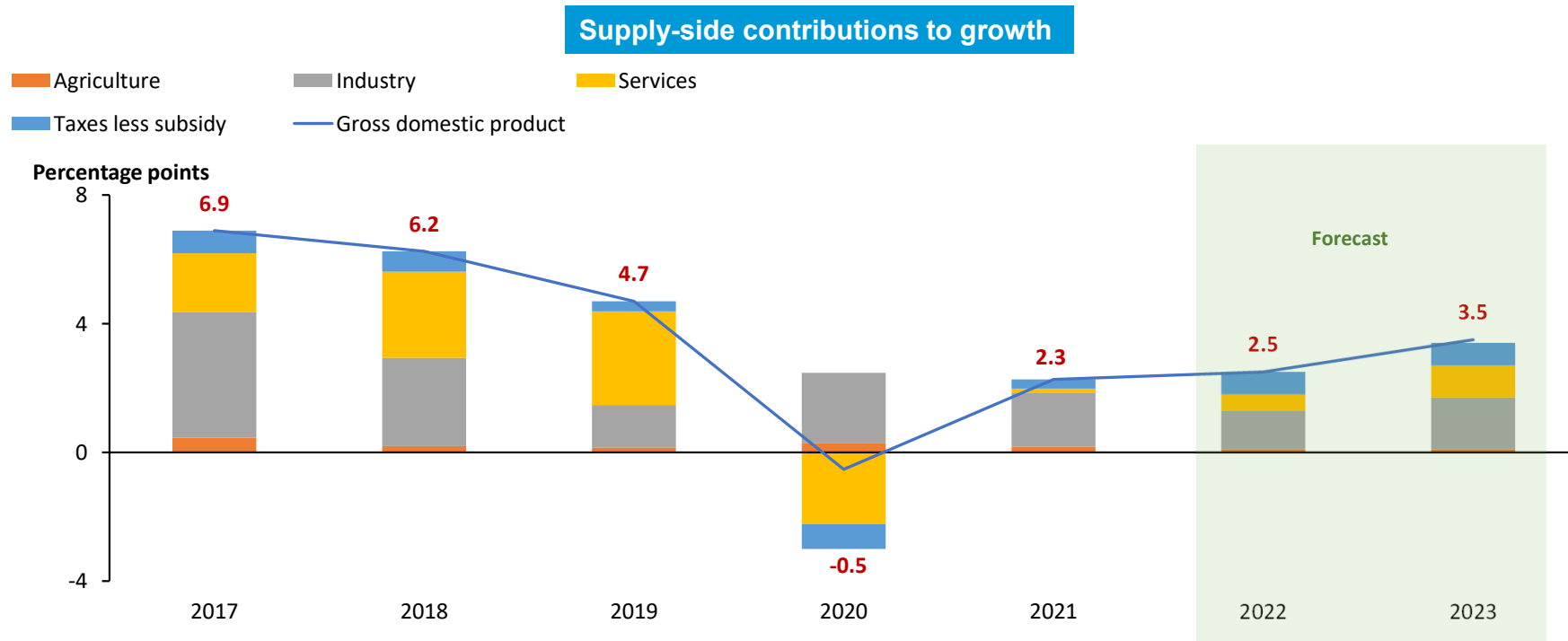


# **Lao PDR Debt Management Strategy**

**Mr. Soulivath Souvannachoumklam  
Director General, Public Debt Management Department,  
Ministry of Finance**

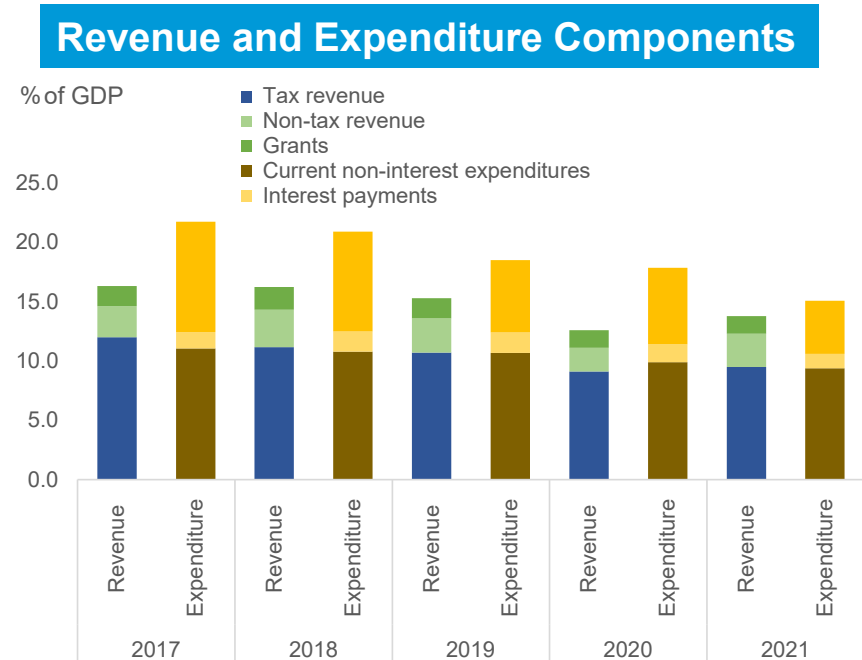
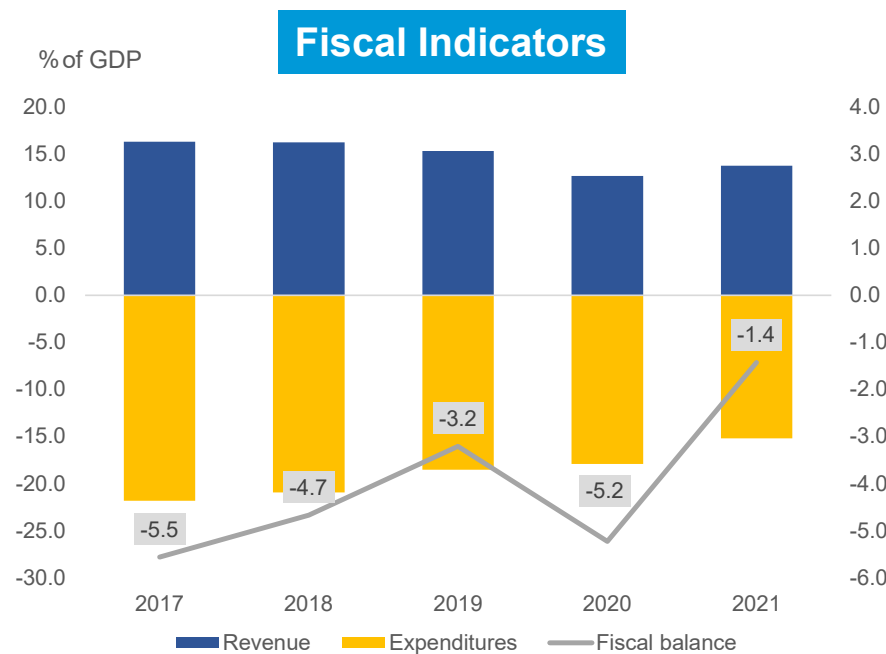
# Recovery progresses, but challenges mount from softening global demand



# Economic recovery is accompanied by gradual improvements in key fiscal indicators

*In 2021 increased revenues coupled with cuts to capital expenditure helped narrow the fiscal deficit to an estimate of 1.4% of GDP in 2021.*

*Tax revenue was estimated at 9.5% of GDP in 2021, up from 9.1% in 2020.*



# Economic recovery is accompanied by gradual improvements in key fiscal indicators

## Better enforcement of trade taxes

- implementing the instructions of the MoF to better manage revenue collection from imported goods.
- Facilitating process/mechanism to encourage and force micro, small, medium and large enterprises to introduce accounting system and hold accurate accounts in accordance with the law on accounting.
- issuing a single personal tax number, social security number card and ID card number whom work in Laos while creating a favorable mechanism to monitor individuals of personal tax payment.
- Accelerating the loyalty fees collection from natural resources, concession fees and export duties, which could be potential for revenue collection.
- Collaborating with the energy and mining sector to review mining companies that have been granted mining licenses and plans to export minerals.

## Increased digitalization of tax collection beginning to reap benefits

- Accelerating the tax collection from e-commerce and online trading.
- modernizing the revenue collection (public fees and service charges) by connecting fees and service charges system of line agencies with Tax Department system.
- Accelerating the mechanism for collecting land tax and income tax from the transfer of land titles through the banking system.
- Moving tax payment by micro-enterprises to mobile payment or through banking system.
- Launching a pilot phrase for some companies to mine digital assets.

# Economic recovery is accompanied by gradual improvements in key fiscal indicators

## Better enforcement of trade taxes

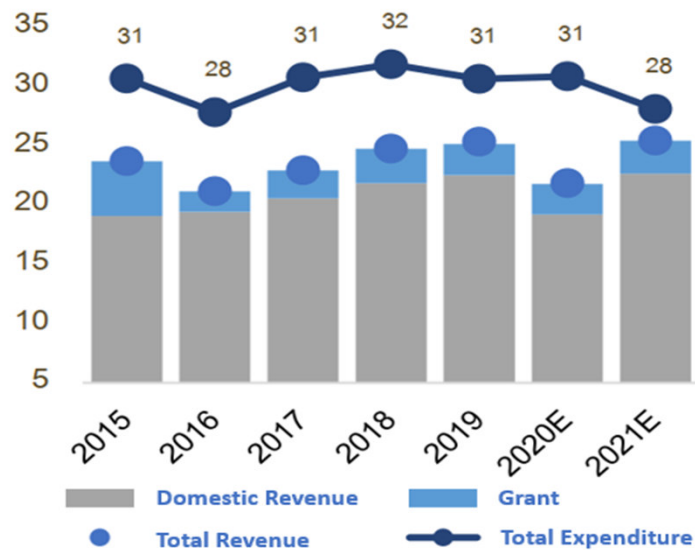
- Increasing the excise tax rate on some luxury goods to replace the lost revenue from the reduction of VAT rate from 10% to 7%.
- Exploring measures to reform SoEs operating at a loss, lacking liquidity by finding strategic business partners in Laos.
- Study and create new laws, such as the Law on Land and Property Tax, and the Law on Environmental Tax.
- Ensure connectivity of tracking system with that of dry-port warehouse operators providing transit and transport of freights linking with the railway in order to ensure the monitor and impaction.
- Focus on economic development along the railway to become a stable revenue base of the government.
- Promote domestic refining of oil to replace imports.
- lead more international tourism, which will help recover services, hotels, food businesses slightly.

## Increased digitalization of tax collection beginning to reap benefits

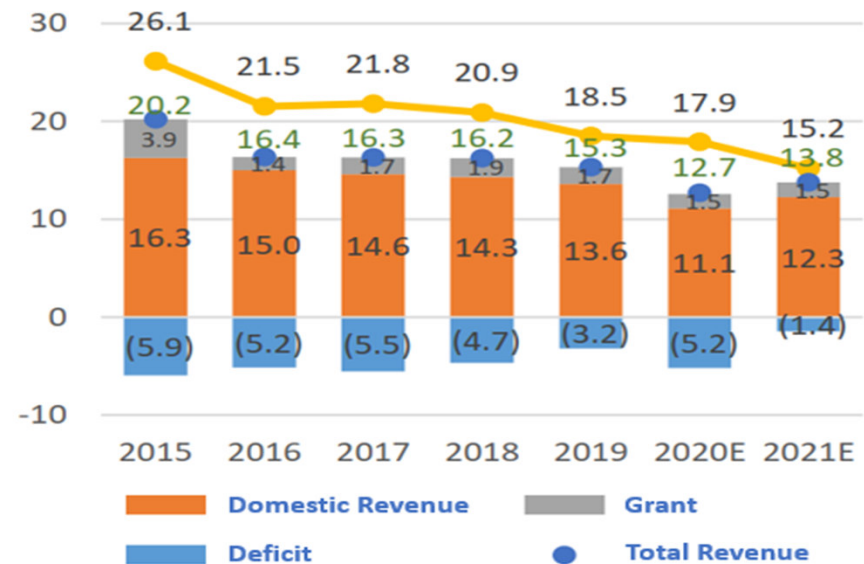
- Improve the management of special economic zones more strictly and connect the TaxRIS system to monitor the business units.
- Focus on the modernization and digitalization of the financial sector in a concrete way.

# We are on track to achieving planned revenue and tax effort targets in 2021

**Revenue and Expenditure Implementation in 2021 (Bil Kip)**

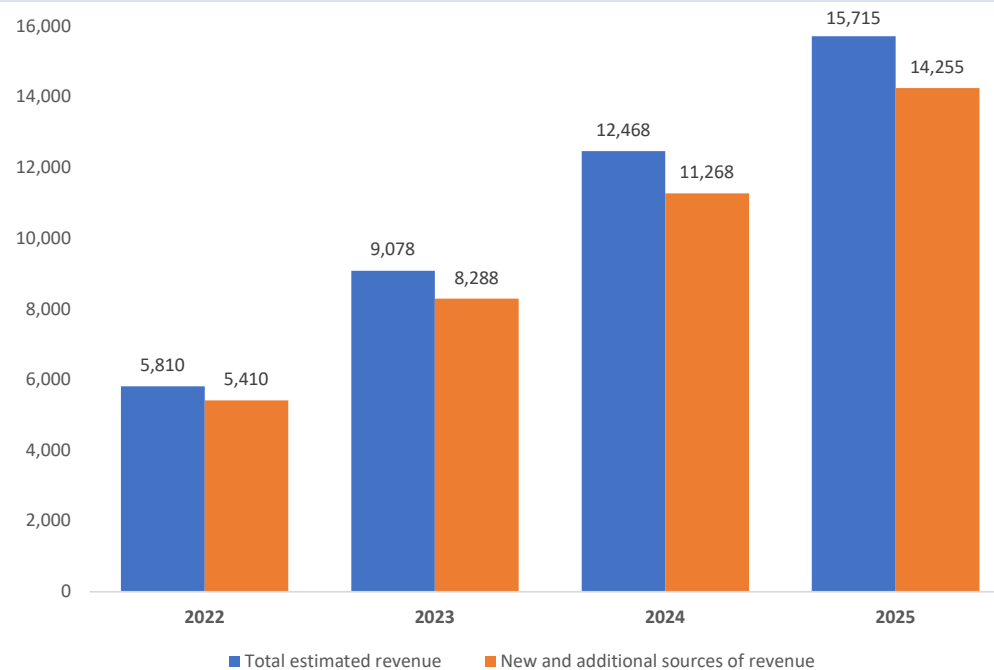


**Revenue and Expenditure Implementation in 2021 (%GDP)**



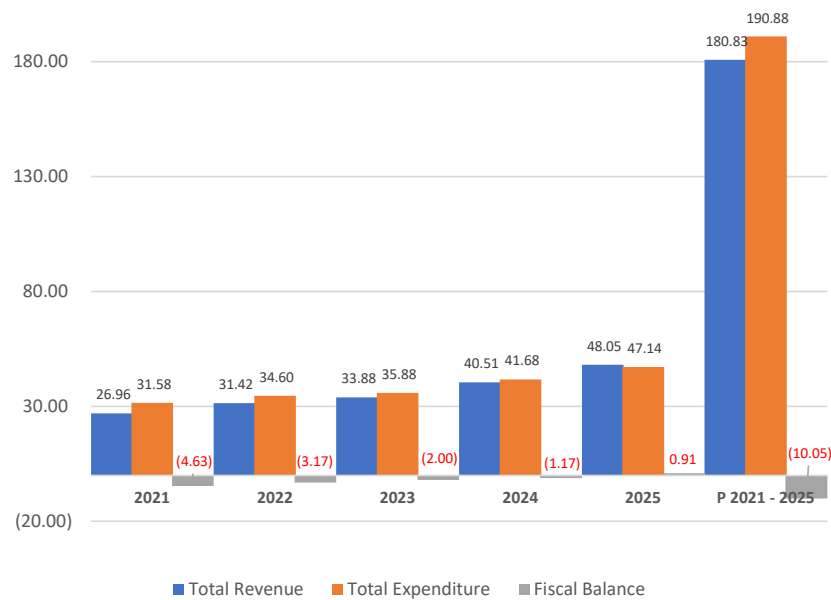
# We are on track to achieving planned revenue and tax effort targets in 2021

## Revenue projections from possible new revenue sources (from 2021 bases) and new measures and policy (Bil Kip)

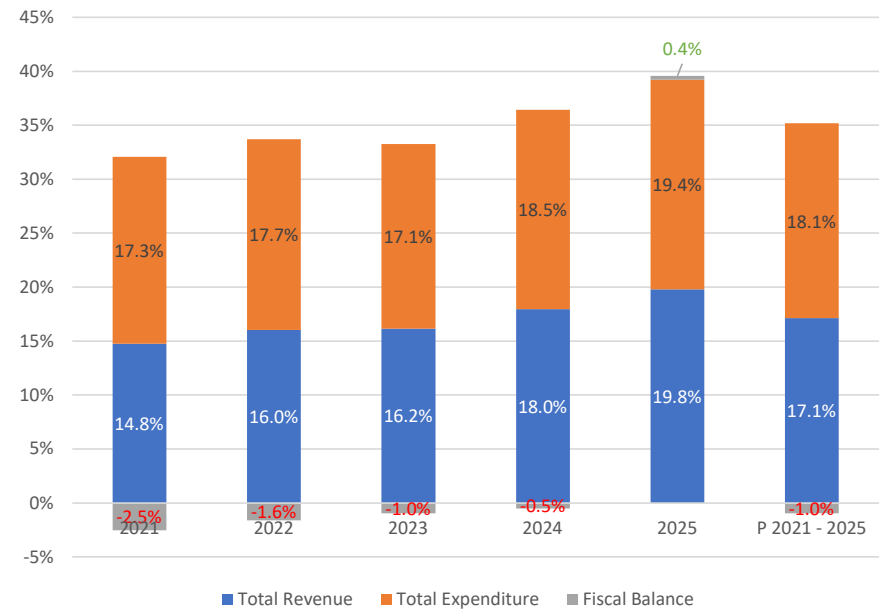


# Fiscal deficit for 2022 is targeted lower than the in 2021 as revenues growth outpace expenditures

## Projection of Fiscal Balance (Bil Kip)



## Projection of Fiscal Balance (%GDP)

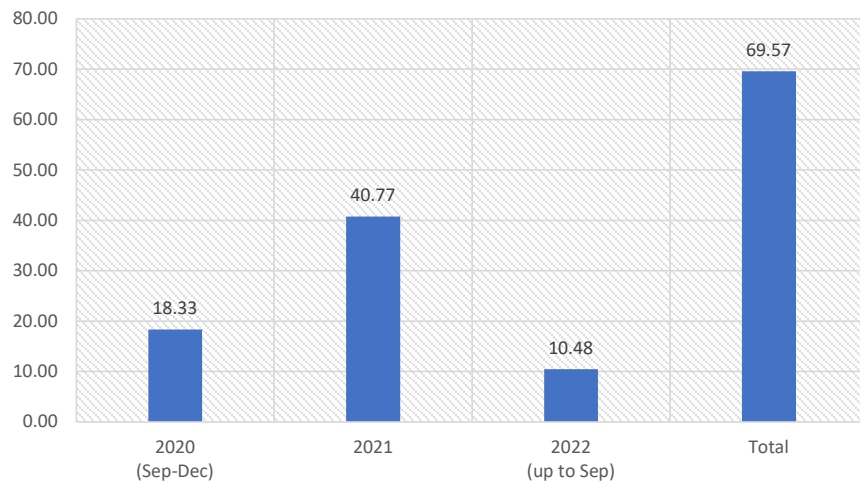




# Able to raise finance from the domestic market

## LSX government bonds in USD

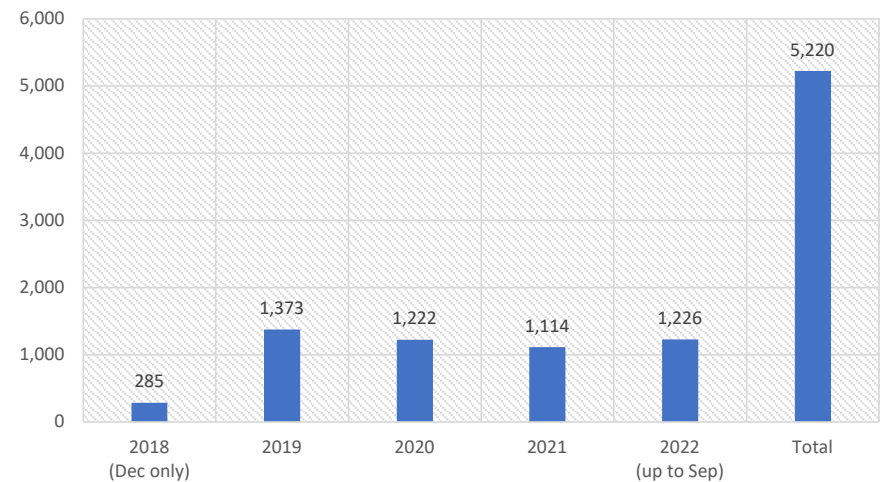
LSX Government USD-Bond Issuance (Million)



Tenor: 1-10 years  
Coupon: 5-8%

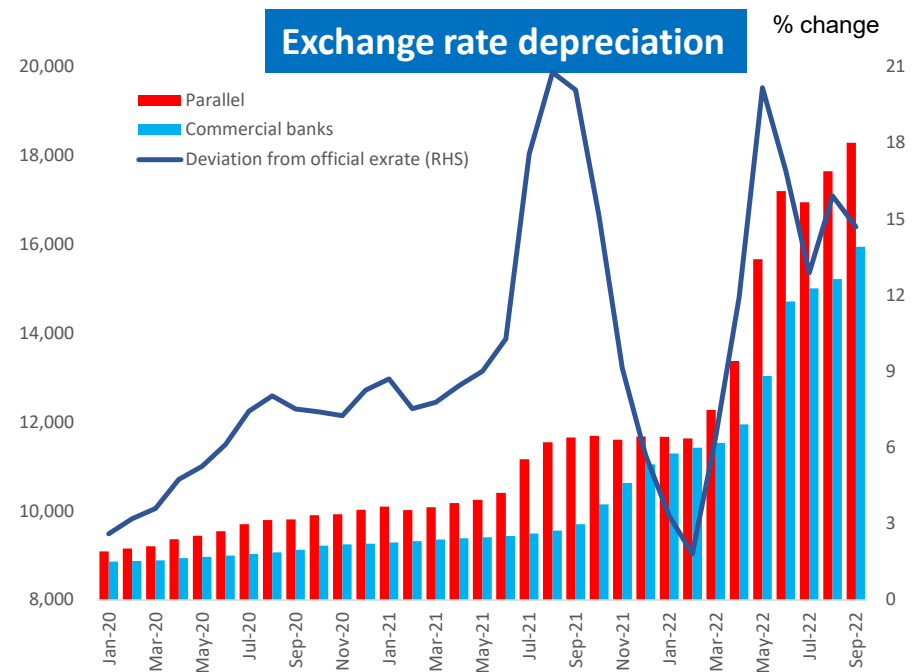
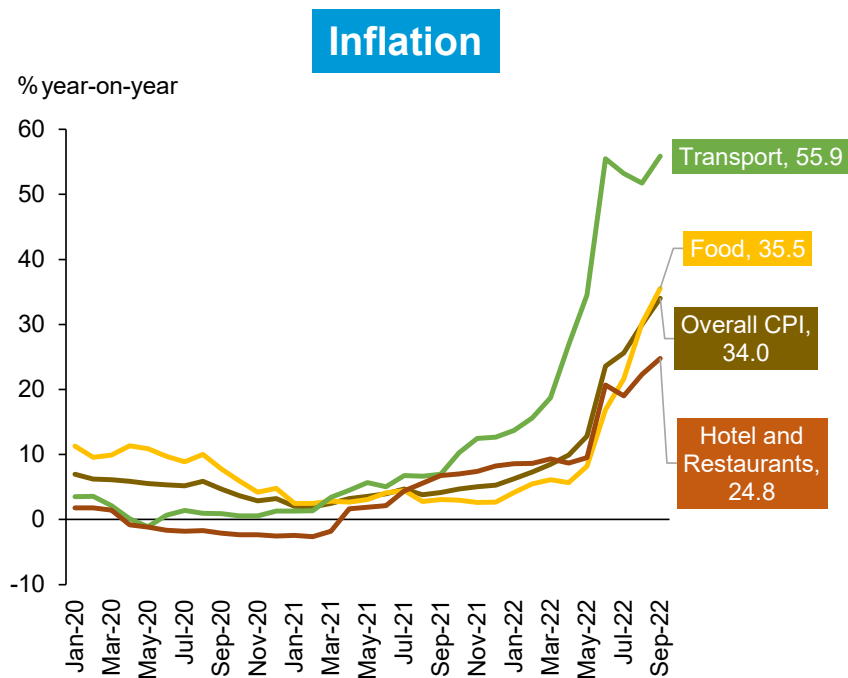
## LSX government bonds in Kip

LSX Government LAK-Bond Issuance (Billion)



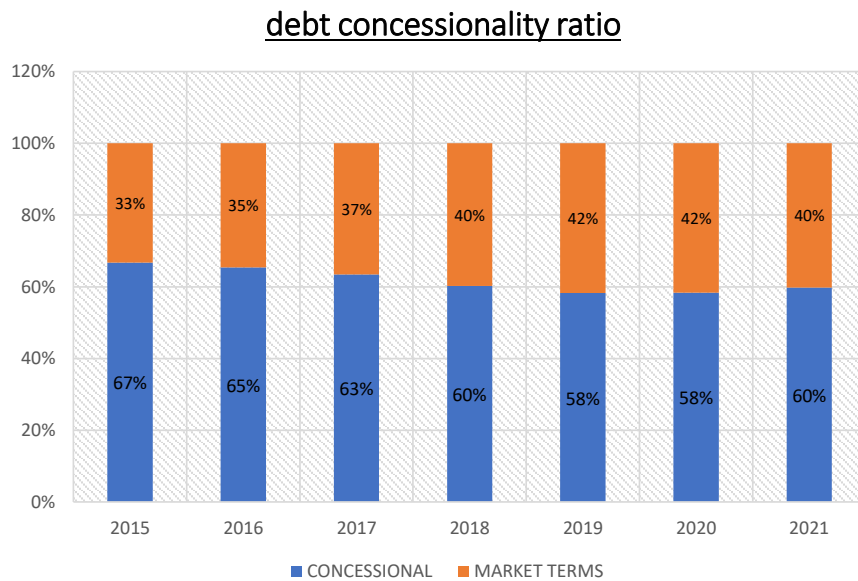
Tenor: 1-20 years  
Coupon: 5-8%

## Externally-driven inflation impact on financing (yield curve)

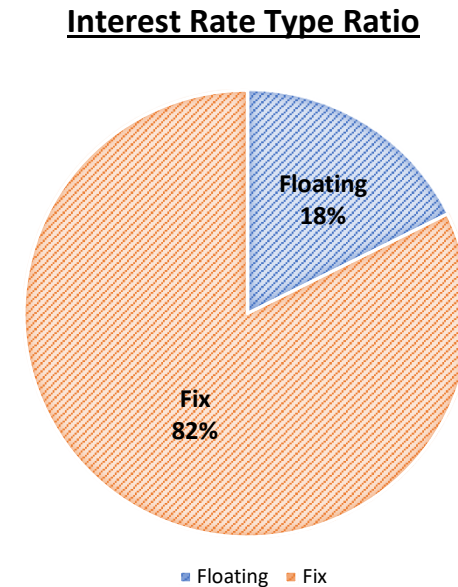


# Cost of debt remains manageable, with a high share of debt on concessional terms

## Share of concessional finance in borrowing



## Share of finance with fixed and variable interest rates



# Macroeconomic summary

- Economic recovery and Government Revenues are picking up
- However, imported inflation forcing to hike rates
- Market Liquidity is still ample, but investors continue to be off-risk due to US Fed rate hikes

# National Agenda for Addressing Economic and Financial Difficulties

Indicator	2020	2021 (Target)	2022 (Target)	2023 (Target)	Progress
GDP growth (%)	3.3	3.5	(4.0)	(4.0)	Off-track
Revenue mobilisation					
Domestic revenue (% GDP)	11.2	12.9 (13.6)	(13.8)	(15.0)	Off-track
Expenditure efficiency and debt management					
Fiscal deficit (% GDP)	5.2	1.3 (< 2.2)	(< 2.2)	(< 1.0)	On-track
Public debt, excl. guarantees (% GDP)	62.3	75.6		(< 64.5)	Off-track
External public debt, excl. guarantees (% GDP)	57.4	61.9		(< 55.4)	Off-track
Export promotion					
Current account balance (% GDP)	-1.2	2.4		(2.0)	At risk
Balance of payments position (% GDP)	1.7	-0.3 (> 0.0)	(> 0.0)	(> 0.0)	At risk
Foreign reserves (months of imports)	2.7	2.3 (≥ 3.0)	(≥ 3.0)	(≥ 3.0)	Off-track
Exchange rate premium (USD, end period, %) *	9.5	5.8		(< 2.0)	Off-track
Financial sector stability					
Non-performing loans (% total loans)	3.2	2.2 (≤ 3.0)	(≤ 3.0)	(≤ 3.0)	At risk
Capital adequacy ratio (%)	13.2	17.5 (> 8.0)	(> 8.0)	(> 8.0)	On-track
Return-on-equity (%)	12.0	11.6 (> 6.4)	(> 6.4)	(> 6.4)	On-track
Return-on-assets (%)	0.62	0.65 (> 0.28)	(> 0.28)	(> 0.28)	On-track
Depositors, 18+ years-old (% total population)	42	n/a		(60)	NA
SMEs with access to credit (% total SMEs)	23	n/a		(35)	NA

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# National Agenda for Addressing Economic and Financial Difficulties

Revenue Mobilization

Expenditure efficiency and debt management

Export promotion

Financial and monetary stability

Current focus: Medium-term borrowing will continue heavy domestic bias; debt to gradually consolidate

- **Transparency** in debt management and guarantee obligations, including Continuing to **Strengthen the Monitoring and Managing of Debt Related Risks**
- **Managing Debt to GDP ratio** by Setting the **Ceiling** of New non concessional Borrowing and setting a debt ceiling
- Continuing to Borrow Only for **Priority Sectors**
- Coordination of debt risk within the **Assets Liability Management framework**
- Continuing to **Strengthen the Efficiency of Public Investment Management**
- Continuing to **Implement Key Policy and Reform Programs**
- Continuing to **Strengthen Institutional and Human Resource Capacity**

Next steps:

- Optimization of **domestic financing sources**
- **Development of innovative financing**, such as green or blended financing options

# Debt Management Challenges:

Structural challenges and market uncertainties

## General and Bond Issuance Challenges

### Macroeconomic Condition

- *Shallow domestic financial market*
- *Current account deficit*

### Fiscal Policy

- **Fiscal Consolidation → Budget Deficit back to below 3% GDP in 2023 while Financing needs still remain High**

### Infrastructure

- **Inefficient intermediary function**
- **Low liquidity in secondary market**

### Supply & Demand

- *Limited absorption capacity of investors*
- *Low financial literacy and inclusion*

## External Loans Challenges

*Lower Middle-Income Country*

*Non-Concessional Borrowing Limit*

**Quality Improvement of Planning & Preparation**

**Acceleration of Foreign Loans Disbursement**

**Ensuring Technology Transfer**

**Optimizing Local Content**

# What has worked for us: domestic financing, diversification of external borrowing, and XXX

- Domestic market development is a priority
- Debt consolidation is hinged on maintaining favorable debt dynamics (i.e., growth exceeds interest rate of debt) and reduction of risk exposure to adverse scenarios