82.8	88.4	89.3	84.4	82.6	82.8	82.5	78.2
Gross Loans to Deposits	68.1	71.3	68.1	64.7	65.9	67.3	69.1	67.4	66.4
Asset Quality									
Non-performing Loans to Total Gross Loans	2.2	2.2	1.4	1.7	1.9	1.8	1.4	1.4	1.5
Non-performing Loans Net of Provisions to Capital	4.5	5.9	4.4	5.4	5.3	4.2	5.5	4.5	3.9
Earnings and Profitability									
Return on Assets	0.7	1.1	1.5	1.7	1.6	1.5	1.4	1.4	1.3
Return on Equity	11.6	12.9	18.5	21.5	21.1	19.6	17.6	16.1	15.2
Interest Margin to Gross Income	12.0	11.5	12.8	14.3	13.8	9.8	11.8	22.2	20.7
Non-interest Expenses to Gross Income	84.5	83.7	77.9	76.5	77.0	84.3	81.6	66.4	68.2
Sectoral Distribution of Loans									
Industry	26.9	27.9	28.9	34.8	35.4	35.4	35.6	35.5	36.1
Construction	13.7	13.6	13.6	11.1	10.7	10.0	9.9	9.7	9.3
Materials and Supplies	3.0	5.1	3.8	1.9	1.8	2.0	2.0	2.0	2.0
Agricultural and Forestry	7.6	5.5	5.1	5.1	4.6	4.6	4.8	4.9	4.8
Commerce	19.0	20.2	20.6	19.7	19.8	19.6	19.8	19.2	19.2
Transport	2.0	2.0	2.1	1.0	1.0	0.9	0.7	0.8	0.8
Services	14.6	13.2	14.0	14.2	14.0	14.1	14.0	14.9	14.9
Handicrafts	1.2	0.1	0.1	0.1	0.2	0.2	0.1	0.2	0.2
Others	12.0	12.4	11.8	12.1	12.5	13.2	13.1	12.8	12.7

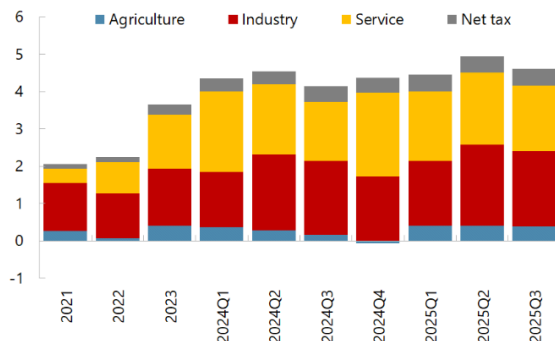
Sources: Bank of Lao PDR.

Figure 2. Lao PDR: Robust GDP Growth

Economic activity remained strong in 2024-2025:Q3, led by the service and industry sectors, ...

Real GDP and Sectoral Contributions

(Percent, y/y)

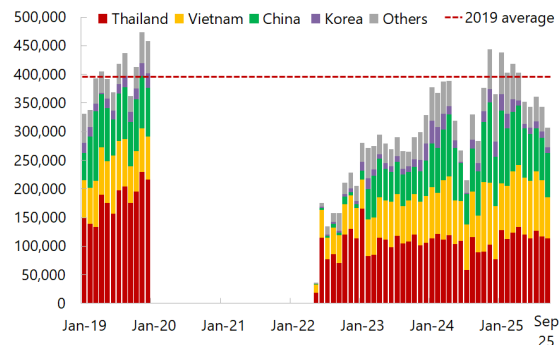


Sources: National authorities and IMF staff estimates.

... with tourism boosted by the 2024 ASEAN chairmanship, better infrastructure, and specific initiatives ...

Tourism Arrivals

(Number of persons)

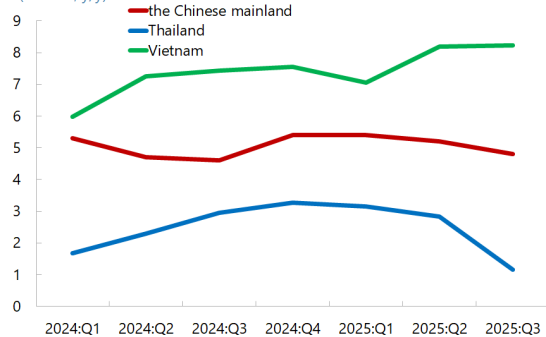


Sources: National authorities.

... and supported by strong growth in main trading partners through 2025:Q3.

Main Trading Partners' Growth

(Percent, y/y)

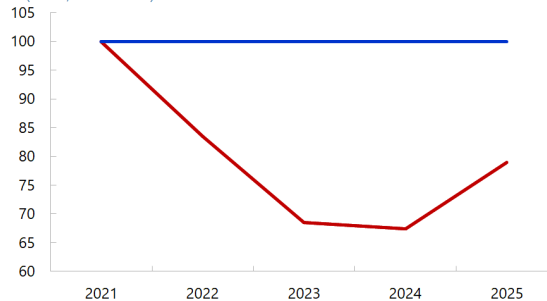


Sources: Haver Analytics.

However, domestic demand remained weak, as fiscal consolidation constrained real public sector wage bills ...

Real Public Sector Wage Bill

(Index, 2021 = 100)



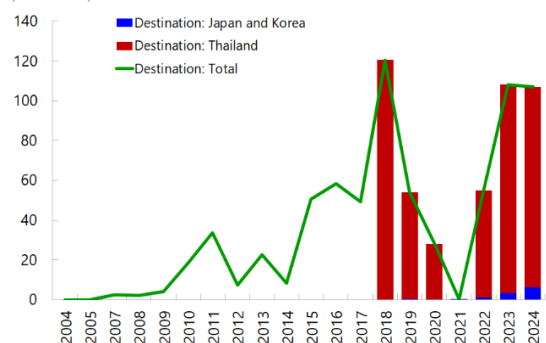
Sources: National authorities and IMF staff calculations.

Notes: The red line shows real public sector wage bill (deflated by annual inflation) index, with the value in 2021 set at 100.

... and significant outmigration continued ...

Outward Migration From Lao PDR

(Thousands)

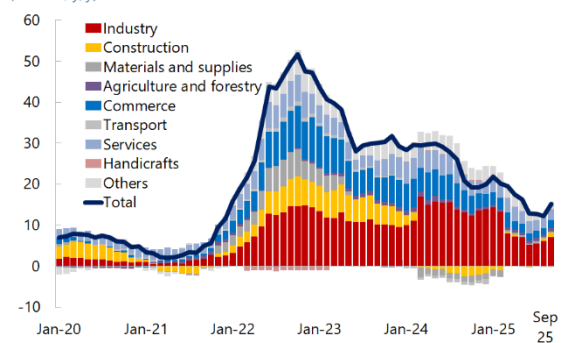


Sources: ILO.

... while tighter monetary conditions lowered private credit growth, particularly for industry and construction.

Commercial Banks' Private Credit and Sector Contributions

(Percent, y/y)

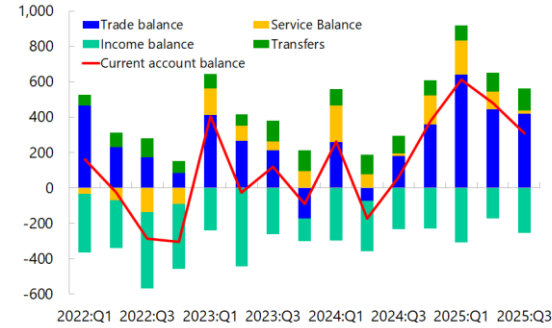


Sources: National authorities and IMF staff calculations.

Figure 3. Lao PDR: Strengthening External Balances

The current account surplus reached a record high by 2025:Q3, mainly driven by a booming trade surplus.

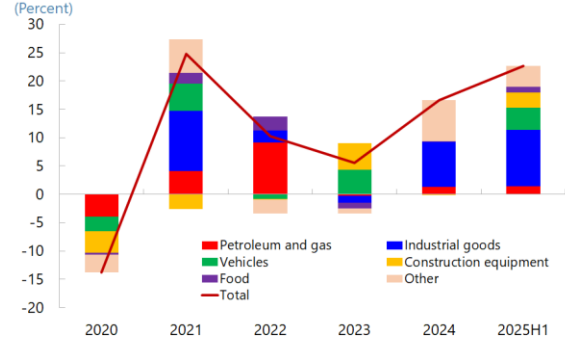
Current Account Balance
(USD million)



Sources: National authorities and IMF staff calculations.

Although robust economic growth and stable FDI inflows led to rising imports

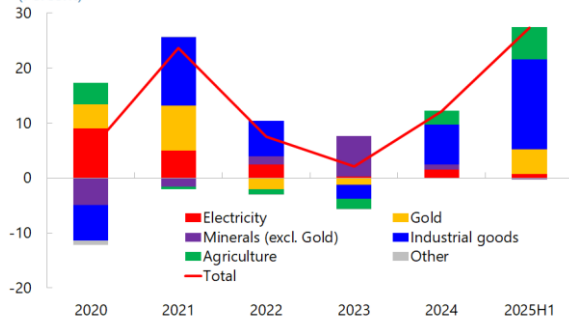
Contribution to Import Growth
(Percent)



Note: Figures for 2025H1 are in comparison with estimated outcome for 2024H1. Sources: National authorities, Trade Data Monitor, and IMF staff calculations.

... stronger industrial and agricultural exports and higher gold prices boosted the current account surplus ...

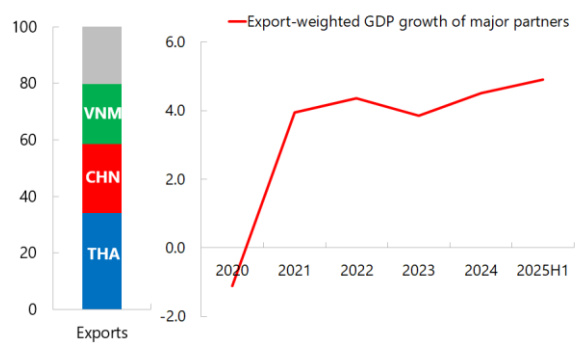
Contribution to Export Growth
(Percent)



Note: Figures for H1-2025 are shown in comparison with H1-2024 (estimate). Sources: National authorities, Trade Data Monitor, and IMF staff calculations.

... aided by stronger-than-expected growth in major partner countries.

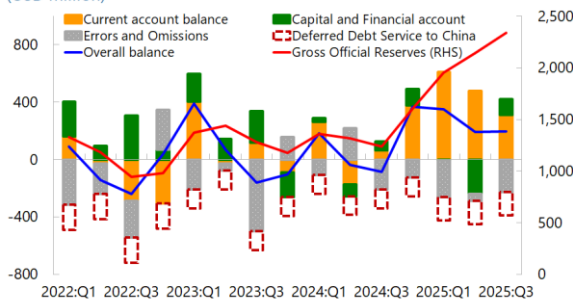
Major Export Partners GDP Growth and Export Shares
(In Percent)



Sources: National authorities and IMF staff calculations.

Strong current account surpluses and Chinese debt repayment deferrals supported gross international reserves (GIR) accumulation.

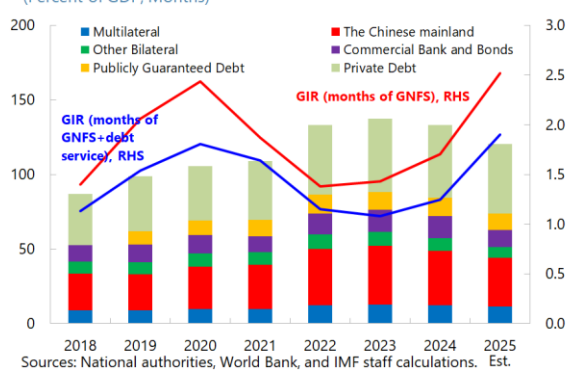
Balance of Payments and Gross International Reserves
(USD million)



Note: Deferred debt servicing to China includes principal and interest payments, with the annual deferred amounts distributed evenly across quarters. Sources: National authorities and IMF staff calculations.

Nevertheless, GIR remains low, considering elevated external debt, significant external risks and export concentration.

External Debt Stock and International Reserves
(Percent of GDP; Months)



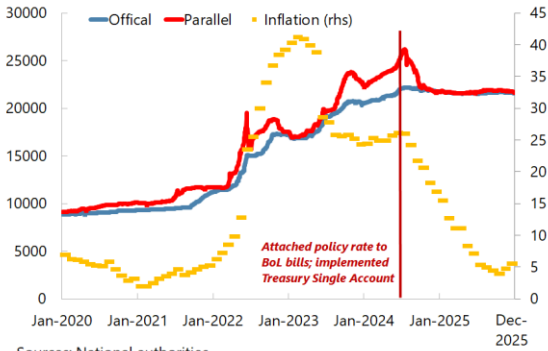
Sources: National authorities, World Bank, and IMF staff calculations. Est.

Figure 4. Lao PDR: Rapid Disinflation and Exchange Rate Stabilization

The exchange rate stabilized and inflation declined since 2024:H2, as monetary transmission improved ...

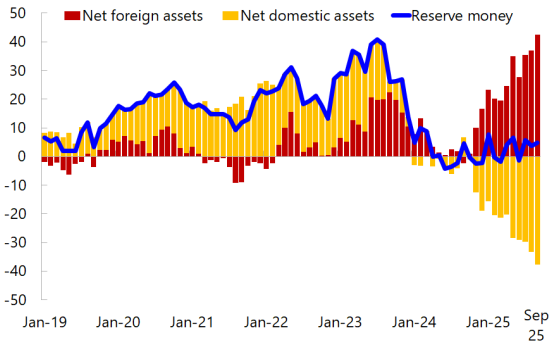
... and excess Kip liquidity was effectively mopped up ...

Exchange Rate and Inflation
(Kip per US Dollar and percent (rhs))



Sources: National authorities.

Reserve Money Growth
(Percent, y/y)

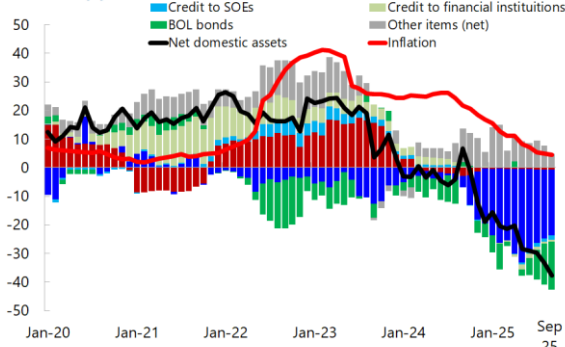


Sources: National authorities and IMF staff calculations.

... through the implementation of a Treasury Single Account at the BOL.

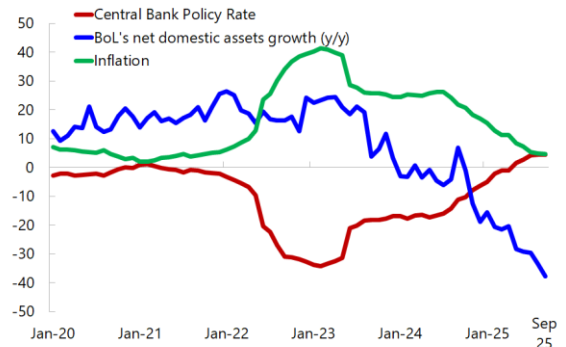
As a result, the real policy rate increased since 2024:H2 and became positive since May 2025.

Bol Net Domestic Assets Growth and Inflation
(Percent, y/y)



Sources: National authorities and IMF staff calculations.

Real Interest Rates, Kip Liquidity Growth, and Inflation
(Percent)

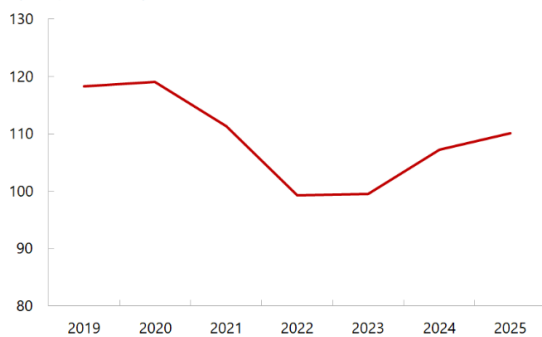


Sources: National authorities and IMF staff calculations.

The real effective exchange rate appreciated.

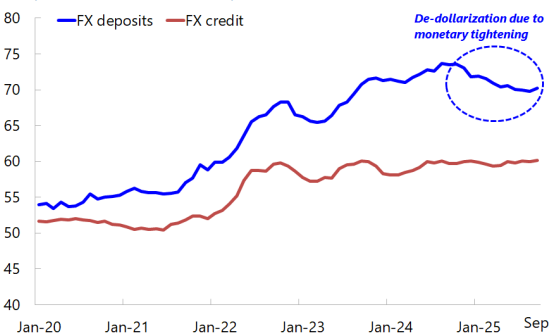
Tighter monetary conditions also contributed to some de-dollarization.

Real Effective Exchange Rate
(Index, 2010 = 100)



Sources: IMF staff calculations.

FX Credit and Deposits
(In percent of total credit and deposits)

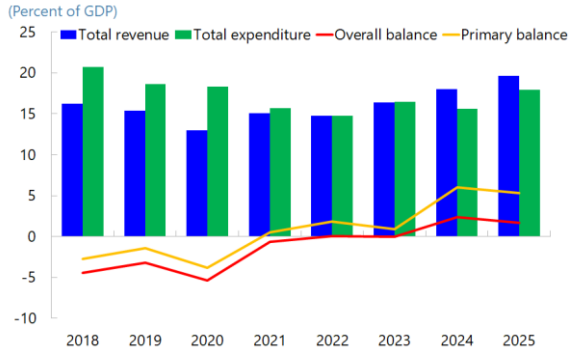


Sources: National authorities and IMF staff calculations.

Figure 5. Lao PDR: Improved Fiscal Performance

Primary surpluses for a fifth consecutive year, due to revenue mobilization and spending restraint.

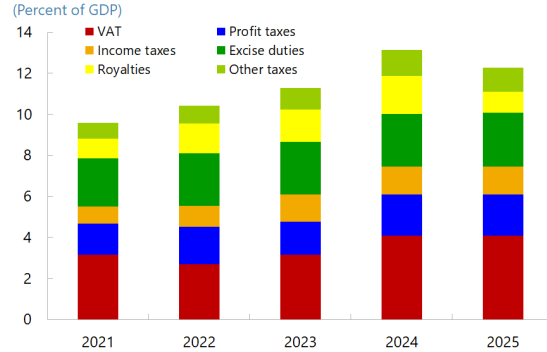
Fiscal Balance



Sources: Lao PDR authorities and IMF staff calculations.

Higher VAT and excise rates and strengthened tax administration helped boost revenues.

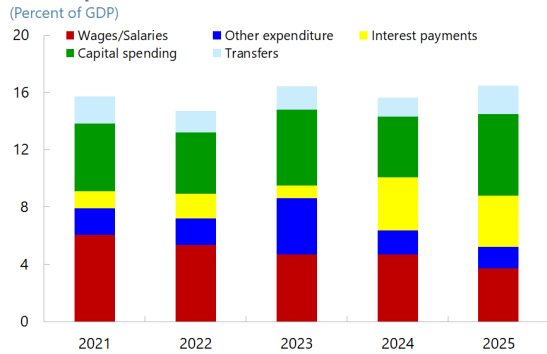
Tax Revenues



Sources: Lao PDR authorities and IMF staff calculations.

Strict current expenditure controls and delayed capital spending sharply compressed expenditures, despite rising interest payments.

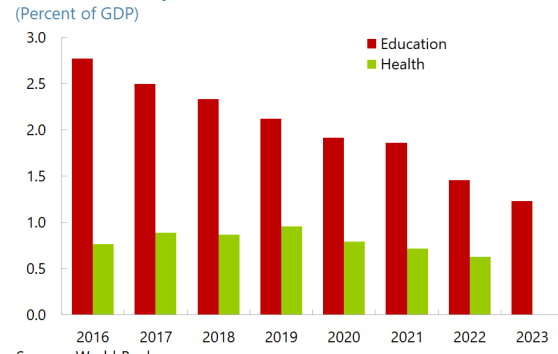
Total Expenditures



Sources: Lao PDR authorities and IMF staff calculations.

However, social sector spending, in particular, declined sharply.

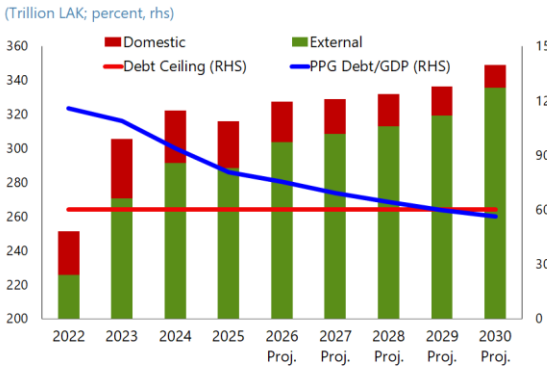
Government Expenditure on Education and Health



Sources: World Bank.
Note: Data on spending on health is not available after 2022.

Fiscal consolidation stabilized public debt-to-GDP, although it remains above the debt ceiling.

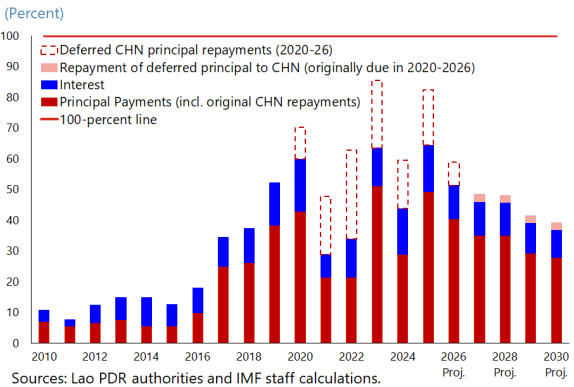
Public and Public-Guaranteed Debt



Sources: Lao PDR authorities and IMF staff calculations.

Debt service indicators improved, largely reflecting the deferral of debt repayments to the Chinese mainland.

Debt Service As Percent of Domestic Revenue



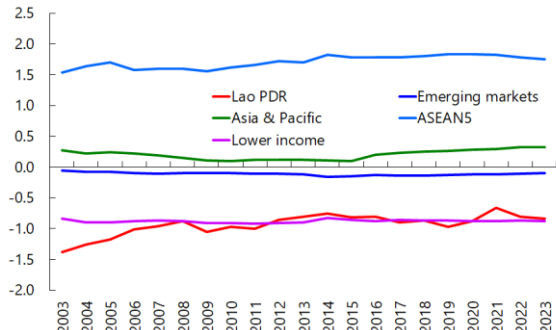
Sources: Lao PDR authorities and IMF staff calculations.

Figure 6. Lao PDR: Slow Progress on Governance

The rule of law has been strengthening gradually, even if a persistent gap with regional peers remains.

Rule of Law

(Average Score, -2.5 weakest to 2.5 strongest)

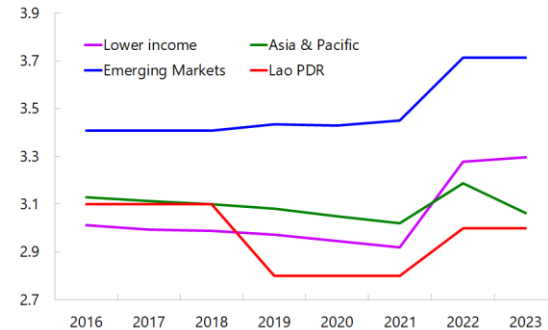


Sources: Worldwide Governance Indicators.

Public sector management has recovered from its earlier slump, with scope for further improvement.

Public Sector Management and Institutions

(Cluster average, 1 lowest - 6 highest)

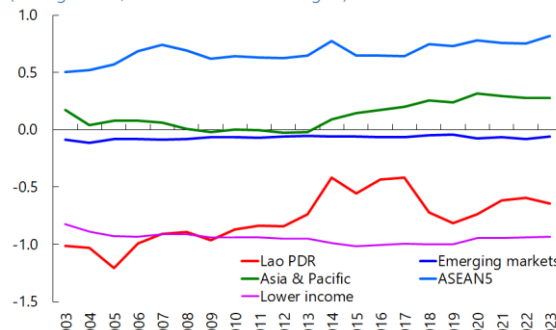


Sources: World Bank Country Policy and Institutional Assessment.

Perceptions of public service quality are on an upward trend, with room to further close gaps with peers.

Government Effectiveness

(Average Score, -2.5 weakest to 2.5 strongest)

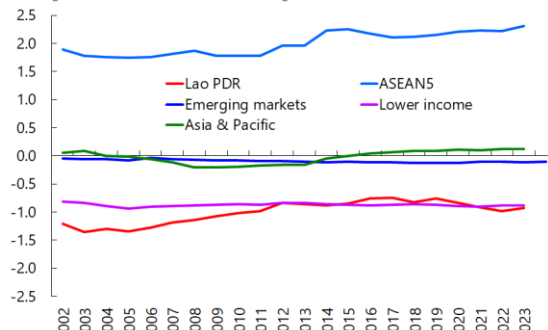


Sources: Worldwide Governance Indicators.

Gains in regulatory quality and legal frameworks have slowed in recent years.

Regulatory Quality

(Average Score, -2.5 weakest to 2.5 strongest)

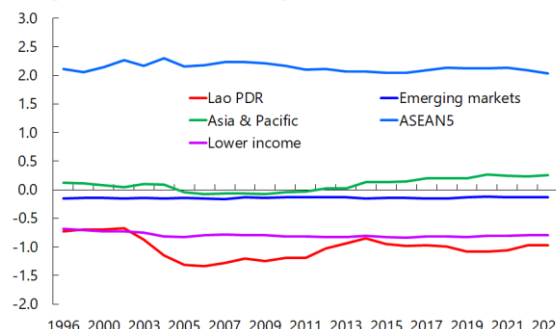


Sources: Worldwide Governance Indicators.

Strengthening efforts to address corruption remains an opportunity to catch up with peers ...

Control of Corruption

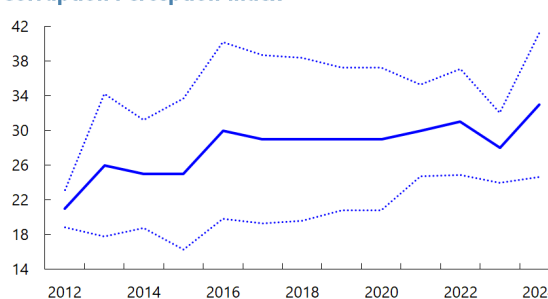
(Average Score, -2.5 weakest to 2.5 strongest)



Sources: Worldwide Governance Indicators.

... as perceptions of corruption remain persistently high.

Corruption Perception Index

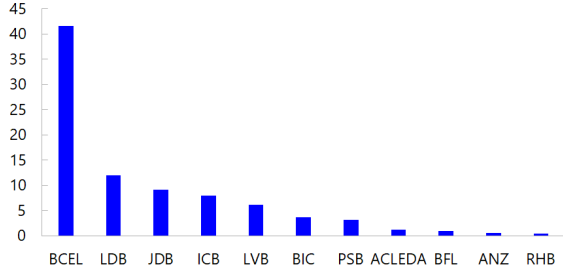


Sources: Transparency International (2024).
 Note: The index compiles results of 13 surveys. "Estimate" is a weighted sum of survey results, "lower"("upper") reflects the lowest (highest) score among 13 data points. High scores reflect lower corruption perception. Dotted lines represent upper/lower bound of the 90 percent confidence interval of the index score.

Figure 7. Lao PDR: Growing Access to Financial Services

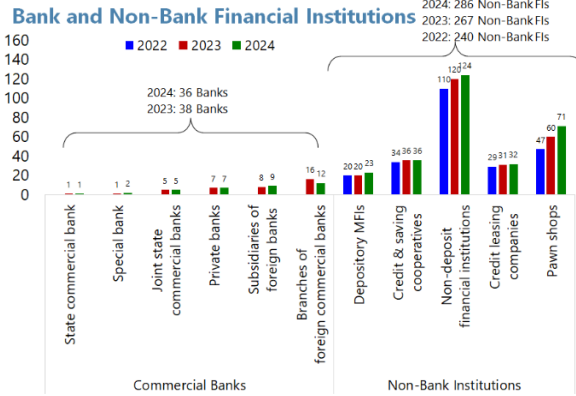
The banking sector is highly concentrated around a single state-owned bank.

Bank Assets, 2023–24
(Percent of GDP)



Sources: Fitch, LDB annual report, BIC annual report.
Note: Banks include: Banque Pour Le Commerce Extérieur Lao Public (BCEL); Joint Development Bank Ltd. (JDB); Indochina Bank Ltd. (ICB); Lao-Viet Bank Co. Ltd (LVB); BIC Bank Lao Co. Ltd. (BIC); Phongsavanh Bank Ltd. (PSB); ACLEDA Bank Lao Ltd. (ACLEDA); Banque Franco-Lao Ltd. (BFL); Australia and New Zealand Banking Group Ltd. (ANZ) and RHB Bank Lao Sole Co. Ltd. (RHB), Lao Development Bank (LDB). Data for JDB, is as of end-2023.

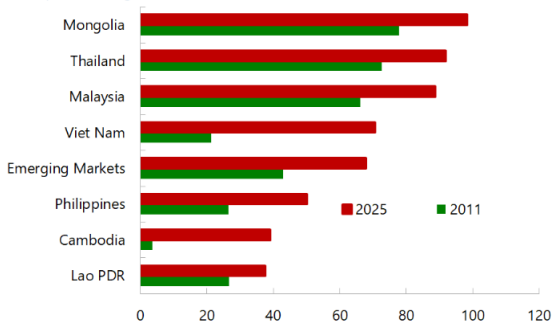
Non-bank financial institutions (NBFIs), primarily engaged in microfinance, are expanding but remain small.



Sources: BOL Annual Report, 2023–24.

Bank account ownership has improved but remains among the lowest in the region.

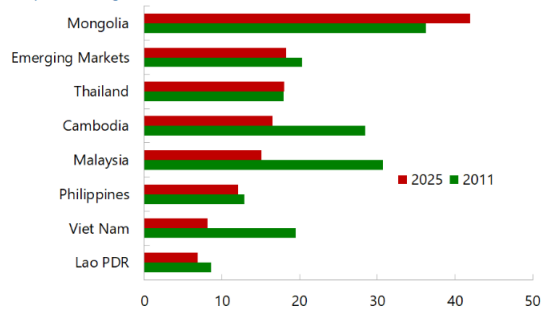
Bank Account Ownership
(In percent of age 15+)



Sources: World Bank Global Findex Database 2025.

Formal borrowing remains limited, with only a small share of adults accessing credit from banks and NBFIs.

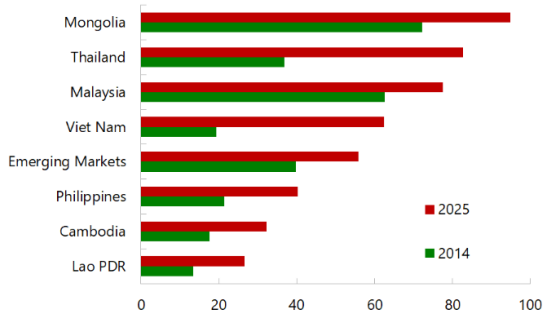
Borrowing From Formal Financial Institution
(In percent of age 15+)



Sources: World Bank Global Findex Database 2025. The earliest data point for Lao PDR is for 2014.

Digital payment usage has expanded, yet adoption remains modest relative to the region.

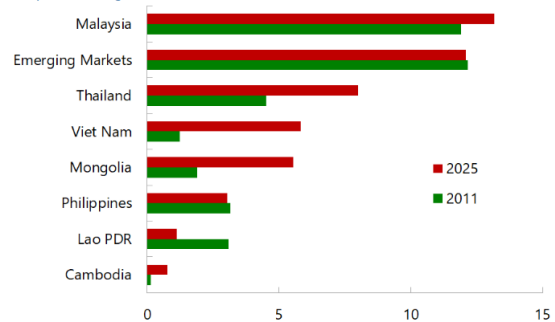
Made Or Received Digital Payment
(In percent of age 15+)



Sources: World Bank Global Findex Database 2025. The earliest data point for Lao PDR is for 2014.

Credit-card ownership lags comparator groups.

Owns Credit Card
(In percent of age 15+)



Sources: World Bank Global Findex Database 2025.

References

International Monetary Fund, 2024, "Lao PDR: 2024 Article IV Consultation," IMF Country Report No. 24/319 (Washington).

_____, October 2025, "World Economic Outlook."

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Annex I. Implementation of 2024 Article IV Recommendations

Recommendation	Actions Taken	Technical Assistance
Fiscal Policy		
<p>Maintain a primary surplus of around 3 percent but adjust policy mix with higher revenues and higher social spending. Move from profit based to cost based tax incentives to encourage private investment. Introduce a property tax. Improve large taxpayers' compliance through audits and better tax/customs coordination.</p>	<p>Substantial fiscal consolidation resulted in a primary surplus of 6 percent of GDP in 2024 and 5¼ percent of GDP in 2025 (forecasted). This was achieved largely through revenue-collection efforts:</p> <ol style="list-style-type: none"> (1) Tax policy <ul style="list-style-type: none"> • Expanded coverage of businesses in the VAT database. • Simplified or reduced corporate tax rates in June 2025: 5 percent profit tax for micro-enterprises; a reduction in profit tax for listed companies to 10 percent for the first 10 years after registration (previously 13 percent tax rate for four years), followed by the standard 20 percent rate. • Introduced a lump-sum tax rate and fee management system for casino businesses (May 2025). • A tax expenditure report is being prepared with assistance from the UNDP, based on 200 concession agreements, to assess the scale of VAT revenue forgone from special tax regimes and provisions. (2) Tax administration <ul style="list-style-type: none"> • Improved VAT collection, including from ecommerce activities. • Centralized technical fee payments through a new MOF digital platform. • The Tax Department is preparing their draft five-year Development Plan for Tax Administration (DPTA 2026–2030) with IMF assistance. (3) Expenditure <ul style="list-style-type: none"> • Current spending compression and delayed capex spending. 	<p>ADB, IMF, WB (ongoing)</p> <p>UNDP (ongoing)</p>
<p>Conduct a Tax Administration Diagnostic Assessment (TADAT).</p>	<ul style="list-style-type: none"> • The Lao PDR Tax Department requested a TADAT in August 2025, planned for January 2026. 	<p>IMF (ongoing)</p>
<p>Implement FMIS based on updated Chart of Accounts (CoA).</p>	<ul style="list-style-type: none"> • Current plans are to implement the IFMIS in the Ministry of Finance and central ministries by October 2026, with a go-live date set for January 1, 2027. • MOF is piloting the implementation of the CoA with line ministries for the 2026 budget, with full implementation for the 2027 budget. 	<p>IMF and WB (ongoing)</p>
<p>Implement Single Treasury Account (TSA).</p>	<ul style="list-style-type: none"> • Implemented a TSA with coverage progressively being expanded. 	<p>IMF (ongoing)</p>
<p>Increase transparency around PFM, budget processes, and asset sales; regularly publish public procurement contracts.</p>	<ul style="list-style-type: none"> • The public procurement website was launched to modernize procurement procedures and systems. 	<p>WB, EU, DFAT (ongoing)</p>
<p>Strengthen expenditure and public financial management.</p>	<ul style="list-style-type: none"> • Some progress on budget preparation and implementation, and public procurement. The Ministry of Finance is piloting medium-term budget plans and annual budget ceilings. Progress has been made to clear expenditure arrears, but substantial arrears are still outstanding. 	<p>WB, IMF (ongoing)</p>

Recommendation	Actions Taken	Technical Assistance
Fiscal Policy (continued)		
Develop a credible multi-year financing and debt management strategy with a focus on appointing professional advisors and strengthening debt management capacity.	<ul style="list-style-type: none"> • Decree No. 490/GOV (July 2025) sets guidelines for government borrowing and guarantees management. • The debt recording system was upgraded at end-2024. External and domestic debt are being recorded, including some parts of on-lending and guarantees, but not yet arrears clearance bonds. • Ongoing IMF TA engagement on the formulation of the Medium-Term Debt Management Strategy. • Ongoing TA on enhancing debt management, contingency liability management, debt sustainability, and transparency. 	WB, UNCTAD (ongoing) IMF (ongoing) ADB, JICA, IMF, WB (ongoing)
Further develop the local currency bond market.	<ul style="list-style-type: none"> • The authorities are working on a long-term capital market development strategy. • A framework for issuing thematic corporate bonds has been developed facilitating the first green bond issuance in Laos. 	ADB (ongoing) Global Green Growth Institute (GGGI) and Luxembourg (ongoing)
Monetary Policy		
Reduce inflation through raising policy rates and slowing money growth. Focus on price stability as the intermediate objective. Consider raising reserve requirements further.	<ul style="list-style-type: none"> • BOL and MOF undertook important reforms which helped achieve rapid disinflation. Inflation declined from double to single digits in less than a year due to higher real policy rates; BOL bill issuance at the policy rate improving monetary policy transmission; effective excess liquidity management with the establishment of a TSA at the BOL together with stronger fiscal consolidation; and stopping new monetary financing of the budget and quasi-fiscal operations. • The reserve requirement on foreign currency deposits was raised to 11 percent in August 2024. A cash-only requirement for the maintenance of reserve requirements was implemented. Transitioning to a full averaging basis for the reserve requirement maintenance is planned. • The 10th NSEDP proposes a lower inflation target range (5±2 percent). 	IMF (ongoing)
Modernize the monetary policy framework.	<ul style="list-style-type: none"> • Decisive steps toward modernizing the monetary policy framework were taken (above). BOL introduced regular liquidity absorbing operations through bill issuance and made significant progress in liquidity monitoring and forecasting. • An overnight lending facility was introduced. • BOL continues to strengthen its analytical capacity for monetary policy making (FPAS). 	IMF (ongoing)

Recommendation	Actions Taken	Technical Assistance
Monetary Policy (continued)		
Modernize the monetary policy framework.	<ul style="list-style-type: none"> Decisive steps toward modernizing the monetary policy framework were taken (above). BOL introduced regular liquidity absorbing operations through bill issuance and made significant progress in liquidity monitoring and forecasting. An overnight lending facility was introduced. BOL continues to strengthen its analytical capacity for monetary policy making (FPAS). 	IMF (ongoing)
Avoid monetary financing of the budget and BOL subsidies to development bank lending.	<ul style="list-style-type: none"> Monetary financing has stopped. Preferential loan programs continue. 	IMF (ongoing)
Enhance exchange rate flexibility.	<ul style="list-style-type: none"> The LAK vis-à-vis the USD has gradually appreciated since 2024:H2. The BOL has accumulated FX reserves. BOL with commercial banks established the Lao Foreign Exchange (LFX) market in October 2024, to regulate and offer more currency exchange options. The LFX operates on a mobile banking platform with fees and limits determined by the BOL. 	
Eliminate the two exchange restrictions arising from (i) the authorities' restrictions on the commercial banks' setting of a market-clearing exchange rate and FX prioritization, contributing to a foreign exchange shortage and undue delays in accessing FX for current international transactions, and (ii) the requirement to provide a tax clearance certificate, covering taxes unrelated to the underlying transactions, prior to obtaining FX for certain current international transactions.	<ul style="list-style-type: none"> On (i), this exchange restriction has been eliminated (see SR, ¶19). On (ii), the authorities are considering regulatory changes to remove the relevant tax clearance certificate requirement. 	
Assess the effectiveness of export receipt surrender requirement and consider phasing out the measures.	<ul style="list-style-type: none"> BOL submitted its first review of the effectiveness of this measure in July 2025 to the Prime Minister. The requirement remains in effect. 	
Financial Sector		
Strengthen bank supervision, implement new capital and liquidity requirements, and end loan forbearance. Implement tools to assess bank balance sheet imbalances.	<ul style="list-style-type: none"> Prime Ministerial Decree No. 45/PM requires commercial banks and foreign bank branches to raise their registered capital to 1,000 billion kip and investment to 600 billion kip within 10 years, starting from June 2, 2025, with a 30 percent increase in the first five years. 	

Recommendation	Actions Taken	Technical Assistance
Financial Sector (continued)		
	<ul style="list-style-type: none"> BOL Decision No. 1115, issued in September 2024, provides guidelines for commercial banks' internal capital adequacy assessment process. A risk-based supervision manual and guidelines have been developed and disseminated. In September 2025, the BOL requested that the IMF conduct a Financial Sector Stability Review, which is scheduled for 2026:H1. 	IMF (ongoing)
Address APG AML/CFT recommendations and strengthen AML/CFT oversight of banks.	<ul style="list-style-type: none"> Lao was added to the FATF grey list in February 2025 for weaknesses in its AML/CFT framework. Work is ongoing with donor support to address APG/FATF recommendations. 	IMF, ILSTA, Luxembourg, Thailand, UNODC, WB (ongoing)
Structural policies		
Enhance the business environment, including by reducing the regulatory burden for businesses, ensuring a consistent and transparent implementation of tax and regulation, encouraging a shift away from informality, strengthening legal and regulatory frameworks.	<ul style="list-style-type: none"> A new Board of Investment Promotion was set up in July 2025 under the Prime Minister's Office to improve the investment environment. The Amended Investment Promotion Law 2024 in Lao PDR aims to stimulate economic growth by incentivizing eco-friendly sectors and infrastructure development. 	
Enhance social safety nets and strengthen education and skills.	<ul style="list-style-type: none"> The five-year national development plan sets targets for improvements, but actual policy measures remain to be determined. 2025–26 budget allocations remain unclear. The government is deploying 2,000 soldiers to volunteer as teachers in remote areas to address teacher shortages. 	
Governance Reforms		
Combat corruption, improve governance, and ensure independence of anti-corruption bodies. Publish State Inspection and Anti-Corruption Authority (SIAA) annual report to National Assembly and strengthen SIAA independence. Prepare a new Plan of Action on Prevention and Anti-Corruption and follow up on/publish results from previous plan. Strengthen judicial and prosecutorial independence.	<ul style="list-style-type: none"> The Amended Anti-Corruption Law No. 52/NA (June 2024) aimed to strengthen the legal framework and enhance implementation mechanisms to improve governance, transparency, and address deficiencies in the AML/CFT framework. The Constitution Amendment (March 2025) includes judicial reforms that empower the State Inspection Authority (SIA) and State Auditing Organization (SAO), the two key bodies overseeing auditing, investigating, and preventing corruption and money laundering cases. Officials were trained in audits, investigations, and public prosecutions of corruption cases. 	ILSTA, the Chinese mainland and Vietnam (completed)

Recommendation	Actions Taken	Technical Assistance
Governance Reforms (continued)		
<p>Ensure that the anti-corruption legislation meets criminalization requirements under the United Nations Convention against Corruption. Strengthen asset declaration norms. Introduce laws on access to information and whistleblower protection.</p>		
<p>Strengthen SOE governance, including through regular and rigorous assessment of their operational and financial performance, and enhancing the legal and regulatory frameworks to promote transparency and enforce compliance. More detailed and timely information sharing on economic issues including SOEs' financial health, financing needs, and arrears.</p>	<ul style="list-style-type: none"> • MOF issued two ministerial decisions in May 2025 on the evaluation of SOE Business Performance and SOE Management Performance providing a framework for SOE oversight. • Responsibility of SOE management was transferred to the State Enterprise Reform Committee under the Prime Minister's office. • Electricity tariff increases are ongoing as part of a strategy to strengthen EDL's financial position. • The privatization of Lao Airlines is underway with the government assuming its debt 	
<p>Improve transparency by publishing annual or audit reports: (1) audited BOL financial statements; (2) annual report of State Inspection and Anti-Corruption Authorities (SIAA); and (3) court judgements.</p>		
Data Quality and Transparency		
<p>Improve quality and timeliness of economic statistics on national accounts, government finances, government arrears, monetary and financial statistics, and external sector statistics.</p>	<ul style="list-style-type: none"> • GDP and CPI rebasing is underway, expected to be completed by end-2026. The Lao Statistics Bureau has requested IMF TA support on CPI rebasing. • Ongoing initiatives to strengthen ESS and GFSM though with limited progress on latter. Implementation of the Chart of Accounts has been delayed to 2027. 	<p>IMF (ongoing)</p>

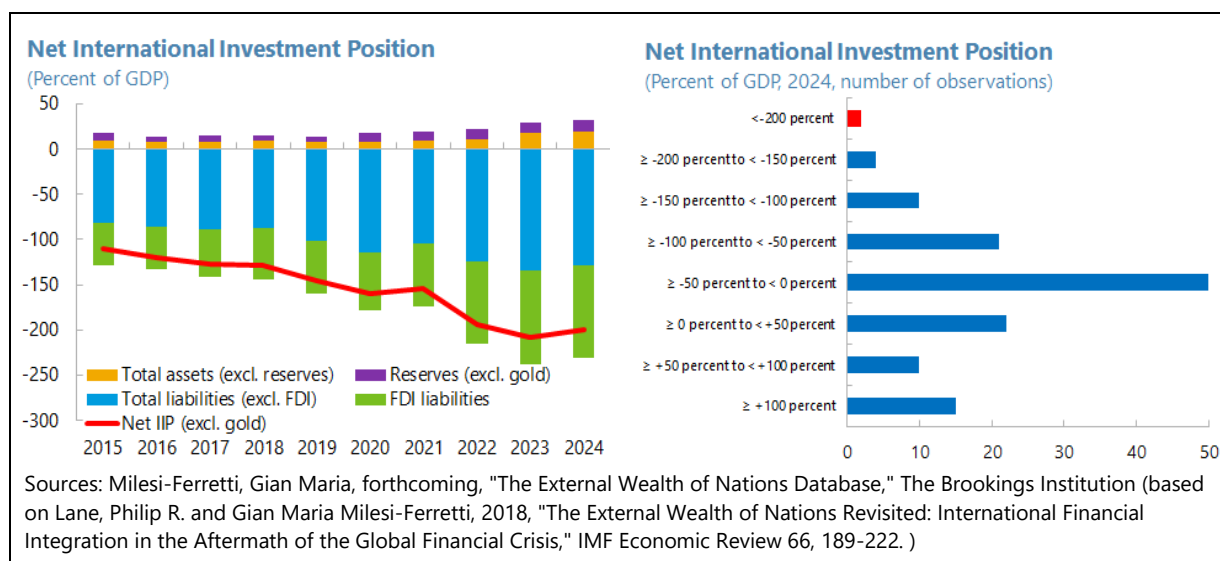
Annex II. External Sector Assessment

Overall Assessment: Although the current account balance improved relative to the end-2023 Assessment, the external position of Lao PDR for 2025 is assessed as moderately weaker than the level implied by medium-term fundamentals and desirable policies. The assessment indicated by the EBA-lite CA model¹ is overridden based on the following considerations: the large negative net international investment position (NIIP), which poses a risk to the country's external sustainability; and the low level of gross international reserves (GIR), which have improved but still remain below adequate levels. In the medium term, the current account is projected to weaken mainly due to rising net primary income outflows against the backdrop of a highly negative NIIP, and stronger imports related to robust FDI inflows. Assuming unchanged policies, external balances are projected to weaken also due to capital outflows, resulting in a decline in GIR over time (2.2 months of GNFS imports in 2030). The assessment is subject to uncertainty due to significant weaknesses in external sector statistics (ESS) (see Annex VI: Data Issues).

Potential Policy Responses: Allowing the exchange rate to act as a shock absorber, while continuing to build GIR opportunistically, would help improve resilience to external shocks given the large external debt and import dependence. Ongoing efforts to diversify export markets and products need to be accelerated. Improved transportation and connectivity streamlined entry requirements, and a better business environment would help boost the international tourism sector. Tighter monetary policy and continued monetary policy reform, stronger fiscal surpluses by further strengthening revenue-based fiscal consolidation and structural reforms to boost growth potential would contribute to a more favorable external debt path. A sound medium-term debt strategy, enhanced fiscal risk and debt management (including SOE debt), together with improved fiscal, debt, and ESS, would help improve policy management and investor confidence, thereby supporting external stability.

Foreign Assets and Liabilities

Background. Lao PDR's estimated NIIP remains high. At end-2024, which is the most recent time period for which estimated data is available, NIIP (excluding gold) stood at -US\$31.6 billion (-203 percent of GDP). Among the 134 countries and territories for which data was available, Lao PDR's NIIP continues to be the second smallest. The most important contributor to the large negative NIIP was the accumulation of debt liabilities, including offtake contracts, portfolio debt and other investments (-130 percent of GDP), reflecting the country's large private and public external debt. Buoyant FDI inflows into the mining and hydropower sectors continue to drive an increase in FDI liabilities. Asset accumulation has remained modest relative to the accumulation of large liabilities.



Assessment. The large liability position in the NIIP is mirrored in the debt sustainability analysis (see the Debt Sustainability Analysis), which shows Lao PDR is in debt distress and its debt position is unsustainable.

2024 (% of GDP)	NIIP: -203	Gross Assets: 33.2	Debt Assets: 17.6	Gross Liab.: -236	Debt Liab.: -130
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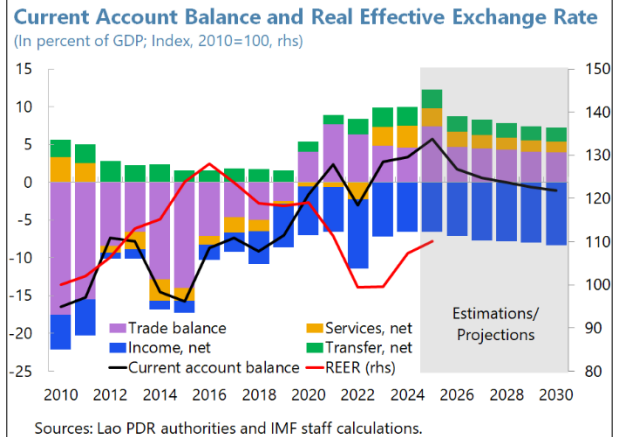
¹ The model implies the external position of Lao PDR in 2025 was broadly in line with fundamentals and desirable policies.

Current Account

Background. The estimated current account (CA) surplus is stronger in 2025 (5.7 percent of GDP versus 3.3 percent in 2024). This marks the third consecutive year of a CA surplus following the decade-long deficits (averaging -11 percent of GDP) recorded between 2010–19. This reversal reflects both higher savings and lower investment. The increase in savings reflects a continued fiscal surplus estimated for 2025, including the curtailment of the public investment,² and tight monetary policy which is expected to continue to reduce private sector credit, weighing on private domestic investment. The merchandise trade surplus (7.5 percent of GDP) is bolstered by a surplus in services trade (2.4 percent of GDP) amid a steady increase in international tourist arrivals in 2025. Nevertheless, balance of payments data shows persistent weaknesses, with large errors and omissions (-4.0 percent in 2023 and -1.4 percent of GDP in 2024) in the published data indicating large and persistent outflows that are not fully captured in identified flows. Further, merchandise trade data may be understating the extent of flows, with a persistently larger divergence between the official statistics and mirror trade data.

Assessment. The assessment using the EBA-lite CA model confirms the improved position with the cyclically adjusted CA balance in 2025 broadly in line with the norm (or equilibrium) value. In making the assessment, additional adjustments were made to both the CA-actual and the CA norm. In addition to the cyclical contributions and natural disasters and conflicts, the CA-actual was adjusted by -1.2 percent of GDP to account for the temporary net impact of front-loaded exports and imports observed prior to the implementation of the U.S. tariffs on Lao PDR and key partner countries, while a 4.0 percent adjustment was made to the CA norm to account for the need to bring down the total external debt to sustainable levels in the medium term.

Based on these adjustments, the CA gap was estimated at +0.9 percent of GDP. This reflected a policy gap of 0.7 pp, largely due to cyclically adjusted fiscal balance that needs to be strengthened (contribution to the policy gap is +0.5 pp) and public health spending (a proxy for social safety nets) that was below desirable levels (contribution to the policy gap is +1.3 pp). The underspending on critical social spending underscores the importance of ensuring that the needed fiscal consolidation efforts do not come at the expense of critical public services.



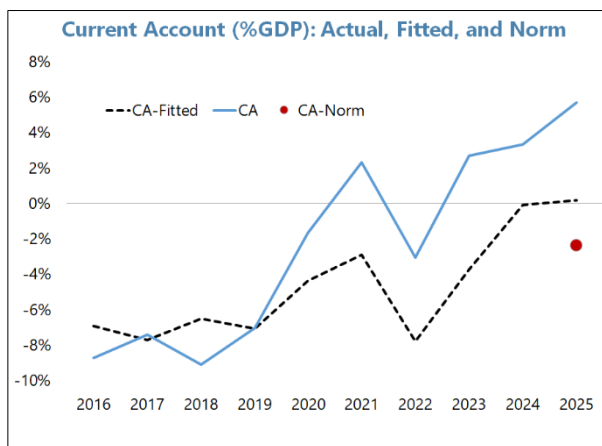
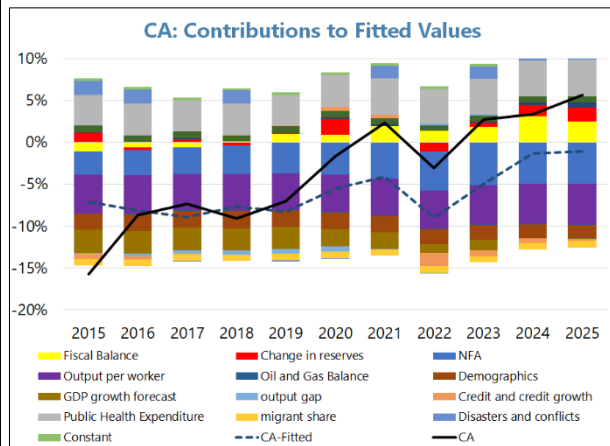
2025 Lao PDR EBA-lite Model Results		
	CA model 1/ (in percent of GDP)	REER model 1/ (in percent of GDP)
CA-Actual	5.7	
Cyclical contributions (from model) (-)	0.6	
Additional temporary/statistical factors (-) 2/	1.2	
Natural disasters and conflicts (-)	1.4	
Adjusted CA	2.6	
CA Norm (from model) 3/	-2.3	
Adjustments to the norm (+) 4/	4.0	
Adjusted CA Norm	1.7	
CA Gap	0.9	2.6
o/w Relative policy gap	0.7	
Elasticity	-0.3	
REER Gap (in percent)	-2.7	-7.6

1/ Based on the EBA-lite 3.0 methodology
 2/ Additional adjustment to account for the temporary impact on the merchandise trade balance of front-loaded exports observed prior to the implementation of the 37.8 percent effective U.S. tariffs on Lao PDR.
 3/ Cyclically adjusted, including multilateral consistency adjustments.
 4/ An additional 4.0 pp adjustment was included to account for the need to reduce total external debt to sustainable levels in the medium term.

² Overall fiscal balance improved from an average deficit of 3.5 percent of GDP during 2010–2019 to an estimated surplus of 1.7 percent of GDP in 2025. Public investment declined from an average of 8.3 percent of GDP during 2010–2019 to an estimated 4.9 percent of GDP in 2025.

Current Account (continued)

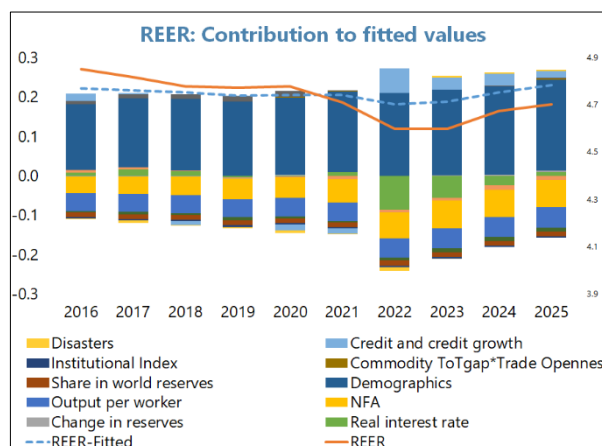
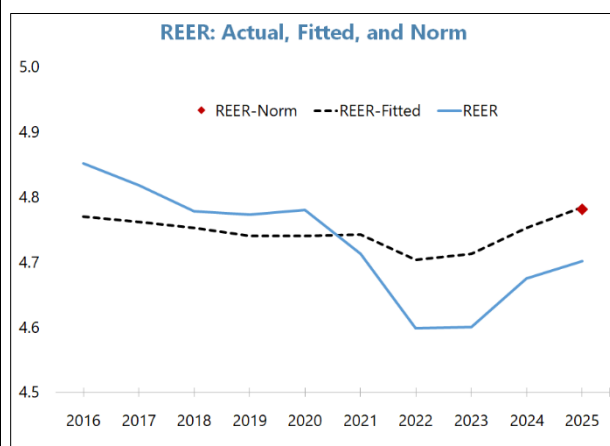
However, the estimated current account gap should be interpreted with caution. The expansion of the CA surplus reflects import restrictions on luxury cars (although the estimated impact is small).³ Additionally, there is large uncertainty surrounding the estimates, given significant measurement issues (as reflected in consistently large errors and omissions historically and large gaps in trade statistics relative to mirror data)



Real Exchange Rate

Background. Following a sharp depreciation since 2020, REER has gradually appreciated in 2023–2025. This mainly reflects the lagged catch-up of domestic inflation to the rapid nominal depreciation of the Kip observed between 2020 and 2024:H1. On average, the LAK/USD nominal exchange rate depreciated by 47 percent in 2022, 30 percent in 2023, and 15 percent in 2024, while inflation averaged 23 percent in 2022, 31 percent in 2023, and 23 percent in 2024. Since 2024H2, the nominal exchange rate has remained broadly stable, supported by strong and consistent monetary and fiscal policy actions, resulting in a decline in inflation to 5.6 percent in December 2025.

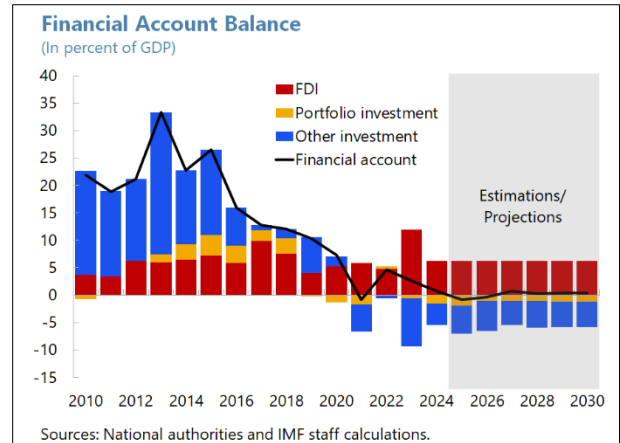
Assessment. Using the CA model, the REER gap is estimated at -2.7 percent (assuming an elasticity of -0.3), with the policy gap accounting for 0.3 pp, relative to equilibrium. This likely reflects the remaining lag in the pass-through of earlier nominal depreciation to domestic inflation and insufficient policy adjustment relative to desirable settings. The latter is estimated to stem from a real interest rate gap (-1.3 pp). That said, the significant data gaps imply this estimate is subject to significant uncertainty.



³ The authorities introduced a temporary import restriction on luxury cars in 2024 and extended it to 2025 to prevent foreign currency shortages. This measure is estimated to have a small impact on the current account due to its narrow scope and lax implementation.

Capital and Financial Accounts

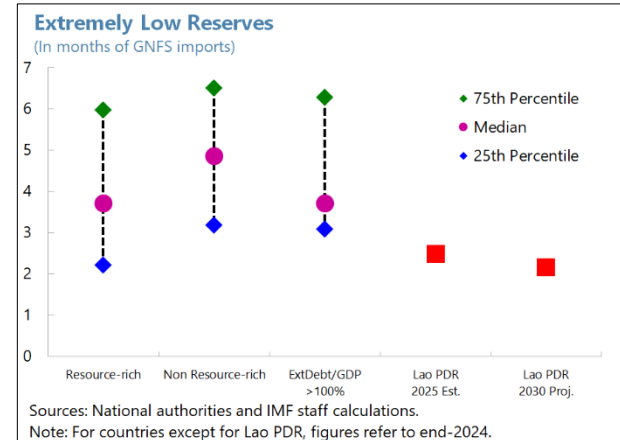
Background. The financial account surplus has been on a declining trend in recent years, and it is estimated to turn negative at -0.9 percent of GDP in 2025. FDI inflows have been volatile but excluding the large one-off inflow in 2023, they have averaged about US\$1.1 billion (6.2 percent of GDP) in net terms over the past ten years. Public sector flows are estimated to record net outflows of -1.6 percent of GDP in 2025 mainly due to the bunching of repayments on government bonds and commercial bank loans contracted up to 2024, despite repeated ad hoc debt service deferrals with the Chinese mainland. Dollarization and banking sector net outflows became pronounced during 2021–2024:H1. In response to this, the authorities have imposed a series of administrative measures since 2023 to improve the supply of FX on the market. In March 2024, BOL issued a regulation requiring exporters to repatriate a specified percentage of their export proceeds and sell their foreign currency earnings to a domestic commercial bank (repatriation and conversion requirements). Banks are directed to sell a portion of this foreign currency to BOL, starting May 2, 2024. These measures may have contributed, to some extent, to achieving a net inflow in the banking sector in 2024. Banking sector net outflows are expected to continue in 2025 despite some improvements in dollarization.



Assessment. The repatriation and conversion requirement constitutes an outflow capital flow management measure (CFM) under the IMF’s Institutional View (IV) on the Liberalization and Management of Capital Flows. The requirement would be appropriate under the IV in the context of Lao PDR’s (near) crisis situations in 2024–25. However, these measures may not be fully effective given the relatively open financial account and are likely to adversely affect foreign investor confidence by increasing transfer costs. The authorities are encouraged to continue assessing whether the measures achieve the intended goal and consider phasing it out once crisis-like conditions abate.

FX Intervention and Reserves Level

Background. Lao PDR’s GIR is estimated to be US\$2.5 billion at the end of 2025 (2.5 months of GNFS imports), an improvement from the US\$1.6 billion (1.7 months of GNFS imports) estimated at the end of 2024.⁴ The projected deterioration in the overall balance is expected to weigh on GIR over time (2.2 months of GNFS imports in 2030).



Assessment. Based on the Assessment of Reserve Adequacy for Credit Constrained Economies, Lao PDR’s reserve position is assessed to be below the minimum level recommended for resource-rich countries with a fixed exchange rate (around 3.4 months). This level is also below the conventional 3-month rule of thumb minimum. These estimates assume that BOL’s reserves are fully useable and unencumbered. However, GIR was boosted by drawings on a swap line with the PBoC, and it is not clear if the disbursed amounts come with additional conditions that may limit their use as reserves.

⁴ These gross international reserves figures differ from those published by the authorities. The authorities’ gross reserves include US\$500 million from an undrawn swap line with the People’s Bank of China (PBoC), which is excluded here in line with BPM6 methodology. In calculating gross reserves in months of prospective imports, the authorities also exclude from GNFS imports those “associated with large resource projects.”

Annex III. Risk Assessment Matrix

Global Risk	Likelihood	Impact of Risk on Lao PDR	Suggested Policy Response
Global Risks			
Escalating Trade Measures and Prolonged Uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge especially in countries imposing tariffs.	High	High: The overall impact would be on the downside, given Lao PDR's heavy dependence on a few trading partners—that are closely integrated into the global economy—for exports, tourism, investment and financing. These shocks would reduce growth, worsen external imbalances and raise exchange rate pressures, fueling inflation and worsening FX risks on bank and SOE balance sheets, and fiscal imbalances.	<ul style="list-style-type: none"> • Allow the exchange rate to act as a shock absorber, while preserving limited external buffers given large external debt obligations and high import dependency. • Maintain tight monetary conditions by completing monetary policy reforms, effectively draining excess liquidity and, if warranted, raising the monetary policy rate. Strengthen BOL communications to maintain confidence in the domestic currency and contain inflation expectations. • If needed, use undrawn amounts of the existing swap line to mitigate FX shortages and disruptive exchange rate pressures. If crisis-like conditions materialize, well-designed CFMs could be considered if they could be effective given the open financial account, while using the space to address macroeconomic imbalances in line with the IMF's IV. • The BOL and government should closely monitor large external liabilities and debt payments of the government and large domestic/FDI entities based on comprehensive and accurate information and make contingency plans for adverse shocks. • The government may need to delay planned public investment to reduce external pressures. If feasible, targeted and temporary support could be provided to vulnerable households most affected by rising prices, while preserving ongoing electricity tariff adjustments intended to strengthen highly indebted EDL's balance sheet. • The BOL should strictly enforce prudential regulations related to net FX positions and capital adequacy, assess the impact of adverse FX shocks on bank balance sheets, and prepare contingency plans. • Greater export market and product diversification; higher external buffers; and a sound medium-term debt strategy could increase resilience to global shocks over the medium-term.
Geopolitical Tensions may trigger commodity price volatility, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	High	Should geopolitical tensions or other factors increase commodity prices, especially those of key imports such as food, fertilizers, and oil, they would exacerbate external imbalances as well, with similar implications as discussed above.	
Commodity Price Volatility may fuel commodity price swings.	High	On the other hand, lower prices of imported commodities could pose a potential upside risk, improving external balances and supporting a continued moderation in inflation.	
Fiscal Vulnerabilities and Higher Long-Term Interest Rates may put upward pressure on long-term interest rates and increase the risk of sovereign bond market disruptions, tighten financial conditions, and trigger global spillovers.	High	High: Tighter global financial conditions could increase capital outflows and non-repatriation of export proceeds, worsening external imbalances and inflation, thereby the government's external debt servicing costs. External funding costs for private companies and the government could rise, increasing debt rollover risks and worsening debt dynamics.	

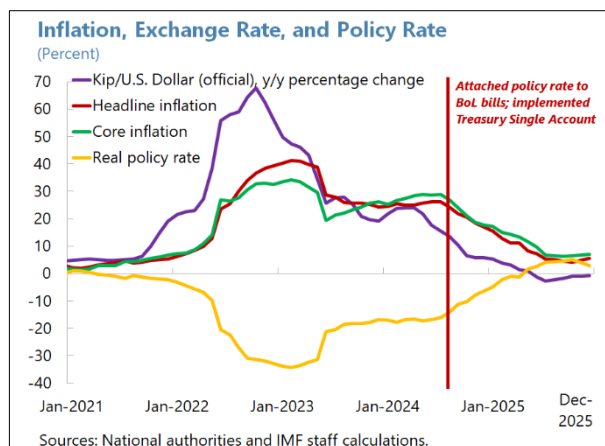
Domestic Risk	Likelihood	Impact of Risk on Lao PDR	Suggested Policy Response
Domestic Risks			
Premature easing of monetary and fiscal policy to achieve the government's ambitious growth target.	High	High: Premature reversal of tight monetary conditions and fiscal consolidation could worsen external and fiscal imbalances, worsen debt dynamics, triggering capital outflows, thereby raising exchange rate pressures, and inflation, while pressuring bank and SOE balance sheets.	<ul style="list-style-type: none"> • Policies should reverse course to prioritize macroeconomic, external and financial stability, and debt sustainability. • If crisis-like conditions materialize, well-designed CFMs could be considered if they could be effective given the open financial account, while using the space to address macroeconomic imbalances in line with the IMF's IV.
Financial sector stress. Weak capital buffers and liquidity and FX risks leave the banking sector vulnerable to adverse external shocks.	High	High: Adverse external shocks could aggravate liquidity and FX risks in the banking sector by reducing FX inflows. This would reduce credit growth and output and further erode profitability and capital. Fiscal contingent liabilities could materialize especially if a systemic state bank—also the largest retail bank—is impacted, worsening fiscal imbalances and public sector debt dynamics.	<ul style="list-style-type: none"> • Strengthen effective risk-based bank supervision and improvements in the quality of financial soundness indicators and BOL's stress testing capacity. Accelerate implementation of new capital and liquidity requirements to build resilience. • Modernize monetary policy frameworks to include strengthen liquidity supply tools and provide liquidity support to the banking system if needed.
Climate Change. Extreme climate events (high temperatures, floods, droughts), and changing monsoon patterns, could cause loss of life, damage to infrastructure and food security, and disrupt supply.	Medium	High: Such events pose a severe threat to agricultural production and exports, reducing incomes of the most vulnerable segments of the population and exports receipts, while increasing reliance on imported food. Climate events could also damage infrastructure, disrupt economic activity in tourism and other sectors, thereby heightening economic and external pressures, raising inflation and reducing growth.	<ul style="list-style-type: none"> • If feasible, provide targeted and temporary support to those most affected by natural disasters. Maintain sufficient budget allocations for timely disaster warning and relief and infrastructure repair to speedily normalize economic activity. • Tap the Southeast Asia Disaster Risk Insurance Facility (SEADRIF) for financial support. • Tighten monetary policy to contain inflation, allowing the exchange rate to absorb external pressures. Strengthen the BOL's communication to stabilize inflation expectations and confidence in the currency. Should inflation risks be contained (e.g., due to a contemporaneous decline in imported food prices), there may be scope to lower the monetary policy rate to support the economy. • Accelerate the development of adaptation plans, through investment in climate-resilient infrastructure, reforestation, and focus on securing agricultural production and food security.

Annex IV. Estimating Monetary Conditions in Lao PDR

After double-digit inflation for more than two years, inflation started to decline sharply in 2024:H2, reaching 4 percent in October 2025 before reversing course to increase to 5.6 percent in December 2025. The recent disinflation is a result of both favorable external conditions and improved domestic policies. The BOL increased the policy rate by 200 basis points from 8.5 to 10.5 percent during 2024. Following the sharp disinflation since 2024:H2, however, the BOL has reduced its policy rate four times in 2025, with the current policy rate at 8.5 percent and the ex-post real policy rate at 2.9 percent in December 2025. While significant data gaps constrain the assessment of current monetary policy conditions, the available evidence—e.g., positive output, credit and exchange rate gaps—suggests that monetary policy conditions are still somewhat accommodative.

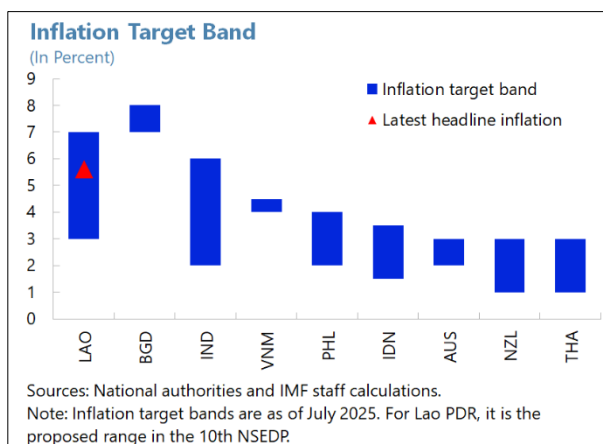
1. After more than two years of double-digit inflation, inflation started to decline sharply since 2024:H2.

After peaking at 41 percent y/y in early-2023, headline inflation started declining. It hovered at around 25 percent through July, 2024. Since then, however, inflation declined sharply to 4 percent y/y in October 2025 before reversing course and rising to 5.6 percent in December 2025. However, core inflation, which fell sharply from above 28 percent to 6.3 percent in September 2025, remains broadly stable at 6.9 percent in December 2025. The exchange rate stabilized, and real policy rate rose and become positive since May 2025, and continues to remain so despite the fourth rate cut by the BOL in November 2025.



2. Against this backdrop, this annex examines the drivers of recent disinflation and assesses current monetary conditions.

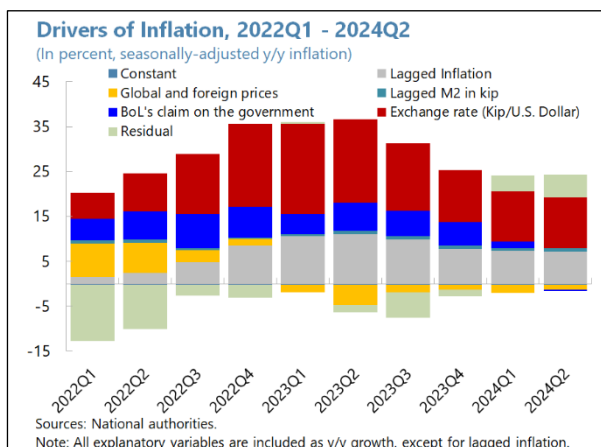
Following the sharp disinflation starting in 2024:H2, the BOL reduced its policy rate three times from 10.5 percent at end-2024 to 8.5 percent in November 2025. The latest inflation readings have achieved the government’s goal of returning to single-digit inflation by end-2025 and fallen within 5 ± 2 percent, the new inflation range proposed in the draft 10th NSEDP for 2026–30 (Figure).



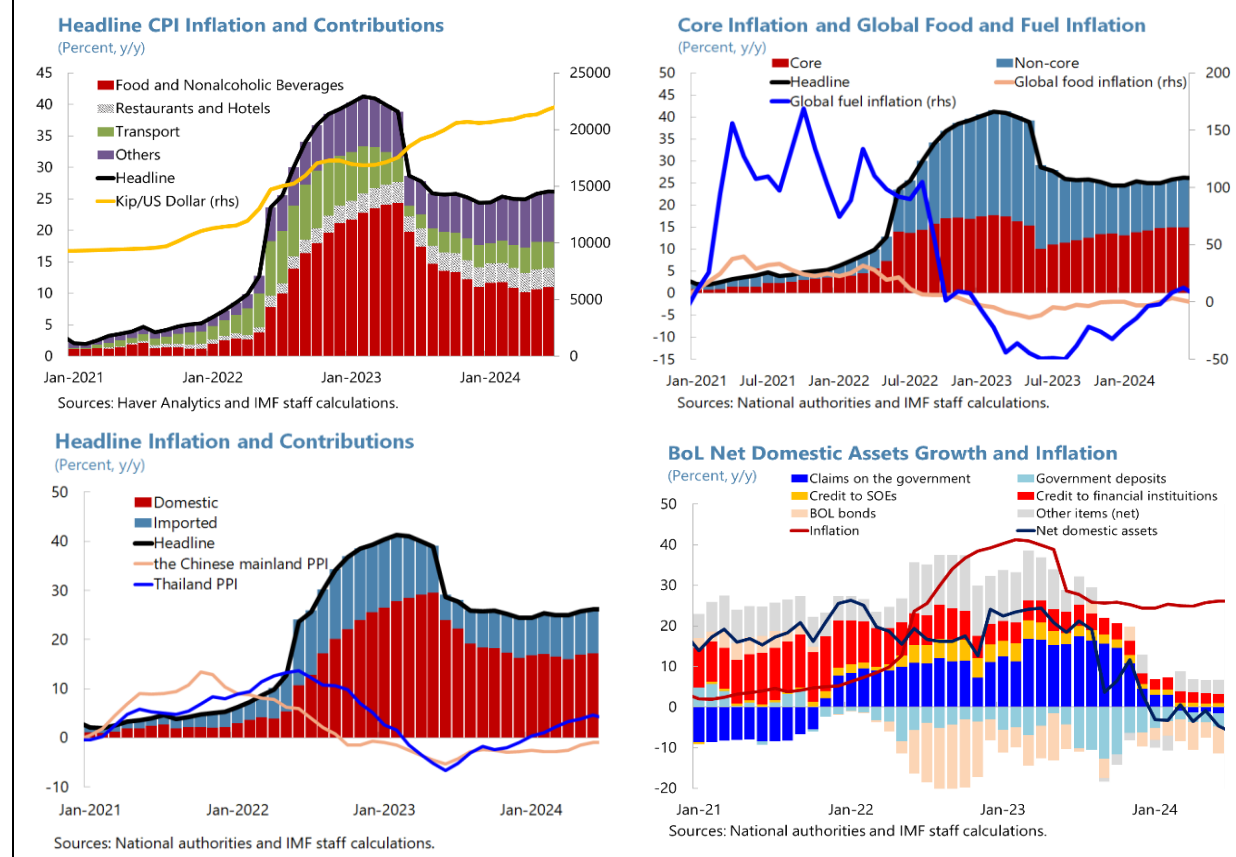
A. What Drove the Successful Disinflation? Good Luck and Good Policies

3. What drove high inflation during 2021 to mid-2024? Global food and fuel prices

contributed significantly to inflation increases in early-2022, with food and transport accounting for about 46 and 16 percent of the CPI basket. However, since late-2022 when global commodity prices stabilized, exchange rate (ER) depreciation became the dominant driver of inflation as FX shortages intensified amid external debt servicing pressures.¹ Significant increases in monetary financing and quasi-fiscal operations led to ER depreciation and inflation by injecting excess liquidity into the banking system, especially since late-2022 as BOL bond issuances—at below policy rates—fell short of sterilization needs, failing to mop up excess liquidity.



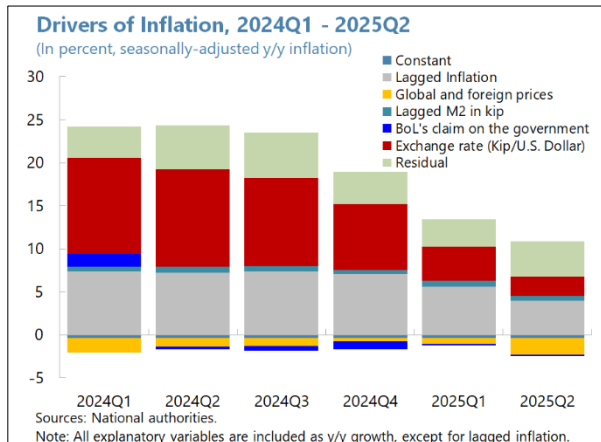
Annex IV. Figure 1. Lao PDR: Both External Shocks and Domestic Policies Contributed to High Inflation, January, 2021 – June, 2024



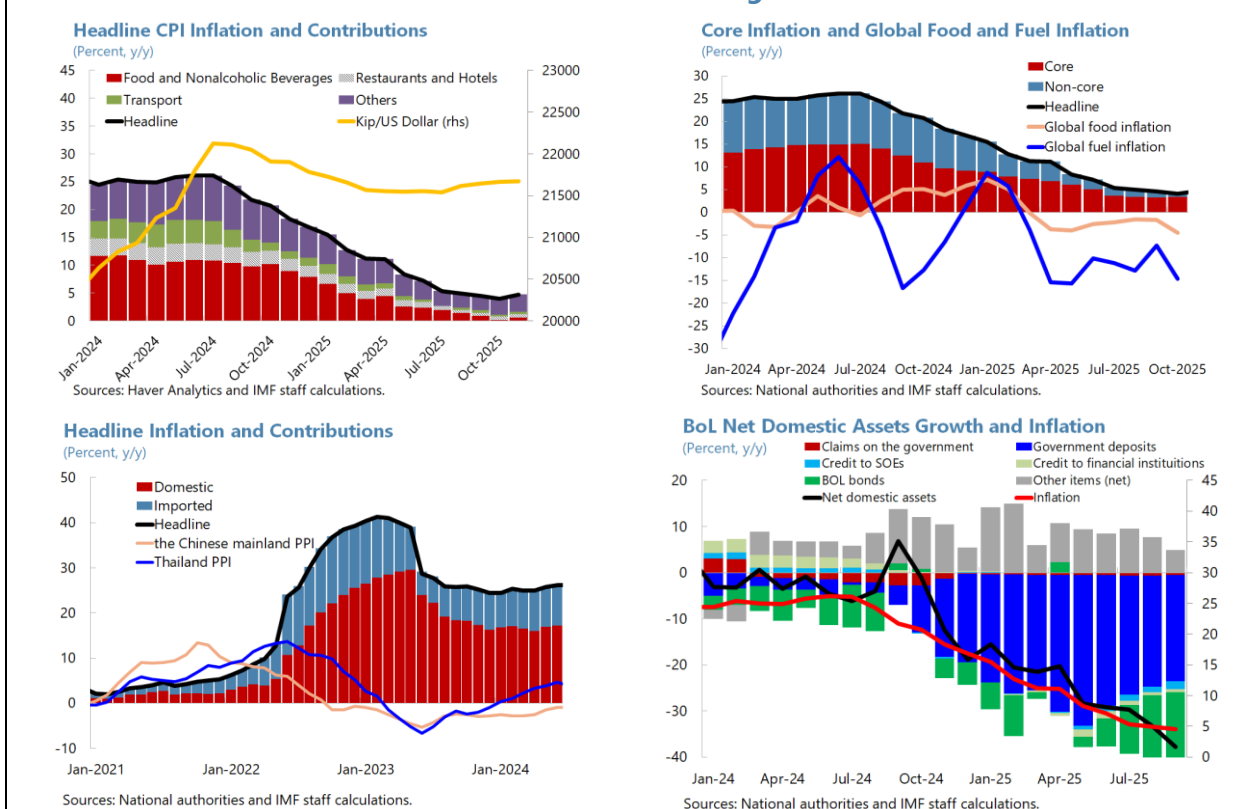
¹ See [2024 Article IV Staff Report, Annex I](#) which found significant and persistent exchange rate passthrough to inflation and positive correlation between inflation and M2 growth.

4. With favorable external conditions providing a supportive backdrop, significantly improved domestic policies starting in 2024H2 stabilized the ER and reduced inflation.

- *Favorable external environment.* Stable global food and fuel prices, and low inflation in major import partners (Thailand and the Chinese mainland) provided a supportive external backdrop. ER dynamics were also substantially supported by the Chinese debt repayment deferrals for 2024–26, strong tourism growth and remittances inflows in 2024.
- *Improved domestic policies.* More importantly, stronger fiscal consolidation and tighter monetary policies have been instrumental in stabilizing prices and ER. The measures include: a large primary surplus in 2024-2025:Q3; better liquidity management by implementing a new TSA at the BOL; higher monetary policy rates; improved monetary operations by issuing BOL bills at the monetary policy rate, thereby strengthening monetary policy transmission; and a gradual unwinding of BOL monetary financing and quasi-fiscal spending. CFMs were also put in place to help stabilize the ER.



Annex IV. Figure 2. Lao PDR: Favorable External Conditions and Improved Domestic Policies Reduced Inflation and Stabilized Exchange Rate Since 2024:H2



B. Current Monetary Policy Conditions

5. Data gaps constrain the applicability of standard methodologies for assessing the current monetary conditions in Lao PDR. For instance, it is difficult to compare the ex-ante real interest rate with an estimated neutral interest rate for Lao PDR, given data gaps such as the lack of one-year-ahead headline inflation expectations and a longer time series of quarterly real GDP. An assessment of labor market conditions is also constrained by data unavailability. A Taylor rule using historical average real interest rates during 2015–19 as a proxy for the steady-state ex-post real interest rate—about 2.5 percent—would suggest that the nominal policy rate should currently be around 8.5 percent, depending on the relative weight assigned to inflation and output gaps (Box 1).² This indicates that, at the current juncture, a policy rate of 8.5 percent is somewhat neutral. However, using the credit gap instead of the output gap—arguably a more robust estimate of economic slack because of a longer series of more reliable, higher frequency data—would suggest that the appropriate nominal policy rate would be around 9.5–10 percent given the estimated credit gap of around 2 percent at end-September 2025. The alternative approach would suggest that the current policy rate is still accommodative.

Annex IV. Box 1. BOL Legal Mandate, Monetary Policy Framework, and Exchange Rate Arrangement

Legal mandate. The 2018 Central Bank Law assigns a broad range of missions and roles to the BOL. Article 1 stipulates the BOL's duties as aiming to secure monetary stability, the sustainability of financial institutions and the efficiency of payment systems, as well as contributing to national socio-economic development. Within its broader mandate, the objective of the BOL regarding monetary policy is to maintain price stability. The BOL Law allows the activation of a broad range of policy tools, including interest rate; reserve requirement; the exchange rate; open market operations (OMOs); fund financing; and other tools as determined by the BOL. The following provisions of the BOL Law allow the BOL to provide liquidity to financial institutions for the following purposes: (i) unsecured lending for settlement purposes, (ii) secured lending to address liquidity problems; (iii) liquidity support to safeguard financial sector stability; and (iv) any other form of liquidity provision upon consent of the Government.

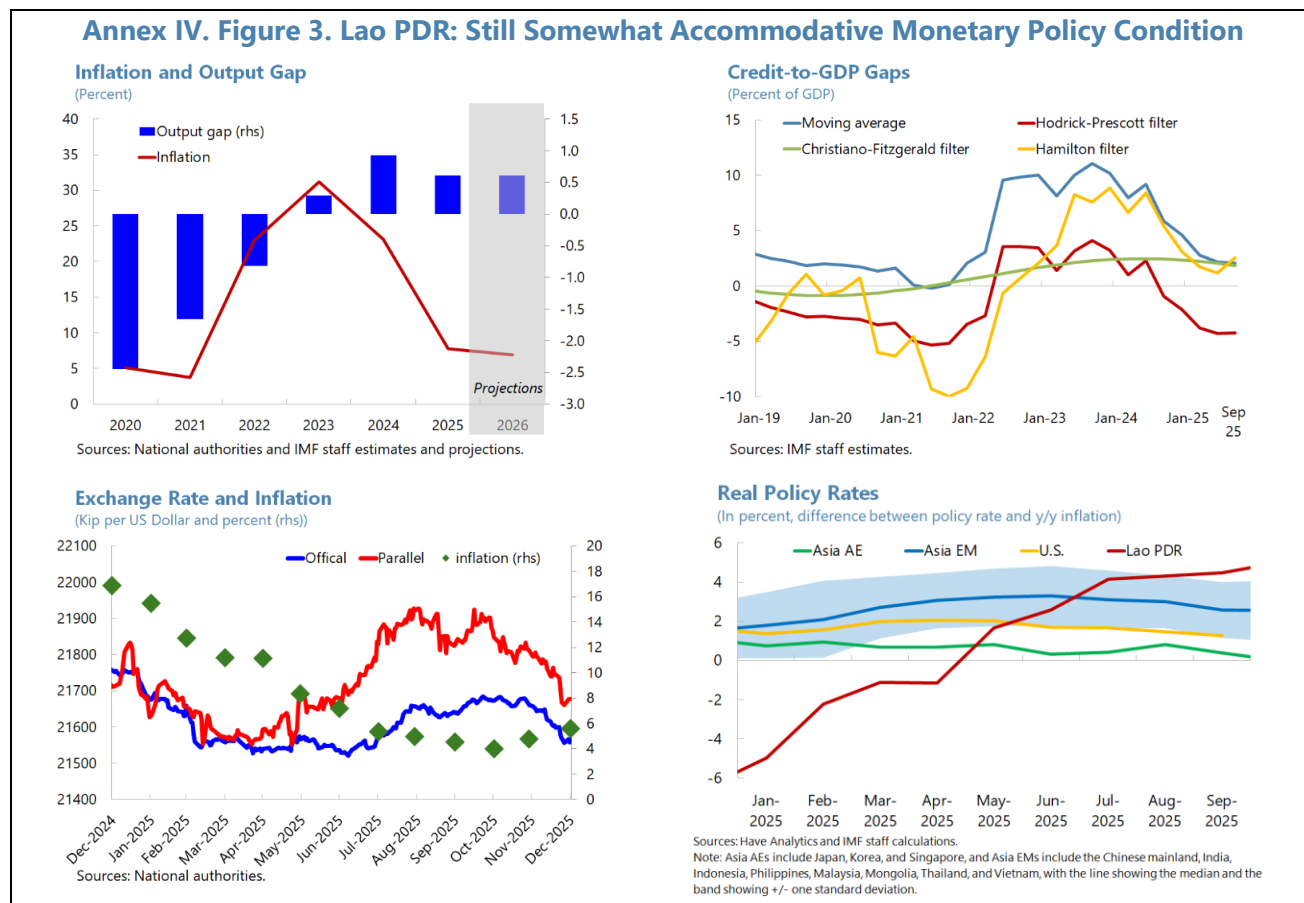
Monetary policy framework. The BOL's monetary policy framework is in transition from the current hybrid framework which combines monetary targeting with an exchange rate anchor to full reliance on a monetary policy framework, with IMF technical assistance. In the new framework, a short-term interest rate (as expressed by the central bank's policy rate) serves as the operational target for monetary policy, and monetary aggregates are downgraded from being numerical targets to being information variables to assess the desirable level of the central bank's policy rate. The BOL designs and implements monetary policy in the context of significant challenges, including limited fiscal space, low foreign exchange reserves, a dollarized banking system, and shallow financial markets. Its monetary policy instruments toolkit is being modernized, to implement a market-based framework whose overarching aim is to align short-term interbank market rates with the BOL's policy rate.

Exchange rate arrangement. The de facto exchange rate regime is a crawl-like arrangement. By regulation, foreign exchange (FX) transactions in the FX interbank market should be traded within ± 6.5 percent of the reference exchange rate. A Committee led by the BOL's Monetary Policy Department sets a daily reference rate for Kip/US Dollar, while the Banking Operations Department sets daily BOL exchange rates for Kip/US Dollar and other currencies, which are used by banks and market participants. In the latest monetary policy Committee meeting on November 20, 2025, the BOL announced that it will be more flexible in setting the daily reference exchange rate while ensuring the stability of the kip and closely monitoring exchange rate fluctuations to prevent inflationary impacts.

² $\widehat{policy\ rate}_t = inflation_t + real\ policy\ rate^{ss} + 0.5 * (inflation_t - inflation^*) + 0.5 * output\ gap_t = 5.6 + 2.5 + 0.5 * 0 + 0.5 * 0.9 = 8.55$ percent.

6. Further complication arises from the fact that measured inflation may not reflect actual inflation. The current CPI basket (base year 2015) likely no longer reflects current spending patterns, especially after recent cost-of-living shocks. For example, electricity constitutes only 3.5 percent of the current CPI basket, but anecdotal evidence suggests that the impact of recent large electricity tariff hikes—an increase of 60 percent in 2025—have significantly raised the cost of living, potentially reflecting a shift in the composition of the CPI basket.

7. Based on an assessment of a range of metrics, current monetary conditions appear to be, on balance, still somewhat accommodative. First, as illustrated below, both output and credit gaps are still positive, even though they have declined substantially from the peak in 2024. Second, headline inflation reversed ticked up in 2025:Q3, suggesting inflation pressures are potentially building up. Third, while the official ER has been stable since April 2025, but the parallel ER premium has widened slightly since May. Since the ER passthrough to inflation is large, this is a strong signal suggesting that inflation expectations may be rising. On the other hand, the ex-post real policy rate has risen and continues to remain above those in the U.S. and the median Asian advanced economies, which has helped reduce capital outflows. However, the interest rate differentials may be less relevant for assessing the monetary conditions in the current context given the CFMs in place. All in all, while the signals are mixed, on balance, the overall monetary conditions appear to be still somewhat accommodative in light of the positive output and credit gaps, increasing headline inflation, and the persistent (though small) exchange rate premium in the parallel market.



Annex V. Estimating the Tax Frontier for Lao PDR¹

A. Background

1. **The government is making significant strides in strengthening revenue collection.**

Fiscal consolidation during 2021–24 was achieved through expenditure restraint (a 2.7 percentage point cut in the expenditure-to-GDP ratio) and stronger revenue mobilization (+5.6 percentage points). The tax-to-GDP ratio rose from 10.3 percent in 2021 to 14.2 percent in 2024, reflecting both the post-pandemic recovery and policy measures. On the tax policy front, key steps included restoring the VAT rate to 10 percent in 2024 and increasing excise taxes on tobacco, alcohol, and internal combustion vehicles in 2023. Tax administration is being modernized with donor support, including through e-filing, improved registration, upgraded IT systems, and stronger audit capacity. Near-term efforts to broaden the tax base focus on introducing a land tax, raising excise rates to improve social and health outcomes, and implementing a digital services tax to capture new economic activities.

2. Nevertheless, the tax reform agenda remains extensive. Revenue mobilization is critical to boosting essential spending to support stronger growth potential in Lao PDR, while ensuring sustainable debt dynamics. Raising the tax-to-GDP ratio to 20 percent by 2030 remains a key objective under the forthcoming 10th NSEDP for 2026–30. However, Lao PDR's tax-to-GDP ratio averaged 12.1 percent of GDP during 2021–24, lagging behind peers. Even after accounting for income levels, tax revenue collection gaps arise mainly due to weak income tax collection for individuals and corporations. In contrast, goods and services taxes performed relatively better, nearing peer levels—even in 2022 when the VAT rate was temporarily reduced.²

B. Regression Analysis

3. A deeper analysis of the data suggests scope for further revenue gains in the short to medium term. A stochastic tax frontier—following IMF (2018, 2022)—is estimated to assess potential improvements in revenue performance relative to structural characteristics across countries. The model, using a cross-country panel regression over 2014–23 with country fixed effects, relates the tax-to-GDP ratio to real per capita income, trade openness, financial depth (M2/GDP), governance indicators (government effectiveness and control of corruption), and fuel-exporter status. The analysis was not extended to 2024 due to limited institutional data.

4. The regression results confirm that income level, trade openness, governance quality, and size of formal economy are key structural drivers of tax capacity, while the impact of natural resource dependence varies across income groups. Higher real per capita income is strongly associated with higher tax ratios, and greater trade openness also supports revenue performance, albeit modestly. Governance—measured by the interaction of control of corruption

¹ Prepared by Narayanan Raman and SeokHyun Yoon (all APD).

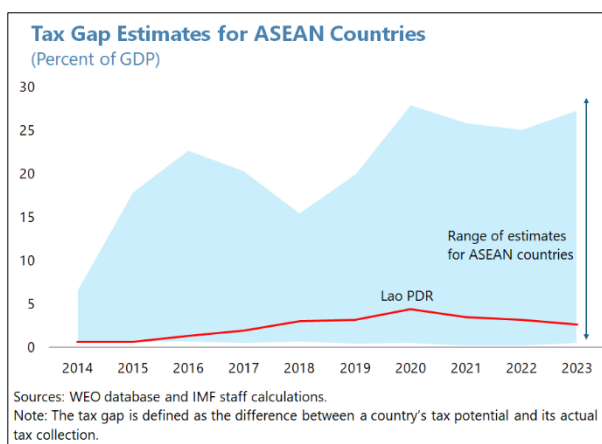
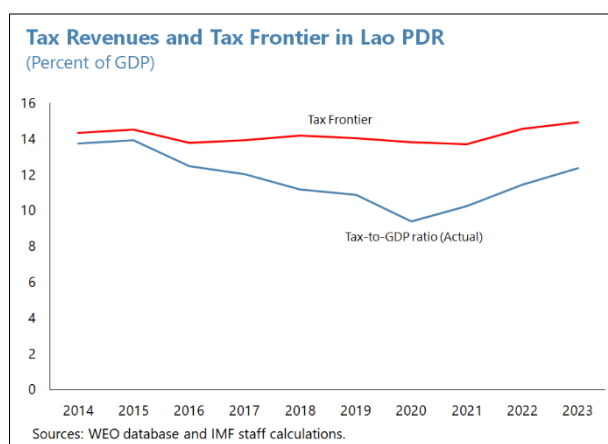
² The authorities reduced the VAT rate from 10 to 7 percent in 2022 to cushion the pandemic downturn, then restored it to 10 percent in March 2024.

and government effectiveness—has a strong, statistically significant effect, especially for low-income countries, underscoring the central role of institutional quality in boosting revenues. Likewise, a higher M2/GDP ratio correlates positively with tax revenue, particularly among emerging markets. Fuel exporters, by contrast, tend to have lower tax ratios overall, though the relationship turns positive and significant for EMs.

Tax Frontier Estimates: Regression Results			
Dependent variable	Log of tax to GDP ratio		
Regressors	All countries	EMs	LICs
Log real GDP per capita (-1)	0.2175 ***	0.2937 ***	0.1811 ***
Trade openness	0.0155 ***	0.0011 ***	0.0167 ***
M2/GDP	0.0116 **	0.0284 **	0.0013 *
Governance 1/	0.2107 ***	0.0675 ***	0.3855 ***
Fuel exporter dummy	-0.0375	0.6185 **	0.2521
Obs.	3667	1604	1217

1/ Governance variable = control of corruption index * government index index
 * Statistically significant at the 10 percent level.
 ** Statistically significant at the 5 percent level.
 *** Statistically significant at the 1 percent level.

5. The results confirm that, despite recent improvements, Lao PDR’s tax revenue collection potential is significantly higher than its current performance. Across models, the estimated average tax capacity for Lao PDR for 2014–23 ranges from 14.3 to 14.9 percent of GDP (median 14.5 percent), compared with an actual average of 11.6 percent. For 2023, the baseline model estimates a tax potential of 14.9 percent of GDP—about 2.5 percentage points above the actual ratio (Figure). A similar model for EMs shows a comparable gap of 2.6 percentage points, consistent with the 2–3 percentage point average observed among EMs and LICs but larger than the ASEAN median. As tax frontier estimates evolve with revenue improvements among peers, Lao PDR’s potential likely rose further in 2024, implying that—despite notable gains—its tax gap remains partly unclosed.



References

International Monetary Fund, 2018, Domestic Revenue Mobilization in Sub-Saharan Africa: What are the Possibilities?, Regional Economic Outlook, Washington, DC: May.

_____, 2022, Funding the Future: Tax Revenue Mobilization in the Pacific Island Countries, IMF Departmental Paper No. 2022/15, Washington, DC: September.

Annex VI. Data Issues

Annex VI. Table 1. Lao PDR: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	D	B	C	D	C	B	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	D	C	D	D	B		
Granularity 3/	D		C	D	C		
Consistency			C	C	D	B	
Frequency and Timeliness	B	A	C	B	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. There are serious shortcomings in national accounts and external statistics that significantly hamper surveillance, and some shortcomings in government finance, and monetary and financial statistics that somewhat hamper surveillance. Expenditure-side GDP statistics is not available, which limits the ability to understand growth drivers. Quarterly production-side GDP data is now available but only at a highly aggregated level of decomposition (agriculture, industry, and services). On prices, several important data sources needed from a methodological standpoint to be used to measure deflators in the national accounts are lacking (e.g., the supply and use table, PPI, export and import price indices). The outdated base year (2012) for GDP undermines the ability to assess economic developments given the shifts in the country's economic structure and relative prices in the past decade. CPI is based on a 2015 basket, which is very likely to be out of date especially after the cost-of-living shocks since 2021. As a result, the reported inflation may not reflect the actual price dynamics, which undermines the ability to accurately assess the monetary policy stance. In government finance statistics, coverage remains inadequate—particularly regarding the financial position of state-owned enterprises. Progress in implementing TA on fiscal statistics has stalled, hampering the preparation of quarterly government finance statistics. Implementation of the Chart of Accounts is ongoing, though full implementation has been delayed from the original 2006 plan to the 2027 budget. On the external sector, large errors and omissions entries (E&O) in the BOP suggests shortcomings in the published data and ongoing IMF TA has identified several methodological shortcomings and gaps. A cross-agency effort is underway to improve external statistics including external debt statistics and IIP although Lao P.D.R. has not shared their estimated IIP data with the Fund. In view of the application of exchange rate restrictions, it will be important for the BoL to improve collection of data on the supply and demand of FX and FX backlogs. On monetary and financial statistics, the calculation of several financial soundness indicators does not align with internationally accepted standards, affecting staff's assessment of financial sector health. In addition, the indicators exclude the impact of unconventional policy measures (such as COVID-related loan forbearance) on asset quality and capitalization, which could be significant. Currently BoL does not report FSIs or MFS to the IMF Statistics Department for publication in the respective databases. Data on development banks, which are significant providers of credit but not included in the monetary statistics, is also lacking.</p>							
<p>Changes since the last Article IV consultation. Quarterly GDP from 2023Q1 onward has been published but only with high-level aggregate production-side decomposition. The authorities have been working on rebasing GDP and CPI to more recent years and aim to complete them in 2026. They have asked for TA support on CPI rebasing. There has been some progress on ESS since the Bank of Lao PDR became the lead agency for this TA. At the same time, however, this progress has also revealed new weakness across a wide range of BoP statistics, including the methodology used to estimate tourism receipts and direct investment. Further, recent postponements of planned TA missions suggest a weakening of ownership of this TA. The implementation of the Chart of Accounts is progressing, albeit with delays.</p>							
<p>Corrective actions and capacity development priorities. The mission discussed data weaknesses and measures to address data gaps. To a large extent, gaps reflect capacity limitations and institutional weaknesses. Technical assistance by development partners is helping address existing data gaps but progress is slow. Delays in receiving technical assistance missions undermine timely enhancements to essential datasets needed for policy making and IMF surveillance. For example, IMF TA currently focuses on real sector statistics and external sector statistics. Following full implementation of the Chart of Accounts in 2026, TA on government finance statistics will resume. The World Bank provides support on statistical system modernization, including to improve the availability and quality of statistics, to enhance the use of statistics, to strengthen institutional capacity, and to develop a contingent emergency response component. Looking ahead, the authorities should prioritize the following: update the CPI basket; improve the quality of national accounts data by production, produce national accounts data by expenditure, improve financial soundness indicators as part of the requested Financial Sector Stability Review, address external sector data gaps to improve coverage and methodology and the compilation and dissemination of IIP data), strengthen data quality on PPG debt and private sector external debt, and make progress on producing accurate and timely data on fiscal aggregates based on GFSM.</p>							
<p>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. The team uses IMF staff estimates on real GDP and GDP deflator between 2019 and 2023, which are different from the official published numbers, due to the unreliability of the published real GDP data during the COVID years. The estimates were constructed after consulting with other development partners, including the Asian Development Bank and the World Bank. Financial sector assessments were conducted on the basis of published bank statements.</p>							
<p>Other data gaps. The quality of data on labor market developments, including outward migration of Lao nationals to other countries would be an important gap to address.</p>							

Annex VI. Table 2. Lao PDR: Data Standards Initiatives

Lao PDR participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since November 2018.

Annex VI. Table 3. Lao PDR: Table of Common Indicators Required for Surveillance

As of 1/08/2026

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Lao PDR ⁸	Expected Timeliness ^{6,7}	Lao PDR ⁸
Exchange Rates	7-Jan-26	8-Jan-26	D	D	D	M	...	1M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Sep-2025	Nov-2025	M	M	M	M	1M	2Q
Reserve/Base Money	Sep-2025	Nov-2025	M	Q	M	M	2M	2Q
Broad Money	Sep-2025	Nov-2025	M	Q	M	M	1Q	2Q
Central Bank Balance Sheet	Sep-2025	Nov-2025	M	Q	M	M	2M	2Q
Consolidated Balance Sheet of the Banking System	Sep-2025	Nov-2025	M	Q	M	M	1Q	2Q
Interest Rates ²	Dec-2025	Dec-2025	M	M	M	M	...	1M
Consumer Price Index	Dec-2025	Dec-2025	M	M	M	M	2M	1M
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	end-2024	May-25	A	A	A	...	2Q	...
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Q2 2025	Sep-25	Q	Q	Q	A	1Q	12M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	end-2024	Aug-2025	A	A	Q	...	2Q	...
External Current Account Balance	Q3 2025	Nov-2025	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Oct-2025	Nov-2025	M	M	M	A	12W	6M
GDP/GNP	Q3 2025	Nov-2025	Q	Q	Q	A	1Q	6M
Gross External Debt	N/A	N/A	N/A	N/A	Q	...	2Q	...
International Investment Position	N/A	N/A	N/A	N/A	A	...	3Q	...

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."



LAO PEOPLE'S DEMOCRATIC REPUBLIC

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 27, 2026

Prepared By

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS _____ 2

INFORMATION ON THE ACTIVITIES OF OTHER INTERNATIONAL FINANCIAL
INSTITUTIONS _____ 4

FUND RELATIONS

(As of December 31, 2025)

Membership Status: Joined on July 5, 1961; Article VIII.

General Resources Account:

	SDR Million	% Quota
Quota	105.80	100.00
IMF's Holdings of Currency (Holdings Rate)	92.58	87.50
Reserve Tranche Position	13.23	12.50

SDR Department:

	SDR Million	% Allocation
Net Cumulative Allocation	152.08	100.00
Holdings	110.43	72.61

Outstanding Purchases and Loans: None

Latest Financial Commitments:

Type	Date of Arrangement	Expiration Date	Amount Approved	Amount Drawn
ECF ¹	04/25/2001	04/24/2005	31.70	18.12
ECF ¹	06/04/1993	05/07/1997	35.19	35.19
SAF	09/18/1989	09/17/1992	20.51	20.51

Projected Payments to Fund²

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Principal					
Charges/Interest	1.11	1.11	1.11	1.11	1.11
Total	1.11	1.11	1.11	1.11	1.11

Exchange Rate Arrangement

¹ Extended Credit Facility (ECF), formerly PRGF.

² When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

The de jure arrangement is a managed float, and the de facto exchange rate arrangement is classified as crawl-like since September 29, 2023. The Bank of the Lao PDR (BOL) sets a daily official reference rate for LAK to USD which is calculated based on the weighted average of the previous day's overall rate, and other adjustments by the BOL, including the estimation of the domestic demand for USD and the forecasting of USD rate in the international market. Commercial banks are required to maintain their buying and selling rates of LAK/USD within ± 6.5 percent of the daily official reference rate. In addition, the buying and selling rates may not exceed a margin of 2 percent (USD, THB, CNY, EUR, JPY and GBP), and for other currencies may not exceed a margin of 5 percent. Lao PDR has accepted the obligations under Article VIII, Sections 2, 3 and 4 of the IMF's Articles of Agreement.

Lao PDR maintains an exchange restriction arising from the requirement to provide a tax clearance certificate, covering taxes unrelated to the underlying transactions, prior to obtaining FX for certain current international transactions.³

Article IV Consultation

The last Article IV consultation discussions took place from May 16 to 29, 2024, and virtually on July 9, 2024, and were concluded by the Executive Board on November 4, 2024. The staff report was published on November 8, 2024.

Technical Assistance

Over the past five years, Lao PDR has received technical assistance in the areas of: banking supervision; customs administration; tax administration; tax policy; public financial management; chart of accounts; macroeconomic management; monetary operations; price statistics; external sector statistics; government finance statistics; and national accounts. A Bangkok-based IMF office, Capacity Development Office in Thailand (CDOT) has facilitated technical assistance to Lao PDR (as well as Cambodia, Myanmar, and Vietnam) and has provided technical assistance in macroeconomic analysis and forecasting, monetary operations, government finance statistics, external sector statistics, and public financial management.

Resident Representative

Jochen Schmittmann assumed the Resident Representative post for Cambodia, Lao PDR, and Vietnam, based in Hanoi, on August 23, 2023.

³ Lao PDR previously maintained an exchange restriction arising from the authorities' restrictions on the commercial banks' setting of a market-clearing exchange rate and FX prioritization, contributing to a shortage of FX that results in undue delays in accessing FX for current international transactions. As of end-December 2025, market participants have indicated that the supply of FX has improved, and do not generally report any undue delays or inability in accessing FX for current international transactions. Based on the above, this exchange restriction is eliminated.

INFORMATION ON THE ACTIVITIES OF OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Information on the activities of other international financial institutions in Lao PDR can be found at:

- World Bank: <https://www.worldbank.org/en/country/lao>
- Asian Development Bank: <https://www.adb.org/countries/lao-pdr/main>



LAO PEOPLE'S DEMOCRATIC REPUBLIC

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

January 27, 2026

Approved By
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Prepared by the staff of the International Monetary Fund and the International Development Association (IDA)¹

Risk of external debt distress	In debt distress
Overall risk of debt distress	In debt distress
Granularity in the risk rating	Unsustainable
Application of judgement	No

Lao PDR is assessed to be in external and overall debt distress under the Low-Income Countries Debt Sustainability Framework (LIC-DSF).² The current Debt Sustainability Analysis (DSA) projects public and publicly guaranteed (PPG) and external debt-to-GDP ratios to be on a declining path, reflecting significantly tighter domestic policies, stronger GDP growth, and a more stable exchange rate (ER). However, Lao PDR is assessed to be “in debt distress” since both solvency and liquidity indicators remain well above indicative thresholds throughout the 10-year projection horizon; given the reliance on continued debt service deferrals amid ongoing discussions with the Chinese mainland. The “unsustainable” rating also reflects financial repression in the domestic bond market; and Lao PDR’s significant economic vulnerabilities, including a negative net international investment position (NIIP), substantial rollover risks, constrained access to international markets, high

¹ This DSA has been prepared jointly by the IMF and World Bank, following the 2018 Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-Income Countries and the 2024 Supplementary Guidance Note.

² The Lao PDR Composite Indicator of 2.27 indicates a weak debt-carrying capacity, based on the October 2025 IMF’s World Economic Outlook (WEO) and the 2024 World Bank’s Country Policy and Institutional Assessment (CPIA).

import dependence, and low gross international reserves (GIR). These vulnerabilities heighten the risk of renewed ER pressures and adverse debt dynamics, as in the 2024 DSA, where projected persistent real effective exchange rate (REER) depreciation increased debt ratios. Furthermore, concrete plans related to a credible medium-term financing and debt management strategy (MTDS), sustained revenue-based fiscal consolidation; and broader structural reforms to boost growth potential, remain to be articulated.

PUBLIC DEBT COVERAGE

1. Debt coverage includes central government and publicly guaranteed state-owned enterprises (SOEs) debt (Text Table 1). All guaranteed SOE debt in the baseline carries an explicit central government guarantee. There is no outstanding IMF credit. External debt is defined on a currency basis. Although the authorities began reporting non-guaranteed SOE debt in the 2024 Debt Bulletin (covering end-2023), the data remain highly aggregated, by SOE and currency, with no information on creditors or terms. Consistent with the 2024 DSA, this year's coverage therefore excludes non-guaranteed SOE debt, and state and local government debt, for which no data are available.

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

2. A customized contingent liability stress test is used to assess additional risks from public-private partnerships (PPPs), SOEs, government arrears, and bank recapitalization needs (Text Table 2). Given continued SOE default risks, the test includes an additional shock of 3.9 percent of GDP in year two of the projection to capture non-guaranteed SOEs debt (20 percent of the US\$3.1 billion outstanding as of end-2024). The PPP-related shock uses the default value of 35 percent of the PPP capital stock (26.5 percent of GDP).³ A further 0.5 percent of GDP is added for the potential discovery of domestic arrears in line with the 2024 DSA. Finally, financial sector risks are captured through a 10-percent-of-GDP shock, double the default value, reflecting potential recapitalization needs amidst continued weaknesses in bank balance sheets. Combined, these assumptions generate a one-off increase of 40.9 percentage points in the debt-to-GDP ratio in year two.

³ Data on PPP capital stock are from the World Bank's Private Participation in Infrastructure Database and are available at <https://ppi.worldbank.org/>.

Text Table 2. Calibration of Shock Scenarios

1 The country's coverage of public debt	The central government, government-guaranteed debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	0.5	Accounts for potential discovery of additional arrears.
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	3.9	Captures non-guaranteed domestic SOEs debt and restructuring of SOEs.
4 PPP	35 percent of PPP stock	26.5	Captures the contingent liabilities of the private sector share of PPPs.
5 Financial market (the default value of 5 percent of GDP is the minimum value) 2/	5 percent of GDP	10	Captures bank recapitalization needs and risks from financial market volatility.
Total (2+3+4+5) (in percent of GDP)		40.9	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

2/ A shock higher than the default shock of 5 percent was used to account for possible recapitalization needs of the major state-owned commercial bank and the overall weakness of the financial sector.

3. Debt transparency remains broadly unchanged from the 2024 DSA, although the authorities have expressed a willingness to improve. Since 2021, the government has published annual Debt Bulletins covering central government PPG debt, with later editions adding more detailed information.⁴ The latest Bulletin (end-2024, published in 2025) has not increased coverage or granularity relative to the 2023 Bulletin. Key gaps persist, including debt by subsector (e.g., local and provincial governments borrowing, central bank borrowing on behalf of the government) and the debt servicing schedule.

4. In August 2025, a debt-management decree was enacted to strengthen the institutional framework by assigning the Ministry of Finance (MOF) a central role in strategy, monitoring, and disclosure. The decree requires commercial banks, SOEs, and government agencies to regularly report debt data to the MOF, which maintains the debt database and publishes the annual Debt Bulletin and a quarterly debt dashboard. It also mandates a five-year MTDS.⁵ The IMF is providing training on MTDS preparation using actual public debt data, and a wide-ranging IMF technical assistance (TA) on debt data quality, management, and institutional reforms is expected to begin in 2026. In parallel, an intra-agency effort, led by the Bank of Lao PDR (BOL) and supported by IMF TA, is also underway to strengthen statistics on international investment position (IIP), foreign direct investment (FDI), and SOE debt as part of a broader effort to improve external sector statistics.

BACKGROUND ON DEBT

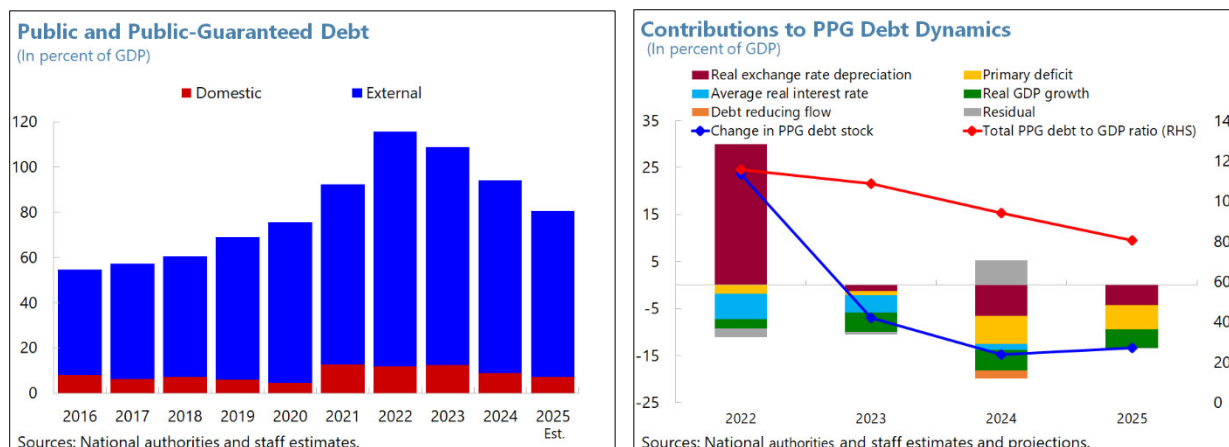
5. After peaking at 116 percent of GDP at end-2022, Lao PDR's total PPG debt-to-GDP ratio has declined steadily and is estimated at 94 percent at end-2024 (Text Table 3).⁶ This was

⁴ The debt bulletin published in 2023 added an overview on public debt and information on lending conditions by creditor, undisbursed external public debt, and non-guaranteed SOE debt. These efforts were supported by the International Development Association (IDA), through its Sustainable Development Finance Policy (SDFP) Performance and Policy Actions (PPAs).

⁵ However, the decree lacks a clear definition of "debt," provisions for public disclosure of the MTDS and an annual debt management report to National Assembly, and does not require independent audits, leaving important gaps in transparency and governance.

⁶ Private external debt is estimated at US\$7.8 billion (49 percent of GDP) at end-2024. This is estimated using the World Bank's International Debt Report 2025 data, supplemented with estimated values for missing series.

driven primarily by robust real GDP growth, REER appreciation, and limited net new borrowing resulting from sustained primary surpluses.



Text Table 3. Stock of Public Debt at End-2024

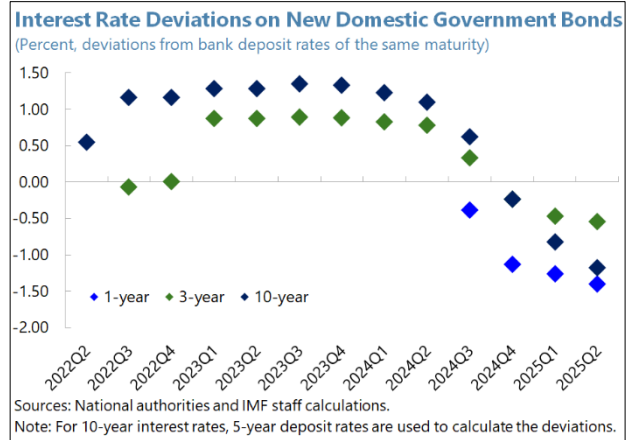
	Percent of total PPG debt	Percent of GDP	Million US dollars
Total PPG debt	100.0	94.0	14,817
External debt	90.4	85.0	13,395
ADB and IDA	11.2	10.6	1,666
Other Multilateral	2.0	1.8	291
The Chinese Mainland	34.5	32.4	5,106
Other Bilateral	9.0	8.4	1,331
Commercial Banks and Private Companies	5.3	5.0	781
External Bonds	10.6	9.9	1,566
Publicly Guaranteed	13.0	12.3	1,933
PBOC Swap ^{1/}	1.7	1.6	250
Deferred interest payments ^{1/}	3.2	3.0	470
Domestic debt	9.6	9.0	1,422
Domestic Bonds	9.4	8.8	1,392
Expenditure Arrears ^{1/}	0.2	0.2	30

^{1/} Not included in the official debt data published by the authorities.
Sources: National authorities and IMF staff calculations.

6. Domestic public debt-to-GDP ratio peaked in 2021–23 and has since declined sharply due to large primary budget surpluses (Figure 3). Domestic debt stood at US\$1.4 billion at end-2024 (9 percent of GDP and 9.6 percent of total PPG debt), mostly LAK-denominated bonds (97.9 percent of domestic PPG debt),⁷ with the remainder representing expenditure arrears. Lao PDR’s domestic government bond market remains small and illiquid, with a narrow investor base (domestic banks and social security and deposit protection funds absorb most issuances). The authorities have recently expanded overall bond issuance while shifting the focus from LAK-denominated bonds

⁷ The stock of domestic bonds includes investment bonds and triangular bonds (kip-denominated bonds issued for repayment of expenditure arrears on completed public investment projects) amounting to LAK15.6 trillion (4.6 percent of GDP) used to repay arrears. Increased issuance of these instruments in 2023–24 reduced the share of expenditure arrears in total domestic PPG debt from LAK4.3 trillion (1.5 percent of GDP) at-end 2023 to LAK0.6 trillion (0.2 percent of GDP) at end-2024. The remaining arrears are planned to be settled through budget allocation and additional domestic bond issuance.

toward FX-denominated instruments (considered external debt). New LAK-denominated issuance declined from LAK1.5 trillion in 2023 to LAK0.7 trillion in 2024 (0.6 and 0.2 percent of GDP, respectively). LAK-dominated bonds are issued at below market rates (Text Figure) and state agencies are directed to hold them (i.e., effective “financial repression”).

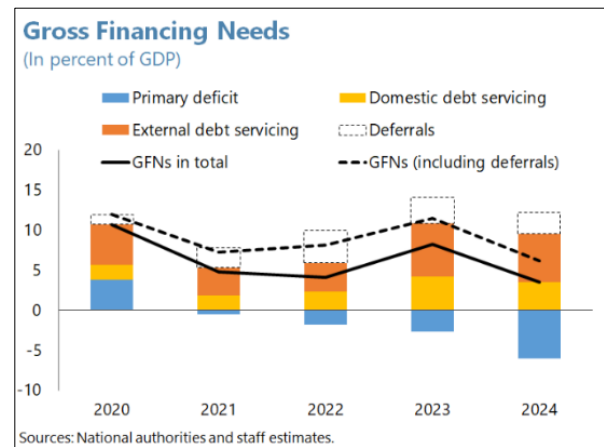


7. PPG external debt constitutes the bulk of total PPG debt and has declined from its peak (104 percent of GDP) to 85 percent. Lao

PDR relies mainly on bilateral borrowing, with Chinese institutions as the largest creditors. Multilateral creditors—primarily IDA and the Asian Development Bank (ADB)—account for 11.2 percent of total PPG debt.⁸ The remainder consists of external sovereign bonds (10.6 percent), including FX-denominated government bond (USD, THB, and CNY) issued in the domestic market,⁹ borrowing from commercial banks and private companies (5.3 percent). The share of concessional loans declined markedly from 47 percent in 2022 to 27 percent in 2024. Publicly guaranteed debt represented 13 percent of the total PPG debt at end-2024. PPG external debt aggregates include People’s Bank of China (PBoC) swap line drawings. US\$300 million was drawn from an US\$800 million swap line initiated in 2020. The authorities repaid US\$50 million in 2023 and US\$50 million in 2025, leaving an outstanding balance of US\$200 million, which is expected to be repaid in 2026.

8. PPG external debt service to some creditors has been deferred since 2020 to meet gross financing needs (GFNs). Principal

payments on debt to the Chinese mainland were postponed on an ad hoc basis: US\$222 million in 2020, US\$454 million in 2021, US\$609 million in 2022, US\$486 million in 2023, and US\$427 million (2.7 percent of GDP) in 2024. Interest payments on debt to the Chinese mainland have also been deferred, with cumulative suspended interest reaching US\$470 million (3 percent of GDP) over five years, which is now added to the PPG external debt stock estimates. The authorities have indicated that they are in ongoing discussions with creditors on future financing and debt service deferrals.¹⁰



⁸ “Other Multilateral” includes Asian Infrastructure Investment Bank (AIIB), International Fund for Agricultural Development (IFAD), and Nordic Development Fund (NDF).

⁹ FX-denominated government bonds are treated as external debt in this DSA. The issuance increased markedly over the last two years, from US\$19 million in 2023 to US\$217 million in 2024 (0.1 and 1.4 percent of GDP, respectively).

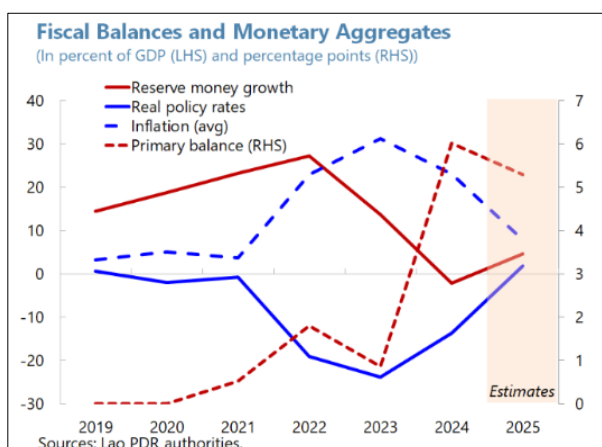
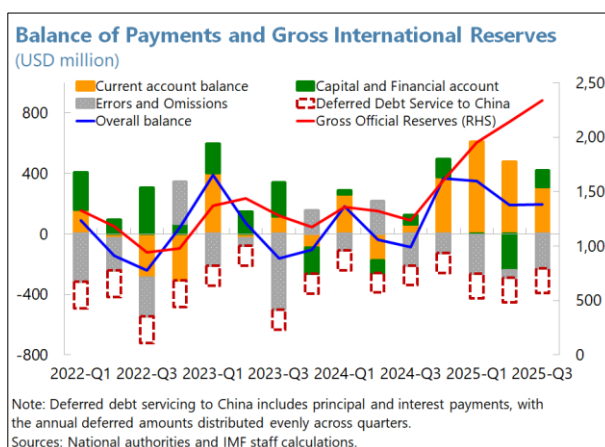
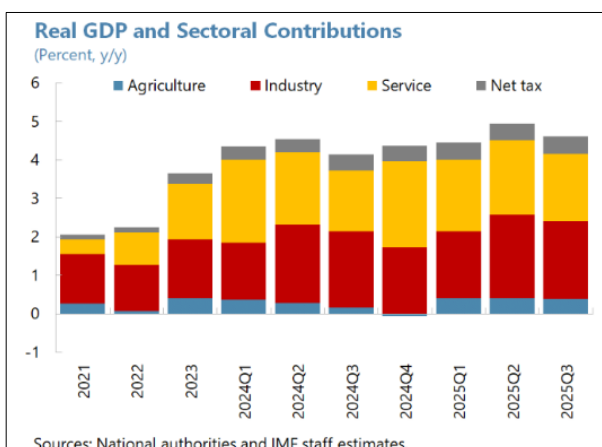
¹⁰ Debt owed to a foreign commercial bank (about US\$50 million) was restructured in 2023.

BACKGROUND ON MACROECONOMIC FORECASTS

Recent Macroeconomic Developments

9. Supportive external conditions and domestic policy tightening helped stabilize economic imbalances and the ER since 2024H2.

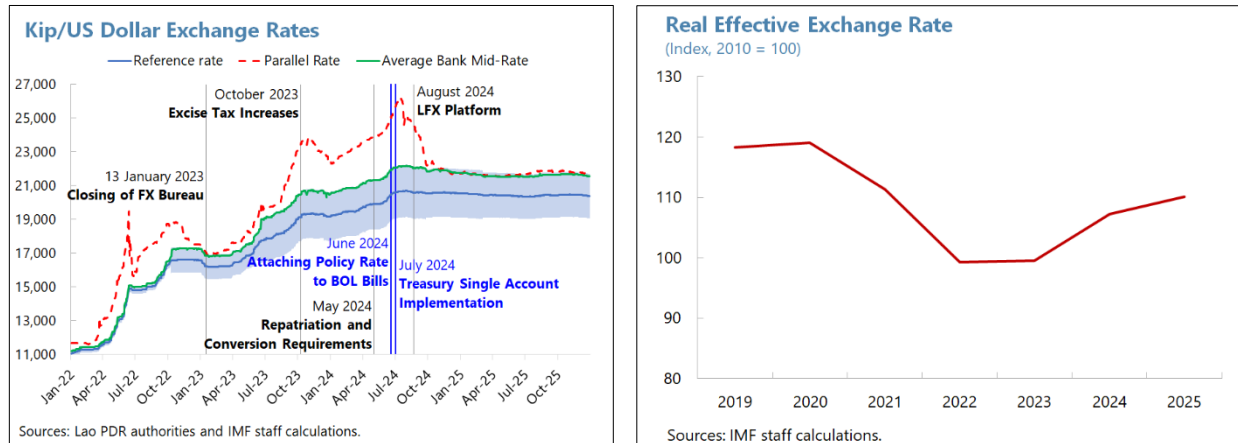
- GDP growth was robust in 2024–25:Q3 due to strong electricity exports, tourism, and FDI inflows.
- Favorable terms of trade (TOT),¹¹ stronger-than-expected growth in key trading, tourism, and investment partners (Thailand, the Chinese mainland, and Vietnam), and Chinese debt service deferral strengthened external balances, enabling the BOL to accumulate GIR from US\$1.7 billion at end-December 2024 to US\$2.3 billion (2.4 months of imports) at end-September 2025.
- Monetary policy reforms and sustained large fiscal surpluses, helped tighten monetary conditions, bringing real interest rates into positive territory since May 2025.
- Improved external balances and synchronous domestic policy tightening¹² helped ease ER pressures, largely eliminating the parallel market premium, and leading to a REER appreciation, in contrast to the 2024 DSA which assumed continued REER depreciation.



¹¹ Higher metal and mineral export prices and significantly lower fuel import prices.

¹² In addition to monetary and fiscal tightening, since May 2024 the BOL has implemented mandatory repatriation and conversion requirements, requiring exporters to repatriate their FX proceeds and sell a portion of them to commercial banks, which, in turn, are obliged to sell 30 percent of these FX receipts to the BOL. These measures constitute a capital outflow management measure (CFM) under the IMF's Institutional View (IV).

10. Rapid disinflation has ensued, supported by ER stabilization and monetary policy framework reforms. CPI inflation fell steadily from 26 percent in June 2024 to 5.6 percent in December 2025. In addition to the ER stabilization, the implementation of monetary policy framework reforms (including the establishment of a Treasury Single Account at the central bank and the gradual unwinding of the central bank’s quasi-fiscal operations) also contributed to disinflation.



11. Sustained fiscal consolidation helped reduce public debt. The government is expected to record a fifth consecutive primary surplus in 2025 (5.2 percent of GDP), which has helped reduce public debt (115). In addition to strong revenue collection (improved compliance, stronger economic activity, and higher tax rates),¹³ strict current expenditure controls and delayed capital spending, sharply compressed expenditures.

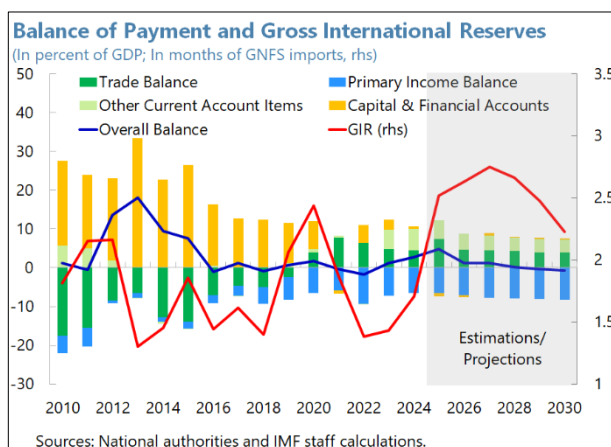
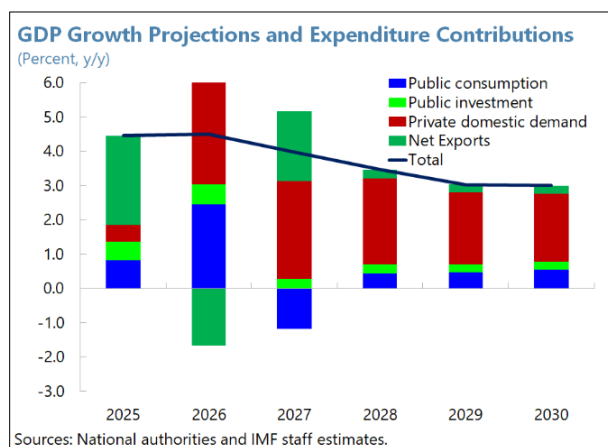
Macroeconomic and Debt Forecasts

12. Near-term growth is projected to remain strong, though inflation is expected to rise in 2026.¹⁴ Despite slower growth of key partner countries in 2026 due to the full-year impact of the U.S. tariffs, GDP growth is projected at 4.5 percent in 2025–26 due to increased electricity production from new projects that came onstream in 2025:Q4, a significant increase in minimum and civil services wages and a relaxation of the fiscal stance in 2026. Overall external balances are likely to remain stable, supported by steady FDI inflows for ongoing power and transportation projects, offsetting a moderate current account surplus in 2026 due to the moderate partner countries growth. While stable external balances and continued monetary policy reforms are expected to support further disinflation, inflation is expected to rise gradually by end-2026, mainly due to the large fiscal impulse, additional electricity tariff increases, and accommodative monetary conditions.

¹³ Revenue measures include tax policy (excise tax rates, excise tax structure reforms under the revised excise tax law, implementation of the income tax law (GMT) and tax administration (modernization). The VAT rate, which was lowered from 10 percent to 7 percent during the pandemic, was restored to 10 percent in March 2024. Excise taxes on selected goods—including cigarettes and soft drinks—were raised in January 2024.

¹⁴ Baseline projections are based on current policies and global assumptions in October 2025 *World Economic Outlook*. The projections remain subject to considerable uncertainty due to the evolving external environment, domestic policy uncertainty, ongoing debt negotiations, and data gaps.

13. Assuming unchanged policies, growth and external balances are expected to weaken over the medium and long term, with the latter contributing to inflation. Growth is projected to moderate, reflecting low labor force productivity growth due to continued skilled labor outmigration. Capital accumulation remains the main medium- to long-term growth driver, supported by domestic investment and FDI. Despite broadly stable trade balances, external balances are projected to weaken due to rising income net outflows, stemming from the negative NIIP, strong imports associated with robust FDI and increased capex, and gradual fiscal relaxation, eroding GIR. Rising external pressures, combined with the projected moderate easing of fiscal policy, are expected to rekindle inflation. Assuming an unchanged monetary policy rate, the gradual decline in real interest rates would induce capital outflows, adding to external pressures, with GIR projected to decline to 2.2 months of imports by 2030.



Text Table 4. Comparison of Medium/Long-Term Macroeconomic Projections

	2024	2025	2026	2027	2028	2029	2030	Long-term 1/
Real GDP (y/y growth)								
Current DSA	4.3	4.5	4.5	4.0	3.5	3.0	3.0	3.0
Previous DSA (2024 AIV)	4.1	3.5	3.1	2.8	2.6	2.5	n.a.	2.5
GDP deflator (y/y growth)								
Current DSA	17.1	7.6	6.8	5.3	5.4	5.7	7.4	8.3
Previous DSA (2024 AIV)	14.6	13.5	21.5	20.9	18.1	16.8	n.a.	21.5
Primary fiscal balance (percent of GDP)								
Current DSA	6.0	5.2	2.9	3.1	3.0	2.8	2.7	1.4
Previous DSA (2024 AIV)	3.5	3.8	3.8	3.8	3.8	3.8	n.a.	3.8
Revenue and grants (percent of GDP)								
Current DSA	18.0	19.5	19.0	18.8	18.9	18.9	18.8	18.9
Previous DSA (2024 AIV)	16.4	16.4	16.4	16.4	16.4	16.4	n.a.	16.4
Primary expenditure (percent of GDP)								
Current DSA	12.0	14.3	16.1	15.7	15.9	16.0	16.2	17.5
Previous DSA (2024 AIV)	12.9	12.6	12.6	12.6	12.6	12.6	n.a.	12.6
Fiscal balance (percent of GDP)								
Current DSA	2.3	1.6	-0.2	1.2	1.2	1.1	1.0	0.1
Previous DSA (2024 AIV)	0.0	0.6	0.4	0.2	-0.1	-0.3	n.a.	-0.5
Current account balance (percent of GDP)								
Current DSA	3.3	5.7	1.6	0.5	-0.1	-0.7	-1.1	-1.1
Previous DSA (2024 AIV)	3.5	3.2	2.0	1.9	1.6	1.3	n.a.	1.0
Exports of goods and services (percent of GDP)								
Current DSA	69.9	72.8	68.1	66.8	65.5	64.5	63.8	64.2
Previous DSA (2024 AIV)	62.9	65.3	63.8	62.0	61.1	60.4	n.a.	55.2
Imports of goods and services (percent of GDP)								
Current DSA	62.4	63.4	61.8	60.8	59.8	59.2	58.7	58.8
Previous DSA (2024 AIV)	55.6	58.1	57.1	55.5	54.9	54.5	n.a.	50.9

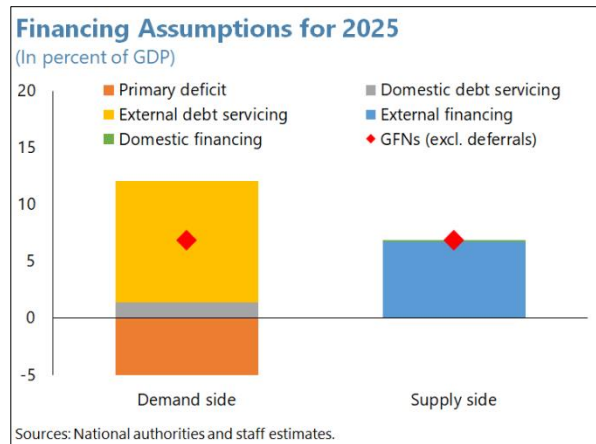
Sources: Authorities' data and IMF staff estimates and calculations.

1/ Average 2031-2044 for the current DSA and 2030-2043 for the previous DSA.

14. Under the baseline, fiscal surpluses are expected to continue, although the primary surplus is projected to narrow from 5.2 percent of GDP in 2025 to 2.7 percent by 2030. On the revenue side, in the absence of concrete plans for new tax policy reforms, tax revenues are projected to remain around 15½ percent of GDP by 2030. On the expenditure side, current and capital spending are expected to remain around 18 percent of GDP and 5.5 percent of GDP by 2030, respectively. Compared with the 2024 DSA, the primary surplus is projected to be smaller. This reflects an increase in the wage bill in the 2026 budget, driven mainly by a 30 percent base salary increase and one-off wage bill increases due to severance payments related to government restructuring, which will be partially offset by higher tax revenue. As the one-off severance payments dissipate, the magnitude of the deterioration in the primary surplus is expected to decline.

Gross Financing Need Forecasts

15. The relatively large GFNs estimated for 2025 are expected to be financed mainly from external sources. GFNs are projected at 6.8 percent of GDP in 2025. This mainly reflects sizable external debt service payments of 10.7 percent of GDP (excluding debt service deferrals to the Chinese mainland).¹⁵ The authorities met these needs primarily through new external financing, including FX bond issuances in the domestic market (US\$503 million) and, following upgraded ratings, international sovereign bond issuance (US\$300 million).¹⁶ The remaining GFN is expected to be covered by domestic financing.



16. The baseline assumes that GFN will decline over time and continue to be met largely through external financing.¹⁷ While recognizing the substantial uncertainty in the global and domestic economic outlook, and the downside risks surrounding the projections, these forecasts are consistent with the new medium-term objective of lowering public debt-to-GDP ratio to 70 percent by end-2030, as stated in the 2024 Debt Bulletin, by: (i) strictly limiting new borrowing to high-priority projects with clear financial or economic returns; (ii) refraining from issuing new

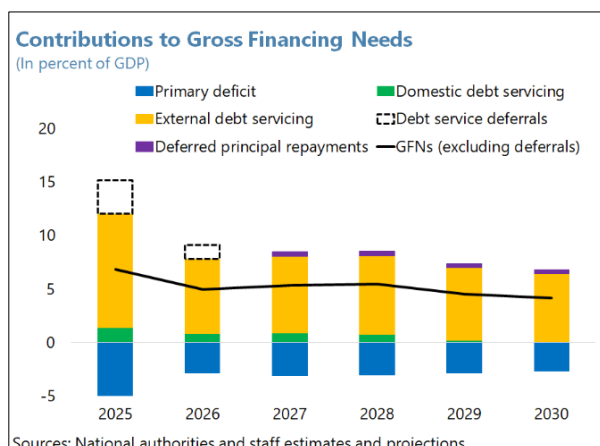
¹⁵ In 2025, large external repayments were made for government bonds (US\$628 million) and commercial bank loans (US\$541 million), with roughly 60 percent was rolled over (about US\$600 million in bonds and US\$125 million in bank loans) according to the authorities.

¹⁶ S&P and Fitch upgraded sovereign ratings of CCC+ in October 2025 while Moody's upgraded Lao PDR from Caa3 to Caa2 in December 2025, citing improved market access following the authorities' November 2025 bond issuance. Following rating upgrades in October 2025, the authorities issued US\$300 million in five-year, 11.25 percent senior unsecured notes in November 2025 on the Singapore Exchange—their first international bond issuance since 2019 (aside from limited issuances in the Thai market) in order to refinance more expensive debt and extend debt maturity. The authorities have indicated their intention to continue rebuilding market access to refinance more expensive existing debt.

¹⁷ From 2023 to 2025, an average of around 90 percent of GFNs was externally financed, which is consistent with the fact that about 90 percent of the total PPG debt stock is external PPG debt (Text Table 3).

government guarantees; and (iii) prioritizing non-debt financing sources, including fiscal surpluses, repayments from on-lent loans to SOEs, and public asset sales. Absent new shocks, GFNs are expected to ease to 5.0 percent of GDP in 2026 and marginally decline to 4.2 percent in 2030.

Although the DSA assumes the level of external disbursements declines from an average of 5.9 percent of GDP in 2023–25 to about 4.7 percent by 2030¹⁸ reflecting the authorities' plans (¶110), the financing mix is still expected to continue to be dominated by external sources. All remaining financing needs are met through domestic borrowing.^{19, 20} Since the baseline



forecasts assume unchanged policies, domestic bond interest rates are expected to remain at current levels: 9 percent for short-term tenors and 10 percent for medium-term instruments. The other financing assumptions are as follows:

- Debt deferrals:* As indicated by the authorities, the DSA incorporates a full deferral of scheduled principal repayments to the Chinese mainland amounting to US\$560 million in 2025 and a planned repayment of half of the debt maturing (around US\$250 million) in 2026, with no further interest payment deferrals assumed from 2025 onward. Based on the authorities' proposal to the Chinese mainland, it is assumed that deferred principal repayments from 2020 to 2026 will be repaid in equal installments over 2027–40. These deferred principal repayments, together with all principal repayments to the Chinese mainland originally scheduled from 2027 onward, are assumed to be financed through "unidentified financing" (arrears, rollovers, or deferrals; the latter being effectively a refinancing on the same terms as the original obligations). As a result, the stock of debt to the Chinese mainland is maintained at its nominal level throughout the projection period.²¹

¹⁸ Of this total, about 22 percent of the total external financing from 2025 to 2030 is sourced from multilaterals (primarily the World Bank and Asian Development Bank), about 39 percent from bilateral donors, including the Chinese mainland-related "unidentified financing," and the remaining 39 percent from FX bond issuances and commercial borrowing.

¹⁹ The maturity structure of debt affects forecasts of gross financing needs. The projections assume somewhat longer maturities than in the 2024 Article IV baseline forecasts, given recent history and the authorities' stated intention. This assumption does not, however, sway the direction of the debt ratio or the debt sustainability assessment.

²⁰ Given limited detail regarding planned asset sales and on-lent loan repayments, however, these flows are not incorporated in the baseline.

²¹ In the 2024 DSA, the deferrals of principal repayments to the Chinese mainland amounting to US\$463 million that were scheduled for 2024 were incorporated into the analysis, as in the current DSA. By contrast, deferrals of principal repayments beyond 2025 were not incorporated, and it was assumed that the full amount originally falling due from 2025 onward would be repaid as scheduled. Moreover, the 2024 DSA assumed that the principal repayments already deferred up to 2024 would be repaid only after 2030.

- *Market access*: International market access is expected to continue but remain relatively constrained. Issuance of FX-denominated bonds in the domestic market is assumed to increase based on recent trends.

Text Table 5. Borrowing Terms for Future External Disbursements

	Interest rate	Grace period	Maturity	Grant Element
Multilateral				
IDA (Blend)	1.5%	5	25	36%
AsDB	1.3%	8	32	45%
Others	2.0%	8	35	38%
Bilateral				
Paris Club	0.8%	9	30	51%
Non Paris Club (excluding China)	2.7%	6	20	21%
The Chinese Mainland	2.3%	6	20	26%
FX Bond and Commercial Banks	7.5%	1	6	0%

Note: Disbursements from multilateral creditors other than the World Bank (IDA) and the Asian Development Bank ("Multilateral, Others") comprises around 20 percent of total disbursement amounts from multilateral creditors.

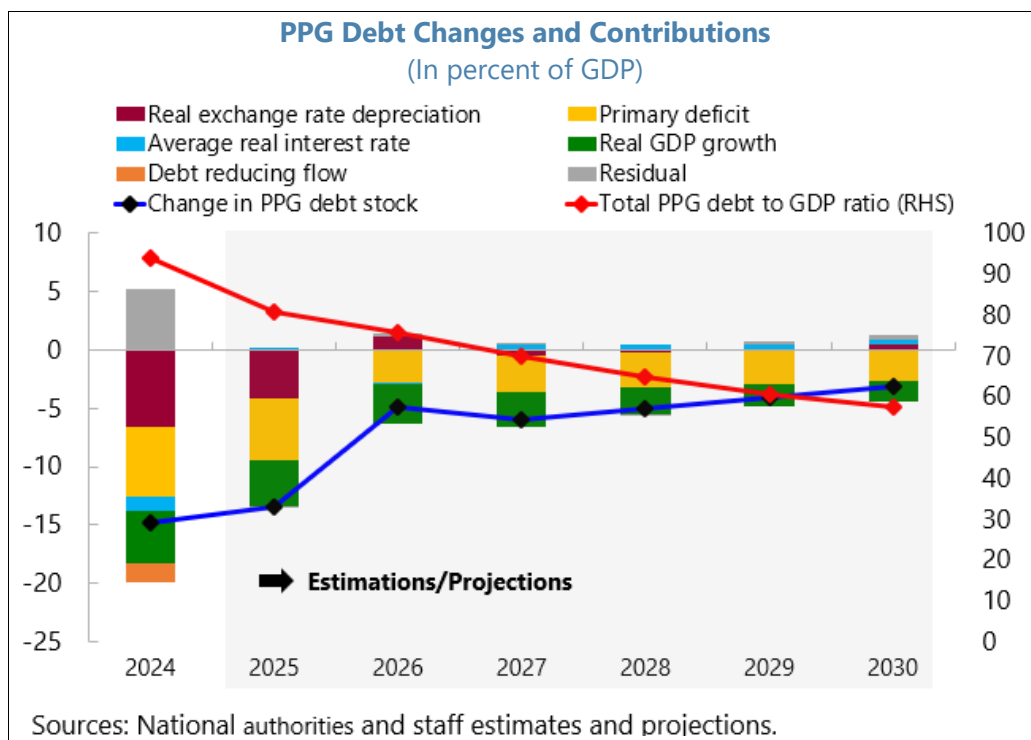
Sources: National authorities and staff calculations.

Text Table 6. Borrowing Terms for Future Domestic Disbursements

	interest rate				grace period	maturity	composition			
	2025-30	2031-35	2036-40	2041-45			2025-30	2031-35	2036-40	2041-45
Short-term debt										
T-bills (denominated in local currency)	9.0%	9.0%	9.0%	9.0%	0	1	30%	30%	30%	30%
MLT debt										
Denominated in local currency (LC)										
Bonds (1 to 2 years)-LC	10.0%	10.0%	10.0%	10.0%	0	1	30%	30%	30%	30%
Bonds (3 to 7 years)-LC	10.0%	10.0%	10.0%	10.0%	1	3	30%	30%	30%	30%
Bonds (beyond 7 years)-LC	10.0%	10.0%	10.0%	10.0%	1	10	10%	10%	10%	10%

Sources: National authorities and staff calculations.

17. The DSA projects a steady decline in debt ratios, supported by stable automatic debt dynamics, including REER, continued monetary policy reforms and primary budget surpluses, and stronger GDP growth (Figure). This marks a shift from the 2024 DSA, which anticipated rising PPG debt owing to sustained and large REER depreciation reflecting a significant deterioration in external balances and GIR due to Chinese debt repayments, which more than offset the positive effects of GDP growth and primary surpluses, pushing PPG debt to a projected peak of 127 percent of GDP in 2030. The current DSA incorporates the effects of significant policy improvements since 2024:H2 and more stable external balances, reflecting in part the assumption of a continued bilateral resolution of debts owed to the Chinese mainland through "unidentified financing" during 2027–30 in line with the 2024–26 debt repayment deferrals to the Chinese mainland. As a result, the REER does not contribute to debt accumulation over the forecast horizon and consequently, PPG debt ratio is projected to decline steadily to less than 60 percent of GDP by 2030 with the support of continued primary surpluses, GDP growth and effective debt management.



18. The realism tools broadly support the credibility of the baseline assumptions, and observed discrepancies are explainable.

- The divergence between the historical and baseline paths for PPG external and public debt (Text Figure 3) reflects the shift from historically large average REER depreciation to a recent appreciation trend due to improving external balances and strong policy actions since 2024:H2, including continued primary fiscal surpluses.
- The projected three-year adjustment in the fiscal primary balance remains below the LIC top quartile, indicating relatively conservative assumptions.
- Baseline GDP growth in 2025–26 is slightly lower than the growth paths generated under the fiscal realism tool’s scenarios, but the projected slowdown reflects not only the fiscal impulse but also indirect effects of U.S. tariffs on Lao PDR’s main trading partners.
- That said, these projections are subject to significant uncertainty amid the heightened trade and economic policy uncertainty in the global outlook.

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TESTS

19. Debt-carrying capacity is assessed as weak. Lao PDR's Composite Indicator (CI) score of 2.27, based on the October 2025 WEO and 2024 World Bank's Country Policy and Institutional Assessment (CPIA), places it in the weak debt-carrying capacity category (Text Table 7), unchanged from the 2024 DSA. Accordingly, the applicable indicative thresholds for external and public debt remain: 30 percent (PV of external debt-to-GDP), 140 percent (PV of external debt-to-exports), 10 percent (external debt service-to-exports), 14 percent (external debt service-to-revenue), and 35 percent (PV of public debt-to GDP).

Text Table 7. Composite Indicator and Applicable Thresholds						
Components	Coefficients (A)	Current DSA			2024 DSA	
		10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.001	1.16	51%	1.16	51%
Real growth rate (in percent)	2.719	2.526	0.07	3%	0.09	4%
Import coverage of reserves (in percent)	4.052	17.891	0.72	32%	0.82	36%
Import coverage of reserves^2 (in percent)	-3.990	3.201	-0.13	-6%	-0.16	-7%
Remittances (in percent)	2.022	2.091	0.04	2%	0.00	0%
World economic growth (in percent)	13.520	3.035	0.41	18%	0.39	17%
CI Score			2.27	100%	2.30	100%
CI rating			Weak		Weak	

Applicable Thresholds	
APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

Sources: LIC DSA

20. Given Lao PDR's exposure to natural disasters and market-based financing, two tailored stress tests were added to supplement the standard set.

- Exposure to natural disaster risks has risen in recent years. Two tropical cyclones and a dam collapse in 2018 caused losses of about 2 percent of GDP, requiring recovery spending of roughly 3 percent of GDP. A severe tropical cyclone, Yagi, struck in 2024. The authorities have since joined a regional catastrophe risk insurance pool.²² Reflecting this vulnerability, a natural

²² Since 2021, Lao PDR has been a participating member of the Southeast Asia Disaster Risk Insurance Facility (SEADRIF), established under the ASEAN+3 framework to provide financial resilience against climate and disaster shocks. In July 2025, Lao PDR signed a new two-year, multi-peril sovereign disaster risk insurance policy with

(continued)

disaster-tailored stress test—a one-off 3-percentage-point increase in the external debt-to-GDP ratio in 2026 (the second projection year)—has been added, consistent with recent events and the 2024 DSA.²³

- Market-financing risks are also relevant. The government has issued FX-denominated bonds in the domestic market, borrowed in foreign currency from commercial banks, and recently regained access to international capital markets (¶10). A market-financing shock—calibrated as a 400-bps rise in external borrowing costs, a one-third reduction in maturities, and a one-off 15 percent ER depreciation in 2026.

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

21. Under the baseline, three of four external debt indicators breach their thresholds from 2025 to 2030 (Table 1 and Figure 1). Breaches occur for both solvency (PV of PPG external debt-to-GDP) and liquidity indicators (PPG debt service-to-exports and PPG debt service-to-revenue). These breaches are large and persistent:

- The PV of PPG external debt-to-GDP ratio declines from about 69 percent in 2025 to 41 percent in 2035, remaining above the 30-percent threshold.
- The PPG external debt service-to-revenue ratio peaks at about 59 percent in 2025 and stays above the 14-percent threshold for the entire projection period.
- The PPG external debt service-to-exports ratio exceeds its 10-percent threshold until 2030.
- Only the PV of PPG external debt-to-exports ratio remains below its 140-percent threshold throughout.

22. Stress tests underscore significant vulnerabilities of external debt dynamics to export shocks, currency depreciation, natural disasters, and—less severely—contingent liabilities (Figure 1 and Table 3). The export shock generates the sharpest deterioration in the PV of debt-to-exports and debt service-to-exports ratios. For the PV of debt-to-GDP and debt service-to-revenue ratios, the one-time depreciation shock is the most extreme shock. Under all extreme shocks, all indicators but for the PV of debt-to-exports ratio remain above their thresholds over the projection period.

SEADRIF Insurance Company (with a coverage up to US\$16 million). In September 2025, multiple disaster events (typhoons and floods) triggered a US\$2 million payout.

²³ Lao PDR is not included in the group of countries for which the climate disaster stress test scenario is automatically applied. As such, the default parameters, which are tailored to this group of countries, need to be adjusted when the stress test is applied to Lao PDR

B. Public Sector Debt Sustainability Analysis

23. The Public debt indicator also breaches its threshold over the projection horizon (Table 2 and Figure 2). The PV of total PPG debt-to-GDP is projected to decline gradually but stay well above the 35-percent threshold over the 10-year projection period.

24. Public debt is most vulnerable to the combined contingent liabilities shock (Figure 2 and Table 4). Under this scenario, the PV of public debt-to-GDP ratio rises to 114 percent in 2026 (first year of the shock), then gradually declines to 95 percent by 2030. The PV of debt-to-revenue and debt service-to-revenue ratios are also most affected, peaking at 598 percent in 2026 and 94 percent in 2027, respectively.

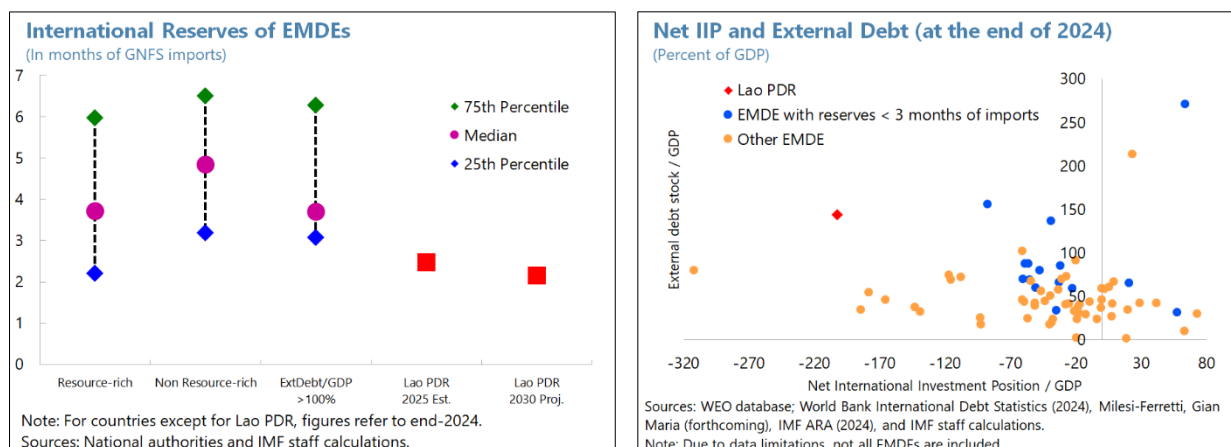
RISK RATING AND VULNERABILITIES

25. Lao PDR is assessed to be in external and overall debt distress, reflecting significant debt vulnerabilities evidenced by large and protracted breaches of most solvency and liquidity indicators and the continued need for debt service deferrals, amid ongoing negotiations with the creditor, over the forecast horizon.

26. Overall debt is assessed as unsustainable under the current baseline:

- *Large and persistent threshold breaches.* The magnitude and duration of the breaches across most solvency and liquidity indicators alone warrant an assessment of debt unsustainability.
- *Continued reliance on financial repression.* The government continues to rely on effective financial repression in the domestic market, which may be unsustainable.
- *Continued reliance on ad hoc Chinese debt service deferrals.* GFNs are currently met through ad hoc Chinese debt service deferrals through 2026 and “unidentified financing” for repayments falling due from 2027 onward, although the outcome of the ongoing debt negotiations with the Chinese mainland remain uncertain.
- *Significant economic vulnerabilities and exposure to downside risks to the near-term outlook.* Economic vulnerabilities stem from a negative NIIP, improved but still below-adequate GIR levels, a dollarized economy and banking system, and, despite some improvement, still-concentrated commodity-oriented export base, which increase exposure to external shocks. Near-term risks to the outlook are on the downside, stemming from global risks (due to intensifying geopolitical tensions; escalating trade measures and prolonged policy uncertainty; commodity price volatility; and tighter global financial conditions) and domestic risks (notably, unexpected developments in private sector debt, potential policy reversals, natural disasters, and banking sector stress). The materialization of adverse downside risk scenarios could trigger renewed ER pressures and worsen debt dynamics. Potential bank recapitalization needs (112), and sizable contingent

liabilities from PPP projects and SOE debt could further raise debt stock (¶21, 23). Finally, forecast uncertainty remains high given the evolving external environment and information gaps.



- *Uncertainty regarding the policies.* The revenue measures needed to ease GFNs and critical structural reforms needed to boost growth remain to be articulated. The government’s plans for a sound MTDS and its commitment to strengthening bank and SOE balance sheets also remain uncertain.

27. Achieving debt sustainability will require a comprehensive policy package to boost economic and financial sector resilience and growth. More specifically:

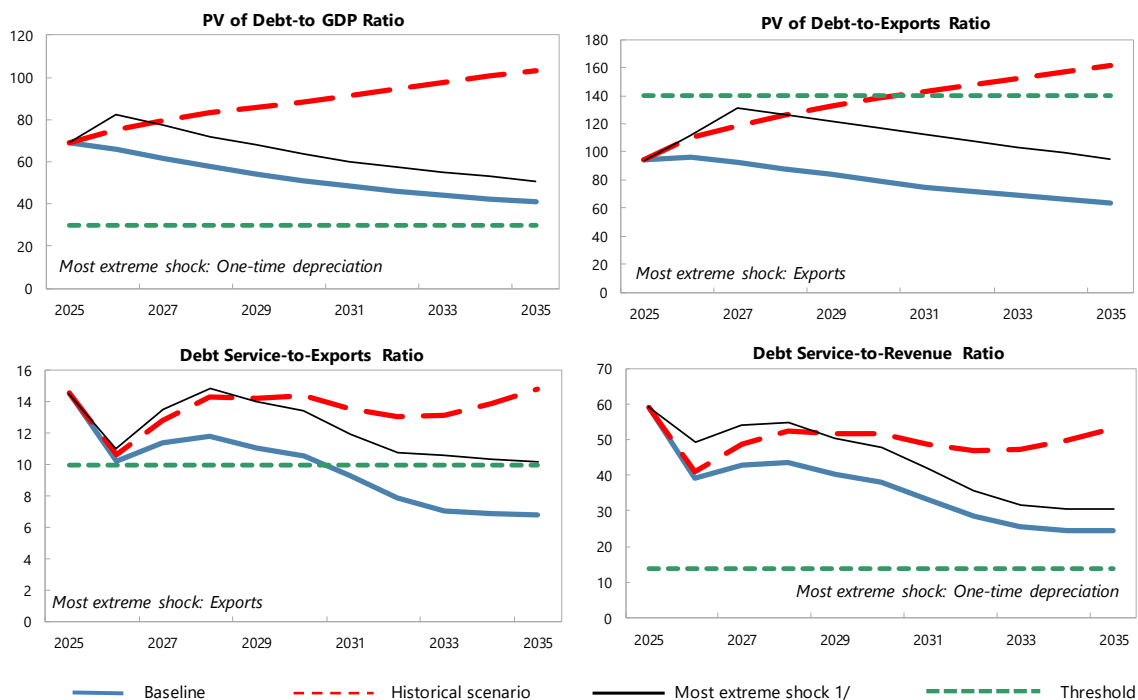
- *Fiscal risk and debt management:* The authorities are strongly encouraged to strengthen the quality and coverage of debt data (including private sector, including SOE, debt) and continue to improve their ability to assess fiscal risks and debt dynamics, while developing a sound MTDS.
- *Fiscal policy:* A stronger primary surplus based on higher revenues and the credible MTDS continue to be necessary to create space for priority growth-boosting spending and improve debt dynamics. Recent improvements in revenue collection should continue to be enhanced by further strengthening revenue administration measures and by broadening the tax base. Greater transparency in SOE balance sheets, full disclosure of asset sales, investment contracts, borrowing agreements, and concessional agreements, as well as establishing sound PIM/PPP frameworks, are critical.
- *Monetary policy:* Monetary policy should be tightened to firmly entrench disinflation and anchor inflation expectations, given the somewhat accommodative monetary conditions and expected inflationary pressures in 2026. Continued progress on monetary policy reforms also remains essential.
- *External sector policies:* To boost resilience to external shocks, it is important to continue to opportunistically build GIR, while allowing the ER to absorb shocks. Ongoing efforts for export diversification need to be accelerated. Improving external sector and debt statistics and reducing unrecorded trade and capital outflows through improved customs administration and greater SOE debt transparency are urgent priorities for FX and debt management.

- *Financial sector policies:* Strengthening supervision with sound financial sector data and stress-testing framework is essential to mitigate financial risk and fiscal contingent liabilities. Close monitoring of liquidity and solvency conditions, accelerated implementation of new capital and liquidity requirements, addressing undercapitalization, is also necessary. Developing the domestic bond market—and ensuring that government bonds are priced at market rates—will also be important.
- *Structural policies:* Reforms to strengthen governance, the business climate, and human capital are essential for boosting growth. Enhancing data quality for informed policy management, addressing pervasive corruption, improving the productivity of public administration including through the effective implementation of streamlined and upgraded regulations, remain key priorities. These reforms would also help strengthen Lao PDR's debt-carrying capacity over time by improving its CPIA score.

AUTHORITIES' VIEWS

28. The authorities agreed with the main findings and DSA rating but were more optimistic regarding debt sustainability, reflecting their optimism about the medium-term outlook and financing strategy. They expect the main factors behind the recent notable decline in the debt-to-GDP ratio—namely, robust growth, and fiscal surpluses—to continue going forward. Strong revenue performance is likely to continue, supported by ongoing improvements in revenue administration. While acknowledging considerable uncertainty surrounding ongoing debt negotiations with the Chinese mainland, they emphasized their intention to build on their recent return to international markets and to continue issuing sovereign bonds internationally to diversify financing sources and better manage debt maturity and terms. The authorities were also confident that investor confidence would be further strengthened following the forthcoming external debt strategy and MTDS.

Figure 1. Lao PDR: Indicators Of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2025–2035



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	Yes	No
Commodity price 2/	n.a.	n.a.
Market financing	No	No

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	5.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	18	20
Avg. grace period	4	5

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

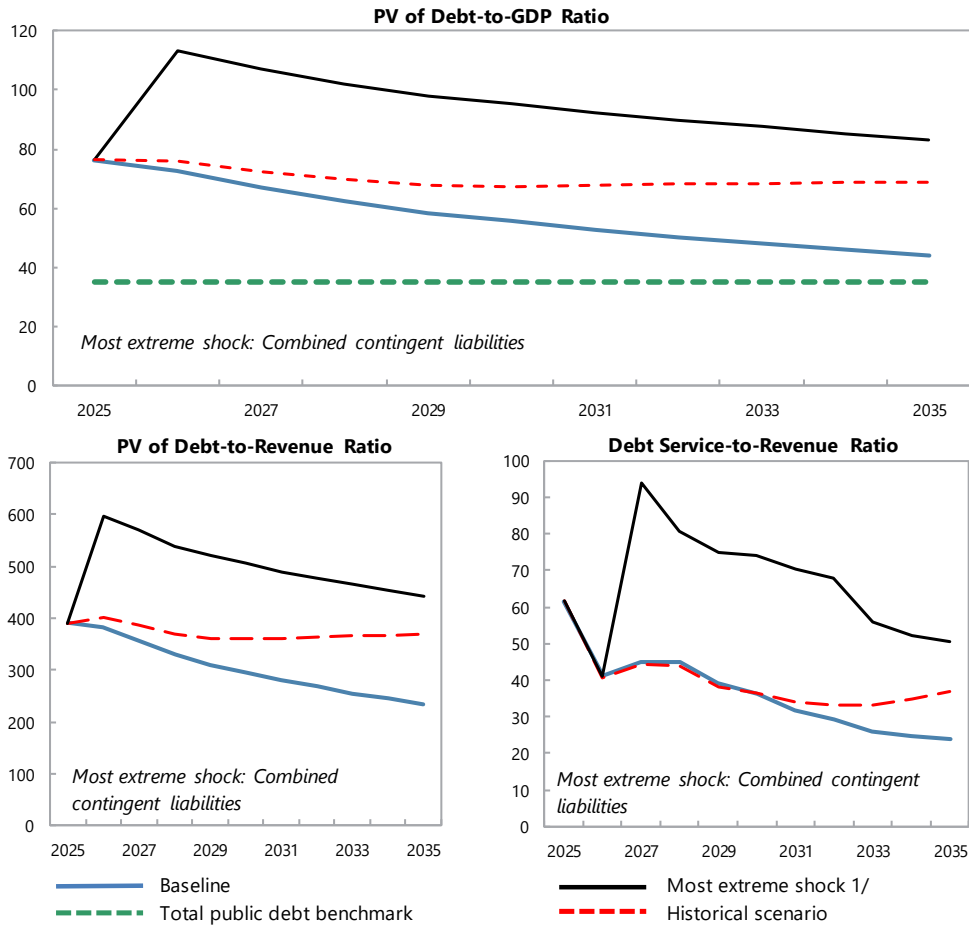
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Lao PDR: Indicators Of Public Debt Under Alternative Scenarios, 2025–2035



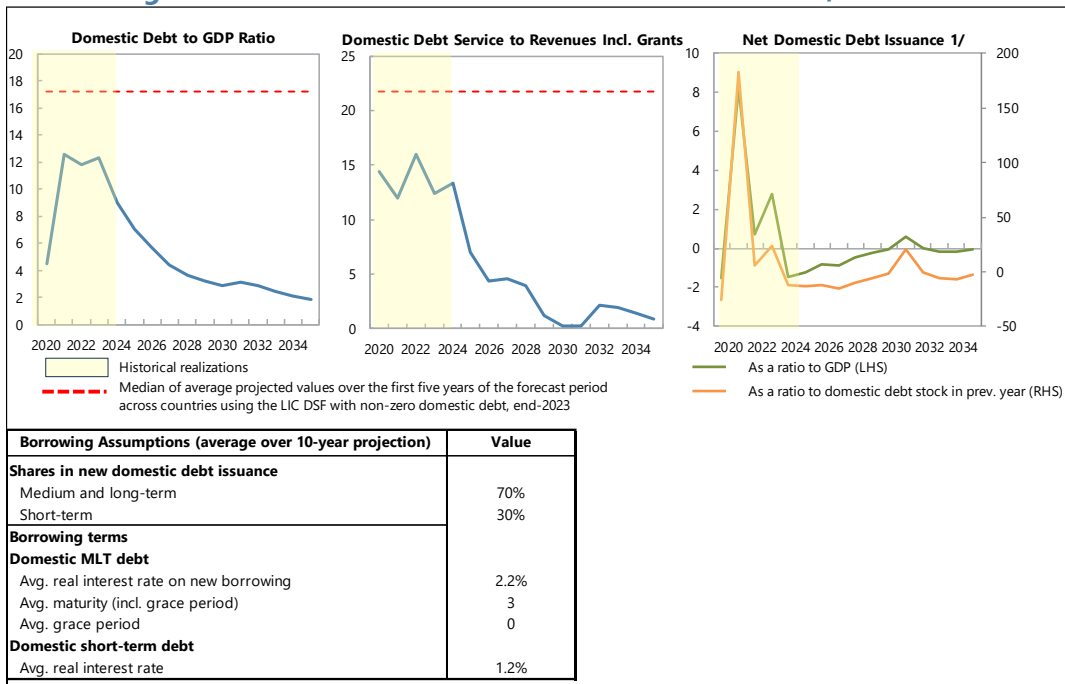
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	96%	40%
Domestic medium and long-term	3%	50%
Domestic short-term	1%	10%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	5.0%
Avg. maturity (incl. grace period)	18	20
Avg. grace period	4	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.2%	2.2%
Avg. maturity (incl. grace period)	3	6
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	1.2%	1.2%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Lao PDR: Indicators of Domestic Public Debt, 2020–35



Sources: National authorities and IMF staff estimates and projections.

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

Figure 4. Lao PDR: Drivers of Debt Dynamics—Baseline Scenario

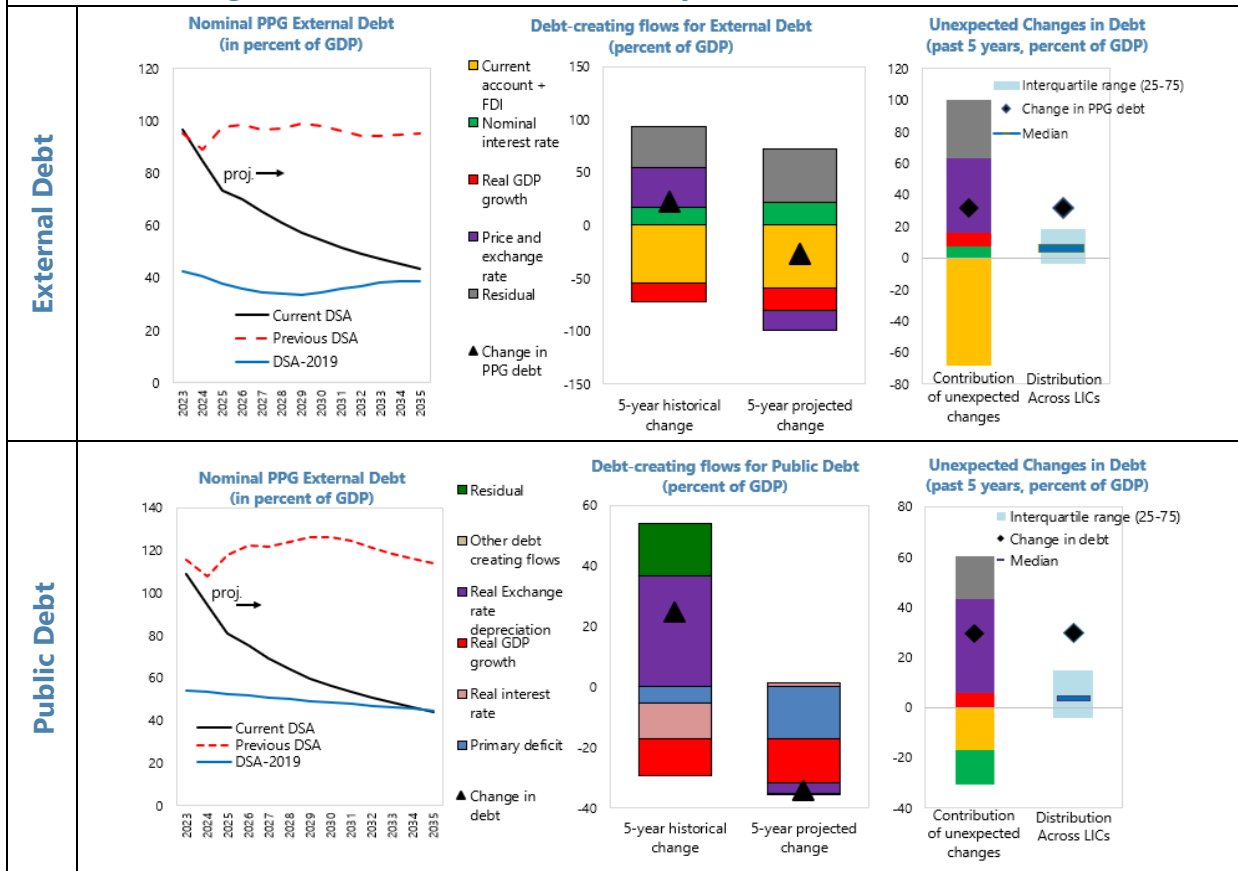
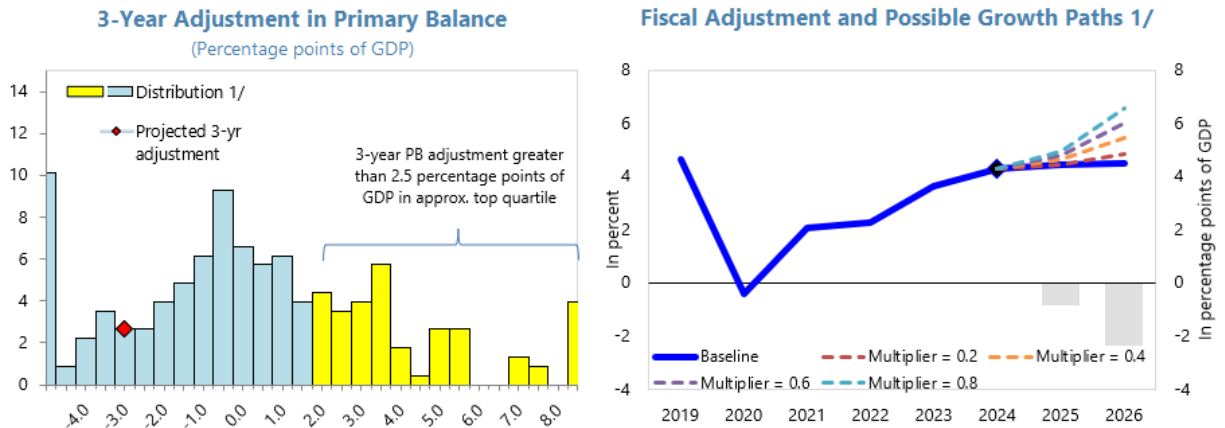


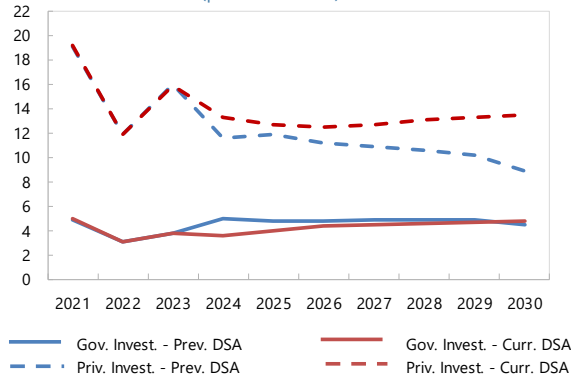
Figure 5. Lao PDR: Realism Tools ^{1/}



^{1/} Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

^{1/} Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



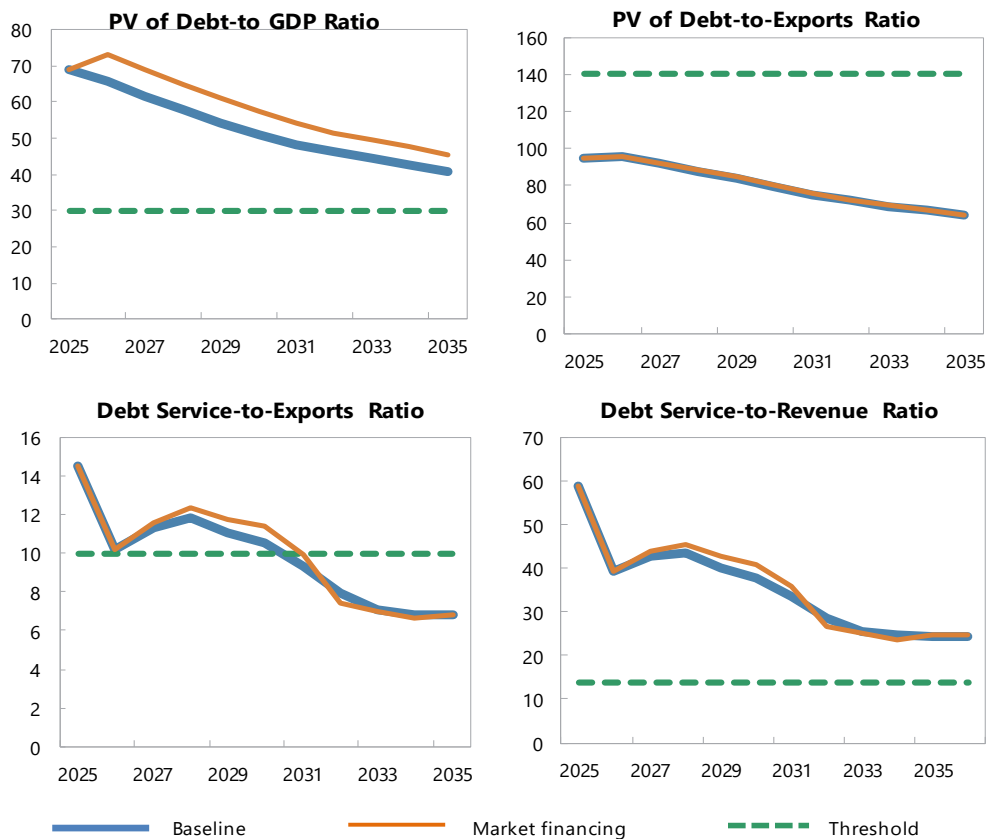
^{1/} The data needed to conduct the investment growth tool is not available for the DSA exercise.

Figure 6. Lao PDR: Market Financing Risk Indicators

	GFN	1/	EMBI	2/
Benchmarks	14		570	
Values	7		n.a.	
Breach of benchmark	No		n.a.	
Potential heightened liquidity needs	Moderate			

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.

2/ EMBI spreads correspond to the latest available data.



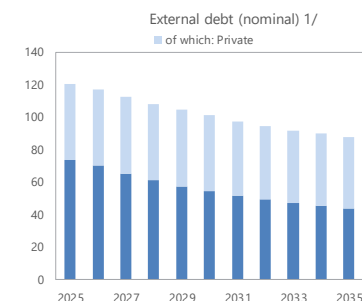
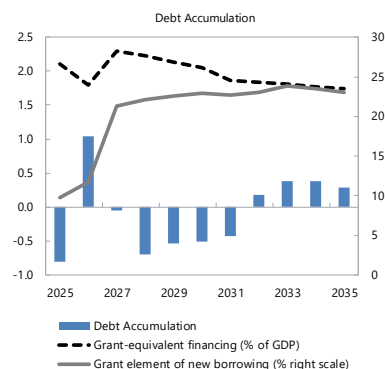
Sources: Country authorities; and staff estimates and projections.

Table 1. Lao PDR: External Debt Sustainability Framework, Baseline Scenario, 2022–2044

(in percent of GDP, unless otherwise noted)

	Actual			Projections								Average 8/ Historical Projections	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2044	Historical	Projections
External debt (nominal) 1/	150.3	145.6	133.9	120.3	116.8	112.4	108.2	104.5	101.1	87.5	69.8	112.2	102.1
<i>of which: public and publicly guaranteed (PPG)</i>	103.9	96.4	85.0	73.5	70.0	65.3	61.0	57.4	54.6	43.4	28.9	69.5	56.2
Change in external debt	31.3	-4.7	-11.7	-13.7	-3.5	-4.4	-4.2	-3.7	-3.4	-2.2	-1.7		
Identified net debt-creating flows	25.1	-13.5	-17.8	-17.3	-12.8	-11.0	-9.7	-8.5	-8.1	-7.7	-6.2	-3.4	-9.7
Non-interest current account deficit	0.0	-7.8	-8.8	-10.8	-5.7	-4.7	-3.9	-3.0	-2.6	-2.2	-1.8	1.5	-3.9
Deficit in balance of goods and services	-4.1	-7.3	-7.5	-9.9	-6.7	-6.3	-5.9	-5.6	-5.4	-5.4	-5.4	1.0	-6.1
Exports	56.9	64.6	69.9	73.3	68.5	67.1	65.7	64.8	64.1	64.2	64.2		
Imports	52.8	57.3	62.4	63.4	61.8	60.8	59.8	59.2	58.7	58.8	58.8		
Net current transfers (negative = inflow)	-2.1	-2.5	-2.5	-2.4	-2.0	-1.9	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.9
<i>of which: official</i>	-0.7	-1.6	-0.9	-1.1	-0.8	-0.7	-0.7	-0.7	-0.6	-0.6	-0.7		
Other current account flows (negative = net inflow)	6.2	2.1	1.1	1.5	3.0	3.6	3.9	4.3	4.6	5.0	5.3	2.3	4.1
Net FDI (negative = inflow)	-4.8	-11.9	-6.2	-6.2	-6.2	-6.2	-6.2	-6.2	-6.2	-6.2	-5.3	-6.8	-6.2
Endogenous debt dynamics 2/	29.9	6.2	-2.8	-0.2	-0.9	-0.2	0.3	0.7	0.7	0.7	0.9		
Contribution from nominal interest rate	3.0	5.1	5.4	5.1	4.1	4.2	4.0	3.8	3.6	3.3	2.9		
Contribution from real GDP growth	-3.3	-5.5	-5.9	-5.3	-5.0	-4.4	-3.7	-3.1	-3.0	-2.6	-2.0		
Contribution from price and exchange rate changes	30.1	6.6	-2.3	...	...	...	...	...	...	...	...
Residual 3/	6.2	8.7	6.1	3.6	9.4	6.6	5.5	4.9	4.7	5.5	4.5	7.1	5.5
<i>of which: exceptional financing</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	78.9	69.2	65.7	61.8	57.7	54.3	51.1	40.9	25.4		
PV of PPG external debt-to-exports ratio	...	...	112.8	94.4	95.9	92.1	87.8	83.9	79.8	63.7	39.5		
PPG debt service-to-exports ratio	6.0	12.4	8.7	14.5	10.2	11.3	11.8	11.1	10.6	6.8	6.2		
PPG debt service-to-revenue ratio	24.6	54.4	35.7	59.0	39.1	42.9	43.5	40.2	38.0	24.4	22.2		
Gross external financing need (Million of U.S. dollars)	1073.9	327.1	704.0	989.4	1177.4	1394.0	1564.0	1593.6	1370.6	66.5	-602.4		
Key macroeconomic assumptions													
Real GDP growth (in percent)	2.3	3.7	4.3	4.5	4.5	4.0	3.5	3.0	3.0	3.0	3.0	4.4	3.4
GDP deflator in US dollar terms (change in percent)	-20.2	-4.2	1.6	7.3	2.3	2.2	2.3	2.2	2.2	1.8	1.8	-2.2	2.5
Effective interest rate (percent) 4/	2.1	3.3	4.0	4.3	3.7	3.8	3.7	3.7	3.7	3.9	4.3	2.6	3.8
Growth of exports of G&S (US dollar terms, in percent)	10.0	12.7	14.6	17.6	-0.1	4.1	3.6	3.8	4.1	4.9	4.8	10.9	5.3
Growth of imports of G&S (US dollar terms, in percent)	22.3	7.7	15.5	13.9	4.1	4.6	4.1	4.2	4.2	4.9	4.8	5.7	5.5
Grant element of new public sector borrowing (in percent)	...	...	...	9.9	11.8	21.4	22.1	22.6	23.0	23.1	21.2	...	20.6
Government revenues (excluding grants, in percent of GDP)	13.9	14.7	17.1	18.1	17.8	17.7	17.9	17.8	17.8	17.9	17.9	14.4	17.9
Aid flows (in Million of US dollars) 5/	132.8	262.6	149.2	488.2	458.2	470.5	498.1	515.8	528.9	622.9	877.9		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.1	1.8	2.3	2.2	2.1	2.0	1.7	1.6	...	2.0
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	26.2	27.9	34.7	35.5	36.0	36.3	40.5	41.1	...	35.9
Nominal GDP (Million of US dollars)	15,121	15,011	15,908	17,834	19,070	20,258	21,431	22,568	23,748	30,264	46,311		
Nominal dollar GDP growth	-18.4	-0.7	6.0	12.1	6.9	6.2	5.8	5.3	5.2	4.9	4.8	2.2	6.0
Memorandum items:													
PV of external debt 7/	...	...	127.8	115.9	112.4	108.9	104.9	101.4	97.7	84.9	66.3		
In percent of exports	...	...	182.9	158.1	164.2	162.3	159.6	156.5	152.4	132.3	103.3		
Total external debt service-to-exports ratio	20.9	33.8	27.8	30.8	26.4	26.4	26.4	25.1	22.7	13.4	9.0		
PV of PPG external debt (in Million of US dollars)	...	...	12546.2	12337.6	12524.4	12514.6	12373.6	12259.4	12143.5	12375.0	11742.7		
(Pvt-Pvt-1)/GDPt-1 (in percent)	...	...	...	-1.3	1.0	-0.1	-0.7	-0.5	-0.5	0.3	-0.4		
Non-interest current account deficit that stabilizes debt ratio	-31.3	-3.0	2.9	2.9	-2.3	-0.3	0.4	0.7	0.8	0.0	-0.2		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	Yes



Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g)] / (1+g+\rho+g)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Lao PDR: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022–2044

(in percent of GDP, unless otherwise noted)

	Actual			Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2044	Historical	Projections
Public sector debt 1/ of which: external debt	115.7	108.8	94.0	80.6	75.7	69.7	64.6	60.6	57.4	45.3	31.1	78.1	59.7
	103.9	96.4	85.0	73.5	70.0	65.3	61.0	57.4	54.6	43.4	28.9	69.5	56.2
Change in public sector debt	23.5	-7.0	-14.8	-13.4	-4.9	-6.0	-5.1	-4.0	-3.1	-2.1	-1.1		
Identified debt-creating flows	20.6	-10.0	-18.3	-9.2	-6.4	-5.6	-4.9	-4.3	-4.1	-2.7	-0.8	1.3	-4.6
Primary deficit	-1.8	-0.9	-6.0	-5.2	-2.9	-3.1	-3.0	-2.8	-2.7	-1.7	-0.5	1.1	-2.7
Revenue and grants	14.8	16.4	18.0	19.5	19.0	18.8	18.9	18.9	18.8	18.8	18.8	16.1	18.9
of which: grants	0.9	1.7	0.9	1.5	1.2	1.1	1.1	1.0	1.0	1.0	1.0		
Primary (noninterest) expenditure	13.0	15.6	12.0	14.3	16.1	15.7	15.9	16.0	16.2	17.1	18.4	17.3	16.2
Automatic debt dynamics	22.4	-9.1	-12.2	-4.0	-3.5	-2.4	-1.9	-1.5	-1.4	-1.0	-0.4		
Contribution from interest rate/growth differential	-7.5	-7.9	-5.7	-4.0	-3.5	-2.4	-1.9	-1.5	-1.4	-1.0	-0.4		
of which: contribution from average real interest rate	-5.5	-3.8	-1.2	0.0	0.0	0.5	0.5	0.4	0.3	0.4	0.6		
of which: contribution from real GDP growth	-2.0	-4.1	-4.5	-4.0	-3.5	-2.9	-2.3	-1.9	-1.8	-1.4	-0.9		
Contribution from real exchange rate depreciation	29.9	-1.2	-6.6	...	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	2.9	3.0	3.5	-4.2	1.5	-0.4	-0.2	0.3	0.9	0.6	-0.3	2.7	0.2
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	88.6	76.3	72.6	67.1	62.3	58.5	55.5	44.0	28.3		
PV of public debt-to-revenue and grants ratio	...	...	492.5	390.3	382.9	356.4	329.4	310.1	295.1	233.5	150.4		
Debt service-to-revenue and grants ratio 3/	39.1	61.0	47.1	61.6	41.1	44.9	45.0	39.1	36.3	24.0	25.1		
Gross financing need 4/	4.0	9.2	2.5	6.8	5.0	5.4	5.5	4.5	4.2	2.8	4.3		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	2.3	3.7	4.3	4.5	4.5	4.0	3.5	3.0	3.0	3.0	3.0	4.4	3.4
Average nominal interest rate on external debt (in percent)	1.3	1.6	2.6	3.2	2.4	2.8	2.9	2.9	2.9	3.2	4.0	2.1	2.9
Average real interest rate on domestic debt (in percent)	-10.1	-16.2	-11.5	-4.1	-3.8	-2.9	-3.6	-4.4	-6.4	-6.3	-1.6	-2.1	-5.1
Real exchange rate depreciation (in percent, + indicates depreciation)	40.6	-1.3	-7.1	...	...	...	...	...	...	...	...	6.0	...
Inflation rate (GDP deflator, in percent)	17.6	24.7	17.1	7.6	6.8	5.3	5.4	5.7	7.4	8.3	8.2	8.0	7.3
Growth of real primary spending (deflated by GDP deflator, in percent)	-8.5	24.3	-19.7	25.1	17.4	1.5	4.5	4.0	3.9	4.2	3.7	-1.9	7.0
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-25.3	6.1	8.8	8.2	2.0	2.9	2.1	1.2	0.5	0.3	0.7	-3.5	1.7
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, government-guaranteed debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

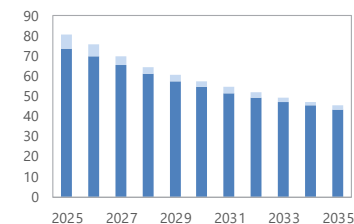
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (-): a primary surplus, which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

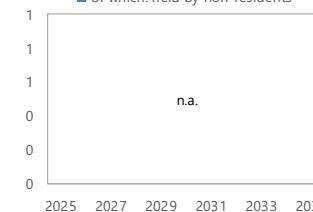
Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	Yes

Public sector debt 1/

■ of which: local-currency denominated
■ of which: foreign-currency denominated



■ of which: held by residents
■ of which: held by non-residents



2025 2027 2029 2031 2033 2035

Table 3. Lao PDR: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2025–2035

(in percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to GDP Ratio											
Baseline	69	66	62	58	54	51	48	46	44	43	41
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	69	75	80	83	86	88	91	95	98	101	103
B. Bound Tests											
B1. Real GDP growth	69	68	67	62	59	55	52	50	48	46	44
B2. Primary balance	69	69	71	67	65	62	60	58	57	55	53
B3. Exports	69	74	80	76	72	69	66	63	61	58	56
B4. Other flows 3/	69	69	68	64	60	57	54	52	50	48	46
B5. Depreciation	69	83	77	72	68	64	60	57	55	53	51
B6. Combination of B1-B5	69	74	73	68	65	62	58	56	54	52	50
C. Tailored Tests											
C1. Combined contingent liabilities	69	82	81	78	77	75	74	74	73	72	71
C2. Natural disaster	69	68	64	60	57	54	52	50	48	47	45
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	69	73	69	65	61	57	54	52	49	48	46
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of Debt-to-Exports Ratio											
Baseline	94	96	92	88	84	80	75	72	69	66	64
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	94	110	119	126	133	138	142	147	152	157	161
B. Bound Tests											
B1. Real GDP growth	94	96	92	88	84	80	75	72	69	66	64
B2. Primary balance	94	100	105	103	100	97	93	90	88	86	83
B3. Exports	94	111	131	126	122	118	112	108	103	99	95
B4. Other flows 3/	94	100	101	97	93	89	84	81	78	74	71
B5. Depreciation	94	96	91	87	83	79	74	71	68	66	63
B6. Combination of B1-B5	94	106	101	105	101	97	92	88	84	81	77
C. Tailored Tests											
C1. Combined contingent liabilities	94	120	121	119	118	117	115	115	113	112	110
C2. Natural disaster	94	101	98	94	90	87	82	79	77	74	72
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	94	96	92	88	85	80	76	72	69	66	64
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt Service-to-Exports Ratio											
Baseline	15	10	11	12	11	11	9	8	7	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	15	11	13	14	14	14	14	13	13	14	15
B. Bound Tests											
B1. Real GDP growth	15	10	11	12	11	11	9	8	7	7	7
B2. Primary balance	15	10	12	13	12	12	10	9	9	8	8
B3. Exports	15	11	14	15	14	13	12	11	11	10	10
B4. Other flows 3/	15	10	12	12	11	11	10	9	8	8	8
B5. Depreciation	15	10	11	12	11	11	9	8	7	7	7
B6. Combination of B1-B5	15	11	13	13	13	12	11	9	9	8	8
C. Tailored Tests											
C1. Combined contingent liabilities	15	10	12	13	13	12	11	10	9	9	9
C2. Natural disaster	15	11	12	12	12	11	10	8	8	7	7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	15	10	12	12	12	11	10	7	7	7	7
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt Service-to-Revenue Ratio											
Baseline	59	39	43	44	40	38	33	28	25	25	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	59	41	49	53	52	52	49	47	47	50	53
B. Bound Tests											
B1. Real GDP growth	59	41	46	47	43	41	36	31	27	27	26
B2. Primary balance	59	39	44	47	43	41	37	33	31	30	30
B3. Exports	59	41	47	50	47	44	39	36	35	34	34
B4. Other flows 3/	59	39	44	45	42	40	35	31	29	28	27
B5. Depreciation	59	49	54	55	50	48	42	36	32	31	30
B6. Combination of B1-B5	59	41	48	49	46	43	38	34	31	30	30
C. Tailored Tests											
C1. Combined contingent liabilities	59	39	47	49	46	44	40	35	33	32	32
C2. Natural disaster	59	39	43	44	41	39	34	29	26	25	25
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	59	39	44	46	43	41	36	27	25	24	25
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. Lao PDR: Sensitivity Analysis for Key Indicators of Public Debt, 2025–2035

(In percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to-GDP Ratio											
Baseline	76	73	67	62	59	56	53	50	48	46	44
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	76	76	72	70	68	67	68	68	68	69	69
B. Bound Tests											
B1. Real GDP growth	76	76	74	71	68	66	64	63	62	61	60
B2. Primary balance	76	80	85	80	76	73	70	68	66	63	61
B3. Exports	76	78	81	77	73	70	67	64	61	59	56
B4. Other flows 3/	76	76	73	68	65	62	59	56	54	51	49
B5. Depreciation	76	88	81	74	70	66	62	59	56	53	51
B6. Combination of B1-B5	76	76	77	73	69	66	63	60	58	56	53
C. Tailored Tests											
C1. Combined contingent liabilities	76	114	107	102	98	95	92	90	87	85	83
C2. Natural disaster	76	77	72	67	63	61	58	56	54	52	50
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	76	73	67	63	59	56	53	51	48	46	44
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	390	383	356	329	310	295	281	268	256	244	234
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	390	400	386	369	360	360	362	364	366	368	369
B. Bound Tests											
B1. Real GDP growth	390	402	393	371	358	349	341	334	328	323	319
B2. Primary balance	390	422	449	422	403	389	374	361	349	337	326
B3. Exports	390	410	432	404	385	371	357	342	327	312	297
B4. Other flows 3/	390	399	389	361	342	328	313	299	286	273	260
B5. Depreciation	390	465	430	395	370	351	332	315	299	284	270
B6. Combination of B1-B5	390	403	412	384	365	350	335	321	308	296	284
C. Tailored Tests											
C1. Combined contingent liabilities	390	598	569	539	520	506	490	477	465	453	442
C2. Natural disaster	390	405	380	353	335	321	308	296	285	275	266
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	390	383	357	331	312	297	282	269	256	245	234
Debt Service-to-Revenue Ratio											
Baseline	62	41	45	45	39	36	32	29	26	25	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	62	41	44	44	38	36	34	33	33	35	37
B. Bound Tests											
B1. Real GDP growth	62	43	49	51	46	44	41	39	37	37	37
B2. Primary balance	62	41	55	63	55	53	49	47	43	40	40
B3. Exports	62	41	46	49	43	40	35	34	33	32	31
B4. Other flows 3/	62	41	46	47	41	38	33	31	29	28	27
B5. Depreciation	62	44	54	56	51	48	43	40	36	35	34
B6. Combination of B1-B5	62	40	49	56	48	45	41	38	35	32	30
C. Tailored Tests											
C1. Combined contingent liabilities	62	41	94	81	75	74	71	68	56	52	50
C2. Natural disaster	62	42	49	49	43	41	37	34	30	29	28
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	62	41	46	47	42	39	34	27	26	24	24

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

**Statement by Mr. Idwan Hakim, Executive Director to Lao People’s Democratic Republic,
Mr. Kaweevudh Sumawong, Alternate Executive Director,
and Ms. Evelyn Chen, Advisor to Executive Director
February 13, 2026**

INTRODUCTION

The Lao authorities express their sincere appreciation to the IMF mission team, led by Ms. Angana Banerji, for the candid and constructive policy discussions during the 2025 Article IV consultation. The authorities are encouraged by staff’s positive assessment of Lao’s recent economic developments and value the mission’s engagements and analytical contributions toward further strengthening economic resilience amid heightened global uncertainty. They broadly agree with the assessments and recommendations, while maintaining a more optimistic medium-term outlook.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

The Lao economy is estimated to grow by 4.6 percent in 2025, attaining an average growth of 4.2 percent over the last five years. Lao PDR is on track to graduate from *Least Developed Country* status in November 2026. Growth was supported by strong electricity exports, construction, tourism, and sustained FDI inflows, with momentum expected to continue into 2026. The government remains committed to fostering sustainable, resilient growth with the objective of achieving upper middle-income status by 2035. Under the draft 10th National Socio-Economic Development Plan (NSEDPlan) for 2026–2030, the authorities target an average annual growth rate of 6 percent over the next five years—supported by expanded hydropower production and exports, increased remittances, as well as major infrastructure and logistics improvements that will enhance regional economic connectivity and boost tourism.

Inflation has declined significantly—from a peak of 31.2 percent in 2023 to 7.7 percent in 2025—reflecting effective monetary tightening and reforms. The Lao Kip has stabilized, and foreign exchange reserves have continued to strengthen.

Despite this progress, the authorities recognize that important challenges remain. They reaffirm their commitment to safeguarding recent gains and strengthening economic resilience. Their policy efforts will continue to focus on ensuring fiscal sustainability, improving public debt management, bolstering macro-financial buffers, and advancing structural reforms to support more durable and inclusive growth.

Fiscal Policy and Debt Management

Sustained efforts in revenue mobilization and expenditure rationalization have resulted in consistent primary budget surpluses over the past five years. The overall surplus is projected at 0.7 percent of GDP in 2025, and the authorities target at least 1 percent of GDP surplus annually, under the 10th NSEDP.

The government is intensifying its revenue mobilization efforts, aiming to increase domestic revenues to at least 20 percent of GDP over the next five years. Measures include broadening the value-added and excise tax base, modernizing tax and customs administration systems to enhance compliance and collection, and considerations for further incremental increases in alcohol and tobacco excise taxes. Expected improvements in economic activity, particularly from expanded hydropower exports, will further support revenue performance. Recognizing the benefits of centralizing the Large Taxpayers' Office, the authorities are carefully evaluating implementation feasibility, including lessons from international experiences. Meanwhile, efforts to strengthen tax administration—including at provincial levels—are underway.

On expenditure, the government has set a ceiling of 20 percent of GDP, comprising 13 percent for current spending and 7 percent for capital expenditure in the next 5 years. The ongoing transition to a Treasury Single Account by end-2026 will enhance oversight and improve cash-flow management. Civil service restructuring is underway to streamline operations and improve efficiency, while civil servant wage adjustments implemented in January 2026 aimed to help mitigate real income erosion and support staff retention. The wage bill will be capped at 40 percent of domestic revenue. The authorities stand ready to adjust tax policies further to maintain the fiscal surplus target.

Public debt declined from its peak of 112 percent of GDP in 2022 to 82 percent of GDP at end-2025, supported by strong growth, real effective exchange rate appreciation, fiscal adjustments, and continued debt repayments. **Improvements in sovereign creditworthiness**—reflected in upgraded ratings by Moody's, S&P, and Fitch (with positive rating outlooks from both Moody's and S&P) in Q4 2025—underscore progress in debt management. The successful issuance of a USD300 million bond in November 2025 further indicates improved access to international markets. The authorities remain optimistic about debt sustainability given continued fiscal discipline, enhanced market access, strengthened creditor engagement, alongside their intent to put public debt on a firm downward trajectory to below 70 percent of GDP by 2030. Capacity development support from the Fund will continue to assist efforts to enhance revenue and customs administration, as well as asset-liability and debt management.

Monetary and Exchange Rate Policy

Monetary tightening and ongoing reforms have been instrumental in bringing inflation under control over the past two years. Maintaining price stability remains a priority under the 10th NSEDP, with the Bank of the Lao PDR (BOL) aiming for inflation within the new narrower target range of 5±2 percent. To ease monetary conditions and support economic activity, the BOL lowered the 7-day benchmark interest rate from 9 percent to 8.5 percent in November 2025. The authorities will continue monitoring inflationary pressures—including those from electricity tariff adjustments and the public wage bill increase—and stand ready to refine policy instruments as needed. These include the policy rates, reserve requirements, and short-term BOL bond issuances. Efforts to strengthen inflation monitoring and analysis include an inflation expectations survey within the first half of 2026, CPI rebasing within this year, and expansion of the CPI basket coverage by 2028.

FX management policies have also supported macroeconomic stability. The BOL will maintain a managed exchange rate system, retaining the ±6.5 percent trading band for commercial banks while allowing greater flexibility in the daily reference rate. FX measures such as repatriation and mandatory conversion requirements have bolstered FX liquidity in the banking system and supported reserves accumulation by more than 60 percent, from USD

2.1 billion in December 2024 to USD 2.8 billion in September 2025, and further to USD 3.5 billion in December 2025. The BOL will periodically review these measures to ensure they remain appropriate and will continue to closely monitor exchange rate developments while further developing policy tools to promote exchange rate stability. In this context, the recent CD support aimed at strengthening monetary and FX operations has been particularly valuable.

Financial Sector Policy

The banking sector remains stable and well-capitalized, with the system-wide Capital Adequacy Ratio (CAR) standing at 17.6 percent as of June 2025, well-above regulatory requirements. Profitability indicators remain sound, with return on equity at 15.2 percent and return on assets at 1.3 percent, as of Q2 2025. Recognizing variations in capital adequacy across institutions, the BOL will continue to require undercapitalized banks to strengthen their buffers. Liquidity coverage ratio requirements, introduced in 2024, are being gradually phased in over five years to allow banks sufficient time to build adequate liquid reserves. The non-performing loan (NPL) ratio remains below the 3 percent threshold. COVID-related regulatory forbearance has been fully withdrawn, though legacy effects will take time to unwind. Loans under forbearance remain below 4.7 percent of banks' portfolios as of June 2025. The BOL is updating regulations to align loan-loss provisioning with IFRS 9 and is reviewing the NPL ceiling—as recommended by IMF staff—with a view to

adjusting it upward. The authorities look forward to the forthcoming Financial Stability Sector Review and welcome Fund support in aligning financial soundness assessments with international standards.

The authorities remain firmly committed to further strengthening the AML/CFT regime. The assessments for eight recommendations on technical compliance have been upgraded following improvements to the legal framework. The authorities continue to work closely with the FATF and Asia/Pacific Group on Money Laundering to enhance effectiveness—particularly in the areas of risk-based supervision and enforcement. These efforts are aligned with the FATF action plan and aimed at supporting the country’s objective of exiting the grey list by 2027.

Structural Reforms

The authorities recognize the critical role of structural reforms in enhancing growth and resilience. The 10th NSEDP outlines an ambitious, people-centered reform agenda, focused on economic diversification, human capital development, climate resilience, environmental sustainability, and governance improvements. These priorities will be supported through strengthened revenue mobilization and administration, improved expenditure efficiency, and enhanced access to sustainable and diversified financing.

Governance reforms are gaining momentum. The State Inspection Authority has strengthened legal and regulatory frameworks, deepened cooperation with domestic and international partners, and enhanced staff capacity. Implementation of the 2025–2035 Anti-Corruption Strategy is progressing, with efforts centered on prevention, enforcement, and asset-recovery. The government is undertaking a major decentralization effort under the *Sam Sang* (Three Builds) initiative by strengthening local governments for improved public administration with enhanced governance. The authorities are also in the process of transitioning public administration to digital platforms, which will reduce corruption risks and enhance efficiency.

The authorities acknowledge the importance of high-quality statistics for effective policy-making. They reaffirm their commitment to data improvement and welcome continued Fund support. Ongoing efforts to modernize tax and customs administration will support improvements in data collection and quality. Work to enhance the quality of IIP data—through surveys with the World Bank’s support for more comprehensive coverage—is underway, and the authorities intend to share this data once improvements have been made.

CONCLUSION

The Lao economy has achieved greater macroeconomic stability in recent years. The authorities remain committed to consolidating these gains, advancing structural reforms, and realizing their long-term development aspirations, including attaining upper middle-income status by 2035. They greatly appreciate the IMF's constructive engagement and strong capacity development support and look forward to continued collaboration.