Lao Economic Monitor

Challenges in promoting more inclusive growth and shared prosperity

Thematic section:
Financing the Health Sector in Lao PDR

April 2017

Macroeconomic and Fiscal Management Global Practice
East Asia and Pacific Region

WORLD BANK GROUP

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 10, 2017)

Currency Unit = LAK (Lao Kip)

LAK 8,234 = US$1.00

FISCAL YEAR

January to December

ACRONYMS AND ABBREVIATIONS

AEC	ASEAN Economic Community
ASEAN	Association of Southeast Asian Nations
BOL	Bank of Lao PDR
BOP	Balance of Payments
COD	Commercial Operation Date
CPI	Consumer Price Index
DSA	Debt Sustainability Analysis
EAP	East Asia and Pacific Region
EDL	Electricité du Lao
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
GOL	The Government of Lao PDR
HC	Health Centers
HEF	Health Equity Fund
HFSA	Health Financial System Assessment
HRH	Human Resources for Health
IMF	International Monetary Fund
LNCCI	Lao National Chamber of Commerce and Industry
LSB	Lao Statistics Bureau
MCH	Mother and Child Health
MDG	Millennium Development Goals
MFI	Microfinance Institution
MNCH	Maternal, Neonatal and Child Health
MOF	Ministry of Finance
MOH	Ministry of Health
MOIC	Ministry of Industry and Commerce
MW	Megawatts
NA	National Assembly
NCD	Non-communicable diseases
NEER	Nominal Term Effective Exchange Rate
NFA	Net Foreign Assets
NHA	National Health Account
NPL	Non-Performing Loan
NSEDP	National Socio-Economic Development Plan
ODA	Overseas Development Assistance
OOP	Out-of-pocket expenditure by households
PIP	Public Investment Projects
PPG	Public and Public Guaranteed Debt
PV	Present value
RDF	Revolving Drug Fund
REER	Real Effective Exchange Rate
SDG	Sustainable Development Goals
SEZ	Special Economic Zones
SOCBs	State-Owned Commercial Banks
SOE	State-Owned Enterprise
TB	Tuberculosis
UHC	Universal Health Coverage
UK	United Kingdom
VAT	Value Added Tax
WBG	World Bank Group
WDI	World Development Indicator
WEO	World Economic Outlook
WHO	World Health Organization
YOY	Year on year

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Executive Summary

1. The Lao economy is estimated to have grown at around 7 percent in 2016, a slight moderation from 7.4 percent in the previous year. A marked increase in power sector contribution and some from the manufacturing sector was partly offset by slight moderation in construction, flat mining output, and stable public spending. Around 1,350MW of installed capacity was estimated to have come on stream in 2016 increasing the installed capacity of the power system by more than 20 percent to above 6,000MW. Output in agriculture recovered following last year's drought. Recent investments in agriculture have also resulted in greater commercialization of the sector and increased exports. Output in manufacturing continued to expand, albeit from a low base and mostly confined to the Special Economic Zones. Construction activity remained resilient in 2016 supported by the pipeline power projects as well as real estate development. On the other hand, mining output remained largely flat as ongoing operations reached maturity and no new projects of a more significant size were initiated. The number of tourist arrivals declined in the nine months of 2016 mostly due to fewer arrivals from the region; however, the impact was offset partly by an increase in western tourists who typically stay longer and have higher spending per day.

2. Inflation pressures remain low, though prices increased faster in the second half of the year as oil prices recovered. The overall annual inflation averaged 1.8 percent in 2016 compared to 1.3 percent a year earlier as oil and food prices recovered toward year end. Food inflation averaged at 4.5 percent compared to 4.7 percent in the same period while core inflation was 1.1 percent in 2016.

3. The fiscal deficit widened significantly in FY15/16 due to a revenue shortfall. The deficit is estimated to have reached 6.2 percent in FY15/16, from below 4 percent of GDP in the previous two fiscal years. Revenues, as ratio to GDP, are expected to have declined to 19 percent of GDP in FY15/16 from about 23 percent in FY14/15 due to lower commodity and oil prices (affecting royalties and taxes on mining, and excises and import duties on oil), and moderating economic activity and imports. In response, the authorities canceled tax exemptions on fuel imports for investment projects and put increasing focus on administration. At the same time, spending cuts were less commensurate to the revenue shortfall, in part due to spending related to Lao PDR's ASEAN Chairmanship in 2016 with the expenditure to GDP ratio declining to 25 percent in FY15/16 from 27 percent in FY14/15.

4. The deficit was financed by increased public borrowing, pushing up total public debt stock and the risk of debt distress. The Government has increasingly resorted to bilateral and commercial borrowing. Total public debt outstanding was estimated around 68 percent of GDP in 2016, up from 66 percent of GDP in 2015 and 57 percent of GDP in 2011. In response, the 2016 Joint IMF-World Bank Debt Sustainability Analysis moved Lao PDR to high risk of debt distress. Furthermore, the issue of public sector arrears still remains. While the total stock of arrears is unclear, the Government has allocated 30 percent of annual capital spending to clear arrears.

5. Monetary policy was directed towards stimulating credit growth, with some success. The Bank of Lao PDR (BOL) further reduced the policy rate in August 2016 after the last reduction in July 2015. With limited effectiveness of the interest rate channel, at the same time, BOL also reduced the interest rate caps on kip deposit and lending rates. By September 2016, credit growth picked up to 21 percent year-over-year (y-o-y) compared to 17 percent y-o-y in last December. This was driven by increased lending to the industry, commerce and service sectors as well as consumer credits that compensated for a decline in credit to construction and transport sectors. Still, growth rates remain well below the unsustainable rates seen in the past few years of about 35 percent annually. Most recently, BOL relaxed the conditions on lending in foreign currencies to also include importers of some products in addition to exporters. BOL also provided long-term loans to some banks.

6. While the number of banking institutions and their assets increased, some banks still face inadequate capital and weak loan portfolios. Overall, the banking sector is profitable; however, only around one quarter of the banks have return on assets of around 2 percent and above. The authorities have announced plans for restructuring of two state-owned banks and have requested the weaker private banks to prepare plans to meet the minimum required capital levels over the medium term. Still, a stronger system is needed to deal with the challenges in the banking sector, including improving the disclosure of financial information and risks by commercial banks, enhancing market discipline, broadening the tools available for financial authorities to deal with distressed banks, strengthening the deposit insurance function.

7. Exchange rate policy remained focused on tight management of the kip/US dollar exchange rate. The official kip exchange rate depreciated against the US dollar and the Baht in the second half of the 2016. Nevertheless, the nominal effective exchange rate stabilized in 2016 compared to faster appreciation in 2015. With inflation pressures subdued, the appreciation of the real effective exchange rate moderated during 2016; however, the appreciation over the last five years is estimated to have reached about 30 percent. With insufficient buffers

to maintain the exchange rate regime and restrictions on foreign exchange by commercial banks, the kip came under pressures at the parallel market in the last quarter of 2016 with a 3-5 percent difference emerging between the official reference rate and the exchange rate at the exchange offices. Allowing greater flexibility of the exchange rate within the band and greater consideration of the exchange rate developments in key trading partners can help reduce the pressure on the reserves and the real appreciation of the Kip, but will also need to be accompanied with supportive monetary and fiscal policies.

8. **The current account deficit improved in 2016.** Higher exports of electricity and manufactures and lower fuel imports more than offset the impact of lower copper prices and the significant decline in timber exports in response to more stringent implementation of measures to reduce illegal logging. Foreign reserves were almost US$940 million in September 2016 and is expected to slightly increase by December but still cover less than 2 months of imports and about 25 percent of foreign currencies deposits implying limited buffers against shocks, particularly in the context of a tightly managed exchange rate of the kip to the US dollar.

9. **The economic prospects remain favorable overall.** GDP growth is projected to remain at around 7 percent in 2017 and 2018, supported by the healthy pipeline of power projects and growing opportunities for the non-resource sector resulting from closer ASEAN integration and efforts to improve the investment climate. Around 20 power plants are at different stage of construction with about 600 MW expected to come on stream over the next two years which are expected to continue to stimulate the domestic economy and to increase power exports. Recent trends in the rest of the economy are expected to continue. For example, tourism will benefit from improved air transport connectivity, retail trade will grow as regional franchises further expand, and recent entrants into the insurance sector are expected to result in deepening of the sector. The start of the construction of the railway line connecting Vientiane to the border with China (Lao-China railway) as part of the Kunming-Singapore railway will also add to domestic demand but also lead to widening of the fiscal and external balances. The fiscal deficit is projected to stabilize in 2017 resulting from the Government's effort in strengthening non-resource taxation, reviewing exemptions and improving public finance management. However, the borrowing to finance equity participation in the railway project will keep the fiscal deficit high.

10. **Fiscal consolidation and strengthened public debt management will help keep the debt burden sustainable.** The reduction in fiscal deficit will require a wider tax base (increasing some tax rates, introducing new revenue sources, eliminating exemptions) as well as improved

tax administration (updated tax payer registries, e-filling, tax audits and so on). On the expenditure side, it will require improving efficiency of public spending and preventing off-budget projects. On public debt management, the revised Budget Law increases the public debt reporting and analytical requirements, while the Public Debt Law, expected to be promulgated during 2017, will strengthen the role of the Ministry of Finance in managing public debt. Further efforts are needed to ensure increased awareness of risks of non-concessional borrowing and prioritization to ensure borrowing for priority and credible projects with highest rates of return. Adopting a medium-term debt strategy is a priority.

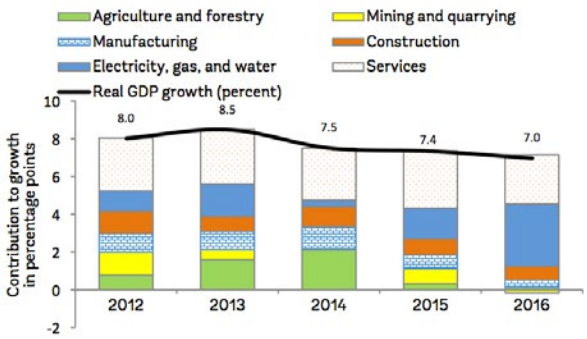
11. Risks have increased. The degree of uncertainty over the external outlook has increased considerably. Greater disturbances in the region in response to a growing list of potential triggers (economic policies in the US, evolution of the UK exit from the European Union, a more difficult rebalancing in China etc.) could affect Lao PDR's main economic partners and lower external demand and investment flows. Further weakening of copper, gold, coffee and rubber prices could lower mining and agriculture output, affect livelihoods negatively and put further pressure on fiscal accounts. Domestically, if not addressed, continued pressures on the exchange rate risk igniting inflation, testing the stability of the financial sector and sustainability of public debt. Sustainability of fiscal accounts can be tested in case the announced fiscal consolidation is derailed and if public debt management function is not upgraded promptly, including steps to limit the government's exposure to contingent liabilities (off-budget spending, cost overruns etc.). Similarly, failure to address weaknesses in the financial sector can trigger a larger risk to stability and create a significant fiscal burden that the budget cannot absorb. Also, the caps on commercial banks' interest rates may prevent banks from adequately pricing risk and result in exclusion of small-medium size borrowers who tend to have higher risks; a more robust financial system and stronger creditor rights are a more efficient way to improve the terms of financing provided by banks. Finally, to fully reap the benefits of its hydropower potential, Lao PDR needs to secure markets for the rapidly growing power generation and develop the required transmission systems or risks ending up with significant liabilities.

12. While the country has achieved strong economic development over the past decade, higher investment on human development, particularly on health services, has become one priority. The total health expenditure in Lao PDR is still characterized by low levels of Government spending leading to still high level of out-of-pocket (OOP) spending and reliance on external finance. The average health spending per capita is among the lowest in the region, which also resulted in slower progress in improving health outcomes such as maternal and child mortality. The high levels of OOP spending, which account for as high as 39 percent of total health spending in 2014, deter health service utilization by the poor, reduce the potential

redistributive capacity of the health financing system. Health sector financing is also reliant on external assistance, which has declined in its share in recent times. These have put a greater pressure on public financing and improving the efficiency in public spending on service delivery. To make greater progress toward attainment of Universal Health Coverage by 2025 in Lao PDR, a warranted increase in government spending on health services provision, particularly from domestic revenue sources, is essential for reducing the financial burden on households and the vulnerability associated with the uncertainty of external financing and external technical assistance.

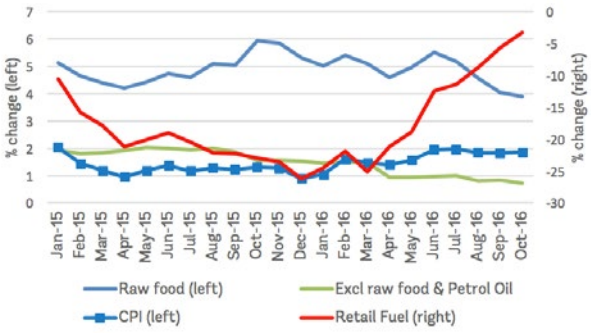
RECENT ECONOMIC DEVELOPMENTS IN BRIEF

Growth moderated in 2016. It is largely driven by the power sector and services.



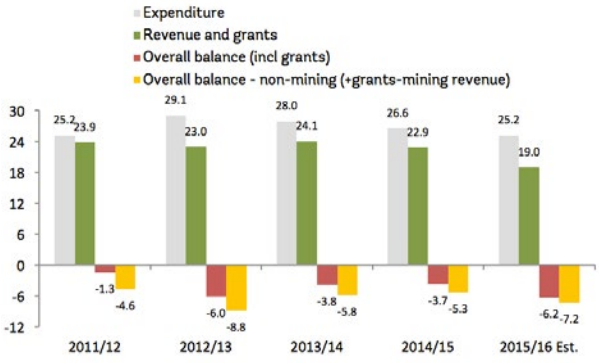
Source: Lao authorities and WB staff estimate

Low oil prices kept inflation lower than 2 percent in 2016.



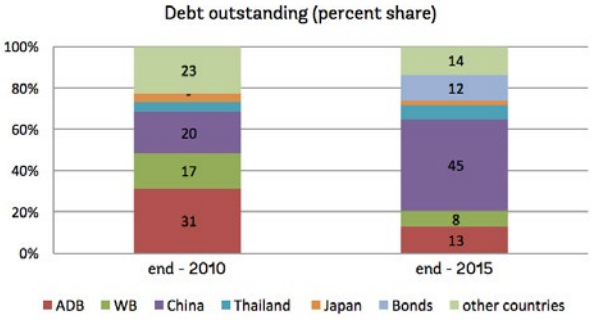
Source: Lao Statistics Bureau

Fiscal position worsened in FY15/16. The deficit has been increasingly financed by bilateral and less concessional sources.



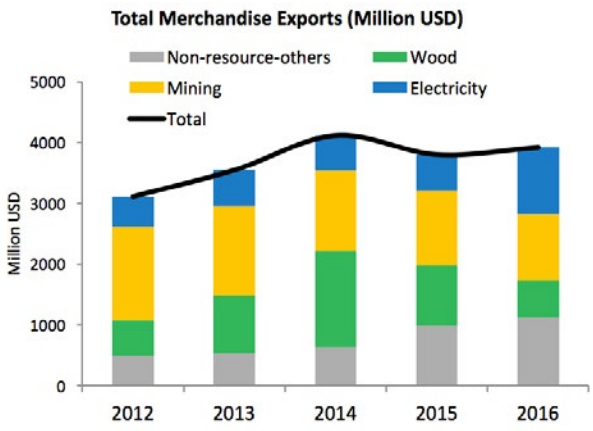
Source: Ministry of Finance and WB staff estimate

The risk of debt distress moved from moderate to high in DSA 2016.



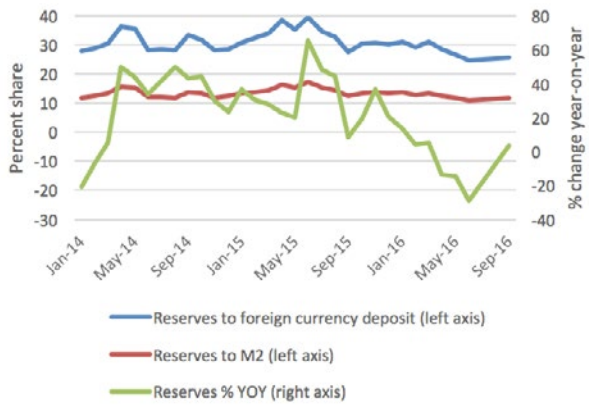
Source: Ministry of Finance and WB staff estimate

External balance improved in 2016, helped by power and some non-resource exports while oil price for import was lower.



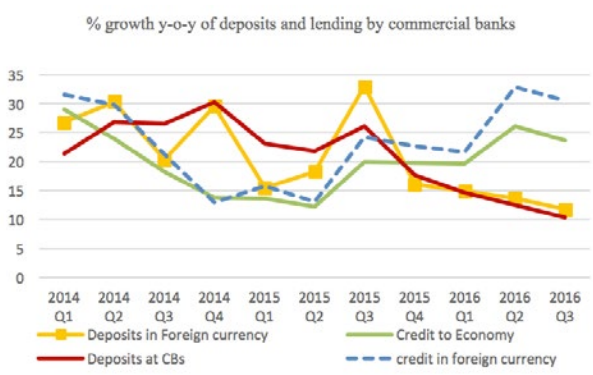
Source: trade partner data and WB staff estimate

Still, reserves coverage remain low, limiting buffers particularly in context of tightly managed exchange rate.



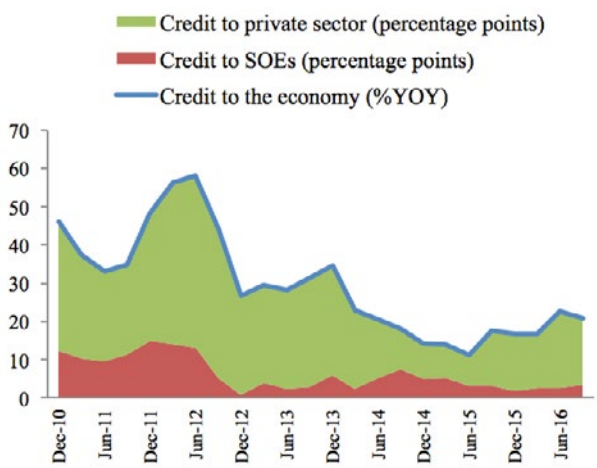
Source: Bank of Lao PDR

Deposit growth slowed down, partly in response to lower interest rates resulting from the interest rate cap policy.



Source: Bank of Lao PDR

Credit growth picked up, but credit growth appears to be concentrated among few banks.



Source: Bank of Lao PDR

Part I: Recent Economic Developments

Growth

1. **The Lao economy has been one of the fastest growing economies globally over the last decade.** GDP growth averaged 8 percent per annum since 2000 with Gross National Income (GNI) per capita reaching the lower-middle income country threshold in 2011 and further increasing to around US$1,740 in 2015. Natural resources including mining, hydro power and forestry, (accounting for 44 percent of total wealth in 2014) were a key driver of growth during this period. During the 2000s, growth was driven by mining; but a decline in prices, lower grade reserves, as well as sector regulation issues lowered its contribution more recently. The power sector expanded significantly since mid-2000s, and the associated construction activities and subsequent commercial operation, largely expected to meet demand in neighboring countries, drove growth. Lao PDR's installed capacity increased ten-fold between 2000 and 2016 to above 6,000MW, mostly through engagement with the private, mostly foreign, investors.

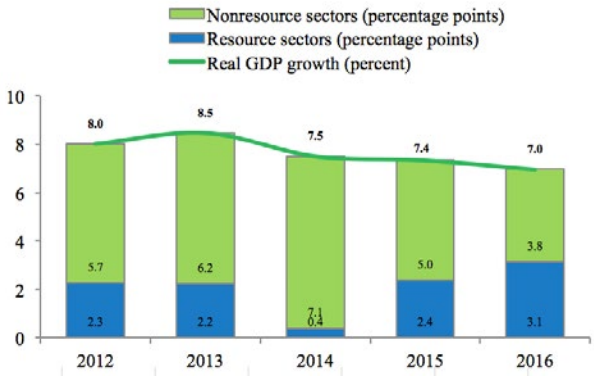
2. **Growth has recently become more broad-based.** Services expanded due to some liberalization of the economy (trading, tourism, banking, transport, etc.) and spillovers from natural resource projects. Services account for about 36 percent of GDP, but remain concentrated in low-value added sectors. Agriculture, where two thirds of the labor force was engaged in 2012, remains characterized by low productivity; though there is evidence of diversification away from subsistence (largely) rice production towards commercial cash crops, including coffee, banana, rubber, beans etc. Manufacturing, which accounts for about 9 percent of GDP, traditionally concentrated in garments, also grew and diversified to equipment parts, albeit from a low base and mostly confined to special economic zones. Rapid growth and a growing consumer base also boosted construction of commercial and residential real estate. Strong growth rates in electricity consumption of around 26 percent during 2014-2016 confirm the rapid expansion of economic activity. The industrial sector accounted for most of the increase in electricity consumption (11 percentage points), followed by residential and commercial sectors (9 and 5 percentage points, respectively).

3. **In 2016, the economic growth moderated slightly to around 7 percent, from 7.4 percent in 2015.** The marked increase in power sector contribution and some manufacturing sector is partly offset by slight moderation in construction, flat mining output, and stable public spending (Figure 1, 2). The installed capacity in the power sector is expected to have increased by more than 20 percent compared to the previous year to above 6,000 MW as the

remaining units of Hongsa Lignite power project and other projects came on stream in 2016. This helped boost power exports to Thailand by more than 70 percent in 2016. Construction activity moderated as a few projects' construction were completed in 2015 and contained public investment; however, activity remains robust supported by the pipeline projects as well as real estate development. Output in manufacturing continued to expand resulting in continued growth in exports of equipment parts, albeit from a low base and mostly confined to the Special Economic Zones (SEZ). Output in agriculture is expected to have recovered following the previous year's drought. According to Food and Agriculture Organization (FAO) estimates, rice output is estimated to have increased by 5 percent in 2016 compared to 2015. Also, output of other crops increased (banana, maize, rubber) reflecting recent investment in agriculture plantations; though, concerns have been raised about the environmental sustainability of the practices used at some of the plantations. A number of services sectors performed well, including retail trade, and insurance as the number of companies increased.

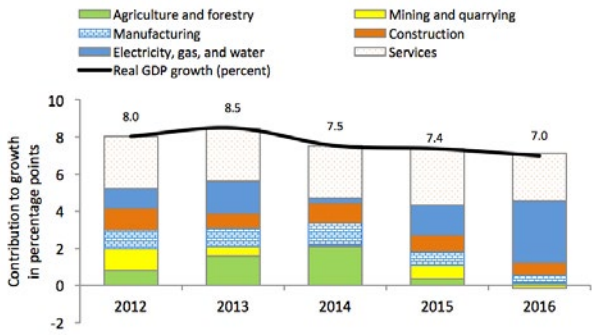
4. Output in copper have declined slightly due to lower grade ore at one of the two large mines while no new projects were initiated, partly due to the continuation of the moratorium on new concessions. Stronger controls on logging and strict implementation of Government decision No. 15 issued in May 2016 banning the export of unprocessed wood resulted in reduced wood exports. The number of tourist arrivals from the region declined but this was offset by the increase of western visitors who stay longer and spend more.

Figure 1: Real GDP Growth
(percent yoy)



Source: Lao Authorities and WB staff estimates

Figure 2: Sectoral contribution to real GDP growth
(percentage points)



Source: Lao Authorities and WB staff estimates

5. Despite the recent growth in the private sector, including the Special Economic Zones, the sector remains small, low value-added and inward oriented. A burdensome operating environment, including a difficult procedure to start a business, complex licensing and compliance requirements, creates incentives to stay small and informal and limits firm's investments. Lao PDR was ranked 139, out of 190 economies, on the 2017 Ease of Doing Business[1] rankings, reflecting weak and inconsistent enforcement of regulations, as well as complicated and burdensome procedures. Other surveys confirm these findings and some recent findings from the Enterprise Survey in 2016 are summarized in Box 1. This generates uncertainty, high costs, affects investment and encourages informality. Consequently, markets remain characterized by an uneven playing field and limited competition. While some companies and actors might be able to navigate such an environment (characterized by negotiation and discretionary decisions), it particularly places burden on new entrants and smaller, including women-owned and innovative, companies, reducing the scope for inclusive growth.

Box 1: Key findings from the Enterprise Survey 2016[2]

1. According to the 2016 Enterprise Survey (based on 2015 data), the practices of the informal sector are the biggest obstacle to business operation, followed by tax rates and shortage of skilled workers (Figure 3). Practices of the informal sector was the biggest obstacle for 27 percent of the interviewed firms, up from 18 percent of firms in the previous round of the Enterprises Survey in 2012. Furthermore, 77 percent of firms in Lao PDR reported that they competed against unregistered firms compared to an EAP average and global average of 53 and 52 percent, respectively.

2. Tax rates were also cited among the biggest obstacles, particularly for small businesses, foreign owned and those with female top manager. This could be prompted by strengthened application of tax rates against the backdrop of the shortfall of revenue collection. The interviewed Lao PDR firms are more frequently visited by tax officials and the visits last longer (compared to EAP and global averages), but they still do not report tax administration as a major constraint like the previous survey.

3. Thirdly, skills shortages remain a persistent constraint for the business growth, significantly more acute compared to the regional average. Around 13 percent of firms identified the lack of educated workforce as the biggest constraint, compared

[1] World Bank (2016), "Doing Business 2017: Equal Opportunity for All", http://www.doingbusiness.org/reports/global-reports/doing-business-2017

[2] Enterprise Survey 2016. http://www.enterprisesurveys.org/data/exploreeconomies/2016/lao-pdr

to 7 percent in the EAP, on average. The constraint appears to be more severe for large firms that export and those are in the service sector. This is confirmed by the 2012 STEP Employer Survey showing that in almost 40 percent of recruitment attempts, applicants lacked the required skills. This is true for many levels – i.e. for manager positions, specialists as well as elementary positions. Factors contributing to the lack of skills and skill demand-supply mismatch come from the disconnect between the curricula, business needs and quality of education. More importantly, weak early childhood education does affect children's ability to learn during their adult life and their skill development, exacerbated by relatively low government spending on operation and maintenance, teaching and learning materials. On the other hand, the wages offered in the private sector may not be sufficiently attractive making it challenging to attract workers as the wages that firms are willing to pay (determined by firms' productivity) are only somewhat higher than effective wages in the agricultural sector.

4. Other commonly cited obstacles are infrastructure-related, including in electricity. While costs of electricity in Lao PDR are not excessive, especially compared to the region, and electrification has been very successful, the views of the firms could reflect a relatively difficult process of getting an electricity connection (According to the 2017 Doing Business report, Lao PDR was ranked 155th, out of 190 economies, on getting electricity indicator).

5. Interestingly, even though almost three quarters of respondent firms in Lao PDR report that they are expected to give gifts to secure government contracts and to get things done, compared to an EAP average of below 50 percent and global average of below 30 percent, few Lao PDR firms consider corruption as a major obstacle. These could be indicative of a business environment in which incumbents have learned to navigate the complex environment that doesn't encourage entry and competition. However, the practice has implications on the cost of investment projects and the effectiveness in the selection process.

6. At the same time, Lao PDR has been given relatively favorable scores on the country's business environment in the areas of crime, theft and disorder, labor regulations and customs regulations. Also, the rapid expansion of the financial sector appears to have lowered the importance of access to finance as a constraint

to doing business. However, business do need loans at better terms, including longer maturity, lower collateral requirements and interest rates.

Figure 3: Firms' perceptions of the biggest obstacles to doing business

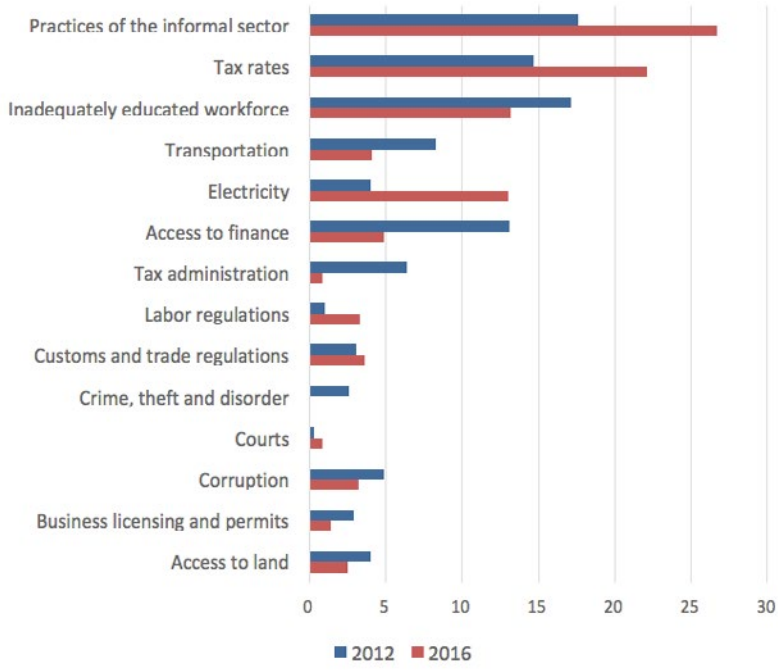
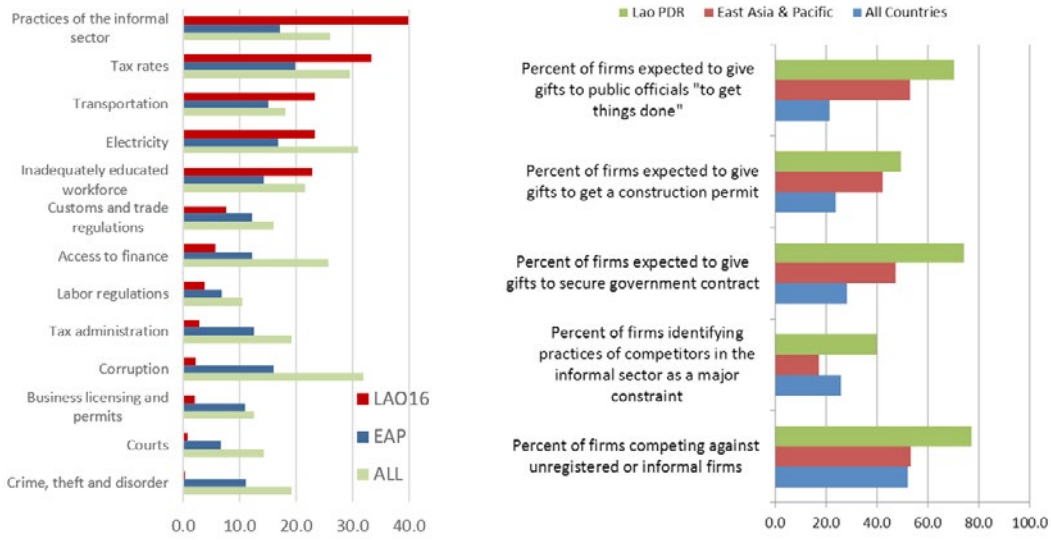


Figure 4: Reported major constraints in doing business



Source: Enterprise Survey 2016 (http://www.enterprisesurveys.org/data/exploreeconomies/2016/lao-pdr)

6. While GDP growth has been strong, sharing the benefit of growth could be improved. Growth was, to a large degree, driven by natural resources which are capital intensive and create fewer jobs, while low productivity in agriculture and weak performance in manufacturing limited the income generating opportunities for most Lao people. As a consequence, the growth elasticity of poverty[3] was around -0.4 during 2007-2012. Only the Philippines had a lower growth elasticity of poverty in the Southeast Asia region. Cambodia for example had a growth elasticity of poverty of -1.2 during 2004-2011; Vietnam and Indonesia also had higher growth elasticity of poverty compared to Lao PDR, as well as most resource-rich countries. With more diversified economic activity in recent years, the link between growth and poverty reduction may have strengthened. While more recent poverty numbers are not available, the expansion in labor-intensive sectors, including agriculture, services and light manufacturing, in an environment of low inflation pressures, may have made growth more pro-poor.

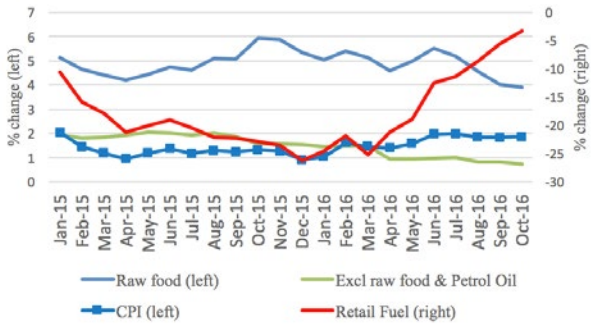
7. Making growth more inclusive will also require improved human development outcomes. Despite economic progress, Lao PDR still lag behind regional peers on social outcomes. Malnutrition and stunting remains high and have long term impact on human capital potential. The social sectors, health and education, could further benefit from more investments and redistribution of resources. Currently the financing of the health sector is characterized by low public investment and reliance on donor financing and patients' out of pocket spending. Part II of this edition of the Lao Economic Monitor provides a discussion on the health expenditures in Lao PDR.

[3] The growth elasticity of poverty means the percentage reduction in poverty rates associated with one percentage change in GDP per capita. In the case of Lao PDR, for one percent increase in GDP per capita, poverty fell by around 0.4 percent during 2007-2012. On the other hand, Cambodia had poverty reduced by 1.2 percent for every 1 percent growth in GDP per capita during 2004-2011.

Inflation

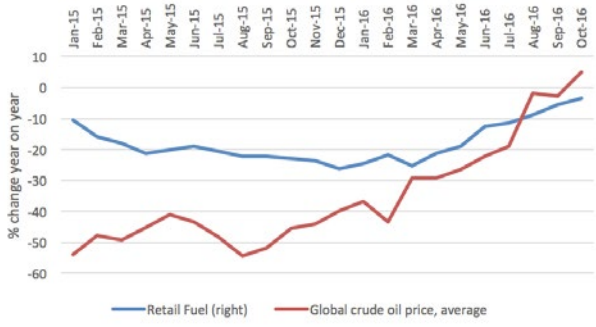
8. Low oil prices kept inflation below 2 percent in 2016 (Figure 5). Retail fuel prices have been increasing gradually after reaching their six-year low in April 2016, in line with recovery of oil prices at global markets (Figure 6). Still, fuel prices in October 2016 were 3 percent below their level in October 2015. Lower fuel prices are likely to benefit consumers, given that fuel accounts for about 8 percent of consumption basket. Energy inflation may further pick up in 2017 if the recently announced agreement among major oil producers succeeds in limiting production.

Figure 5: Monthly Inflation
(percent yoy)



Source: Lao Statistics Bureau

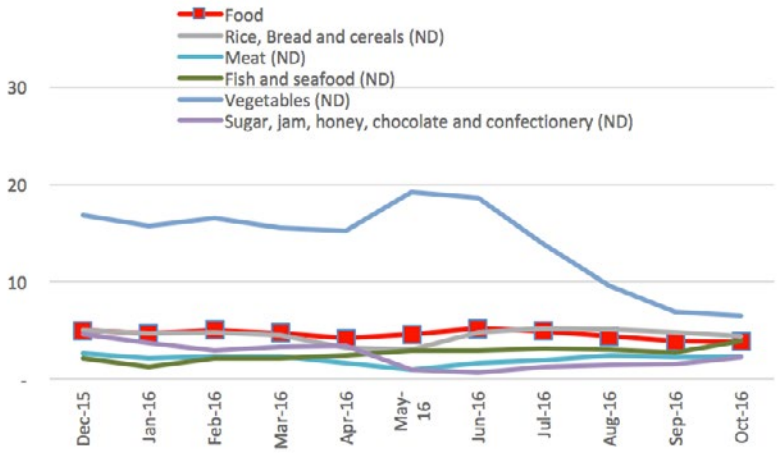
Figure 6: Global crude oil price and local retail fuel prices
(% change yoy)



Source: Lao Statistics Bureau

9. Food inflation slightly moderated in the second half of 2016 following slower growth in vegetable prices. Food prices remain high with food inflation averaging 4.5 percent during January-October 2016 (Figure 7). Vegetable prices increased by more than 15 percent in the first half of 2016 following high domestic demand for consumption, particularly in urban cities, and more expensive imported fruits and vegetables from Thailand. Food prices started to moderate in the second half following declining import prices. Although fuel is a key cost component of food production and transportation, fuel price developments do not appear to have a direct and immediate impact on the direction of the local food prices, partly due to layers in supply chains and high consumption demand. Core inflation remains low at an average of 1.1 percent during January-October 2016.

Figure 7: Food price changes
(percent yoy)



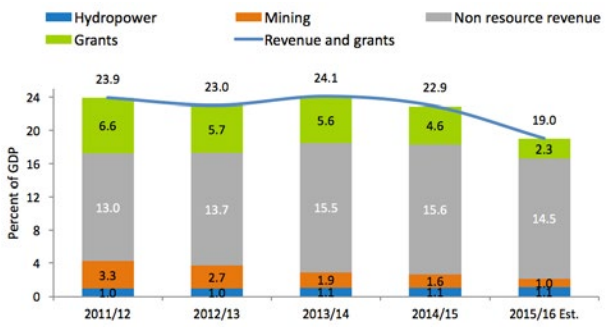
Source: Lao Statistics Bureau

Fiscal Development

10. The fiscal position deteriorated in FY15/16[4] due to revenues falling short of target. Total revenues were revised down by kip 2.4 trillion kip (2 percent of GDP) in May 2016. According to preliminary estimates, total revenues as ratio to GDP are estimated to have declined to 19 percent in FY15/16 (about 20.4 trillion kip or US$ 2.5 billion) from 23 percent of GDP in FY14/15 (Figure 8). The shortfall is mostly attributed to lower copper and oil prices (affecting royalties and taxes on mining, and excises and import duties on oil), the slight moderation of economic activity, weaknesses in tax administration as well as lower grants, which was due to under-disbursement of the project grants. Mining revenue is estimated to have declined to 1 percent in FY15/16 (about US$ 130 million) from 1.6 percent of GDP in FY14/15. Grants declined from 5.4 percent to 2.3 percent. Spending cuts were less commensurate resulting in considerable widening of the deficit from 3.7 percent in FY14/15 to 6.2 percent in FY15/16 (Figure 9). At the same time, non-mining fiscal deficit[5] is estimated to widen from 5.3 percent in FY14/15 to 7.2 percent in FY15/16.

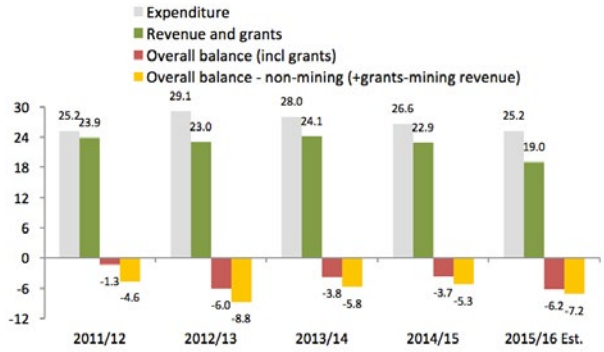
11. In response, the authorities introduced measures to support revenues. As of early 2016, the authorities moved from reference pricing of imports to invoice valuation. Furthermore, in August 2016, the authorities canceled tax exemptions on fuel imports for most investment projects and took measures to strengthen and facilitate administration such as e-payment, e-meter for monitoring oil imports, etc. These measures helped boost revenue in the last quarter but still short of the revised target plan by about 5 percent.

Figure 8: Revenue Performance in FY15/16
(percent of GDP)



Source: Ministry of Finance and WB staff estimates

Figure 9: Fiscal Performance in FY15/16
(percent of GDP)

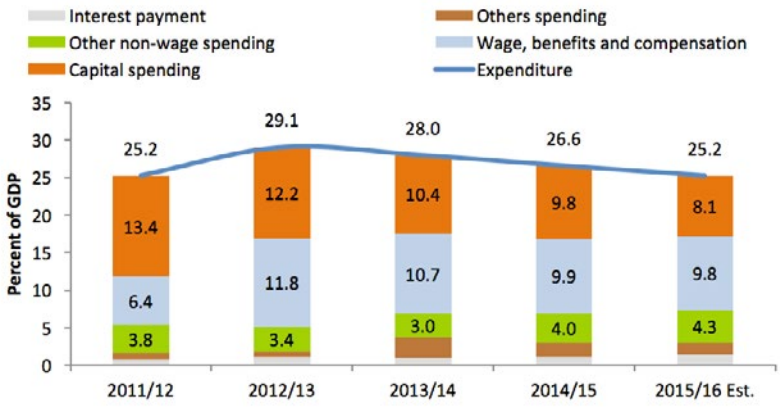


Source: Ministry of Finance and WB staff estimates

[4] Preliminary estimates based on three quarters information as of February 2017
[5] Non-mining fiscal deficit is the fiscal deficit without mining revenues

12. However, spending cuts were less commensurate to the revenue shortfall. Public spending was revised downward by kip 1,100 billion (about US$ 130 million or almost 1 percent of GDP), with almost equal amounts being lowered on both capital and recurrent spending. According to the authorities, further cuts would have limited the ability to service social obligations, undertake key investments as well as activities needed to support Lao PDR's hosting of the 2016 ASEAN Chairmanship. The total expenditure to GDP ratio is estimated to have declined to 25 percent in FY15/16 (about 27 trillion kip or US$ 3.3 billion) from 27 percent in the previous year (about 26.3 trillion kip) (Figure 10). Wages and benefits to GDP declined to 8.1 percent[6] from 8.7 percent of GDP in the previous year, reflecting the wage freeze and continued controls on public recruitment (5,000 new quotas for the past two years compared to 15,000 earlier). Wages and allowances already account for about 67 percent of non-resource sector revenue, which is less susceptible to commodity price volatility and about 39 percent of the total expenditure. Coupled with considerable capital spending, this already crowds out the allocation for non-wage recurrent spending, which is essential for operation and maintenance, purchase of materials and equipment to improve quality of public services, which receives only 37 percent of total recurrent cost in FY15/16. Therefore, revenue measures should also be coupled with improving efficiency and prioritization of public spending.

Figure 10: Public expenditures
(percent of GDP)



Source: Ministry of Finance and WB staff estimates

13. Lao PDR recently transitioned to a fiscal year that is based on the calendar year. Previously, Lao PDR's fiscal year started October 1 and ended on September 30 the following year. As of 2017, the fiscal year will be the same as the calendar year (the October-December 2016 period was a transition quarter). The new schedule is expected to better align the budget process with the other decision-making processes in Lao PDR, including the sessions of the

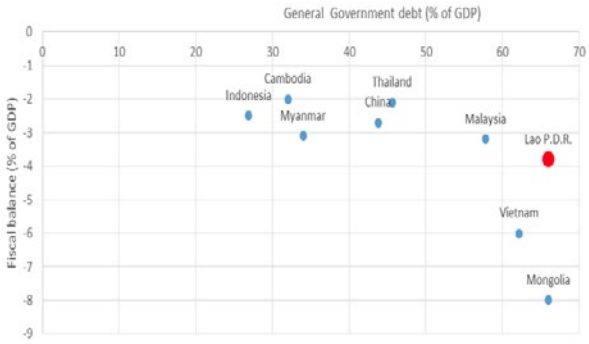
[6] This measure may be underestimating the total wage bill as some benefits are recorded separately from wages and allowances. Taking these into consideration could increase the wage-bill up to 9.3 percent of GDP in FY2015/16.

National Assembly. The improved revenue performance from the last quarter of FY15/16 appears to have continued in the transition quarter. Regular recurrent budget, mostly wages, has continued in the transition period of October-December 2016, while no new capital spending has been allocated for the transition quarter.

14. Capital spending declined. Public investment as ratio to GDP fell to 8.1 percent (about 8.6 trillion kip or US$ 1 billion) from 10.5 percent as there was stronger control on new investment projects, greater focus on ongoing projects and clearance of arrears as well as under-disbursement of project grants. The authorities continue to address arrears for completed on-budget public projects as a priority by instructing spending units to allocate at least 30 percent of annual allocation for capital spending to clear arrears. However, the information on the total stock of arrears is unclear. Around 50 percent should be allocated to on-going projects and the rest go to new projects. The Government has instructed a halt in off-budget spending; however, the stock of arrears remains sizeable. Off-budget spending in the forms of quasi-fiscal spending on infrastructure projects financed by the Bank of Lao PDR's direct lending (shown as BOL lending to SOEs) declined from 6.4 percent at year end in 2015 to about 5.8 percent of GDP in mid-2016 reflecting the phase out of such direct lending. However, BOL lending to banks increased by 21 percent by September 2016 compared to last year.

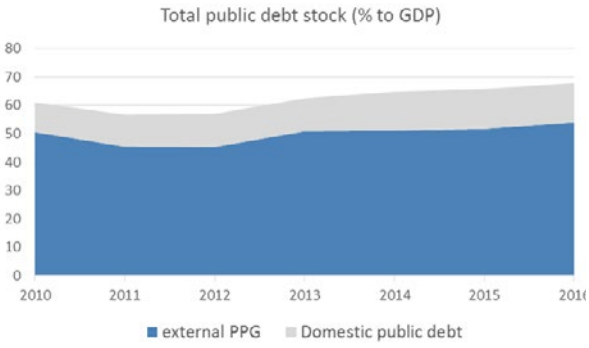
15. The widened fiscal deficit has led to higher public borrowing, elevating the risk of debt distress. The outstanding public debt at end 2015 was almost 66 percent of GDP, up from 62.5 percent in 2013. With higher budget deficit in FY15/16, public debt is expected to increase to 68 percent of GDP in 2016, a relatively high level compared to regional and income peers (Figure 11). At the end of 2015, external public and publicly guaranteed (PPG) debt accounted for about 52 percent of GDP while the rest is domestic debt (comprising of T-bonds and T-bills, capitalization bonds, BOL's direct lending to local authorities for off-budget infrastructure projects) (Figure 12). As a consequence, the 2016 Joint IMF-World Bank Debt Sustainability Analysis (DSA) elevated the risk of debt distress from moderate to high. Under the baseline assumptions, some of the external and public debt distress indicators breach the policy-dependent indicative thresholds on three indicators: a) the net present value (PV) of public and public guaranteed external debt (PPG) as a percent of GDP, b) PV of debt to revenue ratio and c) debt services to revenue ratio (Annex 1). Risks are mitigated to a certain extent as around a quarter of external PPG is for projects, mostly in the energy sector, which are expected to be economically viable and self-financing.

Figure 11: Fiscal Deficit and Public Debt compared to regional peers
(percent of GDP)



Source: EAP Update October 2016

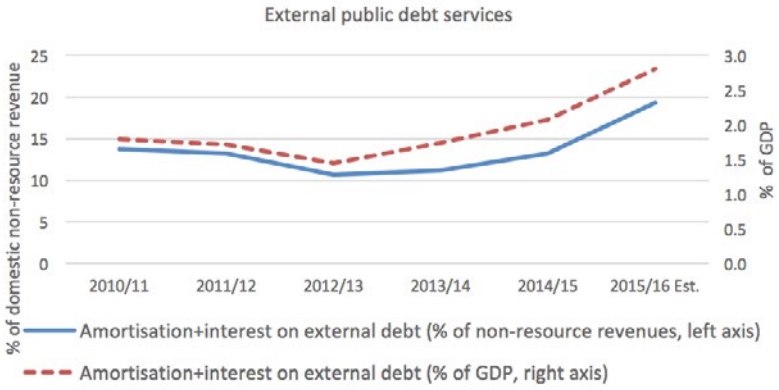
Figure 12: Public and Publicly Guaranteed Debt
(percent of GDP)



Source: IMF-WB Debt Sustainability Analysis 2016

16. With Lao PDR reaching the threshold for high risk of debt distress, the fiscal space for future borrowing has narrowed significantly. Even in FY15/16, interest expenditures are expected to be around 1.4 percent of GDP (1.4 trillion kip or US$ 180 million), for example, double of the budgetary allocation for the agriculture sector and compared about 74 percent of the allocation for the health sector. Debt servicing needs (interest and principal repayment) increased from 1.7 percent of GDP in FY11/12 to around 2.8 percent of GDP in FY15/16 (Figure 13). Furthermore, the number of large infrastructure projects being considered raises concerns over debt sustainability and over the country's capacity to absorb the new financial commitments. An example is the proposed US$6.7 billion Lao-China Rail Project (in which Lao PDR will need to participate with around 9 percent of the project cost or around US$700 million into the equity capital of the join stock railway company). About 65 percent of that Government's equity share in the Lao-China railway project or US$480 million is expected to be financed by external borrowing.

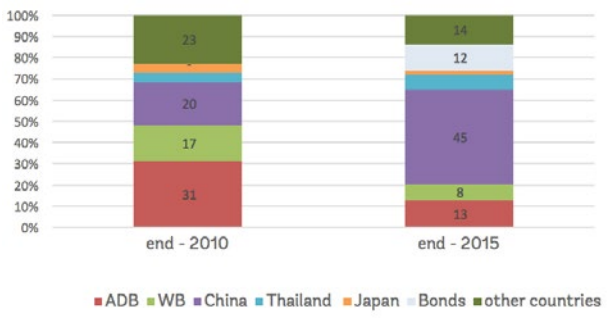
Figure 13: External public debt service (interest and amortization)
(percent of GDP and non-resource revenues)



Source: Ministry of Finance and WB staff calculation

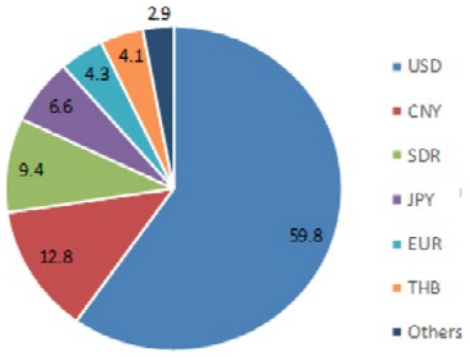
17. The Government has increasingly resorted to bilateral and commercial sources to finance its spending needs. Notably, borrowing from China increased rapidly in recent years making China the largest creditor of Lao PDR with around 45 percent of total external public debt stock at end 2015 (up from 20 percent five years ago). Despite the increase in the amount of lending from multilateral institutions, their share of lending, particularly the Asian Development Bank and the World Bank Group more than halved from 48 percent of total external debt in 2010 to only 21 percent in 2015 (Figure 14). Currency composition has moved significantly towards U.S. dollars at end-2015 compared with end-2014, from about 51.1 percent of total outstanding debt to 59.8 percent (Figure 15).

Figure 14: Public Debt Outstanding composition 2010-2015
(percent of total)



Source: Ministry of Finance

Figure 15: Currency composition of external Public and Publicly Guaranteed debt
(percent of total)



Source: Ministry of Finance

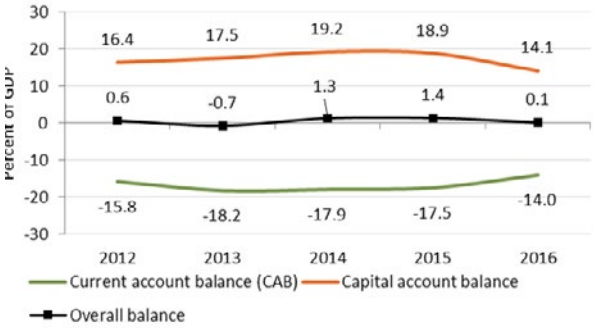
18. The authorities have also resorted to issuing government bonds at market terms to finance the budget. Since the first issuance in 2013, bonds issuance (ranging from 3 to 12 year maturity, indicating the authorities' goal to establish a yield curve) increased significantly to reach 12 percent of total external public debt stock in 2015 (almost US$ 840 million). The bond proceeds have financed the budget deficit as well as the government's share in power projects. With the first 3-year bond issued in 2013 maturing in 2016 and the issuance of a US$ 310 million bond in late-2016, the stock of bonds issues at the Thai market at the end of 2016 is estimated to reach more than US$ 1 billion. As a result, debt services (interest and amortization) are projected to rise from around 13 percent of non-resource domestic revenues during 2013-2015 to almost 24 percent in the next five year period. Given that a large part of debt is concentrated in the power sector, returns on power projects, improving governance and ensuring financial solvency of Electricite du Laos (eliminating account payables, tariff system restructuring etc.) will be critical to the sustainability of the fiscal accounts.

19. Ensuring that the debt burden remains sustainable will require gradual fiscal consolidation as well as strengthened public debt management. It would be important to put in place policies that will lead to stabilization of the public debt burden and its gradual reduction consistent with fiscal sustainability level. Gradual fiscal consolidation could come through improving revenue collection and improved efficiency in public spending. This should be coupled with enhancing capacity in debt management, debt sustainability analysis and project viability appraisal. The presidential decree on Public Debt Management and the institutional strengthening of Public Debt Department are important in facilitating this work. Also, this will require increased awareness of risks of non-concessional borrowing as well as prioritization to ensure borrowing for priority and credible projects with highest rates of return.

External Sector

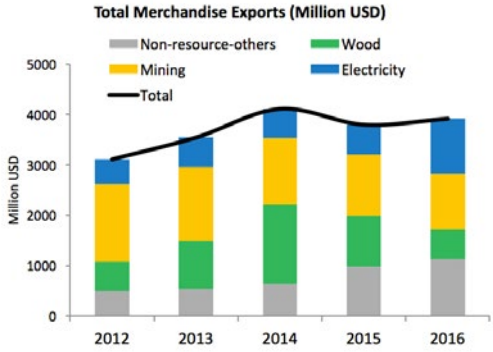
20. The current account deficit narrowed in 2016 to an estimated 14 percent of GDP, largely due to a lower trade[7] deficit (Figure 16). Exports increased slightly, as growing export of electricity, equipment parts and agriculture produce (e.g. bananas, maize) offset the decline in wood exports as a result of stricter enforcement on the ban on illegal logging and the stagnant mining exports due to low copper prices. Power export to Thailand doubled from almost US$ 400 million in the first ten months of 2015 to about US$ 800 million in the same period of this year, largely attributable to the operation of all three units of Hongsa Lignite power project (Figure 17). According to MPI data, exports of banana increased by more than three folds, followed by doubling of cassava mostly coming from recent investment in commercial plantations.

Figure 16: External balance
(percent of GDP)



Source: WB Staff estimates based on data from Lao authorities and trading partner countries

Figure 17: Merchandise Exports
(US$ million)

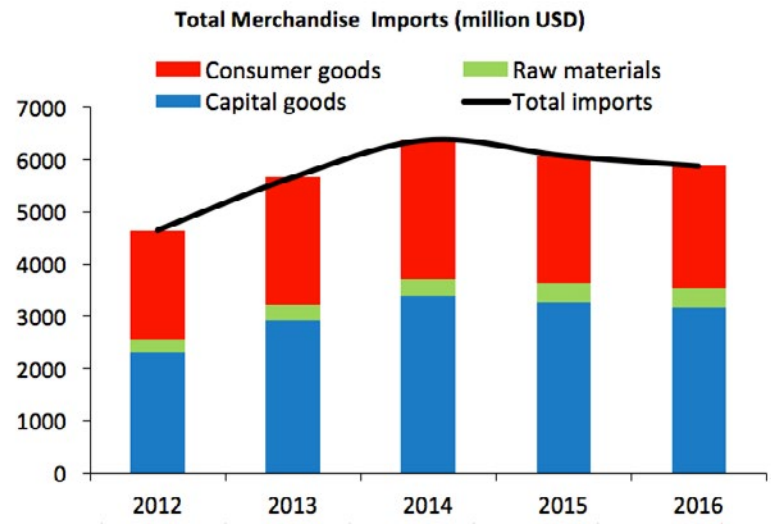


Source: WB Staff estimates based on data from Lao authorities and trading partner countries

21. On the other hand, imports fell due to lower fuel prices as well as completion of construction of one large project construction in the previous year. The appreciation of the kip against the regional currencies also contributed to a lower import bill. Imports from the three main partners fell by about 10 percent in the first nine months. Fuel import bill declined by about 30 percent in the first nine months due to lower fuel price for most of 2016 despite the volume increase. The lower import oil prices help improve the trade balance and lower energy inflation, but affect the Government revenue collection. Imports of machinery and construction materials also slowed due to completion of large power projects in 2015. Imports of vehicles declined, also reflecting a high base from 2015 when imports increased in anticipation of the higher costs of imports resulting from the move in the valuation from reference to invoice prices introduced at the start of 2016 (Figure 18).

[7] Based on mirror trade data with top three trading partners, Thailand, China and Vietnam.

Figure 18: Merchandise Imports
(US$ million)

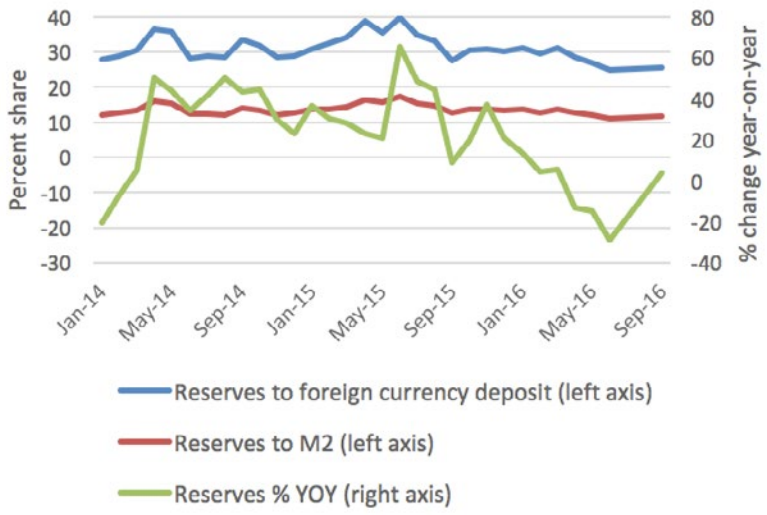


Source: WB Staff estimates based on data from Lao authorities and trading partner countries

22. Foreign direct investment and growing external borrowing financed the current account deficit. External debt stock (public and private) is estimated around 98 percent of GDP in 2016, up from 95 percent in 2015, according to the 2016 debt sustainability analysis. Foreign exchange reserves were almost US$ 940 million in September 2016, slightly up (4 percent) compared to last September, but still below the peak level registered in January 2016. Reserves are expected to have increased further by end-2016 reflecting the proceeds of the US$ 310 million bond issuance in November 2016. Still, the reserve coverage remains low by most widely used metrics[8]. It can cover up to 2 months of imports, 12 percent of broad money an only 25 percent of foreign currencies deposits (Figure 19) or about 2 years of projected debt service (interest and amortization) which imply limited buffers and macroeconomic vulnerability, particularly in the context of a tightly managed exchange rate of the kip to the US dollar. Therefore, building up reserves through allowing greater exchange rate flexibility within the band ±5 percent, gradual fiscal consolidation, prudent monetary policy and export promotion can increase the cushion against shocks and is critical for maintaining macroeconomic resilience and stability.

[8] The rules of thumb include reserves cover of imports for 3 months, reserves to M2 of 20 percent.

Figure 19: Reserves coverage
(percentage)



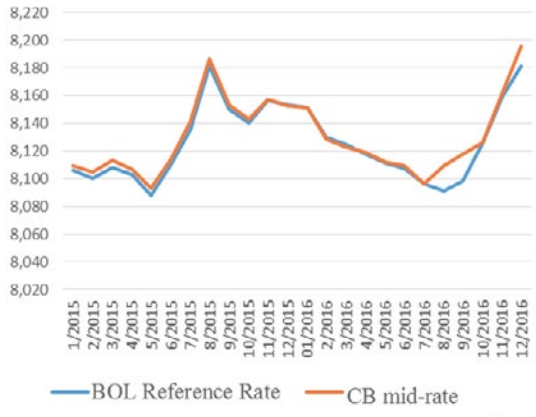
Source: Bank of Lao PDR and WB staff calculations

Exchange Rate

23. The official exchange rate policy continues to focus on tight management of the exchange rate, particularly with the US dollar. The Bank of Lao PDR views the exchange rate as the main intermediate target in the pursuit of its objective of stability. While the current exchange rate policy allows for a flexibility of +/- 5 percent per year in the exchange rate, the authorities have in practice targeted a much narrower band. Overall, the average exchange rate of the kip against the US dollar slightly depreciated by 0.5 percent in December 2016 compared to the same period last year and it also depreciated against Thai Baht by 1.1 percent in the same period (Figure 20, 21).

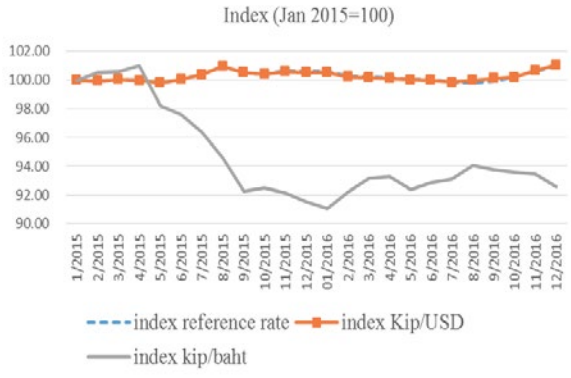
24. Still, in an environment of limited international reserves, the exchange rate of the kip came under pressure at the exchange offices' market. Restriction on the availability of foreign exchange in commercial banks[9] as BOL limited its interventions to protect reserves, and higher transactions costs introduced at commercial banks boiled over at the exchange office market where a gap between the official rate and the informal market has been around 3 percent on average since September 2016. Going forward, the exchange rate policy may benefit from greater consideration on the exchange rate development in key trading partners.

Figure 20: Lao kip/USD exchange rate



Source: Bank of Lao PDR

Figure 21: Exchange rate index



Source: Bank of Lao PDR

25. The appreciation of the Kip's real effective exchange rate moderated. The nominal effective exchange rate appears to have stabilized in 2016, which is a welcomed development, compared to sharper appreciation in 2015 (Figure 22, 23). The pace of real effective exchange

[9] Banks limit the amount of foreign exchange to 20 million (US$ 2400) per person per day with supported documentation on the need for foreign currency. For personal exchange, some banks do not sell foreign currency in practice in late 2016.

rate appreciation started to moderate by mid-2016 as regional currencies stabilized and inflation pressures remained low. However, the real effective exchange rate has still appreciated by around 30 percent over the last five years, signaling a loss of competitiveness of Lao PDR's exports; though wage and unit labor costs indicators appear to remain within ranges expected from the country's income level.

Figure 22: Real effective exchange rate

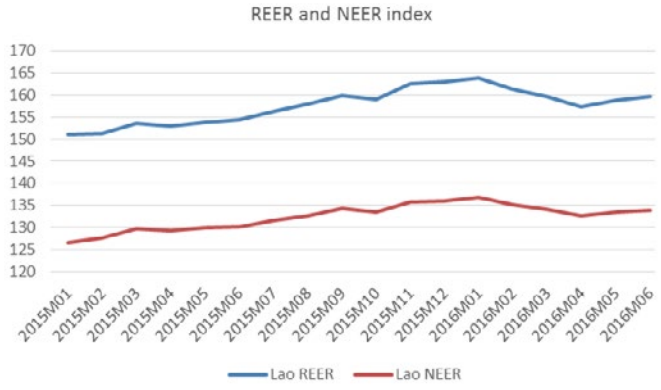
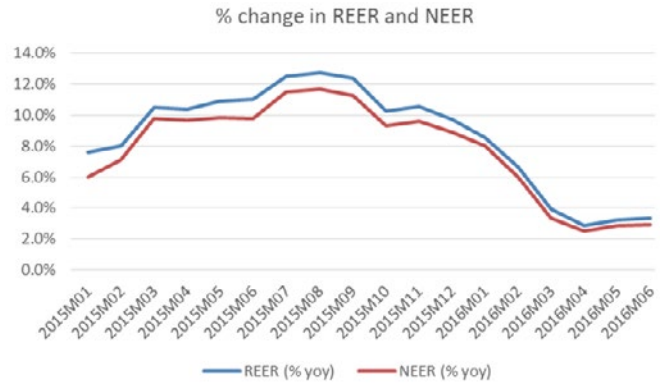


Figure 23: Real effective exchange rate
(percentage change)

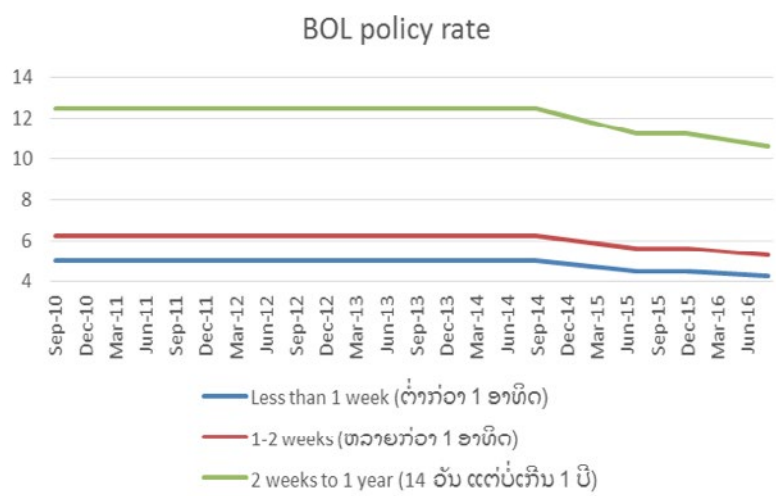


Source: www.bis.org

Monetary Developments

26. Monetary policy was directed towards stimulating credit growth, with some success. The BOL reduced the policy rate by 50 basis points in July 2015, and further by additional 25 basis points in August 2016 (Figure 24). However, given the identified weaknesses in the interest rate transmission channel, in mid-2015, BOL also introduced more direct controls over commercial banks' rates. The interest rate cap on the deposit rate for kip deposits was set at the previous year's inflation rate (excluding oil) plus 2 percentage points. Furthermore, the maximum spread between weighted deposit and lending rates was set at 4 percentage points. In August 2016, in line with the decline in the annual inflation in 2015, the interest rate caps were further lowered (for example, by 40 basis points on kip deposits with 1-year maturity[10]). As a result, the commercial banks' kip deposit and lending interest rates have been adjusting since the third quarter of 2015. By August 2016, kip deposit rates on 1-year deposits were down 60 basis points while lending rates declined by 170 basis points and lower the spread between lending and deposit rates 110 basis points (Figure 25). The lending and deposit rates on baht and US$ also declined, though at more moderate pace. Most recently BOL also amended the regulations to allow commercial banks to provide credit in foreign currency to importers, in addition to exporters. Also, BOL, while apparently phasing-out lending to sub-nationals governments, has increased lending to commercial banks in the form of loans on-lend to finance private sector projects.

Figure 24: Bank of Lao PDR's Policy Rate



Source: Bank of Lao PDR

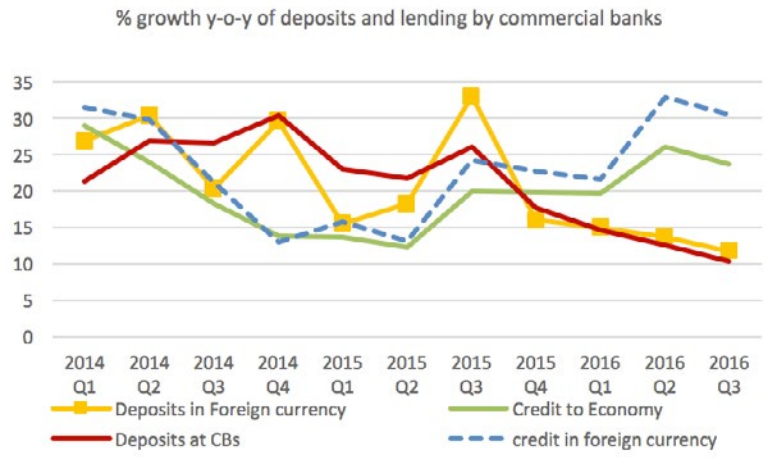
[10] The reductions in the caps were bigger for deposits with higher maturities. For example, the cap on a five-year kip deposit was lowered from 11.7 percent to 7 percent.

Figure 25: Commercial Banks' Interest Rates

Source: Bank of Lao PDR

27. The growth rate of deposits decelerated to about 10 percent year-on-year compared to 26 percent a year ago. This appears to be affecting both kip and foreign currency deposits and could be linked to the reduction in the banks' deposit rates. Kip deposits continued to grow slower at 9 percent in September 2016 compared to 20 percent in last September (Figure 26). Foreign currency deposits grew at 12 percent compared to 33 percent in the same period. Consequently, coupled with a shaper reduction in long-term deposit rates, there was a sharp deceleration in longer-than-1 year term deposits growth, particularly in Kip while short-term (up to one year) foreign currency deposits accelerated in March 2016[11]. This implies that the limited growth in long term deposits could limit the supply of long-term credit available to the private sector. A stronger deposit protection fund could help strengthen the confidence in the system and encourage longer-term savings.

Figure 26: Deposits and lending growth

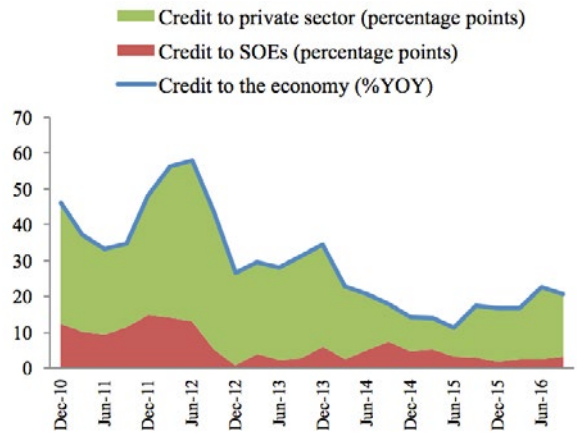


Source: Bank of Lao PDR

[11] The latest available data on the composition of deposits was as of March 2016

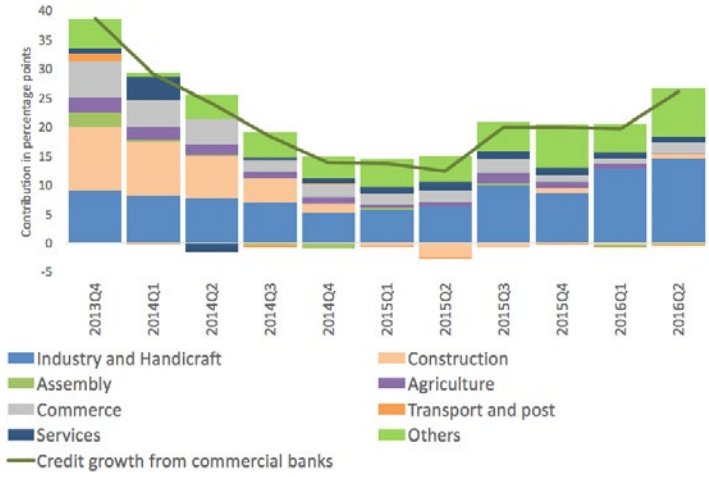
28. Credit growth picked up in 2016, though remains below levels seen earlier this decade. Lending accelerated by 20 percent y-o-y by September 2016, compared to 17 percent y-o-y last September, but well below the unsustainable growth rates of around 35 percent per annum three years ago (Figure 27). Credit ratio to GDP increased to 52 percent of GDP in September 2016 from 45 percent in September last year while total deposits slightly rose to 54 percent of GDP from 53 percent in the same period, pushing the overall loan to deposit ratio in commercial banks to 95 percent from 86 percent in the same period. With deposit growth slowing down, credit expansion has also been driven by more foreign currency lending, supported by banks' foreign borrowing, especially by foreign branches and joint venture banks. This resulted in a significant buildup of foreign liabilities of commercial banks by 80 percent during 2014-2016. Net foreign liabilities significantly increased by almost more than two folds in September 2016 to 15 percent of GDP from only 6 percent two years ago. In addition, following the restrictions on foreign currency lending to only exporters, the BOL recently extended allowance for

Figure 27: Credit growth
(percentage points)



Source: Bank of Lao PDR

Figure 28: Contribution to credit growth by sectors
(percentage points)



Source: Bank of Lao PDR

commercial banks to lend to importers of certain products. The timing of the measure may add to the pressure on the reserves.

29. Most of the increase in lending from commercial banks went to the industrial sector. The credit to the industry sector grew by 34 percent in June 2016 compared to end 2015 or 64 percent compared to last June, mostly from a state-owned bank, some private banks and foreign branches (Figure 27). A considerable portion goes to power projects development. Lending to construction has significantly decelerated (Figure 28), in part due to a constraint in public investment in the recent time.

30. Microfinance institutions (MFIs) have started to expand rapidly, albeit from a low base. Microfinance institutions[12] expanded by almost 500 percent in the past two years with their assets increasing to 1.5 percent of GDP (US$ 200 million) in June 2016 from just 0.3 percent of GDP in 2014. During the same period, lending by MFIs increased by 300 percent, though, it still accounts for less than 1 percent of GDP in 2016. Despite the expansion of the bank and non-bank financial institutions, financial inclusion is still limited. Only 20 percent of the population has borrowed, and only half of them from the formal financial sector. Options on financial products and services are still limited.

31. Despite the pickup in lending and increasing banking sector assets, parts of the banking sector continue to face challenges. The rapid expansion of the sector in an environment of nascent supervisory and regulatory capacity created challenges in monitoring quality of bank performance and loan portfolios. Capital buffers are thin in state-owned and some small-medium size private banks. For instance, the state-owned bank group had a capital-to-asset ratio of 2.9 percent in mid-2014. Non-performing loans, officially at slightly above 3 percent, are most likely understated and have increased. According to unaudited reports from the banks, the sector remains profitable; though only a handful of banks have return on assets in the range of 2 percent and above (considered as an average for emerging and developing economies).

32. Against the backdrop of remaining macroeconomic vulnerability, monetary policies may need adjustment to better respond to the objective of preserving stability. Firstly, monetary policy decisions may need to be reconsidered in light of the need to limit the pressures on the exchange rate. In general, the rationale for direct lending by BOL needs to be reconsidered as it is putting public funds at risk. Strengthening the supervisory and regulatory frameworks for the financial sector, including restructuring the weak state-owned banks (improving governance, recapitalization), and enforcing the minimum capital requirements in all banks should help keep risks manageable.

[12] Microfinance institutions in Lao PDR include deposit taking, credit and saving cooperatives, pawn shops, leasing companies, money transfer companies, postal deposit institution, economic development fund, saving cooperatives (Source: Bank of Lao PDR)

Outlook

33. The medium term growth outlook remains broadly favorable, but not without challenges. Growth is expected to be around 7 percent on average in the medium term (Table 1), considering the domestic potential in the power projects currently under construction[13] and their subsequent operations projected to add around 500 MW of installed capacity annually. The challenge for Lao PDR is to secure markets for the rapidly increasing power generation. The authorities recently negotiated an increase in the electricity that could be sold to Thailand from 7,000MW to 9,000MW, however, actual export contracts have not yet been signed. Vietnam is also a potential market with discussions being initiated recently between the two countries on potential electricity export from Lao PDR.

34. Recent trends in the non-resource sectors such as manufacturing of parts and components and services are expected to continue as Lao PDR foster regional integration under the ASEAN Economic Community (AEC) and business environment gradually improves. Addressing constraints to business environment (as explained in Box 1) including providing level playing field in regulatory enforcement, simplifying tax administration, building human resources will help foster growth of the non-resource sector. Externally, China's growth rates are expected to moderate but remain high and Thailand is expected to recover (Table 2). External demand may be affected if these major trading partners grow slower than expected. At the same time, copper prices are expected to pick up although gold price outlook will be subdued. The realization of the Lao section of the Kunming – Singapore railway project[14], assumed to start construction some time in 2017, will boost economic activities if managed carefully. However, such large scale projects need extensive evaluation of the economic and financial costs, particularly impacts on the debt outlook, as well as environment and social impacts.

35. The fiscal balance is expected to stabilize in 2017 and gradually consolidate over the medium term. The medium-term fiscal framework was recently revised to reflect assumptions that are more realistic regarding the growth outlook. The authorities plan to expand tax base (continue to implement the removal of exemptions on fuel imports for projects, review

[13] Projects under construction include Xayabury (1,285MW), Nam Ou 2 (120MW), Nam Ou 5 (240MW), Nam Ou 6 (160MW), Nam Khan 3 (60 MW)

[14] The project has been estimated at US$6.7 billion, out of which 30 percent will be provided by a joint venture company formed between Lao PDR and China. Lao PDR will need to contribute with 30 percent in the capital of this company (or around US$700 million), of this, US$480 million will be borrowed from China, while the remaining funds will be provided by the budget in annual installments over the medium term. The joint venture company will need to secure the remaining 70 percent of the project costs. Lao PDR MOF has noted that no sovereign guarantee will be provided. According to the 2012 Feasibility, the IRR is 5 percent and the repayment period of investment is 23 years.

remaining exemptions, introduce new taxes, increase excise taxes in 2018 and 2019 as in the tax law and improve revenue administration (updating tax payer registries, e-filing, payment facilitation etc.). Revenue from the power sector is also expected to double by 2020 and more capacity comes on stream and exemptions expire. At the same time, control on public spending will be put in place including i) lower new public recruitment and maintain control over wage growth; ii) stop all off-budget projects unapproved by the National Assembly; and iii) reduce non-essential spending. The allocation of 30 percent of the annual capital spending for clearing past arrears will gradually help address the issue of arrears. While these measures will create some fiscal space, this will be offset by the Government's investment in large infrastructure projects including the Lao-China railway project. No sovereign guarantee is envisaged. As a result, the stock of public debt is expected to increase over the next few years before levelling off below 70 percent in 2020 onward.

36. As Lao PDR public debt increases and the country increasingly resorts to less concessional borrowing, ensuring that the debt burden remains sustainable will require adherence to the announced fiscal consolidation as well as strengthened public debt management. On public debt management, the revised Budget Law increases the requirements for the public debt reporting and analytical work, while the proposed presidential decree on public debt management, expected to be promulgated during 2017, strengthens the role of the Ministry of Finance in managing public debt. Further efforts are needed to ensure increased awareness of risks of non-concessional borrowing and prioritization to ensure borrowing for priority and credible projects with highest rates of return. Adopting a medium-term debt strategy is a priority and building capacity within MOF to for debt sustainability analysis and debt management will be important.

37. On the external front, the current account deficit is also likely to widen reflecting the large import content of the infrastructure projects including the railway project. The construction of the railway project will require high import content, particularly exacerbated by projected rebound in fuel prices in the medium term. The current account deficit will continue to be financed by FDI and external borrowing, increasingly on less concessional term. The reserves level are expected to increase, but under current policies will provide limited support to the tightly managed exchange rate.

38. Adjustments in monetary and exchange rate policies, coupled with strengthening the bank supervision capacity of the BOL would help in maintaining macroeconomic stability. A combination of accelerating credit growth and tight management of the exchange rate policy may continue to put pressure on reserves which already provide thin buffers in an event of

an adverse shock. Allowing greater exchange rate flexibility within the band set by the BOL can help lessen such pressure. The exchange rate policy should give greater consideration to exchange rate developments in key trading partners. This will need to be accompanied by complementary monetary and fiscal policies. The rapid expansion of the financial sector calls for strengthened bank supervision capacity. The BOL's effort in strengthening the supervisory and regulatory framework and plan to restructure some weak state-owned banks can help manage risks in the financial sector.

Table 1: Lao PDR Macroeconomic Key Indicators

(in percent of GDP, unless otherwise indicated)

	2014	2015	2016 Prel. Est.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
Real Economy	**Annual percentage change, unless otherwise indicated**						
Real GDP growth	7.5	7.4	7.0	7.0	6.8	7.2	7.2
GNI per capita, US$ (nominal)	1,660	1,740	1,839	1,954	2,105	2,265	2,431
Export growth	16.0	-7.6	3.1	8.1	7.9	13.5	13.0
Import growth	12.7	-4.8	-3.2	14.3	10.8	8.0	6.7
GDP deflator	-0.1	-0.6	1.6	3.3	3.5	3.1	3.0
Consumer Price Index (average)	4.2	1.3	1.8	3.0	3.0	3.0	3.0
Fiscal Accounts[15]	**Percent of GDP**						
Revenues	24.1	22.9	19.0	19.3	19.6	19.9	20.1
Of which mining	1.9	1.6	1.0	0.6	0.5	0.5	0.4
Of which power	1.1	1.1	1.1	1.2	1.3	1.3	1.3
Of which timber	0.2	0.5	0.1	0.1	0.1	0.1	0.1
Expenditures	28.0	26.6	25.2	25.5	25.0	24.5	24.2
General Government Balance	-3.8	-3.7	-6.2	-6.2	-5.4	-4.6	-4.0
General Government Total Debt	64.9	65.8	68.2	70.4	71.8	71.0	69.1
Selected Monetary Accounts	**Percent of GDP, unless otherwise indicated**						
M2 – Broad Money (% of GDP)	55.4	59.5	62.9	67.3	71.8	76.7	81.9
Domestic Credit to Private Sector (% GDP)	38.6	43.1	46.8	50.0	54.3	58.9	64.0
Domestic Credit to Private Sector (% change)	11.7	19.3	18.0	18.0	20.0	20.0	20.0
Balance of Payments	**Percent of GDP, unless otherwise indicated**						
Current Account Balance	-17.9	-17.5	-14.0	-18.4	-19.8	-19.1	-17.6
Merchandise exports	35	31	29	29	29	30	31
Merchandise imports	54	49	44	46	47	46	45
Services, net	3.4	3.4	3.1	2.3	1.7	1.2	0.9
Foreign Direct Investment	12.1	12.4	8.7	10.8	12.5	12.7	10.7
Gross Reserves (US$ million, end of period)	816	987	1,002	1,129	1,259	1,371	1,506
In months of imports	1.7	2.2	2.0	1.9	1.9	1.9	2.0
Exchange Rate, (US$, average)	8,035	8,117	8,198	...	...	...	...
Other items							
GDP (nominal, Kip billion)	94	101	110	121	134	148	163
GDP (nominal, US$ billion)	11.8	12.4	13.4	14.6	16.0	17.5	19.2

Source: Lao PDR Ministry of Finance and World Bank staff calculations and projections, as of February 2017.

[15] Preliminary estimates based on three quarter data in FY15/16

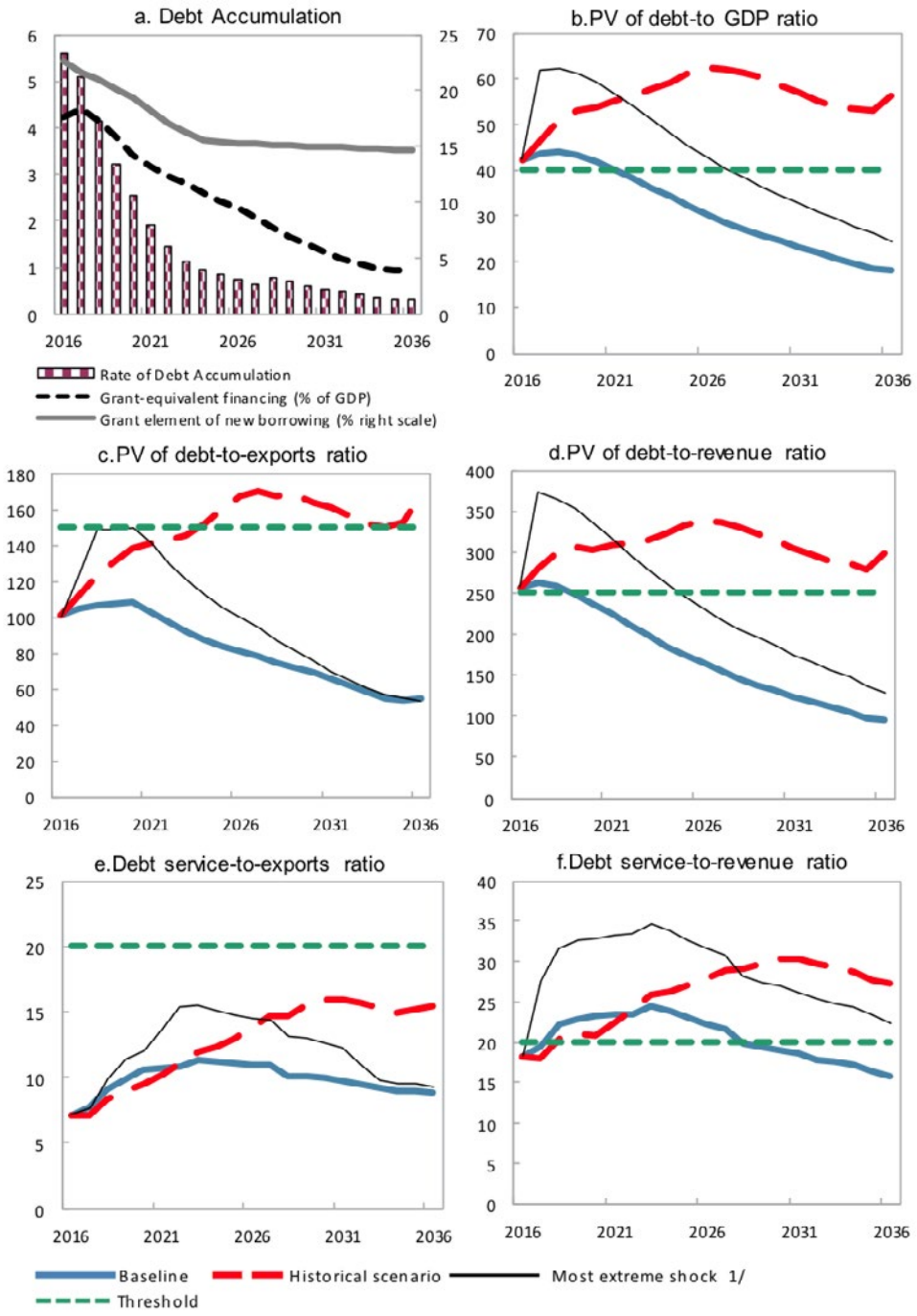
Table 2: Economic Growth Projections of countries in East-Asia and Pacific Region

			Forecast		
	2015	2016	2017	2018	2019
Developing EAP	6.5	6.4	6.2	6.1	6.1
China	6.9	6.7	6.5	6.3	6.3
Dev. EAP excl. China	4.8	4.9	5.0	5.1	5.2
Developing ASEAN	4.8	4.9	5.0	5.1	5.2
Indonesia	4.9	5.0	5.2	5.3	5.4
Malaysia	5.0	4.2	4.3	4.5	4.5
Philippines	5.9	6.8	6.9	6.9	6.8
Thailand	2.9	3.2	3.2	3.3	3.4
Vietnam	6.7	6.2	6.3	6.4	6.4
Cambodia	7.0	6.9	6.9	6.9	6.7
Lao PDR	7.4	7.0	7.0	6.8	7.2
Myanmar	7.3	6.5	6.9	7.2	7.3
Mongolia	2.2	1.0	-0.2	1.9	8.0
Fiji	3.6	2.0	3.7	3.5	3.3
Papua New Guinea	6.8	2.4	3.0	3.2	3.4
Solomon Islands	3.3	3.0	3.3	3.0	3.0
Timor-Leste	4.3	5.1	4.0	5.0	6.0
Assumptions about the external environment					
World	2.7	2.3	2.7	2.9	2.9
Advanced economies	2.1	1.7	1.8	1.8	1.7
Emerging and developing economies	3.5	3.4	4.2	4.6	4.7
Crude oil (spot, US$/barrel)	51	43	55	60	61
Non-energy commodities (index, 2010=100)	82	80	83	84	85
Food (index, 2010=100)	91	92	93	94	95

Source: World Bank's Global Economic Prospects January 2017 and East Asia and Pacific Economic Update, April 2017

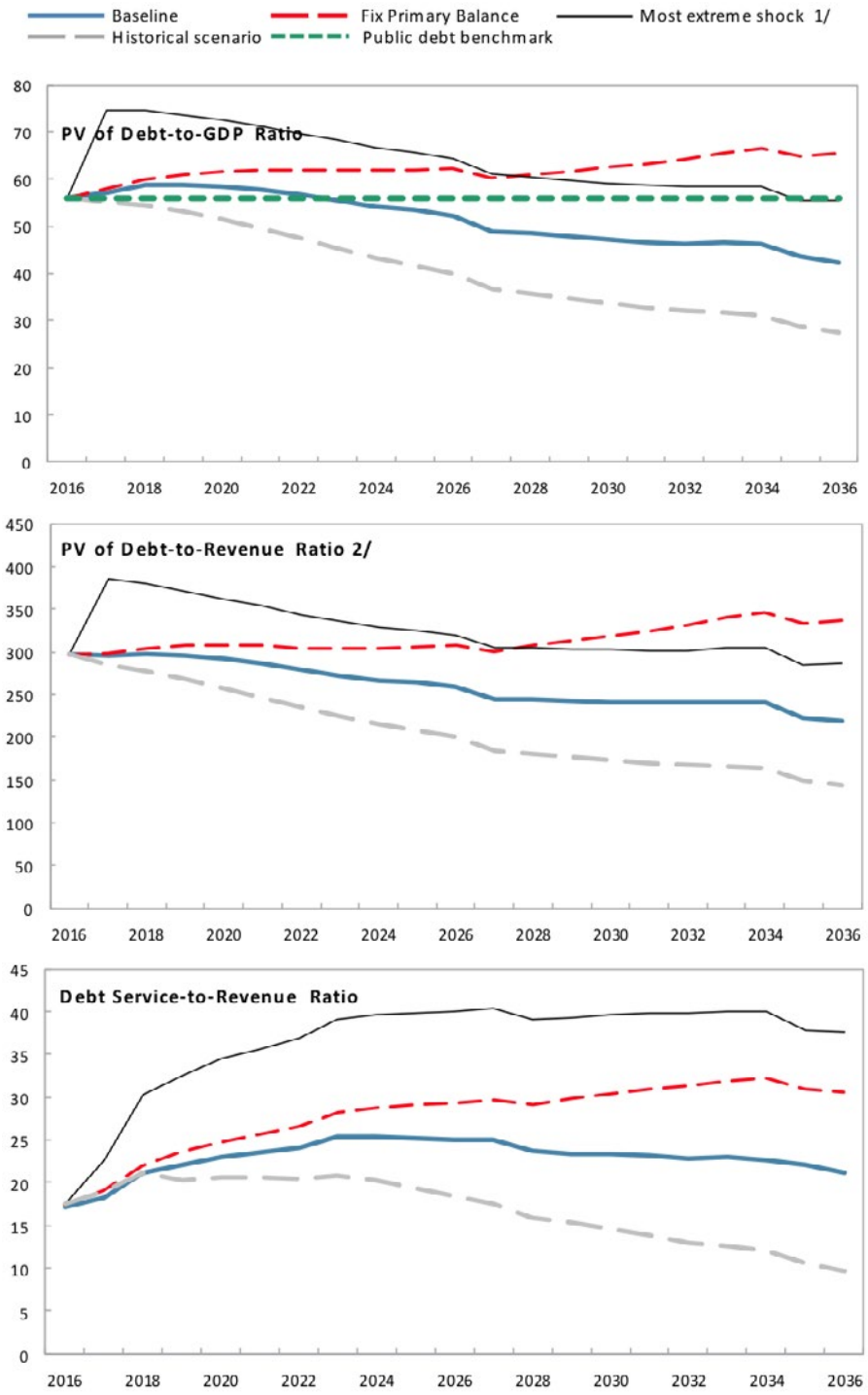
Annex 1: LAO PDR's Debt Sustainability Analysis 2016

Lao P.D.R.: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2016–2036 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a One-time depreciation shock; in c. to a Non-debt flows shock; in d. to a One-time depreciation shock; in e. to a Non-debt flows shock and in figure f. to a One-time depreciation shock

Figure 2. Lao P.D.R.: Indicators of Public Debt Under Alternative Scenarios, 2016–2036 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

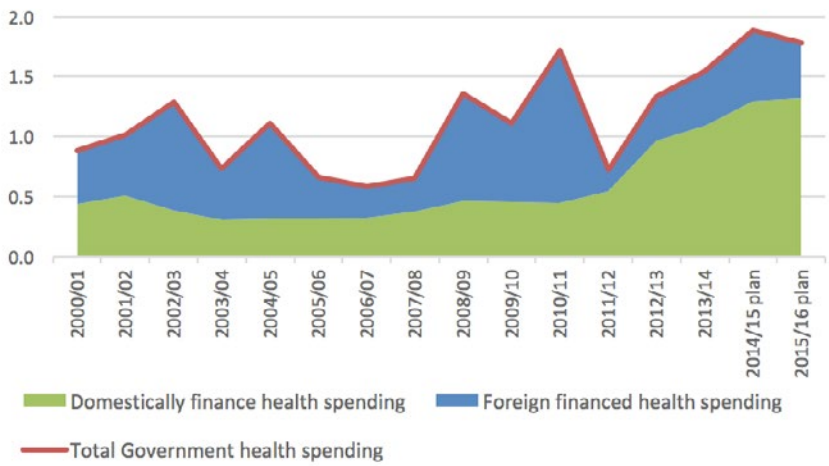

สุภสาลา
บ้าม โพม

PART II: Health Sector Financing in Lao PDR[16]

Health Financing Situation

1. Budgetary government spending on health has increased in recent years, albeit from a very low level and erratic base. According to the MOF Official Gazette, the total Government spending on health[17] more than doubled to about US$182 million in FY13/14[18] (about 1.5 percent of GDP or 6.3 percent of total Government spending[19]) from US$70 million (1.1 percent of GDP or about 5 percent of Government spending) in FY09/10 (Figure 29, Table 3). Nevertheless, the public spending on health per capita is still one of the lowest in the region, which contributes to slow progress in achieving health outcomes (Figure 30). For instance, based on WHO data that allows for cross country comparison, public health spending per capita in Lao PDR was US$16 in 2014[20], similar to the level in Nepal and Cambodia but less than Bhutan (US$65), Vietnam (US$77), and Thailand (US$177). Both regionally and globally, health's share of the national (that is, combined central and local) budget is considered very low in Lao PDR. The Government has committed to increasing the budgetary spending on health to 9 percent of total public expenditure (or about US$ 290 million in FY15/16 or 2.2 percent of GDP), which

Figure 29: Government spending on the health sector by source of funds, FY01/02 – FY15/16



Source: Ministry of Finance's Official Gazettes and State Budget Plans, various years

[16] This note is drawn from the ongoing Health Financial System Assessment (HFSA) and based on World Bank Group. 2016. Government Expenditure on Health in Lao PDR : Overall Trends and Findings from a Health Center Survey. World Bank, Vientiane. © World Bank. https://openknowledge.worldbank.org/handle/10986/24943 License: CC BY 3.0 IGO.

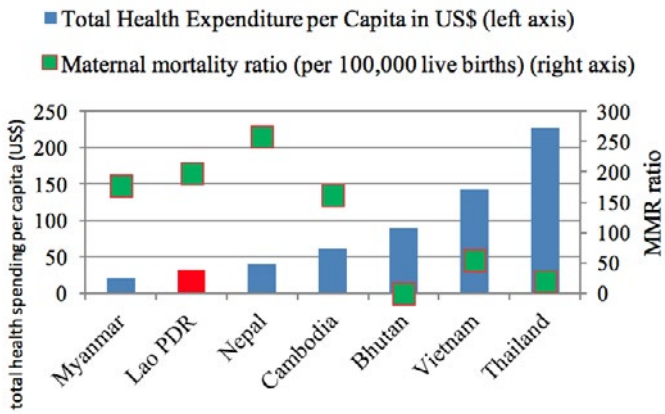
[17] Government spending on health covers spending from domestic revenue sources and foreign financing provided to the budget. Total expenditure on health covers all external and domestic sources, public and private spending.

[18] FY13/14 is the latest fiscal year in which the actual Government expenditure data is available. FY14/15, FY15/16 are available as budget plans.

[19] Share of total Government expenditure excludes debt payment.

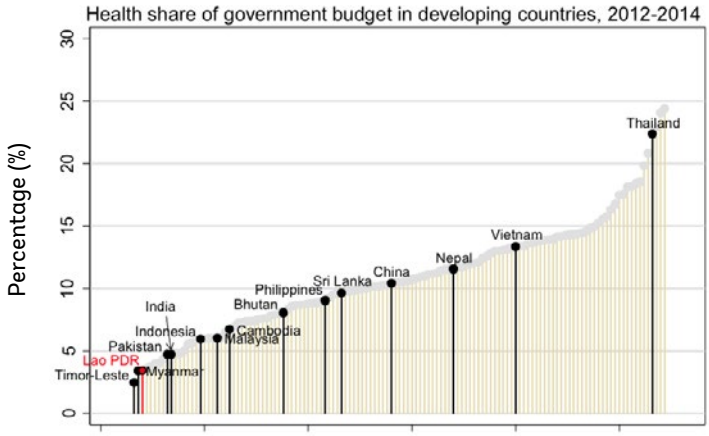
[20] National data shows that actual public spending per capita in FY13/14 was about US$ 27 (calculated from MOF's official Gazettes data and population data from the Lao Statistics Bureau). It should be noted that the reported data on Government health expenditure in the WHO database is different from the Government Official Gazettes and Budget plans partly due to adjustment from the Government's fiscal year to calendar year and methodology that allow international comparison.

Figure 30: Government spending on health in relation to maternal mortality ratio (per 100,000 live births), 2014



Source: World Health Organisation

Figure 31: Government spending on health as a share of national budget, 2014



Source: World Health Organisation

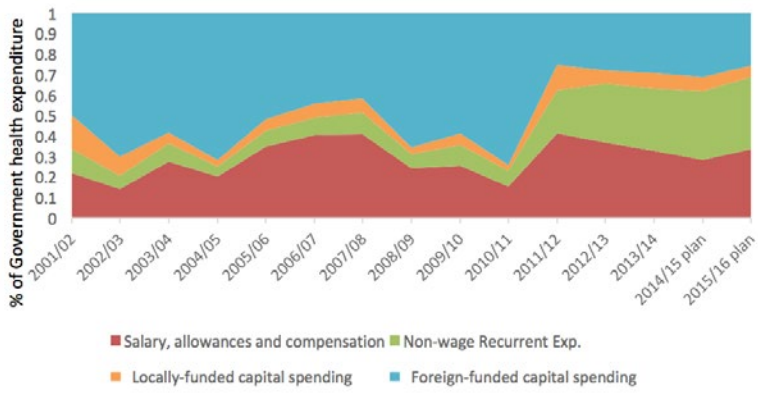
is yet to be met. The FY15/16 budget plan provides a higher allocation to the health sector of about US$237 million (1.8 percent of GDP or 7.4 percent of total Government expenditure) which would increase public spending on health to about US$36 per capita in FY15/16, according to the national data (Figure 29).

2. Most Government health spending in Lao PDR has been allocated towards wages and capital expenditure leaving little room for critical non-wage recurrent spending. In FY13/14, about 70 percent (about US$130 million) of the government health expenditure went

[21] The share of capital expenditure is distorted by the fact that all foreign financed projects are categorized as capital expenditure. Usually capital spending covers the construction of buildings and infrastructure including building health centers, renovations, development of pipe lines in case of water supply projects, etc.

to wage-related recurrent expenditure (33 percent) and capital expenditure[21] (37 percent). The remaining 30 percent (about US$ 55 million) was available for non-wage recurrent expenditure, including purchasing critical health-related commodities and financing the implementation of plans. The low level of non-wage recurrent expenditure, particularly at the facility level, has serious implications for the provision of health care and supply-side readiness. Such limited financing resulted in the introduction of user fees and drug revolving funds in order to raise revenues at the facility level. Recently there is a welcome trend of increasing planned allocation in FY15/16 for non-wage recurrent health spending to about 35 percent (US$84 million) of total government health spending while the wage spending share slightly declined as the Government contained public recruitment and wage increases in FY15/16 (Figure 32). While expenditure had been concentrated on wages, the supply of critical human resources for health (HRH) is maldistributed (by geography, level, and type) and low – just over half of WHO recommen¬dations. At the facility level, Health Centers (HCs) were staffed typically with four health workers who were relatively underutilized, with only six consultations per health worker per day on average. While redistribution of staff may be one option, investments are needed

Figure 32: Composition of the Government health spending by types of expenditure



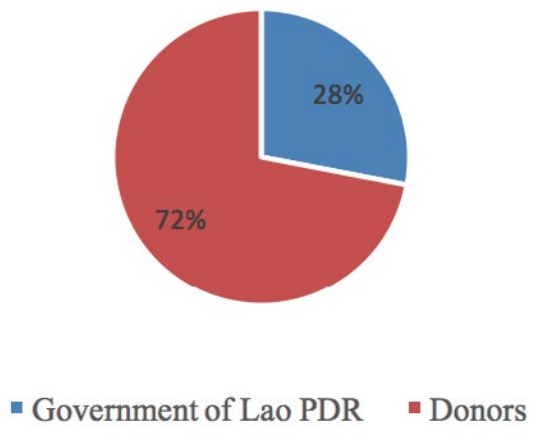
Source: Ministry of Finance's Official Gazettes and State Budget Plans, various years

to reduce demand-side barriers (physical, cultural, and financial) to increase the extremely low utilization of essential health services, especially in rural areas, as underutilization is driving low productivity and low clinical ability.

3. At the same time, Lao PDR has substantial dependence on external finance in the health sector. Nearly 30 percent of the Government spending on health was financed by external funding. Foreign financed projects include health governance and nutrition

development project supported by the World Bank Group, health governance project, control of communicable disease project supported by the Asia Development Bank, construction of the Friendship hospital supported by Austria, etc. Similarly, about 32 percent of the total health spending, which covers both domestic and external sources, public and private spending on health, in 2014 was covered by the external source (greater than that in Cambodia, Myanmar, Nepal and Bhutan, for example). Most notably this dependency effects specific health programs

Figure 33: Share of Overall Expenditure for Immunization, 2014 (percent)



Source: GAVI Annual Progress Reports 2014.

that are operated as vertical programs: 69 percent of spending on HIV (2015) derived from external sources, 78 percent of spending on tuberculosis (2013), 90 percent of spending on malaria (2014), and 72 percent of spending on immunization (2014) (Figure 33).

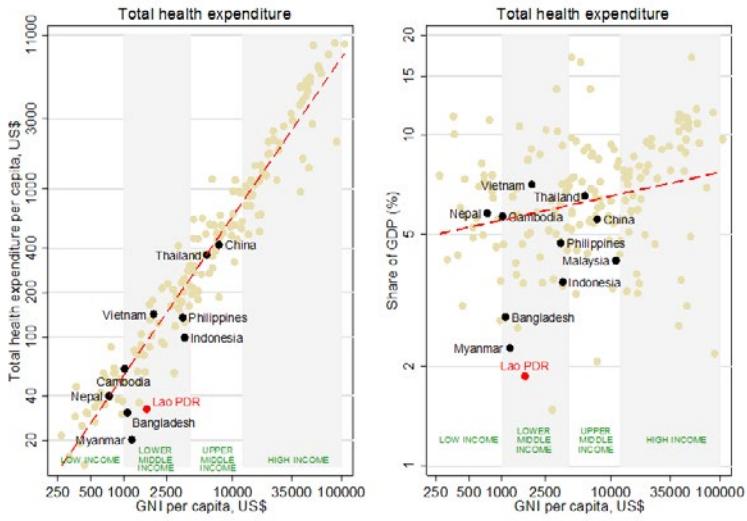
4. While external financing will continue to play an important role in providing both financial and technical resources to key health programs, including HIV, TB, malaria and immunization, the level of donor funds is expected to decline in coming years. Some key donors have initiated the transition process out from Lao PDR and encourage co-financing from domestic sources. According to Gavi eligibility criteria, Lao PDR has entered Gavi's final phase of support, known as the accelerated transition phase in 2017 and is expected to fully transition out from Gavi support in December 2021. The Global Fund (Global Fund Strategy 2017-2020) has also indicated its intention to increase direct investments in high-burden countries with the least ability to pay, and Lao PDR is, therefore, likely to graduate from Global Fund funding within the next few funding cycles. Therefore, the country expects a decreased funding allocation from some development partners and therefore needs to consider contribution or co-financing from domestic revenue sources during the transition process. Meeting co-

financing requirements for various donor funded programs and ensuring sustainable financing of essential commodities including vaccines, drugs and family planning supplies will be a main challenge during the transition period.

5. The low budgetary spending implies a low level of protection against financial risk, which is highlighted by the high out-of-pocket spending from households and high incidence of catastrophic health spending. Out-of-pocket-spending still accounts for about 40 percent of the total health expenditure despite a declining trend from 61 percent in 2000 (Table 3). The relatively high level of out-of-pocket-spending deters health service utilisation by the poor and reduces the potential redistributive capacity of the health financing system. The poor and the near poor are impoverished or pushed deeper into poverty as a result of high out-of-pocket-spending spending. At a threshold of 10 percent or more of the total household consumption, 5 percent of households incurred catastrophic health spending in FY12/13 (up from 3.8 percent in FY07/08), and about 2 percent of households had to spend more than 20 percent of their total consumption on health. There are further socio-economic, regional, and urban-rural variations in financial protection, which likely reflect the inequitable utilization and access of households to health services. For example, households living in urban areas spend on average 2.3 percent of their total consumption on health services compared with 1.7 percent in rural areas; and about 6.6 percent of urban household incur catastrophic health spending compared to 4.6 percent in rural areas. Ironically, due to inequitable utilization and access to health services, the poorest quintile of households has a much lower incidence of catastrophic health expenditure (1.1 percent) compared with the richest quintile (9.5 percent). Underutilization and limited access to health services among the poor remains a main challenge for achieving the health targets of the Sustainable Development Goals in Lao PDR.

6. Overall, the total health expenditure in Lao PDR has increased over time, but it still remains low comparatively. According to WHO National Health Account estimates that allows cross country comparison, the total expenditure on health (public and private household spending on health services) in Lao PDR increased from about US$56 million in 2000 to almost US$190 million in 2010 and to almost US$ 220 million in 2014. However, compared to the economic development of the country, the ratio of the total expenditure on the health sector to GDP is among the lowest regionally and globally. Lao PDR recorded at 1.9 percent of GDP (about US$ 220 million) compared to 7 percent of GDP in Vietnam (about US$13 billion), 6 percent in Cambodia (about US$940 million), 6 percent in Nepal (US$1.1 billion), 4 percent in Bhutan (US$68 million) and 2.2 percent in Myanmar (US$1 billion) in 2014. Total health spending per capita in Lao PDR was one of the lowest in the region at US$33 in 2014 compared to US$40 in Nepal, US$61 in Cambodia and US$142 in Vietnam (WHO).

Figure 34: Total health expenditures per capita and as a share of GDP, 2014



Source: World Development Indicators

Table 3: Government expenditure on health

	FY09/10 Actual	FY12/13 Actual	FY13/14 Actual	FY14/15 plan	FY15/16 plan
General government expenditure on health	In billion kip				
	604	1,072	1,437	1,864	1,917
	In million US$ equivalent				
	70.5	134	182	233	237
	In percent share of total Government expenditure [a/]				
	4.9	5.0	6.3	7.3	7.4

Source: Ministry of Finance's Official Gazettes and State Budget Plans, various years

Note: [a/] Share of total Government Expenditure excludes debt payment. It should be noted that the reported data on Government health expenditure in the WHO database is different from the Government Official Gazettes and Budget plans partly due to adjustment from the Government's fiscal year to calendar year and methodology to allow international comparison. For international comparison and presentation of total health expenditure (from public and private, domestic and external sources), WHO data is used.

Table 4: Expenditure on Health by Sources

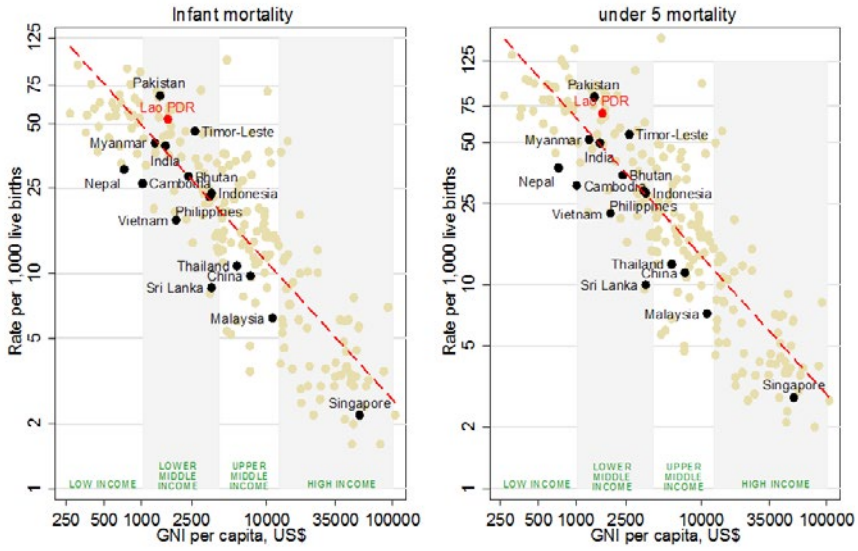
	2000	2005	2010	2011	2012	2013	2014
By financing sources							
	In percent share of total expenditure on health						
Total expenditure on health	100	100	100	100	100	100	100
General government expenditure on health	33	17	47	38	37	48	51
Private expenditure on health	67	83	53	62	63	52	49
Out of pocket expenditure	61	62	42	52	52	41	39
Other private sources (including Non-profit institutions serving households (e.g. NGOs), private insurance)	5	21	12	10	10	11	10
By external and domestic sources							
	In million US$ equivalent						
Total expenditure on health	56	117	188	177	199	215	218
External finance on health	17	20	54	56	60	60	69
Domestic finance and other sources on health	39	98	134	121	139	155	149
	In percent share of total expenditure on health						
External finance on health	30	17	29	32	30	28	32
Domestic finance and other sources on health	70	83	71	68	70	72	68

Source: WHO Global Health Expenditure database.
Note: It should be noted that the reported data on Government health expenditure in the WHO database is different from the Government Official Gazettes and Budget plans partly due to adjustment from the Government's fiscal year to calendar year and methodology to allow international comparison.

7. The national health financing context is reflected at the health center level. Health center revenues are largely sourced from Revolving drug funds collected through the sale of drugs to patients at facilities (58 percent), development assistance (20 percent), followed by 11 percent from the government budget, 7 percent from insurance scheme reimbursements, and 3 percent from technical revenues or user fees collected from patients at point-of-service. The availability of essential medicines at health centers is generally poor indicating problems with planning, budgeting, and/or supply-chain management. Particularly low across all health centers is the availability of enalapril (38 percent), procaine benzyl penicillin (38 percent), metronidazole (33 percent), diazepam (28 percent), zinc tablets (20 percent), folic acid tablets (18 percent), and magnesium sulphate (9 percent).

8. Substantial challenges remain. This is especially true for maternal and child health outcomes in Lao PDR which are worse in comparison globally as well as in the East Asia and Pacific region. While under-five and infant mortality rates are below average relative to GNI per capita, the maternal mortality ratio is still high at 197 per 100,000 live births, significantly higher than for example in neighbouring Cambodia (161) which has started from a higher level in 1990 (Figure 29). The maternal mortality ratio is still high at 213 per 100,000 live births in 2014. One factor contributing to the current high maternal mortality ratio is the difficulty for women to access family planning and maternal health services, especially in rural areas. Only 42 percent of married women were using a modern method of family planning and one fifth of married women had an unmet need for contraception in 2011. In addition, undernutrition remains a significant challenge. In 2011 more than a quarter of children under 5 years old (26.5 percent) in Lao PDR were underweight and 44 percent of them were stunted. Corresponding to the poor maternal and child health outcomes are low quality of health care and low levels of coverage and utilization of key interventions such as antenatal care, skilled birth attendance, and immunization (Figure 33).

Figure 35: Key population health outcomes, 2014



Source: World Development Indicators database
Note: Both y- and x-axes logged

9. **Poor child growth outcomes are not just a public health problem, but also carry an economic cost, which are perpetuated in the long term.** Undernutrition during pregnancy and the first two years of life ("The First 1,000 Days") affects physical growth, impairs cognitive development, and affects educational performance, thus reducing the ac¬cumulation of human capital, hence the productive potential and lifelong trajectory of the earnings of affected

children. Poor child nutrition outcomes also contribute to child mor¬tality and morbidity. So there are also costs associated with lost potential workforce due to early mortality and excess costs of care for otherwise preventable illness. These have economy-wide effects. Adding them together, a 2013 analysis estimated that the burden of undernutrition may cost the country up to about US$200 million annually (approximately 2.4 percent of GDP).

10. Socio economic and geographic disparities in health outcomes in Lao PDR remain very high, and especially inequalities related to wealth and ethnicity are pronounced (Table 1 in Annex 2). In 2011/12, for example, infant mortality and under-5 mortality rates were four to five times larger in the provinces with the highest rates (131 per 1,000 in Khammuane and 151 in Phongsaly) compared to the province with the lowest rates (27/ 1,000 and 32/1,000 in Vientiane Capital).

11. Against this backdrop, the Government has committed to achieve Universal Health Coverage–an SDG for health–by 2025 by expanding population and service coverage, and improving financial protection. The 8th National Health Sector Development Plan 2016-2020 strives for an acceleration of the health sector reform, in particularly, the development of human resources, the improvement of governance and financing, and the completion of the comprehensive health information system. Phase 2 (2016–2020) of the Health Sector Reform Strategy aims to ensure essential health services of reasonably good quality are accessible for the majority of the population. The Government of Lao PDR aspires to cover 80 percent of the population with an essential package of services and appropriate financial protection by 2020 and to achieve the Universal Health Coverage by 2025. It is expected that over 95 percent of the population will be covered by the prepayment scheme, and that out-of-pocket payment will be reduced to less than 30 percent of health expenditure.

12. Some progress has been made and efforts are ongoing to promote pro-poor Government spending by expanding coverage of social health protection schemes and reducing out-of-pocket payments for health. In 2012, a Free Maternal and Child Health (MNCH) program (consisting of antenatal care, postnatal care, and institutional deliveries, and well-baby clinic examination including inpatient and outpatient services for children under five) was rolled out, initially in poor districts and expanded to 142 districts across all provinces. The free MNCH policy provides fixed-fee reimbursement to health facilities depending on the type of service and the location of service provision. Health services are available for the poor population (estimated at 35 percent of the poor or 20 percent of the total population) through Health Equity Fund (HEFs) funded by the government, NT2 revenues and donors. In 2015, it is estimated that about 36 percent of the country's population is covered by social health protection schemes.

13. There are considerable challenges to the expansion of contributory health insurance/ coverage schemes in Lao PDR, such as the size of the informal sector and lack of capacity to enforce compulsory enrolment of private employees. The rate of poverty which is still high despite significant improvements over the last decades (the share of people living under the poverty line decreased from 45 percent in 1992 to 23 percent in 2012). The low level of financial protection and high reliance on out-of-pocket payments in Lao PDR result in considerable financial barriers to the utilization of health services, contributing to low and inequitable utilization. Utilization of health services vary substantially between the poorest and richest quintile and the discrepancies are not only caused by differences in the incidence of reported illness as the inequity remains even among those reporting an illness (Table 5). The social health protection schemes remain fragmented, and in addition to creating confusion in health facilities and beneficiaries around eligibility and coverage, they also duplicate administrative infrastructure. To tackle these challenges, MOH has launched an ambitious national health insurance scheme, tax-based, for the whole informal sector through integration of three schemes for the informal sector, namely HEF, voluntary community-based health insurance, and the Free MNCH policy. With this non-contributory system with very low co-payment when using health services, the MOH hopes to rapidly increase the coverage to reach the target of 80% by 2020.

Table 5: Outpatient Utilization of Health Services in the Past Four weeks, by Economic Quintile, 2012/13

	All	Poorest	Q2	Q3	Q4	Richest
Any illness or injury	10%	9%	9%	11%	11%	13%
Seeking care when ill	31%	25%	26%	32%	34%	40%
Seeking care in public facilities when ill	24%	22%	21%	26%	27%	27%
Seeking care in private facilities when ill	11%	7%	8%	9%	15%	18%

Source: World Bank staff calculations, based on Lao Expenditure and Consumption Survey (LECS) V 2012/13

14. As in many countries in the region Lao PDR also has to face the epidemiological transition from burden of disease being dominated by communicable diseases to a pattern in which non-communicable diseases (NCDs) have taken a leading role. In 1990 65 percent of the burden of disease was caused by communicable diseases and only 28 percent by NCDs. By 2013 the repercussions of NCDs (46 percent) had surpassed those of communicable diseases (43 percent). The country faces double burden from increasing NCD burden while addressing unfinished agenda for meeting health MDG targets and challenges of malnutrition and stunting.

Challenges and Policy Recommendations

15. To make greater progress toward attainment of UHC by 2025 in Lao PDR, **a warranted increase in government spending on health services provision, particularly from domestic revenue sources**, is essential for reducing the financial burden on households and the vulnerability associated with the uncertainty of external financing and external technical assistance. Several key programs currently rely on very high levels of technical assistance and funding from external sources, and a managed transition would be vital for institutional sustainability as external funding reduces.

16. In moving towards UHC and in order to reap the economic and social benefits of improved health status and greater financial protection, Lao PDR will need **to decrease reliance on out-of-pocket spending, increase domestic government health financing, and increase pooled and pre-paid financing** through strengthened social health protection schemes. **Concurrent commitments to expand coverage and financial protection for the poor**, via the use of pooled and prepaid financing, with an overall policy aim of attaining UHC by 2025, are important adjuncts to ensure that spending results in equitable coverage for health service and reduced out-of-pocket payments for health.

17. Considerable challenges remain in ensuring not just an increase in the quantum of spending, but also to **increase the efficiency and effectiveness of spending** to achieve desirable population health outputs and outcomes **while ensuing sustainability of financing for health**. A key focus here would need to be on the defragmentation of financing and implementation, and mainstreaming of multiple, often parallel, implementation modalities. While the expansion of integrated national health insurance would be a good starting point, a process of gradual merger and functional integration of various schemes is imperative for effective implementation of national health insurance scheme.

18. As in many countries in the region Lao PDR also faces the epidemiological transition from burden of disease being dominated by communicable diseases to a pattern in which NCDs have taken a leading role accounting a half of the total disease burden in 2015. **The country faces double burden from increasing NCD burden while addressing unfinished agenda for meeting health MDG targets and challenges of malnutrition and stunting.** This double burden will require the health systems to manage a diverse range of diseases and to respond to growing demand for services.

Annex 2: Lao PDR: Key Health Indicators

Table 1: Key health and nutrition indicators, by socio-demographic characteristics, in Lao PDR

	Skilled birth attendance	At least one ANC visit	DPT coverage	Measles coverage	Malnutrition prevalence	Stunting prevalence
Residence						
Urban	80%	83%	68%	72%	16%	27%
Rural	31%	46%	52%	61%	29%	49%
Region						
North	31%	45%	56%	62%	26%	51%
Central	53%	63%	53%	60%	23%	38%
South	33%	49%	61%	75%	35%	47%
Wealth status						
Bottom 40%	17%	33%	42%	53%	33%	55%
Middle 40%	55%	70%	64%	71%	22%	37%
Richest 20%	91%	92%	81%	82%	12%	20%
Language group						
Lao-Tai	59%	72%	67%	73%	22%	33%
Mon-Khmer	21%	36%	49%	61%	37%	56%
Hmong-Mien	18%	24%	27%	35%	21%	61%
Chinese-Tibetan	18%	25%	32%	44%	43%	61%
All	**42%**	**54%**	**56%**	**64%**	**27%**	**44%**

Source: LSIS, 2012

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