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ECONOMIC AND POLITICAL OVERVIEW

ECONOMIC OVERVIEW



Laos is a rather poor country compared to its neighbors but has experienced very strong growth in recent years (averaging just below 8% in the decade before the pandemic, driven by the exploitation of its mining and hydroelectric resources), placing the country among the fastest-growing economies in the world. Nevertheless, Laos' economy was severely affected by the global crisis caused by the COVID-19 pandemic, with GDP growth turning negative in 2020. In 2023, the Lao economy sustained its recovery, with GDP growth estimated at 3.7%, a notable increase from the 2.3% recorded in 2022 (IMF). Economic growth was propelled by enhanced performance in tourism, transport and logistics services, and foreign investment. Nonetheless, the growth rate fell short of initial expectations due to several factors, including the depreciation of the kip, inflationary pressures, labor scarcities, and adverse weather conditions. In the medium term, economic expansion is forecasted to hover around an average of 4.2%, primarily propelled by the services sector and exports. Strengthening global demand, alongside enhanced connectivity and logistics services in Laos, is anticipated to bolster manufacturing and agricultural exports. Additionally, investments in the power sector and special economic zones could further bolster the industry.

The Lao People's Revolutionary Party is the only allowed party in the country and has been governing since 1975. It has a Marxist-Leninist ideology and controls most of the political and economic aspects of the society, with no real organized opposition. In the first half of 2023, the government implemented measures to enhance its financial position by managing expenditures and boosting domestic revenues. Despite reductions in value-added tax (VAT) and fuel excise rates, increased economic activity and price escalations helped offset these adjustments. To further bolster revenue streams, the government recently raised excise rates on vehicles, alcohol, and tobacco. Revenue levels, already below regional and income standards, decreased from 22% to 16% of GDP between 2014 and 2019 due to dwindling tax collection and foreign grants. Subsequently, they fell to 13% of GDP in 2020 amidst the COVID-19 pandemic but rebounded to 15% in 2022, partly attributed to inflation (World Bank). Despite achieving a surplus in the first half of 2023, high debt repayments continue to constrain fiscal flexibility, hindering investments in human capital. Consequently, combined public spending on education and health has decreased from 4.9% of GDP in 2013 to an estimated 2.3% in 2023. The mounting public and publicly guaranteed (PPG) debt pose significant challenges to Laos' macroeconomic stability and development prospects. The nation grapples with solvency and liquidity issues due to substantial financing requirements, restricted financing avenues, meager foreign exchange reserves, and considerable depreciation pressures. The IMF estimated the debt-to-GDP ratio at 121.7%, with a reduction expected over the forecast horizon (114.7% by 2025). Inflation, projected at 28.1% in 2023, has escalated consumption expenses, leading to decreased household spending on essential areas such as food, education, and healthcare. This phenomenon has also eroded savings, posing a significant risk of pushing many households into poverty. The IMF expects inflation to decelerate to around 9% this year and 3% in 2025.

According to the World Bank, Laos is part of the lower tier of the 'middle-income countries' despite the fact that around 18.33% of the population continues to live below the poverty line. The level of education is low and the living conditions in rural areas (home to almost 65% of the active population) are precarious. Inequalities with the urban zones are widening, also. Unemployment in the country was estimated at around 3.8% of the total labor force in 2023 (World Bank, latest data available): although no reliable official figures are available, the ILO estimates that the share of informal employment in the country is among the highest in the world. The country's GDP per capita (PPP) was estimated at USD 9,387 in 2022 by the World Bank.

Main Indicators	2022	2023 (E)	2024 (E)	2025 (E)	2026 (E)
GDP <i>(billions USD)</i>	15.30	14.24	14.10	14.87	15.82
GDP <i>(Constant Prices, Annual % Change)</i>	2.3	4.0	4.0	4.1	4.2
GDP per Capita <i>(USD)</i>	2,047	1,879	1,834	1,909	2,005
General Government Gross Debt <i>(in % of GDP)</i>	128.5	121.7	118.8	114.7	111.1
Inflation Rate <i>(%)</i>	n/a	28.1	9.0	3.0	3.0
Current Account <i>(billions USD)</i>	-0.91	-0.37	-0.86	-1.15	-1.32
Current Account <i>(in % of GDP)</i>	-6.0	-2.6	-6.1	-7.7	-8.3

Country Risk

See the country [risk analysis](#) provided by [La Coface](#).

MAIN SECTORS OF INDUSTRY

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector <small>(in % of Total Employment)</small>	58.1	10.8	31.1
Value Added <small>(in % of GDP)</small>	14.6	33.6	41.2
Value Added <small>(Annual % Change)</small>	1.6	3.3	2.5

Source: World Bank - Latest available data.

Monetary Indicators	2016	2017	2018	2019	2020
Lao Kip (LAK) - Average Annual Exchange Rate For 1 USD	8,129.06	8,351.53	8,489.24	8,989.20	9,045.79

Source: World Bank - Latest available data.

FOREIGN TRADE

Laos is not too open to foreign trade, which represents 41.1% of its GDP (WTO, 2020-2022 average). Although the country is implementing a process to open its economy, the state maintains restrictions on the import of certain goods such as chemical products and some types of medication. Timber and weapons cannot be exported, and special permits are required to export rice, rough diamonds, gold, and polished silver. Laos became a [member of the WTO](#) in February 2013. This membership was subject to the adoption of the commitments of the WTO, mainly setting a limit to customs duties, the partial or total opening of all sectors, respecting the regulations of the WTO regarding inspections before shipping, and adopting anti-dumping measures. In 2022, electricity comprised the largest portion of Laos’ total exports, amounting to USD 2.35 billion (28.7% of the total). Following electricity were mining products, encompassing gold, rubber, coffee, cassava, garments, and various agricultural goods. Conversely, the primary imported goods for Laos included fuel, vehicles and spare parts, machinery, steel, and plastic (data Ministry of Industry and Commerce).

In 2022, Thailand emerged as Laos' primary export destination, totaling USD 2.94 billion. Following Thailand were China (USD 1.64 billion), Vietnam (USD 1.35 billion), Australia (USD 395 million), and Cambodia (USD 185 million). Thailand also maintained its position as the leading source of imports, accounting for a total value of USD 3.37 billion, trailed by China (USD 1.64 billion) and Vietnam (USD 423 million), as reported by the Ministry of Industry and Commerce.

Laos has suffered a trade deficit for many years, but this trend had gradually reduced recently due to the steady growth of exports and the completion of infrastructure projects. Official governmental data indicates that the total bilateral trade between Laos and foreign countries in 2022 amounted to USD 15 billion. Of this total, exports were valued at USD 8.19 billion, while imports reached USD 6.8 billion, resulting in a positive trade balance for merchandise. Preliminary figures from the Lao Trade Portal show that, in 2023, the combined trade value of Laos' imports and exports totaled USD 15.5 billion, marking a 3.5% increase compared to the figures for 2022. The value of exports in 2023 reached USD 8.3 billion, reflecting a 3.5% increase year on year; conversely, imports in 2023 amounted to USD 7.1 billion (+5%).

Foreign Trade Values	2018	2019	2020	2021	2022
Imports of Goods <i>(million USD)</i>	6,315	6,272	5,370	6,275	7,244
Exports of Goods <i>(million USD)</i>	5,408	5,806	6,115	7,695	8,198
Imports of Services <i>(million USD)</i>	1,249	1,246	445	252	528
Exports of Services <i>(million USD)</i>	985	1,179	346	125	406

Source: World Trade Organisation (WTO) ; Latest available data

Foreign Trade Indicators	2017	2018	2019	2020	2021
Trade Balance <i>(million USD)</i>	-794	-907	-466	745	1,419
Trade Balance (Including Service) <i>(million USD)</i>	-1,130	-1,171	-533	645	1,293

Source: World Bank ; Latest available data

Foreign Trade Forecasts	2023	2024 (e)	2025 (e)	2026 (e)	2027 (e)
Volume of exports of goods and services (Annual % change)	10.1	3.0	-0.8	4.9	8.6
Volume of imports of goods and services (Annual % change)	2.6	6.9	8.1	6.3	5.1

Source: IMF, World Economic Outlook ; Latest available data

Note: (e) Estimated Data

International Economic Cooperation

Member of [ASEAN](#) (Association of South-East Asian Nations), [AFTA](#) and the [ASEAN - China Free Trade Area](#).

Member of [International finance corporation](#)

Member of [EAS](#) (East Asia Summit)