

SU/23/66

May 4, 2023

**The Acting Chair's Summing Up
Lao People's Democratic Republic—2023 Article IV Consultation
Executive Board Meeting 23/34
May 3, 2023**

Executive Directors agreed with the thrust of the staff appraisal. They noted that the post-pandemic recovery has been challenging, marked by the acceleration in exchange rate pressures, substantial increase in inflation rates, and a worsening public debt ratio. While the near-term growth outlook appears positive, large public financing needs and liquidity pressures pose significant downside risks. Against this background, Directors encouraged the authorities to press ahead with adjustment policies and governance reforms, supported by Fund technical assistance, to address macroeconomic imbalances and promote sustainable, inclusive, and more broad-based growth. Looking ahead, Directors encouraged the authorities to strengthen Fund engagement.

Directors emphasized the urgency of strengthening public finances and ensuring debt sustainability, given significant financing needs, difficult financing conditions, and large contingent liabilities. They welcomed the authorities' recent progress at balancing the primary budget, and called for further efforts toward a sustained, growth-friendly, and revenue-based consolidation, with spending prioritizing critical development and social needs. Directors considered that revenue measures should be focused on eliminating tax exemptions and reversing recent tax cuts, while paying particular attention to consistent application of taxes. Expenditure policies should be supported by comprehensive public financial management reforms, including for state-owned enterprises, to prevent further accumulation of arrears.

Directors agreed on the importance of continuing to tighten monetary conditions, given negative real rates and foreign exchange shortages. They noted the authorities' efforts to contain exchange market pressures, but cautioned against excessive reliance on administrative measures. Directors emphasized the need to strengthen the operational independence of the central bank and refrain from monetizing sovereign obligations.

Directors called for vigilance in light of risks and vulnerabilities in the financial sector. They advised strengthening banking regulation and supervision and building capital buffers to help address the solvency strains in the banking sector while calling for heightened monitoring of liquidity levels and contingency planning. Directors noted the injections of capital into two state-owned banks and welcomed the authorities' intention to end forbearance policies and implement corrective action measures in 2023.

Directors agreed that structural reforms are crucial to boost private sector development and durably sustain high growth rates. They called for measures to improve education and skills training and emphasized the urgency of improving governance and transparency. Directors welcomed progress on the AML/CFT regime and encouraged swift implementation of the Financial Action Task Force's mutual evaluation recommendations when published. They also urged progress on improving the quality, coverage, and timeliness of economic data.

It is expected that the next Article IV Consultation with Lao P.D.R. will be held on the standard 12-month cycle.